



31 October 2024

**To: Members of the Hong Kong Institute of CPAs
All other interested parties**

INVITATION TO COMMENT ON EXPOSURE DRAFTS (EDs) ON PRACTICE NOTE (PN) 810.2 (REVISED), *THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED UNDER THE INSURANCE ORDINANCE* AND PN 620.2 (REVISED), *COMMUNICATION BETWEEN THE AUDITOR AND THE INSURANCE AUTHORITY*

Comments to be received by 30 November 2024

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the EDs which have been posted on the Institute's website at:

<https://www.hkicpa.org.hk/en/Standards-setting/Standards/Open-for-comment-documents/Auditing-and-Assurance>

To enable the implementation of the risk-based capital ("RBC") regime, the [Insurance \(Amendment\) Ordinance 2023](#) ("Amendment Ordinance") was enacted in July 2023, which provides the legal basis for the implementation of the RBC regime for the insurance industry in Hong Kong. The Amendment Ordinance came into full operation on 1 July 2024. The first auditor's reporting under the new RBC regime will be for the period ending on 31 December 2024.

The Amendment Ordinance, among others, empowers the Insurance Authority ("IA") to make rules to prescribe detailed requirements in subsidiary legislation. The following subsidiary legislation was gazetted on 3 May 2024:

- Insurance (Valuation and Capital) Rules (Cap. 41R);
- Insurance (Submission of Statements, Reports and Information) Rules (Cap. 41S);
- Insurance (Exemption to Appointment of Actuary) Rules (Cap. 41Q);
- Insurance (Maintenance of Assets in Hong Kong) Rules (Cap. 41T);
- Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U); and
- Insurance (Lloyd's) Rules (Cap. 41V).

PN 810.2 and PN 620.2 are now revised for reporting in relation to the implementation of RBC regime as a result of the Amendment Ordinance and the relevant subsidiary legislation. The revisions have been made in consultation with the IA.

According to the Insurance (Submission of Statements, Reports and Information) Rules, an authorized insurer must submit to the IA its financial statements as defined by section 357(1) of the Companies Ordinance, together with an auditor's report on those statements. In addition, an authorized insurer must also submit regulatory returns to the IA regularly. For the annual returns, an authorized insurer is required to submit an auditor's report on the specified forms included in the annual returns. It is proposed that the auditor's reporting on the specified annual forms will be conducted in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Guidance on this assurance reporting is provided in paragraphs 19 – 40 of the revised PN 810.2. Suggested procedures and example assurance report for this reporting are included in Appendices 1 and 2 to the revised PN 810.2.



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Both the revised PN 810.2 and the revised PN 620.2 will be effective for reporting periods ending on or after 31 December 2024.

In order for readers to easily identify all the proposed changes, a marked-up version is provided.

In accordance with the Institute's due process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the contents of the EDs.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the EDs to be considered, comments are requested by the due date shown above.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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213 Queen's Road East
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Fax number (+852) 2865 6603
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

31 October 2024
Invitation to Comment

Response Due Date
30 November 2024

Exposure Drafts

Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance*

and

Practice Note 620.2 (Revised), *Communication between the Auditor and the Insurance Authority*

PN 810.2 (Revised)
Issued February 2015;
revised February 2016, October 2016,
September 2017, January 2018, September 2019,
August 2020, December 2021, May 2022, February 2023, [] 2024

Effective for reporting periods ending on or after 31 December 2024

Practice Note 810.2 (Revised)

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



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

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

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

**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 Insurance Ordinance (Cap.41) (“the Ordinance”) unless otherwise stated.
2. This PN is intended to give guidance to members on the duties of the auditor of an authorized insurer appointed under section 15 of the Ordinance (see paragraph 13) or rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules (Cap.41S) (“the ISRIR”) (see paragraph 17).

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

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

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

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

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

Scope of the Ordinance

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

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

Financial statements/ Information to be submitted by authorized insurers

Financial statements to be submitted to the IA

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

Information to be submitted to the IA

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

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

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

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

b. Quarterly returns

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

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

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

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

c. Monthly returns

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

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

The returns mentioned in paragraph 11 are required to be signed or approved by the controller (within the meaning of section 13A) and key person in the financial control function of the insurer. An insurer may determine to have director(s) to sign or approve the submission in place of the controller or key person in the financial control function or to have two directors to sign or approve the submission in place of the controller and key person in the financial control function.

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

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

Appointment of the auditor(s)

13. Under section 15 of the Ordinance, the authorized insurer must appoint an auditor ("the Appointed auditor") who is:
- a. not prohibited under section 20AAZZR of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("AFRCO") from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622); or

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

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

Auditor's report on financial statements

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

Assurance report on regulatory returns

Management's responsibilities

19. Authorized insurers are required by the IA to submit the annual, quarterly and monthly returns (collectively "returns"), which consists of a number of specified forms. Preparation and submission of the returns is the responsibility of the insurers' management. The IA also requires an authorized insurer to submit a report, prepared by the auditor, on some of the specified forms within the annual return ("specified annual forms"). The responsibilities for correct compilation of specified annual forms submitted to the IA and adequate internal controls rest with the management of the authorized insurer.
20. On occasion, different interpretations of a particular definition or simplification applied to the requirements of the completion instructions may give rise to different results being reported in the specified annual forms. Such interpretation and simplification are important as definitions and requirements set out in the IA's completion instructions may be worded in a general fashion and management would need to determine how such definitions or requirements should be applied to specific businesses or processes of an insurer.
21. The IA expects that the insurer should have adequate systems of control to enable the submission of reliable information reported in the specified annual forms. The information reported would be

complete, accurate and prepared in accordance with completion instructions issued by the IA. The typical controls expected to be in place would include the following:

- Controls over data capture for compilation of specified annual forms
- Understanding of the return compilation process and requirements
- Maintenance of adequate audit trail
- Process for resolving issues
- Review and approval

Auditor's responsibilities

22. The auditor's reporting requirements of specified annual forms are set out in the ISRIR. The work that the auditor performs for the purpose of reporting on specified annual forms under rule 5 of the ISRIR is a reasonable assurance engagement. The auditor's responsibility is to report on whether the specified annual forms included within an annual return under rule 4(1) of the ISRIR submitted to the IA are prepared, in all material respects, in accordance with the books and records of the insurers based on procedures the auditor performed. Reference should be made to HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* for details of the standards and guidance on reasonable assurance engagements.
23. Under rule 5(1) of the ISRIR, the IA requires specified annual forms to be reported on by the auditor. It should also be noted that for certain returns, the IA can also require the auditor to report on a request basis. Where applicable, the auditor's responsibilities are to report on whether:
- a. the authorized insurer has maintained proper records in accordance with section 16 of the Ordinance in respect of the year for the purpose of preparing the specified annual forms.
 - b. the specified annual forms for the year have been prepared, in all material respects, in accordance with the books and records of the authorized insurer.
 - c. the specified annual forms for the year have been prepared, in all material respects, in accordance with the Insurance (Valuation and Capital) Rules ("IVCR"), Regulatory Returns Instructions, Insurance (Marine Insurers and Captive Insurers) Rules (*Applicable for marine insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only*), Insurance (Lloyd's) Rules (*Applicable for Lloyd's*), Insurance (Maintenance of Assets in Hong Kong) Rules (*Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong*) issued by the IA².
 - d. the authorized insurer has complied with the capital requirements of section 10 of the Ordinance as at the financial year end date.
 - e. (*Applicable for HK insurer and non-HK insurer that carries on long term business*) the authorized insurer has complied with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the IVCR as at the financial year end date.
 - f. (*Applicable for HK insurer and non-HK insurer that carries on general business*) the authorized insurer has complied with the requirements of sections 25AAB and 25AAE of the Ordinance and Part 6 of the IVCR as at the financial year end date.

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

- g. *(Applicable for authorized insurer that carries on general business in or from Hong Kong, and does not apply to authorized insurer that is exempted under the Insurance (Maintenance of Assets in Hong Kong) Rules)* the assets in Hong Kong held by the authorized insurer, as shown in the [Local Asset Requirement Return], enable it to comply with the requirement of section 25A of the Ordinance as at the financial year end date and, based on the records of the authorized insurer, the assets in Hong Kong held by the authorized insurer as at two other dates enable it to comply with the requirement of section 25A of the Ordinance at those dates.

The list of returns that require the auditor to report on will be gazetted by the IA.

Nature of work

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

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

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

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

25. Part of the work of the auditor will be to obtain understanding on internal control over the compilation of specified annual forms which assists the auditor in identifying the types of misstatements and factors that affect the risks of material misstatements in the specified annual forms. The auditor is required to evaluate the relevant controls by performing procedures in addition to inquiry of the responsible party. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
26. The auditor should remain professionally skeptical and stay vigilant to matters concerning the quality of the insurer's internal control identified during the course of its work that may impact the specified annual forms submitted by to the IA. In this connection, the auditor should exercise judgement in determining the controls that are relevant for the preparation of the specified annual forms.

Testing on specified annual forms

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

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- Review the documentation maintained by the insurer, including any consultation sought with the IA, to obtain a detailed understanding of the facts and rationale supporting the interpretation and simplification adopted by the insurer;
- Review relevant definitions and requirements contained in the Ordinance, relevant completion instructions and industry practices;
- Request that the insurer discusses the issue with relevant officials of the IA and seeks written clarification thereon which would include the rationale for any conclusions drawn; and
- Determine the need to include an appropriate description of the interpretation and simplification adopted to form the basis of the opinion within the auditor's report if in the auditor's judgement, such interpretation is of such importance that it is fundamental to the users' understanding of the information presented in the specified annual forms. Typically, this can be achieved through including an Emphasis of Matter paragraph in the auditor's report which provides a clear description of the specific interpretation adopted by the insurer. The auditor would refer to HKSAE 3000 (Revised) for further guidance in this regard.

35. The general procedures which the auditor would carry out in respect of the work on the examination of specified annual forms for the purpose of reporting under Rule 4 of the ISRIR include:

- Obtain an understanding of the purpose, applicable ordinance and the completion instructions for the specified annual forms. Evaluate the exceptions identified and implications on the auditor's opinion;
- Review correspondence between the insurer and the IA to determine whether specific treatments for reporting items in the specified annual forms were agreed and adopted by the insurer and whether the IA has granted specific exemptions to certain requirements for the particular insurer;
- Understand management's process of compiling the specified annual forms including any internal controls that operate to ensure complete and accurate compilation;
- Check that the compilation of amounts in the specified annual forms is in accordance with the applicable ordinance, completion instructions and definitions;
- Test check the calculations on the specified annual forms;
- Test check items from the specified annual forms to the schedules used by the insurer to prepare the specified annual forms;
- Test check balances from schedules used by the insurer to books and records and vice versa;
- Check whether only amounts which meet the relevant criteria are included in specific line items; and
- Reconcile totals to the books and records where appropriate.

Evaluation of the underlying information included in the specified annual forms

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

Written representations by management

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

Materiality – evaluation of misstatements identified

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

Capital requirements

41. a. Each authorized insurer (except a captive or marine insurer or Lloyd's) must ensure at all times that its capital base is not less than each of:
- i. the prescribed capital amount of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap.41R) ("IVCR");
 - ii. the minimum capital amount of the insurer, being 50% of the prescribed capital amount; and
 - iii. HK\$20 million.
- b. Each authorized insurer to conduct business as a marine or captive insurer in or from Hong Kong must ensure at all times that its capital base is not less than each of:

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

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

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

Proper records

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

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

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

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

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

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

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

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

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

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

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

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

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

Maintenance of separate accounts and funds

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

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

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

Maintenance of assets in Hong Kong

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

Communications between the auditor and the IA

59. Section 53D introduces statutory protection for an auditor from liability to the client for breach of confidentiality when he/ she communicates directly with the IA in good faith on matters relevant to any functions of the IA under the Ordinance. Sections 15A(2) (see paragraph 16) and 53E impose a statutory obligation on the auditor to report certain matters directly to the IA. Members may refer to PN 620.2 for further guidance in this area.

PART III – OTHER REPORTING

Annual return on employees' compensation gross premium

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

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

61. All insurance companies in Hong Kong that are authorized by the Government to write motor vehicle insurance are required to be members of the Motor Insurers' Bureau of Hong Kong ("MIB"). Each member has entered into an agreement with the MIB to contribute such funds as may be required by the MIB to meet its objectives, and furnish particulars of motor premium income and submit such report as the MIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400 (Revised), *Engagements* ("HKSRS 4400 (Revised)"). An example report is set out in Example 2 in Appendix 4.
62. HKSRS 4400 (Revised) introduced requirements and application material to provide more clarity in the agreed-upon procedures report. The practitioner is reminded to read HKSRS 4400 (Revised) for the requirements.
63. In particular, the practitioner should refer to paragraphs 21 – 23 and A28 – A38 of HKSRS 4400 (Revised) for the engagement acceptance and continuance conditions. The practitioner shall include the terms as set out in paragraph 24 of HKSRS 4400 (Revised) in the engagement letter. Among the terms, the engagement letter shall include the purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party. An illustrative engagement letter for an agreed-upon procedures engagement can be found in Appendix 1 to HKSRS 4400 (Revised).

