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Practice Note 860.1

The Audit of Retirement Schemes



Hong Kong Institute of
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**PRACTICE NOTE
860.1
THE AUDIT OF RETIREMENT SCHEMES**

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

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

PART I
GENERAL

Introduction

1. The purpose of this Practice Note is to assist the auditor to develop an approach to the audit of the financial statements of retirement schemes, with particular focus on those registered under the Mandatory Provident Fund Schemes Ordinance (MPFSO) and the Occupational Retirement Schemes Ordinance (ORSO).
2. This Practice Note also provides guidance relevant to the auditor's other reporting responsibilities under the MPFSO and the ORSO:
 - a. the MPFSO
 - i. the auditor's report on compliance with prescribed capital adequacy requirements pursuant to sections 18 and 115 of the Mandatory Provident Fund Schemes (General) Regulation (General Regulation);
 - ii. the auditor's report on a review of the trustee's report on control objectives and internal control measures pursuant to section 113 of the General Regulation; and
 - iii. the report by the auditor of a service provider under section 74(5)(b) of the General Regulation.
 - b. the ORSO
 - i. the report by the auditor appointed by the administrator under section 20(1)(b) and 20(3) of the ORSO; and
 - ii. work of the employer's auditor under section 20(7A) of the ORSO.

Guidance is also provided on the communications between the auditor and the Mandatory Provident Fund Schemes Authority (MPFA).

3. This Practice Note has been prepared in consultation with the MPFA.
4. This Practice Note is based on the ORSO in effect as at 23 July 1999 (i.e. the ORSO as amended by the Occupational Retirement Schemes (Amendment) Ordinance 1999), and the MPFSO and the General Regulation in effect as at 25 April 2013, and guidelines issued by the MPFA up to November 2013. Every care has been taken in its preparation. However, the legislation itself is the sole authority of the law and this Practice Note should be used in conjunction with the legislation.

5. It should be borne in mind that certain expressions used in the MPFSO, the General Regulation and the ORSO may be matters for legal interpretation. There may, therefore, be circumstances in which, notwithstanding the guidance given in this Practice Note, the auditor will wish to seek legal advice.

Definitions

6. The definitions used in this Practice Note are:
- a. *Administrator*
The trustee of an ORSO scheme governed by trust or the insurer of an ORSO scheme which is regulated by an insurance arrangement.
 - b. *Aggregate past service liability*
As defined in section 2(1) of the ORSO.
 - c. *Aggregate vested liability*
As defined in section 2(1) of the ORSO.
 - d. *Authorized financial institution*
An institution authorized under Part IV of the Banking Ordinance.
 - e. *Authorized insurer*
An insurer authorized under section 8 of the Insurance Companies Ordinance.
 - f. *Control objectives*
In relation to a MPF scheme, the control objectives for the time being applicable to the scheme maintained under section 39 of the General Regulation.
 - g. *A defined benefit scheme* is one which is not a defined contribution scheme.
 - h. *A defined contribution scheme* is one which provides that amount of a benefit under the scheme is to be an amount determined solely by reference to:
 - i. the contributions to the scheme's funds by or in respect of the member concerned and any declared return in respect of such contributions (where such return may be subject to a minimum guaranteed rate but is otherwise unascertainable before it is declared); and
 - ii. where appropriate, the qualifying service and age of the member (employee).
 - i. *Encumbrance* includes a charge, pledge, lien and mortgage.
 - j. *MPFSO*
Mandatory Provident Fund Schemes Ordinance.
 - k. *General Regulation*
Mandatory Provident Fund Schemes (General) Regulation.
 - l. *Exemption Regulation*
Mandatory Provident Fund Schemes (Exemption) Regulation

- m. *MPF Code*
Code on MPF Investment Funds
- n. *MPFA*
Mandatory Provident Fund Schemes Authority.
- o. *MPF scheme*
A retirement scheme registered under section 21 of the MPFSO as an employer sponsored scheme or a master trust scheme, or section 21A of the MPFSO as an industry scheme.
- p. *ORSO*
Occupational Retirement Schemes Ordinance.
- q. *ORSO scheme*
A retirement scheme registered under the ORSO.
- r. *Pooling arrangement or agreement*
A pooling arrangement or agreement is one where two or more schemes are administered together. Under such an arrangement, a number of individual schemes can participate either through a master trust deed or a master insurance policy depending on whether the pooling arrangement is governed by a trust or is the subject of, or regulated by an insurance agreement. Master trust schemes and industry schemes established under the MPFSO also operate within a pooling arrangement.
- s. *Relevant employer*
An employer who provides the employment which entitles or enables the employee to be a member of a retirement scheme.
- t. *Relevant undertaking*
Relevant undertaking is defined by section 20(4) and Schedule 2 Parts 1 and 2 paragraph 6 of the ORSO as a written undertaking by the relevant employer of the scheme to the administrator of the scheme to contribute to the scheme's fund in accordance with recommendations made by the actuary in the actuarial certificate issued as regards a particular scheme. Where more than one actuarial certificate has been issued, the undertaking referred to is the one in the most recent of those certificates which is applicable to the financial period under review.
- u. *Retirement scheme/scheme*
Any instrument or agreement (other than contracts of life insurance) to provide a benefit, payable on termination of service, death, retirement or otherwise, to a person or his beneficiary as a result of a contract of service of employment, whether in Hong Kong or elsewhere. For the purpose of this Practice Note, this includes self-employed persons.
- v. *Rules*
MPFSO/ ORSO Subsidiary Legislation

w. *Trustee*

Approved trustee of MPF schemes.

Regulatory background

7. Retirement schemes are generally either constituted as trusts or insurance arrangements (policies). Retirement schemes in Hong Kong are required to be registered under the MPFSO or the ORSO, although schemes may apply to the MPFA for an exemption. The MPFA assumes the role as the Registrar of Occupational Retirement Schemes (Registrar) in administering the ORSO with effect from 10 January 2000. Exemption from the ORSO (section 7) is allowed for schemes with not more than 10% or 50 of their members, whichever is less, being Hong Kong permanent identity card holders. In exceptional cases, exemption may also be granted, at the discretion of the MPFA, for offshore schemes which are registered or approved by a recognised overseas authority.
8. The environment in which a retirement scheme operates is different from that of most commercial enterprises. The auditor would need to be familiar with the regulatory background to retirement schemes, in particular the requirements of the MPFSO, the General Regulation, the Exemption Regulation, the ORSO, the relevant Rules, guidelines and codes issued by the MPFA, as appropriate, and the accounting aspects of their operation before commencing the audit.
9. For schemes registered under the MPFSO or the ORSO, the trustee/administrator has various responsibilities imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA. The three main objectives of the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA are regulation, segregation and information.

Administration of a retirement scheme

10. The administration of a retirement scheme involves the input and interaction of a number of different parties:
 - a. the relevant employer - has an on-going responsibility for providing adequate funding to the scheme and ensuring that his obligations under the scheme terms and the relevant legislation are properly discharged;
 - b. the trustee/administrator - is responsible for ensuring that the scheme is administered in accordance with its governing rules/trust deed, and where applicable, the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA;
 - c. the employee (or the member) - has a responsibility for providing contributions to the scheme (in the case of a contributory scheme) and as the ultimate beneficiary of the scheme has a vested interest in ensuring that the scheme is administered properly and is providing appropriate returns on the contributions made;
 - d. the administrator's/trustee's auditor - is responsible for the independent audit of the scheme;
 - e. the employer's auditor - is responsible for examining the relevant records of the employer and preparing the employer's auditor's statement for ORSO schemes (see paragraphs 196 to 215 below); and
 - f. the scheme actuary - is responsible for reviewing the sufficiency of the scheme's assets and preparing the actuarial certificate for defined benefit schemes (see paragraphs 25 to 32 below).

11. While the trustee/administrator is ultimately responsible for the proper operation of a retirement scheme, he may choose to delegate some or all of his management functions to a third party. Where the trustee has delegated any function to a service provider (such as the administration or the investment function), the trustee/administrator must ensure that there are internal control procedures in place to monitor the activities of the service providers. The trustee/administrator must ensure that the service providers have carried out their duties in accordance with the agreements and the trustee/administrator is notified of any material changes relating to the eligibility of the service providers or material breach of obligations by the service providers.

Audit requirements

12. The audit requirements of MPF schemes and ORSO schemes are set out respectively in Parts II and III of this Practice Note below.
13. The auditor ensures that he/ she is familiar with Hong Kong Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans" which deals with accounting and reporting by the plan to all participants as a group.

Commentary on the application of Hong Kong Standards on Auditing (HKSA)

Compliance with HKSA

14. HKSA apply to the audits of the financial statements of any entity, irrespective of the size of the entity, its legal form, or the nature of its activities. The commentary which is set out in paragraphs 15 to 44 below identifies the special considerations arising from the application of individual HKSA to the audits of the financial statements of retirement schemes. Where no special considerations arise from a particular HKSA, no material is included.

Engagement letters

15. The auditor issues engagement letters in accordance with the principles and requirements of HKSA 210 "Agreeing the Terms of Audit Engagements". Specific issues which the auditor would address in engagement letters applicable to retirement schemes include:
- a. the nature and scope of the auditor's reporting responsibilities under the MPFSO/ORSO, the General Regulation, the MPF Code and the relevant guidelines issued by the MPFA;
 - b. the extent of the auditor's rights to obtain information and explanations from the relevant employer and/or persons to whom the trustee/administrator has delegated some or all of his duties;
 - c. the fact that the audit will be planned so that there is a reasonable expectation of detecting material misstatements in the financial statements resulting from breaches of trust or statute. It should be made clear, however, that the audit should not be relied on to detect all breaches which may exist; and
 - d. the extent of the auditor's responsibility for information/documents which may be contained in the documents containing the audited financial statements of the scheme.

Planning

16. The auditor plans the audit in accordance with HKSA 300 "Planning an Audit of Financial Statements". Consideration of specific matters related to retirement schemes may also include:
- a. whether the trustee/administrator has a sound understanding of the legislation and rules governing the scheme as set out under the trust deed, the insurance agreement

and/or the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA;

- b. whether the trustee/administrator has the necessary training and skills required to maintain the records of the scheme (both financial and non-financial), given that the trustee/administrator may have to maintain membership records, make investment decisions and administer benefit payments; and
 - c. whether there is close involvement of the employer in a "directly invested scheme". Direct investment is a term used to describe a method of investment for a scheme by which securities are held directly in the name of the trustees.
17. The operation of a retirement scheme can involve complex technical issues and calculations in areas in which the auditor cannot be expected to be expert. During the course of the audit it may be necessary for the auditor to obtain confirmations from other professional advisers such as actuaries, fund managers and solicitors. The audit planning would therefore include details of the advisers and the extent to which reliance would be placed on information provided by them.

Internal controls

18. The auditor considers internal controls in accordance with HKSA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
19. The trustee/administrator has a duty to maintain adequate accounting records and systems to enable his duties to be carried out including discharging his responsibilities for investment decisions and safeguarding the scheme's assets.
20. The nature and extent of a scheme's accounting systems, procedures and internal controls depend mainly upon the size of the scheme, the extent to which the trustee/administrator delegates the administration of the scheme to third parties and the nature of its investments.
21. Where a trustee/administrator delegates the management of a significant part of the scheme's operations to a third party, the auditor considers the requirements of HKSA 402 "Audit Considerations Relating to an Entity Using a Service Organization". In particular, the auditor would need to assess the systems and controls the trustee/administrator has in place to monitor and control the activities of the third party, and those of the third party itself. This may involve corresponding with the auditor of the third party.
22. Where some or all of the scheme is administered in-house, the size of the scheme and the size of the employer's operations determine the scope for developing internal controls and therefore whether formalised procedures and internal controls for certain transactions exist. For example, in a small scheme the infrequency of particular types of transactions such as benefits payable on the death in service of members, may result in no formal control being in place. It may also be difficult for the trustee/administrator to achieve a proper segregation of duties. In such instances, it is unlikely that the auditor is able to place reliance on those internal controls.

Computer systems

23. The auditor considers the requirements of HKSA 315 and also to the matters set out in paragraph 24 below.
24. The processing and recording of a large number of scheme member records and related transactions frequently involve the use of computer systems. Typical examples of scheme administration functions that are performed by computerised procedures include:
- a. calculation of contributions receivable;

- b. calculation of benefits payments and vested benefits;
- c. generation of computer cheques for benefit payments;
- d. allocation of investment income and expenses; and
- e. scheme accounting function.

