

Practice Note 810.1 (Revised)

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

* The Insurance Companies Ordinance (Cap. 41) has been renamed as "Insurance Ordinance" when section 4 of the Insurance Companies (Amendment) Ordinance 2015 came into operation on 26 June 2017.

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

The HKICPA is in the process of updating this practice note and the updated practice note will be issued after due process. Practitioners should make relevant changes to the name of the ordinance and the title of this practice note when issuing reports in the interim.



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

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

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

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

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

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

Introduction

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

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

- a. qualifications and experience;
 - b. capital and net assets;
 - c. professional indemnity insurance;
 - d. keeping of separate client accounts; and
 - e. keeping proper books and accounts.
5. Guidelines have been drawn up by the IA to give guidance to insurance brokers or bodies of insurance brokers for compliance with the Ordinance and, in particular, the Minimum Requirements for Insurance Brokers ("Guidelines"). Failure to comply with the Minimum Requirements may result in an insurance broker or a body of insurance brokers not being authorized or approved or having his/its authorization/approval withdrawn, as the case may be.
6. The auditor of authorized insurance brokers or insurance brokers who are members of HKCIB or PIBA should make reference to the Minimum Requirements and where appropriate, to the membership rules and regulations of HKCIB and PIBA. The IA, HKCIB or PIBA may amend the Guidelines, rules and regulations from time to time and accordingly, the auditor should ensure that the latest versions of these documents have been consulted. The HKICPA is aware that the HKCIB is currently revising its guidance to its members and it is recommended that these should be considered when issued.

Reporting requirements

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

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

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

8. The auditor of an approved body of insurance brokers is required to report on the financial statements of the body to its Management Committee. The auditor is also required to report:
- a. whether the body of insurance brokers has received from each of its members the audited financial statements and a report by the auditor on compliance with the Minimum Requirements in accordance with its membership rules and regulations; and

- b. that the auditor has reviewed all the members' auditor's reports on the financial statements and reports by the auditor on compliance with the Minimum Requirements, and none contained any adverse statement or qualification except those listed by the auditor in the report.

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

Scope

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

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

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

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

Capital and net assets

13. An unincorporated insurance broker shall maintain in his insurance broking business a minimum net assets value of HK\$100,000 at all times. An incorporated insurance broker shall maintain a minimum net assets value and a minimum paid up share capital of HK\$100,000 at all times (refer paragraph III (B) of the Guidelines issued by the IA).
14. The minimum net assets value is to be determined by excluding all intangible assets and in accordance with accounting principles generally accepted in Hong Kong (refer paragraph III (B) of the Guidelines issued by the IA).

Professional indemnity insurance

15. An insurance broker is required to maintain a professional indemnity insurance policy with a minimum limit of indemnity for any one claim and in any one insurance period of twelve months. The minimum limit of indemnity shall be:
- a. a sum equal to:
 - i. two times the aggregate insurance brokerage income relating to twelve months immediately preceding the date of commencement of the professional indemnity insurance cover (applicable to insurance broker who has been in business for more than one year);
 - ii. two times the projected insurance brokerage income for twelve months for the period of the professional indemnity insurance cover (applicable to insurance broker who has been in business for less than one year); or
 - b. a sum of HK\$3,000,000,
- whichever sum shall be greater, up to a maximum of HK\$75,000,000. Cover in excess of this prescribed amount may, of course, be arranged to meet the requirements of individual broker. If as a result of a claim(s), the indemnity available shall fall below the amount determined in 15(a) above, the broker shall effect a reinstatement of cover up to not less than such minimum determined amount. Where the limit of indemnity has been determined in accordance with 15(b) above, the policy shall include provision for one automatic reinstatement to a limit of indemnity of not less than HK\$3,000,000 (refer paragraph III (C) of the Guidelines issued by the IA).
16. The auditor might find it difficult to report whether an insurance broker has maintained a professional indemnity insurance policy with a minimum limit of indemnity:
- a. in the case of 15(a)(i), where the twelve months immediately preceding the date of commencement of the professional indemnity insurance cover do not fall within a financial year; and
 - b. in the case of 15(a)(ii), where the auditor is unable to report on the projected insurance brokerage income prepared by an insurance broker.
17. An auditor faced with the above difficulty may request a copy of the calculation of the historical or projected insurance brokerage income under review from the insurance broker and perform procedures over the insurance broker's calculation. In carrying out the procedures, the auditor may wish to consider the following:
- a. whether the calculation of historical insurance brokerage income is based on management accounts regularly prepared for the purpose of management and how reliable are these management accounts and whether the management accounts can be reconciled to historical audited financial information;
 - b. whether the calculation of historical insurance brokerage income is based on accounting policies consistent with the basis used in the audited financial statements;
 - c. whether the calculation of historical insurance brokerage income under review has been prepared on a basis consistent with that of prior years;
 - d. whether the calculation of projected insurance brokerage income under review represents the insurance broker's estimate of income which the auditor reasonably believes can and will be achieved as distinct from targets which the insurance broker has set as desirable;