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

64. All insurance companies in Hong Kong who are authorized by the Government to write direct employees compensation insurance business are required to be members of the Employees Compensation Insurer Insolvency Bureau ("ECIIB"). Each member has entered into an agreement with the ECIIB to contribute such funds as may be required by the ECIIB to meet its objectives, and furnish particulars of employees' compensation premium income and submit such report as the ECIIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400 (Revised). An example report is set out in Example 3 in Appendix 4. The practitioner shall also refer to paragraphs 62 – 63 when conducting the agreed-upon procedures engagement.

Annual remittance report on levy to the IA

65. The Insurance (Levy) Order (“Order”) specifies the prescribed classes of insurance business and types of insurance contract that a levy is payable by policy holders and the rates of such levy. The Insurance (Levy) Regulation (“Regulation”) sets out the manner in which the payment of levies must be made. According to the Regulation, an authorized insurer must lodge with the IA an annual remittance report. The annual remittance report must cover the remittances made in respect of the two remittance periods immediately preceding the date of the report unless otherwise approved by the IA. The annual remittance report is subject to examination by an auditor appointed by the insurer at its expense.

66. The auditor is required to opine on whether the insurer has maintained proper records in accordance with section 16 of the Ordinance for the purpose of preparing the annual remittance report and whether such report has been properly prepared, in all material respects, from the records of the insurer. A practitioner should conduct such an engagement in accordance with HKSAE 3000 (Revised). An example report is set out in Example 4 in Appendix 4.

Appendix 1

Suggested procedures for reporting on specified annual forms

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

a. Methodology

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

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

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

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

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

b. Data

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

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

c. Assumptions

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

- Obtain an understanding of the process over assumptions setting and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls over producing and assessing key assumptions, together with the data inputs used.
- Challenge the key assumptions and evaluate the reasonableness of key assumptions used with reference to historical data, market data, experience studies, change analysis, assumptions adopted in other reporting bases, certifications of appointed actuaries (for long term business) or certifying actuaries (for general business), where applicable.
- Where the key assumptions for stressed scenario are determined by the insurer and not prescribed by the IA, review the reasonableness of these assumptions with reference to those adopted in the base scenario.

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- Evaluate the key assumptions are applied appropriately in the calculations of the information contained in the forms.
- Below is a list of procedures on key assumptions which may be considered by the auditor:

For risk-free discount rates:

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

For matching adjustment (“MA”): (for long term business)

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

For non-economic assumptions:

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

For stress factors:

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

d. *Models*

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

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

e. *Results*

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

- Evaluate the design, determine the implementation, and test the operating effectiveness of key controls over the accuracy of the information contained in the forms.
- Check the reconciliation of information contained in the forms with system data extraction and books and records where applicable.
- Review the reasonableness of the results by comparing actual information contained in the forms to the expected results.
- Analyse movement of changes between different periods regarding information contained in the forms.
- Test the mathematical accuracy in relation to the information contained in the forms.

Appendix 2

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

INDEPENDENT AUDITOR'S ASSURANCE REPORT

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

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

[Directors'/ Chief Executive]³ Responsibilities

The directors have a responsibility for:

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

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

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

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

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

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

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

Our Independence and Quality Management

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

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

Auditor’s Responsibilities

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

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

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

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

Inherent Limitations

Internal control systems designed to address specific control objectives are subject to inherent limitations of any internal control structure, and accordingly, errors or irregularities may occur and not be detected. Our procedures cannot guarantee protection against fraud or misrepresentation by management. The historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Opinion⁵

Based on the foregoing, in our opinion:

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

⁵ In the circumstances where the auditor expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the auditor’s report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAs 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAs 3000 (Revised).

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

Intended Users and Purpose

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

XYZ & Co.

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

[*Auditor's Address*]

[*Date*]

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

Where the Authorized Insurer has received a notice under section 25B of the Ordinance then the opinion "(vii)" will need to be amended accordingly as follows:

(vii) the assets held by the Authorized Insurer, as shown in the [Local Asset Requirement Return], enable it to comply with the requirement stipulated in section 25B of the Ordinance as at [date^{##}].

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

Appendix 3

Capital requirements

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

Appendix 4

Example reports for other reporting

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

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

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

To the Directors of XYZ Insurance Company Limited

Pursuant to the Agreement for Provision of Facility covering Terrorism Risks in respect of Employees’ Compensation Insurance Business entered into between XYZ Insurance Company Limited (“the Company”) and the Government of the Hong Kong Special Administrative Region (“HKSAR”) dated [date] (“Agreement”), we have been requested to report on the attached Annual Return on Employees’ Compensation Gross Premium for the [*year ended [date]/period from [date] to [date]] (“Annual Return”)¹.

Directors’ Responsibilities

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

Our Independence and Quality Management

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

The firm applies Hong Kong Standard on Quality Management 1², which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

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

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

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

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

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

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

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

Opinion

Based on the foregoing, in our opinion:

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

Intended Users and Purpose

This report is intended for filing with the Government of the HKSAR pursuant to the Agreement and is not intended to be, and should not be, distributed to or used by, anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report³.

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

³ The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

Example 2 – Agreed-upon procedures report on levies paid to the First Fund Scheme and the Insolvency Fund Scheme for motor compensation insurance

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

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

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

To: Directors of XYZ Insurance Company Limited

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

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

Directors' Responsibilities

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

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

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the directors of the Company, and reporting the findings, which are the factual results

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and Findings

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

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

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

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

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

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

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

To: Directors of XYZ Insurance Company Limited

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

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

Directors’ Responsibilities

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

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

Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Up On Procedures Engagements* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). An agreed-upon procedures engagement involves our performing the procedures that have

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

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and Findings

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

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

ABC & Co.

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

[Date of auditor's report]

[Auditor's address]

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

INDEPENDENT AUDITOR’S ASSURANCE REPORT ON ANNUAL REMITTANCE REPORT

To the Directors of XYZ Insurance Company Limited (“the Company”)

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

Directors’ Responsibility

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

Our Independence and Quality Management

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

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

Auditor’s Responsibility

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

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

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

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

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

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

Opinion

Based on the foregoing, in our opinion:

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

Intended Users and Purpose

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

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

PN 620.2 (Revised)
Revised February 2013, January 2018,
September 2019, December 2021, May 2022, [] 2024

Effective for reporting periods ending on or after 31 December 2024

Practice Note 620.2 (Revised)

Communication between the Auditor and the Insurance Authority



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香港會計師公會

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PRACTICE NOTE
620.2 (REVISED)
COMMUNICATION BETWEEN THE AUDITOR AND
THE INSURANCE AUTHORITY

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

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Practice Note (PN) 620.2 (Revised), *Communication between the Auditor and the Insurance Authority* should be read in the context of the *Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

PRACTICE NOTE
620.2 (REVISED)
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 Insurance Ordinance (“the Ordinance”) unless otherwise stated.
2. To enable the implementation of a risk-based capital (“RBC”) regime for the insurance industry in Hong Kong, the Insurance (Amendment) Ordinance 2023 (“Amendment Ordinance 2023”) was enacted in July 2023, which provides the legal basis for the implementation of the RBC regime. The Amendment Ordinance 2023, among others, empowers the Insurance Authority to make rules to prescribe detailed requirements in subsidiary legislation.
3. Section 53D 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(2), 53E and 53F impose a statutory obligation on the auditor to report certain matters directly to the Insurance Authority.
4. This Practice Note refers to the auditor, audits, reports on the annual financial statements and reports on the annual regulatory returns an authorized insurer or a licensed insurance broker company is required to submit to the Insurance Authority.
5. This Practice Note is applicable to:
 - a. an auditor or former auditor of an authorized insurer or a former insurer
 - i. who is appointed under section 15 or the rules made under section 129 (the *Insurance (Submission of Statements, Reports and Information) Rules*, see paragraph 7 below);
 - ii. who is appointed under section 15 as in force immediately before the commencement date of section 23 of the Insurance (Amendment) Ordinance 2023; or
 - iii. who audits the forms and statements mentioned in paragraph 4(1A) of Part 1 of Schedule 3 as in force immediately before the commencement date of section 98 of the Insurance (Amendment) Ordinance 2023;
 - b. an accountant or former accountant
 - i. of an authorized insurer or a former insurer; and
 - ii. appointed by the insurer or former insurer in compliance with a requirement under section 35(1); and

- c. an auditor or former auditor of
 - i. a licensed insurance broker company;
 - ii. a former licensed insurance broker company; or
 - iii. a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance.

Scope of the Ordinance

- 6. 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)).
 - b. Without limiting the generality of section 4A(1), the Insurance Authority shall:
 - i. be responsible for supervising an authorized insurer's and a licensed 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 the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers;
 - iv. promote and encourage the adoption of proper standards of conduct by licensed insurance intermediaries;
 - v. review and, if necessary, propose reforms of the systems for regulating authorized insurers and licensed insurance intermediaries;
 - vi. regulate the conduct of insurance intermediaries through a licensing regime;
 - 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)).
- 7. Section 17(1) of the Ordinance states that the Insurance Authority may, by rules made under section 129, prescribe requirements in relation to the submission by an authorized insurer to the Insurance Authority of any statements, reports or other information relating to the insurer's business, including requirements as to the following matters—:
 - a. what statements, reports or information must be submitted to the Insurance Authority;

- b. whether the statements, reports or information must be audited; and
- c. how and when the statements, reports or information must be submitted.

The *Insurance (Submission of Statements, Reports and Information) Rules* (“ISRIR”) made under section 129(1) of the Ordinance prescribes the information required to be submitted by an authorized insurer to the Insurance Authority and also covers the submission requirements, the auditor’s reporting requirements for the specified annual forms within the annual regulatory returns, and the transitional arrangement. Detailed guidance is set out in PN 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance*.

- 8. Section 73(1) specifies the form of financial statements which a licensed insurance broker company, licensed by the Insurance Authority under section 64ZA, is required to provide to the Insurance Authority within 6 months after the end of each financial year. The auditor is required to report on the licensed insurance broker company’s financial statements and compliance with rules made under section 129 that set out the following requirements:

- a. capital and net assets;
- b. professional indemnity insurance;
- c. keeping of separate client accounts; and
- d. keeping proper books and accounts.

The *Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* made under section 129(1) of the Ordinance prescribe the requirements applicable to licensed insurance broker companies. Detailed guidance is set out in PN 810.1 (Revised), *Licensed Insurance Brokers Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules*.

- 9. Authorized insurers and licensed insurance broker companies who are incorporated in Hong Kong are required to prepare financial statements and to have them audited under the provisions of the Companies Ordinance.
- 10. 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 or assurance report.
- 11. 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), 53E and 53F;
 - b. by the auditor to the Insurance Authority under the protection of section 53D; and
 - c. by the Insurance Authority to the auditor under section 53A(3)(da) and (f).

It does not cover the auditor’s approach to the audit of an authorized insurer or a licensed insurance broker company or the routine audit reporting responsibilities.

- 12. 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

13. The Insurance Authority expects that the management of an authorized insurer or a licensed insurance broker company 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.
14. Nevertheless, under the Ordinance, the auditor has various statutory responsibilities to report to the Insurance Authority on matters concerning its client (i.e. an authorized insurer or a licensed insurance broker company). Section 53D provides statutory protection to the auditor from liability for breach of confidentiality owed to its client when making a report in good faith in discharge of such a statutory responsibility or 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.
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 for an auditor who has been so appointed for a fixed term - 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 accounts and statements of the authorized insurer required to be submitted under any requirement prescribed by virtue of section 17 (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 authorized insurer appointed under section 15(1).

Ad hoc reports under sections 53E and 53F

17. Sections 53E and 53F specify that an auditor should report directly to the Insurance Authority in certain cases relating to authorized insurers and licensed insurance broker companies.
18. 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) or 8A(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 section 21B, 22, 23, 25AA, 25AAB or 25AAE; or
 - iv. of any default of the insurer in complying with any requirement under section 27, 28, 29, 30, 31, 32, 32A, 33, 34 or 35(1),

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

19. Section 53F provides that where an auditor or a former auditor, during the discharge of the duties in that capacity, becomes aware of any evidence of a failure by:
- a. a licensed insurance broker company;
 - b. a former licensed insurance broker company; or
 - c. a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance;

to comply with the specified rules¹, he/she must, as soon as practicable thereafter, send to the Insurance Authority a report in writing of the failure (section 53F(1) and (2)).