Review of actuarial information

General

- 25. The requirement for actuarial reviews only applies to defined benefit schemes. Under a defined contribution scheme the vested benefit (the member's contributions and a proportion of the employer's contributions plus the net investment return on both) is more readily identifiable from the scheme's accounting records.
- 26. Without actuarially determined disclosures in the financial statements of a defined benefit scheme, the financial statements only give limited information about the state of affairs of the scheme. Actuarial reviews are necessary to assess, amongst other things, the ability of the scheme to pay the defined benefits in the future.
- 27. The ORSO (section 31) requires an actuarial review to be performed at least once every three years and the report to be given to the administrator within six months of the date at which the review takes place. However schemes where solvency is an issue require a review every year. The primary purpose of this review is to monitor the solvency and funding of the scheme.
- 28. Accordingly, the full actuarial certificate arising from this review is required by the ORSO (schedule 2) to include the following statements:
 - a. that, in the course of the actuarial review, the actuary has had regard to the financial condition of the scheme;
 - b. that the assets of the scheme were (or, in the case of a qualified certificate, were not) sufficient to meet its aggregate vested liability at the valuation date;
 - c. that, following his review, the actuary has made recommendations as regards funding of the scheme;
 - d. that, following his review, the actuary has received a copy of a written undertaking by the relevant employer of the scheme to the administrator of the scheme that he will contribute to the scheme's funds in accordance with those recommendations; and
 - e. that, provided the scheme is funded in accordance with the actuary's recommendations the actuary would expect that the scheme's assets would be sufficient to meet its aggregate vested liability throughout the next three years, and, at a specified date, they would be sufficient to meet the scheme's aggregate past service liability.
- 29. In the event that a qualified actuarial certificate is issued, the auditor is advised to refer to Part 2 of Schedule 2 to the ORSO (which details information to be given by the actuary).
- 30. In addition to the statutory requirements set out above, actuarial reports can provide an assessment of a defined benefit scheme's progress in achieving its objective of providing members' future benefits. The results of an actuarial review are used to determine the appropriate contribution level and to indicate any surplus or deficiency in the funding of the retirement scheme.

31. A practical way of showing the level of funding of a scheme is for the actuary to indicate the trend in the values of the following from the latest valuation and from previous valuations, if they are available:
- a. the amount of aggregate vested liabilities; and
 - b. the amount of aggregate past service liabilities.

32. The actuary arrives at the actuarial valuation by taking the discounted value of future benefits that are expected to arise in the scheme in respect of members, and comparing this with the value of scheme assets, and the discounted value of future contributions. The actuary would also compare scheme assets with past service liabilities and vested liabilities. In doing so the actuary makes a number of assumptions, including earnings rate, inflation, salary increases and staff turnover rates.

The auditor's responsibilities

33. In considering the work of the actuary as audit evidence, the auditor considers the requirements of HKSA 500 "Audit Evidence" on information produced by a management expert.
34. As set out in paragraph 8 of HKSA 500, if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor is required to perform the following procedures:
- a. Evaluate the competence, capabilities and objectivity of that expert;
 - b. Obtain an understanding of the work of that expert; and
 - c. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Further guidance are set out in paragraphs A37 to A48 of HKSA 500. Additional specific considerations which apply in the audit of retirement schemes are set out below in paragraphs 35 to 39 below.

35. In evaluating the work of an actuary, the auditor is required to consider the following:
- a. the source data used;
 - b. the assumptions and methods used and their consistency; and
 - c. the results of the expert's work in the context of the auditor's overall knowledge.
36. The auditor would need to be satisfied as to the accuracy and reasonableness of the source data. The source data used is provided by the administrator and includes information on salaries, date of birth of members, date of joining the employer, date of joining the scheme, contribution rates, accumulation of member and employer contributions, benefit multiples and investments held.
37. The assumptions used comprise both ones which pertain to the scheme and the industry in which the scheme operates and ones which are used by actuaries generally, such as inflation and interest rates.
38. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the actuary. The auditor does not have the same expertise and, therefore, cannot always challenge the actuary's assumptions and methods. However, the auditor seeks to obtain an understanding of the assumptions and methods used and to consider whether they are appropriate and reasonable, based on the auditor's knowledge of the business and the results of other audit procedures.

39. The auditor would also consider the consistency of the actuary's assumptions and the funding method used to calculate the members' future benefits. By changing the assumptions and funding method, the valuation changes and this affects the surplus or deficiency in the fund and the required contribution rates. Any such changes in assumptions or funding method should be explained by the actuary. The auditor would also give special attention to the consistency of the margin between the projected returns of the scheme and the projected salary rises. If the results of the actuary's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditor would seek to resolve the matter. This may involve discussions with the administrator and the actuary, applying additional procedures, including possibly engaging another actuary.

Deficiency of assets

40. It is not uncommon for some of these calculations to show a deficiency of assets to meet the amount of members' benefits calculated. The auditor would review the actuary's recommendations to determine whether the relevant employer has made contributions to the scheme in accordance with such recommendations. These recommendations may include an increase in the amount of contributions or an extension of the period over which contributions are made.
41. The auditor would need to determine whether a deficiency may imply an inability of the scheme to meet its obligations as and when they fall due. Furthermore, in any year in which an actuarial certificate has not been prepared, the auditor would consider whether economic circumstances have eroded the value of the investments, which might also imply that the scheme may not be able to meet its obligations as and when they fall due. Such uncertainties may give rise to additional disclosure in the financial statements and/or the need to include an explanatory paragraph dealing with a fundamental uncertainty or a qualification in the auditor's report.

Consideration of laws and regulations

42. In accordance with HKSA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor considers the impact of the relevant requirements of the trust deed or scheme rules, the ORSO, the MPFSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA on their audit. As stated in HKSA 250, it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. The requirements in HKSA 250 are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The auditor's reports

43. The principles set out in HKSA 700 "Forming an Opinion and Reporting on Financial Statements" are applicable to auditor's report on retirement scheme financial statements. For ORSO schemes the auditor's reports are addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's reports would be addressed to the administrator. For MPF schemes the auditor's reports are addressed to the trustee.

Review of trustees' (or administrator's) report/scheme report/investment report

44. The trustees' report, the scheme report and the investment report do not form part of the audited financial statements. However, as they will form part of the same document, the auditor refers to HKSA 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" concerning the auditor's responsibilities in this area.

Specific audit areas

Investments

General

45. The trustee/administrator is responsible for the process of investing the scheme assets. The trustee/administrator must therefore ensure that investments conform to the requirements of the scheme's rules, restrictions imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA and the general duties and obligations established under trust law.
46. Most schemes allow trustees/administrators a wide range of investment choice. There are however, some restrictions imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA. Examples of such restrictions in respect of MPF and ORSO schemes are included in Parts II and III of this Practice Note respectively.
47. The audit of investment balances in a retirement scheme is essentially no different to the audit of investment balances in any other organisation, except where the trustee/administrator chooses to delegate the management of the investment portfolio to a third party. The audit implications of this situation are discussed in paragraph 21 above.

Audit objectives

48. The auditor would consider whether:
 - a. the investments of a scheme exist and are owned by the scheme;
 - b. all investments of the scheme have been accurately and completely recorded in the books of the scheme;
 - c. the investment policy of the scheme is in accordance with the terms of the scheme rules/trust deed, the MPFSO/ORSO (where applicable), the General Regulation (where applicable), the Exemption Regulation (where applicable), the relevant Rules, guidelines and codes issued by the MPFA;
 - d. all investments are appropriately valued; and
 - e. all investment balances are appropriately classified and disclosed in the financial statements of the scheme.

Contributions

General

49. There are principally two types of contributions, namely:
 - a. employer financed; and
 - b. member financed.

These two categories can be further subdivided. For example, the employer contribution may take the form of a contribution based on a specified rate (by the MPFSO, trust deed or by the actuary), and member contributions may include contribution based on a specified rate, additional voluntary contribution or amounts rolled over from other schemes.

50. The trustee's/administrator's primary responsibility for contributions is to ensure that all contributions due have been paid over to the scheme on a timely basis, and have been recorded to the members' benefit completely and accurately. Specific responsibilities of the trustee/administrator for contributions are included in Parts II and III of this Practice Note below.
51. In fulfilling this responsibility the trustee/administrator must firstly ensure that all new members have been properly admitted to the scheme in accordance with the provisions of the governing rules or trust deed, members who have ceased their membership during the year have been appropriately removed from the membership register, and that details relating to all continuing members are properly carried forward in the scheme records. The trustee/administrator must ensure that all membership records are accurate.
52. The trustee/administrator is required to ensure that both employer and member contributions are made in accordance with the governing rules or other relevant agreements and as recommended by the actuary (in the case of a defined benefit scheme) and such contributions are made on a timely basis.

Audit objectives

53. The auditor would consider whether:
 - a. all contributions receivable from, or on behalf of, eligible members have been received and have been recorded in the correct period; and
 - b. contributions received have been made in accordance with the governing rules or other relevant agreements and, for defined benefit schemes, the recommendations of the actuary.

Specific risk areas

54. The main risks are those of completeness and accuracy. Completeness involves ensuring that all contributions are recorded, either as received or receivable. Accurate calculation is particularly relevant to defined contribution schemes where employer's contributions are based on a percentage of a member's salary. The auditor would also consider whether contributions receivable are recoverable, particularly if the employer has a significant level of contributions owing at the financial year end of the scheme.

Benefits

General

55. Benefits are normally paid by way of a lump sum. The amount and means of calculation of the benefit paid depend on the type of the scheme.
56. Where a scheme is a defined contribution scheme, the benefit paid will equal the members' vested benefit in the scheme which is the accumulation of the members' contributions plus the appropriate proportion of the employer's contributions and the investment return on both.
57. Where the scheme is a defined benefit scheme, the benefit paid is determined by the governing rules and is generally calculated on the basis of length of service and the members' salary, which may be based on current salary, an average salary or another method as determined by the scheme rules.
58. The trustee/administrator is primarily responsible for ensuring that all benefit payments which should have been made are correctly paid to bona fide members in accordance with the governing rules or the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA.

59. In many cases, where an employee leaves an ORSO scheme, part or all of the employer's contributions plus the investment returns thereon in respect of that member may not be paid to the member. These forfeitures may be applied (depending on the rules of the scheme) in reducing the contributions of the employer, retained in the scheme for the benefit of members, or returned to the employer. The same rules will apply to voluntary contributions made by an employer to a MPF scheme.

Audit objectives

60. The auditor would consider whether:
- a. benefits paid and payable are bona fide, have been correctly calculated and have been recorded in the correct period; and
 - b. benefits have been paid in accordance with the scheme rules/trust deed and the MPFSO/ORSO, the Exemption Regulation (where applicable), the relevant Rules, guidelines and codes issued by the MPFA.

Specific risk areas

61. The principal audit risks in relation to benefits are those of completeness and accuracy. Completeness involves ensuring that all benefits are recorded either as paid or payable. Calculation of benefits paid is relevant, particularly with respect to defined benefit schemes, and benefits are paid to people who are not entitled to receive them.

Pooling arrangements

General

62. The ORSO (section 2(4)) permits pooling arrangements to be governed by a trust, provided that it is managed by a registered trust company. All MPF schemes must be governed by trust. The master trust deed sets out, amongst other things, the respective powers and duties of the pool trustee and the administrator. The ORSO (section 2(4)) also permits pooling arrangements to be the subject of or regulated by an insurance agreement (policy). This master policy sets out the respective powers and duties of the administrator, usually the insurer, and the relevant employer.
63. The ORSO (section 2(4)) requires that proper accounts and records are kept with respect to the pooling arrangement and its participating schemes, such that the value of the assets attributable to, and the liabilities of, each of its participating schemes are readily determinable. The General Regulation (section 78) requires that a separate account is established and maintained for each scheme member specifying that member's accrued benefits.
64. Where a scheme is a participating scheme in a pooling agreement, section 21(4A) of the ORSO provides that the asset separation requirement under section 21(1)(a) of the ORSO does not require the separation of the assets of the scheme from the assets of the other schemes vested in the administrator in his capacity as administrator of the pooling agreement.

Audit implications

65. For ORSO schemes, it is the responsibility of the pool administrator to prepare annual financial statements for each scheme participating in the pool, and to have those financial statements audited. The ORSO (section 20(7C)) requires that, unless exempted by the MPFA, the pool administrator appoints the same auditor to audit the financial statements of each scheme participating in the pool and all participating schemes should have a common year end. The trustee of a MPF scheme need not prepare individual financial statements for each participating employer.

66. The participation of a scheme in a pooling arrangement can have specific implications for the auditor as the audit evidence that the auditor requires to form the opinion could be derived from several sources.
67. For example, the pool trustee/administrator may appoint an auditor for the schemes administered by him who are not the auditor appointed by his shareholders to be his statutory auditor. In such instances, the auditor for the schemes would consider the extent to which he/she can rely on the work of the trustee's/administrator's auditor in testing the internal controls and systems of the pooling arrangement. It may be more efficient for the auditor of the schemes to independently assess the controls established by the trustee/administrator over the systems used to produce the scheme financial statements.

