



# MEMBERS' HANDBOOK

## Update No. 212

(Issued 9 January 2018)

### **VOLUME III**

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

#### ***Instructions***

#### ***Explanations***

[Contents of Volume III](#)

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

Revised contents page

#### **PRACTICE NOTES**

[PN 620.2, \*Communications between the Auditor and the Insurance Authority\*](#)

Discard PN 620.2 revised in February 2013 and replace with revised PN 620.2.

Note 1

[PN 810.1 \(Revised\), \*Insurance Brokers - compliance with the minimum requirements specified by the Insurance Authority under sections 69\(2\) and 70\(2\) of the Insurance Ordinance\*](#)

Discard PN 810.1 (Revised) revised in September 2017 and replace with PN 810.1 (Revised).

Note 1

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

Discard PN 810.2 (Revised) revised in September 2017 and replace with PN 810.2 (Revised)

Notes 1 and 2

PN 860.1 (Revised 2016), *The Audit of Retirement Schemes*

Discard PN 860.1 (Revised 2016) revised in October 2016

Note 3

#### Notes:

1. PNs 620.2, 810.1 and 810.2 are revised to incorporate the changes arising from the Insurance Companies Ordinance (Amendment) Ordinance 2015 ("Amendment Ordinance") which came into operation on 26 June 2017. Other than the changes to the names of the ordinance, subsidiary legislations and section numbers, please also note the following:
  - (a) The Amendment Ordinance is being commenced in phases, the Insurance Authority (IA) is expected to take over the regulation of insurance intermediaries from the three self-regulatory organizations (i.e. the Insurance Agents Registration Board established under the Hong

Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association) through a statutory licensing regime within two years from 26 June 2017. The self-regulatory system for insurance intermediaries will continue in the interim. Hence, there is minimal impact on work carried out by practitioners as set out in PN 810.1 (Revised) during the interim period.

- (b) During the interim period, an auditor or former auditor of an insurance broker or a former insurance broker appointed under section 72 of the Insurance Ordinance ("IO") is temporarily excluded from the definition of a "prescribed person" in the IO. Accordingly, auditors of insurance brokers no longer have the statutory protection from liability to the client for breach of confidentiality when auditors communicate directly with the IA under section 53D of the IO. Thus, certain requirements on reporting to the IA as set out in the superseded PN 620.2 are not applicable to these auditors during the interim period. They shall be included to the definition after the relevant sections of the Amendment Ordinance become effective.
  - (c) There is a change in the method of communication for the purposes of 53A(3)(da) and (3)(f) of the IO. The revised approach is set out in paragraph 52 of PN 620.2. The IA has indicated that the auditor of an insurer or authorized insurance broker is required to send a written request to the IA to confirm whether it has any matter to report to the auditor under the provisions of section 53A(3)(da) and (3)(f), where it believes that it is of such importance that the auditor's knowledge of it could significantly affect the form of the audit report or the way in which the auditor carries out the reporting responsibilities.
  - (d) In order for readers to easily identify all the changes, the marked-up version of the updated PNs is posted at [http://www.hkicpa.org.hk/file/media/section6\\_standards/technical\\_resources/pdf-file/handbook/changes\\_update212.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/technical_resources/pdf-file/handbook/changes_update212.pdf)
2. In PN 810.2 (Revised), the following guidance has been added:
- (a) reporting under the Insurance (Levy) Regulation is added in paragraphs 63-64 and the relevant example report is included as example 4 of Appendix 4.
  - (b) additional reporting regarding the Relaxation of Valuation Rules is included in paragraph 30 and example 4(d) of Appendix 2.
3. PN 860.1 (Revised 2016) is superseded by PN 860.1 (Revised), *The Audit of Retirement Schemes* revised in June 2017.



**MEMBERS' HANDBOOK  
CONTENTS OF VOLUME III**

(Updated to January 2018)

		<i>Issue/Review date</i>
Preface (Amended)	<a href="#">Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Prouncements</a> .....	07/12
Glossary (Clarified)	<a href="#">Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</a> .....	02/15
<b>HONG KONG STANDARDS ON QUALITY CONTROL</b>		
HKSQC 1 (Clarified)	<a href="#">Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</a> .....	02/15
<b>HONG KONG FRAMEWORK FOR ASSURANCE ENGAGEMENTS</b>		
Framework (Amended)	<a href="#">Hong Kong Framework for Assurance Engagements</a> .....	03/14
<b>HONG KONG STANDARDS ON AUDITING</b>		
HKSA 200 – 299	GENERAL PRINCIPLES AND RESPONSIBILITIES	
HKSA 200	<a href="#">Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</a> .....	06/17
HKSA 210	<a href="#">Agreeing the Terms of Audit Engagements</a> .....	06/17
HKSA 220	<a href="#">Quality Control for an Audit of Financial Statements</a> .....	06/17
HKSA 230	<a href="#">Audit Documentation</a> .....	06/17
HKSA 240	<a href="#">The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</a> .....	06/17
HKSA 250 (Clarified)	<a href="#">Consideration of Laws and Regulations in an Audit of Financial Statements</a> ....	07/10
HKSA 250 (Revised)	<a href="#">Consideration of Laws and Regulations in an Audit of Financial Statements</a> ....	06/17
HKSA 260 (Revised)	<a href="#">Communication with Those Charged with Governance</a> .....	06/17
HKSA 265 (Clarified)	<a href="#">Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</a> .....	02/15
HKSA 300 – 499	RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS	
HKSA 300	<a href="#">Planning an Audit of Financial Statements</a> .....	06/17
HKSA 315 (Revised)	<a href="#">Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</a> .....	06/17

**PRACTICE NOTES**

PN 600.1 (Revised)	<a href="#">Reports by the auditor under the Hong Kong Companies Ordinance (Cap.622)</a> .....	08/16
PN 620.2	<a href="#">Communication between the Auditor and the Insurance Authority</a> .....	01/18
PN 720	<a href="#">Acting as Scrutineer at a General Meeting of a Listed Issuer</a> .....	07/05
PN 730 (Revised)	<a href="#">Guidance for Auditors Regarding Preliminary Announcements of Annual Results</a> .....	03/17
PN 740	<a href="#">Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules</a> .....	12/15
PN 750	<a href="#">Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal</a> .....	02/13
PN 810.1 (Revised)	<a href="#">Insurance brokers - compliance with the minimum requirements specified by the Insurance Authority under sections 69(2) and 70(2) of the Insurance Ordinance</a> .....	01/18
PN 810.2 (Revised)	<a href="#">The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance</a> .....	01/18
PN 820 (Revised)	<a href="#">The Audit of Licensed Corporations and Associated Entities of Intermediaries</a> .....	10/16
PN 830 (Revised)	<a href="#">Reports by the Auditor Under the Banking Ordinance</a> .....	04/16
PN 840 (Revised)	<a href="#">Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</a> .....	08/16
PN 850	<a href="#">Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department</a> .....	12/15
PN 851	<a href="#">Review of the Annual Financial Reports of Non-governmental Organisations</a> .....	09/04
PN 852	<a href="#">Review of lottery accounts</a> .....	09/15
PN 860.1 (Revised)	<a href="#">The Audit of Retirement Schemes</a> .....	06/17
PN 870	<a href="#">The assessments of Certification Authorities under the Electronic Transactions Ordinance</a> .....	09/04
PN 871	<a href="#">Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA</a> .....	09/04
PN 900 (Revised)	<a href="#">Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard</a> .....	08/16

**AUDITING GUIDELINES**

AG 3.283 [Guidance for internal auditors](#) ..... 09/04

**HONG KONG AUDITING PRACTICE GUIDANCE**

HKAPG 1000 [Special Considerations in Auditing Financial Instruments](#) ..... 12/12

PN 620.2  
Revised February 2013, January 2018

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Effective upon issue

*Practice Note 620.2*

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# **Communication between the Auditor and the Insurance Authority**



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

**PRACTICE NOTE**

**620.2**

**COMMUNICATION BETWEEN THE AUDITOR AND  
THE INSURANCE AUTHORITY**

*(Issued May 1998; revised September 2004 (name change); revised February 2013, January 2018)  
Effective upon issue*

**CONTENTS**

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	<i>Paragraphs</i>
<b>Introduction</b> .....	<b>1 – 4</b>
<b>Scope of the Ordinance</b> .....	<b>5 - 11</b>
<b>Reporting under the Ordinance</b> .....	<b>12 - 22</b>
<b>Other ad hoc communications by the auditor</b> .....	<b>23 - 49</b>
<b>Communications by the Insurance Authority to the auditor under section 53A(3)(da) and(3)(f)</b> .....	<b>50 - 52</b>

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Practice Note (PN) 620.2, *Communication between the Auditor and the Insurance Authority* should be read in the context of the *Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

## PRACTICE NOTE

### 620.2

## COMMUNICATION BETWEEN THE AUDITOR AND THE INSURANCE AUTHORITY

*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.*

### Introduction

1. In this Practice Note all the sections mentioned below are in respect of the Hong Kong Insurance Ordinance ("the Ordinance") unless otherwise stated. The Insurance Companies Ordinance (Cap. 41) has been renamed as the "Insurance Ordinance" since section 4 of the Insurance Companies (Amendment) Ordinance 2015 came into operation on 26 June 2017.
2. Section 53D<sup>3</sup> of the Ordinance provides statutory protection for the auditor from liability to the client for breach of confidentiality when the auditor communicates directly with the Insurance Authority. Sections 15A and 53E impose a statutory obligation on the auditor to report certain matters directly to the Insurance Authority.
3. This Practice Note refers to the auditor, audits, reports on the annual financial statements and reports on the accounts and statements ("financial information") an insurer is required to submit to the Insurance Authority.
4. This Practice Note is applicable to:
  - a. an auditor or former auditor of an insurer or a former insurer appointed under section 15 or section 4(1A) of Part 1 of Schedule 3 to the Ordinance ("Schedule 3");
  - b. an accountant or former accountant of an insurer or a former insurer appointed in compliance with a requirement under section 35(1); and
  - c. an auditor or former auditor of an insurance broker appointed under section 72.<sup>1</sup>

### Scope of the Ordinance

5. The Ordinance regulates the carrying on of insurance business in Hong Kong. One of the primary purposes of the Ordinance is the protection of policy holders and potential policy holders. The Insurance Authority is charged under section 4A with the functions set out below.
  - a. The principal function of the Insurance Authority shall be to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders (section 4A(1)).

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<sup>1</sup> The Insurance Companies (Amendment) Ordinance 2015 is being commenced in phases. The IA is expected to take over the regulation of insurance intermediaries from the three self-regulatory organizations (ie. the Insurance Agents Registration Board established under the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association) through a statutory licensing regime within two years from 26 June 2017. The self-regulatory system for insurance intermediaries will continue in the interim.



- b. Without limiting the generality of section 4A(1), the Insurance Authority shall:
- i. be responsible for supervising an insurer's and an insurance intermediary's compliance with the provisions of the Ordinance;
  - ii. consider and propose reforms of the law relating to insurance business;
  - iii. promote and encourage proper standards of conduct and sound and prudent business practices amongst insurers;
  - iv. promote and encourage proper standards of conduct of insurance intermediaries and, where necessary, review and revise the regulatory system for the same;
  - v. promote and develop self-regulation by market and professional bodies of the insurance industry;
  - vi. *(Addition not yet in operation—see 12 of 2015 s. 12)*<sup>2</sup>
  - vii. promote the understanding by policy holders and potential policy holders of insurance products and the insurance industry;
  - viii. formulate effective regulatory strategies and facilitate the sustainable market development of the insurance industry, and promote the competitiveness of the insurance industry in the global insurance market;
  - ix. conduct studies into matters affecting the insurance industry;
  - x. assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate measures in relation to the insurance industry;
  - xi. co-operate with and assist financial services supervisory authorities of Hong Kong or of any place outside Hong Kong, whenever appropriate, to the extent permitted by the Ordinance; and
  - xii. perform functions imposed or conferred on the Insurance Authority by this or any other Ordinance (section 4A(2)).
6. Schedule 3 specifies the form and content of the financial information which an insurer is required to submit annually to the Insurance Authority. The auditor is required to report on the financial information and the report will in general terms cover such matters as:
- a. the maintenance of proper books and records by the insurer;
  - b. the proper preparation of the financial information;
  - c. the fairness of presentation of the financial information;
  - d. the valuation of assets and liabilities in accordance with applicable valuation regulations; and
  - e. the maintenance of assets in accordance with the Ordinance.

Detailed guidance is set out in PN 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance*.

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<sup>2</sup> The Insurance Companies (Amendment) Ordinance 2015 is being commenced in phases and this additional section is not yet in operation as of the date of this Practice Note. For details of the addition, please refer to the Insurance Companies (Amendment) Ordinance 2015 at: <https://www.elegislation.gov.hk/hk/2015/12!en>

7. Section 73(1) specifies the form of financial statements which an authorized insurance broker, authorized by the Insurance Authority under section 69(2), is required to submit annually to the Insurance Authority. The auditor is required to report on the authorized insurance broker's financial statements and compliance with the minimum requirements regarding
- a. capital and net assets;
  - b. professional indemnity insurance;
  - c. keeping of separate client accounts; and
  - d. keeping proper books and accounts.

Under section 73(2) the auditor of an approved body of insurance brokers, approved by the Insurance Authority under section 70(2), is required to report:

- a. whether the body of insurance brokers has received from each of its members the audited financial statements and report by the auditor on the compliance with the minimum requirements specified by the Insurance Authority in accordance with its membership rules and regulations; and
- b. that the auditor has reviewed all reports by auditors of members in respect of the financial statements and the minimum requirements and none contained any adverse statement or qualification except those listed by the auditor in the auditor's report.

Detailed guidance is set out in PN 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2) of the Insurance Ordinance*<sup>1</sup>.

8. In addition, insurers, authorized insurance brokers and approved bodies of insurance brokers who are incorporated in Hong Kong are required to prepare financial statements and to have them audited under the provisions of the Hong Kong Companies Ordinance.
9. In the course of performing the work necessary to discharge these routine audit reporting responsibilities, the auditor may become aware of matters which the auditor considers need to be brought to the Insurance Authority's attention through an "ad hoc report", other than through the medium of the routine formal audit report.
10. This Practice Note is concerned only with ad hoc communications between the auditor and the Insurance Authority:
- a. by the auditor to the Insurance Authority under the obligations established in sections 15A(2) and 53E;
  - b. by the auditor to the Insurance Authority under the protection of section 53D<sup>3</sup>; and
  - c. by the Insurance Authority to the auditor under section 53A(3)(da)<sup>3</sup> and (3)(f).

It does not cover the auditor's approach to the audit of an insurer, an authorized insurance broker or an approved body of insurance brokers or the routine audit reporting responsibilities.

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<sup>3</sup> As stated in footnote 1, certain sections of the Insurance Companies (Amendment) Ordinance 2015 ("the Amendment") relating to the new statutory licensing regime for insurance intermediaries are not yet in operation. During the interim period, an auditor or former auditor of an insurance broker or a former insurance broker appointed under section 72 is temporarily excluded from the definition of a "prescribed person" in the Ordinance. Thus, sections 53A(3)(da) and 53D are not applicable to these auditors during the interim period. They shall be included to the definition after the relevant sections of the Amendment become effective. Accordingly, the guidance in paragraphs 23 to 50(a) of this practice note does not apply to auditors of insurance brokers in the interim.