20. 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 sections 53E and 53F

21. The auditor would take the initiative and ensure that an ad hoc report under sections 53E and 53F are made to the Insurance Authority if the conditions specified in paragraphs 18 and 19 exist. A distinction must be drawn here between an auditor's duty as stated in paragraph 18(a) and that stated in paragraphs 18(b) and 19. The duty under paragraphs 18(b) and 19 is clear and unequivocal; if the auditor becomes aware of a contravention of the provisions in the Ordinance and specified rules¹, the auditor is not given any latitude for exercising judgement. The auditor is obliged to make a report. The duty under paragraph 18(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 authorized 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

¹ Specified rules under section 53F refer to:

- (a) in relation to a licensed insurance broker company or a former licensed insurance broker company, means rules made under section 129 that set out the requirements in relation to the (i) capital and net assets; (ii) professional indemnity insurance; (iii) keeping of separate client accounts and (iv) keeping of proper books and accounts by a licensed insurance broker company; or
- (b) in relation to a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance, means the minimum requirements specified by the former authority under the pre-amended Ordinance.

policy holders because there has been a material loss or there exists a significant risk of material loss.

22. 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.
23. Examples of the circumstances in which the situation set out in paragraphs 21 and 22 may be met include:
- a. the auditor discovers a failure by the authorized insurer to comply with the relevant provisions of the Ordinance e.g. capital requirements, 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 authorized insurer.

Reporting procedures under sections 53E and 53F

24. In circumstances where the auditor concludes that an ad hoc report under sections 53E and 53F 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 sections 15A(2), 53E and 53F remains subject to the criterion discussed in paragraphs 21 - 23.
- a. The auditor would normally discuss the matter with the authorized insurer or licensed insurance broker company and explain the statutory duty to make a report to the Insurance Authority under sections 53E or 53F. In addition, the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company.
25. 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 or regulatory returns, where applicable.

Other ad hoc communications by the auditor

Statutory protection under section 53D

26. Section 53D 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) a licensed insurance broker company;
 - (d) a former licensed insurance broker company; or
 - (e) a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance.”
27. Section 53D 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.
28. 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 25 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 6.
29. Confidentiality is an implied term of an auditor’s contract with the client, but in certain circumstances and under conditions specified in section 53D 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.
30. The matters which may be communicated under section 53D are any of those relevant to the Insurance Authority’s functions under the Ordinance.
31. Matters which may be reported under the protection of section 53D will only arise in circumstances where the auditor is under no duty to report under sections 15A(2), 53E or 53F. 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 34).

Examples of circumstances in which the auditor may communicate a matter to the Insurance Authority under section 53D include:

- a. the auditor considers policy holders have incurred, or are at significant risk of incurring, a material loss as a result of authorized insurers or licensed insurance broker companies 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, misconduct² or serious incompetence; or

² For definition of misconduct, refer to sections 41P(5) and 80 of the Ordinance at: <https://www.elegislation.gov.hk/hk/cap41>

- ii. serious failure to observe requirements of the Ordinance or conditions imposed on the authorized insurer or the licensed insurance broker company 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 authorized insurer or licensed insurance broker company 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.
32. Clearly the potential nature of matters which may be reported is very wide, but as explained in paragraph 35 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 50 that the auditor may choose to seek statutory protection.
33. 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 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.
34. 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 authorized insurer or licensed insurance broker company 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 36). The auditor may follow the guidance set out in HKSA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*³.
35. 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. 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. 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.
36. 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 50 and 51) by all other

³ HKSA 250 (Revised) issued in June 2017 is effective for audits of financial statements for periods beginning on or after 15 December 2017.

departments within the firm which have a relationship with the authorized insurer or licensed insurance broker company. It would, therefore, be prudent for the audit firm to ensure any exceptional circumstances which may give rise to reports under section 53D are brought to the attention of the auditor of the client 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.

37. 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 authorized insurer or a licensed insurance broker company. However, the Insurance Authority expects an authorized insurer or a licensed insurance broker company 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.
38. It should be noted that section 53D 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 and that it only includes relevant material.
39. The auditor is protected from a breach of confidentiality owed to its client even if the information which the auditor communicates falls short of proof, or the opinion which the auditor communicates cannot be verified so long as the auditor can demonstrate that it has acted reasonably and in good faith in informing the Insurance Authority of a reportable matter even if, after an investigation, it was 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.
40. 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

41. As part of the Insurance Authority's system of supervision of authorized insurers, meetings involving the Insurance Authority, the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company possibly at the auditor's suggestion.
42. The agenda for a tripartite meeting between the Insurance Authority, the authorized insurer or licensed insurance broker company and the auditor will be prepared by the initiating party and will include items requested by other parties 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.
43. The auditor would be expected to discuss with the Insurance Authority the affairs of the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company which the auditor has obtained through the professional relationship with another client.

44. Meetings may be called by the Insurance Authority to assist in its forming a judgement on an authorized insurer or licensed insurance broker company. In particular discussions may cover:
- a. the presentation and content of the annual financial statements;
 - b. the scope, conduct and outcome of the audit of the annual financial statements and the assurance report of the specified annual forms within the annual regulatory returns;
 - c. the scope and outcome of any report made under sections 53E and 53F;
 - 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 authorized insurer, licensed insurance broker company 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.
45. Any party may seek to call a tripartite meeting at any other time if important matters affecting the authorized insurer or licensed insurance broker company come to their attention as further discussed in paragraph 47. Normally, the auditor would raise the concerns with the authorized insurer or licensed insurance broker company first and if the problem cannot be resolved to the auditor's satisfaction, suggest that the authorized insurer or licensed insurance broker company asks the Insurance Authority to convene a meeting.
46. In exceptional circumstances, for example, those outlined in paragraphs 50 and 51 or after a reporting has been made to the Insurance Authority pursuant to section 53D, the auditor may consider it necessary to have a bipartite meeting with the Insurance Authority to discuss the affairs of the authorized insurer or licensed insurance broker company or to draw the attention of the Insurance Authority to information about the authorized insurer or licensed insurance broker company without its knowledge. Before doing so, however, the auditor would consider taking timely legal advice and whether a representative of the authorized insurer or licensed insurance broker company at an appropriately senior level would be informed and invited to attend the meeting.

Reporting via the authorized insurer or licensed insurance broker company

47. 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 sections 15A(2), 53E or 53F but ought to be reported to the Insurance Authority, the auditor would consider the facts and, unless inappropriate in the circumstances (described in paragraph 50), discuss the matter with the management.
48. 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 authorized insurer or licensed insurance broker company 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 the auditor might wish to persuade the client to inform the Insurance Authority, is 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.

49. Where the authorized insurer or licensed insurance broker company 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 directly to the Insurance Authority.

Reporting directly to the Insurance Authority

50. In exceptional circumstances, where the auditor doubts whether management are fit and proper⁴ persons to carry on the business of insurance or insurance broking or become aware of misconduct of management and it would be in the interest of protecting policy holders that the management of the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company, 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 authorized insurer or licensed insurance broker company 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.
51. 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 or insurance broker company 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 or insurance broker company 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) and (f)

52. The Ordinance also deals with communications by the Insurance Authority to the auditor of an authorized insurer or a licensed insurance broker company.
- a. Section 53A(3)(da) permits the communication of restricted information to the auditor of an authorized insurer or a licensed insurance broker company 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 authorized insurer or a licensed insurance broker company if, in the opinion of

⁴ For determination of fit and proper, refer to sections 14A and 64ZZA of the Ordinance at: <https://www.elegislation.gov.hk/hk/cap41>

the Insurance Authority, such information is necessary for the auditor to discharge the duties under the Ordinance.

53. If the auditor of an authorized insurer or a licensed insurance broker company, during the course of the audit, has come to the auditor's attention on matters which render the auditor to have concerns about the compliance with the Ordinance in relation to the authorized insurer or a licensed insurance broker company, and cause the auditor to believe that it is of such importance that they could significantly affect the audit or assurance conclusion, the auditor may consider seeking clarification from the Insurance Authority. In such circumstances, the confirmation can be forwarded to the Insurance Authority specifying the details of the confirmation he/she is seeking from the Insurance Authority and the name of the authorized insurer or a licensed insurance broker company for the case in question. It should be noted that the auditor may not necessarily send to the Insurance Authority such request as a standing procedure to seek the Insurance Authority's confirmation in this respect. Auditors are expected to write to the Insurance Authority only when they have reasons to believe that such a confirmation is necessary due to matters involving breach of the Insurance Ordinance.
54. 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 licensed insurance broker company without the consent of the Insurance Authority under section 53A(3D) of the Ordinance. In case where the confidential information affects the audit or assurance conclusion, the auditor may contact the Insurance Authority for discussion.

PN 810.2 (Revised)
Issued February 2015;
revised February 2016, October 2016,
September 2017, January 2018, September 2019,
August 2020, December 2021, May 2022*, February 2023, [] 2024

Effective for reporting periods ending on or after 31 December 2024
engagements beginning on or after 15 December 2022

Practice Note 810.2 (Revised)

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

~~* PN 810.2 (Revised) has been updated for conforming and consequential amendments (“amendments”) as a result of the new and revised quality management standards. The amendments will be effective for engagements beginning on or after 15 December 2022. The effective date of the amendments does not amend or override the effective date of HKSQM 1.~~



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

*(Issued February 2015; revised February 2016, October 2016, January 2018, September 2019,
August 2020, December 2021, May 2022, February 2023;*

Effective for ~~engagements beginning reporting periods ending on or after 15 December 2022~~ 31 December 2024)

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Practice Note (PN) 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* should be read in the context of the *Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements* ~~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 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 a licensed insurance broker company appointed under section 72 is also included (see paragraphs 56 to 58). This guidance is set out in Part II of this PN below of the Ordinance (see paragraph 13) or rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules (Cap.41S) (“the ISRIR”) (see paragraph 17).~~

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

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

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

3. The PN has been prepared ~~following discussions in consultation~~ with the IA.
4. This is a guide to the provisions in the Ordinance which were effective as at ~~26 June 2017~~ July 2024 (i.e. including the amendments introduced by the Insurance ~~Companies~~ (Amendment) Ordinance ~~2015~~ 2023), prepared for reference only. Every care has been taken in its preparation. However, the legislation itself is the sole authority of the law and the PN should be used in conjunction with the legislation.

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

Scope of the Ordinance

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

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

Financial ~~information statements/~~ Information to be submitted by authorized insurers

Financial statements to be submitted to the IA

10. ~~Section 20 requires two copies of the audited~~ Requirements for submitting financial information statements to the IA include:
- a. ~~Rule 3 of the ISRIR requires the financial statements as defined by section 357(1) of the Companies Ordinance (Cap.622), together with a report of its appointed auditor on those statements as required by Schedule 3 (as detailed in paragraph 11 and summarised in Appendix 1) under applicable law, 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.~~
 - b. For a non-HK insurer, including designated insurer, the financial statements to be submitted to the IA are the financial statements that the insurer is required to prepare under the laws of its place of incorporation, establishment, formation or domiciliation; and contain information that the IA considers to be comparable to the information contained in the financial statements referred to a. above. The requirements of the ISRIR in relation to an authorized insurer may be varied as approved by the IA at the written request of the insurer.

Information to be submitted to the IA

11. Requirements for submitting ~~financial~~ information to the IA include:
- a. ~~Statutory requirements~~ Annual returns
~~Schedule 3 requires~~ Pursuant to rule 4(8) of the ISRIR, amongst other things, the forms for that financial year with respect to the following to be submitted ~~annually~~ to the IA:
 - i. the insurer's financial position and capital adequacy;
 - ii. the insurer's business related information; and

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- ~~iii. 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 the insurer's supplementary and governance information.~~

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

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

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

b. Quarterly returns

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

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

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

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

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

c. Monthly returns

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

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

The returns mentioned in paragraph 11 are required to be signed or approved by the controller (within the meaning of section 13A) and key person in the financial control function of the insurer. An insurer may determine to have director(s) to sign or approve the submission in place of the controller or key person in the financial control function or to have two directors to sign or approve the submission in place of the controller and key person in the financial control function.

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

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

Appointment of the auditor(s)

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 a certified public accountant who is~~

- ~~13. Under section 15 of the Ordinance, the authorized insurer must appoint an auditor ("the Appointed auditor") who is:~~
- ~~a. not prohibited under section 20AAZZR of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("AFRCO") from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622); or~~

~~(or "practitioner") 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 (Revised) *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 (Revised) 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%² 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~~

² The IA may increase the percentage on individual case basis.

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- 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 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. ~~not prohibited under section 20AAZZR of the AFRCO from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622); or~~
 - b. ~~qualified as an auditor in the country/place of incorporation, if the authorized insurer is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of a standard comparable ~~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 not prohibited under section 20AAZZR of the AFRCO from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622). This auditor may or may not be the Appointed auditor of the insurer referred to in paragraph 21.~~
- 14.23. 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.~~
- 24.15. Section 15A(1) requires that the authorized insurer immediately notifies the IA in writing if for any reason a person appointed under section 15 ceases to be the Appointed auditor or a ~~Hong Kong incorporated~~HK insurer proposes to give notice to its shareholders of a resolution removing/replacing the Appointed auditor.

