

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

*(Issued June 1997; revised September 2004 (name change))*

Contents	Paragraphs
<b>Introduction</b>	<b>1 - 6</b>
<b>Reporting requirements</b>	<b>7 - 8</b>
<b>Scope</b>	<b>9 - 10</b>
<b>Minimum Requirements for compliance by authorized insurance brokers and constituent members of approved bodies of insurance brokers</b>	<b>11 - 22</b>
<b>Submission of annual audited financial statements and reports by auditors on compliance with the Minimum Requirements</b>	<b>23 - 30</b>
<b>Appendices (1 - 7)</b>	

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

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

*They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Statements of Auditing Standards (SASs), even though they may be developed without the full process of consultation and exposure used for SASs. Auditors 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 Insurance Companies Ordinance ("the Ordinance") unless otherwise stated.
2. The Ordinance was amended by the Insurance Companies Amendment (No. 3) Ordinance 1994 ("the Amendment Ordinance") which was enacted on 7 July 1994 and commenced operation on 30 June 1995. The Amendment Ordinance amended the Ordinance by bringing into the regulatory regime a framework for the supervision of the self regulation by the insurance industry of insurance agents and brokers. Apart from introducing the provisions dealing with the self regulatory system of insurance agents, the Amendment Ordinance empowers the Insurance Authority("IA") under the newly introduced sections 69 and 70 to authorize/approve an insurance broker/a body of insurance brokers.
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. 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 Limited ("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 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. Guidelines have been drawn up by the IA to give guidance to insurance brokers or bodies of insurance brokers for compliance with the Ordinance and, in particular, the Minimum Requirements ("Guidelines"). 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. Auditors 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.

### **Reporting requirements**

7. The auditors of an insurance broker are required 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. They are 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 auditors 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 auditors 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 auditors 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 auditors together with a copy of the audited financial statements with the approved body of insurance brokers to which he belongs.

8. The auditors of an approved body of insurance brokers are required to report on the financial statements of the body to its Management Committee. They are 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 auditors on compliance with the Minimum Requirements in accordance with its membership rules and regulations; and
  - b. that they have reviewed all the members' auditors' reports on the financial statements and reports by auditors on compliance with the Minimum Requirements, and none contained any adverse statement or qualification except those listed by them in their 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 auditors 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 auditors should ensure that audits of financial statements of these entities should be conducted in accordance with SASs issued by the HKICPA.

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

11. The Minimum Requirements on an insurance broker are continuous. Full details of the Minimum Requirements may be obtained from the Ordinance and the Guidelines issued by the IA, which should be consulted before the auditors commence their work. It should be noted that the IA may amend the Guidelines from time to time and accordingly auditors should ensure that they consult the latest Guidelines issued by the IA.

### Capital and net assets

12. 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 fully paid up share capital of HK\$100,000 at all times (refer paragraph III (B) of the Guidelines issued by the IA).
13. 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 III (B) of the Guidelines issued by the IA).

### Professional indemnity insurance

14. 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\$2,000,000 (HK\$3,000,000 with effect from 1 January 1997),

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 14(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 14(b) above, the policy shall include provision for one automatic reinstatement to a limit of indemnity of not less than HK\$2,000,000 (HK\$3,000,000 with effect from 1 January 1997) (refer paragraph III (C) of the Guideline issued by the IA).

15. Auditors 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 14(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 14(a)(ii), where the auditors are unable to report on the projected insurance brokerage income prepared by an insurance broker.
  
16. Auditors 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 carry out a review of the procedures followed by the insurance broker in preparing this calculation. In carrying out their review of the calculation of the historical or projected insurance brokerage income, and of the procedures followed by the insurance broker for its preparation, the auditors 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;
  - b. whether the calculation of historical insurance brokerage income under review has been prepared on a basis consistent with that of prior years;
  - c. whether the calculation of projected insurance brokerage income under review represents the insurance broker's estimate of income which he reasonably believes can and will be achieved as distinct from targets which the insurance broker has set as desirable;
  - d. the extent to which the calculation of projected insurance brokerage income for expired periods are supported by reliable interim management accounts;
  - e. 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; and
  - f. the arithmetical accuracy of the calculation and the supporting information.
  