- e. the extent to which the calculation of projected insurance brokerage income are supported by reliable interim management accounts;
 - f. whether the calculation of projected insurance brokerage income is consistent with and has been prepared on the basis of appropriate assumptions made by the insurance broker;
 - g. whether the board, management, or those charged with governance, have prepared projections, budgets or otherwise that provide contradictory evidence to the appropriateness of the assumptions about projected insurance brokerage income applied by the insurance broker; and
 - h. the arithmetical accuracy of the calculation and the supporting information.
18. Insurance brokerage income, in this context, means brokerage income derived from advising on or arranging any contract which contains an element of insurance, irrespective of the extent of such insurance element (refer paragraph III (C) of the Guidelines issued by the IA).

Keeping of separate client accounts

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

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

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

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

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

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

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

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

a. *Deposit into client account*

There shall be paid into a client account:

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

b. *Withdrawal from client account*

Withdrawals from a client account shall be restricted to:

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

21. It should be noted that, based on the legal advice obtained by the IA, section 71 only requires the insurance broker to keep client monies in a bank account separate from his own monies and not to use client monies for any purpose other than for the purposes of the clients, the law does not require insurance broker to keep separate accounts for individual clients. Although the Ordinance does not require insurance brokers to keep separate accounts for individual clients, it is of utmost importance that the broker maintains records of the balances due from/to individual clients and reconciles these balances (on a client by client basis) sufficiently regularly to ensure client monies are properly kept in client accounts (see section

3 "Keeping of separate client accounts of Appendix 1). While it is management's responsibility to ensure that balances due from/to individual clients are reconciled sufficiently regularly, the auditor should base on the size and complexity of the broker's operations and use professional judgement when assessing this.

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

Keeping proper books and accounts

23. a. i. an unincorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broking business carried on by him, and will enable financial statements of such insurance broking business to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker;
- ii. an incorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broker, and will enable financial statements to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker; and
- iii. an insurance broker, whether incorporated or unincorporated, shall cause those records to be kept in such a manner as will enable them to be conveniently and properly audited.
- b. The records referred to in 23(a) above shall be kept:
- i. in writing or in such a manner as to enable them to be readily accessible and readily converted into written form; and
 - ii. in sufficient detail to show separately particulars of:
 - all transactions by the broker with, or for the account of:
 - insurance and reinsurance companies
 - clients of the insurance broker
 - the insurance broker himself;
- and distinguishing these transactions in relation to:
- premium monies received from clients by the insurance broker
 - premium monies paid by the insurance broker to insurers, reinsurers or insurance intermediaries on behalf of clients
 - claims monies or other insurance proceeds received from insurers, reinsurers, insurance intermediaries or any other third parties relating to clients' insurance policies

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

- claims monies or other insurance proceeds paid to clients or the person entitled to receive such monies;
 - all income received from brokerage, commissions, interest and other sources, and all expenses, commissions and interest paid by the insurance broker; and
 - all the assets and liabilities (including contingent liabilities) of the insurance broker.
- c. An insurance broker shall retain for a period of not less than seven years the records referred to in 23(a) above (refer paragraph III (E) of the Guidelines issued by the IA).