- ~~2516.~~ Section 15A(2) requires the Appointed auditor to notify the IA in writing immediately if the auditor resigns, decides not to seek reappointment, or decides to qualify any of the auditor's reports annexed to the accounts and statements of the insurer required ~~in respect of the information~~ to be submitted under Schedule 3, any requirement prescribed by virtue of section 17. Further guidance on this obligation may be found in PN 620.2 *Communication between the Auditor and the Insurance Authority* issued by the HKICPA.

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 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~~

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- ~~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).~~~~

17. Under rule 5 of the ISRIR, an insurer must submit an auditor's report on each of the specified annual forms included within an annual return. The auditor providing the report must be a person who is a certified public accountant (practising), a CPA firm or a corporate practice as defined by section 2(1) of the AFRCO; not prohibited under section 20AAZZR of the AFRCO from holding any appointment as an auditor of a company; and is not disqualified under section 393 of the Companies Ordinance. This auditor in respect of rule 5 of the ISRIR may or may not be the Appointed auditor of the insurer referred to in paragraph 13.

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;~~

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- ~~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:~~
- ~~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.~~

Auditor's report on financial statements

~~18.31. 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 Rule 3 of the ISIRI requires the 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 together with a 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 of its Appointed auditor on those statements will also have to be submitted to the IA under section 20(5) (see Appendix Illustrations 1 or 3 of Guidance on auditor's report on financial statements is set out in HKSA 700 (Revised), Forming an Opinion and Reporting on Financial Statements and Practice Note 600.1 (Revised), Reports by the Auditor under the Companies Ordinance (Cap. 622). for report format).~~

Definitions of "relevant premium income" Assurance report on regulatory returns

General Management's responsibilities

- ~~19. Authorized insurers are required by the IA to submit the annual, quarterly and monthly returns (collectively "returns"), which consists of a number of specified forms. Preparation and submission of the returns is the responsibility of the insurers' management. The IA also requires an authorized insurer to submit a report, prepared by the auditor, on some of the specified forms within the annual return ("specified annual forms"). The responsibilities for correct compilation of specified annual forms submitted to the IA and adequate internal controls rest with the management of the authorized insurer.~~
- ~~20. On occasion, different interpretations of a particular definition or simplification applied to the requirements of the completion instructions may give rise to different results being reported in the specified annual forms. Such interpretation and simplification are important as definitions and requirements set out in the IA's completion instructions may be worded in a general fashion and management would need to determine how such definitions or requirements should be applied to specific businesses or processes of an insurer.~~

21. The IA expects that the insurer should have adequate systems of control to enable the submission of reliable information reported in the specified annual forms. The information reported would be complete, accurate and prepared in accordance with completion instructions issued by the IA. The typical controls expected to be in place would include the following:

- Controls over data capture for compilation of specified annual forms
- Understanding of the return compilation process and requirements
- Maintenance of adequate audit trail
- Process for resolving issues
- Review and approval

Auditor's responsibilities

22. The auditor's reporting requirements of specified annual forms are set out in the ISRIR. The work that the auditor performs for the purpose of reporting on specified annual forms under rule 5 of the ISRIR is a reasonable assurance engagement. The auditor's responsibility is to report on whether the specified annual forms included within an annual return under rule 4(1) of the ISRIR submitted to the IA are prepared, in all material respects, in accordance with the books and records of the insurers based on procedures the auditor performed. Reference should be made to HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* for details of the standards and guidance on reasonable assurance engagements.

23. Under rule 5(1) of the ISRIR, the IA requires specified annual forms to be reported on by the auditor. It should also be noted that for certain returns, the IA can also require the auditor to report on a request basis. Where applicable, the auditor's responsibilities are to report on whether:

- a. the authorized insurer has maintained proper records in accordance with section 16 of the Ordinance in respect of the year for the purpose of preparing the specified annual forms.
- b. the specified annual forms for the year have been prepared, in all material respects, in accordance with the books and records of the authorized insurer.
- c. the specified annual forms for the year have been prepared, in all material respects, in accordance with the Insurance (Valuation and Capital) Rules ("IVCR"), Regulatory Returns Instructions, Insurance (Marine Insurers and Captive Insurers) Rules (*Applicable for marine insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only*), Insurance (Lloyd's) Rules (*Applicable for Lloyd's*), Insurance (Maintenance of Assets in Hong Kong) Rules (*Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong*) issued by the IA³.
- d. the authorized insurer has complied with the capital requirements of section 10 of the Ordinance as at the financial year end date.
- e. (Applicable for HK insurer and non-HK insurer that carries on long term business) the authorized insurer has complied with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the IVCR as at the financial year end date.

³ While the authorized insurers are required to prepare the specified annual forms in accordance with the IVCR, they are also required to make reference to the guidelines/ guidance issued by the IA in relation to the IVCR. The reporting requirements may be extended when further guidance/ rules are officially issued by the IA and this practice note will be updated accordingly in the future.

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

The list of returns that require the auditor to report on will be gazetted by the IA.

Nature of work

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

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

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

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

25. Part of the work of the auditor will be to obtain understanding on internal control over the compilation of specified annual forms which assists the auditor in identifying the types of misstatements and factors that affect the risks of material misstatements in the specified annual forms. The auditor is required to evaluate the relevant controls by performing procedures in addition to inquiry of the responsible party. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
26. The auditor should remain professionally skeptical and stay vigilant to matters concerning the quality of the insurer's internal control identified during the course of its work that may impact the specified annual forms submitted by to the IA. In this connection, the auditor should exercise judgement in determining the controls that are relevant for the preparation of the specified annual forms.

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Testing on specified annual forms

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

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- Review the documentation maintained by the insurer, including any consultation sought with the IA, to obtain a detailed understanding of the facts and rationale supporting the interpretation and simplification adopted by the insurer;
- Review relevant definitions and requirements contained in the Ordinance, relevant completion instructions and industry practices;
- Request that the insurer discusses the issue with relevant officials of the IA and seeks written clarification thereon which would include the rationale for any conclusions drawn; and
- Determine the need to include an appropriate description of the interpretation and simplification adopted to form the basis of the opinion within the auditor's report if in the auditor's judgement, such interpretation is of such importance that it is fundamental to the users' understanding of the information presented in the specified annual forms. Typically, this can be achieved through including an Emphasis of Matter paragraph in the auditor's report which provides a clear description of the specific interpretation adopted by the insurer. The auditor would refer to HKSAE 3000 (Revised) for further guidance in this regard.

35. The general procedures which the auditor would carry out in respect of the work on the examination of specified annual forms for the purpose of reporting under Rule 4 of the ISRIR include:

- Obtain an understanding of the purpose, applicable ordinance and the completion instructions for the specified annual forms. Evaluate the exceptions identified and implications on the auditor's opinion;
- Review correspondence between the insurer and the IA to determine whether specific treatments for reporting items in the specified annual forms were agreed and adopted by the insurer and whether the IA has granted specific exemptions to certain requirements for the particular insurer;
- Understand management's process of compiling the specified annual forms including any internal controls that operate to ensure complete and accurate compilation;
- Check that the compilation of amounts in the specified annual forms is in accordance with the applicable ordinance, completion instructions and definitions;
- Test check the calculations on the specified annual forms;
- Test check items from the specified annual forms to the schedules used by the insurer to prepare the specified annual forms;
- Test check balances from schedules used by the insurer to books and records and vice versa;
- Check whether only amounts which meet the relevant criteria are included in specific line items; and
- Reconcile totals to the books and records where appropriate.

Evaluation of the underlying information included in the specified annual forms

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

Written representations by management

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

Materiality – evaluation of misstatements identified

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

Capital requirements

4139. a. Each authorized insurer (except a captive or marine insurer or Lloyd’s) must ensure at all times that its capital base is not less than each of:
- i. the prescribed capital amount of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap.41R) (“IVCR”);
 - ii. the minimum capital amount of the insurer, being 50% of the prescribed capital amount; and
 - iii. HK\$20 million.

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

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~~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);~~

~~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~~

~~b. Each the additional authorized insurer to conduct business as a marine or captive insurer in or from Hong Kong must ensure at all times that its capital base is not less than each of:~~

~~i. The prescribed capital amount of the insurer as determined in accordance with rule 8 of the Insurance (Marine Insurers and Captive Insurers) Rules (Cap.41U);~~

~~ii. The minimum capital amount of the insurer, which is the same as prescribed capital amount; and~~

~~iii. HK\$2 million.~~

~~c. Lloyd’s must ensure at all times that its capital base is not less than each of:~~

~~i. The prescribed capital amount of Lloyd’s as determined in accordance with rule 8 of the Insurance (Lloyd’s) Rules (Cap.41V);~~

~~ii. The minimum capital amount of Lloyd’s, which is the same as the prescribed capital amount; and~~

~~iii. HK\$20 million.~~

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~~-amount for unexpired risks (see paragraph 36).~~

~~34. "Claims outstanding", "additional amount for unexpired risks" and "fund" are defined in paragraph 4(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

~~42.38. An insurer must also determine the allocated minimum capital amount for the purposes of sections 22(3B)(b), 22(3C)(b) and 25AAB(3)(b). Allocated minimum capital amount is determined by allocating the minimum capital amount to all funds maintained by the insurer under section 21B and 25AA, where appropriate. Refer to Part 6 of the IVCR for more details on the determination of allocated minimum capital amount.~~

~~a. 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).~~
- ~~e. — 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 solvencycapital 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);~~

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

- ~~5245.~~ The Ordinance requires the auditor to state specifically in the auditor’s report whether proper records have been maintained in accordance with section 16.
- ~~5346.~~ 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~~it. These books can be kept either in a legible form or in a non-legible form capable of being reproduced in a legible form. The Ordinance also requires adequate precautions to be taken to guard against falsification of these records and to facilitate the discovery of any such falsification. In the case of an overseas insurer carrying on insurance business through a branch or an agency, the IA would normally require books to be kept in respect of all its branch or agency business carried on in or from Hong Kong.
- ~~5447.~~ 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.
- ~~5548.~~ The ~~Insurance Authority~~IA may, by serving a notice in writing on an authorized insurer, require the insurer to provide to the ~~Insurance Authority~~IA, 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~~IA for performing its functions.

Identification of Long Term Assets and Liabilities

~~56~~Maintenance of separate accounts and funds in respect of long term business

- ~~49.~~ Section ~~22 of the Ordinance~~21B sets out the requirements for an ~~authorized~~HK insurer or designated insurer carrying on long term business to ~~maintain a separate its assets account and liabilities attributable to long term business. Part 6a separate fund for each of the following class of business specified in Part 2 of Schedule 31 to the Ordinance sets out the method of identification of long term assets and liabilities required under section 22.;~~
- ~~a. class C~~
- ~~b. class G~~
- ~~c. class H~~
- ~~d. specified business (class A, B, D, E, F or I).~~
- ~~The insurer must within the fund maintained for specified business, maintain at least 1 separate account and 1 separate sub-fund for the part of the specified business that is participating business.~~
- ~~5048.~~ A non-HK insurer that is not a designated insurer carrying on long term business in or from Hong Kong must maintain a separate account and a separate fund for each of the following class of business specified in Part 2 of Schedule 1 to the Ordinance:

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

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

~~57. Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer to which this Part of this Schedule applies shall, no later than 6 months after the base date*, deposit with the IA a certificate that the insurer has in accordance with this Part—~~

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

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

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

~~58. Paragraph 36(2) of Part 6 of Schedule 3 requires that the certificate referred in paragraph 57. above shall be annexed with a report signed by the appointed auditor stating whether—~~

- ~~a. the insurer has complied with paragraphs 36(1)(a) and (b) of Part 6 of Schedule 3; and~~
- ~~b. in his opinion, the insurer has complied with paragraph 36(1)(c) of Part 6 of Schedule 3.~~

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

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

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

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

52. If a non-HK insurer which carries on long term business is incorporated in or formed outside from Hong Kong, it may submit a written request to the IA for authorization/permission under section 22A

~~of the Ordinance to maintain accounts of long term business carried on in or from Hong Kong in place of the accounts referred in section 22(1), if such an authorization is given, the insurer shall submit to the IA a certificate and an auditor's report as mentioned in paragraphs 57 and 58 above, referred in section 21B(2) and (3) instead of section 21B(5) and (6) for the period specified in the permission.~~

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

Maintenance of separate accounts and funds

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

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

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

Maintenance of assets in Hong Kong

~~55. General and composite insurers, other than exempted insurers (being HK insurers, designated insurers and captive insurers) under the Insurance (Maintenance of Assets in Hong Kong) Rules (Cap.41T), are required by section 25A to maintain assets in Hong Kong (assets of the type set out in Schedule 8 to the Ordinance) at all times in respect of their liabilities as of the end of the last preceding financial year, arising from general business with onshore risk carried in or from Hong Kong, and to file the form specified by the IA with respect to the insurer's assets and liabilities and the amount of assets in Hong Kong required with the IA annually to ensure compliance.~~

