

Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong

Policy, Registration and Oversight

March 2024



About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

Foreword

The current financial landscape is marked by multiple challenges and uncertainties. Persistently high interest rates, intensified geopolitical tensions, the disruptive pace of technological advancements, and labour shortages in Hong Kong have collectively contributed to a volatile and complex environment.

Public interest entity (**PIE**) auditors serve as vital gatekeepers of financial reporting of listed companies in Hong Kong. They play a crucial role in ensuring the credibility of Hong Kong's capital markets and fostering investor confidence. Their role contributes to cementing the city's position as an international financial centre and a "super connector" between the East and the West. Undoubtedly, amidst a challenging and complex environment, the role of PIE auditors has become even more critical.

To gain a comprehensive understanding of the market environment in which PIE auditors operate, the Accounting and Financial Reporting Council (**AFRC**) has analysed the PIE audit market in Hong Kong. The analysis covers various aspects, including demand, supply, the competitive landscape, and factors that may impact audit quality. Key factors considered in the analysis include vacancy and attrition rates, diversity and inclusion, the potential future supply of audit professionals, level of supervision, workload, technology deployment, and training.

The analysis reveals that there has been a comparatively high vacancy rate, particularly at junior grades, which poses challenges to this labour-intensive industry. However, it is important to emphasise that a labour shortage should never serve as an excuse for compromising audit quality.

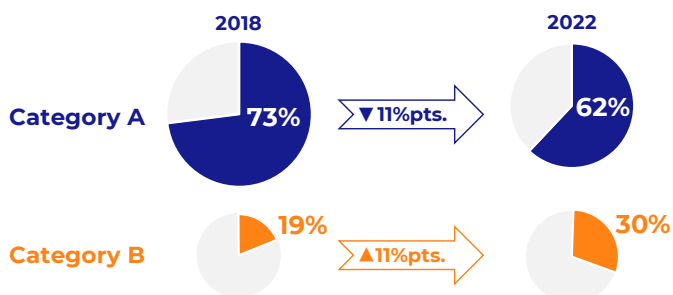
Therefore, it is imperative for industry players to unravel the fundamental issues behind the lack of attractiveness of the industry and effectively address these problems. Irrespective of any increase in workforce numbers, neglecting to tackle these root causes will result in a continued exodus of individuals from the industry.

The AFRC hopes this report will continue to foster constructive dialogue and collaboration amongst stakeholders in the PIE audit market. It is also the AFRC's intention that this report will provide valuable insights and inspiration and ensure the long-term and sustainable growth of the PIE audit market in Hong Kong. By shaping an environment that promotes the success and sustainability of the profession, we can uphold audit quality and further enhance Hong Kong's status as an international financial centre.

Key highlights

Market Competition

▶ Market share by number of engagements



▶ Change in mean audit fees for local PIE auditors (2018 to 2022)



Compound annual growth rate of fees (nominal) ▲0.2%

Compound annual growth rate of fees (adjusted for inflation) ▼1.4%

▶ Audit fee pressure that may compromise audit quality



33% of Category A experienced fee pressure in 2023, ▼17% pts. from 2022

48% of Category B experienced fee pressure in 2023, ▲32% pts. from 2022

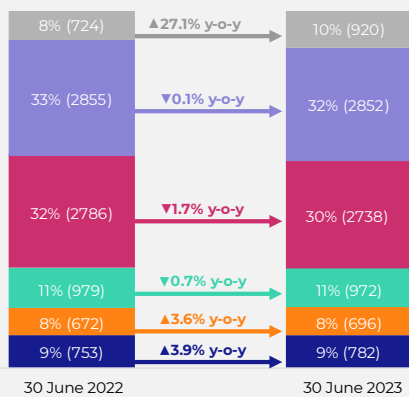
53% of Category C experienced fee pressure in 2023, ▲9% pts. from 2022

Workforce

Actual headcount working in PIE audits (excluding SDC) **8,040** ▼5 (-0.1%) y-o-y (As at 30 June 2023)

Actual headcount working in PIE audits (including SDC) **8,960** ▲191 (+2.2%) y-o-y (As at 30 June 2023)

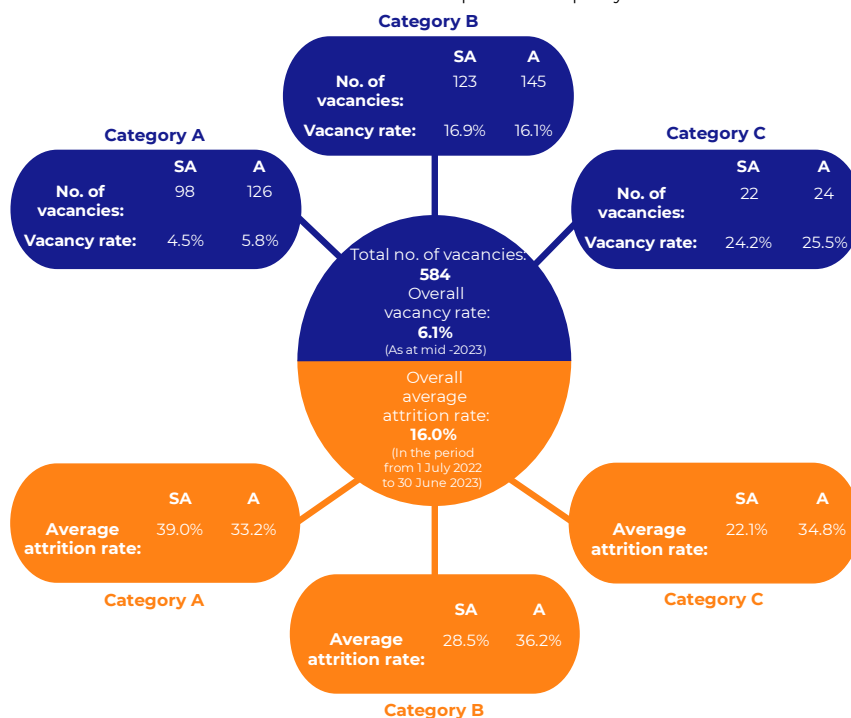
If SDC included, the headcount composition by grade will be...



Most of the total growth in headcount can be attributed to the increase in SDC staff.

When analysed in terms of the composition of partners and staff, the share of SDC staff increased the most.

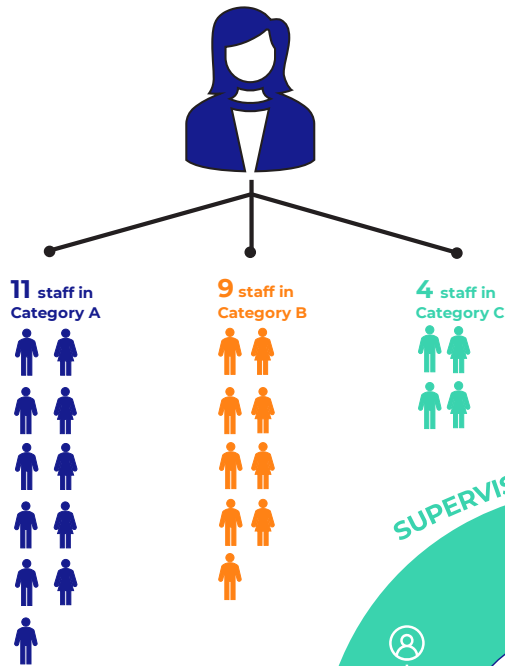
High vacancy and attrition rates amongst junior grades may derail PIE auditors' efforts to establish stable audit teams and uphold audit quality.



P= Partners; SM= Senior Managers; M= Managers; SA= Senior Associates; A= Associates; SDC= Service Delivery Centre Staff; y-o-y=Year-on-Year

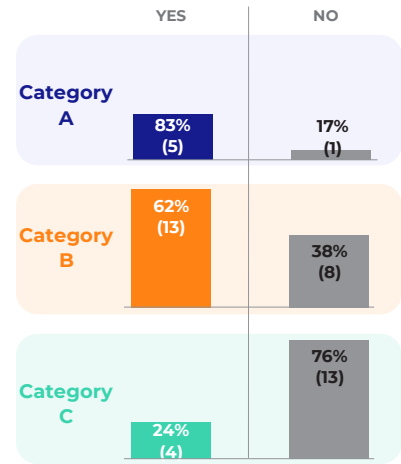
Factors that may impact audit quality

On average, one partner supervises... (As at mid -2023)



To identify its impact on audit quality, the supervision ratio should be assessed along with factors such as the engagement team's skills, knowledge, experience, complexity of the audit engagement, and the availability of resources such as technology.

Provided 20 or more verifiable Continuing Professional Development (CPD) hours to each partner and staff on average (In the period from 1 July 2022 to 30 June 2023)

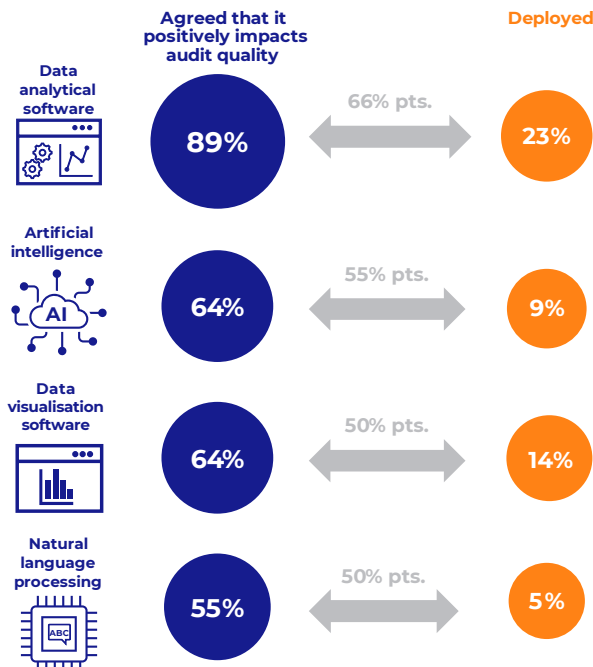


All categories of PIE auditors have at least one practice unit that had provided less than 20 verifiable hours of CPD training to each partner and staff on average. The problem is most acute for Category C PIE auditors with more than three-quarters providing less than 20 verifiable CPD hours, followed by Category B PIE auditors.

Note: The CPD requirement for members of the Hong Kong Institute of Certified Public Accountants is 60 verifiable CPD hours in a three-year rolling period. The above analysis uses 20 verifiable hours as a benchmark for comparative purposes.



Largest percentage point gap between... (In the period from 1 July 2022 to 30 June 2023)



There is a noticeable gap between the technologies that PIE auditors had deployed and the technologies they believe will positively impact audit quality.

This suggests that there is room for improvement in aligning technology deployment with the perceived positive impact on audit quality.

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Introduction

1. Introduction

- 1.1. PIE¹ auditors² are entrusted with the responsibility of providing high-quality, independent, and reliable audits of financial statements. This helps promote investor confidence, protect the public interest, and maintain Hong Kong's position as a competitive international financial centre.
- 1.2. To gain a more in-depth understanding of the PIE audit market in Hong Kong, inform the AFRC's policy development, continue identifying areas to improve audit quality, and contribute to the success and sustainability of the profession, the AFRC conducted a study of the market.
- 1.3. The findings of the study, which forms the basis of this report, came from the following:
 - 1.3.1. A survey which was sent in November 2023 to all local PIE auditors³ with at least one PIE engagement⁴ during the period from 1 July 2020 to 30 June 2023 (Appendix I). All 48 PIE auditors that satisfied the criteria responded to the survey.

1 A PIE means a Hong Kong listed corporation of which its listed securities comprise at least shares or stocks, or a listed collective investment scheme as defined in section 3(1) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (AFRCO).

2 A PIE auditor refers to a registered PIE auditor or a recognised PIE auditor under section 3A(1) of the AFRCO. A registered PIE auditor means a practice unit registered under Division 2 of Part 3 of the AFRCO. A recognised PIE auditor means an overseas auditor recognised under Division 3 of Part 3, including a Mainland auditor recognised under section 20ZT of the AFRCO. A practice unit refers to a Hong Kong firm registered with the AFRC and is eligible to perform statutory audits. It has to further register with the AFRC as registered PIE auditor in order to carry out PIE engagements. Refer to footnote 7 for the full definition of a practice unit.

3 As the purpose of the study is to analyse the PIE audit market in Hong Kong, only local PIE auditors were surveyed.

4 A PIE engagement as defined in Part 1 of Schedule 1A of the AFRCO means any of the following types of engagements for the preparation of: an auditor's report on a PIE's financial statements / annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition.

- 1.3.2. A continuation of the AFRC's past research on the audit market,⁵ including research on audit fee and market share trends in the period from 2018 to 2022.
- 1.3.3. The collection and analysis of membership data from the Hong Kong Institute of Certified Public Accountants (**HKICPA**).
- 1.4. The findings from the survey, research on the audit market, and publicly available data are discussed in the following sections:
 - 1.4.1. **Market overview of the PIE audit market in Hong Kong (Section A):** This section covers the analysis of the demand, supply, and competition of the PIE audit market in Hong Kong.
 - 1.4.2. **Analysis of local PIE auditors (Section B):** This section covers the analysis of various factors that may influence audit quality of local PIE auditors in Hong Kong. Factors include headcount, number of vacancies, vacancy rate, attrition rate, future supply of audit professionals, gender equality, level of supervision, workloads, technology deployment, and provision of continuing professional development (**CPD**) training.
- 1.5. Based on the findings, the report aims to shed light on the composition and dynamics of the PIE audit market. It also contains key messages to auditors and other stakeholders, including audit committees. The key messages are summarised in Section C.
- 1.6. The methodology and limitations are detailed in Section D.
- 1.7. Lastly, the AFRC would like to thank all survey respondents for taking the time to respond to the survey and for their cooperation in sharing their perspectives and experiences.

⁵ See AFRC "Overview of the Market for Listed Entity Audits in Hong Kong", March 2021 <https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/Overview-of-the-Market-for-Listed-Entity-Audits-in-Hong-Kong.pdf>; and AFRC "Audit fees paid by listed companies in Hong Kong in 2020/2021", March 2023 <https://www.afrc.org.hk/en-hk/policy-and-governance-publications/audit-fee-report/>

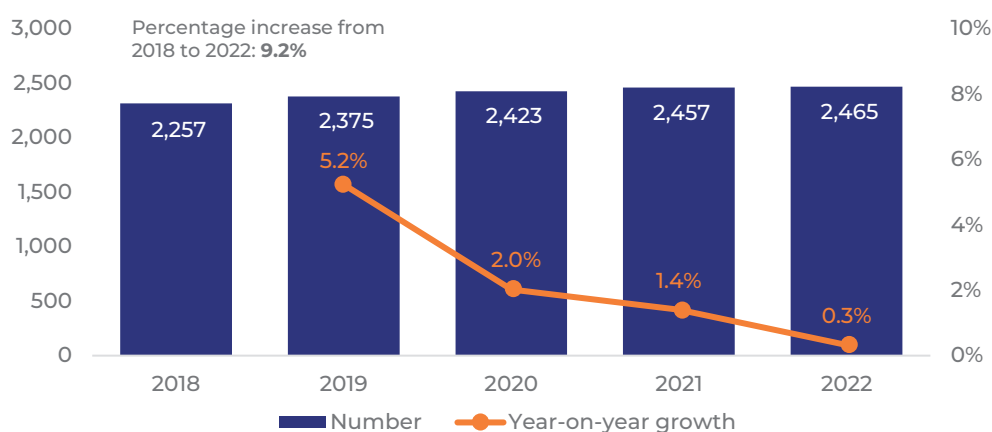
Section A

Market overview of the PIE audit market in Hong Kong

2. Demand for PIE audits

- 2.1. The demand for PIE audits in Hong Kong has been on the rise. One clear indicator is the increase in the number of listed companies.
- 2.2. With more listed companies, the demand for audits of listed companies has grown in tandem. As Figure 1 shows, the number of listed companies with annual reports published rose from 2,257 in 2018 to 2,465 in 2022.⁶
- 2.3. However, the year-on-year growth rate showed a declining trend, dropping from 5.2% in 2019 to 0.3% in 2022. This can be primarily attributed to a decreasing trend in initial public offerings since 2019 due to dampened market sentiment and macroeconomic headwinds.