Abbreviated information for scheme members

68. Many schemes produce abbreviated financial information for distribution to members which summarises the key financial highlights from the audited financial statements.
69. The auditor has no control over the issue of such abbreviated financial information, particularly, when the auditor is not asked to report on it. However, if the auditor becomes aware that such information has been or will be issued, the auditor would take steps towards ensuring that members are not given the impression that such abbreviated financial information itself constitutes audited financial statements. If the auditor has any concerns in this respect, the auditor would communicate them to the trustee/administrator and the auditor would consider the continuing appointment in the light of the trustee's/administrator's response.
70. If the auditor is asked to provide a report, the same concerns apply, and the auditor would make clear in the auditor's report the scope of the work the auditor has carried out, in particular any areas the auditor has not examined. The auditor would ensure that the report specifically refers to the fact that the financial information does not give a true and fair view and would indicate whether the opinion on the full financial statements had been qualified or not.

PART II ADDITIONAL GUIDANCE RELEVANT TO THE AUDITOR OF A MPF SCHEME

General

71. The reference in this Part to a retirement scheme or scheme means a MPF scheme.

Reporting under sections 102 and 106 of the General Regulation

72. Section 95 of the General Regulation requires the trustee to submit the financial statements of the scheme to an auditor annually, for the purpose of independent audit. All schemes, regardless of size or type, must be audited. A copy of the audited financial statements of the scheme is required to be submitted by the trustee to the MPFA within 6 months after the end of the scheme's financial period.

73. The first audit would be required in respect of the first financial period which should commence with the date on which the scheme was first registered under section 21 or 21A of the MPFSO and end on a date not more than 12 months from this date.

Specific audit areas

Investments

74. Under section 28 of the MPFSO, the MPFA has the authority to publish guidelines on forbidden investment practices in relation to a scheme.

75. The General Regulation imposes the following requirements in respect of investment of scheme assets:

- a. a capital preservation fund must comply with the investment restrictions as set out in section 37(2) of the General Regulation;
- b. a scheme cannot enter a repurchase agreement unless it complies with the restrictions as set out in section 51 of the General Regulation;
- c. a scheme cannot lend any securities unless it complies with the restrictions as set out in section 52 of the General Regulation;
- d. an employer sponsored scheme is not allowed to invest more than 10% of the total assets of each constituent fund in "restricted securities" or make a loan other than a loan by way of a deposit with an authorised financial institution (General Regulation Part X);
- e. a scheme must comply with Schedule 1 to the General Regulation which deals with "permissible investments", "currency exposure" and "pooled investment". The general restrictions for investments for a scheme are:
 - i. no more than 10% of the total funds of a constituent fund may be invested in securities and other permissible investments issued by any one person (General Regulation Schedule 1 section 2(1)); and
 - ii. no more than 10% of securities or other permissible investments of a particular class issued by one person may be acquired for the purposes of a constituent fund (General Regulation Schedule 1 section 2(2)).

The general restrictions for investments set out above are not applicable when the investment is made into approved pooled investment funds¹. (The reporting and investment requirements of approved pooled investment funds are set out in relevant guidelines and the MPF Code issued by the MPFA.)

76. The General Regulation (Schedule 1 section 17) states that funds may be invested in a pooled investment fund, which may in turn be invested in one or more other pooled investment funds. Where the trustees of these pooled investment funds and the scheme are not the same, the auditor of the scheme would need to ensure that the trustee has monitoring procedures in place over the trustees of the pooled investment funds. These procedures may include:
- a. obtaining a copy of the report of internal controls and the accompanying auditor's report of the trustees of the pooled investment funds;
 - b. obtaining regular statement of compliance from the trustee that the investment restrictions are not breached; and
 - c. obtaining a copy of the financial statements of the trustee and of the pooled investment funds.
77. The auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report whether or not the requirements of section 28 of the MPFSO and sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with as at the end of the financial period and 2 other dates as the auditor preparing the auditor's report may elect, provided that the intervening period between the 2 other dates shall not be shorter than three months. Where a scheme has been in operation for less than a full year and the intervening period between the 2 other dates nominated is less than 3 months, approval must be obtained from the MPFA in writing to use those dates. In planning and performing this work, the auditor should refer to the principles in the Hong Kong Standard on Assurance Engagements (HKSAE) 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" applicable to assurance engagements.

Contributions

78. In respect of completeness of contributions under MPF, section 106(2) of the General Regulation states that information contained in a remittance statement submitted by an employer or particulars given by a self-employed person to the trustee shall be treated as conclusive evidence as to the amount of the member's relevant income. Accordingly, the auditor need not carry out further procedures to satisfy himself/ herself in respect of the completeness of the relevant income.

The auditor's reports

79. Section 102 of the General Regulation requires:
- a. the auditor's report, addressed to the trustee, in relation to the financial statements of a scheme and a financial period of it to state whether or not in the auditor's opinion:
 - i. the financial statements give a true and fair view of the financial position of the scheme as at the end of the period and of the financial transactions of the scheme for the period then ended; and
 - ii. the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 of the General Regulation; and

¹ An example of an auditor's report for an approved pooled investment fund is included as Example 9 of Appendix 1 to this Practice Note.

- b. the auditor's report, addressed to the trustee, on a scheme's compliance with certain requirements of the MPFSO and General Regulation to state:
- i. whether or not in the auditor's opinion:
 - proper accounting and other records have been kept during the relevant financial period in respect of the constituent funds of the scheme, the scheme assets and all financial transactions entered into in relation to the scheme; and
 - the requirements specified in the guidelines made by the MPFA under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with in all material respects as at the end of the period and two such other dates in the period as the auditor preparing the auditor's report may elect, provided that the intervening period between such dates shall not be shorter than three months, or a shorter period allowed by the MPFA; and
 - ii. whether or not the assets of the scheme as at the end of the period were subject to any encumbrance, otherwise than as permitted by the General Regulation.
80. In addition, section 106 of the General Regulation requires the auditor to state whether the auditor has obtained all the information and explanations that the auditor has required.
81. Example auditor's reports are included in Appendix 1 to this Practice Note (examples 1 and 2).

Reporting under sections 18 and 115 of the General Regulation

Prescribed capital adequacy requirements

82. The MPFA requires all applicant trustees to meet the prescribed capital adequacy requirements (capital adequacy requirements) when applying for approval as trustee, and all trustees to comply with the capital adequacy requirements at all time.
83. The MPFSO (sections 20A and 20B) empowers the MPFA to suspend or revoke the approval of a trustee for failure to meet financial resources requirements, including capital adequacy requirements.
84. There are essentially two means by which a company can meet the capital adequacy requirements. These are referred to in this Practice Note as "the stand-alone basis" and "the group basis".
85. The stand-alone basis sets requirements for the company itself as follows:
- a. paid up share capital of at least \$150,000,000 (or its foreign currency equivalent);
 - b. net assets of at least \$150,000,000 (or its foreign currency equivalent); and
 - c. assets in Hong Kong of at least \$15,000,000.
86. "Assets in Hong Kong" is defined in section 10 of the General Regulation.

87. The alternate basis of meeting the capital adequacy requirements is the group basis. In this case the applicant trustee must be an associate of:
- a. a company or corporation that is a substantial financial institution (as defined by section 7 of the General Regulation) which provides continuous financial support (as defined under section 12 of the General Regulation) to the applicant trustee; or
 - b. a company or corporation having a subsidiary that is a substantial financial institution and provides continuous financial support to the applicant trustee.
88. Under the group basis, the applicant trustee is only required to maintain paid up share capital and net assets of \$30,000,000. The \$15,000,000 "assets in Hong Kong" requirement must still be met in full.
89. The substantial financial institution must itself have:
- a. a paid up share capital of at least \$150,000,000 (or its foreign currency equivalent) and net assets of at least the same amount. In the determination of net assets, certain subordinated debts may be excluded by virtue of section 7(2) of the General Regulation; and
 - b. given a written undertaking in a form acceptable to the MPFA to the extent that it commits itself to provide financial support to the applicant trustee such that the \$30,000,000 share capital and net asset position of the applicant trustee and the associate relationship between the institution and the trustee will be maintained. A written undertaking under section 12 of the General Regulation needs to be by deed or like form.

Procedures performed by the auditor

90. For the auditor's reports under sections 18 and 115 of the General Regulation, in planning and performing the work, the auditor should refer to the principles in the HKSAE 3000 applicable to assurance engagements.
91. For the purposes of the auditor's report on the capital adequacy requirements of an applicant trustee, unless the date agreed between the applicant trustee and the MPFA is the financial year end of the applicant trustee, the auditor will be required to design substantive procedures at the date specified to enable the auditor to report whether or not the capital adequacy requirements have been complied with.
92. Such substantive procedures may include:
- a. obtaining evidence to support the amount of paid up share capital at the reporting date;
 - b. obtaining a balance sheet of the applicant trustee at the reporting date and reviewing the net asset position of the applicant trustee at that date;
 - c. obtaining evidence to support the existence of assets at the reporting date and the basis on which the assets are valued at that date;
 - d. extending existence testing of assets to verify the requirements for assets in Hong Kong are being met;
 - e. searching for unrecorded liabilities at the reporting date;
 - f. reviewing transactions before and after the balance sheet date to consider the reasonableness of the presentation of the balance sheet position at the reporting date;

- g. obtaining and reviewing the written undertaking in respect of continuous financial support as specified under section 12 of the General Regulation.

If a group basis of meeting the capital adequacy requirements is chosen, the auditor would obtain evidence that the institution supporting the applicant trustee qualifies under the General Regulation and, where necessary, evidence of appropriate approval by the MPFA is provided.

- 93. If the reporting date is to be the financial year end of the company and the company is required to prepare financial statements which have been audited, then the auditor would have regard to the extent of the substantive tests performed for the audit of the financial statements in the consideration of the extent of the procedures in paragraph 92 above to be carried out.
- 94. For the purposes of the reporting on ongoing capital adequacy requirements, the auditor would plan to include the procedures suggested in paragraph 92 above in respect of the financial year end and the two dates selected to test the compliance with capital adequacy requirements in the audit work. However, there are other matters which the auditor may consider in forming the opinion:
 - a. the frequency by which management accounts or other financial information is prepared may influence the dates chosen by the auditor, especially if the audit procedures adopted plan to place reliance on the controls surrounding the preparation and review of the management information;
 - b. the auditor may choose to rely on the internal control processes adopted by the trustee in ensuring that capital levels can be monitored at all times, and test the controls in place in conjunction with a series of substantive tests.

The auditor's reports pursuant to sections 18 and 115 of the General Regulation

- 95. The General Regulation (section 18) requires that any applicant trustee applying to be an approved trustee must cause a report to be prepared by its auditor. The auditor's report is addressed to the applicant trustee and must state, in the opinion of the auditor, whether or not the applicant trustee complies with the capital adequacy requirements, as set out in section 11 of the General Regulation, on a specified date (agreed between the MPFA and the applicant trustee). The date referred to must be on or before the date on which the MPFA approves the applicant trustee as a trustee.
- 96. The auditor's report may contain such observations, elaborations, qualifications or explanations as the auditor considers necessary. The MPFA has the power to request remedial action by the applicant trustee within a specified time period. In such circumstances a second auditor's report would be required to be prepared by the auditor, stating whether or not in the auditor's opinion the qualification or matter raised has been rectified.
- 97. With respect to the ongoing capital adequacy requirements, section 114 of the General Regulation requires that the trustee prepares a report to the MPFA, stating whether or not the capital adequacy requirements were complied with throughout the period. If the requirements were not complied with, the reasons for non-compliance should be stated in the trustee's report.
- 98. Section 115 of the General Regulation requires the auditor to review the section 114 report issued by the trustee and issue an auditor's report, stating whether or not, in the auditor's opinion, the capital adequacy requirements were complied with at the financial year end of the approved trustee, and two other dates during the financial year, such dates being selected by the auditor. The two dates selected must be at least three months apart or such a shorter period the MPFA may allow. If the requirements were not met, the reasons for non-compliance are required to be stated in the auditor's report.

99. Both reports under sections 114 and 115 are to be submitted to the MPFA within six months of the financial year end of the trustee. In practice the requirements of sections 114 and 115, when taken together, will mean that the trustee will be required to prepare a draft section 114 report in time for the auditor to review and attach the auditor's report under section 115.
100. Suggested reports suitable for reporting on compliance with prescribed capital adequacy requirements are included in Appendix 1 to this Practice Note (examples 3 and 4).

Reporting under section 74(5)(b) of the General Regulation

Trustee to review service providers' reports

101. In accordance with section 74 of the General Regulation, the trustee requires each service provider appointed or engaged by the trustee to report any material breach of obligations or material changes to the trustee.
102. On an annual basis, the service provider is required to submit to the trustee within four months after the scheme's year end date, the audited financial statements together with a report from its auditor stating whether or not, in the auditor's normal course of duties², the auditor has become aware of:
- a. any failure of the service provider to comply with the service provider's obligations under the contract of appointment or engagement entered into between the trustee and the service provider; and
 - b. any false declaration made by the service provider to the trustee or any other person, and if so, give particulars of the failure or false declaration.