~~56. The value of the assets an insurer must maintain in Hong Kong in respect of its insurance liabilities in its current financial year must not be less than the amount determined in accordance with rule 5(2) of the Insurance (Maintenance of Assets in Hong Kong) Rules as at the end of its last preceding financial year.~~

~~57. The value of assets and the amounts of liabilities shall be determined in accordance with any the applicable valuation rules made under section 129(1)(a). 60. The appointed auditor of the authorized insurer should conduct a reasonable assurance engagement in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and issue the auditor's report as required under paragraph 58. The auditor should agree the terms of the engagement with the insurer in accordance with HKSAE 3000 (Revised). An example auditor's report is set out in Example 6 of Appendix 2.~~

Licensed insurance broker companies

~~61. Section 64N states that an authorized insurer must not enter into a contract of insurance through another person in Hong Kong or accept a referral of insurance business from another person in Hong Kong unless:~~

- ~~a. that person is (i) a licensed insurance agency or a licensed individual insurance agent appointed by the insurer; or (ii) a licensed insurance broker company; or~~
- ~~b. that person's duties only involve clerical or administrative duties.~~

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

- ~~62. Under section 72, a licensed insurance broker company must appoint an auditor who is:~~
- ~~a. not prohibited under section 20AAZZR of the AFRGO from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622); or~~
 - ~~b. qualified as an auditor in the country of incorporation, if the licensed insurance broker company is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of comparable to that of a person referred to in (a) above.~~
- ~~63. The auditor of a licensed insurance broker company is required to report on the company's financial statements to its shareholders. The auditor is also required to report on a licensed insurance broker company's compliance with the requirements stipulated by the Insurance Authority. For further guidance on this area, members may refer to PN 810.1 (Revised), *Licensed Insurance Broker Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* issued by the HKICPA.~~
58. Pursuant to section 25A(8), if an authorized insurer is required by law to, and does, maintain assets in a place outside Hong Kong for the sole purpose of making preferential payments to policyholders in respect of claims payable relating to its general business with onshore risk where the insurer is in liquidation, then the assets to be maintained in Hong Kong by section 25A shall be reduced by the amount of these assets.

Communications between the auditor and the IA

6459. 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 2516) 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

6560. The Hong Kong Government (the “Government”) has entered into an agreement with some authorized insurers for the provision of a facility covering terrorism risk in respect of employees' compensation insurance business. Under the agreement, the insurer is required to pay a monthly charge to the Government based on the gross premium in respect of the employees' compensation business written. An annual return together with a report by the auditor are required to be submitted to the IA within four months after the end of each financial year on the amounts of gross premium for the financial year and the charge payable thereon to the Government. For the IA's easy identification of the annual return which is reported on by the auditor, the auditor should bind the annual return together with the report thereon and stamp the identification chop on each page of the annual return. An auditor should conduct such an engagement in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. An example auditor's report is set out in Example 1 in Appendix 4.

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

6661. All insurance companies in Hong Kong that are authorized by the Government to write motor vehicle insurance are required to be members of the Motor Insurers' Bureau of Hong Kong (“MIB”). Each member has entered into an agreement with the MIB to contribute such funds as may be required by the MIB to meet its objectives, and furnish particulars of motor premium income and submit such report as the MIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400 (Revised), *Engagements* (“HKSRS 4400 (Revised)”). An example report is set out in Example 2 in Appendix 4.

6762. HKSRS 4400 (Revised) introduced requirements and application material to provide more clarity in the agreed-upon procedures report. The practitioner is reminded to read HKSRS 4400 (Revised) for the requirements.

6863. In particular, the practitioner should refer to paragraphs 21 – 23 and A28 – A38 of HKSRS 4400 (Revised) for the engagement acceptance and continuance conditions. The practitioner shall include the terms as set out in paragraph 24 of HKSRS 4400 (Revised) in the engagement letter. Among the terms, the engagement letter shall include the purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party. An illustrative engagement letter for an agreed-upon procedures engagement can be found in Appendix 1 to HKSRS 4400 (Revised).

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

6964. All insurance companies in Hong Kong who are authorized by the Government to write direct employees compensation insurance business are required to be members of the Employees Compensation Insurer Insolvency Bureau (“ECIIB”). Each member has entered into an agreement with the ECIIB to contribute such funds as may be required by the ECIIB to meet its objectives, and furnish particulars of employees' compensation premium income and submit such report as the ECIIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400 (Revised). An example report is set out in Example 3 in Appendix 4. The practitioner shall also refer to paragraphs ~~67~~–~~6862~~ – 63 when conducting the agreed-upon procedures engagement.

Annual remittance report on levy to the IA

~~65.70. On 6 June 2017, the 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 Insurance (Levy) Regulation (“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.

7466. 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 Suggested procedures for reporting on specified annual forms~~

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

~~a. Methodology~~

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

- ~~• Obtain understanding of the process over methodology application and governance and identify key risks in the process. Evaluate the design, determine the implementation, and test the operating effectiveness of key controls over the methodology application and governance.~~
 - ~~- For insurers approved by the IA to use the Own Assessment ("OA") approach in calculating the risk capital amount for natural catastrophe risk, evaluate the effectiveness of key controls over the result generation process and governance (for general business).~~
- ~~• Evaluate whether the methodology applied is in accordance with the Insurance (Valuation and Capital) Rules ("IVCR")², guidelines and other relevant instructions in relation to valuation, capital resources and capital requirements, as well as returns reporting. Some examples include (but are not limited to):~~
 - ~~- review management's comparison of the requirements in the IVCR with the methodology document and assess whether the stated methodology is in compliance with the requirements covering areas such as assets, insurance liabilities, other liabilities and prescribed capital amount ("PCA");~~
 - ~~- review whether the insurer has performed unbundling of insurance and reinsurance contracts and perform the contract boundary assessment according to the IVCR;~~
 - ~~- review the methodology for allocating items (that are not directly attributable) into various lines of business/funds;~~
 - ~~- for cases where different **Parts of Schedule 3 to** approaches are permitted, evaluate the justification from the insurers for the methodology applied;~~
 - ~~- evaluate the appropriateness of the asset look-through approach based on availability of data for portfolio investment;~~
 - ~~- understand the methodology of how insurers built the management actions in the model, and assess the reasonableness of the management actions and how they had been applied in the model in both the base and stressed scenarios (for long term business);~~

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

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

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

b. Data

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

- Obtain an understanding of the process over the collection, generation, processing, aggregation and mapping of data between relevant systems and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls (including IT general controls on relevant systems) over the collection, generation, processing, aggregation and mapping of data between relevant systems.
- Check that the data used, on a sample basis, is appropriate for the preparation of the forms and, if any, changes (including changes in the source of data) from prior periods are appropriate.
- Test data integrity by tracing data used in preparing the forms to the underlying sources.
- Review the data reconciliation prepared by management to evaluate that all relevant data are properly included in the forms. Investigate any unusual items and test material reconciling items, if any.
- Review the appropriateness of the classifications of data (including the splitting of line of business and funds established under the Insurance Ordinance ~~and also includes the paragraph references in Part 1 of that Schedule that set out the reporting requirements~~) and model point grouping (if any) for the forms.

	Parts 3 ³ , 4 and 5: Financial Information		Part 6: Long term assets and liabilities	Part 8 ⁴ : Return on Hong Kong business		Part 9 ³ : 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	↓ Para.4.(1)*	↓ Para.4.(1)*	↓ Para. 36(2)	-	↓ Para.4.(1A)(aa)	-	b)

³—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.

⁴—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.

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pure reinsurer)							
Composite insurer	-	↓ Para.4.(1AC) [△]	↓ Para.36(2)	↓ Para.4.(1A)(a)	↓ Para.4.(1A)(aa)	↓ Para.4.(1A)(b)	e)
Captive insurer	↓ Para.4.(1AD)*	↓ Para.4.(1AD)*		↓ Para.4.(1A)(a)			
Pure reinsurer (General)		↓ Para.4.(1AB)		↓ Para.4.(1A)(a)			
Pure reinsurer (Composite)		↓ Para.4.(1AC) [△]	↓ Para.36(2)	↓ Para.4.(1A)(a)	↓ Para.4.(1A)(aa)		
Lloyd's				↓ Para.4.(1A)(a)		↓ Para.4.(1A)(b)	

* — True and fair opinion required

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

Notes

a) — General Insurer

i) — Financial

- Assess the appropriateness of management judgement and approach applied in data preparation including any material adjustments or simplification (if any) made to the data.

c. — Assumptions

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

- Obtain an understanding of the process over assumptions setting and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls over producing and assessing key assumptions, together with the data inputs used.
- Challenge the key assumptions and evaluate the reasonableness of key assumptions used with reference to historical data, market data, experience studies, change analysis, assumptions adopted in other reporting bases, certifications of appointed actuaries (for long term business) or certifying actuaries (for general business), where applicable.
- Where the key assumptions for stressed scenario are determined by the insurer and not prescribed by the IA, review the reasonableness of these assumptions with reference to those adopted in the base scenario.
- Evaluate the key assumptions are applied appropriately in the calculations of the information prepared contained in the forms.

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- Below is a list of procedures on key assumptions which may be considered by the auditor:

For risk-free discount rates:

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

For matching adjustment (“MA”): (for long term business)

- evaluate the calculations of MA components and the reasonableness of movement of MA components under base and stress;
- perform reasonableness check of patterns of the liability cash flow under ~~Parts 4~~ level lapse and ~~5 of Schedule 3~~ mass lapse shocks;

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

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

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

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

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

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

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

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

~~b) **Long term insurer**~~

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

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

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

~~ii) **Long term assets**~~

- assess the reasonableness of asset and liabilities durations under base and stressed scenarios;
- assess the reasonableness of asset mix, credit mix and maturity mix with reference to the insurer’s portfolio;

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- assess whether MA simplification options adopted (if any) demonstrate prudence over the default calculations, or demonstrate no material impact to the solvency position.

For non-economic assumptions:

- review the appropriateness of non-economic assumptions used for the calculation of the information contained in the forms;
- consider the comprehensiveness of non-economic assumptions used for the calculation of the information contained in the forms with respect to contractual obligations and risks;
- assess the expense assumptions under best estimate and stressed scenario and evaluate if any adjustments are required for expected overruns/underruns;
- evaluate the reasonableness of morbidity assumptions and its relevant changes based on internal experience study and external statistics such as those from the Hospital Authority (if applicable) (for long term business);
- evaluate the reasonableness of mortality assumptions and their relevant changes based on internal experience study and external statistics such as those from professional bodies or other relevant sources (if applicable) (for long term business);
- evaluate the reasonableness of lapse assumptions and **liabilities requirements under Part 6 of Schedule 3**

~~Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer carrying its relevant changes based on internal experience studies (if applicable) (for long term business shall, no later than 6 months after the base date, deposit with the Insurance Authority a certificate in accordance with this paragraph-);~~

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

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

~~This form is submitted to the Insurance Authority by a long term insurer. This form is in respect of the Hong Kong~~

- evaluate the reasonableness of loss ratios and claims development patterns and its relevant changes based on historical experience and external statistics (for general business);
- evaluate the reasonableness of margin over current estimate (risk margin) and diversification factor (if any) for long term insurance 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.~~

e) 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 liabilities and general provisions relating to the revenue account and profit and loss account. insurance liabilities;~~

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

~~ii) **Long term assets and**~~

- assess the consistency of loss ratio assumptions and other key assumptions adopted in calculation of outstanding claims liabilities and premium liabilities **requirements under Part 6 of Schedule 3**

~~Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer carrying on long~~

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~~term business shall, no later than 6 months after the base date, deposit with the Insurance Authority a certificate in accordance with this paragraph.~~

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

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

~~These forms are submitted to the Insurance Authority by a composite insurer. They relate only to the (for general business written in Hong Kong by a composite insurer.-);~~

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

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

~~This statement is submitted to the Insurance Authority by a composite insurer. The statement reports the Hong Kong assets and~~
~~- compare the estimate of gross outstanding claims liabilities relating to the and reinsurance recoveries and assess the reasonableness (for general business only.-);~~

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

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

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

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

- ~~- evaluate the reasonableness of reinsurance recoveries and reinstatement premium in material catastrophe risk capital amount calculation (for general business);~~
- ~~- compare key non-economic assumptions used in material actuarial models for RBC and other reporting basis, and assess the reasonableness of differences (if appropriate).~~

~~*For stress factors:*~~

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

d. Models

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

- Obtain an understanding of the process over models used for preparing the forms and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls over model set-up, model changes and model validation, and IT general controls over relevant systems for preparing the information contained in the forms.