17. 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 III (C) of the Guidelines issued by the IA).

#### **Keeping of separate client accounts**

18. 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 clients. There shall also be evidence that the provisions of section 71 have been notified to and acknowledged by the bank with which the "client account" is maintained:
  - a. A "client account" means a current or deposit account maintained 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.
  - 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 III (D) of the Guidelines issued by the IA).

An insurance broker is expected to pay all client monies upon receipt, into a client account except

- i. such monies are immediately paid over to or on behalf of the client;
- ii. they are paid into a bank account in the name of the client or his nominee who has been designated in writing;
- iii. the client for his own convenience, made a written request to the insurance broker not to do so.

Auditors would, in the course of conducting an audit, exercise their professional judgment in determining whether there is undue delay by an insurance broker in depositing client monies into the client account.

19. 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 19(a) (refer paragraph III (D) of the Guidelines issued by the IA).

20. 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 different clients. The IA is therefore of the opinion that "cross-funding" between different clients is not prohibited by section 71. As the Ordinance does not require insurance brokers to keep separate accounts for different clients and as "cross-funding" between different clients is not prohibited by section 71, it is of utmost importance that the broker maintains records of the balances due from/to individual clients.
21. For the avoidance of doubt, monies incidental to ordinary insurance broking business, as referred to in paragraph 19(a)(iii) and paragraph 19(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 III (D) of the Guidelines issued by the IA).

**Keeping proper books and accounts**

22. 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 22(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:
      - insurance and reinsurance companies
      - clients of the insurance broker
      - 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 22(a) above (refer paragraph III (E) of the Guidelines 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.

The IA advises that it is not his intention to specify rules, for this particular aspect, in the Minimum Requirements, that would entail more onerous audit requirement for insurance brokers than an audit for a limited company. As such, the IA expects the audit procedures to be adopted on this aspect be similar to those required for an audit under the Companies Ordinance or the Ordinance.

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

#### **Authorized insurance brokers**

23. Under section 73(1):
- a. an unincorporated insurance broker is required to submit to the IA audited financial statements in respect of the insurance broking business carried on by the insurance broker which show a true and fair view of the financial position of the broking business carried on by him as at the end of the financial year and of the profit or loss for the period then ended;
  - b. an incorporated insurance broker is required to submit to the IA audited financial statements which show a true and fair view of the financial position of the insurance broker as at the end of the financial year and of its profit or loss for the period then ended; and
  - c. an insurance broker, whether incorporated or unincorporated, is required to submit a report by auditors 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.
24. Although the Minimum Requirements on an insurance broker are continuous, for the purposes of auditors' reporting on their compliance by an insurance broker, under the Guidelines issued by the IA, auditors need to perform procedures as of three dates only, namely at the end of the financial year and two such other dates in the financial year as the auditors may elect, provided that the intervening period between those two dates shall not be shorter than three months.
25. For the purposes of reporting on compliance by an insurance broker with the Minimum Requirements as of the balance sheet date and two such other dates, the auditors would obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base their opinion. The auditors may obtain audit evidence by performing procedures as suggested in Appendix 1. The nature and extent of procedures to be carried out are determined by the auditors' 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.
26. An authorized insurance broker is required to submit the report by auditors 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. Illustrative examples of an unqualified report by auditors to be submitted to the IA are attached as Appendices 2 and 3.
27. If anything is discovered which indicates that the Minimum Requirements are not being complied with by an insurance broker, the auditors' responsibilities extend no further than stating in their report that the Minimum Requirements have not been complied with. Examples of suggested modified wording for the report by auditors are attached as Appendix 7.



The auditors are 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 auditors. If the IA requires such information, this should be considered a separate assignment.