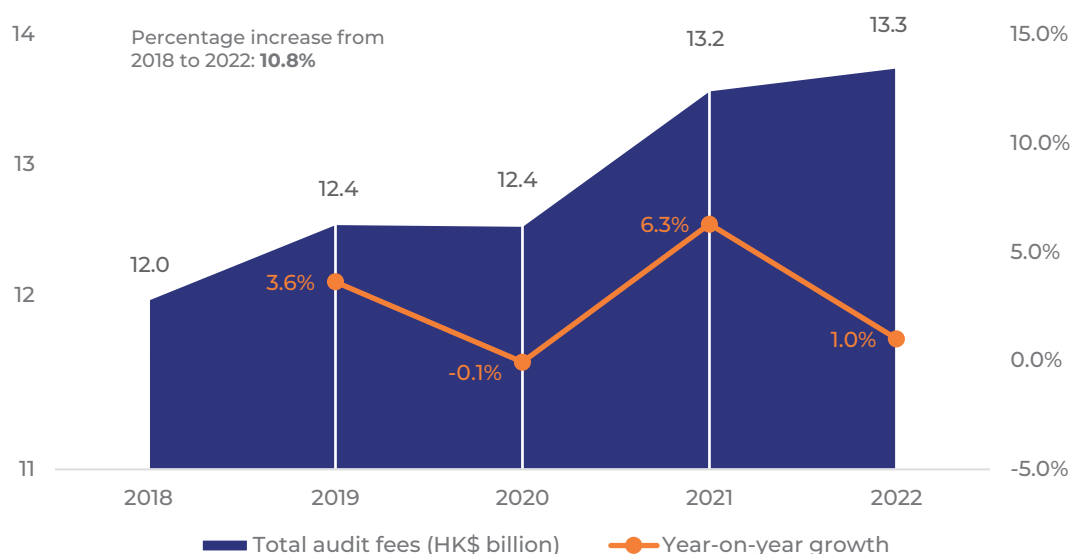
Figure 1. Number and year-on-year growth of Hong Kong listed companies with annual reports published



⁶ The number of listed companies is different from the number published by the Hong Kong Stock Exchange. This is because some listed companies may not have published annual reports before the reporting deadline. Common reasons for listed companies refraining from publishing annual reports before the deadline include: the listed company failed to provide sufficient audit evidence, the listed company was experiencing liquidity issues, and the listed company encountered audit issues and took additional time to address them. Further information can be found in the Hong Kong Stock Exchange “Review of Issuers’ Annual Reports 2022”, January 2023 https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Exchanges-Review-of-Issuers-Annual-Disclosure/rdiar_2022.pdf; and “Review of Issuers’ Annual Reports 2023”, January 2024 https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Exchanges-Review-of-Issuers-Annual-Disclosure/rdiar_2023.pdf

2.4. Total audit fees serve as another indicator of the demand for PIE audits. In Hong Kong, the total audit fees of listed companies with annual reports published increased from HK\$12.0 billion in 2018 to HK\$12.4 billion in 2019, before decreasing slightly in 2020. The market rebounded by 6.3% in 2021 to HK\$13.2 billion and then grew slightly to HK\$13.3 billion in 2022 (Figure 2).

Figure 2. Audit fees of Hong Kong listed companies with annual reports published (HK\$ billion)



2.5. In terms of the demand for PIE audits, both indicators above show similar increasing trends. The percentage growth of 10.8% in total audit fees from 2018 to 2022 broadly aligns with the percentage growth in the total number of listed companies with annual reports published during the same period (9.2%). This indicates that the rise in total audit fees was primarily driven by the rise in the total number of listed companies rather than an increase in audit fees per engagement. The analysis of trends in audit fees will be further discussed in Subsection 5.

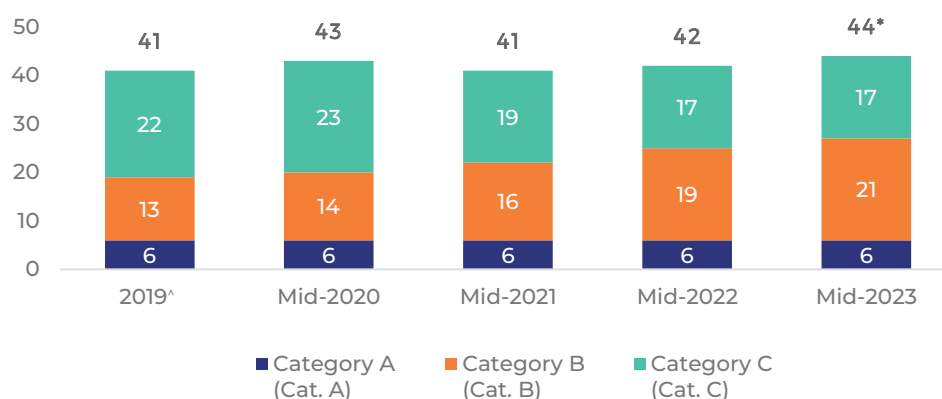
3. Supply of PIE audits

- 3.1. As a registered local practice unit,⁷ or a Mainland or an overseas audit firm recognised under the AFRCO, a PIE auditor performs audits of Hong Kong listed companies.
- 3.2. As Figure 3 shows, the total number of locally registered PIE auditors remained relatively stable over the period from 2019 to 30 June 2023 (**mid-2023**). As at mid-2023, there were 44 registered local PIE auditors that had issued auditor's opinions for listed companies for the financial year ended 2022.

⁷ A practice unit means a Certified Public Accountant (practising) who practises accountancy in his or her own name, a CPA firm, or a corporate practice, as defined under section 2(1) of the AFRCO.

3.3. Analysed by categories, the number of Category A PIE auditors remained at six over the period,⁸ while Category B PIE auditors increased steadily from 13 in 2019 to 21 in mid-2023. On the other hand, the number of Category C PIE auditors decreased from 22 in 2019 to 17 in mid-2023. The change in market share and its implications on market competition will be further discussed in the following subsection.

Figure 3. Number of local PIE auditors with PIE audit engagements



Notes: (*) Out of the 48 surveyed local PIE auditors with at least one PIE audit engagement in the period from 1 July 2020 to 30 June 2023, four did not have any PIE audit engagements for the year ended 30 June 2023.
 (^) The AFRC (formerly known as the FRC) has been empowered to register practice units in Hong Kong as registered PIE auditors since 1 October 2022. From 1 October 2019 to 30 September 2022, the HKICPA was responsible for this function.

3.4. The total headcount who worked in PIE audit engagements as at mid-2023 was 8,960 partners and staff (see Subsection 6 for further details on the headcount of PIE auditors). Together they provided audits to 94.7% of Hong Kong listed companies for the financial year ended 2022.⁹

4. Market competition: Market share of PIE auditors

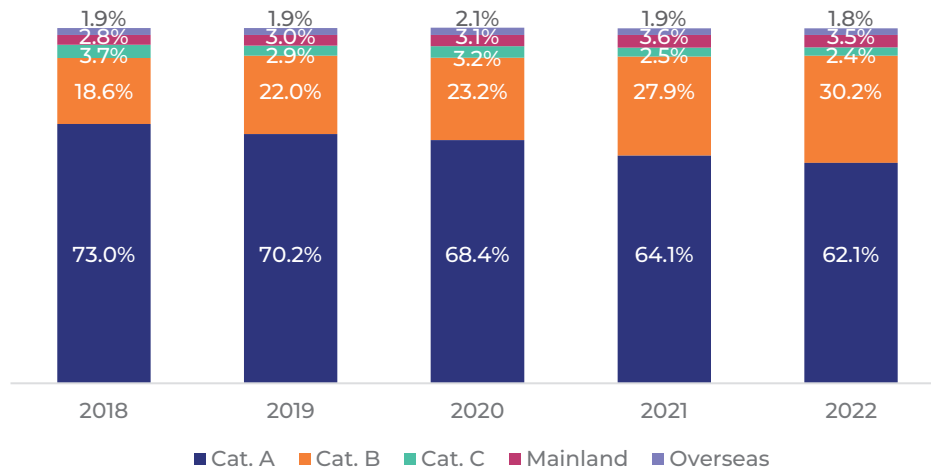
4.1. Market share is a key indicator of market competition as it reflects the relative positioning of firms by their market presence. Figure 4 shows that while Category A PIE auditors continued to hold the lion's share of the PIE audit market by number of engagements, there had been a noticeable decreasing trend. Their share dropped continuously from 73.0% in 2018 to 62.1% in 2022.

⁸ Category A PIE auditors refer to local PIE auditors with more than 100 PIE audit engagements. Since 2019, one of the surveyed PIE auditors was categorised as Category A. In early 2023, the PIE auditor's PIE engagements fell below 100. However, as the PIE auditor was in Category A for most of the period analysed in this report, the report has categorised it as Category A for consistency and for comparative purposes. More details of their definition can be found in Subsection 16.

⁹ Audits of the remaining 5.3% of Hong Kong listed companies were conducted by recognised PIE auditors, including Mainland PIE auditors.

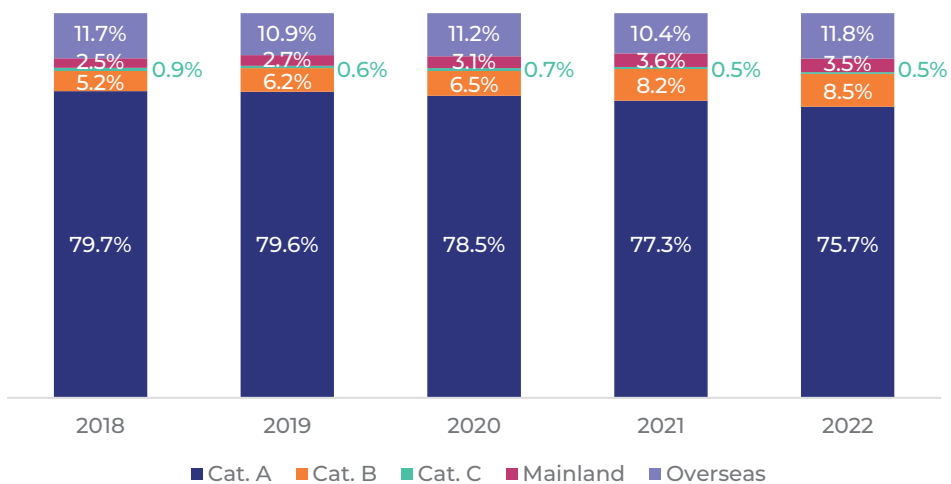
4.2. Category B PIE auditors were the primary beneficiaries of this shift, with their market share increasing from 18.6% in 2018 to 30.2% in 2022. The market share for other categories remained largely the same.

Figure 4. Market share in terms of the number of engagements



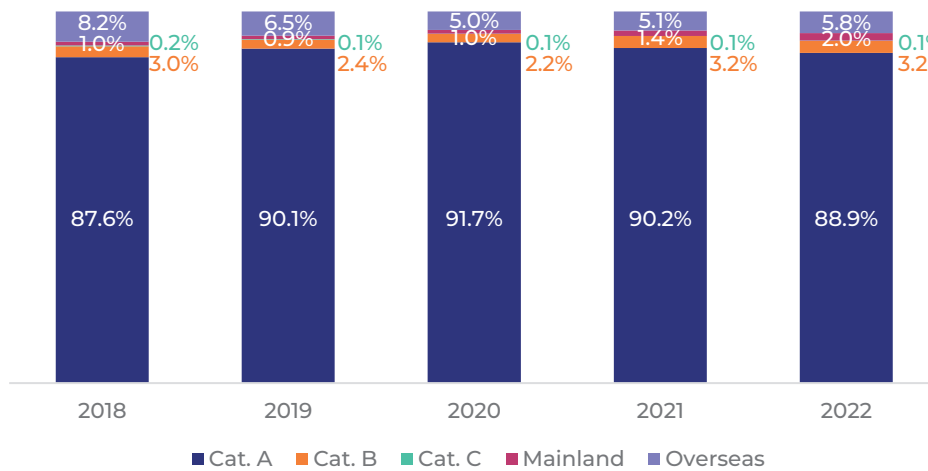
4.3. From 2018 to 2022, the market share of Category A PIE auditors based on audit fees also showed a decreasing trend (Figure 5). However, the four percentage points decrease from 79.7% in 2018 to 75.7% in 2022 was not as significant compared to the corresponding drop in market share by number of engagements, which decreased by 10.9 percentage points from 73.0% to 62.1%. This is consistent with the AFRC’s observations that Category A PIE auditors are shedding PIE engagements with lower audit fees and are refocusing on higher fee engagements.

Figure 5. Market share in terms of audit fees



4.4. The market share of Category A PIE auditors, based on market capitalisation, rose from 87.6% in 2018 to a peak of 91.7% in 2020, before dropping to 88.9% in 2022 (Figure 6). The slight decrease in market share can also be attributed to the strategy of Category A PIE auditors shedding PIE engagements with lower audit fees.

Figure 6. Market share in terms of market capitalisation

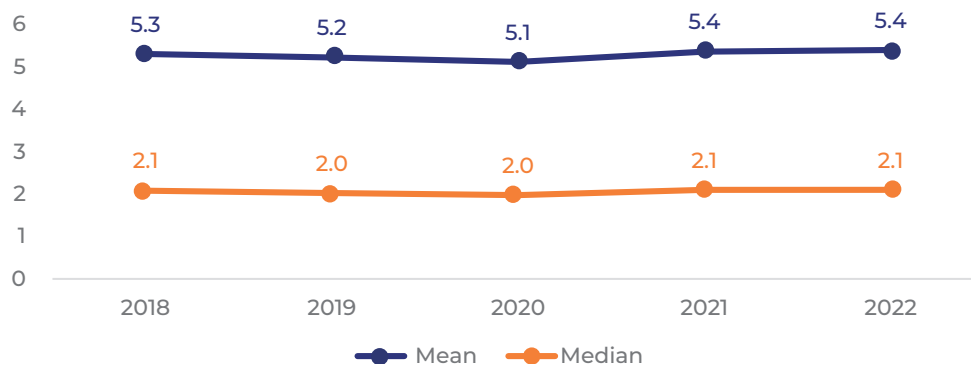


5. Market competition: Audit fees of listed companies

5.1. Audit fee is another indicator of market competition as it illustrates the competitive pricing strategies PIE auditors employ to gain market share. Analysed on a per engagement basis, both mean and median audit fees during the period from 2018 to 2022 remained largely stable (Figure 7).

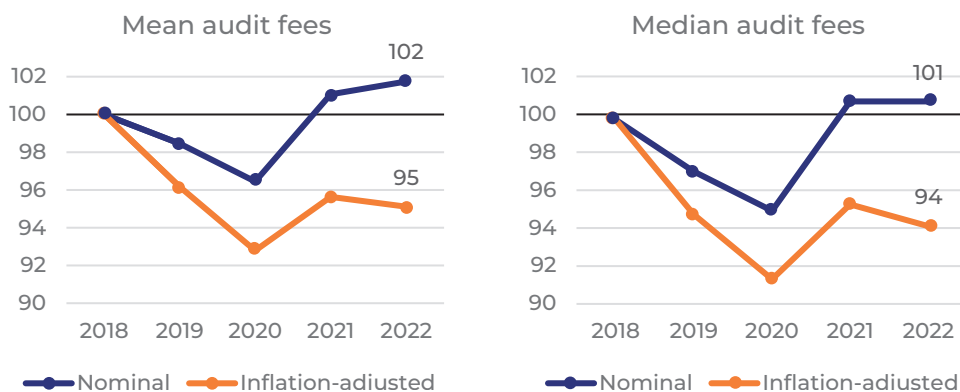
5.2. Mean audit fees ranged from HK\$5.1 million to HK\$5.4 million, while median audit fees ranged from HK\$2.0 million to HK\$2.1 million. The compound annual growth rate (CAGR) of mean and median audit fees from 2018 to 2022 was 0.4% and 0.2% respectively.

Figure 7. Mean and median audit fees (HK\$ million)



- 5.3. The significant difference between mean and median audit fees indicates that the market is skewed towards a small number of engagements with high audit fees.¹⁰ As an example, while the number of engagements with high audit fees constituted 19.7% of the market in 2022, the fees they generated represented 71.2% of total audit fees.
- 5.4. To determine whether audit fees have kept pace with inflation, nominal mean and median audit fees are adjusted for the producer price index (PPI) of legal, accounting, auditing, and bookkeeping services.¹¹ Both nominal and inflation-adjusted audit fees are rebased to 100 as depicted in Figure 8.
- 5.5. The results illustrate that nominal mean and median audit fees showed a slight increase from 100 in 2018 to 102 and 101 in 2022 respectively. However, when adjusted for inflation, mean and median audit fees declined to 95 and 94 respectively. This represents a CAGR of -1.3% and -1.4% respectively. In other words, PIE auditors have not been able to price their audits in line with the growth in the cost of services in the industry.