11. Certain expressions used in the Ordinance may be matters for legal interpretation. There may, therefore, be circumstances in which, notwithstanding the guidance in this Practice Note, the auditor will wish to take legal advice.

### **Reporting under the Ordinance**

12. The Insurance Authority expects that the management of an insurer or an insurance broker will continue to be its primary source of information and that the normal authorized reporting procedures, including returns, discussions, examinations and any tripartite meetings will normally provide the Insurance Authority with most of the information it needs to carry out its responsibilities under the Ordinance.
13. Nevertheless under the Ordinance the auditor has various statutory responsibilities to report to the Insurance Authority. The auditor is automatically protected in making a report in discharge of such a statutory responsibility. Certain provisions also provide the auditor with immunity from any liability the auditor might otherwise incur by reason of the auditor's making other reports to the Insurance Authority which the auditor may consider to be relevant to the functions of the Insurance Authority. These responsibilities and avenues available for reporting do not require the auditor to change the scope of the audit work, nor the frequency or timing of the visits.
14. When the circumstances where reporting may be appropriate are being considered, it should be noted that obtaining insurance services or products carries inherent risks. It is not the purpose of the Ordinance, nor the duty of the auditor, to protect the policy holder from the normal risks relating to such activities.
15. The auditor is advised to bear in mind that the auditor's decision may have to stand up to examination at a future date on the basis of the following considerations:
  - a. what the auditor knew at the time;
  - b. what the auditor should have known in the course of the audit;
  - c. what the auditor should have concluded; and
  - d. what the auditor should have done.

### **The auditor's notices to the Insurance Authority under section 15A(2)**

16. The auditor has a statutory duty to give immediate written notice to the Insurance Authority in the circumstances set out below.
  - a. If the auditor resigns (section 15A(2)(a)).
  - b. If the auditor decides not to seek reappointment (section 15A(2)(b)).
  - c. If the auditor decides to add a qualification or adverse statement to the auditor's report annexed to the financial information of the insurer required to be submitted under Schedule 3 (section 15A(2)(c)).

The decision to give written notice would normally only be taken after extensive discussions with management and when a problem is either irremediable or when the circumstances indicate that the auditor intends to qualify.

Section 15A(2) applies to the auditor of an insurer appointed under section 15 or section 4(1A) of Part 1 of Schedule 3.

### Ad hoc reports under section 53E

17. Section 53E provides that where an auditor, during the discharge of the duties in that capacity:
- a. becomes aware of any matter... which in the auditor's opinion adversely affects the financial condition of the insurer to a material extent, the auditor shall, as soon as practicable thereafter, send to the Insurance Authority a report in writing of the matter (section 53E(1)); and
  - b. becomes aware of evidence...
    - i. of a failure by the insurer to comply with any conditions imposed under section 8(1)(a);
    - ii. that there exists a ground on which the Insurance Authority would be prohibited by section 8(3)(a), (b), (d) or (f) from authorizing the insurer if the insurer were to make application in that behalf;
    - iii. of a failure by the insurer to comply with any of the provisions of section 22, 22A or 23; or
    - iv. of any default of the insurer in complying with any requirement under section 27, 28, 29, 30, 31, 32, 33, 34 or 35(1),

the auditor shall, as soon as practicable thereafter, send to the Insurance Authority a report in writing of the failure, ground or default (section 53E(3)).

Section 53E applies to:

- a. an auditor or former auditor of an insurer or a former insurer appointed under section 15 or section 4(1A) of Part 1 of Schedule 3; and
- b. an accountant or former accountant of an insurer or a former insurer appointed in compliance with a requirement under section 35(1).

These are statutory obligations and the following paragraphs of the Practice Note provide the auditor with procedures to follow when such circumstances arise.

### Reporting criterion under section 53E

18. The auditor would take the initiative and ensure that an ad hoc report under section 53E is made to the Insurance Authority if the conditions specified in paragraph 17 exist. A distinction must be drawn here between an auditor's duty as stated in paragraph 17(a) and that stated in paragraph 17(b). The duty under paragraph 17(b) is clear and unequivocal; if the auditor becomes aware of a contravention of the provisions in the Ordinance which are specified, the auditor is not given any latitude for exercising judgement. The auditor is obliged to make a report. The duty under paragraph 17(a) is different. The auditor is given the right to form an opinion based on applying criteria as to the materiality of an adverse effect on the insurer's financial position in deciding whether reporting would be appropriate.

The HKICPA has developed a criterion for use by the auditor in deciding to take the initiative in making an ad hoc report under section 53E in addition to the regular audit reporting responsibilities. The criterion is that the auditor would make the report when the auditor considers it expedient to do so in order for the Insurance Authority to protect the interests of policy holders because there has been a material loss or there exists a significant risk of material loss.

19. This criterion can be more fully explained as follows:
- a. there must be a significant adverse occurrence or a change in the auditor's perception of an existing situation, that may include an adverse change in the circumstances of the business; and
  - b. the situation described in a. above has given rise to or has indicated that a reasonable probability exists that it may give rise to:
    - i. a material financial loss to the business, or
    - ii. loss of control over the assets or records.
20. Examples of the circumstances in which the situation set out in paragraphs 18 and 19 may be met include:
- a. the auditor discovers a failure by the insurer to comply with the relevant provisions of the Ordinance which may have material consequences; or
  - b. there is evidence of imminent financial loss of serious proportions which might cast doubt on the continuing viability of the insurer.

#### **Reporting procedures under section 53E**

21. In circumstances where the auditor concludes that an ad hoc report under section 53E to the Insurance Authority is necessary, the auditor would normally adopt the procedures set out below, bearing in mind that speed may be of the essence and that the statutory obligation to report under section 15A or 53E remains subject to the criterion discussed in paragraphs 18 - 20.
- a. The auditor would normally discuss the matter with the insurer and explain the statutory duty to make a report to the Insurance Authority under section 53E. In addition, the insurer may be advised to make its own report to the Insurance Authority immediately.
  - b. The auditor would normally then immediately inform the Insurance Authority of the circumstances in writing. It is suggested that a copy of both the written notification and the ad hoc report be made to the directors or management of the insurer.
22. The auditor is reminded that making an ad hoc report alone may not discharge all the responsibilities. For example, the auditor would consider the implications of the matter giving rise to the ad hoc report for the auditor's opinion on the financial statements.

#### **Other ad hoc communications by the auditor**

##### **Statutory protection under section 53D<sup>3</sup>**

23. Section 53D<sup>3</sup> provides that:
- "(1) No duty which a prescribed person may be subject to shall be regarded as contravened by reason of his communicating in good faith to the Insurance Authority, whether or not in response to a request made by the Insurance Authority, any information or opinion on a matter:
- a. of which he becomes aware in his capacity as a prescribed person...; and
  - b. which is relevant to any function of the Insurance Authority under this Ordinance.

- (2) For the avoidance of doubt, it is hereby declared that a matter referred to in subsection (1) may be a matter which relates to a person other than -
- (a) an authorized insurer;
  - (b) a former insurer;
  - (c) *(Addition not yet in operation—see 12 of 2015 s. 70)<sup>2</sup>*
  - (d) *(Addition not yet in operation—see 12 of 2015 s. 70)<sup>2</sup>*
  - (e) *(Addition not yet in operation—see 12 of 2015 s. 70)<sup>2</sup>.*
24. For the purposes of section 53D<sup>3</sup>, "prescribed person" in this context refers to:
- a. an auditor or former auditor of an authorized insurer or a former insurer appointed under section 15 or section 4(1A) of Part 1 of Schedule 3;
  - b. an accountant or former accountant of an authorized insurer or a former insurer appointed in compliance with a requirement under section 35(1); and
  - c. *(Addition not yet in operation—see 12 of 2015 s. 5)<sup>2,3</sup>.*
25. Section 53D<sup>3</sup> does not lay down any rules nor specify the circumstances in which the auditor is to communicate any matter to the Insurance Authority. It provides a statutory mechanism whereby the auditor may make matters known to the Insurance Authority without breaching the auditor's duty of confidentiality.
26. This section of the Practice Note contains guidance on the circumstances in which matters (which fall outside those which the auditor is obliged to report (see paragraphs 16 to 22 above)) may be brought to the attention of the Insurance Authority by way of a report with statutory protection. In interpreting this guidance, the auditor is advised to bear in mind the fundamental objectives of the legislation, which are to ensure that the Insurance Authority is able to fulfil its functions summarised in paragraph 5.
27. Confidentiality is an implied term of an auditor's contract with the client, but in certain circumstances and under conditions specified in section 53D<sup>3</sup> it does not prevail, since the auditor is entitled to communicate information or opinions on a matter relating to the business or affairs of the client relevant to the Insurance Authority's functions without the duty of confidentiality owed to the client being regarded as having been contravened.
28. The matters which may be communicated under section 53D<sup>3</sup> are any of those relevant to the Insurance Authority's functions under the Ordinance.
29. Matters which may be reported under the protection of section 53D<sup>3</sup> will only arise in circumstances where the auditor is under no duty to report under section 15A or 53E. Considerable care needs to be taken in disclosing matters arising during any tripartite meeting with the Insurance Authority as the auditor's knowledge of these matters may have been obtained while assisting the Insurance Authority other than in the capacity as the auditor (see paragraph 32).
- Examples of circumstances in which the auditor may communicate a matter to the Insurance Authority under section 53D<sup>3</sup> include:
- a. the auditor considers policy holders have incurred, or are at significant risk of incurring, a material loss as a result of insurers carrying on business in a manner that is not fit and proper or that is in breach of the Ordinance;
  - b. there is evidence of
    - i. fraud, dishonesty or serious incompetence; or
    - ii. serious failure to observe requirements of the Ordinance or conditions imposed on the insurer by the Insurance Authority;

- c. it has come to the attention of the auditor that the procedures, records or systems fail significantly to comply with, or to demonstrate compliance with, requirements set by the Insurance Authority to which the insurer is subject; and
  - d. the position is such that because of a significant risk which is material to the collective interests of policy holders, the policy holders' interests would be better safeguarded if the Insurance Authority were aware of the position, even if only to organise protective action.
30. Clearly the potential nature of matters which may be reported is very wide, but as explained in paragraph 33 this does not, of itself, require the auditor to extend the scope of the work in order to discover matters and it will only be in exceptional circumstances such as those described in paragraph 48 that the auditor may choose to seek statutory protection.
31. Any protected communication can be made either on the auditor's initiative or in response to a request from the Insurance Authority for information. The auditor would normally cooperate with the Insurance Authority and respond to any requests from the Insurance Authority for information, provided the auditor has no reason to doubt that the request is relevant to the Insurance Authority's functions. The auditor may communicate a matter to the Insurance Authority with the protection of section 53D<sup>3</sup> regardless of the source of that information, provided the auditor became aware of the matter in the capacity as the auditor of the client and the auditor does so in good faith.
32. Matters of which the auditor becomes aware "in the capacity as the auditor" may not be restricted to those matters identified by the auditor during the course of the audit work. The auditor may become aware of a matter which is relevant to the functions of the Insurance Authority during the course of the work for the insurer other than audit work or through private discussions on social or other occasions, in which case the information will be known to the auditor as individual. In circumstances which suggest that a matter would be reported to the Insurance Authority if knowledge of it had been obtained in the capacity as the auditor, it would be prudent to make enquiries in the course of the audit work in order to establish whether this is the case from information obtained in this capacity. In addition, a matter which is relevant to the functions of the Insurance Authority and which is identified during the course of work for the client by another partner (or member of staff) such as a management consultant or tax partner may be deemed to be known to the auditor (see also paragraph 34). The auditor may follow the guidance set out in HKSA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*<sup>4</sup>.
33. The auditor cannot be expected to be aware of all circumstances which, had the auditor known of them, would have led the auditor to exercise the right to communicate under section 53D<sup>3</sup>. This section does not require the auditor to change the scope of the audit or other work for the client, nor the frequency or timing of the visits. The auditor has no obligation to seek out grounds for making a report under section 53D<sup>3</sup>. The section does not place an obligation on the auditor to conduct the work in such a way that there is reasonable certainty that the auditor will discover a matter upon which the Insurance Authority may need to act. It is only when the auditor does become aware in the ordinary course of the work of such a matter, or of circumstances which suggest the existence of such a matter, that the auditor would consider using the protection of section 53D<sup>3</sup>.
34. The auditor would, however, ensure that the auditor is made aware of any other relationships which may exist between any department of the firm and the client which could affect the work as the auditor. The Insurance Authority expects that the auditor will ensure that the auditor is informed of all potentially exceptional circumstances (paragraphs 48 and 49) by all other departments within the firm which have a relationship with the insurer. It would, therefore, be prudent for the audit firm to ensure any exceptional circumstances which may give rise to reports under section 53D<sup>3</sup> are brought to the attention of the auditor of the client

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<sup>4</sup> HKSA 250 (Revised) issued in June 2017 is effective for audits of financial statements for periods beginning on or after 15 December 2017.

in order that the auditor can, if appropriate, make enquiries in the capacity as the auditor to ascertain whether such matters should be reported to the Insurance Authority.

35. The Insurance Authority recognises that it would not be appropriate for the auditor to report information which the auditor has obtained or matters which the auditor has identified through the professional relationship with another client, even though the information obtained or the matters identified may relate to an insurer. However, the Insurance Authority expects an insurer to advise its auditor when it appoints a third party (including another department of the same firm) to review, investigate or report on any aspects of its records and systems and to provide the auditor with copies of reports by such a third party promptly after their receipt. The auditor can, if appropriate, make enquiries in the capacity as the auditor to ascertain whether any findings of the reports should be reported to the Insurance Authority.
36. It should be noted that section 53D<sup>3</sup> will not provide protection to the auditor where the auditor could be held to have acted maliciously or in bad faith or if the information reported is outside the scope of that section. The Ordinance does not, therefore, provide complete immunity from all types of legal action by all parties affected, or subsequently affected, by the auditor's action in reporting to the Insurance Authority. The auditor would consider taking legal or other professional advice before making the decision about whether, or in what manner, to report and in order, for example, to ensure that the form and content of the report are such as to secure the protection of section 53D<sup>3</sup> and that it only includes relevant material.
37. The auditor is protected, however, even if the information which the auditor communicates falls short of proof, or the opinion which the auditor communicates cannot be verified. The auditor who can demonstrate that the auditor has acted reasonably and in good faith in informing the Insurance Authority of a reportable matter would not be held in breach of duty to the client even if, after an investigation, it were found there was not a matter which needed to be reported. These are areas where the auditor may wish to consider taking legal advice before making a report.
38. Whilst no breach of statutory duty might arise, it should be appreciated that there is no protection given by the Ordinance if the auditor, after becoming aware of an occurrence, fail to report, promptly, or at all, to the Insurance Authority. Furthermore, it should be recognised that speed of reporting is likely to be important in order to enable the Insurance Authority to protect the interests of policy holders.