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

28. 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 auditors 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. Illustrative examples of an unqualified report by auditors to be submitted to an approved body of insurance brokers are attached as Appendices 4 and 5. Guidance on the suggested procedures to be performed by the auditors of insurance brokers is set out in paragraphs 24 to 27.
29. A body of insurance brokers approved under section 70 shall in accordance with section 73(2), give the IA a report by its auditors stating:
  - a. whether the body of insurance brokers has received from each of its members the audited financial statements and a report by auditors on compliance with the Minimum Requirements in accordance with its membership rules and regulations; and
  - b. that the auditors have reviewed all the members' auditors' reports on the financial statements and reports by auditors on compliance with the Minimum Requirements, and none contained any adverse statement or qualification except those listed by them in their report.
30. 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 by auditors for an approved body of insurance brokers is attached as Appendix 6.

**APPENDICES TO PN 810.1**

1. Objectives and suggested procedures for the purpose of reporting on compliance with the Minimum Requirements.
2. Example of an unqualified report by auditors for an authorized unincorporated insurance broker on compliance with the Minimum Requirements.
3. Example of an unqualified report by auditors for an authorized incorporated insurance broker on compliance with the Minimum Requirements.
4. Example of an unqualified report by auditors for an unincorporated insurance broker who is a member of an approved body of insurance brokers on compliance with the Minimum Requirements.
5. Example of an unqualified report by auditors for an incorporated insurance broker which is a member of an approved body of insurance brokers on compliance with the Minimum Requirements.
6. Example of a report by auditors for an approved body of insurance brokers on compliance with the Minimum Requirements by its constituent members.
7. Examples of suggested modified wording for a report by auditors where an insurance broker has not complied with the Minimum Requirements.

## Appendix 1

### **Objectives and suggested 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 auditors' 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. Although the Minimum Requirements on an insurance broker are continuous, for the purposes of auditors' reporting on their compliance by an insurance broker, under the Guidelines issued by the IA, auditors need to perform procedures as of three dates only. These three dates are as at the end of the financial year and two such other dates in the financial year as the auditors may elect ("Date 1" and "Date 2"), provided that the intervening period between those two dates shall not be shorter than three months. Where it is necessary to perform the suggested procedures more than once, for the purposes of reporting on the broker's compliance as of the three specified dates, this is indicated in the "objective achieved" column of this appendix.

When conducting these suggested or other procedures pursuant to reporting on the broker's compliance with the Minimum Requirements, it is recommended that auditors are guided by Statements of Auditing Standards (SASs) and in particular SAS 230 "Documentation" and SAS 400 "Audit evidence". In accordance with these SASs, auditors determine the nature and extent of procedures to be carried out and carry out those procedures so as to ensure sufficient appropriate audit evidence is obtained which enables them to draw reasonable conclusions on which to base their opinion, and document matters which are important to providing evidence to support that opinion. If, after applying the suggested or other procedures, the auditors become aware of non-compliance with the Minimum Requirements, the auditors' responsibilities extend no further than stating in their report that they are aware of non-compliance by the broker with the Minimum Requirements. For examples of suggested modified wording for the report by auditors, refer to Appendix 7 to the Practice Note.

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.

## 1. Capital and net assets

<i>Objective</i>	<i>Suggested procedure</i>	<i>Objective achieved</i>		
		<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>
i) To establish whether paid up share capital meets the Minimum Requirements ( <i>incorporated brokers only</i> ).	Review share register, annual return or returns of allotment to establish whether paid up share capital is at least HK\$100,000.	<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>
ii) To establish whether net assets meet the Minimum Requirements. (Note)	a) Review opening and closing balances of net assets in the financial statements to establish whether the broker had net assets of at least HK\$100,000.	<i>Opening balance sheet</i>	<i>Closing balance sheet</i>	
	b) Where either the opening or closing net asset value is close to the minimum, consider checking management accounts at or near to the two dates chosen to establish whether the broker has breached the requirements at these times.	<i>Date 1</i>	<i>Date 2</i>	
	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.	<i>Date 1</i>	<i>Date 2</i>	

*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>Suggested procedure</i>	<i>Objective achieved</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. Establish 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. (Note 3)	<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>
ii) To establish whether the policy provides for one automatic reinstatement where the minimum limit is maintained at HK\$2,000,000 (HK\$3,000,000 with effect from 1 January 1997) 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.	Review 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.			