The auditor's report pursuant to section 74(5)(b) of the General Regulation

103. A copy of an example auditor's report as mentioned in paragraph 102 above is included in Appendix 1 to this Practice Note (example 5).

Reporting under section 113 of the General Regulation

Trustee's report on control objectives and internal control measures

Requirements of trustee

104. The MPFA requires all trustees to maintain an appropriate internal control framework with respect to the management and administration of schemes. Trustees are also required to submit an annual report to the MPFA on their control objectives and internal control measures (Trustee's Report).
105. Reference would be made to section 39 of the General Regulation for details of the control objectives and internal control measures that must be established for each scheme and be maintained at all times while the scheme is registered.
106. Certain schemes may be exempted from these requirements. Reference would be made to the relevant regulation for further information.
107. The General Regulation specifies the requirements for trustees to report to the MPFA and reference would be made to the General Regulation for details of these requirements. A Trustee's Report would normally set out:
- a. a statement of responsibility;

² The auditor should obtain management representation specifically for reporting under section 74(5)(b) of the General Regulation.

- b. the trustee's control objectives in relation to the safeguarding of scheme assets, the recording of transactions and the compliance with the General Regulation;
 - c. details of each of the specific control procedures and measures designed to achieve the control objectives;
 - d. details of any significant changes to the control objectives, procedures and measures during the period;
 - e. details of any exceptions to the control objectives, procedures and measures during the period; and
 - f. an assertion by the trustee that it has reviewed the control objectives, and the control procedures and measures in operation.
108. In order that the statement by the trustee is fairly described, the trustee should include in the Trustee's Report a description of any material weaknesses identified which have, in its view, affected whether control procedures and measures are in place, or reduced the effectiveness, or prevented the operation, of control procedures and measures, if those weaknesses were not themselves identified and rectified within an appropriate time.

Requirements of the auditor

109. The MPFA requires the Trustee's Report on internal controls to be reviewed by the auditor (section 113 of the General Regulation), and the auditor is required to report to the trustee:
- a. whether or not appropriate control objectives were established and maintained for the scheme during the period to which the report relates;
 - b. if appropriate control objectives were so established and maintained, whether or not effective internal control measures were established and maintained for the purpose of achieving those objectives; and
 - c. whether or not those internal control measures (if any) were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented.
110. The auditor is also required to state:
- a. whether or not, during the course of the review of the Trustee's Report, the auditor became aware of any shortcomings in the internal control measures that could materially affect the operation of the scheme (including its financial position) or the financial interests of scheme members; and
 - b. details of any such shortcomings the auditor became aware of.

Requirements of both the trustee and auditor

111. Both the Trustee's Report and the auditor's report on a review thereof under sections 112 and 113 of the General Regulation respectively are submitted to the MPFA in accordance with section 111 of the General Regulation. In practice the requirements of sections 112 and 113 of the General Regulation when taken together, will mean that the trustee will be required to prepare a draft Trustee's Report in time for the auditor to review and attach the auditor's report thereto under section 113 of the General Regulation.
112. The MPFA has issued guidelines relating to the reporting requirements of the trustee and auditor in respect of the internal control objectives and control measures for each scheme in "Guidelines on Internal Control Report for each Registered Scheme" ("MPFA Guidelines II.6").

113. It is recognised that the control objectives and procedures may differ from trustee to trustee depending on the trustee's own assessment and tolerance of the risk level in the organization, its specific operating system, size of the business, types of products on offer etc.
114. The MPFA Guidelines II.6 is not intended to prescribe specific control systems for all schemes and the measures described in the MPFA Guidelines II.6 are not intended to be exhaustive and in many instances alternative control procedures and measures may be equally appropriate and acceptable.
115. Even though trustees are not required to report on all the control objectives and measures applicable to their schemes, trustees are expected to ensure that a proper system of internal controls is in place for all aspects of their schemes' operations and are expected to ensure that as a minimum the requirements specified by the MPFA are complied with.
116. The auditor is expected to report on the design effectiveness of the internal controls and is therefore not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period.
117. It is recognised that the auditor of the trustee may be different from the auditor of the scheme. It is also possible that different auditors may be appointed to each scheme managed by the same trustee.
118. If the Trustee's Report relates to only one scheme, then the Trustee's Report is submitted to the auditor of the scheme for review.
119. If the Trustee's Report relates to 2 or more schemes and the trustee specifies the financial period of one of the schemes to which the report relates as the relevant period nominated under section 111(1)(b) of the General Regulation, then the Trustee's Report is submitted to the auditor of that scheme for review.
120. If the Trustee's Report relates to 2 or more schemes and the financial year of the trustee is the relevant period nominated under section 111(1)(b) of the General Regulation, then the Trustee's Report is submitted to the auditor of the trustee for review.

Procedures performed by the auditor

121. In planning and performing this work, the auditor should refer to the principles in the HKSAE 3000 applicable to assurance engagements.

Terms of engagement

122. In agreeing the terms of the engagement, the auditor would exclude liability in respect of any loss or damage caused by, or arising from, fraudulent acts, misrepresentation or wilful default on the part of the trustee, its directors, employees or agents. The auditor would also exclude liability to third parties. They would normally obtain a limitation in aggregate of the auditor's liability. It should be noted that it is not possible to limit liability in relation to death or personal injury caused by the negligence (within the meaning of section 2 of the Control of Exemption Clauses Ordinance) of the auditor.

Planning the engagement

123. In addition to the requirements contained in HKSAE 3000, the following would need to be considered by the auditor:
- a. the structure with respect to a scheme operation may be different for each scheme. The auditor would need to understand the structure adopted in the administration and management of the scheme, i.e. who is and what are the custodian's responsibilities, who is and what are the trustee's responsibilities etc;

- b. the terms of the contract between the trustee and service providers such as the custodian, third party administrator and the investment manager of the scheme;
- c. the nature of services provided by the service providers and the extent to which the trustee's internal control measures interact with those of the service providers;
- d. the methods adopted by the trustee to evaluate the appropriateness of the specified control objectives of the scheme and the effectiveness of the major procedures and internal control measures for achieving those objectives;
- e. the type and extent of evidence supporting the trustee's evaluation/assertion about the effectiveness of the internal control procedures and measures;
- f. the nature of control procedures relevant to the responsibility of the trustee in ensuring that a proper system of internal controls is in place for all aspects of the scheme's operation; and
- g. matters affecting the industry, such as financial reporting practices, economic conditions, amendments to ordinances and regulations and technology changes.

Situations where part of the trustee's responsibilities are outsourced to a third party

124. The ultimate responsibility with respect to the implementation of, and ongoing compliance with, the necessary internal controls framework rests with the trustee. Where a trustee has delegated certain of its functions to another service provider, the auditor needs to consider the impact of this on the overall engagement with reference to HKSA 402 "Audit Considerations Relating to an Entity Using a Service Organization".

Evaluating design effectiveness

125. To evaluate the effectiveness of control procedures, the auditor would obtain a general understanding of the control environment and information system to identify matters that are likely to have a significant impact on the effectiveness of particular control procedures and measures.
126. Procedures to evaluate the effectiveness of a specific control are concerned with whether that control is suitably designed to comply with the suggested control measures in the MPFA Guidelines II.6. Such procedures will vary depending upon the nature of the specific control, the nature of the trustee's documentation of the specific control, and the complexity and sophistication of the trustee's operations and systems.
127. The auditor would evaluate the effectiveness of the control procedures based on the identified control objective. This evaluation would be based on whether the control procedures have been suitably designed to reduce to an acceptably low level the risks that threaten achievement of the objectives relevant to the area of activity. Where the auditor is unable to identify control procedures designed to provide reasonable assurance about the reduction of risk, this would constitute a weakness in relation to design effectiveness.
128. The auditor would focus on the significance of controls in achieving the control objectives rather than on specific controls in isolation. The absence or inadequacy of a control designed to achieve specific criteria may not be a deficiency if other controls specifically address the same criteria.

Testing operating effectiveness

129. It is recognised that the auditor cannot be aware of all the relevant control assertions made by the trustee in its report on internal controls, in particular as these might be affected by the other service providers' control procedures. The auditor does not have the responsibility to identify or test all the control objectives and procedures which have been included in the description of the control report prepared by the trustee and the auditor is not expected to test

or ascertain whether the control objectives or internal control measures were actually implemented during the period under review.

130. However it is envisaged that in order to enable the auditor to form an opinion on the design effectiveness and on whether those internal control measures were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented, the auditor would be required to carry out a limited level of testing.
131. These tests would ordinarily include procedures such as enquiries of appropriate personnel, inspection of relevant documentation, observation of the trustee's operations, and reapplication of, and reperformance of, the control measures to a certain extent.
132. Tests of operating effectiveness are concerned with how the control procedures were applied, the consistency with which they were applied, and by whom they were applied. The auditor would also need to consider the period of time over which the control procedures were applied.
133. The nature of a control procedure often influences the nature of tests of operating effectiveness that can be performed. For example, the auditor may examine evidence regarding a control where such evidence exists, however documentary evidence regarding some control procedures often does not exist. In these circumstances, the tests of operating effectiveness may consist of enquiry and observation only.
134. The decision about what comprises sufficient appropriate evidence is a matter of professional judgement. The auditor would consider for example:
 - a. the significance of the control procedure in achieving the relevant objective; and
 - b. the nature and extent of any tests of operating effectiveness performed by the trustee (management, internal auditing or other personnel).
135. Management, internal auditing or other personnel of the trustee may provide the auditor with the results of their tests of the operating effectiveness of certain aspects of internal control. Although the auditor would consider the results of such tests when evaluating operating effectiveness, it is the auditor's responsibility to obtain sufficient appropriate evidence to support the auditor's conclusion and, if appropriate, corroborate the results of such tests. When evaluating whether sufficient appropriate evidence has been obtained, the auditor would consider that evidence obtained through direct personal knowledge, observation, re-performance (to a limited extent only), and inspection is more persuasive than information obtained indirectly, such as from management, internal auditing or other personnel of the trustee. Furthermore, judgements about the sufficiency and appropriateness of evidence obtained and other factors affecting the auditor's conclusion, such as the significance of identified control weaknesses, are those of the auditor.

The auditor's report pursuant to section 113 of the General Regulation

136. The auditor's report is addressed to the trustee.
137. The auditor's report depends on the specific terms of engagement agreed with the trustee, but it is normally expected to contain:
 - a. the title;
 - b. the addressee;
 - c. a statement as to the scope of the auditor's work;

- d. a section dealing with the respective responsibilities of the trustee and auditor:
 - i. if not included in the Trustee's Report, a statement that it is the responsibility of the trustee to design, implement and maintain the control procedures. It should also specify that it is the trustee's responsibilities to ensure adequate controls are implemented in the monitoring of other service providers where some or all of the trustee's responsibilities have been outsourced to a third party; and
 - ii. the auditor's responsibilities;
 - e. a section dealing with the basis of conclusion:
 - i. a statement that the engagement was conducted in accordance with HKSAE 3000 and with reference to this Practice Note;
 - ii. a statement that the auditor is not required to verify whether the controls were in fact implemented during the period under review and that the auditor have performed very limited tests on the control procedures; and
 - iii. a statement that the auditor's work was limited to ensuring whether control measures designed by the trustee were in line with those recommended in the MPFA Guidelines II.6;
 - f. a statement that all control systems have inherent limitations and accordingly, errors and irregularities may occur and not be detected. Also, they cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust;
 - g. the auditor's conclusion:
 - i. a statement as to whether or not appropriate control objectives were established and maintained for the scheme during the period to which the report relates;
 - ii. a statement as to whether or not effective internal control measures were established and maintained for the purpose of achieving those objectives during the period to which the report relates; and
 - iii. a statement as to whether or not those internal control measures (if any) were likely to have been sufficiently effective, in all material respects, to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented;
 - h. a statement as to whether or not, during the course of the review of the Trustee's Report, the auditor became aware of any shortcomings in the internal control measures that could materially affect the operation of the scheme (including its financial position) or the financial interests of scheme members;
 - i. details of any such shortcomings that the auditor became aware of; and
 - j. a statement as to the intended use of the report.
138. A suggested auditor's report suitable for such an engagement is included in Appendix 1 to this Practice Note (example 6).

Report modifications

139. The auditor would modify the auditor's report if any of the following conditions exist:
- a. there is a material weakness in the internal controls;
 - b. there is a restriction on the scope of the engagement; or
 - c. the trustee presents an assertion about only a segment of the internal controls, and not all the control objectives and control procedures as outlined in the General Regulation and the MPFA Guidelines II.6 are included in the Trustee's Report.