### **Meetings with the Insurance Authority**

39. As part of the Insurance Authority's system of supervision of insurers, meetings involving the Insurance Authority, the insurer and its auditor may be called. These meetings may be categorised as "routine meetings" called by the Insurance Authority or "special meetings" which may be called by either the Insurance Authority, or the insurer possibly at the auditor's suggestion.
40. The agenda for a tripartite meeting between the Insurance Authority, the insurer and the auditor will be prepared by the Insurance Authority and will include items requested by the insurer and auditor and be circulated in advance. The auditor is expected to participate fully in tripartite meetings and to have regard to the breadth of the Insurance Authority's functions. Normally, however, it is expected that the auditor will discuss with the client any matter which is to be raised at a meeting with the Insurance Authority, before the meeting is held.
41. The auditor would be expected to discuss with the Insurance Authority the affairs of the insurer including, if necessary, information about its policy holders or other companies within the group obtained in the course of that work. However, the Insurance Authority recognises that it would not be appropriate for the auditor to report to the Insurance Authority information about the insurer which the auditor has obtained through the professional relationship with another client.



42. Meetings may be called by the Insurance Authority to assist in its forming a judgement on an insurer. In particular discussions may cover:
- a. the presentation and content of the annual financial statements;
  - b. the scope, conduct and outcome of the annual audit;
  - c. the scope and outcome of any report made under section 53E;
  - d. explanations for, the reasons for and the nature of a qualified report or of a change in a previously reported intention to qualify a report;
  - e. any step or course of action which may be necessary in the light of the reports, for example, the commissioning of a more detailed report in a particular area; and
  - f. matters raised by the Insurance Authority or those which the insurer or auditor have drawn to its attention since any previous meeting, including how such matters have been resolved to the satisfaction of the auditor or have been reflected or treated in the financial statements.
43. Any party may seek to call a tripartite meeting at any other time if important matters affecting the insurer come to their attention as further discussed in paragraph 45. Normally, the auditor would raise the concerns with the insurer first and if the problem cannot be resolved to the auditor's satisfaction, suggest that the insurer asks the Insurance Authority to convene a meeting.
44. In exceptional circumstances, for example, those outlined in paragraphs 48 and 49, the auditor may consider it necessary to have a bipartite meeting with the Insurance Authority to discuss the affairs of the insurer or to draw the attention of the Insurance Authority to information about the insurer without its knowledge. Before doing so, however, the auditor would consider taking timely legal advice and whether a representative of the insurer at an appropriately senior level would be informed and invited to attend the meeting.

#### **Reporting via the insurer**

45. Where the auditor becomes aware of a matter which, in the auditor's professional judgement, the auditor considers is not required to be reported under section 15A or 53E but ought to be reported to the Insurance Authority, the auditor would consider the facts and, unless inappropriate in the circumstances (described in paragraph 48), discuss the matter with the management.
46. It is important for the auditor to act in a manner that will maintain the professional relationship with the client. Normally, therefore, the auditor would ask the insurer to draw matters about which the auditor is concerned to the attention of the Insurance Authority. An example of the circumstances under which the auditor is not required to report but about which the auditor might wish to persuade the client to inform the Insurance Authority are where the auditor forms the opinion that management has reported materially misleading financial information to the Insurance Authority or becomes aware that management has failed, or does not intend, to report something and the failure to report is, or would be, materially misleading.
47. Where the insurer will not himself inform the Insurance Authority of a matter, having been advised to do so by the auditor, or where it has not been done within the period of time specified, or where there is not adequate evidence that the client has properly reported the matter in question, the auditor would make such a report direct to the Insurance Authority.

#### **Reporting direct to the Insurance Authority**

48. In exceptional circumstances, where the auditor doubts whether management are fit and proper persons to carry on the business of insurance and it would be in the interest of protecting policy holders that the management of the insurer should not be informed in

advance, the auditor would report directly to the Insurance Authority after first considering the appropriateness of taking independent legal advice. Examples of such circumstances include:

- a. where there has been an occurrence which causes the auditor no longer to have confidence in the integrity of the directors or senior management, e.g. where the auditor believes that a fraud or other irregularity has been committed by the directors or senior management of the insurer, or the auditor has evidence of the intention of directors or senior management to commit such a fraud or other irregularity; or
  - b. where there has been an occurrence which causes the auditor no longer to have confidence that the directors or senior management will conduct the business of the insurer in a prudent manner so as to protect the interests of policy holders, e.g. where the auditor has discovered that the directors or senior management are acting in an irresponsible or reckless manner with respect to the affairs of the business or its policy holders, or the auditor has evidence of the inclination so to act.
49. The auditor would also report directly to the Insurance Authority when speed is of the essence. For example, when the auditor becomes aware that the insurer may be about to cease being authorized, the auditor would consider the need to disclose to the Insurance Authority any information in the auditor's possession relevant to its functions without delay. The fact of such impending cessation of authorization may bring forward the desirability of disclosing matters to the Insurance Authority, as it is easier for the Insurance Authority to take appropriate action while the insurer is still authorized, particularly where such matters have a bearing on the security of third party interests.

### **Communications by the Insurance Authority to the auditor under section 53A(3)(da)<sup>3</sup> and (3)(f)**

50. The Ordinance also deals with communications by the Insurance Authority to the auditor of an insurer, an authorized insurance broker or an approved body of insurance brokers.
- a. Section 53A(3)(da)<sup>3</sup> permits the communication of restricted information to the auditor of an insurer for the purpose of enabling or assisting the Insurance Authority to discharge its functions under the Ordinance without the consent of the person from whom it is received or to whom it relates.
  - b. Section 53A(3)(f) permits the communication by the Insurance Authority to the auditor of an insurer or authorized insurance broker or an approved body of insurance brokers if, in the opinion of the Insurance Authority, such information is necessary for the auditor to discharge the duties under the Ordinance.
51. It should be noted that disclosure by the Insurance Authority of confidential information to the auditor is to the auditor only; the auditor is not free to pass that information to others, such as the client insurer or authorized insurance broker without the consent of the Insurance Authority under section 53A(3D) of the Ordinance.
52. The Insurance Authority has indicated that the auditor of an insurer or authorized insurance broker is required to send a written request to the Insurance Authority to confirm whether it has any matter to report to the auditor under the provisions of section 53A(3)(da)<sup>3</sup> and (3)(f), where it believes that it is of such importance that the auditor's knowledge of it could significantly affect the form of the audit report or the way in which the auditor carries out the reporting responsibilities. The Insurance Authority has also indicated that it will inform the auditor whether the management of the insurer or authorized insurance broker has been informed of the matter and, if so, who has been advised.

PN 810.1 (Revised)  
Revised April 2013; February 2016, September 2017;  
January 2018

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Effective upon issue

*Practice Note 810.1 (Revised)*

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# **Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Ordinance**



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

**PRACTICE NOTE  
810.1 (REVISED)  
INSURANCE BROKERS –  
COMPLIANCE WITH THE MINIMUM REQUIREMENTS  
SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE  
INSURANCE ORDINANCE**

*(Issued June 1997; revised September 2004 (name change), April 2013, February 2016,  
January 2018  
Effective upon issue)*

Contents	Paragraphs
<b>Introduction</b>	<b>1 - 6</b>
<b>Reporting requirements</b>	<b>7 - 8</b>
<b>Scope</b>	<b>9 - 11</b>
<b>Minimum Requirements for compliance by authorized insurance brokers and constituent members of approved bodies of insurance brokers</b>	<b>12 - 23</b>
<b>Submission of annual audited financial statements and reports by the auditor on compliance with the Minimum Requirements</b>	<b>24 - 32</b>
<b>Appendix 1 Objectives and recommended procedures for the purpose of reporting on compliance with the Minimum Requirements.</b>	
<b>Appendix 2 Example of an unmodified limited assurance report for an unincorporated/ incorporated insurance broker authorized by the Insurance Authority on compliance with the Minimum Requirements.</b>	
<b>Appendix 3 Example of an unmodified limited assurance report for an incorporated insurance broker which is a member of an approved body of insurance brokers on compliance with the Minimum Requirements.</b>	
<b>Appendix 4 Example of a report of factual findings for an approved body of insurance brokers on compliance with the Minimum Requirements by its constituent members.</b>	
<b>Appendix 5 Examples of suggested modified wording for a report by an auditor where an insurance broker has not complied with the Minimum Requirements.</b>	

Practice Note (PN) 810.1 (Revised), *Insurance Brokers - Compliance with the Minimum Requirements specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Ordinance* should be read in the context of the “Amended Preface to Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements” which sets out the application and authority of PNs.

**PRACTICE NOTE  
810.1 (REVISED)  
INSURANCE BROKERS –  
COMPLIANCE WITH THE MINIMUM REQUIREMENTS  
SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE  
INSURANCE ORDINANCE**

*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.*

## **Introduction**

1. In this Practice Note ("PN") all the sections mentioned below are in respect of the Hong Kong Insurance Ordinance ("the Ordinance") unless otherwise stated. The Insurance Companies Ordinance (Cap. 41) has been renamed as the "Insurance Ordinance" since section 4 of the Insurance Companies (Amendment) Ordinance 2015 came into operation on 26 June 2017.
2. The Ordinance provides a framework for the supervision of the self regulation by the insurance industry of insurance agents and brokers. Apart from the provisions dealing with the self regulatory system of insurance agents, the Ordinance empowers the Insurance Authority ("IA") under sections 69 and 70 to authorize/approve an insurance broker/a body of insurance brokers.<sup>1</sup>
3. Under section 2, an insurance broker means a person who carries on the business of negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policyholder or potential policyholder or advising on matters related to insurance. In the light of the above definition, it is the interpretation of the IA that any business which involves the carrying on of the activities of an insurance broker as defined would be construed as insurance broking business. A contract of insurance is a contract which contains an element of insurance. Generally, unless stated otherwise any person acting as the agent of the policyholder or potential policyholder in advising on or arranging any contract which contains an element of insurance, irrespective of the extent of such insurance element, is deemed to carry on insurance broking business and is required either to obtain authorization from the IA under section 69 or become a member of a body of insurance brokers approved by the IA under section 70. There are at present two approved bodies of insurance brokers in Hong Kong namely, the Hong Kong Confederation of Insurance Brokers ("HKCIB") and Professional Insurance Brokers Association ("PIBA"). The majority of insurance brokers in Hong Kong are members of either HKCIB or PIBA.
4. The IA, before authorizing an insurance broker under section 69, is required to satisfy himself that the applicant broker complies at least with the minimum requirements specified under section 69(2) ("Minimum Requirements") and that he is a fit and proper person to be an insurance broker. Similarly, the IA, before approving a body of insurance brokers under

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<sup>1</sup> The Insurance Companies (Amendment) Ordinance 2015 is being commenced in phases. The IA is expected to take over the regulation of insurance intermediaries from the three self-regulatory organizations (ie. the Insurance Agents Registration Board established under the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association) through a statutory licensing regime within two years from 26 June 2017. The self-regulatory system for insurance intermediaries will continue in the interim. Hence, there is no change to the section numbers in the Insurance Ordinance (effective on 26 June 2017) for the relevant sections mentioned in this practice note in the interim.

section 70, is required to satisfy himself that the applicant body has adequate provisions in its regulations for members of the body to comply with the minimum requirements specified under section 70(2) ("Minimum Requirements") and that its constituent members are fit and proper persons to be insurance brokers. The Minimum Requirements are for:

- a. qualifications and experience;
  - b. capital and net assets;
  - c. professional indemnity insurance;
  - d. keeping of separate client accounts; and
  - e. keeping proper books and accounts.
5. On 26 June 2017, a Guideline on Minimum Requirements for Insurance Brokers ("the Guideline") was issued by the IA to replace the Minimum Requirements for Insurance Brokers specified by the former authority (i.e. the Insurance Authority appointed under the former Insurance Companies Ordinance), which ceased to be effective on the same day, for giving guidance to insurance brokers or bodies of insurance brokers for compliance with the Ordinance. Failure to comply with the Minimum Requirements may result in an insurance broker or a body of insurance brokers not being authorized or approved or having his/its authorization/approval withdrawn, as the case may be.
6. The auditor of authorized insurance brokers or insurance brokers who are members of HKCIB or PIBA should make reference to the Minimum Requirements and where appropriate, to the membership rules and regulations of HKCIB and PIBA which may be amended from time to time.

## Reporting requirements

7. Section 73 requires the auditor of insurance brokers to report on the financial statements to its proprietor in the case of an unincorporated broker or its shareholders in the case of an incorporated broker. The auditor is also required to report on an insurance broker's compliance with the Minimum Requirements regarding:
- a. capital and net assets;
  - b. professional indemnity insurance;
  - c. keeping of separate client accounts; and
  - d. keeping proper books and accounts.

In the case of an insurance broker authorized by the IA, the report by the auditor on compliance with the Minimum Requirements is addressed to its proprietor or directors as appropriate. The insurance broker concerned is required to file a copy of the above report by the auditor together with a copy of the audited financial statements with the IA.

In the case of an insurance broker who is a member of an approved body of insurance brokers, the report by the auditor on compliance with the Minimum Requirements is addressed to its proprietor or directors as appropriate. The insurance broker concerned is required to file a copy of the above report by the auditor together with a copy of the audited financial statements with the approved body of insurance brokers to which he belongs.

8. The auditor of an approved body of insurance brokers is required to report on the financial statements of the body to its Management Committee. The auditor is also required to report:

- a. whether the body of insurance brokers has received from each of its members the audited financial statements and a report by the auditor on compliance with the Minimum Requirements in accordance with its membership rules and regulations; and
- b. that the auditor has reviewed all the members' auditor's reports on the financial statements and reports by the auditor on compliance with the Minimum Requirements, and none contained any adverse statement or qualification except those listed by the auditor in the report.

The above report together with a copy of its audited financial statements are required to be filed by the approved body of insurance brokers with the IA.

## Scope

9. The purpose of this PN is to provide guidance on the reports by the auditor referred to in paragraphs 7 and 8, which are required to be issued under section 73 on compliance with the Minimum Requirements by authorized insurance brokers and constituent members of approved bodies of insurance brokers.
10. It is emphasised that this PN does not cover audits of financial statements of authorized insurance brokers, insurance brokers who are members of approved bodies of insurance brokers or approved bodies of insurance brokers, and the auditor should ensure that audits of financial statements of these entities should be conducted in accordance with Hong Kong Standards on Auditing (HKSAAs) issued by the HKICPA. An auditor should refer to the guidance in paragraph 52 of PN 620.2 *Communication between the Auditor and the Insurance Authority* on sending a written request to the Insurance Authority to confirm whether it has any matter to report to the auditor.
11. An auditor undertaking an engagement with reference to this PN would undertake a limited assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)") to enable the auditor to express a conclusion whether, on the basis of the work undertaken, anything has come to the auditor's attention that causes the auditor to believe that the matters in respect of which the auditor is required to report (as further explained in this PN) have not been complied with.

Where a practitioner is engaged to prepare a report of factual findings for an approved body of insurance brokers on compliance with the Minimum Requirements by its constituent members, the engagement should be conducted in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and with reference to this PN.