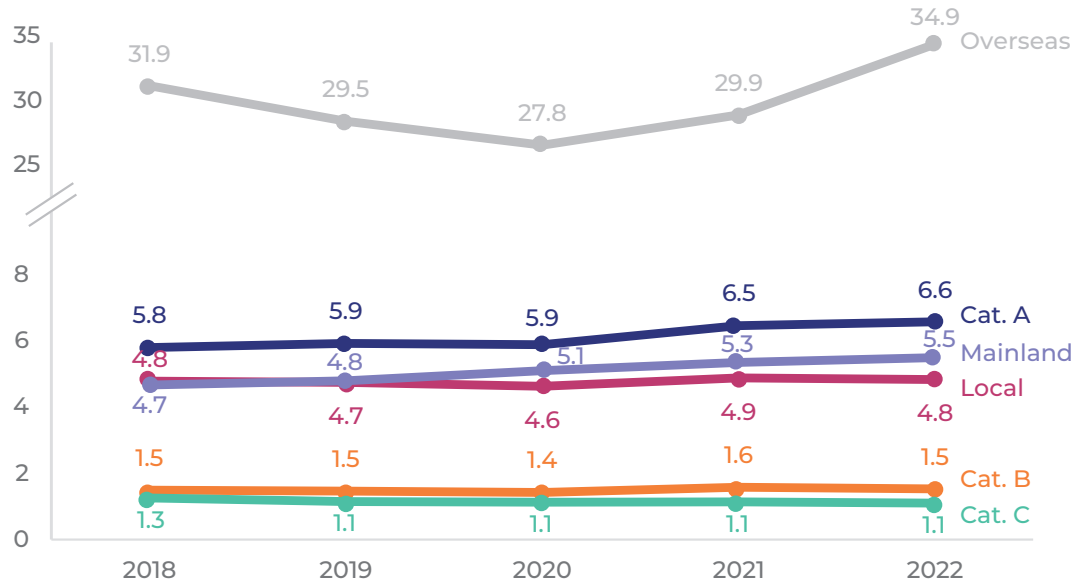
Figure 8. Indices of nominal and inflation-adjusted mean and median audit fees (2018=100)



- 5.6. To further examine market competition in terms of audit fees, an analysis of mean audit fees by categories of auditors was conducted. Figure 9 shows that mean audit fees for local PIE auditors experienced slight fluctuations in the period from 2018 to 2022, with occasional instances of decrease. In 2022, mean audit fees of local PIE auditors experienced a decline of 1.0% compared to the previous year. The CAGR of mean audit fees for local PIE auditors from 2018 to 2022 was 0.2%, which was considerably lower than that of overseas PIE auditors (2.2%). When adjusted for inflation, the CAGR was -1.4% for local PIE auditors and 0.5% for overseas PIE auditors.

¹⁰ Engagement with high audit fees is defined as an audit engagement that generates HK\$5 million or more in audit fees.
¹¹ Data for PPI sourced from the Census and Statistics Department “Table 520-63001: Quarterly Producer Price Indices of Selected Service Industries”, 2023 https://www.censtatd.gov.hk/en/web_table.html?id=95#

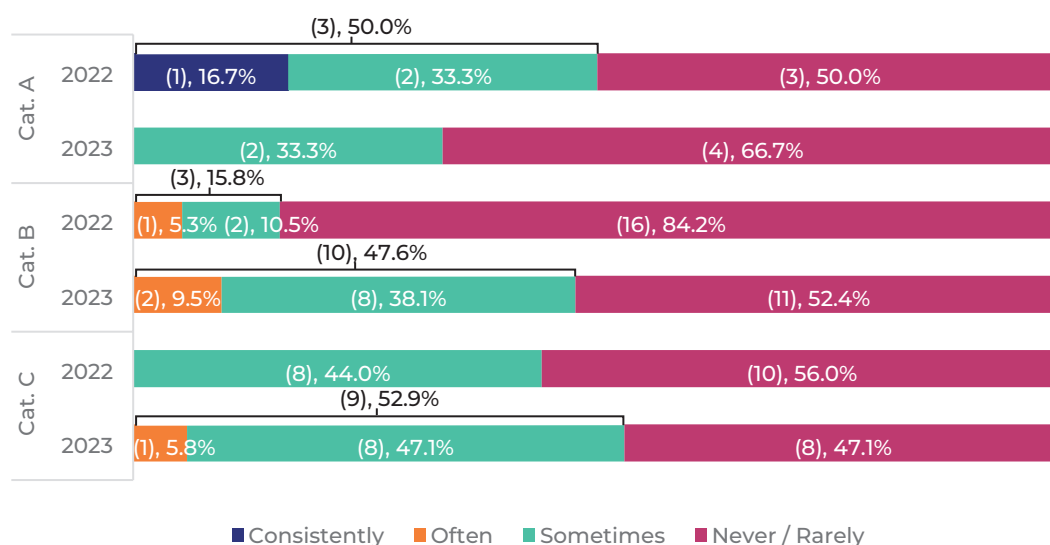
Figure 9. Mean audit fees by category (HK\$ million)



- 5.7. Mean audit fees for overseas auditors experienced the most noticeable increase, growing from HK\$29.9 million in 2021 to HK\$34.9 million in 2022. This increase could be attributed to the implementation of a new accounting standard, International Financial Reporting Standard 17 Insurance Contracts (**IFRS 17**), which became effective on 1 January 2023 and mostly impacts financial institutions. As many large-scale financial institutions may be headquartered overseas and have multiple listings in different capital markets, they may also be audited by overseas auditors. The implementation of IFRS 17 has likely increased the scope of work for these overseas auditors, resulting in notably higher audit fees.
- 5.8. Another reason is that overseas auditors may have benefitted from a stronger understanding of corporate governance practices of overseas entities. This improved understanding may have enabled the PIE auditors to justify and command higher fees. Further, this highlights an area where local PIE auditors should focus their efforts on to enhance the awareness of the importance of corporate governance practices of listed companies in Hong Kong.
- 5.9. Analysing by category of local PIE auditors, mean audit fees of Category A PIE auditors experienced a slight increase. On the other hand, no discernible increase in audit fees was observed for Category B and C PIE auditors. This finding may have a connection with the fee pressure they experienced, and the market strategy employed.

5.10. When asked how frequently audit teams of PIE auditors experienced fee pressure that may compromise audit quality in 2023, the results show that many PIE auditors continued to experience fee pressure. This ranges from 33.3% for Category A PIE auditors to 52.9% for Category C PIE auditors (Figure 10).

Figure 10. Frequency with which audit teams of PIE auditors experienced fee pressure that may compromise audit quality*[^]



Notes: (*) Number of PIE auditors in parentheses.
 (^) The number of Category C PIE auditors disclosed in the AFRC’s 2023 survey on the implementation of “Guidelines for Effective Audit Committees” was 18, which included a PIE auditor whose only PIE audit engagement was suspended for trading for the year ended 2022. Therefore, the number of Category C PIE auditors in Figure 10 is different from the number shown in Figure 3.

5.11. Compared with the results of the AFRC’s 2023 survey on the implementation of “Guidelines for Effective Audit Committees” (2023 survey) which looks at fee pressure in 2022, fewer Category A PIE auditors experienced fee pressure in 2023 than in 2022. While this could be the result of an improved compliance attitude, it should be noted that this positive development can also be attributed to Category A PIE auditors’ strategic decisions to drop PIE engagements with lower audit fees and refocus on higher fee engagements. This often involves audits of larger-cap companies, which tend to be less sensitive to audit fees, as noted in the 2023 survey.^{12,13}

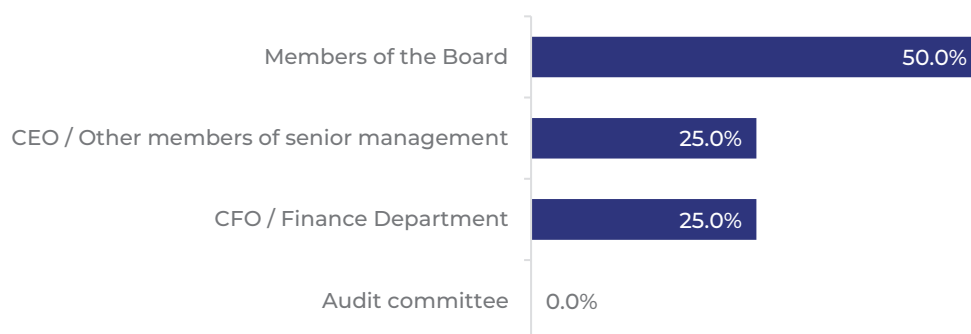
5.12. As a consequence of this strategic shift, Category B PIE auditors accepted engagements that were previously audited by Category A PIE auditors.

12 AFRC “2023 Survey Report on the Implementation of Guidelines for Effective Audit Committees –Selection, Appointment and Reappointment of Auditors”, March 2023 <https://www.afrc.org.hk/en-hk/policy-and-governance-publications/survey-report/>

13 The 2023 survey found that there is an inverse relationship between market capitalisation and fee sensitivity, i.e., the larger the market capitalisation of the listed company, the less price sensitive they appear to be. For further details on the relationship between audit fees and the size of the engagement, see Section 3.1 in the AFRC’s report “Audit fees paid by listed companies in Hong Kong in 2020/2021”.

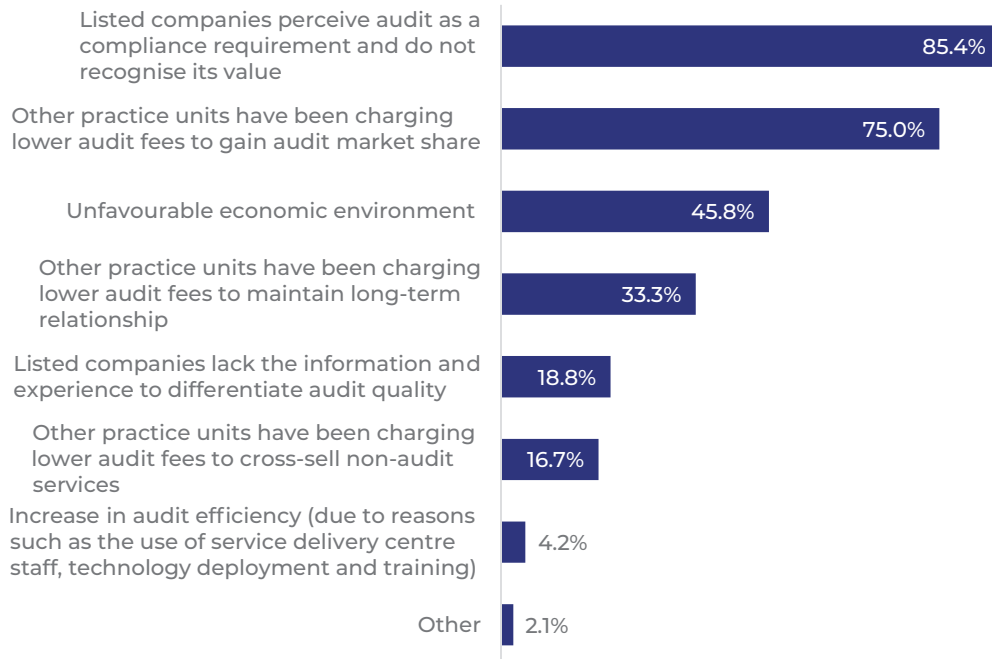
- 5.13. Despite the increase in market share, more Category B PIE auditors experienced fee pressure in 2023 (47.6%) than in 2022 (15.8%). It is also noted that the audit fees for newly accepted engagements were generally lower than the mean audit fees of Category A PIE auditors and higher than the mean audit fees of Category B PIE auditors.
- 5.14. Analysed by individual responses, the result shows that most Category B PIE auditors who reported experiencing fee pressure that could compromise audit quality in 2023 but not in 2022, did not experience a substantial increase in the number of PIE audit engagements. This may indicate that the increased pressure experienced by Category B PIE auditors primarily originated from recurring engagements rather than the newly accepted engagements taken from Category A PIE auditors which had a relatively higher audit fees in comparison to what Category B PIE auditors, on average, received.
- 5.15. The fee pressure experienced by Category C PIE auditors was largely similar in 2023 from 2022 with approximately one-half having encountered such pressure. Possible reasons for this include the quality of their engagements and their limited bargaining power when it comes to negotiating audit fees as they typically operate at the low end of the market.
- 5.16. As shown in Figure 11, of those that indicated they had experienced fee pressure that may compromise audit quality “consistently”, “often”, or “sometimes” in 2023, 50% said members of the Board were the stakeholder that exerted the most fee pressure. This was followed by the CEO or other members of senior management and the CFO or the Finance Department (both 25%).

Figure 11. Stakeholders which exerted the most pressure when negotiating audit fees in 2023



- 5.17. None of the respondents selected the audit committee as the stakeholder that exerted the most fee pressure. While this could be a positive finding, this could also indicate a potential lack of oversight from the audit committee in managing audit fees. As audit committees play a crucial role in ensuring audit fee is not at a level that could compromise audit quality, they must demonstrate their assertiveness in holding senior management accountable for their actions relating to exerting fee pressure on the PIE auditor.
- 5.18. In any case, audit committees should oversee the relationship between listed companies and PIE auditors to ascertain a fair fee evaluation with consideration placed on the complexity of audits and the feasibility of conducting high-quality audits during fee negotiations.
- 5.19. The responsibility for the preparation of financial statements and their integrity rest with management and the Board. An experienced and competent auditor has the ability to identify deficiencies and make recommendations on the financial reporting process. Therefore, the AFRC expects that other than the audit committee, senior management and the Board should refrain from pressuring PIE auditors to reduce audit fees that may compromise audit quality.
- 5.20. By refraining from exerting undue fee pressure, the overall quality of financial reporting could be enhanced. This is because PIE auditors would then be able to allocate sufficient resources to the audit engagement, leading to the delivery of high-quality audits. This in turn could result in stronger investor confidence and the improved reputation of the listed company.
- 5.21. When asked what the key factors are in contributing to the sluggish growth in audit fees, the most chosen factor was that “listed companies perceive audit as a compliance requirement and do not recognise its value” (85.4%) (Figure 12).

Figure 12. Key factors that contributed to sluggish growth in audit fees



5.22. This result indicates that there is a lack of understanding amongst listed companies on the broader benefits and value that a quality audit can offer beyond mere compliance. It is essential for PIE auditors to address this perception by effectively communicating the value proposition of audits to listed companies and showcasing the value of a quality audit. This can be achieved by maintaining strong and effective communication with listed companies, carrying out a comprehensive and effective audit process, and demonstrating professional scepticism during the whole audit process.

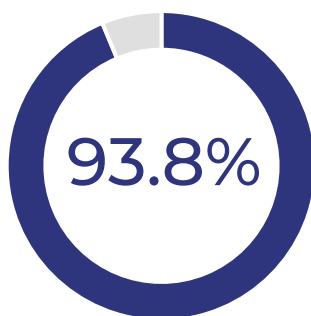
5.23. The second most popular response was that “other practice units have been charging lower audit fees to gain audit market share” (75.0%). The AFRC would like to emphasise that PIE auditors should not be engaging in a “race-to-the-bottom” by offering audit fees to a point that compromise audit quality. PIE auditors should instead differentiate themselves by providing high-quality audits.

5.24. Further, over four-in-ten (45.8%) chose “unfavourable economic environment.” It is crucial to understand that an unfavourable economic environment brings additional risks to the audit, such as in the areas of going concern, estimated cash flow in relation to impairment assessment, expected credit loss, valuation of assets or financial instruments, provisions for onerous contracts, and liability classification.¹⁴

¹⁴ For further details on audit implications of economic challenges, see page 2 of AFRC “Audit Focus 2023 Financial Year-end Audit Reminder”, December 2023 https://www.afrc.org.hk/media/f5cbatpl/audit-focus-for-2023-year-end-audit-reminder_ism_22dec-final.pdf

- 5.25. These heightened risks require PIE auditors to dedicate more time and resources to address them. Therefore, auditors should appropriately reflect increased risks and the associated additional audit work in their audit fees, i.e. higher audit fees. In any case, auditors should not compromise audit quality by deliberately reducing or skipping essential audit procedures.
- 5.26. Figure 13 shows that more than nine-in-ten of PIE auditors (93.8%) agreed that the level of audit fees has a direct impact on audit quality. This is likely because audit fees received by PIE auditors may be spent on areas that impact audit quality.