Reporting material weaknesses in the internal controls

140. Where the auditor has become aware of material weaknesses which are inadequately described in the Trustee's Report, the auditor would need to issue a modified conclusion in the auditor's report and provide such a description in the auditor's report or a reference to such a description in the Trustee's Report. The auditor would also refer to any inaccurate or inadequate description of the trustee's control procedures in the Trustee's Report of which the auditor has become aware. It would also be helpful for the status of any corrective action taken by the trustee in relation to any reported weakness to be included in the auditor's report.
141. On occasions the trustee may seek to alter control objectives in order to prevent a modification in the report by the auditor. The auditor would assess carefully the appropriateness of any changes proposed to the Trustee's Report and the risks arising from this and consider the conclusion in the light of that assessment.
142. The trustee may express its intention to rectify a weakness at some future time. No conclusion would be given by the auditor in relation to such an expressed intention and the auditor's report would specifically state that fact. The auditor may, at the request of the trustee, test and report on any corrective action taken in respect of a weakness.
143. The engagement is not intended to be planned and carried out in such a way that all control weaknesses that may possibly exist within the trustee can be identified during the course of the engagement. Furthermore as the auditor is not expected to test whether the control objectives and internal control measures were actually implemented during the period under review, the auditor cannot be expected to identify all control weaknesses that may possibly exist within the trustee's operation over the management and administration of schemes. This limitation must be clearly stated in both the engagement letter and the auditor's report.
144. However the auditor would also consider the statutory requirements to report material weaknesses to the MPFA (see paragraphs 147 to 151 below).
145. During the course of the engagement, if the auditor becomes aware of significant deficiencies in the trustee's system of internal control, to the extent that the shortcomings identified during the course of the auditor's work may materially affect the operation and financial position of the scheme. The auditor is required to include details of the shortcomings of which the auditor became aware in the report.
146. The auditor's conclusion is based on the procedures determined to be necessary for the collection of sufficient appropriate evidence, that evidence being persuasive rather than conclusive in nature. The assurance provided by the auditor on the effectiveness of internal controls is however restricted because of the nature of internal controls and the inherent limitations of any set of internal controls and their operations. These limitations include:
- a. the trustee's usual requirement that the cost of an internal control does not exceed the expected benefits to be derived;
 - b. most internal controls tend to be directed at routine rather than non-routine transactions/events;

- c. the potential for human error due to carelessness, distraction or fatigue, misunderstanding of instructions and mistakes in judgement;
- d. the possibility of circumvention of internal controls through the collusion of employees with one another or with parties outside the trustee;
- e. the possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding a control procedure;
- f. the possibility that management may not be subject to the same internal controls applicable to other personnel; and
- g. the possibility that internal controls may become inadequate due to changes in conditions, and compliance with procedures may deteriorate.

Communications between the auditor and the MPFA

Ad hoc reports to the MPFA under section 103 of the General Regulation

147. Section 103 of the General Regulation requires the auditor to report the following matters to the MPFA in writing, if the auditor becomes aware of them while performing the duties:
- a. any matter that would cause the auditor to qualify the auditor's report on the financial statements of the scheme;
 - b. non-compliance with the following sections of the General Regulation:
 - i. keeping proper accounting records (section 77); and
 - ii. keeping a separate account for each scheme member (section 78);
 - c. any transaction that has resulted in a misappropriation of the funds of the scheme or the scheme assets;
 - d. any payment from the funds of the scheme that is materially prejudicial to the interests of scheme members except where the trustee has fully reimbursed the scheme after the payment has been brought to the notice of the trustee;
 - e. any combining of the scheme assets with the funds of the trustee or the assets of any persons except where the custodian:
 - i. also holds the assets of one or more other scheme(s) or other financial schemes or undertakings; and
 - ii. keeps a separate account of the scheme assets and those other assets in such a way as to enable them to be separately identified;
 - f. non-compliance with the legislation and guidelines on forbidden investment practices;
 - g. non-compliance with section 135 of the General Regulation which requires the trustee to inform the MPFA in writing within 7 days after the end of the settlement period of non-payment of or discrepancy in mandatory contribution.
148. The auditor has no obligation to seek out grounds for making a report under section 103 of the General Regulation, nor does the section 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 MPFA 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 reporting under this section.

149. In the event that the auditor becomes aware of any matters in paragraph 147 above, the auditor may bring the matter to the trustee's attention in writing and request an explanation of the matter. The trustee is required to rectify the situation within such period as the auditor considers to be reasonable. If the trustee complies with the auditor's request in this respect, the auditor is not required to report the matter to the MPFA. However, the auditor must not give such notice:
- a. if the matter relates to a transaction, which in the opinion of the auditor, is or has resulted in a material misappropriation of the funds of the scheme or the scheme assets; or
 - b. if bringing the matter to the attention of the trustee could reasonably be expected to detrimentally affect the interests of the scheme members.
150. If on becoming aware of matters reported in accordance with paragraph 147 above, the MPFA is of the opinion that the matter is capable of being rectified, the MPFA may ask the trustee to rectify the matter. As soon as practicable after giving such a direction, the MPFA will request the auditor in writing to provide the MPFA with a further report as to whether or not the trustee has rectified the matter.
151. If upon receiving a request in writing from the MPFA to provide to them a further report as to whether or not the trustee has rectified the matter as specified in the letter, the auditor must as soon as practicable after the end of the period specified in the notice and at the expense of the trustee, issue such a report to the MPFA.

Statutory protection under section 42A of the MPFSO

152. The MPFSO (section 42A) introduces statutory protection for current and prior auditors from liability to their client for breach of confidentiality. Such statutory protection is available when the auditor communicates directly with the MPFA (whether or not in response to a request of the MPFA) in good faith, if the auditor became aware of the matter in the capacity as the auditor and on matters relevant to a function of the MPFA.
153. Section 42A of the MPFSO does not lay down any rules nor specify the circumstances in which the auditor is to communicate any matter to the MPFA. It provides a statutory mechanism whereby the auditor may make matters known to the MPFA without breaching the duty of confidentiality.
154. Confidentiality is an implied term of an auditor's contract with the client, but in certain circumstances and under conditions specified in section 42A of the MPFSO 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 MPFA's functions without the duty of confidentiality owed to the client being regarded as having been breached.
155. Examples of circumstances in which the auditor may communicate a matter to the MPFA under section 42A of the MPFSO include:
- a. the auditor considers scheme members have incurred, or are at significant risk of incurring, a material loss as a result of a trustee carrying on business in a manner that is not fit and proper or that is in breach of the MPFSO or the General Regulation;
 - b. there is evidence of:
 - i. fraud, dishonesty or serious incompetence; or

- ii. serious failure to observe requirements of the MPFSO or the General Regulation or conditions imposed on the trustee by the MPFA if such failure impacts scheme members;
 - 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 MPFA to which the trustee or the scheme is subject; and
 - d. the position is such that because of a significant risk which is material to the collective interests of scheme members, the scheme members' interests would be better safeguarded if the MPFA were aware of the position.
156. Clearly the potential nature of matters which may be reported is very wide, but as explained in paragraph 159 below 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 that the auditor may choose to seek statutory protection.
157. Any protected communication can be made either on the auditor's initiative or in response to a request from the MPFA for information. The auditor would normally co-operate with the MPFA and respond to any requests from the MPFA for information, provided the auditor has no reason to doubt that the request is relevant to the MPFA's functions. The auditor may communicate a matter to the MPFA with the protection of section 42A of the MPFSO regardless of the source of that information, provided the auditor became aware of the matter in the capacity as the auditor of the scheme and the auditor does so in good faith.
158. 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 MPFA during the course of the work for the trustee other than audit work or through private discussions on social or other occasions, in which case the information will be known to them as individuals. In circumstances which suggest that a matter would be reported to the MPFA 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.
159. The auditor cannot be expected to be aware of all circumstances which, had the auditor known of them, would have led him/ her to exercise the right to communicate under section 42A of the MPFSO. 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 42A of the MPFSO. 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 MPFA 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 42A of the MPFSO.
160. The MPFA 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 a trustee or a scheme. However, the MPFA expects the trustee 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 MPFA.
161. It should be noted that section 42A of the MPFSO 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 MPFSO 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 MPFA. 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 auditor's report are such as to secure the protection of section 42A of the MPFSO and that it only includes relevant material.

162. The auditor is protected, however, even if the information which the auditor communicates fall short of proof, or the opinion which the auditor communicates cannot be verified. An auditor who can demonstrate that he/ she has acted reasonably and in good faith in informing the MPFA of a reportable matter would not be held in breach of duty to the client even if, after an investigation, it were found there was not a matter which needed to be reported. These are areas where the auditor may wish to consider taking legal advice before making a report.
163. Whilst no breach of statutory duty may arise, it should be appreciated that there is no protection given by the MPFSO, if the auditor, after becoming aware of an occurrence, fail to report, promptly, or at all, to the MPFA. Furthermore, it should be recognised that speed of reporting is likely to be important in order to enable the MPFA to protect the interests of scheme members.

MPFA may require certain reports to be prepared by the auditor under section 30 of the MPFSO

164. Under section 30 of the MPFSO, if at any time the MPFA reasonably believes that circumstances exist or have existed which may prejudice the accrued benefits of a member of a scheme, it may require a trustee, by written notice, to arrange for the auditor (who must be approved by the MPFA) to investigate whether such circumstances exist, or have existed, and to investigate any other matter relating to the trustee or the scheme as specified by the MPFA.
165. A copy of the auditor's report on the investigation must be provided to the MPFA and may be published or supplied to a scheme member that the MPFA believes may have been prejudiced.

Rights and duties of the auditor

Offence to obstruct

166. Under section 107 of the General Regulation, it is an offence for the trustee of a scheme or a service provider appointed or engaged:
- a. not to allow the auditor of the scheme access to all accounting records and other records relating to the scheme and to the trustee of the scheme that are in the possession of that trustee or service provider;
 - b. not to give any information or explanation to the auditor as and when reasonably required by the auditor; and
 - c. to obstruct, hinder or delay the auditor in the performance of the auditor's duties or the exercise of the auditor's powers.

Offence to make false or misleading statement

167. A person who, in any document given to the auditor of a scheme, makes a statement that the person knows to be false or misleading in a material respect, or recklessly makes a statement which is false or misleading, commits an offence and is liable on conviction:
- a. to a fine and imprisonment for 12 months on the first occasion on which the person is convicted of the offence; and
 - b. to a fine of HK\$200,000 and to imprisonment for 2 years on each subsequent offence.

Certain statements of the auditor not admissible evidence

168. The following statements made by the auditor are not admissible in evidence in any civil or criminal proceedings against the auditor and they may not be made the grounds of a prosecution or other legal proceeding against the auditor:
- a. a statement made by the auditor in a notice to the MPFA under Part VIII of the General Regulation; or
 - b. a statement made in answer to an inquiry by the MPFA; or
 - c. reasons for the auditor's removal or resignation from office; or
 - d. reasons for not seeking reappointment.

Removal and resignation of the auditor

169. The removal of the auditor by the trustee will take effect if the auditor and the MPFA are notified in writing within 2 working days after the removal.
170. The auditor must write to the MPFA, within 2 working days of receiving the notice from the trustee, giving reasons why, in the auditor's opinion, he/ she was removed from office.
171. The auditor of a scheme may resign from office by giving written notice to the trustee.
172. An auditor who does not wish to be re-appointed for a further period, if the initial appointment was for a specified period, must notify the trustee in writing.
173. Where the auditor determines to resign in the circumstances set out in paragraphs 171 and 172 above, the written notice of this fact to the trustee must be accompanied by:
- a. a statement that, to the best of the auditor's knowledge and belief, there are no circumstances relating to the resignation or decision not to seek reappointment that would prejudicially affect the interests of the scheme members to a material extent; or
 - b. a statement specifying the circumstances giving rise to the resignation or decision not to accept re-appointment.
174. If a statement under paragraph 173(b) above is given to the trustee, a copy of the notice must be given to the MPFA within 2 working days after giving the notice to the trustee.

PART III
ADDITIONAL GUIDANCE RELEVANT TO
THE AUDITOR OF AN ORSO SCHEME

General

175. The reference in this Part to a retirement scheme or scheme means an ORSO scheme.

Appointment of the auditor

176. The ORSO (section 68) requires any statement, report or other document to be prepared by an auditor in respect of a Hong Kong domiciled scheme to be prepared by a Certified Public Accountant (Practising) as defined by section 2 of the Professional Accountants Ordinance.

177. For an offshore scheme, they must be prepared by a Certified Public Accountant (Practising) or any person who may lawfully practise as a professional accountant in the country or jurisdiction which is the domicile of the scheme and who holds such qualification as the MPFA may accept as being of a standard comparable to that of a Certified Public Accountant (Practising).

Reporting under section 20 of the ORSO

178. The ORSO (section 20) requires the administrator of a scheme to submit the financial statements of the scheme to an auditor annually, for the purpose of independent audit. With few exceptions (see section 20(5) of the ORSO), all schemes, regardless of size or type must be audited. A copy of the audited financial statements of the scheme is required to be submitted by the administrator to the MPFA within 6 months after the end of the scheme's financial period.