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- Sample test of model validation including assessing whether the implementation of model is in accordance with the methodology, the model theoretical soundness and whether the model calculation is accurate, for example through consideration of (but not limited to):
 - modelled management actions under the base and stressed scenarios (for long term business);
 - inputs and set-up of the Economic Scenario Generator (ESG) (for long term business);
 - the set-up of contract boundary.
- Evaluate the reasonableness of results generated from the model including but not limited to:
 - future cashflows projections;
 - results under the base and stressed scenarios, both before and after the impact of modelled management actions (for long term business);
 - ESG model results through the test of martingale, leakage, implied volatility or convergence test reports (for long term business).
- Evaluate and test as appropriate the appropriateness of any material off-model adjustments or overlays to model outputs.
- Evaluate and test as appropriate the appropriateness of material model changes.
- Assess the completeness of the list of model limitations and evaluate the reasonableness of management's assessed impacts of the model limitations on the information contained in the forms.

e. Results

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

- Evaluate the design, determine the implementation, and test the operating effectiveness of key controls over the accuracy of the information contained in the forms.
- Check the reconciliation of information contained in the forms with system data extraction and books and records where applicable.
- Review the reasonableness of the results by comparing actual information contained in the forms to the expected results.
- Analyse movement of changes between different periods regarding information contained in the forms.
- Test the mathematical accuracy in relation to the information contained in the forms.

Appendix 2

Example unmodified assurance report under Rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules auditor's reports under Schedule 3 to the Insurance Ordinance

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

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

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

- Audit of financial information of an entity other than a listed entity⁸, that have been prepared by the directors of the entity in accordance with the provisions of the 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 210.⁹
- 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).¹⁰
- 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 701.¹¹
- The auditor has obtained all of the other information¹² 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 Insurance Ordinance.

INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the [Board of Directors¹³ of XYZ Insurance Company Limited] / [Chief Executive¹ of the Hong Kong Branch of XYZ Insurance Company Limited] (the "Authorized Insurer")

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

⁸ See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor’s reports for listed entities.

⁹ HKSA 210, *Agreeing the Terms of Audit Engagements*.

¹⁰ HKSA 570 (Revised), *Going Concern*.

¹¹ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

¹² HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraph 12(e).

¹³ Law, regulation or the terms of the engagement may specify to whom the assurance report is to be addressed in that particular jurisdiction. Tailor the addressee of the assurance report, as appropriate, based on the circumstances of the engagement.

~~then ended, and notes to the financial information, including a summary of significant accounting policies.~~

~~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 Insurance Ordinance¹⁴ (“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.¹⁵~~

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 Information¹⁶

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

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

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

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

¹⁴—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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

¹⁵—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.

¹⁶—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.

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

Report on matters under paragraph 4(1AB) of Part 1 of Schedule 3 to the 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 entity¹⁷, 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 Insurance Ordinance to meet the requirements of the Insurance Authority. The directors do not have a choice of financial reporting frameworks.¹⁸
- 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 210.¹⁹
- 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).²⁰
- 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 701.²¹
- The auditor has obtained all of the other information²² 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 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.

In our opinion, the financial information gives a true and fair view of the state of the Company’s affairs as

¹⁷ See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor’s reports for listed entities.

¹⁸ 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.

¹⁹ HKSA 210, *Agreeing the Terms of Audit Engagements*.

²⁰ HKSA 570 (Revised), *Going Concern*.

²¹ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

²² HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraph 12(e).

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

~~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 Insurance Ordinance²³ (“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 these 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.²⁴~~

~~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 Information²⁵~~

~~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~~

²³—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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

²⁴—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.

²⁵—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) Rules²⁶ 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.~~

²⁶ ~~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)".~~

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

~~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 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 entity²⁷, that have been prepared by the directors of the entity in accordance with the provisions of the 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.²⁸~~
- ~~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 210.²⁹~~
- ~~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).³⁰~~
- ~~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 701.³¹~~
- ~~The auditor has obtained all of the other information³² 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 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

²⁷ See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor’s reports for listed entities.

²⁸ 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.

²⁹ HKSA 210, *Agreeing the Terms of Audit Engagements*.

³⁰ HKSA 570 (Revised), *Going Concern*.

³¹ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

³² HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraph 12(e).

~~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 Insurance Ordinance³³ (“the Ordinance”) and, on that basis, the long term business [balance sheet][statement of financial position] on page, when read in conjunction with the notes on pages to and the supplementary schedules on pages to, gives a true and fair view of the financial position of the Company’s long term business as at 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and the provisions of the Ordinance.[#]~~

Basis for Opinion

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

Emphasis of Matter – Basis of Accounting and Restriction on Use

~~We draw attention to note X to the financial information, which describes the basis of accounting. The financial information is prepared to assist the Company in complying with the provisions of the Ordinance. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the submissions by the Company to the Hong Kong Insurance Authority and the Registrar of Companies and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. **We do not assume responsibility towards or accept liability to any other person for the contents of our report.** Our opinion is not modified in respect of this matter.³⁴~~

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 Information³⁵

~~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.~~

³³—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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

³⁴—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.

³⁵—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) Rules³⁶ 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 modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's~~

³⁶—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)".

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED
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~~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 (1A) of Part 1 of Schedule 3 to the 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)Rule 5 of Part 1 of Schedule 3 to the Insurance Ordinance~~³⁷ (“the Ordinance (Submission of Statements, Reports and Information) Rules (the “Rules”), we have been requested to issue this report on the attached specified annual forms of the Authorized Insurer for the year ended [year end date] as set on pages to (the “Specified Annual Forms”) for submission by [XYZ Insurance Company Limited~~(“)~~ / [the Hong Kong Branch of XYZ Insurance Company~~(“)~~ Limited] to the Insurance Authority (“the “IA”)³⁸.

[Directors’/ Chief Executive]³⁹ Responsibilities

The directors ~~are responsible~~ have a responsibility for:

1. ~~Ensuring that the preparation of forms~~ Authorized Insurer maintains proper records at all times in accordance with ~~section 16 of the provisions of Part 8 of Schedule 3 to the Insurance Ordinance~~ (“the Ordinance”) for the purpose of preparing the Specified Annual Forms~~) set out.~~
2. ~~Ensuring that the Specified Annual Forms have been properly prepared from the books and records of the Authorized Insurer.~~
3. ~~Ensuring that the Specified Annual Forms have been prepared in accordance with Insurance (Valuation and Capital) Rules, Regulatory Returns Instructions issued by the IA [and Insurance (Marine Insurers and Captive Insurers) Rules (Applicable for marine insurers, captive insurers and any authorized company that carry on pagesmarine mutual or captive insurance business only) / Insurance (Lloyd’s) Rules (Applicable for Lloyd’s) / Insurance (Maintenance of Assets in Hong Kong) Rules (Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd’s in respect of general business it carries on in or from Hong Kong)] [and letter(s) dated [DATE] issued by the IA to the Authorized Insurer] relating to the Specified Annual Forms.~~
4. ~~Ensuring that the Authorized Insurer has complied with the capital requirements of section 10 of the Ordinance at all times.~~
5. ~~(Applicable for HK insurer and non-HK insurer that carries on long term business) Ensuring that the Authorized Insurer maintains at all times separate accounts and funds which enable it to comply with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the Insurance (Valuation and Capital) Rules.~~
6. ~~(Applicable for HK insurer and non-HK insurer that carries on general business) Ensuring that the Authorized Insurer maintains at all times separate accounts and funds which enable it to comply with~~

³⁷ 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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

³⁸ The IA has indicated that the auditor should obtain from the insurer the submitted Specified Annual Forms which can be downloaded from the Insurance Regulatory Information Connect (“IRIC”). The auditor should attach a copy of this downloaded Specified Annual Form including the cover page which shows the submission identification number generated by the IRIC.

³⁹ Identify the responsible party for the Specified Annual Forms and the captioned matters set out in this section. The assurance report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction or the terms of the engagement, which need not refer specifically to “directors” or “Chief Executive”. Under rule 4(6) of the ISRIR, the annual returns (where the Specified Annual Forms are derived from) must be signed or approved on behalf of the authorized insurer concerned by a controller of that insurer (within the meaning of section 13A of the Insurance Ordinance) and a key person in the financial control function of that insurer. Alternatively, the authorized insurer may choose to have a director of the insurer, or a member of Council of Lloyd’s (in the case of Lloyd’s), sign or approve such returns in place of either its controller or key person in financial control function or both.

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

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

~~This responsibility includes designing, implementing and maintaining internal controlcontrols relevant to the preparation and presentation of the Specified Annual Forms and applying an appropriate accounting policiesbasis of preparation; 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 Management*~~

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

~~The firm applies Hong Kong Standard on Quality Management 1⁴⁰, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.~~

~~*Auditor’s Responsibility*~~

~~Our responsibility is to express an opinion on the matters referred to in 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.~~

⁴⁰ ~~HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.*~~

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

Opinion

~~Based on the foregoing, in our opinion:~~

- ~~(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 report⁴⁴.~~

~~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 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".~~

⁴⁴ ~~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 Insurance Ordinance⁴² (“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 Management~~

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

~~The~~Our firm applies Hong Kong Standard on Quality Management 1⁴³ issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

~~Auditor’s~~ Responsibility~~Responsibilities~~

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

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

~~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.~~

⁴² ~~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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.~~

⁴³ ~~HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.~~

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~~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 report⁴⁴.~~

~~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.~~

⁴⁴ ~~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 Insurance Ordinance⁴⁵ (“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”).

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

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 to⁴⁶ 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 Management

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

The firm applies Hong Kong Standard on Quality Management 1⁴⁷, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

Our responsibility is to express an opinion on the matters referred to in 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

⁴⁵ 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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

⁴⁶ The page numbers here should refer to the Statement and the accompanying supplementary information.

⁴⁷ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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~~information prepared under Parts 4 and 5 of Schedule 3 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 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) Rules⁴⁸;~~
- ~~(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 report⁴⁹.~~

~~ABC & Co.~~

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

~~[Auditor's Address]~~

~~Date~~

⁴⁸ 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)".

⁴⁹ 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.

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

~~** — Branch financial statements prepared in accordance with the HKFRSs will normally be required for the financial year ended on or after 31 December 2015.~~

~~# — Where the Company has received a notice under section 25B of the Ordinance then the opinion “(v)” will need to be amended accordingly as follows:~~

~~(v) — the assets held by the Company, as shown in the Statement, enable it to comply with the requirement stipulated in section 25B of the Ordinance as at [date##].~~

~~## — The date specified in the notice issued under section 25B of the Ordinance.~~

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

INDEPENDENT AUDITOR’S ASSURANCE REPORT

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(b) of Part 1 of Schedule 3 to the Insurance Ordinance⁵⁰ (“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 to⁵¹ 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^{52,53} (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 Management

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

The firm applies Hong Kong Standard on Quality Management 1⁵⁴, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

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

⁵⁰ 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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

⁵¹ The page numbers here should refer to the Statement and the accompanying supplementary information.

⁵² 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)”.

⁵³ 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.

⁵⁴ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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~~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 Rules⁴⁶] 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 Rules⁴⁶].~~

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

Inherent Limitations

Internal control systems designed to address specific control objectives are subject to inherent limitations of any internal control structure, and accordingly, errors or irregularities may occur and not be detected. Our procedures cannot guarantee protection against fraud or misrepresentation by management. The historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Opinion⁵⁵

Based on the foregoing, in our opinion:

~~Based on the foregoing, in our opinion:~~

- ~~(i) (i) the Companythe Authorized Insurer has maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1[financial year end date] for the purposepurpose of preparing the Statement; Specified Annual Forms.~~
- ~~(ii)(ii)the Statement has Specified Annual Forms for the year ended [financial year end date] have been properly prepared, in all material respects, in accordance with thesethe books and records;~~
- ~~(iii) the value of the Authorized Insurer.~~
- ~~(iii) the Specified Annual Forms for the year ended [financial year end date] have been prepared, in all material respects, in accordance with Insurance (Valuation and Capital) Rules, Regulatory Returns Instructions [and Insurance (Marine Insurers and Captive Insurers) Rules (Applicable for marine~~

⁵⁵ 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(I)(v) of HKSAs 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAs 3000 (Revised).

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insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only) / Insurance (Lloyd's) Rules (Applicable for Lloyd's) / Insurance (Maintenance of Assets in Hong Kong) Rules (Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong)] issued by the IA [and letter(s) dated [DATE] issued by the IA to the Authorized Insurer].

(iv) the Authorized Insurer has complied with the capital requirements of section 10 of the Ordinance as at [financial year end date];

(v) (Applicable for HK insurer and non-HK insurer that carries on long term business) the Authorized Insurer has complied with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the Insurance (Valuation and Capital) Rules as at [financial year end date].