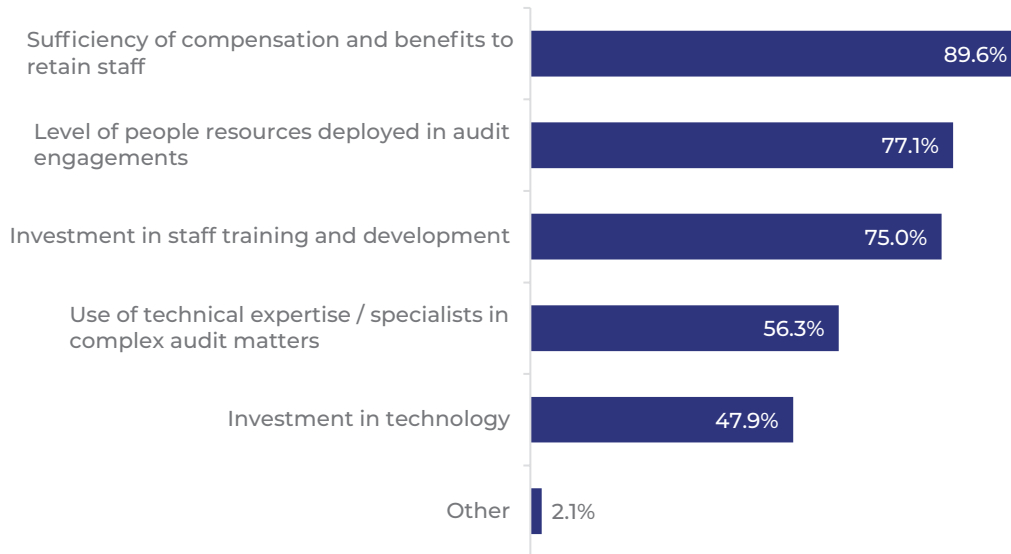
Figure 13. Percentage of PIE auditors that agreed the level of audit fees has a direct impact on audit quality



- 5.27. Of those that agreed the level of audit fees has a direct impact on audit quality, 89.6% chose the sufficiency of compensation and benefits to retain staff as an area that will impact audit fees (Figure 14). This finding combined with the sluggish growth in audit fees could be a reason for the relatively high attrition rate experienced by PIE auditors (see Subsection 7 for further details on the attrition rate in PIE auditors).
- 5.28. In addition, the level of human resources deployed in audit engagements (77.1%) and investment in staff training and development (75.0%) were the second and third most chosen areas that PIE auditors believe audit fees will impact audit quality. These two factors may explain the contrast in the allocation of human resources and provision of CPD training in PIE auditors of different categories. The differences in the level of human resources and provision of CPD training will be explored in detail in Subsections 6 and 12 respectively.

5.29. While only 47.9% chose investment in technology as an area that may impact audit quality, this may also explain the contrast in the deployment of technological resources in the audit process amongst PIE auditors of different categories. The use of technology in PIE audits will be further explored in Subsection 11.

Figure 14. Areas where audit fees will impact audit quality



Section B

Analysis of local PIE auditors

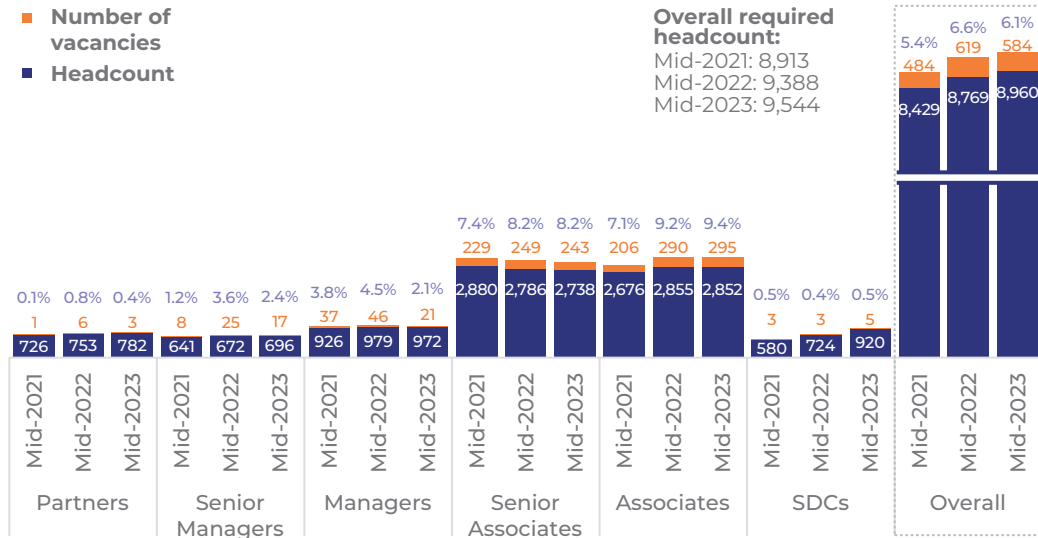
6. Headcount, number of vacancies, and vacancy rate of PIE auditors

- 6.1. As at mid-2023, the required headcount of local PIE auditors was 9,544 which comprises the actual headcount and the number of vacancies. This represents a growth of 7.1% from 8,913 as at 30 June 2021 (**mid-2021**) (Figure 15). The percentage growth parallels with the increase in total audit fees, which grew by 7.3% in the corresponding period (Figure 2). However, of the required headcount in mid-2023, 6.1% of positions remain unfilled. This issue is particularly noticeable at the senior associate and associate grades.
- 6.2. The actual number of individuals working in PIE audits grew to 8,960 as at mid-2023, from 8,769 as at 30 June 2022 (**mid-2022**), representing a year-on-year growth of 2.2%. The majority of the total growth in headcount can be attributed to the increase in Service Delivery Centre (**SDC**) staff.^{15,16} If SDC staff are excluded, the actual number of individuals working in PIE audits experienced a slight year-on-year decline of 0.1% to 8,040 as at mid-2023.
- 6.3. A detailed analysis of headcount, vacancies, and vacancy rate for each category of PIE auditors is provided below.

¹⁵ It has been increasingly common for engagement teams to include individuals from service delivery centres to perform repetitive or specialised audit procedures. Service delivery centres may be established by the firm, the network, or by other firms, structures, or organisations within the same network. These individuals may be located remotely. For example, a service delivery centre may be used as a centralised function to facilitate external confirmation procedures. Further information can be found in the Hong Kong Standard on Auditing 220 (Revised) "Quality Management for an Audit of Financial Statements" (**HKSA 220 (Revised)**).

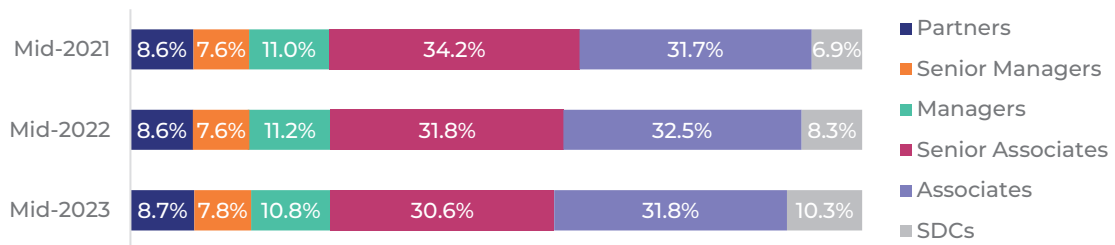
¹⁶ Figure 16 also shows the growing share of SDC staff as a percentage of total actual headcount. Their share rose from 6.9% in mid-2021 to 10.3% in mid-2023.

Figure 15. Headcount, number of vacancies, and vacancy rate by grade



Note: Percentages in purple represent the vacancy rate.

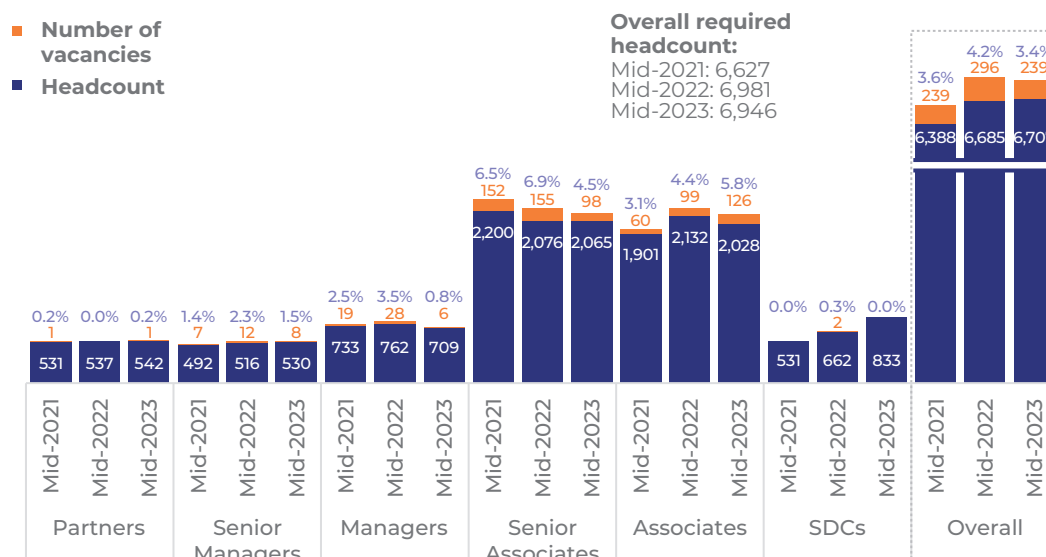
Figure 16. Composition of partners and staff



6.4. Total headcount rose in Category A PIE auditors from 6,388 in mid-2021 to 6,685 in mid-2022 and to 6,707 in mid-2023 (Figure 17).

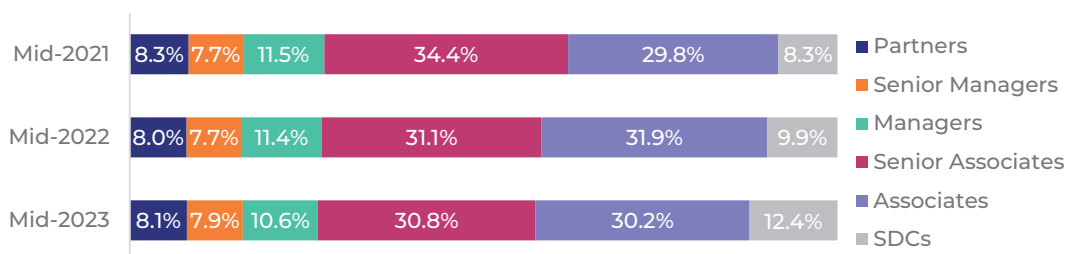
6.5. The rise in headcount of Category A PIE auditors is mainly attributed to the increase in SDC staff. The number of SDC staff grew noticeably from 531 in mid-2021 to 662 in mid-2022 and 833 in mid-2023. This represents a growth of 56.9% over the two-year period. When analysed in terms of the composition of partners and staff, the share of SDC staff increased from 8.3% in mid-2021 to 12.4% in mid-2023 (Figure 18).

Figure 17. Headcount, number of vacancies, and vacancy rate in Category A PIE auditors



Note: Percentages in purple represent the vacancy rate.

Figure 18. Composition of partners and staff in Category A PIE auditors

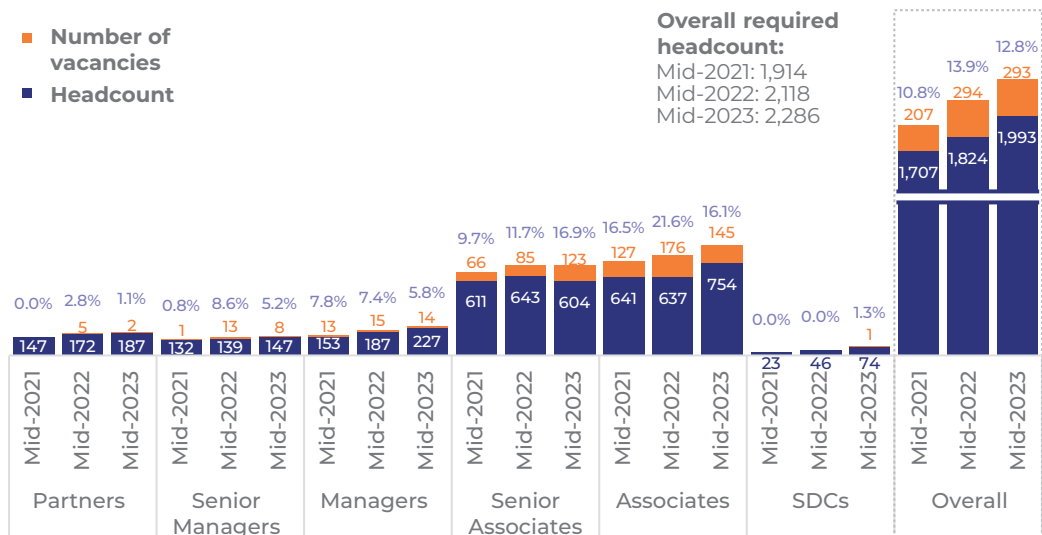


6.6. While the use of SDC staff can help alleviate the burden of routine and less complex tasks in the audit engagement, it is crucial that adequate supervision must be provided. According to the Hong Kong Standard on Quality Management 1 (HKSQM 1), PIE auditors should have policies and procedures that include methods of directing, supervising, and reviewing the work performed by SDC staff. These policies and procedures should also include communication protocols between the engagement team and SDC staff.¹⁷ The engagement partner retains the responsibility for ensuring the quality of work performed by all engagement team members, including SDC staff.

¹⁷ HKICPA “Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements”, July 2023 <https://www.hkicpa.org.hk/-/media/HKICPA-Website/Members-Handbook/volumelll/hksqm1.pdf>

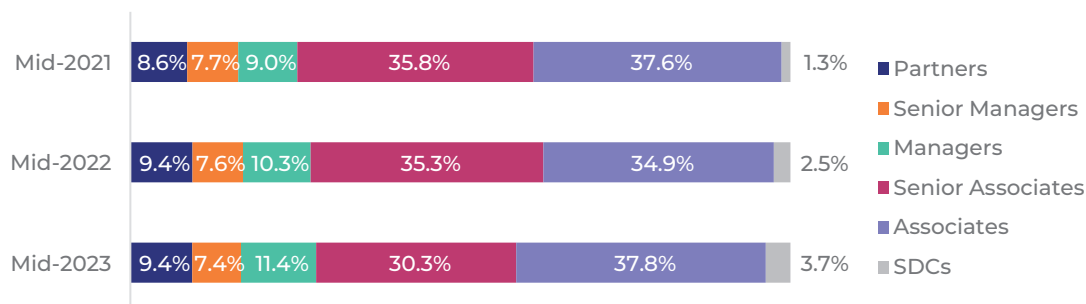
- 6.7. Reflecting their expanded market share, Category B PIE auditors experienced a significant increase in their required headcount which grew from 1,914 in mid-2021 to 2,286 in mid-2023, representing a growth of 19.4% (Figure 19).
- 6.8. However, a considerable number of these positions remain unfilled. The number of vacancies grew noticeably from 207 in mid-2021 to 293 in mid-2023. This corresponds to an increase in the vacancy rate from 10.8% in mid-2021 to 12.8% in mid-2023.
- 6.9. Most of these vacancies were for senior associates and associates, which together accounted for over two-thirds of the headcount in Category B PIE auditors (Figure 20). Considering the increase in the vacancy rate and the importance of these two positions due to their sheer number, this raises questions as to whether there are sufficient audit staff to perform the necessary audit procedures and hence, whether audit quality could be maintained.
- 6.10. The AFRC emphasises that PIE auditors must ensure they have sufficient resources, including human resources, to maintain audit quality before accepting an audit engagement.

Figure 19. Headcount, number of vacancies, and vacancy rate in Category B PIE auditors



Note: Percentages in purple represent the vacancy rate.