## Minimum Requirements for compliance by authorized insurance brokers and constituent members of approved bodies of insurance brokers

12. An insurance broker is required to continually comply with the Minimum Requirements. Full details of the Minimum Requirements may be obtained from the Ordinance and the Guideline issued by the IA. The auditor should read and understand these Ordinance and Guideline before commencing work.

### Capital and net assets

13. An unincorporated insurance broker shall maintain in his insurance broking business a minimum net assets value of HK\$100,000 at all times. An incorporated insurance broker shall maintain a minimum net assets value and a minimum paid up share capital of HK\$100,000 at all times (refer paragraph 3 (B) of the Guideline issued by the IA).

14. The minimum net assets value is to be determined by excluding all intangible assets and in accordance with accounting principles generally accepted in Hong Kong (refer paragraph 3 (B) of the Guideline issued by the IA).

**Professional indemnity insurance**

15. An insurance broker is required to maintain a professional indemnity insurance policy with a minimum limit of indemnity for any one claim and in any one insurance period of twelve months. The minimum limit of indemnity shall be:

- a. a sum equal to:
  - i. two times the aggregate insurance brokerage income relating to twelve months immediately preceding the date of commencement of the professional indemnity insurance cover (applicable to insurance broker who has been in business for more than one year);
  - ii. two times the projected insurance brokerage income for twelve months for the period of the professional indemnity insurance cover (applicable to insurance broker who has been in business for less than one year); or
- b. a sum of HK\$3,000,000,

whichever sum shall be greater, up to a maximum of HK\$75,000,000. Cover in excess of this prescribed amount may, of course, be arranged to meet the requirements of individual broker. If as a result of a claim(s), the indemnity available shall fall below the amount determined in 15(a) above, the broker shall effect a reinstatement of cover up to not less than such minimum determined amount. Where the limit of indemnity has been determined in accordance with 15(b) above, the policy shall include provision for one automatic reinstatement to a limit of indemnity of not less than HK\$3,000,000 (refer paragraph 3 (C) of the Guideline issued by the IA).

16. The auditor might find it difficult to report whether an insurance broker has maintained a professional indemnity insurance policy with a minimum limit of indemnity:

- a. in the case of 15(a)(i), where the twelve months immediately preceding the date of commencement of the professional indemnity insurance cover do not fall within a financial year; and
- b. in the case of 15(a)(ii), where the auditor is unable to report on the projected insurance brokerage income prepared by an insurance broker.

17. An auditor faced with the above difficulty may request a copy of the calculation of the historical or projected insurance brokerage income under review from the insurance broker and perform procedures over the insurance broker's calculation. In carrying out the procedures, the auditor may wish to consider the following:

- a. whether the calculation of historical insurance brokerage income is based on management accounts regularly prepared for the purpose of management and how reliable are these management accounts and whether the management accounts can be reconciled to historical audited financial information;
- b. whether the calculation of historical insurance brokerage income is based on accounting policies consistent with the basis used in the audited financial statements;
- c. whether the calculation of historical insurance brokerage income under review has been prepared on a basis consistent with that of prior years;



INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

- d. whether the calculation of projected insurance brokerage income under review represents the insurance broker's estimate of income which the auditor reasonably believes can and will be achieved as distinct from targets which the insurance broker has set as desirable;
  - e. the extent to which the calculation of projected insurance brokerage income are supported by reliable interim management accounts;
  - f. whether the calculation of projected insurance brokerage income is consistent with and has been prepared on the basis of appropriate assumptions made by the insurance broker;
  - g. whether the board, management, or those charged with governance, have prepared projections, budgets or otherwise that provide contradictory evidence to the appropriateness of the assumptions about projected insurance brokerage income applied by the insurance broker; and
  - h. the arithmetical accuracy of the calculation and the supporting information.
18. Insurance brokerage income, in this context, means brokerage income derived from advising on or arranging any contract which contains an element of insurance, irrespective of the extent of such insurance element (refer paragraph 3 (C) of the Guideline issued by the IA).

**Keeping of separate client accounts**

19. An insurance broker is required to keep client monies in a client account separate from his own monies. He is not allowed to use client monies for any purpose other than for the purposes of the client. The "client account" shall be designated as such and held by the insurance broker for his client:
- a. A "client account" means a current or deposit account maintained with a financial institution duly authorized under the Banking Ordinance (Cap. 155) in the name of the insurance broker in the title of which the word "client" appears.
  - b. An insurance broker shall keep at least one client account and may keep as many such accounts as he thinks fit.
  - c. An insurance broker who receives or holds monies on behalf of his clients in relation to insurance broking business shall, without delay, deposit such monies into the client account (refer paragraph 3 (D) of the Guideline issued by the IA).

There should also be evidence that the provisions of section 71 have been notified to and acknowledged by the financial institution with which the "client account" is maintained. In circumstances where the financial institution has not acknowledged the receipt of the provisions of section 71, evidence that the provisions of section 71 have been notified should still be maintained. In addition there should be evidence that the financial institution has provided the insurance broker with the following information (as evidence that the financial institution has acted on the provisions of section 71):

- Name of the financial institution
- Name of the insurance broker
- Names and account number of client accounts maintained at the financial institution with word "client account" clearly stated

These requirements are designed to prevent an insurance broker from improperly handling client monies entrusted to it. In performing the engagement, the auditor should have a sufficient understanding of the internal controls relating to client monies.

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

The auditor would, in the course of conducting the limited assurance engagement, exercise professional judgment in determining whether there is undue delay by an insurance broker in depositing client monies into the client account.

The auditor should exercise professional judgment in considering whether additional procedures in addition to those set out in Appendix 1 are necessary for checking of client accounts and client monies.

20. Without limiting the generality of the above requirements, the following are to give brief guidance on the circumstances under which monies shall be deposited into or withdrawn from a client account.

a. *Deposit into client account*

There shall be paid into a client account:

- i. monies received from clients for the purpose of purchasing contracts of insurance;
- ii. monies received on behalf of clients from insurers, reinsurers, insurance intermediaries and any other third parties relating to the settlement of insurance claims;
- iii. monies received for the purposes of the client which are incidental to the ordinary transactions of insurance broking business; and
- iv. monies required to be deposited for settlement of bank charges incurred on a client account.

b. *Withdrawal from client account*

Withdrawals from a client account shall be restricted to:

- i. premium monies required to be paid on behalf of clients to insurers, reinsurers or other insurance intermediaries for the purchase of contracts of insurance;
- ii. claim monies received on behalf of clients and required to be paid to the claimant or the person entitled to receive them;
- iii. payments made for the purposes of the client which are incidental to the ordinary transactions of insurance broking business;
- iv. monies drawn on a client's written authority;
- v. interest received from deposits placed in a client account;
- vi. monies required to be withdrawn for settlement of bank charges incurred on a client account; and
- vii. monies which may by mistake or accident have been paid into the account in contravention of paragraph 20(a) (refer paragraph 3 (D) of the Guideline issued by the IA).

21. It should be noted that, based on the legal advice obtained by the IA, section 71 only requires the insurance broker to keep client monies in a bank account separate from his own monies and not to use client monies for any purpose other than for the purposes of the clients, the law does not require insurance broker to keep separate accounts for individual clients. Although the Ordinance does not require insurance brokers to keep separate accounts for

individual clients, it is of utmost importance that the broker maintains records of the balances due from/to individual clients and reconciles these balances (on a client by client basis) sufficiently regularly to ensure client monies are properly kept in client accounts (see section 3 "Keeping of separate client accounts of Appendix 1). While it is management's responsibility to ensure that balances due from/to individual clients are reconciled sufficiently regularly, the auditor should base on the size and complexity of the broker's operations and use professional judgement when assessing this.

22. For the avoidance of doubt, monies incidental to ordinary insurance broking business, as referred to in paragraph 20(a)(iii) and paragraph 20(b)(iii) above, are:
- a. premiums, renewal premiums, additional premiums and return premiums of all kinds;
  - b. claims and other monies due under contracts of insurance;
  - c. refunds to clients;
  - d. policy loans and associated interest;
  - e. fees, charges, levies relating to contracts of insurance; and
  - f. discounts, commission and brokerage (refer paragraph 3 (D) of the Guideline issued by the IA).

**Keeping proper books and accounts**

23. a. i. an unincorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broking business carried on by him, and will enable financial statements of such insurance broking business to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker;
- ii. an incorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broker, and will enable financial statements to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker; and
- iii. an insurance broker, whether incorporated or unincorporated, shall cause those records to be kept in such a manner as will enable them to be conveniently and properly audited.
- b. The records referred to in paragraph 23(a) above shall be kept:
- i. in writing or in such a manner as to enable them to be readily accessible and readily converted into written form; and
  - ii. in sufficient detail to show separately particulars of:
    - all transactions by the broker with, or for the account of:
      - insurers and reinsurers;
      - clients of the insurance broker; and
      - the insurance broker himself;
    - all income received from brokerage, commissions, interest and other sources, and all expenses, commissions and interest paid by the insurance broker; and

- all the assets and liabilities (including contingent liabilities) of the insurance broker.
- c. An insurance broker shall retain for a period of not less than seven years the records referred to in paragraph 23(a) above (refer paragraph 3 (E) of the Guideline issued by the IA).

It should be noted that the relevant provisions of the Companies Ordinance and the Ordinance also require books of account to be kept for a period of seven years.

## **Submission of annual audited financial statements and reports by the auditor on compliance with the Minimum Requirements**

### **Authorized insurance brokers**

24. In accordance with section 73(1):
- a. an unincorporated insurance broker is required to submit to the IA audited financial statements for the financial year in respect of the insurance broking business carried on by the insurance broker ;
  - b. an incorporated insurance broker is required to submit to the IA audited financial statements for the financial year; and
  - c. an insurance broker, whether incorporated or unincorporated, is required to submit a report by an auditor on compliance with the Minimum Requirements regarding capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping proper books and accounts.
25. An insurance broker is required to continually comply with the Minimum Requirements. In order to provide limited assurance, the auditor should obtain sufficient, appropriate evidence, as set out in paragraphs 48 to 60 in HKSAE 3000 (Revised), that the Minimum Requirements have been met on a continuous basis.
26. The nature, timing and extent of procedures to be carried out are determined by the auditor's professional judgment in each individual case. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them. The auditor may obtain evidence by performing procedures recommended in Appendix 1.
- For the purposes of the auditor's reporting on compliance with the Minimum Requirements by an insurance broker, the auditor needs to perform procedures as of three dates at the minimum. These three dates are as at the end of the financial year and two such other dates in the financial year as the auditor may elect. The auditor may elect more than two other dates in the financial year if the auditor considers it necessary in order to ensure compliance throughout the financial year.
27. An authorized insurance broker is required to submit the report by the auditor on compliance with the Minimum Requirements and the audited financial statements to the IA within six months after the close of the period to which the statements relate.
28. If anything is discovered which indicates that the Minimum Requirements are not being complied with by an insurance broker, the auditor's responsibilities extend no further than stating in the auditor's report that the Minimum Requirements have not been complied with. Examples of suggested modified wording for the report by the auditor are attached as Appendix 5.

The auditor is not expected to give details of the breaches nor to state the period over which the breach occurred. To report such additional information with any degree of completeness

and accuracy would require considerable additional work by the auditor. If the IA requires such information, this should be considered a separate assignment.

29. Paragraph 78 of HKSAE 3000 (Revised) requires the auditor to consider, whether any matter has come to the attention of the auditor that is to be communicated to those charged with governance. Accordingly, the auditor should consider reporting the breaches noted from procedures performed to those charged with governance.

#### **Approved bodies of insurance brokers**

30. A body of insurance brokers approved under section 70 shall include in its membership rules and regulations a requirement that each of its members shall submit to it annually, within six months following the end of the financial year of the member, the audited financial statements and a report by the auditor on the insurance brokers' compliance with the Minimum Requirements regarding capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping proper books and accounts. An illustrative example of an unmodified limited assurance report to be submitted to an approved body of insurance brokers is attached as Appendix 3. Guidance on the recommended procedures to be performed by the auditor of insurance brokers is set out in paragraphs 25 to 29.
31. A body of insurance brokers approved under section 70 shall in accordance with section 73(2), provide the IA a report by its auditor stating:
- a. whether the body of insurance brokers has received from each of its members the audited financial statements and a limited assurance report by the auditor on the insurance broker's compliance with the Minimum Requirements in accordance with its membership rules and regulations; and
  - b. that the auditor has reviewed all the members' auditor's reports on the financial statements and reports by the auditor on compliance with the Minimum Requirements, and none contained any adverse statement or qualification except those listed by the auditor in the report.
32. The above report, together with the audited financial statements of the approved body of insurance brokers, shall be submitted to the IA within six months after the close of the period to which the approved body's audited financial statements relate. An illustrative example of a report of factual findings for an approved body of insurance brokers is attached as Appendix 4.

## Appendix 1

### Objectives and recommended procedures for the purpose of reporting on compliance with the Minimum Requirements

The nature and extent of procedures to be carried out for the purposes of reporting on compliance by an insurance broker with the Minimum Requirements are determined by the auditor's professional judgement in each individual case. The list given in this appendix is not exhaustive, nor is it intended that all the procedures suggested apply to every reporting engagement.

When conducting these suggested or other procedures pursuant to reporting on the broker's compliance with the Minimum Requirements, it is recommended that the auditor is guided by HKSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In accordance with HKSAE 3000 (Revised), the auditor determines the nature, timing and extent of procedures to be carried out and carry out those procedures so as to ensure sufficient appropriate evidence is obtained on which to base the conclusions, and document matters which are important to providing evidence to support that conclusion. For the purposes of the auditor's reporting on the compliance with the Minimum Requirements by an insurance broker, the auditor needs to perform procedures as of three dates at the minimum. These three dates are as at the end of the financial year and two such other dates in the financial year as the auditor may elect. The auditor may elect more than two other dates in the financial year if the auditor considers it necessary in order to ensure compliance throughout the financial year.

If, after applying the recommended or other procedures, the auditor becomes aware of non-compliance with the Minimum Requirements, the auditor's responsibility, after considering reporting requirements to those charged with governance discussed in paragraph 28, extends no further than stating in the report that the auditor is aware of non-compliance by the broker with the Minimum Requirements. For examples of suggested modified wording for the report by the auditor, refer to Appendix 5 to the PN.

The Minimum Requirements are in respect of:

1. capital and net assets;
2. professional indemnity insurance;
3. keeping of separate client accounts; and
4. keeping proper books and accounts.

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

**1. Capital and net assets**

<b>Objective</b>	<b>Recommended procedure</b>
i) To establish whether paid up share capital meets the Minimum Requirements ( <i>incorporated brokers only</i> ).	Obtain share register, annual return or returns of allotment and inspect whether paid up share capital is at least HK\$100,000.
ii) To establish whether net assets meet the Minimum Requirements. (Note)	a) Obtain the opening and closing balances of net assets in the financial statements and inspect whether the broker had net assets of at least HK\$100,000.
	b) Where either the opening or closing net asset value is close to the minimum, consider checking management accounts during the period to establish whether the broker has breached the requirements.
	c) Where the management accounts are used as a source of audit evidence as to whether the net assets exceed the minimum, consideration should be given to the method of preparation of those accounts and any adjustments necessary to reflect Hong Kong generally accepted accounting principles, before deciding to rely on them.