### Notes:

1. Adequate cover is defined as the greater of:

- two times the relevant insurance brokerage income; and
- HK\$2,000,000 (HK\$3,000,000 with effect from 1 January 1997)

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"); and
- 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 suggested procedures more than once, so that evidence is obtained in respect of the adequacy of the insurance cover in force on the three dates under review.*
4. *In cases where an insurance broker has been in business for more than one year but not for twelve months preceding the commencement date of professional indemnity insurance cover at the end of the financial year (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

<i>Objective</i>	<i>Suggested procedure</i>	<i>Objective achieved</i>		
		<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>
i) To establish whether the broker maintained at least one "client account" designated as such. (Note)	Review documentary evidence such as bank statements to establish whether there is in existence at least one "client account".			
ii) To establish whether the provisions of section 71 of the Insurance Companies Ordinance have been notified to and acknowledged by an authorized institution with which the "client account" is maintained.	Review documentary evidence of the notification and acknowledgement.			
iii) To establish whether the broker keeps client monies in a separate account from his own monies and whether client monies are used for any purpose other than for the purposes of the client.	a) Discuss 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. Carry out compliance testing to establish whether the controls and procedures are operating effectively and consider the adequacy of such procedures and controls.			
	b) Perform or review a reconciliation between the monies in the client account as at the balance sheet date and the other two dates chosen and the insurance broking debtors and creditors as at those dates to establish 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.	<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>
	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 withdrawals and whether all 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 18 to 21 of the Practice Note for extra guidance.	<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>

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.	For a sample of transactions selected both from the bank statements and from the insurance broking ledgers, check to establish whether monies received or held on behalf of clients in relation to insurance broking business are being deposited into the client account immediately.	<i>Balance sheet date</i>	<i>Date 1</i>	<i>Date 2</i>

*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**

<i>Objective</i>	<i>Suggested procedure</i>	<i>Objective achieved</i>
<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 22 (b)(ii) of the Practice Note.</li> </ul>	<p>In planning and performing their audit of the broker's financial statements, auditors should be aware of the requirement for the broker to maintain, and the auditors to give an opinion on whether the broker has maintained, adequate books and records during the year. In general, the auditors, on the basis of their 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>Discuss 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. Confirm the physical existence of a sample of items.</p>	

**Appendix 2**

**EXAMPLE OF AN UNQUALIFIED REPORT BY AUDITORS FOR  
AN AUTHORIZED UNINCORPORATED INSURANCE BROKER ON  
COMPLIANCE WITH THE MINIMUM REQUIREMENTS**

A REPORT BY AUDITORS  
TO THE PROPRIETOR OF XYZ INSURANCE BROKERS

We have completed procedures on the books of account and the professional indemnity insurance policy of the business for the period \_\_\_\_\_ to \_\_\_\_\_ pursuant to section 73(1) of the Insurance Companies Ordinance ("the Ordinance").

These procedures were conducted in accordance with the Practice Note 810.1 issued by the Hong Kong Institute of Certified Public Accountants and included reviewing, on a test basis, evidence of the business' compliance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance as at \_\_\_\_\_ [aforesaid period end] and two such other dates in the aforesaid period selected by us. These procedures are substantially less in scope than a full audit, the objective of which is the expression of an opinion on the financial statements of the business. Accordingly, we do not provide any assurance that the business' books of account are free from material misstatement.

In so far as an opinion can be based on the procedures performed and from information and explanations supplied to us, we report that, in respect of the aforesaid period,

- a. we are not aware of any instances where the business has failed to maintain minimum net assets of HK\$100,000 as defined by the Insurance Authority;
- b. no matter has come to our attention which leads us to believe that the business has not maintained adequate accounting records to reflect the transactions of its business;
- c. we are not aware of any instances where the business has failed to maintain client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance; and
- d. we are not aware of any instances where the business has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance.