Figure 20. Composition of partners and staff in Category B PIE auditors

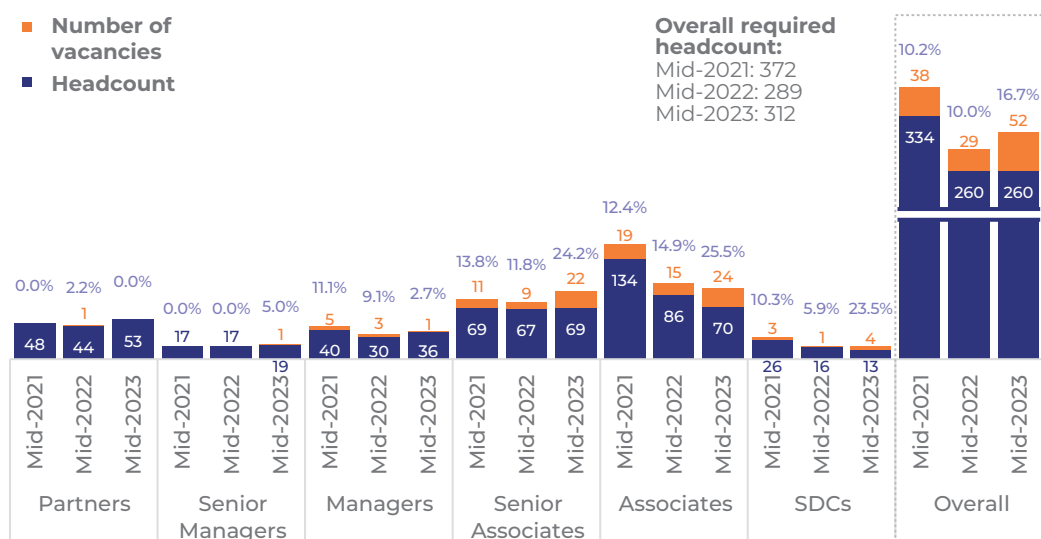


6.11. As Figure 21 shows, the required headcount in Category C PIE auditors experienced a significant decline, dropping from 372 in mid-2021 to 312 in mid-2023, representing a net decline of 16.1%.

6.12. While the number of engagements for Category C PIE auditors remained largely the same, there were notable changes in the headcount of different positions. The headcount of associates registered a significant drop, decreasing from 134 in mid-2021 to 70 in mid-2023, representing a decline of 47.8%. In contrast, the headcount of partners rose from 48 in mid-2021 to 53 in mid-2023, representing a growth of 10.4%.

6.13. Nonetheless, it should be noted that the roles and responsibilities of associates and partners differ significantly. Hence, the increase in the headcount of partners will not alleviate the workload of associates and vice versa.

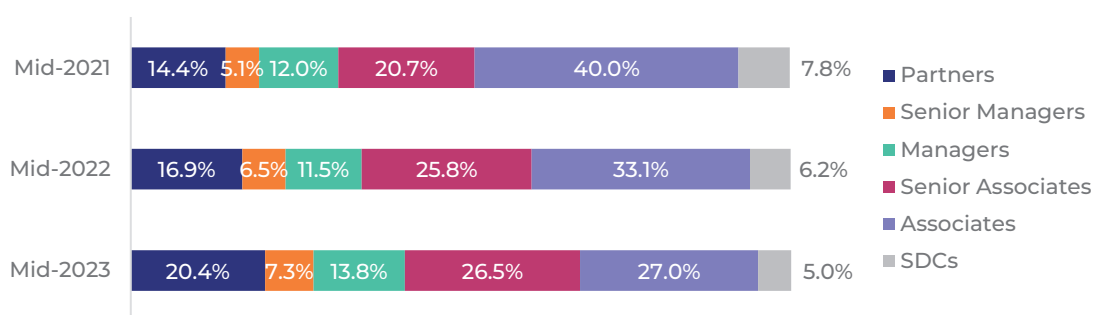
Figure 21. Headcount, number of vacancies, and vacancy rate in Category C PIE auditors



Note: Percentages in purple represent the vacancy rate.

6.14. A prominent difference in the composition of partners and staff in Category C PIE auditors is the significantly higher share of partners compared to Category A and B PIE auditors. The share of partners in Category C PIE auditors was 14.4% in mid-2021 which further increased to 20.4% in mid-2023 (Figure 22). In comparison, the share of partners in Category A and B PIE auditors was 8.3% and 8.6% in mid-2021 and 8.1% and 9.4% in mid-2023 respectively. Over the same period, the share of associates in Category C PIE auditors dropped considerably from 40.0% to 27.0%.

Figure 22. Composition of partners and staff in Category C PIE auditors



6.15. To maintain audit quality, it is important for Category C PIE auditors to carefully manage the distribution of workload and ensure that sufficient resources, including appropriate staffing levels, are allocated to perform an effective audit.

6.16. Further, high vacancy rates in Category B and C PIE auditors may be one of the factors contributing to their disappointing inspection results in the AFRC’s 2022 Inspection Report.¹⁸

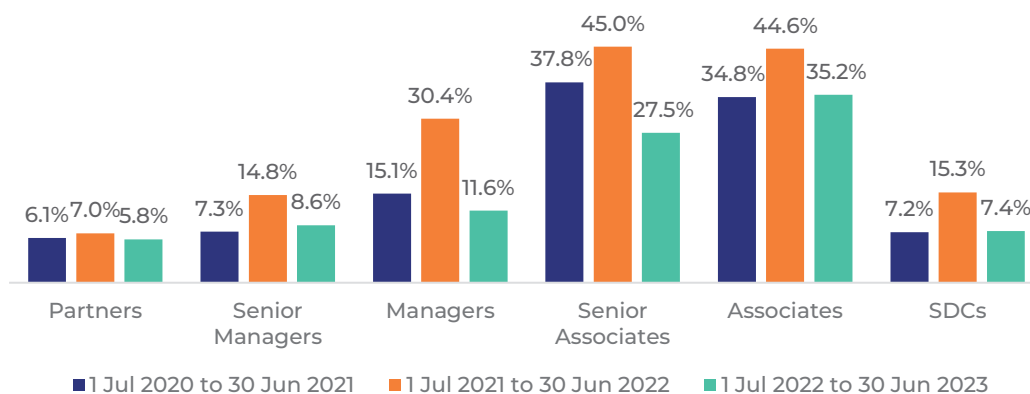
7. Attrition rate of PIE auditors

7.1. Throughout the periods analysed, the overall average attrition rate within the local PIE audit market remained at an elevated level. As Figure 23 shows, the overall average attrition rate of local PIE auditors rose from 18.0% in the period from 1 July 2020 to 30 June 2021 to 26.2% in the period from 1 July 2021 to 30 June 2022 before dropping to 16.0% in the period from 1 July 2022 to 30 June 2023.

¹⁸ AFRC, “2022 Annual Inspection Report”, July 2023 https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022_AFRC%20Inspection%20Report_eng.pdf

- 7.2. Notably, the attrition rate of associates and senior associates were significantly higher than other grades. High attrition rates may lead to heightened recruitment efforts and the allocation of additional resources to develop new junior staff, including nurturing them for more senior roles.
- 7.3. Further, similar to the consequences of a high vacancy rate, high attrition, in general, may lead to a loss of experienced professionals and institutional knowledge, potentially impacting the continuity and consistency of audit processes. This may also derail PIE auditors’ efforts to establish stable audit teams and uphold audit quality.
- 7.4. This finding indicates the need for PIE auditors to implement more effective policies and procedures to attract and retain audit professionals, particularly at the junior level.

Figure 23. Average attrition rate by grade

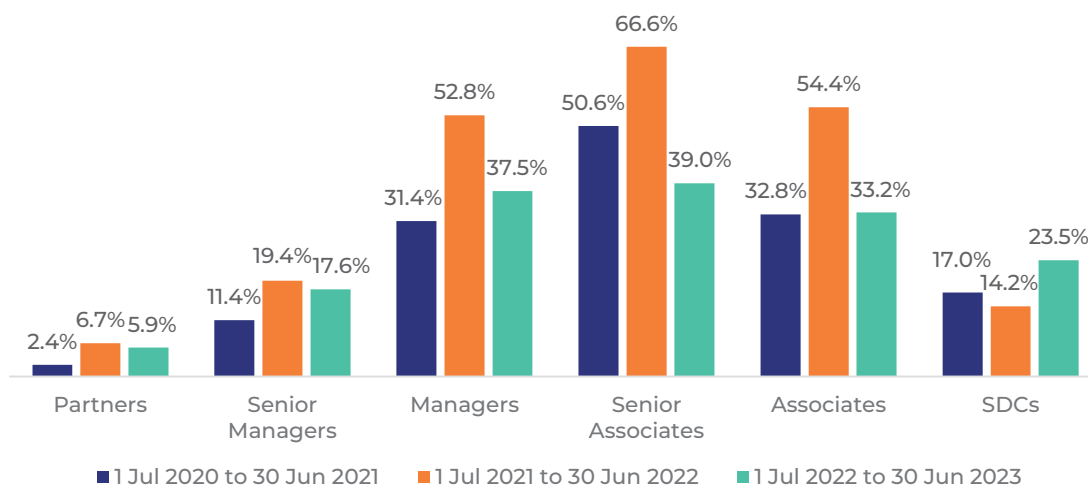


Period	Overall average attrition rate	Year-on-year percentage point change
1 July 2020 to 30 June 2021	18.0%	N/A
1 July 2021 to 30 June 2022	26.2%	+8.2 percentage points
1 July 2022 to 30 June 2023	16.0%	-10.2 percentage points

- 7.5. By category, the overall average attrition rate of Category A PIE auditors peaked at 35.7% in the period from 1 July 2021 to 30 June 2022 before decreasing to 26.1% in the period from 1 July 2022 to 30 June 2023 (Figure 24).
- 7.6. While some level of attrition is expected, the comparatively high average attrition rate of managers and senior associates may detrimentally impact audit quality due to a loss of accumulated knowledge and experience. Further, if less experienced or more junior audit staff are tasked with stepping up as replacements to perform the audit, there is a risk that their limited experience may lead to a lack of proper exercise of professional scepticism and judgement.

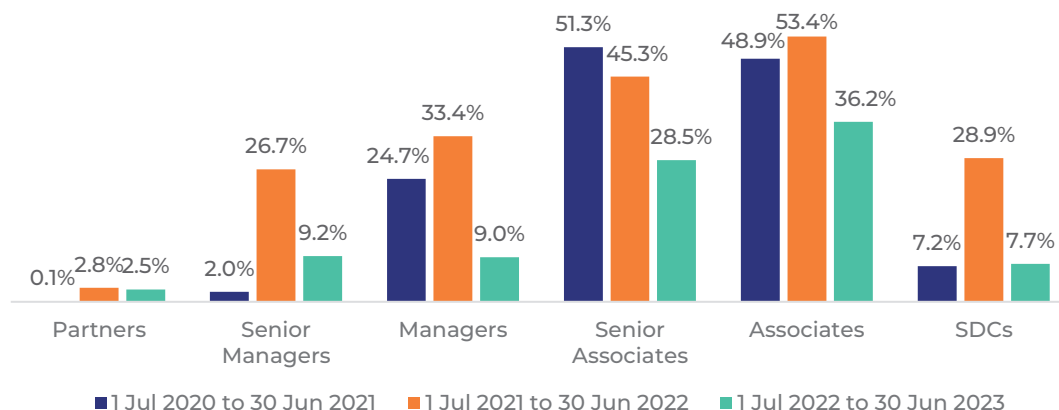
- 7.7. The overall average attrition rate of Category B PIE auditors rose from 22.4% in the period from 1 July 2020 to 30 June 2021 to 31.8% in the period from 1 July 2021 to 30 June 2022, before dropping 16.3 percentage points to 15.5% in the period from 1 July 2022 to 30 June 2023 (Figure 25).
- 7.8. Category C PIE auditors had a significantly higher average attrition rate of partners than Category A and B PIE auditors (Figure 26). This contrast could be attributed to the small number of partners in Category C PIE auditors which made the attrition rate more pronounced. This presents challenges as Category C PIE auditors often comprise practice units with a low number of partners assigned to each engagement.
- 7.9. Further, the average attrition rate for associates of Category C PIE auditors exhibited increasing trends. The attrition rate for this grade was 23.5% in the period from 1 July 2020 to 30 June 2021, increasing to 31.3% in the period from 1 July 2021 to 30 June 2022 and 34.8% in the period from 1 July 2022 to 30 June 2023. This is in line with our observation of the trend of associates transitioning from Category C to Category B PIE auditors, and from Category B to Category A PIE auditors.

Figure 24. Average attrition rate by grade in Category A PIE auditors



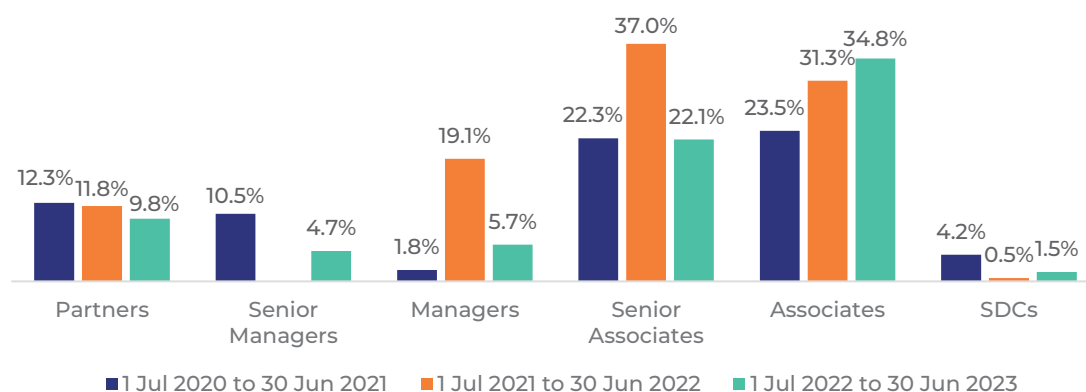
Period	Overall average attrition rate	Year-on-year percentage point change
1 July 2020 to 30 June 2021	24.3%	N/A
1 July 2021 to 30 June 2022	35.7%	+11.4 percentage points
1 July 2022 to 30 June 2023	26.1%	-9.6 percentage points

Figure 25. Average attrition rate by grade in Category B PIE auditors



Period	Overall average attrition rate	Year-on-year percentage point change
1 July 2020 to 30 June 2021	22.4%	N/A
1 July 2021 to 30 June 2022	31.8%	+9.4 percentage points
1 July 2022 to 30 June 2023	15.5%	-16.3 percentage points

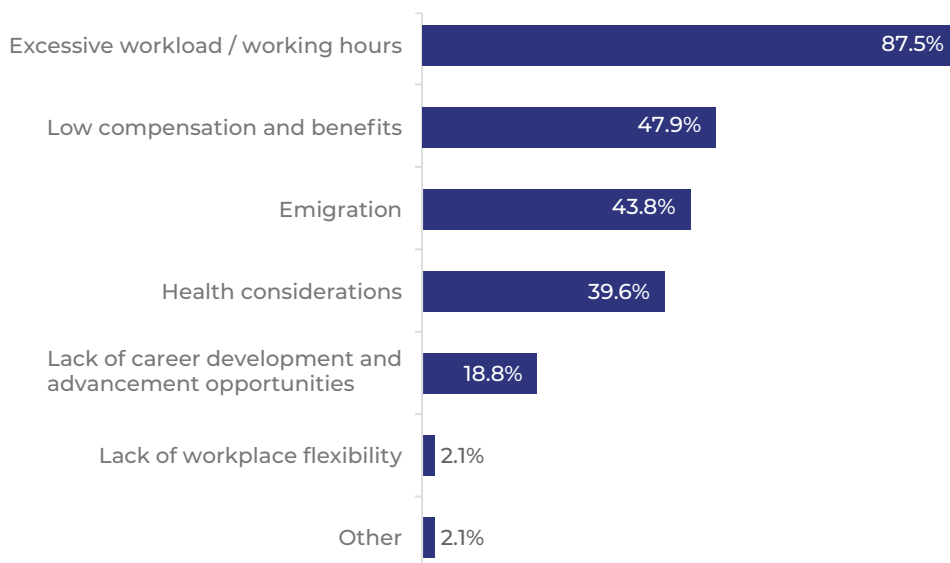
Figure 26. Average attrition rate by grade in Category C PIE auditors



Period	Overall average attrition rate	Year-on-year percentage point change
1 July 2020 to 30 June 2021	12.4%	N/A
1 July 2021 to 30 June 2022	16.6%	+4.2 percentage points
1 July 2022 to 30 June 2023	13.1%	-3.5 percentage points

- 7.10. While the audit profession as a whole may be facing a high attrition rate, it should not be used as an excuse to overlook the importance of addressing attrition and its potential impact on audit quality. The AFRC expects PIE auditors to have in place robust policies and procedures to ensure that new staff have adequate skills, knowledge, and the right mindset to deliver quality audits.
- 7.11. This signifies the challenges faced by PIE auditors in maintaining audit quality. PIE auditors must therefore review their staff retention strategies for improvements and prioritise the training of new staff members to ensure they can meet the engagement’s demands and maintain audit quality.
- 7.12. When asked what were the key reasons that partners and staff left the audit industry, “excessive workload/working hours” (87.5%) was by far the most common reason chosen by respondents (Figure 27). This illustrates the impact of heavy workload and long working hours on the decision of audit professionals to leave the industry.
- 7.13. Nevertheless, simply increasing the supply of audit professionals to address labour shortages will merely be a stop-gap solution. Such shortages can only be resolved if the underlying causes, such as long working hours and heavy workload, are addressed. PIE auditors should consider ways to alleviate heavy workloads, particularly during peak season. This may include shifting a portion of the audit work forward to before year-end.