*Note: The minimum net assets values are to be determined by excluding all intangible assets and in accordance with accounting principles generally accepted in Hong Kong.*

## 2. Professional indemnity insurance

<i>Objective</i>	<i>Recommended procedure</i>
i) To establish whether the professional indemnity insurance cover meets the Minimum Requirements. (Notes 1 and 2)	a) Physically inspect the professional indemnity insurance policy noting in particular the commencement date and the limit of cover afforded. Determine whether the policy was in force throughout the period under review.
	b) Obtain details of the relevant insurance brokerage income and thereby determine the minimum level of professional indemnity insurance required. Compare this with the actual cover to determine whether the level of cover is adequate. Further guidance is provided in paragraph 17 of this PN. (Notes 3 and 4)
ii) To establish whether the policy provides for one automatic reinstatement where the minimum limit is maintained at HK\$3,000,000 or, where the limit of indemnity has been determined according to brokerage income, whether the broker has effected a reinstatement of cover up to not less than the minimum determined amount if, as a result of a claim(s), the indemnity available falls below the limit.	Inspect the policy document to establish whether an automatic reinstatement is included in the terms of the policy where this is required. Where there have been any material claims during the year, obtain written evidence of any required reinstatement.
iii) To establish whether the deductible exceed the broker's net asset value	Obtain the latest audited financial statements and determine whether the deductible exceed the broker's net asset value.

*Notes:*

1. *Adequate cover is defined as the greater of:*
  - *two times the relevant insurance brokerage income; and*
  - *HK\$3,000,000*

*up to a maximum of HK\$75,000,000.*
  
2. *The "relevant insurance brokerage income" is defined as follows:*
  - *for brokers in business for **more than** one year: the aggregate insurance brokerage income relating to 12 months immediately preceding the commencement date of the cover ("the commencement date"); or*



INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

- *for brokers in business for **less than** one year: the projected insurance brokerage income for the 12 months from the commencement date.*

*It should be noted that the commencement date includes the annual renewal of the professional indemnity insurance cover maintained by an insurance broker.*

3. *Where only one policy is in effect during the year the procedures need only be carried out once. However, if more than one policy has been in effect during the year, for example where the period of cover does not coincide with the financial year, or where the broker changes insurer during the financial year, it may be necessary to carry out the recommended procedures more than once, so that evidence is obtained in respect of the adequacy of the insurance cover in force throughout the period under review.*
4. *In cases where an insurance broker has been in business for more than one year but not for the full twelve months preceding the commencement date of professional indemnity insurance cover at the end of the financial year (in which there is no basis for the insurance cover. Refer (2) above), it should be noted that the insurance broker's minimum limit of indemnity should be calculated on the basis as if the insurance broker had been in business for less than one year and therefore his professional indemnity insurance cover should be based on projected insurance brokerage income.*

**3. Keeping of separate client accounts**

<b>Objective</b>	<b>Recommended procedure</b>
i) To establish whether the broker maintained at least one "client account" designated as such. (Note)	Obtain documentary evidence such as bank statements to determine whether there is in existence at least one "client account".
ii) To establish whether the provisions of section 71 of the Insurance Ordinance have been notified to and acknowledged by an authorized institution with which the "client account" is maintained.	<p>Obtain documentary evidence of the notification and acknowledgement to determine whether it is sufficient for the provisions of section 71.</p> <p>In circumstances where the financial institution has not acknowledged the receipt of the provisions of section 71, evidence that the provisions of section 71 have been notified should still be maintained. In addition there should be evidence that the financial institution has provided the insurance broker with the following information (as evidence that the financial institution has acted on the provisions of section 71):</p> <ul style="list-style-type: none"> <li>• Name of the financial institution</li> <li>• Name of the insurance broker</li> <li>• Names and account number of client accounts maintained at the financial institution with word "client account" clearly stated</li> </ul>
iii) To establish whether the broker keeps client monies in a separate account from his own monies, performs reconciliations with sufficient regularity and whether client monies are used for any purpose other than for the purposes of the client.	<p>a) Enquire with management procedures in place to ensure that client monies are kept separately from the broker's own monies and are not used for any purpose other than for the purposes of the client. Perform sample testing to establish whether the controls and procedures are operating effectively and consider the adequacy of such procedures and controls. While it is management's responsibility to ensure that balances due from/to individual clients are reconciled sufficiently regularly, the auditor should base on the size and complexity of the broker's operations and use professional judgement when assessing this.</p> <p>In a situation where the management represents that there is no insurance brokerage activity in the reporting period, perform necessary procedures to corroborate management's representation (e.g. scan records of receipts and/or payments; obtain understanding of client's business)</p>
	b) On a sample basis, test reconciliations between the monies in the client account and the insurance broking debtors and creditors (at an individual client level) to determine whether there is any deficiency in the client account which would indicate that client monies are being used for purpose other than for the purposes of the client.
	c) For a sample of transactions selected both from the bank statements and from the insurance broking ledgers, check to establish whether those transactions made through the client account fall within the scope of the permitted deposits and

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

	<p>withdrawals and whether transactions recorded in the insurance broking ledgers, which relate to client monies and should be reflected in the client account, are included therein. Refer to paragraphs 19 to 22 of the PN for additional guidance.</p>
	<p>d) Scan client accounts for the whole period for potentially unusual items, e.g. round sum transfers, regular frequent transfers and individually large deposits or transfers. Where unusual items are detected, perform follow up procedures as deemed necessary to determine whether a breach of the minimum requirements has occurred.</p>
<p>iv) To establish whether the broker deposits monies received or held on behalf of his clients in relation to insurance broking business into the client account without delay.</p>	<p>For a sample of transactions selected both from the bank statements and from the insurance broking ledgers, check to determine whether monies received or held on behalf of clients in relation to insurance broking business are being deposited into the client account without delay.</p>

*Note: A "client account" means a current or deposit account with an authorized institution as defined under the Banking Ordinance in the name of the insurance broker in the title of which the word "client" appears.*

**4. Keeping proper books and accounts**

<b>Objective</b>	<b>Recommended procedure</b>
<p>i) To establish whether the broker maintains proper accounting and other records which:</p> <ul style="list-style-type: none"> <li>• will sufficiently explain the transactions and reflect the financial position of the insurance broking business;</li> <li>• will enable financial statements of such business to be prepared which give a true and fair view of the financial position and results of the broker;</li> <li>• are kept in such a manner as will enable them to be conveniently and properly audited;</li> <li>• are kept in writing or in such manner as to enable them to be readily accessible and converted into written form; and</li> <li>• are in sufficient detail to show separately particulars as set out in paragraph 23(b)(ii) of the PN.</li> </ul>	<p>In planning and performing the audit of the broker's financial statements, the auditor should be aware of the requirement for the broker to maintain, and the auditor to give an opinion on whether the broker has maintained, adequate books and records during the year. In general, the auditor, on the basis of the audit of the broker's financial statements, should be able to reach a conclusion in respect of whether proper accounting and other records have been maintained. Therefore further checking in this respect should not normally be necessary.</p>
<p>ii) To establish whether the broker retains the books and records for a period of not less than seven years.</p>	<p>Enquire with the client the procedures in place for safeguarding the books and records for a period of not less than seven years and consider these for adequacy. Validate the physical existence for a sample of items.</p>

## Appendix 2

### EXAMPLE OF AN UNMODIFIED LIMITED ASSURANCE REPORT FOR AN UNINCORPORATED/ INCORPORATED INSURANCE BROKER AUTHORIZED BY THE INSURANCE AUTHORITY ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS

#### INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the [Proprietor of XYZ Insurance Brokers/ Directors of XYZ Insurance Brokers Limited]<sup>1</sup>

Pursuant to section 73(1) of the Hong Kong Insurance Ordinance<sup>2</sup> ("the Ordinance"), we have been engaged to perform a limited assurance engagement on the compliance of the [proprietor of XYZ Insurance Brokers ("the Business")/ directors of XYZ Insurance Brokers Limited ("the Company")]<sup>1</sup> with the minimum requirements for [capital and]<sup>3</sup> net assets, professional indemnity insurance, keeping of separate clients accounts and keeping of proper books and accounts specified by the Insurance Authority ("IA") in section 69(2) of the Ordinance for the [year ended [Date]/ period from [Date] to [Date]].

#### *[Proprietor/s/ Directors]<sup>1</sup> Responsibilities*

The [proprietor is/ directors are]<sup>1</sup> responsible for the [Business's/ Company's] compliance with the minimum requirements specified by the IA pursuant to section 69(2) of the Ordinance and the guidance provided in "Guideline on Minimum Requirements for Insurance Brokers" issued by the IA (the "Guideline").

#### *Our Independence and Quality Control*

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

The firm applies Hong Kong Standard on Quality Control 1<sup>4</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibilities*

Our responsibility, pursuant to section 73(1) of the Ordinance, is to evaluate information from the [Business][Company] and report whether we are aware of any non-compliance with the minimum requirements for (a) [capital and]<sup>3</sup> net assets, (b) professional indemnity insurance, (c) keeping of separate client accounts and (d) keeping of proper books and accounts specified by the IA in section 69(2) of the Ordinance and the Guideline (the "Minimum Requirements").

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 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2)*

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<sup>1</sup> Delete as appropriate, depending on the addressee, whether it is an unincorporated or incorporated insurance broker.

<sup>2</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>3</sup> Only applicable to incorporated insurance brokers.

<sup>4</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

*of the Insurance Ordinance* ("PN 810.1 (Revised)") issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 810.1 (Revised), which included reviewing, on a test basis, evidence obtained from the [Business/ Company] regarding the [Business's/ Company's] compliance with the minimum requirements specified by the IA under section 69(2) of the Ordinance [for the year ended [Date]/ period from [Date] to [Date]]. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material non-compliance of [capital and] <sup>3</sup> net assets, professional indemnity insurance, keeping of separate client accounts and keeping of proper books and accounts with the Minimum Requirements. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

*Conclusion*

Based on the foregoing,

- a. nothing has come to our attention that causes us to believe that the [Business/ Company] has failed to maintain [paid up share capital or] <sup>3</sup> minimum net assets of HK\$100,000 as defined by the IA;
- b. nothing has come to our attention that causes us to believe that the [Business/ Company] has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the IA under section 69(2) of the Ordinance;
- c. nothing has come to our attention that causes us to believe that the [Business/ Company] has failed to maintain separate client accounts in accordance with the minimum requirements specified by the IA under section 69(2) of the Ordinance; and
- d. nothing has come to our attention that causes us to believe that the [Business/ Company] has not maintained proper accounting records to reflect the transactions of its business.

*Intended Users and Purpose*

Our report is intended solely for the use of the [Business/ Company] in connection with the requirements for filing with the IA under section 73(1) of the Ordinance and may not be suitable for any other purpose. This report is not intended to be, and should not be distributed to or used for any other purpose except a copy of this report may be provided to the IA without further comment from us.

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

### Appendix 3

## EXAMPLE OF AN UNMODIFIED LIMITED ASSURANCE REPORT FOR AN INCORPORATED INSURANCE BROKER WHICH IS A MEMBER OF AN APPROVED BODY OF INSURANCE BROKERS ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS

### INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the Directors of XYZ Insurance Brokers Limited

Pursuant to the Membership Regulations of [the Hong Kong Confederation of Insurance Brokers ("HKCIB")/Professional Insurance Brokers Association ("PIBA")], we have been engaged to perform a limited assurance engagement on the compliance of the directors of XYZ Insurance Brokers Limited ("the Company") with the minimum requirements for capital and net assets, professional indemnity insurance, keeping of separate clients accounts and keeping of proper books and accounts specified by the Insurance Authority ("IA") in section 70(2) of the Hong Kong Insurance Ordinance<sup>5</sup> ("the Ordinance") for the [year ended [Date]/ period from [Date] to [Date]].

#### *Directors' Responsibilities*

The directors are responsible for the Company's compliance with the minimum requirements specified by the IA pursuant to section 70(2) of the Ordinance and the guidance provided in "Guideline on Minimum Requirements for Insurance Brokers" issued by the IA (the "Guideline").

#### *Our Independence and Quality Control*

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

The firm applies Hong Kong Standard on Quality Control 1<sup>6</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibilities*

Our responsibility, pursuant to the Membership Regulations of [HKCIB/ PIBA], is to evaluate information from the Company and report whether we are aware of any non-compliance with the minimum requirements for (a) capital and net assets, (b) professional indemnity insurance, (c) keeping of separate client accounts and (d) keeping of proper books and accounts specified by the IA in section 70(2) of the Ordinance and the Guideline (the "Minimum Requirements").

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 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2) of the Insurance Ordinance* ("PN 810.1 (Revised)") issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

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<sup>5</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>6</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

We have planned and performed such procedures as we considered necessary, with reference to the procedures recommended in PN 810.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Company regarding the Company's compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance [for the year ended [Date]/ period from [Date] to [Date]]. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material non-compliance of capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping of proper books and accounts with the Minimum Requirements.

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

*Conclusion*

Based on the foregoing,

- a. nothing has come to our attention that causes us to believe that the Company has failed to maintain paid up share capital or minimum net assets of HK\$100,000 as defined by the IA;
- b. nothing has come to our attention that causes us to believe that the Company has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the IA under section 70(2) of the Ordinance;
- c. nothing has come to our attention that causes us to believe that the Company has failed to maintain separate client accounts in accordance with the minimum requirements specified by the IA under section 70(2) of the Ordinance; and
- d. nothing has come to our attention that causes us to believe that the Company has not maintained proper accounting records to reflect the transactions of its business.

*Intended Users and Purpose*

Our report is intended solely for the use of the company in connection with the requirements for filing with the IA under section 73(2) of the Ordinance and may not be suitable for any other purpose. This report is not intended to be, and should not be distributed to or used for any other purpose except a copy of this report may be provided to the [HKCIB/PIBA] and the IA without further comment from us.

ABC & Co.

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

[Auditor's Address]

Date



## Appendix 4

### EXAMPLE OF A REPORT OF FACTUAL FINDINGS FOR AN APPROVED BODY OF INSURANCE BROKERS ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS BY ITS CONSTITUENT MEMBERS

#### REPORT OF FACTUAL FINDINGS

#### TO THE [MANAGEMENT COMMITTEE] OF [THE HONG KONG CONFEDERATION OF INSURANCE BROKERS/ PROFESSIONAL INSURANCE BROKERS ASSOCIATION]

We have performed the procedures agreed with you and enumerated below with respect to auditors' reports and compliance reports by auditors of the constituent members of the [Confederation/Association] ("constituent members"), pursuant to section 73(2) of the Hong Kong Insurance Ordinance<sup>7</sup> ("the Ordinance"), on these constituent members' financial statements and compliance with the minimum requirements specified by the Insurance Authority ("IA") under section 70(2) of the Ordinance respectively, which were required to be submitted to the [Confederation/Association] during the period \_\_\_\_\_ to \_\_\_\_\_.