179. The first audit would be required in respect of the first financial period ending after the scheme is registered.

Specific audit areas

Investments

180. Section 27 of the ORSO sets out the investment requirement for an ORSO scheme. Section 27(2) imposes the following requirements in respect of investment of scheme assets:

- a. not more than 10% of the assets of the scheme shall consist of restricted investments;
- b. no assets of the scheme shall consist of a loan to the relevant employer of the scheme or an associate of the relevant employer;
- c. subject to subsection (3), no asset of the scheme acquired on or after 15 October 1993 shall consist of investments in the share capital of a body corporate which share capital is not –
 - i. listed on a recognized stock market as defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance; or
 - ii. publicly listed on a specified stock exchange as defined in that section.

For further details of the requirements, the auditor is required to refer to section 27 of the ORSO.

181. The auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report as to whether or not the requirements of section 27(2) of the ORSO in respect of investment restrictions have been complied with as regards the scheme as at the last day of the year and two other dates in the year as the auditor may elect, provided that the intervening period between all such dates shall not be shorter than three months. Where a scheme has been in operation for less than a full year and the requirements of section 27(2) cannot be satisfied in full, it is recommended that the auditor would select three dates which may not necessarily be three months apart. In planning and performing this work, the auditor should refer to the principles in the HKSAE 3000 applicable to assurance engagements.

Contributions

182. The ORSO (section 20) also requires the auditor to include a statement as to whether or not, in the auditor's opinion, contributions payable to the scheme during the financial year have been paid in accordance with the scheme rules or the relevant undertaking under which they were payable.
183. The wording of the opinion on contributions is more specific than the opinion required on the financial statements. It requires the auditor to consider the amounts of contributions payable to the scheme and, where the trust deed or rules are specific, the dates of payment.
184. It may be necessary for the auditor to consider whether the results of audit tests or evidence on contributions require a qualified opinion to be given on contributions. Matters to be considered in this respect include the opinion in Form A issued by the employer's auditor (paragraphs 196 - 215 below) and whether any discrepancies favour one particular member or group of members and the extent to which the growth of the fund has suffered because of a failure to pay contributions to the scheme in a proper manner.
185. The auditor may, for example, in the case of a scheme having several participating employers, be unable to obtain sufficient evidence on contributions to give an unqualified opinion. The scope of the examination might be expressly stated as being limited to the transactions as recorded in the books of the scheme.
186. Section 27(2) of the ORSO prohibits loans from the scheme to the employer. Where contributions are outstanding these may, under some circumstances, become de facto loans.

Accrued benefits

187. The financial statements of a retirement scheme are required to disclose:
- a. the liability of the scheme in respect of the benefits which have accrued to members and beneficiaries as a result of their membership of the scheme up to the financial year end of the scheme (aggregate past service liabilities); and
 - b. the benefits to which members would have been entitled in the event that they had resigned from membership of the scheme as at the financial year end date (aggregated vested liabilities). These liabilities are calculated differently depending upon the type of the retirement scheme and therefore the auditing procedures vary.
188. The aggregate past service liability to members and beneficiaries of a defined contribution scheme is the accumulated contributions and allocated net earnings of the scheme. This is normally equivalent to the difference between the carrying amounts of the assets and the other liabilities (including forfeitures available to the employer by way of offset against future contributions or cash refund) of the scheme as at the financial year end date, less any reserves or other net earnings which have not been allocated for the benefit of members. This is normally the amount shown as the total balances of the members' accounts.

189. The aggregate past service liability for defined benefit schemes is the present value of the portion of expected future benefit payments which arise from membership of the scheme up to the financial year end.
190. The amount of the liability depends upon an actuarial review which makes reference to the scheme rules and assumptions such as expected future salary levels, mortality rates and membership turnover.
191. The gross liability is discounted to its present value by applying a discount rate consistent with the rate of return that the scheme would anticipate that it could achieve if, at the financial year end date, sufficient funds were available to meet accrued benefits as they fall due.
192. The procedures appropriate to this aspect of the audit usually include the review of the work of the actuary, which is discussed in paragraphs 25 to 41 above.
193. The aggregate vested liability of a defined contribution scheme is the accumulation of the members' contributions plus the appropriate proportion of the employer's contributions determined by the governing rules of the scheme and the net earnings of the scheme allocated on both balances as at the financial year end date. The aggregate vested liability of a defined benefit scheme is determined by the governing rules of the scheme and is generally calculated by the actuary on the basis of length of service and the salaries of the members as at the financial year end date.

The auditor's reports

194. Section 20 of the ORSO requires:
- a. the auditor's report in relation to the financial statements of a scheme and a financial year of it to state:
 - i. whether or not in the auditor's opinion the financial statements give a true and fair view of the disposition, at the last day of the year, of the scheme assets and liabilities and of its financial transactions for the year then ended;
 - ii. where:
 - the auditor has been denied access to the employer's books and records in contravention of section 20(7) of the ORSO; or
 - the auditor has not been given necessary information and explanations as required by section 20(7) of the ORSO,
 such fact; and
 - iii. such other information as the MPFA may specify in guidelines issued by it; and
 - b. the auditor's report on a scheme's compliance with certain requirements of the ORSO to state whether or not in the auditor's opinion:
 - i. proper accounts and records have been kept as regards all assets, liabilities and financial transactions of the scheme;
 - ii. where the scheme is a defined benefit scheme, the relevant undertaking has been complied with;
 - iii. where the scheme is a defined contribution scheme,
 - contributions have been made in accordance with the terms of the scheme; and

- a shortfall between the scheme's assets and the scheme's aggregate vested liability exists, and if so stating the amount of such shortfall at the last day of the year;
- iv. as at the end of the year the assets of the scheme were subject to any assignment, charge, pledge or other encumbrance except:
- the trust (if any) governing the scheme;
 - any charge or pledge created for the purposes of securing loans necessary for meeting the liabilities of the scheme; and
 - any option to acquire for valuable consideration any interest in the assets of the scheme granted in the normal course of business; and
- v. the requirements of section 27(2) of the ORSO in respect of investment restrictions have been complied with as regards the scheme as at the last day of the year and two such other dates in the year as the auditor may elect, provided that the intervening period between such dates shall not be shorter than three months.
195. The auditor's reports are addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's reports would be addressed to the administrator. Example auditor's reports are included in Appendix 1 to this Practice Note (examples 7 and 8).

Responsibility and scope of work of the employer's auditor under section 20(7A) of the ORSO

196. The ORSO (section 20(7A)) requires the relevant employer to appoint an auditor ("the employer's auditor") who provides confirmation to the administrator's auditor not later than four months after the scheme's financial year end on such matters as may be reasonably required in order for the administrator's auditor to discharge his obligations. The ORSO defines "the administrator's auditor" as being the auditor who is forming the opinion on the scheme's financial statements. The employer's auditor does not need to be the same as the administrator's auditor. Separate engagement letters are required for the appointments of the employer's auditor and the administrator's auditor, whether or not they are the same firm.
197. The role of the employer's auditor is to report under "Forms A and B" as issued by the Registrar under section 20(7A) of the ORSO. Form A is the employer's auditor's statement issued to the administrator's auditor, and Form B is the statement on details of contributions. The employer's auditor is advised to refer to the Guidelines issued by the Registrar on the preparation of the Statement of the Employer's Auditor under section 20(7A) of the ORSO ("Registrar's Guidelines") for guidance.
198. The primary responsibility for completing Form B lies with the employer although in practice it is often completed by the administrator or with assistance from the administrator. Therefore, the employer's auditor would allow the employer to make amendments on the Form B prepared by the administrator if the information contained therein is not correct. Before carrying out any work on Form B, the employer's auditor would ensure that Form B is signed by the employer, or where Form B is signed by the administrator, that it is counter-signed by the employer.
199. The responsibility of the employer's auditor is to complete Form A which is addressed to the administrator's auditor and includes an opinion as to whether proper accounts and records have been kept in relation to contributions and whether Form B is in accordance with the books and records of the employer.

200. As the employer's auditor's work in relation to Forms A and B is usually not within the scope of a normal statutory audit of the financial statements of the employer, the employer's auditor would agree the terms of this engagement in writing with the employer.
201. Where the employer's auditor is not the statutory auditor for the annual audit of the financial statements of the employer, under paragraph 440.10 of the Code of Ethics for Professional Accountants under section 440 "Changes in a professional appointment", the employer's auditor is required to notify the statutory auditor of the work he is undertaking. This notification need not be given if the client advances a valid reason against it. The employer's auditor has the right to expect full co-operation of the statutory auditor in carrying out his assignment.
202. For a scheme that covers more than one relevant employer, the employer's auditor would set out in the engagement letter which relevant employers' Form B will be examined by him.

Procedures performed by the employer's auditor

203. The objective of the employer's auditor giving such an opinion in Form A is to provide the administrator's auditor with reliable audit evidence regarding contributions paid and payable for the financial year of the scheme.
204. The administrator's auditor is responsible for expressing an opinion on the financial statements of the scheme. Among other things, the administrator's auditor is required to report whether proper accounts and records have been kept; whether contributions have been made in accordance with the terms of the scheme and; for defined benefit schemes, whether the relevant undertaking has been complied with in respect of the financial year of the scheme.
205. It is therefore important that the employer's auditor plans and performs appropriate and sufficient procedures on Form B to justify his opinion given in Form A. This opinion provides an important part of the audit evidence required by the administrator's auditor in forming his opinion on the financial statements of the scheme.
206. In considering the nature and extent of procedures necessary, the employer's auditor would have regard to a number of factors, including:
- a. whether the financial year end of the scheme is the same as the financial year end of the employer;
 - b. whether the financial statements of the employer have been or are required to be audited;
 - c. whether the auditor's report on the employer's financial statements was qualified or unqualified;
 - d. the extent and nature of audit work performed on payroll and personnel records during the financial statement audit of the employer and the results of such audit work; and
 - e. the employer's auditor's general knowledge of the employer's business, internal controls and reliability of records.
207. Where the scheme is a defined benefit scheme, the employer's auditor would also have regard to the latest actuarial certificate and funding recommendations for the scheme as well as the "relevant undertaking" made by the employer to contribute to the scheme's funds in accordance with the actuary's recommendations. In such circumstances, the employer's auditor would pay particular attention to the column on Form B headed "percentage of payroll" under "Ordinary contributions from relevant employer".

Dates of receipt and payment of contributions

208. Where the date of receipt of a contribution by the administrator as shown on Form B differs by more than 14 calendar days from the date of payment as recorded in the employer's records, paragraph 23 of the Registrar's Guidelines requires that the opinion in Form A should be qualified in this respect and details of such differences should be provided in Form A.
209. The primary purpose of this qualification of opinion is to alert the administrator's auditor to the possibility of errors or irregularities arising which result in undue delay of contributions being credited to the scheme for the benefit of members. In determining what represents the "date of payment as recorded in the employer's records", the employer's auditor would have regard to the accounting system of the employer. The appropriate date may be determined from different records of the employer, depending upon the accounting system, but should usually represent the date of the cheque or other form of payment made by the employer in respect of the payment of contributions to the administrator.
210. For a scheme which the members or a class of members and their employers are exempted under section 5 of the MPFSO, the employer must pay all contributions to the scheme in respect of a "relevant" period by the due date. The term "relevant period" means each period in respect of which contributions are required to be paid. The due date by which employer contributions are required to have been paid to the scheme is:
- a. if the contribution requirements of a relevant scheme have specified the date on which the relevant employer is to pay a contribution, the due date for that contribution shall be the date so specified.
 - b. if the contribution requirements of a relevant scheme have not specified the date on which the relevant employer is to pay a contribution, the due date for the contribution for each relevant period shall be:
 - i. a day within a month next following the expiration of the relevant period as specified in a statement sent by the employer to the designated person; or
 - ii. if not so specified, the tenth day after the relevant period.

Such required date of payment should not be confused with the payroll date, although in some cases the contribution payment may be tied to the payroll date.

211. Where an employer fails to comply with its obligation to pay contributions by the due date the administrator is obliged to issue a written notice to the employer requiring the employer to pay the outstanding contributions within 30 days of the date of the notice. Such notice must be sent to the employer as soon as practicable after the administrator becomes aware of the failure by the employer to pay contributions by the due date.
212. Where the employer, despite the reminder from the administrator, still fails to pay the contributions which are in arrears the administrator is then obliged to notify the MPFA which, in turn, has the power to issue various payment notices to the employer and impose surcharges and financial penalties on the employer.

Opinion by the employer's auditor (Form A)

213. The employer's auditor is required to express his opinion in the general format set out in Form A. It is important that in expressing his opinion on whether proper accounts and records have been kept in relation to contributions, the employer's auditor indicates clearly whether or not the opinion is qualified, and if it is, precisely what the qualification(s) relate to. Similarly, in expressing his opinion on whether Form B is in accordance with the books and records of the relevant employer, the employer's auditor indicates whether or not the opinion is qualified, and if it is, the details of the exceptions identified. The employer's auditor would need to exercise professional judgement in deciding whether to include all or merely material exceptions identified by him in Form A.