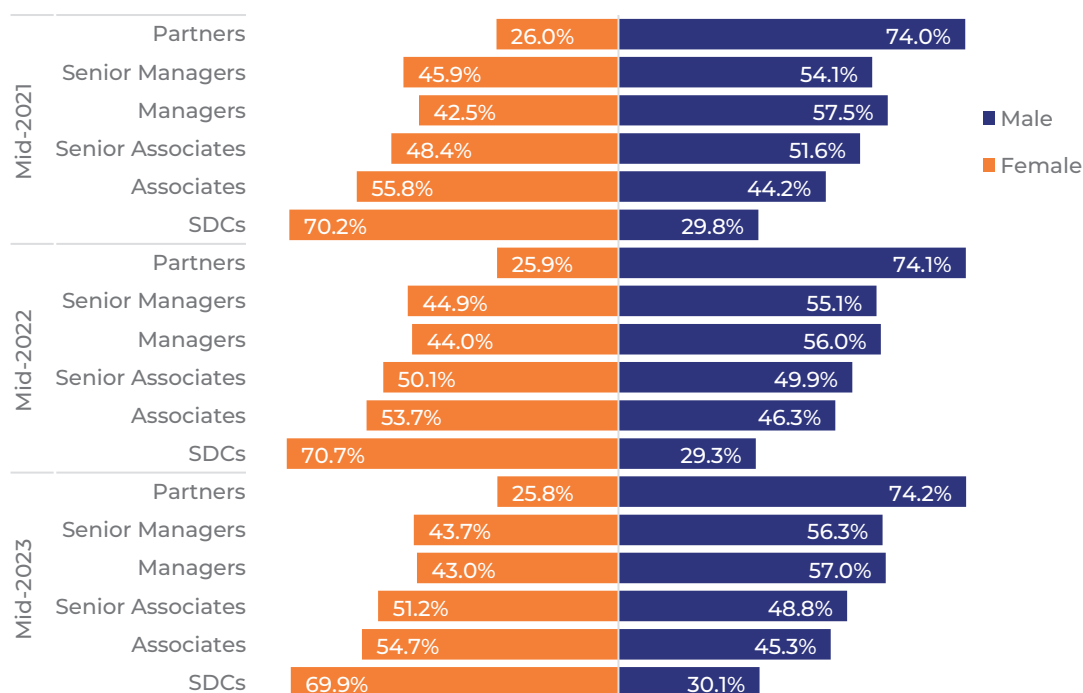
Figure 27. Reasons for leaving the audit market



8. Gender distribution in PIE auditors

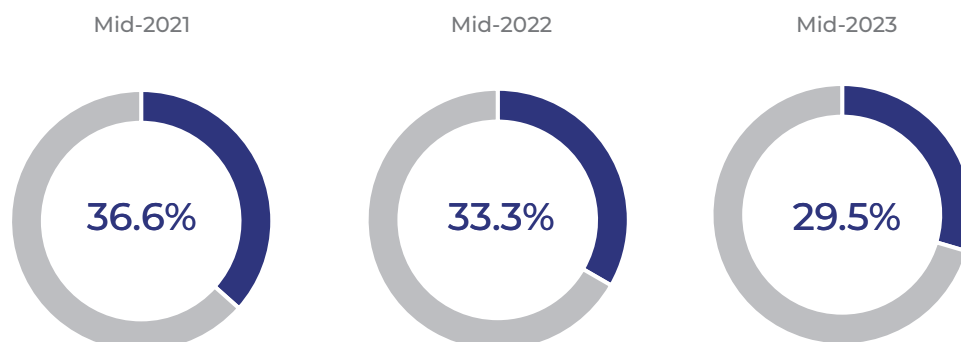
8.1. The gender distribution in PIE auditors is examined in this subsection. Figure 28 shows that males dominate in partner, senior manager, and manager grades. Conversely, a higher proportion of females are found in the associate grade.

Figure 28. Distribution of males and females by grade



8.2. Figure 29 further highlights the underrepresentation of females in partner-equivalent grades. From mid-2021 to mid-2023, a significant portion of PIE auditors, ranging from 29.5% to 36.6%, did not have any female partners. This indicates a gender imbalance at the partner level.

Figure 29. Percentage of PIE auditors without any female partners



- 8.3. Empirical research indicates that promoting gender equality in the workplace leads to increased diversity, and diversity positively impacts audit quality.^{19,20} Notably, an overseas audit regulator has published firm-level Audit Quality Indicators which incorporated diversity as an indicator by measuring the percentage of individuals in the audit partnership by gender and ethnicity.²¹
- 8.4. As Figure 30 shows, when asked how gender equality in their practice unit positively impacts audit quality, offering diverse perspective and experience (60.4%), enhancing teamwork within audit teams (58.3%), and improving talent retention and recruitment (47.9%) were the top choices.
- 8.5. It is worth noting that over a quarter (27.1%) of respondents believe that gender equality has no positive impact on audit quality. The perception that gender equality has no impact may stem from a lack of awareness of the benefits that gender equality may bring.

Figure 30. How gender equality in the practice unit positively impacts audit quality



19 For the relationship between equality and diversity, see Kulik “Gender (in)equality in Australia: good intentions and unintended consequences”, 2021 https://www.researchgate.net/publication/354952025_Gender_inequality_in_Australia_good_intentions_and_unintended_consequences

20 For the relationship between diversity and audit quality, see Zhang et al. “Gender Diversity and Audit Quality: Evidence from the Pairing of Audit Partners”, 2023 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3025235; Condie et al. “Does Gender and Ethnic Diversity among Audit Partners Influence Office-Level Audit Personnel Retention and Audit Quality?” 2023, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1911-3846.12882>; Cameran et al. “Audit team attributes matter: How diversity affects audit quality”, 2018 <https://www.tandfonline.com/doi/full/10.1080/09638180.2017.1307131>

21 Financial Reporting Council (United Kingdom) “Firm-level Audit Quality Indicators Definitions Note”, March 2023 https://media.frc.org.uk/documents/Firm-level_AQIs_Definitions_Note_March_2023.pdf

- 8.6. When asked what initiatives they have in place to support gender equality, the only initiative that was implemented by a majority of PIE auditors (63.6%) was family-friendly employment practices (Figure 31). The percentage of PIE auditors that had implemented the other five initiatives ranged from 13.6% to 34.1%. These findings suggest that while family-friendly employment practices are relatively common, there is room for improvement in implementing other initiatives that support gender equality in the workplace.

- 8.7. To address potential gender discrimination in recruitment, training, and promotion, PIE auditors should implement policies and procedures to ensure equal access to opportunities in these areas. By implementing initiatives that support gender equality, PIE auditors can tap into a wider pool of talent. A broader talent pool has the potential to introduce diversity in skills, perspectives and experiences, ultimately enhancing the quality of audits.

Figure 31. Initiatives to support gender equality as at mid-2023²²

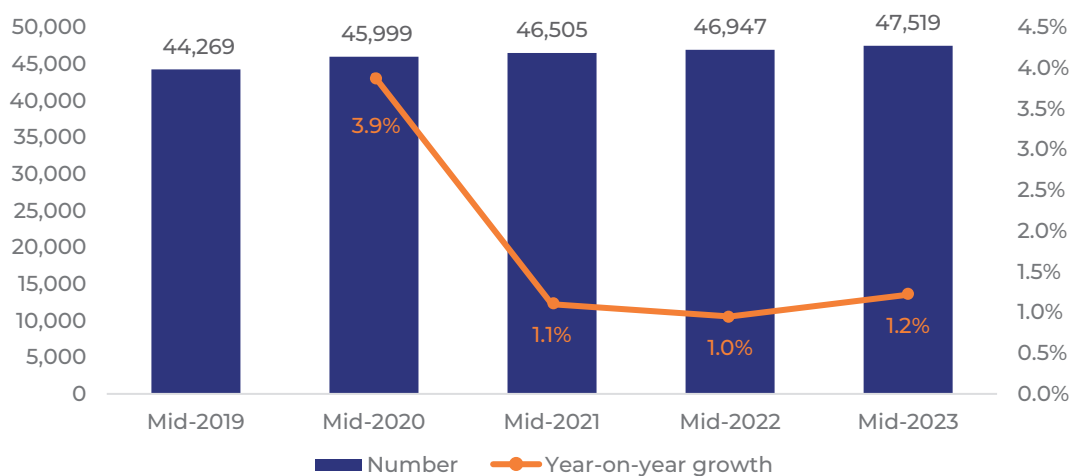


²² Examples of family-friendly employment practices include parental leave and flexible work arrangements. Examples of internal communication channels include workshops, emails, and seminars.

9. Potential future supply of audit professionals

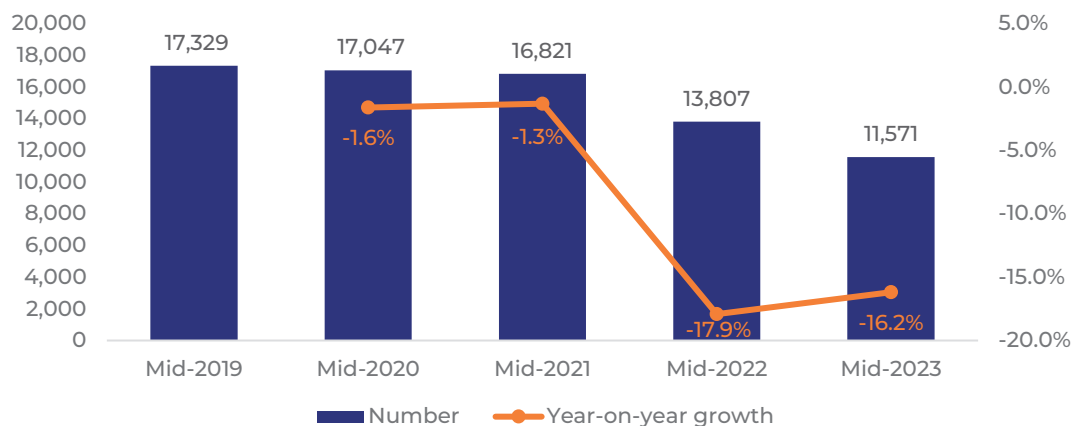
- 9.1. While demand for PIE audit services has continued to rise, the market has been grappling with a relatively high vacancy rate, as depicted earlier in Figure 15. To estimate the future labour supply for the PIE audit market, an analysis was conducted on the number of members and students at the HKICPA which serves as the biggest source of PIE audit professionals.
- 9.2. The AFRC is empowered to issue practising certificates (**PC**) to Certified Public Accountants (**CPA**) registered with the HKICPA under Division 1 of Part 2A of the AFRCO. A CPA intending to issue auditor’s report for statutory audits in Hong Kong is required to obtain a PC from the AFRC.
- 9.3. CPAs are members of the HKICPA while HKICPA students are individuals who are taking the HKICPA professional examination (i.e. the Qualification Programme) to qualify for registration as CPAs. As Figure 32 indicates, the number of HKICPA members grew from 44,269 in mid-2019 to 47,519 in mid-2023. This represents a modest CAGR of 1.8%. On the other hand, the number of HKICPA students saw declining trends in the same period, dropping from 17,329 in mid-2019 to 11,571 in mid-2023, representing a CAGR of -9.6% over the period (Figure 33). As HKICPA students are a major source of labour for PIE auditors, this result is concerning because the decline may result in issues with the supply of qualified accountants, particularly PC holders, in the future.

Figure 32. Number and year-on-year growth of HKICPA members



Source: HKICPA 2023 Annual Report

Figure 33. Number and year-on-year growth of HKICPA students



Source: HKICPA 2023 Annual Report

- 9.4. The fall in the number of HKICPA students as well as the relatively slow growth of HKICPA members are concerning. While it could be argued that other membership bodies have shown growing trends in the number of members and students, which could also contribute to the supply of audit professionals for the PIE audit market, the impact of the decrease in HKICPA students and the slowing growth in members are particularly far-reaching. As mentioned above, HKICPA members holds a crucial position in Hong Kong’s PIE audit market as only their members are eligible to apply for and receive a PC. As only PC holders are eligible for registration as engagement partners of a registered PIE auditor and authorised to sign PIE audit reports, the number of HKICPA members directly impacts the supply of individuals who can fill this role.
- 9.5. Hence, to ensure a sustainable pipeline of PIE audit professionals, it is important that the HKICPA conduct a root-cause analysis on the reasons behind the decline in student numbers. They should also continue to actively attract people to the accounting profession, including providing adequate support to aspiring accounting professionals, and promoting the designation of CPA. Other major organisations that support the profession in Hong Kong, including the Society of Chinese Accountants and Auditors (SCAA) and the Hong Kong Association of Registered Public Interest Entity Auditors (PIEAA) should also continue to attract more qualified talent by boosting the appeal of the profession.

10. Level of supervision and workload in PIE auditors

- 10.1. The level of supervision and workload serves as a proxy for audit quality. In certain overseas jurisdictions, audit regulators employ ratios such as staff per partner to measure the average number of audit staff supervised by a partner.^{23,24}
- 10.2. A higher staff to partner ratio may suggest that an audit partner bears increased supervision and review responsibilities. This increased scope of responsibility may potentially dilute the partner's supervision of staff and distract them from providing adequate attention to a PIE audit engagement. On the other hand, amongst various other explanations, a higher ratio may indicate that the PIE auditor has more staff resources to support partners.
- 10.3. Reference to the level of supervision may enhance dialogue and understanding between key stakeholders, in particular, PIE auditors and audit committees. However, the AFRC emphasises that the level of supervision as a proxy for audit quality is only effective when context is provided. Users of this data should apply their judgement in establishing the type of contextual information required to identify its significance and its impact on audit quality. Such information will include the skills, knowledge, and experience of the engagement team, the complexity of the audit engagement, and the availability of other resources such as technological and intellectual resources.
- 10.4. This also means that there are no one-size-fits-all solutions that can be applied universally, and PIE auditors should allocate resources based on the type of contextual information mentioned above.
- 10.5. HKSA 220 (Revised) states that an engagement partner should assume responsibility for directing and supervising the team members in the engagement team, as well as reviewing their work. While a lower staff to partner ratio does not necessarily equate to higher audit quality, the AFRC expects PIE auditors should always ensure sufficient partner supervision for all engagements. This is because partners are responsible for achieving audit quality at the engagement level by directing, supervising, and reviewing the work of the engagement team.²⁵

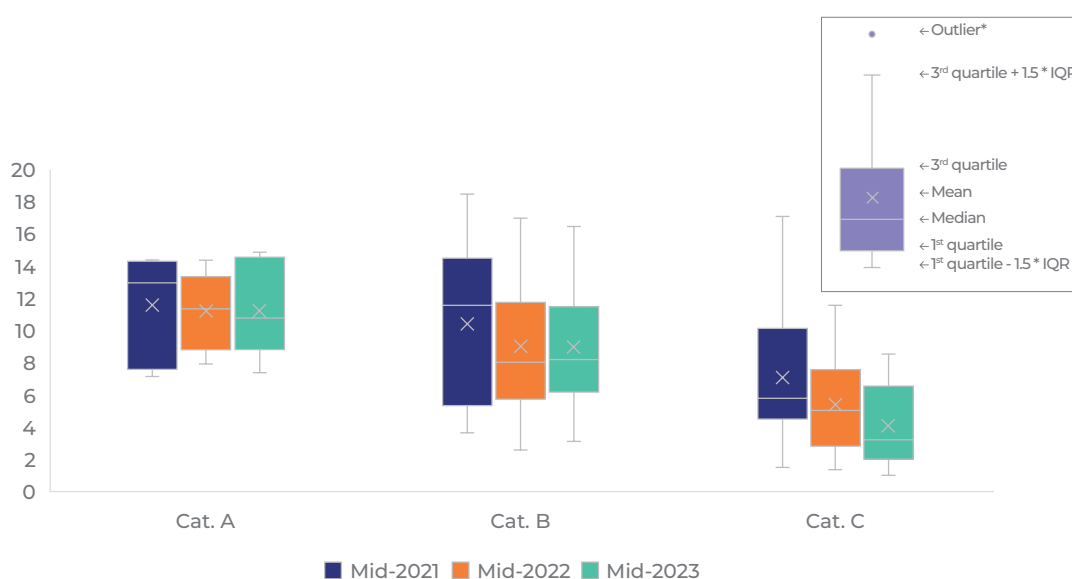
²³ Financial Reporting Council (United Kingdom) "Firm-level Audit Quality Indicators Definitions Note", March 2023 https://media.frc.org.uk/documents/Firm-level_AQIs_Definitions_Note_March_2023.pdf

²⁴ Accounting and Corporate Regulatory Authority (Singapore) "Guidance to Audit Firms on ACRA's Audit Quality Indicators Disclosure Framework (2020 Revised)", 2020 <https://www.acra.gov.sg/docs/default-source/default-document-library/public-accountants/audit-quality-indicators-disclosure-framework/guidance-to-audit-firms-on-acra%27s-revised-aqi-disclosure-framework.pdf>

²⁵ HKICPA "Hong Kong Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements", March 2023 <https://www.hkicpa.org.hk/-/media/HKICPA-Website/Members-Handbook/volumeIII/hksa22021.pdf>

- 10.6. Figure 34 shows that across all categories of PIE auditors in mid-2023, Category A PIE auditors displayed the highest mean staff to partner ratio (11.2 to 1). This is followed by Category B and C PIE auditors with ratios of 8.9 to 1 and 4.1 to 1 respectively.
- 10.7. The ratio for Category C PIE auditors continued to fall in both mean and median number of staff to partner ratio over the three periods analysed. This decline is likely due to a noticeable decline in the number of associates as depicted earlier in Figure 21.