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

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

### Appendix 3

## EXAMPLE OF AN UNQUALIFIED REPORT BY AUDITORS FOR AN AUTHORIZED INCORPORATED INSURANCE BROKER ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS

### A REPORT BY AUDITORS TO THE DIRECTORS OF XYZ INSURANCE BROKERS LIMITED

We have completed procedures on the books of account and the professional indemnity insurance policy of the company for the period \_\_\_\_\_ to \_\_\_\_\_ pursuant to section 73(1) of the Insurance Companies Ordinance ("the Ordinance").

These procedures were conducted in accordance with the Practice Note 810.1 issued by the Hong Kong Institute of Certified Public Accountants and included reviewing, on a test basis, evidence of the company's compliance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance as at \_\_\_\_\_ [aforesaid period end] and two such other dates in the aforesaid period selected by us. These procedures are substantially less in scope than a full audit, the objective of which is the expression of an opinion on the financial statements of the company. Accordingly, we do not provide any assurance that the company's books of account are free from material misstatement.

In so far as an opinion can be based on the procedures performed and from information and explanations supplied to us, we report that, in respect of the aforesaid period,

- a. we are not aware of any instances where the company has failed to maintain paid up share capital or minimum net assets of HK\$100,000 as defined by the Insurance Authority;
- b. no matter has come to our attention which leads us to believe that the company has not maintained adequate accounting records to reflect the transactions of its business;
- c. we are not aware of any instances where the company has failed to maintain client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance; and
- d. we are not aware of any instances where the company has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the Insurance Authority under section 69(2) of the Ordinance.

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

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

## Appendix 4

### **EXAMPLE OF AN UNQUALIFIED REPORT BY AUDITORS FOR AN UNINCORPORATED INSURANCE BROKER WHO IS A MEMBER OF AN APPROVED BODY OF INSURANCE BROKERS ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS**

#### A REPORT BY AUDITORS TO THE PROPRIETOR OF XYZ INSURANCE BROKERS

We have completed procedures on the books of account and the professional indemnity insurance policy of the business for the period \_\_\_\_\_ to \_\_\_\_\_ pursuant to the Membership Regulations of [\*].

These procedures were conducted in accordance with the Practice Note 810.1 issued by the Hong Kong Institute of Certified Public Accountants and included reviewing, on a test basis, evidence of the business' compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Insurance Companies Ordinance ("the Ordinance") as at \_\_\_\_\_ [aforesaid period end] and two such other dates in the aforesaid period selected by us. These procedures are substantially less in scope than a full audit, the objective of which is the expression of an opinion on the financial statements of the business. Accordingly, we do not provide any assurance that the business' books of account are free from material misstatement.

In so far as an opinion can be based on the procedures performed and from information and explanations supplied to us, we report that, in respect of the aforesaid period,

- a. we are not aware of any instances where the business has failed to maintain minimum net assets of HK\$100,000 as defined by the Insurance Authority;
- b. no matter has come to our attention which leads us to believe that the business has not maintained adequate accounting records to reflect the transactions of its business;
- c. we are not aware of any instances where the business has failed to maintain client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance; and
- d. we are not aware of any instances where the business has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance.

This report is intended for filing with the [\*] and is not intended for any other purpose.

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

- \* 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 Limited ("PIBA") which have only company memberships. For the purpose of reporting on members of HKCIB and PIBA, the example report by auditors in Appendix 5 should be used.

## Appendix 5

### **EXAMPLE OF AN UNQUALIFIED REPORT BY AUDITORS FOR AN INCORPORATED INSURANCE BROKER WHICH IS A MEMBER OF AN APPROVED BODY OF INSURANCE BROKERS ON COMPLIANCE WITH THE MINIMUM REQUIREMENTS**

#### **A REPORT BY AUDITORS TO THE DIRECTORS OF XYZ INSURANCE BROKERS LIMITED**

We have completed procedures on the books of account and the professional indemnity insurance policy of the company for the period \_\_\_\_\_ to \_\_\_\_\_ pursuant to the Membership Regulations of [the Hong Kong Confederation of Insurance Brokers ("HKCIB")/Professional Insurance Brokers Association Limited ("PIBA")].