214. The employer's auditor may find it desirable to reproduce Form A on the auditor's own letterheads. This is in order, provided that the contents of Form A conform to those specified in the Registrar's Guidelines. The template of Form A is included in Appendix 2 to this PN.
215. The employer's auditor's work on Form B is essentially an extension of a payroll audit. Therefore in forming an opinion in Form A in respect of whether proper accounts and records have been kept in relation to contributions, the employer's auditor considers whether the payroll and contribution details stated in Form B agree to the books kept by the employer. In addition, the employer's auditor considers whether sufficient personnel records have been kept in respect of each employee. Such personnel records may include the name of the employee, employment letter or contract, age, salary history, date of commencement of employment and date of joining the scheme, etc.

MPFA may require certain reports to be prepared by the auditor under section 32 of the ORSO

216. Under section 32 of the ORSO, the MPFA may under certain conditions require the administrator to cause an auditor approved by the MPFA to prepare a report on any matters specified in a written notice from the MPFA, and to supply the report to the MPFA. Such additional reports would constitute a separate appointment from that as the auditor of the financial statements of the scheme. Accordingly, any auditor appointed under these circumstances would agree the terms of this engagement in writing with the administrator.

APPENDIX 1

Example 1 - auditor's report on the financial statements of a MPF scheme - unqualified opinion

INDEPENDENT AUDITOR'S REPORT³ TO THE TRUSTEE OF XYZ SCHEME

Report on the Financial Statements

We have audited the financial statements of XYZ Scheme ("the Scheme") set out on pages to, which comprise the statement of net assets available for benefits as at [*year end date*], and the statement of changes in net assets available for benefits and [cash flow statement][statement of cash flows]⁴ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustee's Responsibility for the Financial Statements

The trustee is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and is responsible for ensuring that the financial statements have been properly prepared in accordance with sections 80, 81, 83 and 84 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit⁵. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In addition, we are required to assess whether the financial statements of the Scheme have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of financial statements that give a true and fair view 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 Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

³ The auditor's report may be tailored to include reporting for constituent funds of the Scheme.

⁴ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁵ 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".

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at *[year end date]*, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on matters under the Mandatory Provident Fund Schemes (General) Regulation

- a. In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.
- b. We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

ABC & Co.

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

[Auditor's address]

Date of the auditor's report

**Example 2 - auditor's report on a MPF scheme's
compliance with certain requirements of the
Mandatory Provident Fund Schemes Ordinance and the
Mandatory Provident Fund Schemes (General) Regulation
- unqualified conclusion**

COMPLIANCE REPORT BY THE AUDITOR TO THE TRUSTEE OF XYZ SCHEME

We have audited the financial statements of XYZ Scheme ("the Scheme") for the year ended [*year end date*] in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated [*insert date here*].

Pursuant to section 102 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we are required to report whether the Scheme complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") and the General Regulation.

Trustee's Responsibility

The General Regulation requires the trustee to ensure that:

- a. proper accounting and other records are kept in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme;
- b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation are complied with; and
- c. the Scheme assets are not subject to any encumbrance, otherwise than as permitted by the General Regulation.

Auditor's Responsibility

It is our responsibility to report on the Scheme's compliance with the above requirements based on the results of the procedures performed by us.⁶

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the HKICPA. We have performed such procedures as we considered necessary for the purpose of reporting on the Scheme's compliance with the above requirements.

⁶ 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".

Conclusion

Based on the foregoing:

1. in our opinion:
 - a. proper accounting and other records have been kept during the year ended *[year end date]* in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme; and
 - b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with, in all material respects, as at *[year end date]*, *[.....]*⁺ and *[.....]*^{*}; and
2. as at *[year end date]*, the Scheme assets were not subject to any encumbrance, otherwise than as permitted by the General Regulation.

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

* *insert 2 other dates in the year selected by the auditor for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than 3 months.*

**Example 3 - auditor's report on an applicant trustee's compliance
with prescribed capital adequacy requirements
pursuant to section 18 of the Mandatory Provident
Fund Schemes (General) Regulation - unqualified conclusion**

**INDEPENDENT AUDITOR'S REPORT
TO THE DIRECTORS OF XYZ LIMITED ("the Company")
PURSUANT TO SECTION 18 OF THE MANDATORY PROVIDENT FUND SCHEMES (GENERAL)
REGULATION**

Pursuant to section 18 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to report on the Company's compliance with prescribed capital adequacy requirements.

Directors' Responsibility

Under the General Regulation, the directors are responsible for the Company's compliance with prescribed capital adequacy requirements.

Auditor's Responsibility

It is our responsibility to report on the Company's compliance based on the results of the procedures performed by us.⁷

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants. We have performed such procedures as we considered necessary for the purpose of reporting on the Company's compliance with prescribed capital adequacy requirements.

Conclusion

Based on the foregoing, in our opinion the Company has complied, in all material respects, with prescribed capital adequacy requirements as set out in section 11[(2)/(3)] of the General Regulation as at *[insert date here]*.

Use of this report

This report is intended solely for submission by the Company to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

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

⁷ 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".

* *the date agreed between the Company and the Mandatory Provident Fund Schemes Authority.*

**Example 4 - auditor's report on the trustee's compliance
with prescribed capital adequacy requirements
pursuant to section 115 of the Mandatory Provident
Fund Schemes (General) Regulation - unqualified conclusion**

**INDEPENDENT AUDITOR'S REPORT
TO XYZ TRUSTEE ("the Trustee")
PURSUANT TO SECTION 115 OF THE MANDATORY PROVIDENT FUND SCHEMES (GENERAL)
REGULATION**

Pursuant to section 115 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to report on the Trustee's compliance with prescribed capital adequacy requirements.

Management's Responsibility

Under the General Regulation, management is responsible for the Trustee's compliance with prescribed capital adequacy requirements.

Auditor's Responsibility

It is our responsibility to report on the Trustee's compliance based on the results of the procedures performed by us.⁸

Basis of conclusion

We have audited the financial statements of the Trustee for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated *[insert date here]*.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the HKICPA. We have performed such additional procedures as we considered necessary for the purpose of reporting on the Trustee's compliance with prescribed capital adequacy requirements.

Conclusion

Based on the foregoing, in our opinion the Trustee has complied, in all material respects, with prescribed capital adequacy requirements as set out in section 11[(2)/(3)] of the General Regulation as at *[year end date]*, *[.....]* and *[.....]* *.

⁸ 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".

* *insert 2 other dates in the year selected by the auditor for performing procedures on checking compliance and such selected dates must be at least 3 months apart or such a shorter period the MPFA may allow.*

Note: In practice, section 115 (5) of the General Regulation imposes a six month deadline for the submission of this report to the trustee in order that the trustee can comply with section 114 (1) of the General Regulation - submission of the trustee's and auditor's report to the MPFA.

Use of this report

This report is intended solely for submission by the Trustee to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Date *[see note below]*

Example 5 - report by the auditor of a service provider for submission to the trustee pursuant to section 74(5)(b) of the Mandatory Provident Fund Schemes (General) Regulation

**INDEPENDENT AUDITOR'S REPORT
TO THE DIRECTORS OF XYZ LIMITED
PURSUANT TO SECTION 74(5)(b) OF THE MANDATORY PROVIDENT FUND SCHEMES
(GENERAL) REGULATION**

Pursuant to section 74(5)(b) of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to issue a report, in respect of the Service Agreements made between XYZ Limited ("the Company") and ABC Trustee dated *[insert date here]* ("Service Agreements").

Directors' Responsibility

Under the General Regulation, ABC Trustee requires the Company to submit to it a report of any material event and an annual report that complies with section 74(5) of the General Regulation. The directors of the Company are responsible for complying with the requirement of ABC Trustee in submitting the abovementioned reports to it.

Auditor's Responsibility

It is our responsibility to issue a report stating whether or not, in our normal course of duties as the auditor of the Company⁹, we have become aware of:

1. any failure of the Company to comply with the Company's obligations under the Service Agreements; and
2. any false declaration made by the Company to ABC Trustee or any other person.

Basis of conclusion

We have audited the financial statements of the Company for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated *[insert date here]*. The objective of the audit of the financial statements of the Company is to enable us to express an opinion on whether such financial statements give a true and fair view of the state of the Company's affairs as at *[year end date]* and of its [profit/loss] and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In preparing this report, we have also considered the guidance contained in Practice Note 860.1 "The Audit of Retirement Schemes" issued by the HKICPA.

In relation to our conclusion below, we are not required to perform any procedures in addition to the normal course of audit to search for instances of non compliance with obligations under the Service Agreements or any false declarations made to ABC Trustee or any other person.

⁹ 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".

Conclusion

Based on the foregoing, nothing has come to our attention during the course of our audit of the financial statements of the Company for the year ended *[year end date]* that causes us to believe that the Company:

1. failed to comply with its obligations under the Service Agreements; and
2. made any false declaration to ABC Trustee or any other person.

Use of this report

This report is intended solely for submission by the Company to ABC Trustee as required under section 74(1) of the General Regulation and is not intended to be, and should not be, used by anyone for any other purpose.

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

**Example 6 - auditor's report on the review of the trustee's report on
control objectives and internal control measures
pursuant to section 113 of the Mandatory Provident Fund Schemes (General)
Regulation - unqualified conclusion**

**INDEPENDENT AUDITOR'S REPORT
TO XYZ TRUSTEE
PURSUANT TO SECTION 113 OF THE MANDATORY PROVIDENT FUND SCHEMES (GENERAL)
REGULATION**

Pursuant to section 113 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to review a report on control objectives and internal control measures dated *[insert date here]* ("Trustee's Report") which is required to be prepared by you as trustee under section 112 of the General Regulation.

Scope

This report covers our review of the Trustee's Report on the control objectives and internal control measures of XYZ Trustee applicable to the approved Mandatory Provident Fund Schemes for which the trustee is XYZ Trustee ("the Schemes"), and does not extend to any other control objectives or internal control measures of XYZ Trustee.

Trustee's Responsibility

Under the General Regulation, XYZ Trustee is responsible for:

1. ensuring that control objectives, as stated under section 39 of the General Regulation, are established and maintained with respect to the Schemes by ensuring that:
 - a. the assets of the Schemes are safeguarded in the interests of members of the Schemes;
 - b. the guidelines made by the Mandatory Provident Fund Schemes Authority ("MPFA") under section 28 of the Mandatory Provident Fund Schemes Ordinance with respect to forbidden investment practices are not contravened;
 - c. the limitations and prohibitions imposed under the General Regulation with respect to the investment of the funds of the Schemes in restricted investments are complied with;
 - d. the requirements of section 37(2) of the General Regulation with respect to capital preservation fund, section 51 of the General Regulation with respect to repurchase agreements, section 52 of the General Regulation with respect to stock lending and Schedule 1 to the General Regulation with respect to permissible investments are complied with in relation to the Schemes; and
 - e. the funds of the Schemes and the assets of the Schemes are, except as permitted by the General Regulation, kept separate from those of the participating employers, XYZ Trustee and the service providers and other persons appointed or engaged for the purposes of the Schemes;
2. establishing and maintaining the following internal control measures and procedures for achieving the above control objectives:
 - a. monitoring investments to ensure that the control objectives referred to in paragraphs 1(b), (c) and (d) above are achieved;
 - b. monitoring the funds of the Schemes and the assets of the Schemes to ensure the objective referred to in paragraph 1(e) above is achieved, so that the funds of the

Schemes and the assets of the Schemes are kept separate from those of the participating employers, XYZ Trustee and any other persons (such as service providers); and

- c. ensuring the accuracy of statements, returns and reports required to be lodged with the MPFA; and
3. implementing the recommended measures outlined in the MPFA Guidelines II.6 "Guidelines on Internal Control Report for each Registered Scheme" ("MPFA Guidelines II.6").

Auditor's Responsibility

It is our responsibility to review the Trustee's Report and report in writing to XYZ Trustee on the review.¹⁰

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants. Our work was based upon obtaining an understanding of the control procedures in operation by enquiry of management and review of documents supplied to us.

In accordance with the MPFA Guidelines II.6, we are not required to test and ascertain whether the control objectives and internal control measures as described on pages [] to [] were actually implemented during the year ended *[year end date]*. Our work was limited to ensuring whether relevant control objectives and internal control measures were designed by XYZ Trustee for meeting each of the requirements specified in the General Regulation and the MPFA Guidelines II.6.

We have not performed an assessment of the adequacy or completeness of the control objectives in relation to the risks they are designed to address. Our work was limited to the objectives specified in the General Regulation and our conclusion relates solely to reporting that XYZ Trustee has designed control objectives and internal control measures in line with those recommended in the MPFA Guidelines II.6.

Inherent limitations

Internal control measures 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. Such measures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust.