Our engagement was undertaken in accordance with the Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and with reference to Practice Note 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2) of the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The procedures were performed solely to assist you in reporting to the IA on auditors' reports and compliance reports by auditors of the constituent members' financial statements and compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance and are summarized as follows:

(List out the procedures)

1. We have obtained all the constituent members' auditors' reports on financial statements and reports by auditors on compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance that the [Confederation/Association] received, in accordance with the [Confederation's/Association's] membership rules and regulations, and agreed these to the Register of Members of the [Confederation/Association].
2. We have read all the constituent members' auditors' reports on financial statements and reports by auditors on compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance; and to determine whether they included any adverse statements or qualified opinions.

We report our findings below:

1. With respect to item 1 we found the [Confederation/Association] has received from each of the constituent members the audited financial statements and report by auditor on compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance, in accordance with its membership rules and regulations except for those listed by us in the attached appendix.
2. With respect to item 2 we found none contained any adverse statement or qualification except for those listed by us in the attached appendix.

<sup>7</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

The procedures do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA (collectively referred to as “Hong Kong assurance standards”), and, as such, no assurance is expressed.

Had we performed additional procedures or had we performed an assurance engagement in respect of auditors' reports and reports by auditors of the constituent members' financial statements and compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance during the period from [date] to [date] in accordance with Hong Kong assurance standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is for your filing with the IA under section 73(2) of the Ordinance, and is not to be used for any other purpose or to be distributed to any other parties, except that we agree that a copy of this report may be provided to the IA. We expressly disclaim any liability or duty to any other party for the content in this report. This report relates only to the items specified above and does not necessarily extend to any financial statements of [The Hong Kong Confederation of Insurance Brokers / Professional Insurance Brokers Association], taken as a whole.

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

## Appendix 5

### EXAMPLES OF SUGGESTED MODIFIED WORDING FOR A REPORT BY AN AUDITOR WHERE AN INSURANCE BROKER HAS NOT COMPLIED WITH THE MINIMUM REQUIREMENTS

If any breaches of the Minimum Requirements are noted by the auditor, either on the dates chosen for testing or on other dates, the wording of the report by the auditor would be modified to give a specific report on whether or not they complied on the dates tested, and a statement that based on information given to the auditor he/she is aware of breaches on other dates during the year. Note that in respect of reporting on share capital and net assets the report may need to be split into two separate points (in the Appendices 2 and 3 they are one combined point for incorporated insurance brokers).

In the circumstances where the auditor expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the auditor's report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)"). Further guidance is set out in paragraphs 74 to 77, A182, A188 to A191 of HKSAE 3000 (Revised).

Examples:

1. The insurance broker met the requirements on at least one date tested in the sample, but not for the whole period:

.....

#### *Basis for Qualified Conclusion*

- a. The assets held by the Company enabled the Company to meet the minimum net assets requirements of HK\$100,000 as defined by the IA as at [the year end date] [and] [one][some] of the dates selected by us but not as at the other dates selected by us in our sample. From information and explanations supplied to us we are aware that the Company failed to maintain minimum net assets of HK\$100,000 as defined by the IA at other times during the period;
- b. as at [the year end date] [and] [one][some] of the dates selected by us but not as at the other dates selected by us in our sample the Company maintained client accounts in accordance with the minimum requirements specified by the IA under section [69(2)/ 70(2)] of the Ordinance. From information and explanations supplied to us we are aware that the Company failed to maintain client accounts in accordance with the minimum requirements specified by the IA under section [69(2)/ 70(2)] of the Ordinance at other times during the period.

#### *Qualified Conclusion*

Based on the foregoing, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph:

- a. nothing has come to our attention that causes us to believe that the Company has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the IA under section [69(2)/70(2)] of the Ordinance;
- b. nothing has come to our attention that causes us to believe that the [Business/ Company] has not maintained proper accounting records to reflect the transactions of its business.

INSURANCE BROKERS – COMPLIANCE WITH  
THE MINIMUM REQUIREMENTS SPECIFIED BY THE INSURANCE AUTHORITY  
UNDER SECTIONS 69(2) AND 70(2) OF THE INSURANCE ORDINANCE

2. The insurance broker did not meet the requirements on any of the dates tested in the sample:

.....

*Basis for Adverse Conclusion*

a. the assets held by the Company did not enable the Company to meet the minimum net assets requirements of HK\$100,000 as defined by the IA as at the year end date nor as at the other date[s] selected by us in our sample. From information and explanations supplied to us we are aware that the Company failed to maintain minimum net assets of HK\$100,000 as defined by the IA at other times during the period;

.  
. .  
.

d. the Company did not maintain client accounts in accordance with the minimum requirements specified by the IA under section [69(2)/ 70(2)] of the Ordinance as at the year end date nor as at the other date[s] selected by us in our sample. From information and explanations supplied to us we are aware that the company failed to maintain client accounts in accordance with the minimum requirements specified by the IA under section [69(2)/ 70(2)] of the Ordinance at other times during the period

*Adverse Conclusion*

Based on the foregoing, due to the significance of the matters discussed in the Basis for Adverse Conclusion paragraph, the Company has failed to maintain the minimum requirements specified by the IA under section [69(2)/70(2)] of the Ordinance as at the year end date and at the other date[s] selected by us.

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

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Effective upon issue

*Practice Note 810.2 (Revised)*

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



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

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

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

<i>Contents</i>	<i>Paragraphs</i>
<b>PART I - GENERAL</b>	
Introduction	1 - 4
<b>PART II – THE DUTIES OF THE AUDITOR UNDER THE INSURANCE ORDINANCE</b>	
Scope of the Ordinance	5 - 9
Financial information to be submitted by authorized insurers	10 - 16
Requirement for assets in Hong Kong	17 - 20
Appointment of the auditor	21 - 25
The auditor's reports	26 - 31
Definitions of "relevant premium income" and "relevant claims outstanding"	32 - 37
Solvency requirements	38
Value of assets and liabilities	39 - 51
Proper records	52 - 55
Insurance brokers	56 - 58
Communications between the auditor and the IA	59
<b>PART III – OTHER REPORTING</b>	
Annual return on employees' compensation gross premium	60
Report on levies paid to the insolvency scheme for motor compensation insurance	61
Report on levies paid to the insolvency scheme for employees compensation insurance	62
Annual remittance report on levy to the IA	63 - 64
<b>APPENDICES</b>	
Appendix 1 - What does the insurer need to submit to the IA?	
Appendix 2 - Example unmodified auditor's reports under Schedule 3 to the Insurance Ordinance	
Appendix 3 - Solvency requirements	
Appendix 4 - Example reports for other reporting	
Appendix 5 – Example auditor's reports on Hong Kong Branch of an overseas insurance company	

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

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

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

*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 Hong Kong Insurance Ordinance (Cap.41) ("the Ordinance") unless otherwise stated. The Insurance Companies Ordinance (Cap. 41) has been renamed as the "Insurance Ordinance" since section 4 of the Insurance Companies (Amendment) Ordinance 2015 came into operation on 26 June 2017.
2. This PN is intended to give guidance to members on the duties of the auditor of an authorized insurer appointed under section 15 (see paragraphs 21 and 22) or paragraph 4(1A) of Part 1 of Schedule 3 to the Ordinance ("Schedule 3"). In addition, guidance on the duties of the auditor of an insurance broker appointed under section 72 is also included (see paragraphs 56 to 58). This guidance is set out in Part II of this PN below.

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 to be adopted in respect of insurance companies and brokers.

An auditor should refer to the guidance in paragraph 52 of PN 620.2 *Communication between the Auditor and the Insurance Authority* on sending a written request to the Insurance Authority to confirm whether it has any matter to report to the auditor.

3. The PN has been prepared following discussions with the IA.
4. This is a guide to the provisions in the Ordinance which were effective as at 26 June 2017 (i.e. including the amendments introduced by the Insurance Companies (Amendment) Ordinance 2015), 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 (including insurance brokers) other than those persons noted in paragraph 7 and those specifically exempted by section 51 (see paragraph 8). Insurers which are



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

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. Insurers will fall within this scope if they are incorporated in Hong Kong, have a place of business here, are represented here by an agent or are holding themselves out as carrying on insurance business in or from Hong Kong. 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. Also, the following persons, although involved in insurance business, do not have to be authorized under the Ordinance:
- a. a Hong Kong incorporated company with an overseas incorporated subsidiary that carries on insurance business outside Hong Kong, provided that the Hong Kong holding company is not itself an insurer;
  - b. an insurance agent (being a person who holds himself out to advise on or arrange contracts of insurance in or from Hong Kong as an agent or subagent of one or more insurers). However, an insurer is required to register its appointed insurance agents in accordance with section 66 and the IA has the power, also under section 66, to direct the insurer to de-register its appointed insurance agents under certain conditions.
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 information to be submitted by authorized insurers**

10. Section 20 requires two copies of the audited financial information required by Schedule 3 (as detailed in paragraph 11 and summarised in Appendix 1) to be submitted to the IA within four months of the end of the financial period to which they relate. At the same time, where an authorized insurer is a company, section 21 requires that a copy of each document, except those required by Parts 8 and 9 of Schedule 3 (i.e. the returns on Hong Kong long term and/ or general businesses and statement of assets and liabilities), should be deposited with the Registrar of Companies.
11. Requirements for submitting financial information to the IA include:

a. Statutory requirements

Schedule 3 requires, amongst other things, the following to be submitted annually to the IA:

- i. a report by the directors with respect to the profit or loss of the insurer for the financial year and the state of the insurer's affairs as at the end thereof (the detailed disclosure requirements of which are set out in Part 2 of Schedule 3);
- ii. a balance sheet;
- iii. a revenue account;
- iv. a profit and loss account.

Where an authorized insurer carrying on long term business only, or a captive insurer, is a holding company, whether or not it is itself a subsidiary of another body corporate, the statements in (ii) to (iv) above must in addition contain the equivalent consolidated information relating to the insurer and its subsidiaries.

Where an insurer is authorized to carry on general business:

- v. a return on Hong Kong business;
- vi. a statement of assets and liabilities (not applicable to reinsurers or captive insurers).

Where an insurer is authorized to carry on long term business:

- vii. a return on Hong Kong long term business.

The detailed disclosure requirements for the statements in (ii) to (iv) above are outlined in Parts 3 to 5 of Schedule 3 while those relating to the returns referred to in (v) and (vii) above and the statement referred to in (vi) above are covered in Parts 8 and 9 of Schedule 3 respectively.

An auditor's report is required in respect of each of the statements referred to in (ii) to (iv) above (see paragraph 27), the returns referred to in (v) and (vii) above (see paragraphs 28 and 29) and the statement referred to in (vi) above (see paragraph 30).

b. Other requirements

Although it is not a statutory requirement, the IA requires an insurer to submit annually an audited cash flow statement in addition to the statutory requirements in (i) and (iv) above based on its previous circular.

- 12. The requirements for the submission of these statements 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 shareholders in general meeting and these financial statements have to comply with the disclosure provisions of the Companies Ordinance.

**Holding company**

- 13. It should be noted that the additional provisions relating to an authorized insurer which is a holding company (Part 3 (paragraphs 10 to 13) of Schedule 3) may result in consolidated financial statements being prepared where none are required under the Companies Ordinance. Paragraph 10 of Schedule 3 provides that Part 3 of Schedule 3 shall apply to an authorized insurer carrying on long term business only, or a captive insurer that is a holding company, whether or not it is itself a subsidiary of another body corporate. This means that such an insurer authorized in Hong Kong must prepare its own consolidated financial statements even if it is the wholly-owned subsidiary of a parent company, whether or not that parent company is an insurer. Where a group is structured vertically with each subsidiary or sub-subsidiary being an insurer in its own right, each holding company in the group will have to submit group financial statements in respect of its own subgroup. Depending on the merits of individual insurer, it may be possible for the insurer to obtain a modification of Schedule 3 requirements by making an application under section 17(2).
- 14. Apart from the requirements under Parts 8 and 9, which are in respect of Hong Kong Insurance Business and Hong Kong Long Term Insurance Business (as defined in paragraph 1(1) of Schedule 3) only, the information to be submitted under Schedule 3 shall be in respect of the total business of the insurer.

**Hong Kong branch**

- 15. Where an overseas company carries on insurance business in Hong Kong through a branch, the information required by the IA apart from the requirements under Parts 8 and 9 must relate to the company's worldwide position. In this respect it should be noted that section 17(2) permits the IA to modify or vary any of the requirements of Schedule 3 in relation to an authorized insurer, provided that the insurer requests such a modification in writing. The IA has indicated that it may be prepared to modify or vary the requirements of Schedule 3 in respect of an overseas company incorporated in a country where the insurer is subject to an acceptable standard of prudential supervision depending on the merits of individual insurer. The auditor who audits a Hong Kong branch of such company is therefore recommended to suggest to the client that the insurer discusses with the IA.

16. According to the IA, submission of audited branch financial statements is one of the standard requirements for the giving or renewal of an accounting concession under section 17(2).
- a. Unless specifically required by the IA, the audited branch financial statements need not comply with the requirements of the Insurance (General Business) (Valuation) Rules. They shall, however, comply so far as applicable with the requirements of Schedule 3.
  - b. The audited branch financial statements would normally include a revenue account, and/or a profit and loss account, a balance sheet, a cash flow statement and notes thereto.

The auditor of the branch is required to ascertain whether the financial statements have been prepared in accordance with the IA's conditions on accounting concession granted to the branch. The IA would normally require the branch to submit financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs) and audited by certified public accountants who are qualified under the Professional Accountants Ordinance (Cap.50) (and not disqualified under section 393(2) of the Companies Ordinance) for appointment as auditors of a company. Financial statements prepared in accordance with the HKFRSs will be needed in order for the auditor to issue a report for Part 8 for the financial year ending on or after 31 December 2015. When the branch prepares the financial statements in accordance with the HKFRSs for the first time the requirements in HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" apply in full. The auditor of the branch is also required to ascertain the extent the requirements of HKFRS 1 may have been exceptionally amended by the IA's accounting concession when certain facts and circumstances apply (for example the omission of comparative financial information for which the example audit opinion is included in Appendix 5).

### Requirement for assets in Hong Kong

17. General and composite insurers, other than captive insurers or persons authorized to carry on reinsurance business only, are required by section 25A to maintain assets in Hong Kong at all times in respect of their liabilities as of the end of the last preceding year, arising from Hong Kong Insurance Business, and to file a statement of assets and liabilities with the IA annually to ensure compliance. Schedule 8 to the Ordinance sets out a list of assets which qualify as assets in Hong Kong. The auditor's requirements to report on this statement are set out in paragraph 30. Where the insurer has entered into contracts of reinsurance for which the premiums payable exceeded 50% of the gross premiums received, such assets shall be at least equal to the greater of:
- a. the aggregate of:
    - i. 80%<sup>1</sup> of its liabilities after deducting the amount in respect of which contracts of reinsurance have been entered into; and
    - ii. the relevant amount (see paragraph 18); and
  - b. the aggregate of:
    - i. 40% of its liabilities before deducting the amount in respect of which contracts of reinsurance have been entered into; and
    - ii. the relevant amount (see paragraph 18).