(vi) (Applicable for HK insurer and non-HK insurer that carries on general business) the Authorized Insurer has complied with the requirements of sections 25AAB and 25AAE of the Ordinance and Part 6 of the Insurance (Validation and Capital) Rules as at [financial year end date]; and

(vii) (Applicable for authorized insurer that carries on general business in or from Hong Kong, and does not apply to authorized insurer that is exempted under the Insurance (Maintenance of Assets in Hong Kong) Rules) the assets and amount of liabilities in Hong Kong held by the Authorized Insurer, 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, [Local Asset Requirement Return], enable it to comply with the requirement of section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules⁴⁶] as at 31 December 20X1 as at [financial year end date] and, based on the records of the Company Authorized Insurer, the assets in Hong Kong held by the Company Authorized Insurer 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 Rules⁴⁶] as at on those dates[#].~~

Intended Users and Purpose

This report is intended solely for submission by the Company Authorized Insurer to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. ~~We do not assume responsibility towards or accept liability to any other person for the contents of our report⁵⁶.~~

ABGXYZ & Co.

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

[Auditor's Address]

[Date

]
*

⁵⁶ The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED
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*
_ The two dates selected must be not less than three months apart.

**
~~Branch financial statements prepared in accordance with the HKFRSs will normally be required for the financial year ended on or after 31 December 2015.~~

Where the Branch Authorized Insurer has received a notice under section 25B of the Ordinance then the opinion “(vii)” will need to be amended accordingly as follows:

~~(vii)~~(v) — the assets held by the Company Authorized Insurer, as shown in the Statement, [Local Asset Requirement Return], 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 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 Insurance Ordinance⁵⁷ (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 Management~~

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

~~The firm applies Hong Kong Standard on Quality Management 1⁵⁸, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.~~

~~Auditor’s Responsibility~~

~~Our responsibility is to express an opinion on the matters referred to in 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.~~

⁵⁷ 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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.

⁵⁸ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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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 report⁶⁹.~~

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

⁶⁹ ~~The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.~~

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

INDEPENDENT AUDITOR’S ASSURANCE REPORT

To the Directors of XYZ Insurance Company Limited

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

Directors’ Responsibilities

In relation to this report, the directors have a responsibility to ensure compliance with the requirements set out in section 22 of the Ordinance and Part 6 of Schedule 3 to the Ordinance [, as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company]⁶⁰.

Pursuant to paragraph 36(1) of Part 6 of Schedule 3 to the Ordinance, [as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company,]⁶² the Company is required to deposit with the IA a certificate that the insurer has in accordance with Part 6 of Schedule 3 to the Ordinance:

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

Our Independence and Quality Management

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

The firm applies Hong Kong Standard on Quality Management 1⁶¹, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Company’s compliance with the requirements set out in paragraph 36(1)(a)–(c) of Part 6 of Schedule 3 to the Ordinance, [as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company,]⁶² based on our work performed and to report our opinion.

⁶⁰ Applicable to authorized insurer which carries on long term business is incorporated or formed outside Hong Kong and obtained IA’s authorization under section 22A.

⁶¹ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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

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

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

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

Opinion

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

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 report⁴.~~

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

⁴—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

SolvencyCapital 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.~~

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

Appendix 4

Example reports for other reporting

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

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

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

To the Directors of XYZ Insurance Company Limited

Pursuant to the Agreement for Provision of Facility covering Terrorism Risks in respect of Employees’ Compensation Insurance Business entered into between XYZ Insurance Company Limited (“the Company”) and the Government of the Hong Kong Special Administrative Region (“HKSAR”) dated [date] (“Agreement”), we have been requested to report on the attached Annual Return on Employees’ Compensation Gross Premium for the [*year ended [date]/period from [date] to [date]] (“Annual Return”)⁶³.

Directors’ Responsibilities

Pursuant to the Agreement, the directors are responsible for preparing the Annual Return. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Annual Return. In addition, the directors are responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Insurance Ordinance⁶⁴ (“the Ordinance”).

Our Independence and Quality Management

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

The firm applies Hong Kong Standard on Quality Management 1⁶⁵, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

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

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

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

⁶³ [The IA has indicated that the auditor should obtain from the insurer the submitted Annual Return which can be downloaded from the Insurance Regulatory Information Connect \(“IRIC”\). The auditor should attach a copy of this downloaded Annual Return including the cover page which shows the submission identification number generated by the IRIC.](#)

⁶⁴ [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 Ordinance” in the report should be amended to “Insurance Ordinance \(formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017\)”.](#)

⁶⁵ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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

Opinion

Based on the foregoing, in our opinion:

- (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 report⁶⁶.

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

⁶⁶- The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

Example 2 – Agreed-upon procedures report on levies paid to the First Fund Scheme and the Insolvency Fund Scheme for motor compensation insurance

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

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

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

To: Directors of XYZ Insurance Company Limited

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

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

Directors' Responsibilities

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

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

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). An agreed-

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and Findings

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

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

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

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

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

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

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

To: Directors of XYZ Insurance Company Limited

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

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

Directors’ Responsibilities

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

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

Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). An agreed upon procedures engagement involves our performing the procedures that have

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and Findings

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

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

ABC & Co.

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

[Date of auditor's report]

[Auditor's address]

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

INDEPENDENT AUDITOR’S ASSURANCE REPORT ON ANNUAL REMITTANCE REPORT

To the Directors of XYZ Insurance Company Limited (“the Company”)

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

Directors’ Responsibility

Pursuant to the Regulation, the directors are responsible for preparing the Remittance Report. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Remittance Report. In addition, the directors are responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Insurance Ordinance⁶⁷ (“the Ordinance”).

Our Independence and Quality Management

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

The firm applies Hong Kong Standard on Quality Management 1⁶⁸, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibility

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

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

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

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

⁶⁷ ~~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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)”.~~

⁶⁸ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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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.⁶⁹~~
- ~~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 210.⁷⁰~~
- ~~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).⁷¹~~
- ~~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 701.⁷²~~
- ~~The auditor has obtained all of the other information⁷³ 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.

⁶⁹ 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.

⁷⁰ HKSA 210, *Agreeing the Terms of Audit Engagements*.

⁷¹ HKSA 570 (Revised), *Going Concern*.

⁷² HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

⁷³ HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraph 12(e)

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

~~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.⁷⁴~~

~~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 Statements⁷⁵~~

~~Pursuant to the conditions of the accounting concession under section 17(2) of the Insurance Ordinance⁷⁶ 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.~~

⁷⁴—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.

⁷⁵—Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁷⁶—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 Ordinance” in the report should be amended to “Insurance Ordinance (formerly known as the 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(e) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

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

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

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

[Report on matter under Section 16 of the Insurance Ordinance

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

ABC & Co.

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

[Auditor Address]

[Date]

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

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

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

- ~~Audit of a complete set of financial statements of a branch that have been prepared by the chief executive of the branch in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) to assist the branch in complying with the conditions of the accounting concession. The directors do not have a choice of financial reporting frameworks.⁷⁸~~
- ~~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 210.⁷⁹~~
- ~~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).⁸⁰~~
- ~~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 701.⁸¹~~
- ~~The auditor has obtained all of the other information⁸² 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”).

⁷⁸ 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.

⁷⁹ HKSA 210, *Agreeing the Terms of Audit Engagements*.

⁸⁰ HKSA 570 (Revised), *Going Concern*.

⁸¹ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

⁸² HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraph 12(e).

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.⁸³~~

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 Statements⁸⁴

~~Pursuant to the conditions of the accounting concession under section 17(2) of the Insurance Ordinance⁸⁵ 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 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,~~

⁸³—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.

⁸⁴—Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁸⁵—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 Ordinance" in the report should be amended to "Insurance Ordinance (formerly known as the Insurance Companies Ordinance before being renamed on 26 June 2017)".

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

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

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

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

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

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

[Report on matter under Section 16 of the Insurance Ordinance

~~In our opinion, proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended [date].⁴~~

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

⁴ ~~Auditors should include this section for foreign authorized life insurer applying under section 22A as mentioned in paragraph 59 of the PN and where the IA had specified an additional requirement for the auditor to opine on the compliance with section 16 of the Insurance Ordinance in the auditor's report on the financial statements.~~

PN 620.2 (Revised)
Revised February 2013, January 2018,
September 2019, December 2021, May 2022, [] 2024

Effective for reporting periods ending on or after 31 December 2024~~for engagements beginning on or after 15 December 2022~~

Practice Note 620.2 (Revised)

Communication between the Auditor and the Insurance Authority



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Certified Public Accountants
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PRACTICE NOTE
620.2 (REVISED)
COMMUNICATION BETWEEN THE AUDITOR AND
THE INSURANCE AUTHORITY

(Issued May 1998; revised September 2004 (name change); revised February 2013, January 2018, 30 September 2019, December 2021, May 2022; Effective for reporting periods ending on or after 31 December 2024 for engagements beginning on or after 15 December 2022)

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

PRACTICE NOTE
620.2 (REVISED)
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 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 (“Amendment Ordinance 2015”) came into operation on 26 June 2017.~~
2. ~~In line with the overhaul of the insurance regulatory framework effected by the passing of the Amendment Ordinance 2015, the Insurance Authority will 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 in Hong Kong. This change and corresponding provisions of the Amendment Ordinance 2015 took effect on 23 September 2019 (“commencement date”). Under the new regime, any company which wishes to apply to the Insurance Authority for a licence to operate as an insurance broker company, or to renew such licence, will have to be able to demonstrate its ability to comply, or continue to comply, amongst other things, with rules made by the Insurance Authority under section 129 of the Ordinance. To enable the implementation of a risk-based capital (“RBC”) regime for the insurance industry in Hong Kong, the Insurance (Amendment) Ordinance 2023 (“Amendment Ordinance 2023”) was enacted in July 2023, which provides the legal basis for the implementation of the RBC regime. The Amendment Ordinance 2023, among others, empowers the Insurance Authority to make rules to prescribe detailed requirements in subsidiary legislation.~~
3. Section 53D 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(2), 53E and 53F impose a statutory obligation on the auditor to report certain matters directly to the Insurance Authority.
4. This Practice Note refers to the auditor, audits, reports on the annual financial statements and reports on ~~the accounts and statements (“financial information”)~~ the annual regulatory returns an authorized insurer or a licensed insurance broker company is required to submit to the Insurance Authority.
5. This Practice Note is applicable to:
 - a. an auditor or former auditor of an authorized insurer or a former insurer
 - i. who is appointed under section 15 or the rules made under section 129 (section the Insurance (Submission of Statements, Reports and Information) Rules, see paragraph 7 below), 4(1A) of Part 1 of Schedule 3 to the Ordinance (“Schedule 3”);

- ii. who is appointed under section 15 as in force immediately before the commencement date of section 23 of the Insurance (Amendment) Ordinance 2023;
or
 - iii. who audits the forms and statements mentioned in paragraph 4(1A) of Part 1 of Schedule 3 as in force immediately before the commencement date of section 98 of the Insurance (Amendment) Ordinance 2023;
 - b. an accountant or former accountant
 - i. of an authorized insurer or a former insurer; and
 - ii. -appointed by the insurer or former insurer in compliance with a requirement under section 35(1); and
 - c. an auditor or former auditor of
 - i. a licensed insurance broker company; ~~appointed under section 72.~~
 - ii. a former licensed insurance broker company; or
 - iii. a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance.

Scope of the Ordinance

- 6. 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)).
 - b. Without limiting the generality of section 4A(1), the Insurance Authority shall:
 - i. be responsible for supervising an authorized insurer's and a licensed 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 the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers;
 - iv. promote and encourage the adoption of proper standards of conduct by licensed insurance intermediaries;
 - v. review and, if necessary, propose reforms of the systems for regulating authorized insurers and licensed insurance intermediaries;
 - vi. regulate the conduct of insurance intermediaries through a licensing regime;
 - 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)).

7. ~~Section 17(1) of the Ordinance states that the Insurance Authority may, by rules made under section 129, prescribe requirements in relation to the submission by an authorized insurer to the Insurance Authority of any statements, reports or other information relating to the insurer's business, including requirements as to the following matters—Schedule 3 specifies the form and content of the financial information which an authorized 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. what statements, reports or information must be submitted to the Insurance Authority;~~
- ~~b. whether the statements, reports or information must be audited; and~~
- ~~c. how and when the statements, reports or information must be submitted.~~
- ~~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.~~

~~The Insurance (Submission of Statements, Reports and Information) Rules ("ISRIR") made under section 129(1) of the Ordinance prescribes the information required to be submitted by an authorized insurer to the Insurance Authority and also covers the submission requirements, the auditor's reporting requirements for the specified annual forms within the annual regulatory returns, and the transitional arrangement. Detailed guidance is set out in PN 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance*.~~

8. Section 73(1) specifies the form of financial statements which a licensed insurance broker company, licensed by the Insurance Authority under section 64ZA, is required to provide to the Insurance Authority within 6 months after the end of each financial year. The auditor is required to report on the licensed insurance broker company's financial statements and compliance with rules made under section 129 that set out the following requirements:

- a. capital and net assets;
- b. professional indemnity insurance;
- c. keeping of separate client accounts; and
- d. keeping proper books and accounts.