Conclusion

Based on the foregoing, in our opinion:

1. appropriate control objectives were established and maintained for the Schemes during the year ended *[year end date]*;
2. effective internal control measures were established and maintained for the purpose of achieving those objectives during the year ended *[year end date]*; and
3. those internal control measures were likely to have been sufficiently effective, in all material respects, to provide a reasonable assurance that the control objectives established and maintained for the Schemes would be achieved if those measures were fully and properly implemented.

¹⁰ 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".

THE AUDIT OF RETIREMENT SCHEMES

During the course of our engagement, we did not become aware of any shortcomings in the internal control measures that could materially affect the operation of the Schemes (including their financial position) or the financial interests of members of the Schemes during the year ended *[year end date]*.

OR

During the course of our engagement, we became aware of the following shortcomings in the internal control measures that could materially affect the operation of the Schemes (including their financial position) or the financial interests of members of the Schemes during the year ended *[year end date]*:

-
-
-
-
-

Use of this report

This report is intended solely for submission by XYZ Trustee to the MPFA pursuant to section 112(3) of the General Regulation, and is not intended to be, and should not be, used by anyone for any other purpose.

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

**Example 7 - auditor's report on the
financial statements of an ORSO scheme - unqualified opinion**

**INDEPENDENT AUDITOR'S REPORT
TO THE ADMINISTRATOR¹¹ OF XYZ SCHEME**

[Report on the Financial Statements]¹²

We have audited the financial statements of XYZ Scheme ("the Scheme") set out on pages to, which comprise the statement of net assets available for benefits as at *[year end date]*, and the statement of changes in net assets available for benefits and *[cash flow statement]**[statement of cash flows]*¹³ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Administrator's Responsibility for the Financial Statements

The administrator is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the provisions of the Occupational Retirement Schemes Ordinance, and for such internal control as the administrator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit¹⁴. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of financial statements that give a true and fair view 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 Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the administrator, as well as evaluating the overall presentation of the financial statements.

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

¹¹ The term "administrator" is used in this Practice Note to refer to the trustee if an ORSO scheme is governed by a trust or the insurer if an ORSO scheme is the subject of or regulated by an insurance arrangement. The auditor's report is addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's report is addressed to the administrator.

¹² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹³ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹⁴ 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".

Opinion

In our opinion, the financial statements give a true and fair view of the disposition of the assets and liabilities of the Scheme as at *[year end date]* and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

[Report on matters under section 20(3)(c) of the Hong Kong Occupational Retirement Schemes Ordinance]¹²

[The auditor shall state in the auditor's report such other information as the MPFA may specify in the guidelines issued by it. The auditor is required under the ORSO (section 20(3)(c)) to report by exception the following limitations on the scope of the work:

- a. access to the employer's books and records has been denied; or*
- b. the auditor is unable to obtain all the information and explanations which, to the best of the knowledge and belief, are necessary for the purpose of the audit.]*

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

**Example 8 - auditor's report on an ORSO scheme's
compliance with certain requirements of the
Occupational Retirement Schemes Ordinance - unqualified conclusion**

**COMPLIANCE REPORT BY THE AUDITOR
TO THE ADMINISTRATOR¹⁵ OF XYZ SCHEME**

We have audited the financial statements of XYZ Scheme ("the Scheme") for the year ended [*year end date*] in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated [*insert date here*].

Pursuant to section 20 of the Occupational Retirement Schemes Ordinance ("ORSO"), we are required to report whether the Scheme complied with certain requirements of the ORSO.

Administrator's Responsibility

The ORSO requires the administrator to ensure that:

- a. proper accounts and records are kept as regards all assets, liabilities and financial transactions of the Scheme;

[*For a defined benefit scheme only*]

- b. the relevant undertaking, as defined under section 20(4) of the ORSO¹⁶, is complied with;

OR

[*For a defined contribution scheme only*]

- b. contributions are made in accordance with the terms of the Scheme;
- c. the assets of the Scheme are not subject to any assignment, charge,¹⁷ pledge or other encumbrance except for those specified in section 20(3)(b)(iii) of the ORSO¹⁷; and
- d. the requirements of section 27(2) of the ORSO¹⁸ are complied with.

Auditor's Responsibility

It is our responsibility to report on the Scheme's compliance with the above requirements based on the results of the procedures performed by us.¹⁹

¹⁵ The term "administrator" is used to refer to the trustee if an ORSO scheme is governed by a trust or the insurer if an ORSO scheme is the subject of or regulated by an insurance arrangement. The auditors' report is addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditors' report is addressed to the administrator.

¹⁶ "relevant undertaking" is defined by section 20(4) and Schedule 2 Parts 1 and 2 paragraph 6 of the ORSO as a written undertaking by the relevant employer of the scheme (i.e. the employer who provides the employment which entitles or enables the employee to be a member of the scheme) to the administrator of the scheme to contribute to the scheme's fund in accordance with recommendations made by the actuary in the actuarial certificate issued as regards a particular registered scheme. Where more than one actuarial certificate has been issued, the undertaking referred to is the one in the most recent of those certificate which is applicable to the financial period under review.

¹⁷ *The exceptions stated in section 20(3)(b)(iii) of the ORSO are as follows:*

- a. *the trust (if any) governing the scheme;*
- b. *any charge or pledge created for the purposes of securing loans necessary for meeting the liabilities of the scheme; and*
- c. *any option to acquire for valuable consideration any interest in the assets of the scheme granted in the normal course of business.*

¹⁸ *Section 27(2) of the ORSO stipulates the investment restrictions.*

¹⁹ 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".

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the HKICPA. We have performed such procedures as we considered necessary for the purpose of reporting on the Scheme's compliance with the above requirements.

Conclusion

Based on the foregoing, in our opinion:

1. proper accounts and records have been kept during the year ended *[year end date]* as regards all assets, liabilities and financial transactions of the Scheme;

[For a defined benefit scheme only]

2. the relevant undertaking, as defined under section 20(4) of the ORSO, has been complied with during the year ended *[year end date]*;
OR

[For a defined contribution scheme only]

2. contributions have been made in accordance with the terms of the Scheme during the year ended *[year end date]*; and
[If there is a shortfall]
at *[net assets statement date]* there was a shortfall amounting to HK\$..... between the Scheme's assets and the Scheme's aggregate vested liability;
OR
[If there is no shortfall]
at *[net assets statement date]* there was no shortfall between the Scheme's assets and the Scheme's aggregate vested liability;
3. at *[net assets statement date]* the assets of the Scheme were not subject to any assignment, charge, pledge or other encumbrance except for those specified in section 20(3)(b)(iii) of the ORSO; and
4. at *[net assets statement date]*, *[.....]* and *[.....]*²⁰ the requirements of section 27(2) of the ORSO have been complied with.

Use of this report

This report is intended solely for submission by the administrator to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

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

²⁰ Insert two other dates in the year selected by the auditors for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than three months.

**Example 9 - auditor's report on
the financial statements of an APIF - unqualified opinion**

**INDEPENDENT AUDITOR'S REPORT
TO THE [TRUSTEE][INSURER] OF XYZ FUND**

Report on the Financial Statements

We have audited the financial statements of XYZ Fund ("the Fund") set out on pages to, which comprise the statement of net assets attributable to [fundholders][unitholders] as at [*year end date*], and the statement of comprehensive income, the statement of changes in net assets attributable to [fundholders][unitholders] and [cash flow statement][statement of cash flows]²¹ for the year then ended, and a summary of significant accounting policies and other explanatory information.

[[Manager's and] [Trustee's] [Insurer's] Responsibility for the Financial Statements

The [Manager and the] [Trustee][Insurer] of the Fund [are][is] responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the constitutive documents of the Fund ("the Constitutive Documents"), the Mandatory Provident Fund Schemes Ordinance ("the MPFSO"), the Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation"), the Code on MPF Investment Funds ("the MPF Code"), and Guidelines II.5 issued by the Mandatory Provident Fund Schemes Authority ("the MPFA") [and the Code on Unit Trusts and Mutual Funds ("the Code") issued by the Hong Kong Securities and Futures Commission ("the SFC")]²², and for such internal control as the [manager and the] [trustee][insurer] determine[s] is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit²³. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the constitutive documents of the Fund, the MPFSO, the General Regulation, the MPF Code and Guidelines II.5 issued by the MPFA [and the Code issued by the SFC]²².

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the [manager and the] [trustee][insurer], as well as evaluating the overall presentation of the financial statements.

²¹ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

²² Delete if the Fund is only approved by the MPFA but not authorized by the SFC under section 104(1) of the Securities and Futures Ordinance.

²³ 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".

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at *[year end date]*, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

- (a) In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the constitutive documents of the Fund, the MPFSO, the General Regulation, the MPF Code and Guidelines II.5 issued by the MPFA [and the Code issued by the SFC]²²; and
- (b) We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

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

Example 10 - auditor's report on an APIF's compliance with certain requirements of the Mandatory Provident Fund Schemes Ordinance, the Mandatory Provident Fund Schemes (General) Regulation and the Code on MPF Investment Funds - unqualified conclusion

COMPLIANCE REPORT BY THE AUDITOR TO THE [TRUSTEE][INSURER] OF XYZ FUND

We have audited the financial statements of XYZ Fund ("the Fund") for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued *[an unqualified/a qualified]* auditor's report thereon dated *[insert date here]*.

Pursuant to Guidelines II.5 and Code on MPF Investment Funds issued by the Mandatory Provident Fund Schemes Authority, we are required to report whether the Fund complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance ("the MPFSO") and the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), which are made applicable to the Fund through the Code on MPF Investment Funds.

[Manager and the] [Trustee][Insurer]'s Responsibility

The General Regulation requires the *[manager and the] [trustee][insurer]* to ensure that:

- a. proper accounting and other records are kept in respect of the Fund assets and all financial transactions entered into in relation to the Fund;
- b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority ("the MPFA") under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 of, and Schedule 1 to, the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds, are complied with; and
- c. the Fund assets are not subject to any encumbrance, otherwise than as permitted by section 65 of the General Regulation.

Auditor's Responsibility

It is our responsibility to report on the Fund's compliance with the above requirements based on the results of the procedures performed by us.²⁴

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 860.1 "The Audit of Retirement Schemes" issued by the HKICPA. We have performed such procedures as we considered necessary for the purpose of reporting on the Fund's compliance with the above requirements.

²⁴ 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".

Conclusion

Based on the foregoing:

1. in our opinion:
 - a. proper accounting and other records have been kept during the year ended *[year end date]* in respect of the Fund assets and all financial transactions entered into in relation to the Fund; and
 - b. the requirements specified in the guidelines made by the MPFA under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 of, and Schedule 1 to, the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds, have been complied with, in all material respects, as at *[year end date]*, *[.....]*^{*} and *[.....]*^{*}.
2. as at *[year end date]*, the assets of the Fund were not subject to any encumbrance, otherwise than as permitted by section 65 of the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds.

Use of this report

This report is intended solely for submission by the [manager and the] [trustee][insurer] to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

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

* *insert 2 other dates in the year selected by the auditor for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than 3 months.*

APPENDIX 2

FORM - A

Occupational Retirement Schemes Ordinance (Cap. 426)
("the Ordinance")

The Employer's Auditor's Statement to the
Administrator's Auditor under section 20(7A) of the Ordinance

Name of the Relevant Employer: _____
(“the relevant employer”)

Name of the Occupational
Retirement Scheme: _____
(“the Scheme”)

Registration No. of the Scheme: _____

Types of Scheme (indicate by a tick in the appropriate boxes):-

- Defined contribution
- Defined benefit
- Governed by trust
- Subject of or regulated by insurance arrangement
- Participating in a pooling agreement:-
Yes
No

If “Yes”, name of pooling agreement: _____

- Participating in a group scheme
(see Paragraph 10 of Registrar's Guidelines):-
Yes
No

If “Yes”, name of representative employer: _____

Name of employer's auditor: _____

Name of administrator's auditor: _____

Address of administrator's auditor: _____

THE AUDIT OF RETIREMENT SCHEMES

*I/We, _____, of
(name of employer's auditor)

(address of employer's auditor)

being the employer's auditor duly appointed under section 20(7B)(a) of the Ordinance, hereby state as follows:-

1. *I/We have completed procedures on the Statement on Details of Contributions (Form B attached) for the financial year ended _____ in so far as they relate to the Scheme, having regard to the guidelines issued by the Registrar and in accordance with the pronouncements issued by Hong Kong Institute of Certified Public Accountants.
2. Based on these procedures in *my/our opinion:-
 - (a) proper accounts and records *have/have not been kept in relation to contributions; and
 - (b) the Statement on Details of Contributions is in accordance with the books and records of the relevant employer (*except as noted here-under):-

(Signed)
(Name of employer's auditor)

(Date)

(Place)

* Delete whichever is not applicable.

(This Form and the attached Form B should be returned directly to the administrator's auditor.)