Figure 34. Distribution of the number of staff to partner ratio



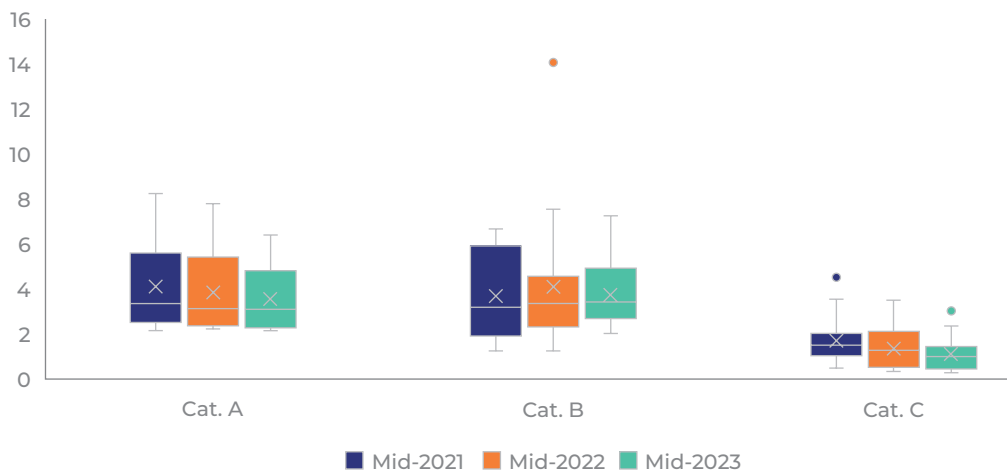
Note: (*) An outlier refers to any value that is greater than the value of the third quartile plus 1.5 times the interquartile range (IQR): (third quartile – first quartile) and any value that is smaller than the value of the first quartile minus 1.5 times the IQR.

	Cat. A			Cat. B			Cat. C		
	Mid-2021	Mid-2022	Mid-2023	Mid-2021	Mid-2022	Mid-2023	Mid-2021	Mid-2022	Mid-2023
Highest	14.4	14.3	14.8	18.4	16.9	16.4	17.0	11.5	8.5
Mean	11.5	11.2	11.2	10.4	9.0	8.9	7.0	5.3	4.1
Median	12.9	11.3	10.7	11.5	8.0	8.2	5.8	5.0	3.2
Lowest	7.1	7.9	7.4	3.6	2.6	3.1	1.5	1.3	1.0

- 10.8. The number of PIE engagements per partner can serve as a proxy for measuring the level of partner’s involvement in an audit engagement. A higher number of PIE engagements per partner may suggest a lower level of a partner’s involvement per engagement, which could be indicative of lower audit quality. However, similar to the staff to partner ratio, users of this data should also consider the broader contextual information before assessing its impact on audit quality.

- 10.9. As Figure 35 shows, Category B PIE auditors reported the highest mean number of PIE engagements per partner at 3.7 in mid-2023, followed by Category A and Category C PIE auditors with 3.5 and 1.1 respectively. This suggests that partners from Category B PIE auditors may be relatively busier, which could be attributed to the observed increase in market share of Category B PIE auditors. The AFRC emphasises that partners of PIE auditors should allocate sufficient attention to each engagement to ensure audit quality is maintained.
- 10.10. On the other hand, Category A PIE auditors experienced a decline in both the mean and median number of engagements per partner. These trends align with the changes in the number of engagements undertaken by Category A and B PIE auditors.
- 10.11. It is worth pointing out that in mid-2022, the highest number of listed engagements per partner for Category B PIE auditors was 14.0. This is more than three times higher than the respective mean. Managing a substantial number of listed engagements is challenging, as it may lead to limited time allocated to each engagement. Consequently, any setbacks will have a detrimental impact on audit quality.

Figure 35. Distribution of the number of PIE engagements per partner



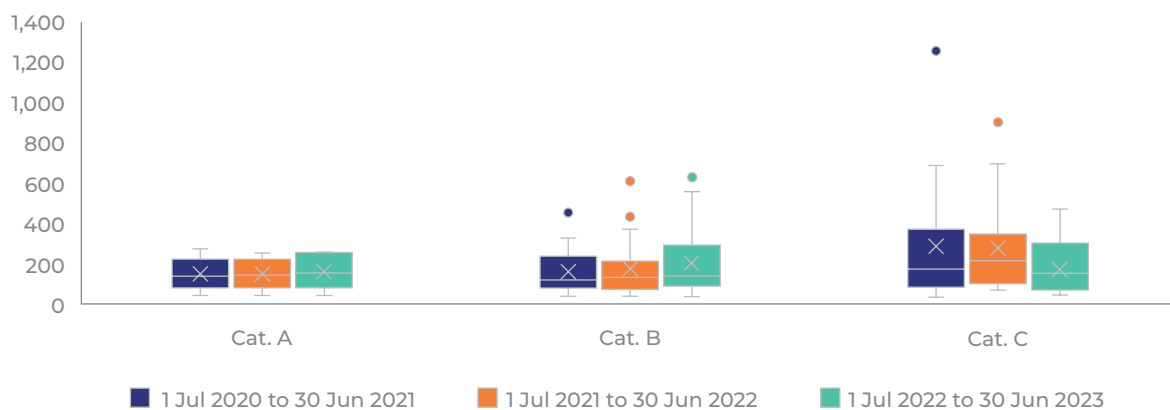
	Cat. A			Cat. B			Cat. C		
	Mid-2021	Mid-2022	Mid-2023	Mid-2021	Mid-2022	Mid-2023	Mid-2021	Mid-2022	Mid-2023
Highest	8.2	7.8	6.4	6.6	14.0	7.2	4.5	3.5	3.0
Mean	4.1	3.9	3.5	3.7	4.1	3.7	1.7	1.4	1.1
Median	3.4	3.1	3.1	3.2	3.4	3.4	1.5	1.3	1.0
Lowest	2.1	2.2	2.1	1.3	1.2	2.0	0.5	0.3	0.3

10.12. To properly supervise audit teams to deliver quality audits, the AFRC stresses the importance of audit firms to thoroughly assess the workload of every partner. By ensuring a manageable number of engagements, PIE auditors can enable partners to dedicate sufficient hours to each engagement.

10.13. As Figure 36 shows, the mean and median total man-hours of partners per engagement were generally the highest for Category C PIE auditors. This finding may be attributed to more manager-grade staff working in Category A and B PIE auditors, as indicated in Subsection 6. The higher number of manager-grade staff may enable partners in Category A and B PIE auditors to leverage on them in a PIE audit engagement. In contrast, given fewer manager-grade staff resources, Category C PIE auditors may tend to rely more on partners.

10.14. Alternatively, a lower total man-hours of partners per engagement in larger PIE auditors may suggest the adoption of a more systematic approach to conducting audits. In such cases, the PIE auditor may have provided a range of more comprehensive guidance, tools, and templates for staff to deploy. As a consequence, the workload of the partner may be reduced.

Figure 36. Distribution of total man-hours of partners per engagement



	Cat. A			Cat. B			Cat. C		
	1 Jul 2020 to 30 Jun 2021	1 Jul 2021 to 30 Jun 2022	1 Jul 2022 to 30 Jun 2023	1 Jul 2020 to 30 Jun 2021	1 Jul 2021 to 30 Jun 2022	1 Jul 2022 to 30 Jun 2023	1 Jul 2020 to 30 Jun 2021	1 Jul 2021 to 30 Jun 2022	1 Jul 2022 to 30 Jun 2023
Highest	274.4	253.8	257.1	452.5	605.1	623.9	1,246.6	894.9	468.0
Mean	149.7	149.3	159.0	162.3	182.1	203.9	286.4	279.0	172.6
Median	139.4	145.1	154.0	119.7	136.0	139.1	174.6	215.0	152.0
Lowest	48.1	46.5	42.1	40.0	40.0	39.0	36.5	71.3	48.0

11. Technology deployment in the audit process

- 11.1. The AFRC notes that the deployment of technology has become increasingly prevalent in both PIE auditors and the listed companies they audit. Technology deployment can positively impact audit quality. According to the International Federation of Accountants (IFAC), technology “can facilitate a more comprehensive examination of virtually all transactions and significantly increase the efficiency and effectiveness of audits.”²⁶ Likewise, according to a thematic review by an overseas audit regulator, the appropriate use of technology offers the potential to improve audit quality by providing audit evidence that is more focused to the audit risks as well as useful insights to an entity’s management and the audit committee.²⁷
- 11.2. When asked what the key benefits are of deploying technology in the audit process, more than three-quarters (77.1%) recognise the potential of technology to enhance operational efficiency. Two-thirds (66.7%) believe it will increase audit quality and four-in-ten (39.6%) said it will help reduce compliance risk (Figure 37).

Figure 37. Benefits of technology deployment



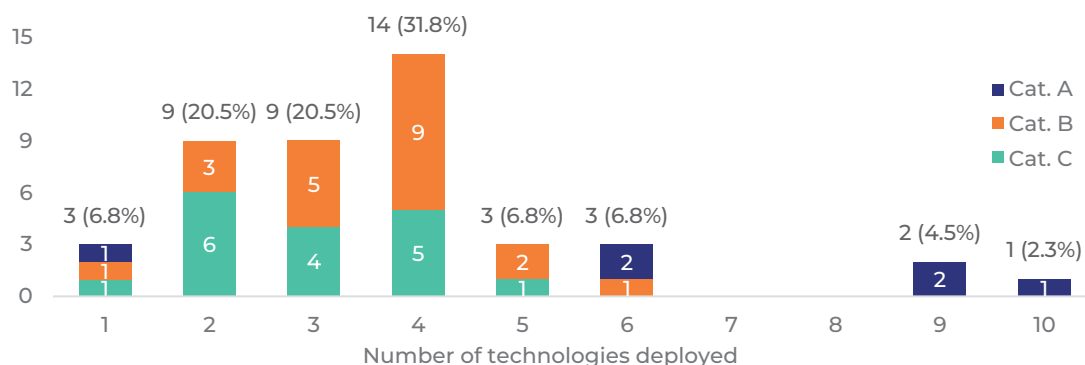
²⁶ IFAC “Achieving High-Quality Audits”, 2022 <https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/achieving-high-quality-audits>

²⁷ Financial Reporting Council (United Kingdom) “Audit Quality Thematic Review The Use of Technology in the Audit of Financial Statements”, January 2017 https://media.frc.org.uk/documents/Audit_Quality_Thematic_Review_The_Use_of_Data_Analytics_in_the_Audit_of_Financial_Statements.pdf

11.3. However, Figure 38 shows that only one-fifth of PIE auditors (20.4%) had deployed five or more technologies in the audit process in the year ended 30 June 2023. In addition, a majority of Category B and C PIE auditors had deployed fewer than five technologies in the audit process. In contrast, five out of six (83.3%) Category A PIE auditors had deployed more than five technologies. This finding suggests the presence of a technology gap between Category A PIE auditors and other PIE auditors. This gap is concerning as it indicates disparities in the deployment of technology in PIE auditors.

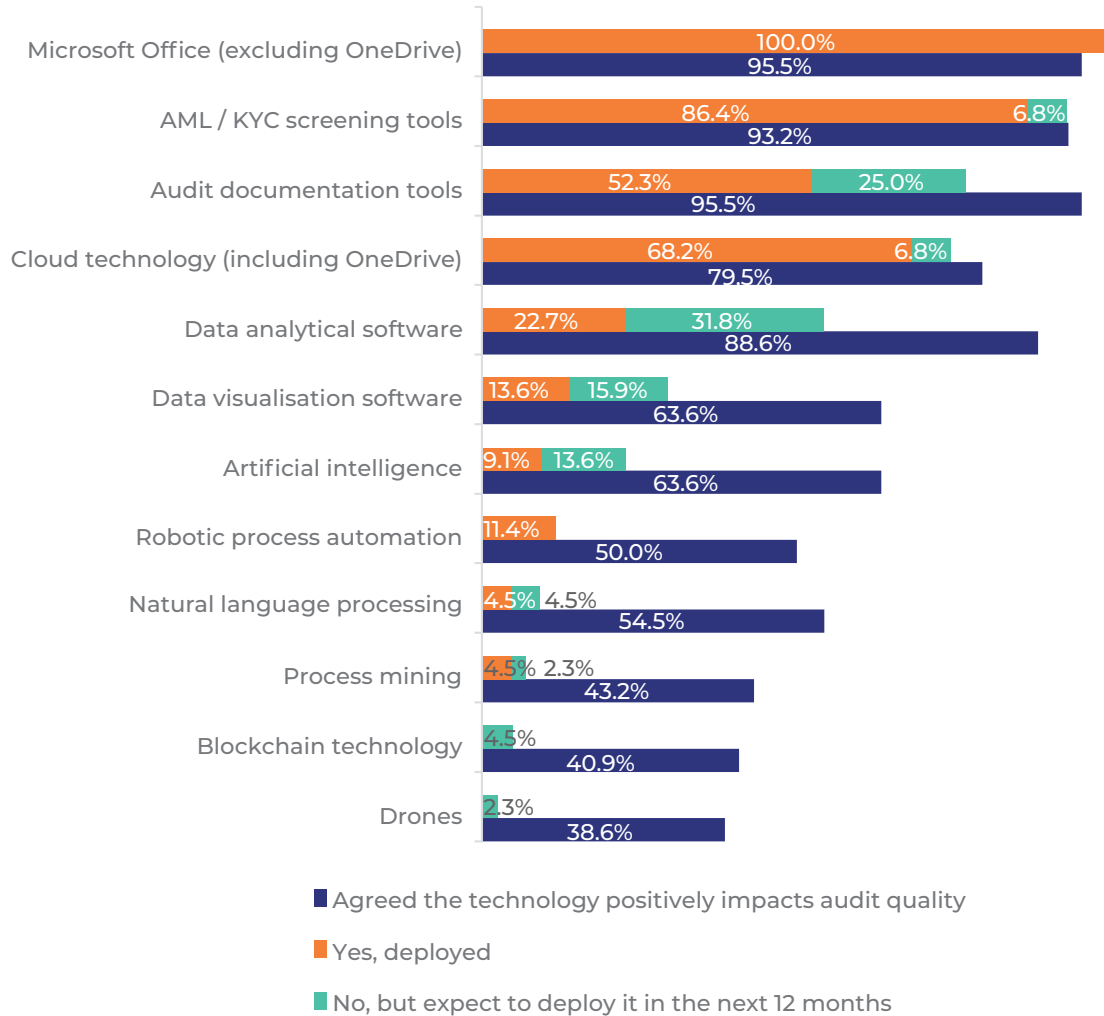
11.4. Further, the fact that one Category A PIE auditor had deployed only one technology, Microsoft Office, in the audit process is particularly concerning. While Microsoft Office is widely used, it may not necessarily offer the functionalities required for specific auditing tasks.

Figure 38. Number and percentage distribution of the number of technologies deployed during the audit process in the year ended 30 June 2023



11.5. Other than Microsoft Office, Anti-Money Laundering (AML)/Know-Your-Customer (KYC) screening tools, and cloud technology, Figure 39 shows a noticeable gap between the percentage that believe technologies will positively impact audit quality and the percentages that had deployed or plan to deploy it in the next 12 months. This suggests that there is room for improvement in aligning technology deployment with the perceived positive impact on audit quality. This gap may also indicate their lack of understanding regarding the application of advanced technologies such as artificial intelligence and robotic process automation in the audit process.