These procedures were conducted in accordance with the Practice Note 810.1 issued by the Hong Kong Institute of Certified Public Accountants and included reviewing, on a test basis, evidence of the company's compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Insurance Companies Ordinance ("the Ordinance") as at \_\_\_\_\_ [aforesaid period end] and two such other dates in the aforesaid period selected by us. These procedures are substantially less in scope than a full audit, the objective of which is the expression of an opinion on the financial statements of the company. Accordingly, we do not provide any assurance that the company's books of account are free from material misstatement.

In so far as an opinion can be based on the procedures performed and from information and explanations supplied to us, we report that, in respect of the aforesaid period,

- a. we are not aware of any instances where the company has failed to maintain paid up share capital or minimum net assets of HK\$100,000 as defined by the Insurance Authority;
- b. no matter has come to our attention which leads us to believe that the company has not maintained adequate accounting records to reflect the transactions of its business;
- c. we are not aware of any instances where the company has failed to maintain client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance; and
- d. we are not aware of any instances where the company has failed to maintain a professional indemnity insurance policy in accordance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance.

This report is intended for filing with [HKCIB/PIBA] and is not intended for any other purpose.

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

**Appendix 6**

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

A REPORT BY AUDITORS  
TO THE [MANAGEMENT COMMITTEE] OF  
[THE HONG KONG CONFEDERATION OF INSURANCE BROKERS/ PROFESSIONAL INSURANCE  
BROKERS ASSOCIATION LIMITED]

We have completed procedures on auditors' reports and reports by auditors of the constituent members of the [Confederation/Association] ("constituent members"), pursuant to section 73(2) of the Insurance Companies Ordinance ("the Ordinance"), on these constituent members' financial statements and compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance respectively, which were required to be submitted to the [Confederation/Association] during the period \_\_\_\_\_ to \_\_\_\_\_.

These procedures were conducted in accordance with the Practice Note 810.1 issued by the Hong Kong Institute of Certified Public Accountants and included reviewing all auditors' reports and reports by auditors of the constituent members on these constituent members' financial statements and compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance respectively .

Based on the procedures performed and from information and explanations supplied to us, we report that, in respect of the aforesaid period,

- a. the [Confederation/Association] has received from each of the constituent members the audited financial statements and report by auditors on compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance, in accordance with its membership rules and regulations except those listed by us in the attached appendix; and
- b. we have reviewed all the constituent members' auditors' report on financial statements and reports by auditors' on compliance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance, and none contained any adverse statement or qualification except those listed by us in the attached appendix.

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

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

## Appendix 7

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

If any breaches of the Minimum Requirements are noted by the auditors, either on the dates chosen or on other dates, the wording of the report by auditors would be modified to give a specific report on whether or not they complied on the three dates, and a statement that based on information given to the auditors they are 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 3 and 5 they are one combined point).

Examples:

1. The insurance broker met the requirements on at least one date tested, but not for the whole period:
  - 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 Insurance Authority as at [the year end date] [and] [one of the dates selected by us] [both of the dates selected by us] [but not as at] [the year end date] [or] [the other date selected by us] [either of the dates selected by us]. 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 Insurance Authority at other times during the period;*
    - .
    - .
    - .
  - d. *as at [the year end date] [and] [one of the two dates selected by us] [the two dates selected by us] [but not as at] [the year end date] [or] [the other date selected by us] [either of the dates selected by us] the company maintained client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 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 Insurance Authority under section 70(2) of the Ordinance at other times during the period;*
2. The insurance broker did not meet the requirements on any of the dates tested:
  - 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 Insurance Authority as at the year end date nor as at either of the dates selected by us. 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 Insurance Authority at other times during the period;*
    - .
    - .
    - .
  - d. *the company did not maintain client accounts in accordance with the minimum requirements specified by the Insurance Authority under section 70(2) of the Ordinance as at the year end date nor as at either of the two dates selected by us. 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 Insurance Authority under section 70(2) of the Ordinance at other times during the period;*