Where the insurer has not entered into contracts of reinsurance for which the premiums payable exceeded 50% of the gross premiums received, then such assets shall be at least equal to the amount determined in (a) above.

18. "Relevant amount" means the relevant amount determined in accordance with section 10 (see paragraph 38) except that:
- a. the reference to gross premium income in that section shall, for the purposes of section 25A, be deemed to be the gross premium income arising from the authorized insurer's Hong Kong Insurance Business only; and
  - b. the references to claims outstanding, additional amount for unexpired risks and fund in section 10 shall, for the purposes of section 25A, be deemed to be the claims

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<sup>1</sup> The IA may increase the percentage on individual case basis.

outstanding, additional amount for unexpired risks and fund respectively arising from the insurer's Hong Kong Insurance Business only.

19. The value of assets and the amounts of liabilities shall be determined in accordance with any applicable valuation rules made under section 129(1)(a). Existing valuation rules at the time of issue of this PN are covered in paragraphs 41 to 51.
20. 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 Hong Kong insurance business 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.

### **Appointment of the auditor**

21. Under section 15, the authorized insurer must appoint an auditor ("the Appointed auditor") who is:
  - a. qualified under the Professional Accountants Ordinance (and not disqualified under section 393(2) of the Companies Ordinance); or
  - b. qualified as an auditor in the country of incorporation, if the authorized insurer is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of a comparable standard to that of a person referred to in (a) above.

Financial information and statements to be submitted by an authorized insurer under Parts 3, 4 and 5 of Schedule 3, as appropriate, must be audited by the Appointed auditor.

22. The forms and statements to be submitted by an insurer under Parts 8 and 9 of Schedule 3 must be audited by an auditor who is qualified under the Professional Accountants Ordinance (and not disqualified under section 393(2) of the Companies Ordinance). This auditor may or may not be the Appointed auditor of the insurer referred to in paragraph 21.
23. The insurer must notify the IA in writing of any appointment of, or change in, 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. The IA keeps a record of all the Appointed auditors of insurers for its own use.
24. 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 Hong Kong incorporated insurer proposes to give notice to its shareholders of a resolution removing/replacing the Appointed auditor.
25. 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 required in respect of the information to be submitted under Schedule 3. Further guidance on this obligation may be found in PN 620.2 *Communication between the Auditor and the Insurance Authority* issued by the HKICPA.

### **The auditor's reports**

26. Separate requirements apply in respect of auditor's reports on the financial information, forms and statements required by Schedule 3 for different categories of insurers. These are set out below and in Appendix 1. Suggested forms of wording for each report are included in Appendix 2. For the IA's easy identification of all the forms and statements submitted which are reported on by the auditor, the auditor should stamp the identification chop on each page of the forms and statements. The page numbers set in the auditor's report on the statement to be submitted to the IA under Part 9 of Schedule 3 should refer to the statements and the accompanying supplementary information, where applicable.
27. Paragraph 4 of Part 1 of Schedule 3 requires the auditor to audit the financial information prepared in accordance with Parts 3, 4 and 5 of that Schedule (being a balance sheet, revenue account, profit and loss account and, where applicable, consolidated financial statements) and to

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

state in the auditor's report the items set out below. Definitions of "relevant premium income" and "relevant claims outstanding" are contained in paragraphs 32 to 37. Solvency requirements are set out in paragraph 38.

The auditor is required to state:

*In the case of a general insurer other than a captive insurer,*

- a. the relevant premium income and relevant claims outstanding of, and the relevant amount as defined in section 10 (see paragraph 38) in the case of, the insurer;
- b. whether in the auditor's opinion the value of the assets of the insurer exceeds its liabilities by that relevant amount;
- c. whether in the auditor's opinion proper records have been maintained in accordance with section 16; and
- d. whether in the auditor's opinion the balance sheet, revenue account and profit and loss account have been properly prepared in accordance with the provisions of the Ordinance.

*In the case of an insurer carrying on long term business only,*

- a. the greater of:
  - i. the relevant amount as defined in section 10 (see paragraph 38) in the case of the insurer, and
  - ii. the required margin of solvency, as determined by the insurer's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules;
- b. whether in the auditor's opinion the value of the assets of the insurer exceeds its liabilities by the amount under (a) above;
- c. whether in the auditor's opinion proper records have been maintained in accordance with section 16;
- d. whether in the auditor's opinion the balance sheet, revenue account, profit and loss account and (if it is a holding company submitting group financial statements) the group financial statements have been properly prepared in accordance with the provisions of the Ordinance; and
- e. whether in the auditor's opinion the financial statements give a true and fair view of:
  - i. the state of the insurer's affairs;
  - ii. the insurer's profit or loss for the financial year (if the financial statements are unconsolidated); and
  - iii. the state of the group's affairs and of its profit or loss for the financial year (in the case of group financial statements).

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

*In the case of a captive insurer,*

- a. the net premium income and net claims outstanding of, and the relevant amount as defined in section 10 (see paragraph 38) in the case of, the insurer;
- b. whether in the auditor's opinion the value of the assets of the insurer exceeds its liabilities by that relevant amount;
- c. whether in the auditor's opinion proper records have been maintained in accordance with section 16;
- d. whether in the auditor's opinion the balance sheet, revenue account, profit and loss account and (if it is a holding company submitting group financial statements) the group financial statements have been properly prepared in accordance with the provisions of the Ordinance; and
- e. whether in the auditor's opinion the financial statements give a true and fair view of:
  - i. the state of the insurer's affairs;
  - ii. the insurer's profit or loss for the financial year (if the financial statements are unconsolidated); and
  - iii. the state of the group's affairs and of its profit or loss for the financial year (in the case of group financial statements).

*In the case of a composite insurer,*

- a. the relevant premium income and relevant claims outstanding of, and the relevant amount as defined in section 10 (see paragraph 38) in the case of, the insurer's general business;
  - b. the greater of:
    - i. the relevant amount as defined in section 10 (see paragraph 38), and
    - ii. the required margin of solvency, as determined by the insurer's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules in the case of the insurer's long term business;
  - c. whether in the auditor's opinion the value of the assets of the insurer exceeds its liabilities by the aggregate of the relevant amount under (a) and the amount under (b) above;
  - d. whether in the auditor's opinion proper records have been maintained in accordance with section 16;
  - e. whether in the auditor's opinion the balance sheet, revenue account and profit and loss account have been properly prepared in accordance with the provisions of the Ordinance; and
  - f. whether in the auditor's opinion the financial statements give a true and fair view of the financial position of the insurer's long term business.
28. For insurers carrying on general insurance business, paragraph 4(1A)(a) of Part 1 of Schedule 3 requires the auditor to audit the forms (except Form HKL1) prepared in accordance with Part 8 of Schedule 3 (often referred to as the general business returns). The auditor is required to state:

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

- a. whether in the auditor's opinion proper records have been maintained in accordance with section 16 for the purposes of preparing the forms;
  - b. whether the forms have been properly prepared in accordance with those records; and
  - c. whether the information supplied in the forms is prepared, in all material respects, in accordance with the provisions of Part 8 of Schedule 3 to the Ordinance and, on that basis, the forms, when read in conjunction with the insurer's audited financial information for the year then ended prepared in accordance with Hong Kong Financial Reporting Standards and the provisions of the Ordinance, gives a true and fair view of the insurer's underwriting results pertaining to the Hong Kong Insurance Business for the year then ended.
29. For insurers carrying on long-term insurance business, paragraph 4(1A)(aa) of Part 1 of Schedule 3 requires the auditor to report on Form HKL1 prepared in accordance with Part 8 of Schedule 3 (revenue account), and to state:
- a. whether in the auditor's opinion proper records have been maintained in accordance with section 16 for the purposes of preparing the form; and
  - b. whether the form has been properly prepared in accordance with those records.
30. For insurers carrying on general insurance business, paragraph 4(1A)(b) of Part 1 of Schedule 3 requires the auditor to audit the statement of assets and liabilities ("the statement") prepared in accordance with Part 9 of Schedule 3, and to state:
- a. whether in the auditor's opinion proper records have been maintained in accordance with section 16 for the purposes of preparing the statement;
  - b. whether the statement has been properly prepared in accordance with those records;
  - c. whether the values of the assets and liabilities have been determined in accordance with any applicable valuation regulations;
  - d. whether the relevant amount as defined in section 10 has been determined in accordance with section 25A(1) (see paragraph 18); and
  - e. where the statement is submitted pursuant to:
    - i. section 25A(9), the assets held by the insurer, as shown in the statement, enable it to comply with the requirement stipulated in section 25A as at the last day of the financial year and two such other dates in the financial year as the auditor may elect, provided that the intervening period between those two dates shall not be shorter than three months; or
    - ii. section 25B(3)(b), the assets held by the insurer, as shown in the statement, enable it to comply with the requirement stipulated in section 25B as at the date specified in the notice issued under that section.

Notwithstanding section 25A(3) which states that an authorized insurer shall, at all times, maintain assets in Hong Kong in respect of its liabilities, as of the end of the last preceding financial year, it has been agreed with the IA that for the purposes of checking compliance with section 25A, the auditor compares the assets with liabilities on the last day of the *current* financial year as well as the assets at two dates during the year, as elected by the auditor, with the liabilities at the preceding financial year end date.

The auditor may add qualifications, amplifications or explanations to the auditor's reports as necessary.



For Hong Kong branches of general insurers, the IA may impose additional requirements in the concession letter on the application of the Relaxation of Valuation Rules. If such additional requirements have been included, the auditor's report as set out in Example 4(d) of Appendix 2 should be modified to reflect the additional requirements regarding the Relaxation of Valuation Rules. There are no prescribed circumstances for imposing the additional requirement and the IA will consider the individual circumstances of an authorized insurer as appropriate.

31. The auditor's report required in respect of the financial information prepared in accordance with Parts 3, 4 and 5 of Schedule 3 relates to the financial information, which has to be submitted to the IA and the Registrar of Companies. 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. The auditor will be required to issue two separate audit reports, one for the members on the Companies Ordinance financial statements, and one addressed to the directors who will have the responsibility for submitting the financial information required by Schedule 3 to the IA. The report addressed to the directors will refer to the financial information prepared in accordance with the provisions of the Ordinance (see Appendix 2 for report format). The audit report addressed to members and relating only to the Companies Ordinance financial statements will also have to be submitted to the IA under section 20(5) (see Appendix – Illustrations 1 or 3 of HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for report format).

### **Definitions of "relevant premium income" and "relevant claims outstanding"**

32. "Relevant premium income" is defined as the greater of:
- a. 50% of the annual gross premium income of the company; and
  - b. gross premium income less premiums payable by the company in respect of reinsurance.

Gross premium income is defined in section 10(4)(c) as the premiums receivable in that financial year in respect of all insurance business other than long term business. Premiums receivable are defined as the premiums paid or payable to an authorized insurer in respect of contracts written or renewed in that financial year before deducting commissions of agents or brokers but after deducting any discounts specified in policies or refunds of premiums made in respect of any termination or reduction of risks. Discounts specified in policies are generally discounts that relate to the reduction of risks which are being underwritten and should not contain an element of rebate as regards the premiums paid by the insured. Gross premium income as defined above will normally be the amount disclosed in the revenue account under the requirements of paragraph 24(1)(a) of Schedule 3, provided that the amounts recorded are consistent with the amounts written in the year. It should be noted however that this will not be the same as the earned premiums accounted for on an accruals basis since the former is based on all contracts written in the financial year.

33. "Relevant claims outstanding" is defined as:
- a. where no class of the general business of the insurer is accounted for on a fund accounting basis, the aggregate of the following:
    - i. an amount equal to 50% of the claims outstanding (see paragraph 35) before deducting any amount recoverable from reinsurers thereon, or the amount of claims outstanding after deducting any amount recoverable from reinsurers thereon, whichever is the greater; and
    - ii. the additional amount for unexpired risks (see paragraph 36);
  - b. where all classes of the general business are accounted for on a fund accounting basis, the fund (see paragraph 37);

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

- c. where part of the general business is accounted for on a fund accounting basis, the aggregate of the following:
    - i. in respect of *that* part, the fund (see paragraph 37); and
    - ii. in respect of *the other* part of that business:
      - an amount equal to 50% of the claims outstanding (see paragraph 35) before deducting any amount recoverable from reinsurers thereon, or the amount of claims outstanding after deducting any amount recoverable from reinsurers thereon, whichever is the greater; and
      - the additional amount for unexpired risks (see paragraph 36).
34. "Claims outstanding", "additional amount for unexpired risks" and "fund" are defined in paragraph 1(1) of Part 1 of Schedule 3.
35. "Claims outstanding" is defined as, the amount set aside by an authorized insurer as at the beginning or end of its financial year as being an amount likely to be sufficient to meet:
- a. claims in respect of incidents occurring:
    - i. in the case of an amount set aside as at the beginning of the financial year, before the beginning of that year; and
    - ii. in the case of an amount set aside at the end of the financial year, before the end of that year,

being claims which have not been treated as claims paid and including claims relating to business accounted for over a longer period than a financial year, claims the amount of which have not been determined and claims arising out of incidents that have not been notified to the insurer; and
  - b. expenses (such as legal, medical, surveying and engineering costs) which have been incurred but not yet recorded as paid or which are likely to be incurred by the insurer, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual claims which relate to incidents occurring before the beginning or the end of the financial year (as the case may be), whether or not the individual claims in question are those mentioned above.
36. "Additional amount for unexpired risks" (otherwise known as premium deficiency) means the amount set aside by an authorized insurer at the end of its financial year, in addition to any unearned premiums, which is considered necessary to meet the cost of claims and expenses of settlement arising from risks to be borne by the insurer after the end of the financial year under contracts of insurance entered into before the end of that year.
37. "Fund", in relation to general business recorded as commencing in any financial year of an authorized insurer but accounted for over a period longer than that financial year, means, during such period, an amount not less than the aggregate amount of the premiums receivable during that period (net of reinsurance premiums payable) reduced by the aggregate amount of the claims paid (net of reinsurance recoveries), expenses for settling claims, commission (net of reinsurance commission receivable) and premium taxes in respect of that business and any management expenses attributable to the management of the fund, and after the end of such period, means such amount as is considered necessary to discharge the remaining obligations (net of reinsurance) in respect of that business.

## Solvency requirements

38. a. Each company authorized to conduct general business in or from Hong Kong (except a captive insurer) must maintain an excess of assets over liabilities by a relevant amount (often referred to as solvency margin) equivalent to 20% of relevant premium income or relevant claims outstanding, whichever is higher, up to HK\$200 million plus 10% of relevant premium income or relevant claims outstanding in excess of HK\$200 million. The minimum relevant amount required is HK\$10 million (HK\$20 million if authorized for statutory business).
- b. Each company authorized to conduct long term business in or from Hong Kong must maintain an excess of assets over liabilities by an amount equivalent to the greater of the relevant amount of HK\$2 million and the margin of solvency calculated in accordance with the Insurance (Margin of Solvency) Rules. At least the greater of HK\$2 million and one-sixth of the margin of solvency must be held in funds maintained in respect of its long term business (other than class G or H business specified in Part 2 of Schedule 1 to the Ordinance).
- c. Each company authorized to conduct composite business in or from Hong Kong must maintain an excess of assets over liabilities by an amount equivalent to the aggregate of the amounts determined in accordance with (a) and (b) above.
- d. Each company authorized to conduct business as a captive insurer in or from Hong Kong must maintain an excess of assets over liabilities by a relevant amount equivalent to 5% of net premium income or net claims outstanding, whichever is higher. The minimum relevant amount is HK\$2 million.