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

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

Authorized insurance brokers

24. In accordance with section 73(1):
- a. an unincorporated insurance broker is required to submit to the IA audited financial statements for the financial year in respect of the insurance broking business carried on by the insurance broker ;
 - b. an incorporated insurance broker is required to submit to the IA audited financial statements for the financial year; and
 - c. an insurance broker, whether incorporated or unincorporated, is required to submit a report by an auditor on compliance with the Minimum Requirements regarding capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping proper books and accounts.
25. An insurance broker is required to continually comply with the Minimum Requirements. In order to provide limited assurance, the auditor should obtain sufficient, appropriate evidence, as set out in paragraphs 48 to 60 in HKSAA 3000 (Revised), that the Minimum Requirements have been met on a continuous basis.
26. The nature, timing and extent of procedures to be carried out are determined by the auditor's professional judgment in each individual case. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them. The auditor may obtain evidence by performing procedures recommended in Appendix 1.
- For the purposes of the auditor's reporting on compliance with the Minimum Requirements by an insurance broker, the auditor needs to perform procedures as of three dates at the minimum. These three dates are as at the end of the financial year and two such other dates in the financial year as the auditor may elect. The auditor may elect more than two other dates in the financial year if the auditor considers it necessary in order to ensure compliance throughout the financial year.
27. An authorized insurance broker is required to submit the report by the auditor on compliance with the Minimum Requirements and the audited financial statements to the IA within six months after the close of the period to which the statements relate.

28. If anything is discovered which indicates that the Minimum Requirements are not being complied with by an insurance broker, the auditor's responsibilities extend no further than stating in the auditor's report that the Minimum Requirements have not been complied with. Examples of suggested modified wording for the report by the auditor are attached as Appendix 5.

The auditor is not expected to give details of the breaches nor to state the period over which the breach occurred. To report such additional information with any degree of completeness and accuracy would require considerable additional work by the auditor. If the IA requires such information, this should be considered a separate assignment.

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

Approved bodies of insurance brokers

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

Appendix 1

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

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

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

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

The Minimum Requirements are in respect of:

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

1. Capital and net assets

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

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

2. Professional indemnity insurance

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

Notes:

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

up to a maximum of HK\$75,000,000.

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

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

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

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

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

3. Keeping of separate client accounts

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

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

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

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

4. Keeping proper books and accounts

Objective	Recommended procedure
<p>i) To establish whether the broker maintains proper accounting and other records which:</p> <ul style="list-style-type: none"> • will sufficiently explain the transactions and reflect the financial position of the insurance broking business; • will enable financial statements of such business to be prepared which give a true and fair view of the financial position and results of the broker; • are kept in such a manner as will enable them to be conveniently and properly audited; • are kept in writing or in such manner as to enable them to be readily accessible and converted into written form; and • are in sufficient detail to show separately particulars as set out in paragraph 22 (b)(ii) of the PN. 	<p>In planning and performing the audit of the broker's financial statements, the auditor should be aware of the requirement for the broker to maintain, and the auditor to give an opinion on whether the broker has maintained, adequate books and records during the year. In general, the auditor, on the basis of the audit of the broker's financial statements, should be able to reach a conclusion in respect of whether proper accounting and other records have been maintained. Therefore further checking in this respect should not normally be necessary.</p>
<p>ii) To establish whether the broker retains the books and records for a period of not less than seven years.</p>	<p>Enquire with the client the procedures in place for safeguarding the books and records for a period of not less than seven years and consider these for adequacy. Validate the physical existence for a sample of items.</p>

Appendix 2

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

INDEPENDENT AUDITOR'S ASSURANCE REPORT

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

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

[Proprietor/s/ Directors]¹ Responsibilities

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

Our Independence and Quality Control

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

The firm applies Hong Kong Standard on Quality Control 1³ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2) of the Insurance Companies Ordinance* ("PN 810.1 (Revised)") issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

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

² Only applicable to incorporated insurance brokers.

³ HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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

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

Conclusion

Based on the foregoing,

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

Intended Users and Purpose

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

ABC & Co.

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

[Auditor's Address]

Date

Appendix 3

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

INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the Directors of XYZ Insurance Brokers Limited

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

Directors' Responsibilities

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

Our Independence and Quality Control

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

The firm applies Hong Kong Standard on Quality Control 1⁴ and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.1 (Revised), *Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority Under Sections 69(2) and 70(2) of the Insurance Companies Ordinance* ("PN 810.1 (Revised)") issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

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

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

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

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

Conclusion

Based on the foregoing,

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

Intended Users and Purpose

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

ABC & Co.

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

[Auditor's Address]

Date

Appendix 4

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

REPORT OF FACTUAL FINDINGS

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

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

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

(List out the procedures)

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

We report our findings below:

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

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

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

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

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

ABC & Co.

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

[Auditor's Address]

Date

Appendix 5

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

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

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

Examples:

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

.....

Basis for Qualified Conclusion

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

Qualified Conclusion

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

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

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

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

.....

Basis for Adverse Conclusion

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

.
. .
.

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

Adverse Conclusion

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