~~In April 2019, the Insurance Authority published *The Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules ("Rules")* made under section 129(1) of the Ordinance. The Rules prescribe the requirements applicable to licensed insurance broker companies. Detailed guidance is set out in PN 810.1 (Revised), *Licensed Insurance Brokers Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules*.~~

9. ~~In addition, a~~ Authorized insurers and licensed insurance broker companies who are incorporated in Hong Kong are required to prepare financial statements and to have them audited under the provisions of the Companies Ordinance.
10. 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 or assurance report.
11. 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), 53E and 53F;
 - b. by the auditor to the Insurance Authority under the protection of section 53D; and
 - c. by the Insurance Authority to the auditor under section 53A(3)(da) and (f).

It does not cover the auditor's approach to the audit of an authorized insurer or a licensed insurance broker company or the routine audit reporting responsibilities.
12. 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

13. The Insurance Authority expects that the management of an authorized insurer or a licensed insurance broker company 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.
14. Nevertheless, under the Ordinance, the auditor has various statutory responsibilities to report to the Insurance Authority on matters concerning its client (i.e. an authorized insurer or a licensed insurance broker company). Section 53D provides statutory protection to the auditor from liability for breach of confidentiality owed to its client when making a report in good faith in discharge of such a statutory responsibility or 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.
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 ~~for an auditor who has been so appointed for a fixed term -~~ 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 accounts and statements~~ of the authorized insurer required to be submitted under ~~any requirement prescribed by virtue of section 17 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 authorized insurer appointed under section 15(1) ~~of section 4(1A) of Part 1 of Schedule 3.~~

Ad hoc reports under sections 53E and 53F

17. Sections 53E and 53F specify that an auditor should report directly to the Insurance Authority in certain cases relating to authorized insurers and licensed insurance broker companies.
18. 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) ~~or 8A(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 21B, 22, ~~22A23, 25AA, 25AAB~~ or ~~25AAE23~~; or
 - iv. of any default of the insurer in complying with any requirement under sections 27, 28, 29, 30, 31, 32, ~~32A~~, 33, 34 or 35(1),

the auditor shall, as soon as practicable ~~after becoming so aware~~ 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 authorized 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 authorized insurer or a former insurer appointed in compliance with a requirement under section 35(1).~~
19. Section 53F provides that where an auditor or a former auditor, during the discharge of the duties in that capacity, becomes aware of any evidence of a failure by:

- a. a licensed insurance broker company;
- b. a former licensed insurance broker company; or
- c. a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance;

to comply with the specified rules¹, he/she must, as soon as practicable thereafter, send to the Insurance Authority a report in writing of the failure (section 53F(1) and (2)).

20. 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 sections 53E and 53F

21. The auditor would take the initiative and ensure that an ad hoc report under sections 53E and 53F are made to the Insurance Authority if the conditions specified in paragraphs 18 and 19 exist. A distinction must be drawn here between an auditor's duty as stated in paragraph 18(a) and that stated in paragraphs 18(b) and 19. The duty under paragraphs 18(b) and 19 is clear and unequivocal; if the auditor becomes aware of a contravention of the provisions in the Ordinance and specified rules¹, the auditor is not given any latitude for exercising judgement. The auditor is obliged to make a report. The duty under paragraph 18(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 authorized 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.

22. 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.
23. Examples of the circumstances in which the situation set out in paragraphs 21 and 22 may be met include:
- a. the auditor discovers a failure by the authorized insurer to comply with the relevant provisions of the Ordinance e.g. capital requirements, which may have material consequences; or

¹ Specified rules under section 53F refer to:

- (a) in relation to a licensed insurance broker company or a former licensed insurance broker company, means rules made under section 129 that set out the requirements in relation to the (i) capital and net assets; (ii) professional indemnity insurance; (iii) keeping of separate client accounts and (iv) keeping of proper books and accounts by a licensed insurance broker company; or
- (b) in relation to a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance, means the minimum requirements specified by the former authority under the pre-amended Ordinance.

- b. there is evidence of imminent financial loss of serious proportions which might cast doubt on the continuing viability of the authorized insurer.

Reporting procedures under sections 53E and 53F

- 24. In circumstances where the auditor concludes that an ad hoc report under sections 53E and 53F 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 sections 15A(2), 53E and 53F remains subject to the criterion discussed in paragraphs 21 - 23.
 - a. The auditor would normally discuss the matter with the authorized insurer or licensed insurance broker company and explain the statutory duty to make a report to the Insurance Authority under sections 53E or 53F. In addition, the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company.
- 25. 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 or regulatory returns, where applicable.

Other ad hoc communications by the auditor

Statutory protection under section 53D

- 26. Section 53D 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) a licensed insurance broker company;
 - (d) a former licensed insurance broker company; or
 - (e) a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance.”

~~27. For the purposes of section 53D, “prescribed person” in this context refers to:~~

- ~~a. an auditor, former auditor~~
- ~~(i) of an authorized insurer or a former insurer; and~~

- ~~(ii) appointed under section 15 or section 4(1A) of Part 1 of Schedule 3;~~
- ~~b. an accountant, former accountant~~
 - ~~(i) of an authorized insurer or a former insurer; and~~
 - ~~(ii) appointed by the insurer or former insurer in compliance with a requirement under section 35(1); or~~
- ~~c. an auditor or former auditor of —~~
 - ~~(i) a licensed insurance broker company;~~
 - ~~(ii) a former licensed insurance broker company; or~~
 - ~~(iii) a person who was formerly an authorized insurance broker within the meaning of the pre-amended Ordinance.~~

278. Section 53D 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.

289. 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 25 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 6.

2930. Confidentiality is an implied term of an auditor's contract with the client, but in certain circumstances and under conditions specified in section 53D 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.

304. The matters which may be communicated under section 53D are any of those relevant to the Insurance Authority's functions under the Ordinance.

312. Matters which may be reported under the protection of section 53D will only arise in circumstances where the auditor is under no duty to report under sections 15A(2), 53E or 53F. 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 345).

Examples of circumstances in which the auditor may communicate a matter to the Insurance Authority under section 53D include:

- a. the auditor considers policy holders have incurred, or are at significant risk of incurring, a material loss as a result of authorized insurers or licensed insurance broker companies carrying on business in a manner that is not fit and proper² or that is in breach of the Ordinance;
- b. there is evidence of

² For determination of fit and proper, refer to sections 14A and 64ZZA of the Ordinance at: <https://www.elegislation.gov.hk/hk/cap41>

- i. fraud, dishonesty, misconduct³ or serious incompetence; or
 - ii. serious failure to observe requirements of the Ordinance or conditions imposed on the authorized insurer or the licensed insurance broker company 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 authorized insurer or licensed insurance broker company 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.
- 323.** Clearly the potential nature of matters which may be reported is very wide, but as explained in paragraph 356 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 504 that the auditor may choose to seek statutory protection.
- 334.** 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 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.
- 345.** 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 authorized insurer or licensed insurance broker company 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 367). The auditor may follow the guidance set out in HKSA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*⁴.
- 356.** 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. 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. 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.

³ For definition of misconduct, refer to sections 41P(5) and 80 of the Ordinance at: <https://www.elegislation.gov.hk/hk/cap41>

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

- 367.** 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 **504** and **512**) by all other departments within the firm which have a relationship with the authorized insurer or licensed insurance broker company. It would, therefore, be prudent for the audit firm to ensure any exceptional circumstances which may give rise to reports under section 53D are brought to the attention of the auditor of the client 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.
- 378.** 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 authorized insurer or a licensed insurance broker company. However, the Insurance Authority expects an authorized insurer or a licensed insurance broker company 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.
- 389.** It should be noted that section 53D 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 53D³ and that it only includes relevant material.
- 3940.** The auditor is protected from a breach of confidentiality owed to its client even if the information which the auditor communicates falls short of proof, or the opinion which the auditor communicates cannot be verified so long as the auditor can demonstrate that it has acted reasonably and in good faith in informing the Insurance Authority of a reportable matter even if, after an investigation, it was 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.
- 404.** 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

- 412.** As part of the Insurance Authority's system of supervision of authorized insurers, meetings involving the Insurance Authority, the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company possibly at the auditor's suggestion.
- 423.** The agenda for a tripartite meeting between the Insurance Authority, the authorized insurer or licensed insurance broker company and the auditor will be prepared by the initiating party and will include items requested by other parties 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.

434. The auditor would be expected to discuss with the Insurance Authority the affairs of the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company which the auditor has obtained through the professional relationship with another client.
445. Meetings may be called by the Insurance Authority to assist in its forming a judgement on an authorized insurer or licensed insurance broker company. In particular discussions may cover:
- a. the presentation and content of the annual financial statements;
 - b. the scope, conduct and outcome of the audit of the annual financial statements ~~audit~~ and the assurance report of the annual regulatory returns ~~specified annual forms~~ within the annual regulatory returns;
 - c. the scope and outcome of any report made under sections 53E and 53F;
 - 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 authorized insurer, licensed insurance broker company 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.
456. Any party may seek to call a tripartite meeting at any other time if important matters affecting the authorized insurer or licensed insurance broker company come to their attention as further discussed in paragraph 478. Normally, the auditor would raise the concerns with the authorized insurer or licensed insurance broker company first and if the problem cannot be resolved to the auditor's satisfaction, suggest that the authorized insurer or licensed insurance broker company asks the Insurance Authority to convene a meeting.
467. In exceptional circumstances, for example, those outlined in paragraphs 504 and 512 or after a reporting has been made to the Insurance Authority pursuant to section 53D, the auditor may consider it necessary to have a bipartite meeting with the Insurance Authority to discuss the affairs of the authorized insurer or licensed insurance broker company or to draw the attention of the Insurance Authority to information about the authorized insurer or licensed insurance broker company without its knowledge. Before doing so, however, the auditor would consider taking timely legal advice and whether a representative of the authorized insurer or licensed insurance broker company at an appropriately senior level would be informed and invited to attend the meeting.

Reporting via the authorized insurer or licensed insurance broker company

478. 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 sections 15A(2), 53E or 53F but ought to be reported to the Insurance Authority, the auditor would consider the facts and, unless inappropriate in the circumstances (described in paragraph 504), discuss the matter with the management.
489. 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 authorized insurer or licensed insurance broker company 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 the auditor might wish to persuade the client to inform the Insurance Authority, is 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.

4950. Where the authorized insurer or licensed insurance broker company 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 directly to the Insurance Authority.

Reporting directly to the Insurance Authority

504. In exceptional circumstances, where the auditor doubts whether management are fit and proper⁵² persons to carry on the business of insurance or insurance broking or become aware of misconduct of management and it would be in the interest of protecting policy holders that the management of the authorized insurer or licensed insurance broker company 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 authorized insurer or licensed insurance broker company, 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 authorized insurer or licensed insurance broker company 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.

512. 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 or insurance broker company 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 or insurance broker company 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) and (f)

523. The Ordinance also deals with communications by the Insurance Authority to the auditor of an authorized insurer or a licensed insurance broker company.

- a. Section 53A(3)(da) permits the communication of restricted information to the auditor of an authorized insurer or a licensed insurance broker company for the purpose of enabling or assisting the Insurance Authority to discharge its functions under the

⁵ For determination of fit and proper, refer to sections 14A and 64ZZA of the Ordinance at: <https://www.elegislation.gov.hk/hk/cap41>

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 authorized insurer or a licensed insurance broker company if, in the opinion of the Insurance Authority, such information is necessary for the auditor to discharge the duties under the Ordinance.

534. If the auditor of an authorized insurer or a licensed insurance broker company, during the course of the audit, has come to the auditor's attention on matters which render the auditor to have concerns about the compliance with the Ordinance in relation to the authorized insurer or a licensed insurance broker company, and cause the auditor to believe that it is of such importance that they could significantly affect the audit or assurance conclusion, the auditor may consider seeking clarification from the Insurance Authority. In such circumstances, the confirmation can be forwarded to the Insurance Authority specifying the details of the confirmation he/she is seeking from the Insurance Authority and the name of the authorized insurer or a licensed insurance broker company for the case in question. It should be noted that the auditor may not necessarily send to the Insurance Authority such request as a standing procedure to seek the Insurance Authority's confirmation in this respect. Auditors are expected to write to the Insurance Authority only when they have reasons to believe that such a confirmation is necessary due to matters involving breach of the Insurance Ordinance.

545. 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 licensed insurance broker company without the consent of the Insurance Authority under section 53A(3D) of the Ordinance. In case where the confidential information affects the audit or assurance conclusion, the auditor may contact the Insurance Authority for discussion.