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

## Value of assets and liabilities

39. The calculation of relevant premium income, relevant claims outstanding and the relevant amount applicable (see paragraph 38), and the required margin of solvency as determined by the insurer's appointed actuary are required in order to enable the auditor to state in the auditor's report, whether in the auditor's opinion the value of the assets of the insurer exceed its liabilities by the required amount applicable according to the Ordinance. The required amount is determined as being the relevant amount applicable in relation to an insurer's general and captive insurance business and the greater of the relevant amount and the required margin of solvency in relation to an insurer's long term business. An insurer is under an obligation to ensure that the value of the assets exceed its liabilities by the required amount at all times but it is recommended that the auditor only verifies the position at the balance sheet date and two such other dates in the financial year as the auditor may elect, provided that the intervening period between those two dates shall not be shorter than three months. If the value of the assets does not exceed its liabilities by the relevant amount applicable, the insurer is deemed to be unable to pay its debts under section 42 and can be wound up.
40. Subject to any relevant valuation rules issued under section 129(1)(a) (see paragraphs 41 to 51), it is necessary to base the calculation on the provisions laid down in section 8. This section requires assets to be valued having regard to their market value and the cost of realising such assets. In computing the amount of liabilities, all contingent and prospective liabilities shall be taken into account but not liabilities in respect of the insurer's share capital. In determining the amount of these liabilities, regard shall be made to cost of settlement of such liabilities and, where the amount of any such liabilities is assessed or estimated, to the experience of the insurer in carrying on any relevant insurance business or of other persons carrying on the same or similar insurance business.

**Valuation Rules for companies carrying on general business**

41. In accordance with section 8(4)(b), the valuation of assets and liabilities of an insurer whose business includes or will include general business, other than a captive insurer, should be determined in accordance with the Insurance (General Business) (Valuation) Rules ("Valuation Rules") which came into operation on 26 June 2017.
42. Different requirements are made in the Valuation Rules in respect of different categories of assets. The major categories of assets in respect of which more detailed provisions are made, and the relevant sections in the Valuation Rules, include:
- a. land and buildings (rule 3);
  - b. listed shares or securities, unit trusts or mutual funds (rule 4);
  - c. shares in investment subsidiaries (rule 5);
  - d. shares in other insurers (rule 6);
  - e. other unlisted shares (rule 7);
  - f. unlisted securities (rule 8); and
  - g. premiums receivable (rule 9).
- Some provisions are also made in respect of:
- a. intangible assets and deferred acquisition costs (rule 10);
  - b. discounting of claims (rule 11); and
  - c. additional amount for unexpired risks (rule 12).
43. Rule 14 of the Valuation Rules stipulates admissibility limits for the different categories of assets to ensure a prudent spread of investments. The admissibility limits are applicable to the financial information prepared in accordance with Parts 4 and 5 of Schedule 3 only. This section of the Valuation Rules does not apply to the assets of an insurer required to be maintained in Hong Kong under section 25A or 25B and therefore does not apply to the statement of assets and liabilities prepared under Part 9 of Schedule 3.
44. Notwithstanding that the value given to an asset of an insurer is permissible under the Valuation Rules, if, in all circumstances of the case, it appears that the asset is of a lesser value than that given, such lesser value is to be the value of the asset (rule 15 of the Valuation Rules).
45. The Valuation Rules reaffirms that where no provision for valuation is made under the Valuation Rules in respect of any asset or liability, section 8(4)(c) continues to apply (rule 13 of the Valuation Rules).
46. In the case of a company carrying on or intending to carry on business as a captive insurer, the values of assets and liabilities may be determined in accordance with section 8.
47. Liabilities are defined in section 8(4) as including all contingent and prospective liabilities but excluding liabilities in respect of the insurer's share capital. Where specific valuation rules are not applicable, regard should be had to the cost of settlement of the liabilities and, where estimates are necessary, to the experience of the insurer in carrying on any relevant insurance business or of other persons carrying on the same or similar insurance business.
48. For the purpose of valuing the amount of liabilities, contingent liabilities will be assessed on the probability of their crystallisation. Generally it will be the auditor's responsibility to have regard to

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

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

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

### **Proper records**

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

### **Insurance brokers**

56. Section 65 states that an insurer may not accept any business from an insurance broker in Hong Kong unless that broker is authorized. An authorized insurance broker may be an insurance broker directly authorized by the IA or a member of a body of insurance brokers approved by the IA. Sections 69 and 70 set out the requirements to be complied with by insurance brokers and bodies of insurance brokers in order to obtain the relevant authorization and approval.
57. Under section 72, the insurance broker must appoint an auditor who is:
  - a. qualified under the Professional Accountants Ordinance (and not disqualified under section 393(2) of the Companies Ordinance); or

- b. qualified as an auditor in the country of incorporation, if the insurance broker is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of comparable to that of a person referred to in (a) above.
58. The auditor of an insurance broker is required to report on the broker's financial statements to its proprietor (in the case of an unincorporated broker) or its shareholders (in the case of an incorporated broker). The auditor is also required to report on an insurance broker's compliance with the minimum requirements. For further guidance on this area, members may refer to PN 810.1 (Revised), *Insurance Brokers - Compliance with the Minimum Requirements Specified by the Insurance Authority under sections 69(2) and 70(2) of the Insurance Ordinance* issued by the HKICPA.

### **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 25) and 53E impose a statutory obligation on the auditor to report certain matters directly to the IA. Members may refer to PN 620.2 for further guidance in this area.

## **PART III – OTHER REPORTING**

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

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.

### **Report on levies paid to the insolvency 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 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information". An example report is set out in Example 2 in Appendix 4.

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

62. 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 ECIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400. An example report is set out in Example 3 in Appendix 4.

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

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

## Appendix 1

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

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

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

\* True and fair opinion required

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

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

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



**Notes**

**a) General Insurer**

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

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

The requirement to audit this financial information including the opinions to be given is set out in paragraph 4(1AB) of Part 1 of Schedule 3. An example auditor's report is set out as Example 1 in Appendix 2.

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

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

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

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

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

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

**b) Long term insurer**

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

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

The requirement to audit this financial information including the opinions to be given is set out in paragraphs 4(1) and (1AA) of Part 1 of Schedule 3. An example auditor's report is set out as Example 2 in Appendix 2.

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

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

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

**c) Composite insurer**

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

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

The requirement to audit this financial information including the opinions to be given is set out in paragraph 4(1AC) of Part 1 of Schedule 3. An example auditor's report is set out as Example 3 in Appendix 2.

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

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

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

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

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

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

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

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

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

## Appendix 2

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

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

**Opinion**

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

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

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

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

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

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

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

### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In our opinion:

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

ABC & Co.

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

[Auditor Address]

[Date]

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

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

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

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

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

**Opinion**

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

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

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

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

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

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

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



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

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

### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1; and
- (ii) the value of the assets of the Company as stated in the financial information exceeds its liabilities by not less than HK\$ \_\_\_\_\_\*\* as at 31 December 20X1.

ABC & Co.

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

[Auditor Address]

[Date]

\* Delete where appropriate.

\*\* The amount stated should be the same.

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

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

**Opinion**

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

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

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

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

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

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

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

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

In our opinion, the financial information set out on pages ..... to ..... is prepared, in all material respects, in accordance with the provisions of the Hong Kong Insurance Ordinance<sup>28</sup> ("the Ordinance") and, on that basis, the long term business [balance sheet][statement of financial position] on page ....., when read in conjunction with the notes on pages ..... to ..... and the supplementary schedules on pages ..... to ....., gives a true and fair view of the financial position of the Company's long term business as at 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the provisions of the Ordinance.<sup>#</sup>

### **Basis for Opinion**

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

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

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

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

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

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

The directors are responsible for the preparation of the financial information that is in accordance with the provisions of the Ordinance. This responsibility includes the preparation of a long term business [balance sheet][statement of financial position] which, when read in conjunction with the notes and supplementary schedules to the financial information, gives a true and fair view of the financial position of the Company's long term business, in accordance with the provisions of the Ordinance and HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1; and
- (ii) the value of the assets of the Company as stated in the financial information exceeds its liabilities by not less than HK\$\_\_\_\_\_, being the aggregate of the [relevant amount applicable and attributable to its general business and the required margin of solvency attributable to its long term business]/[relevant amounts applicable]\*\* as at 31 December 20X1.

ABC & Co.

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

[Auditor Address]

[Date]

\*\* Delete where appropriate.

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

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

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

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

*Directors' Responsibilities*

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

*Our Independence and Quality Control*

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

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

*Auditor's Responsibility*

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

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

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

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

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

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



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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

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

ABC & Co.

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

[Auditor's Address]

Date

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

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

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

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

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

*Directors' Responsibilities*

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

*Our Independence and Quality Control*

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

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

*Auditor's Responsibility*

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

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

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

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

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

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

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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

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

ABC & Co.

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

[Auditor's Address]

Date

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

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

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

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

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

*Directors' Responsibilities*

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

*Our Independence and Quality Control*

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

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

*Auditor's Responsibility*

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

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

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

- (i) on the basis of the work we performed in connection with the audit of the Company's financial information prepared under Parts 4 and 5 of Schedule 3 for the year ended 31 December 20X1,

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

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

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

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

assessing whether records have been properly maintained in accordance with section 16 of the Ordinance for the purpose of preparing the Statement;

- (ii) comparing the Statement with the Company's records, and assessing whether the Statement has been properly prepared in accordance with those records and the requirements of Part 9 of Schedule 3 and whether the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance as at 31 December 20X1; and
- (iii) comparing the assets held by the Company at two other dates during the year ended 31 December 20X1, as reflected in the Company's records, with the liabilities at the preceding financial year end date for the purpose of determining whether such assets enable it to comply with the requirement of section 25A of the Ordinance.

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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

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

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

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

*Directors' Responsibilities*

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

*Our Independence and Quality Control*

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

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

*Auditor's Responsibility*

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

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

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

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

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

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

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

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

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

- (i) on the basis of the work we performed in connection with the audit of the Company's Hong Kong Branch financial statements prepared under Hong Kong Financial Reporting Standards\*\* for the year ended 31 December 20X1, assessing whether records have been properly maintained in accordance with section 16 of the Ordinance for the purpose of preparing the Statement;
- (ii) comparing the Statement with the Company's records, and assessing whether the Statement has been properly prepared in accordance with those records and the requirements of Part 9 of Schedule 3 and whether the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>] as at 31 December 20X1; and
- (iii) comparing the assets held by the Company at two other dates during the year ended 31 December 20X1, as reflected in the Company's records, with the liabilities at the preceding financial year end date for the purpose of determining whether such assets enable it to comply with the requirement of section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>].

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

*Opinion*

Based on the foregoing, in our opinion:

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



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

*Intended Users and Purpose*

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

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

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

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

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

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

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

*Directors' Responsibilities*

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

*Our Independence and Quality Control*

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

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

*Auditor's Responsibility*

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

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

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

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

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

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

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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

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

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

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

### Appendix 3 Solvency requirements

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

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

## **Appendix 4**

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

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

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

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

To the Directors of XYZ Insurance Company Limited

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

#### *Directors' Responsibilities*

Pursuant to the Agreement, the directors are responsible for preparing the Annual Return. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Annual Return. In addition, the directors are responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Hong Kong Insurance Ordinance<sup>52</sup> ("the Ordinance").

#### *Our Independence and Quality Control*

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

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

#### *Auditor's Responsibility*

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

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

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

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

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<sup>52</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

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

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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

This report is intended for filing with the Government of the HKSAR pursuant to the Agreement and is not intended to be, and should not be, distributed to or used by, anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>54</sup>.

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

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

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

### REPORT OF FACTUAL FINDINGS

To the Directors of XYZ Insurance Company Limited

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

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

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

We report our findings below:

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

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

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

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

ABC & Co.

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

[Auditor's Address]

Date



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

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

To the Directors of XYZ Insurance Company Limited

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

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

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

We report our findings below:

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

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

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

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

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

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

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

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

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

#### *Directors' Responsibility*

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

#### *Our Independence and Quality Control*

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

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

#### *Auditor's Responsibility*

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

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

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

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

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

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

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

*Opinion*

Based on the foregoing, in our opinion:

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

*Intended Users and Purpose*

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

ABC & Co.

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

[*Auditor's Address*]

Date

## **Appendix 5**

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

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

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

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

- Audit of a complete set of financial statements of a branch that have been prepared by the chief executive of the branch in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) to assist the branch in complying with the conditions of the accounting concession. The directors do not have a choice of financial reporting frameworks.<sup>57</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the chief executive's responsibility for the financial statements in HKSA 210.<sup>58</sup>
- The comparative information has not been presented as required by Hong Kong Accounting Standard 1 (Revised), *Presentation of Financial Statements*. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>59</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>60</sup>
- The auditor has obtained all of the other information<sup>61</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

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

### Qualified Opinion

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

<sup>57</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>58</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>59</sup> HKSA 570 (Revised), *Going Concern*.

<sup>60</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>61</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

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

### **Basis for Qualified Opinion**

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

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

We draw attention to note [X] to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Branch in complying with the conditions of the accounting concession. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the submissions by the Branch to the Hong Kong Insurance Authority and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>62</sup>

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

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

### **Responsibilities of Chief Executive and Those Charged with Governance for the Financial Statements<sup>63</sup>**

Pursuant to the conditions of the accounting concession under section 17(2) of the Hong Kong Insurance Ordinance<sup>64</sup> granted by the Hong Kong Insurance Authority, the Chief Executive is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Chief Executive determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

<sup>62</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>63</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>64</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

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

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

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

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

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

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

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

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

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

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

- Audit of a complete set of financial statements of a branch that have been prepared by the chief executive of the branch in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) to assist the branch in complying with the conditions of the accounting concession. The directors do not have a choice of financial reporting frameworks.<sup>65</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the chief executive's responsibility for the financial statements in HKSA 210.<sup>66</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>67</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>68</sup>
- The auditor has obtained all of the other information<sup>69</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

### INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

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

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

<sup>65</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>66</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>67</sup> HKSA 570 (Revised), *Going Concern*.

<sup>68</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>69</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)



## **Basis for Opinion**

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

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

We draw attention to note [X] to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Branch in complying with the conditions of the accounting concession. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the submissions by the Branch to the Hong Kong Insurance Authority and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>70</sup>

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

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

## **Responsibilities of Chief Executive and Those Charged with Governance for the Financial Statements<sup>71</sup>**

Pursuant to the conditions of the accounting concession under section 17(2) of the Hong Kong Insurance Ordinance<sup>72</sup> granted by the Hong Kong Insurance Authority, the Chief Executive is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Chief Executive determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

<sup>70</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>71</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>72</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

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

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

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

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

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

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

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