Figure 39. Comparison of the percentage that agreed the technology positively impacts audit quality and the percentages that had deployed or expect to deploy it in the next 12 months



11.6. Figure 40 shows that the most common reasons that PIE auditors do not deploy technology were that the perceived costs outweigh the benefits (79.2%), a lack of in-house capability to develop or deploy such technologies (68.8%), and insufficient knowledge and experience of staff (64.6%).

11.7. PIE auditors should perform a cost-benefit analysis before deciding whether a technology should be deployed. This analysis may help evaluate the potential benefits against the associated costs.

11.8. Further, PIE auditors should regularly assess the upskilling and reskilling needs of staff to identify knowledge gaps and areas for development including technology-related skills. This ensures that training is targeted and aligned with the specific needs of audit professionals, maximising the positive impact such training will have on audit quality.

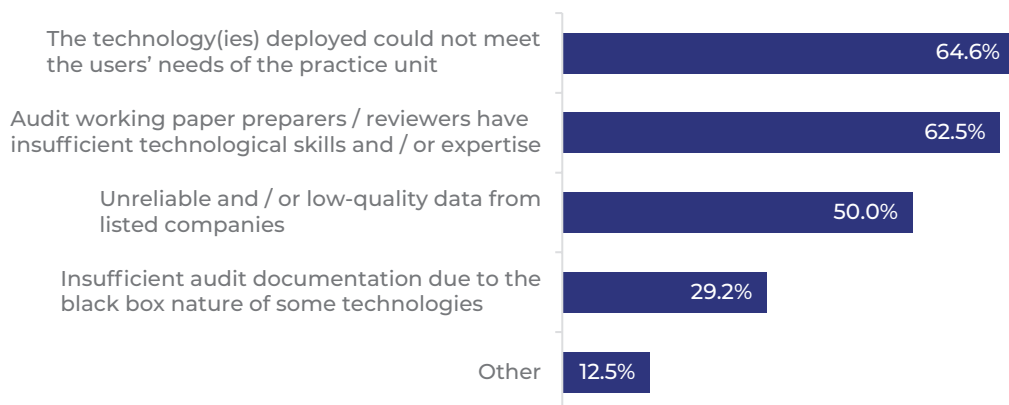
Figure 40. Reasons for not deploying technology



11.9. As Figure 41 shows, the top challenges faced by PIE auditors when deploying technology include not meeting the needs of the audit firm (64.6%), insufficient technology skills and expertise of both preparers and reviewers of the audit working papers (62.5%), and unreliable or low-quality data from listed companies (50.0%).

11.10. PIE auditors need to assess the suitability and compatibility of a technology in the audit process. Further, PIE auditors should work closely with listed companies to address data quality concerns through initiatives such as standardised data reporting and sharing.

Figure 41. Challenges when deploying technology



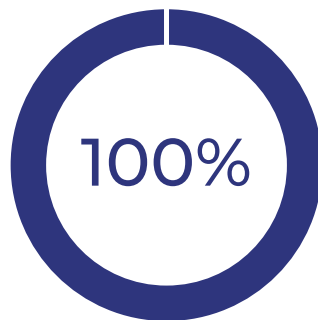
11.11. It is important for PIE auditors to ensure the inputs and outputs of these technological tools are with integrity and reliability. Policies and procedures should also be in place to obtain, develop, implement, and maintain appropriate technological tools. As the AFRC’s Inspection Insights highlight, firms should comply with HKSQM 1 and have appropriate policies and procedures in place to ensure proper acquisition or development, implementation, maintenance, and usage of technology.²⁸

28 AFRC “Inspection Insights”, November 2023 https://www.afrc.org.hk/media/qlsgzsdp/inspection-insights_en.pdf

12. Provision of CPD training in PIE auditors

- 12.1. The AFRC considers CPD an important factor in contributing to audit quality. According to the International Auditing and Assurance Standards Board (IAASB), CPD enables auditors to continue developing their skills and knowledge related to auditing, and to keep up with continuing changes in accounting and regulatory requirements. Further, training can also help PIE audit professionals keep abreast of developments in emerging industries.²⁹
- 12.2. Besides, the AFRC's 2022 Annual Inspection Report identified "continuous focus on enhancing competence and capabilities" as amongst the key factors contributing to improved audit quality of certain PIE auditors.³⁰ Other benefits of CPD training include reducing compliance risks, enhancing job satisfaction, and improving staff retention.
- 12.3. The benefits of CPD training have not been overlooked by the surveyed local PIE auditors, with all agreeing that relevant CPD training would have a positive impact on audit quality (Figure 42).

Figure 42. Percentage that agreed CPD training positively impacts audit quality



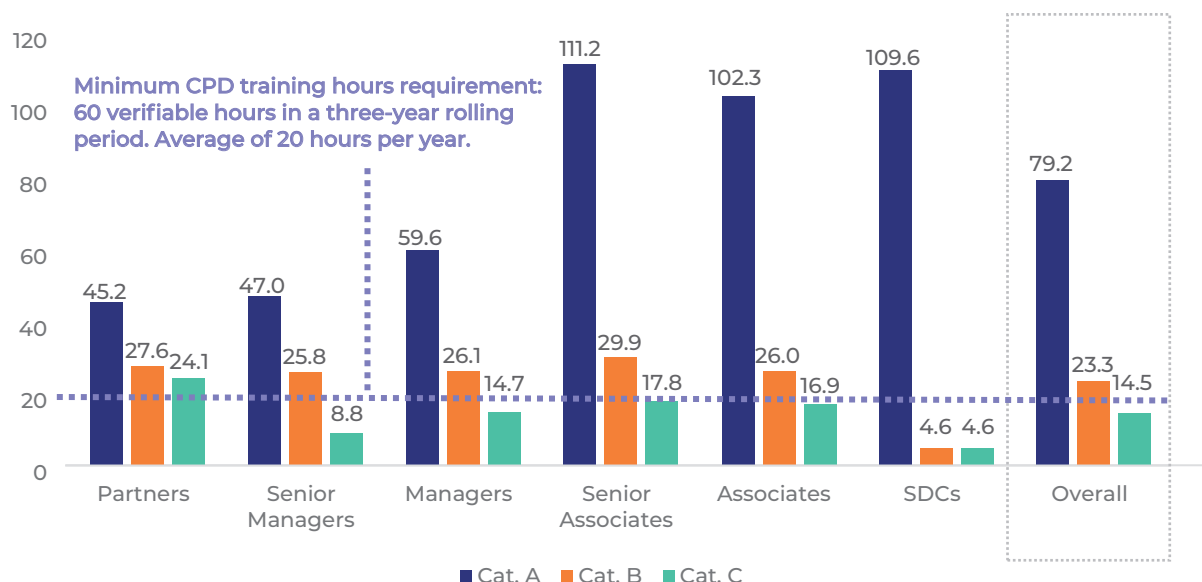
- 12.4. The AFRC acknowledges that various factors contribute to the success of CPD training on audit quality. This includes the relevance of topics, the quality of the training materials, and the knowledge and experience of the trainers. Notably, an increase in average training hours would likely enhance audit quality as it indicates that audit professionals are dedicating more time to improve their competencies and capabilities to deliver effective audits, as well as staying abreast of changes in accounting and auditing standards.

²⁹ IAASB "A Framework for Audit Quality", February 201 https://www.ifac.org/_flysystem/azure-private/publications/files/A-Framework-for-Audit-Quality-Key-Elements-that-Create-an-Environment-for-Audit-Quality-2.pdf

³⁰ AFRC "2022 Annual Inspection Report", July 2023 https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022_AFRC%20Inspection%20Report_eng.pdf

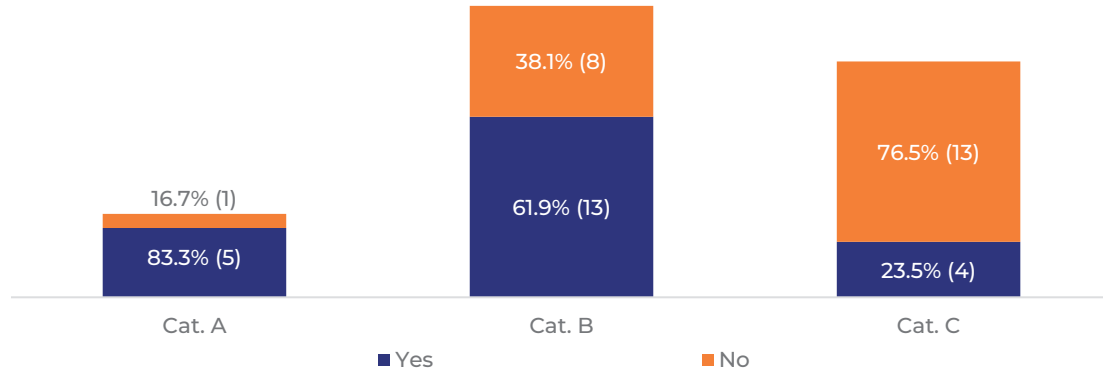
12.5. Currently, HKICPA members are required to complete at least 60 verifiable hours of CPD training in a three-year rolling period. While HKICPA members are not required to attain 20 verifiable hours annually, fostering a continuous learning culture is crucial. The following analysis uses 20 verifiable hours as a benchmark for comparative purposes. Figure 43 indicates that, on average, Category B PIE auditors provided CPD training that only just met 20 verifiable CPD hours in the year ended 30 June 2023. Of particular concern is that Category C PIE auditors provided an average of less than 20 verifiable CPD hours to each grade, with the exception of partners, in the same period.

Figure 43. Mean total number of hours of CPD training provided by local PIE auditors by grade in the year ended 30 June 2023



12.6. Figure 43 shows that, on average, Category A PIE auditors had provided CPD training that exceeded 20 verifiable hours to each grade. However, when analysed by individual practice unit, it is worrying that all categories of PIE auditors have at least one practice unit that had provided less than 20 verifiable CPD hours. The problem is most acute for Category C PIE auditors with more than three-quarters (76.5%) providing less than 20 verifiable CPD hours, followed by Category B PIE auditors (38.1%) (Figure 44).

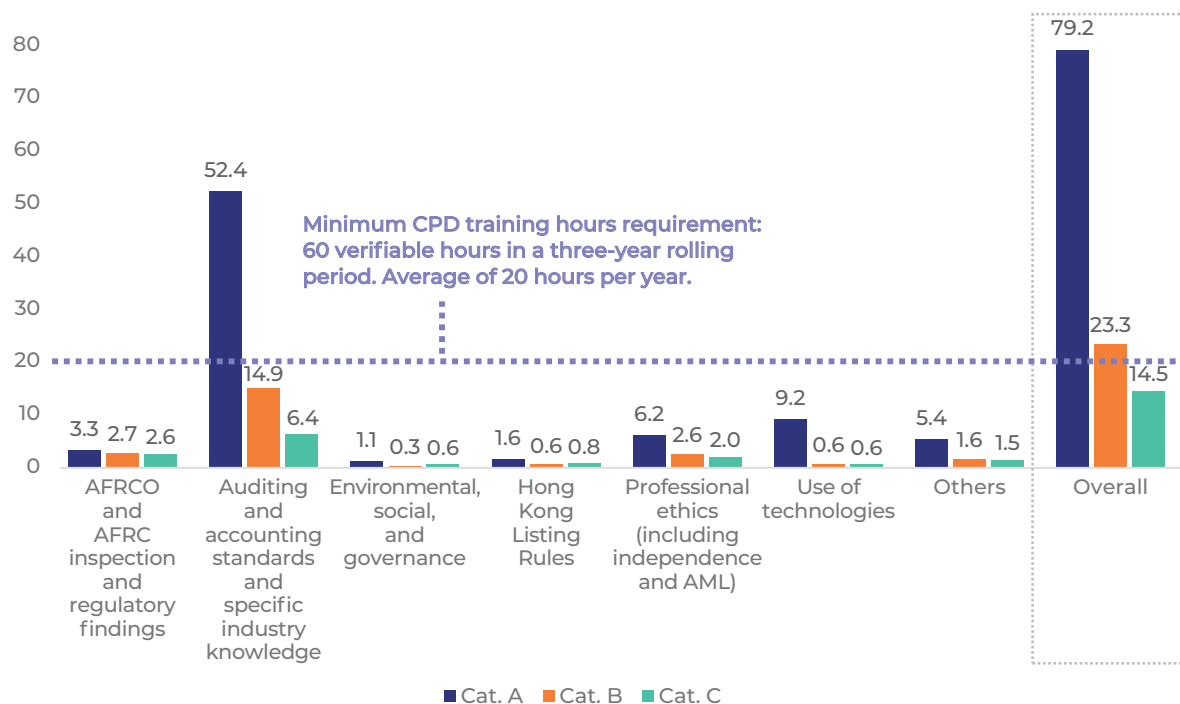
Figure 44. Percentage of PIE auditors that had provided 20 or more verifiable CPD hours to each partner and staff on average in the year ended 30 June 2023



Note: Number of PIE auditors in parentheses.

- 12.7. The AFRC is concerned with the potential non-compliance of CPD may have on audit quality, and how it reflects the overall learning culture within the profession. The AFRC expects all audit professionals to fully comply with CPD requirements.
- 12.8. Further, the AFRC strongly encourages PIE audit partners and staff to exceed the minimum requirements and adopt a mindset of continuous and lifelong learning. By going beyond the bare minimum, audit professionals can stay ahead of industry changes, acquire additional skills and knowledge, and improve their adaptability to emerging challenges.
- 12.9. Figure 45 shows that that a significant portion of the CPD training provided by PIE auditor focuses on auditing and accounting standards. However, there is a noticeable gap in other critical areas, such as the AFRCO, the AFRC's inspection results, and the Listing Rules issued by the Hong Kong Stock Exchange (**HKEX**). This gap may potentially impact audit quality as the training provided may not be fully aligned with current market conditions.

Figure 45. Mean total number of hours of CPD training provided by local PIE auditors by training topic in the year ended 30 June 2023



12.10. To address this gap and enhance the delivery of quality audits, it is recommended that PIE auditors provide additional quality CPD training dedicated to these areas. Such training will help auditors to keep abreast with changes in the regulatory environment and understand the expectations of the AFRC.

12.11. Besides, to ensure they have the knowledge, skills, and competencies to deliver quality audits, PIE auditors should keep abreast of developments in emerging industries. For example, in recent years, there has been a rise in the number of “new economy” listed companies, such as healthcare and biotech companies. According to the HKEX, funds raised by “new economy” initial public offerings (IPOs) represented 64% of total IPO fundraising in 2020, compared with 49% in both 2018 and 2019.³¹ As a result, PIE auditors should strive to deliver relevant, specific, and high-quality training, targeting emerging industries, to partners and staff, if they have such PIE engagements.

12.12. The HKICPA should take note of the above findings, assess the implications, and take action to resolve the training gap. The HKICPA should also regularly offer additional relevant, specific, and high-quality CPD training to ensure that audit professionals possess up-to-date knowledge and skills required to perform their roles effectively.

³¹ HKEX “HKEX Celebrates Third Anniversary of New Listing Regime”, June 2021 https://www.hkex.com.hk/News/Media-Centre/Special/HKEX-Celebrates-Third-Anniversary-of-New-Listing-Regime?sc_lang=en

Section C

Key messages to stakeholders

13. Key messages to PIE auditors

13.1. In view of the report's findings, the AFRC urges PIE auditors to act on the key messages below which are aimed at enhancing audit quality and addressing key areas of concern. The key messages are categorised into three sections, namely: Staff, Systems, and Strategy.

13.1.1. Staff

- a) **Ensure staff resources are sufficient before undertaking a PIE audit engagement.** Adequate staffing level is crucial for maintaining high-quality audits. PIE auditors should conduct a thorough assessment of their staff resources before accepting a PIE audit engagement. They should ensure they have the appropriate competence, capabilities, as well as enough time to effectively carry out the audit engagements and maintain audit quality.
- b) **Offer relevant, specific, and high-quality CPD training to staff.** Enhancing the skills and knowledge of audit professionals is essential in ensuring audit quality. PIE auditors should provide CPD training to staff that is relevant, specific, and of high-quality. It should cover a wide array of topics including the AFRC's inspection findings, the AFRCO, and the Listing Rules issued by the HKEX.

The quality of CPD training should be assessed through performance-based measurements. By evaluating the impact of the training on the performance of audit professionals, PIE auditors can determine whether the training fulfils the objective of enhancing and maintaining audit quality.

- c) **Implement initiatives to support gender equality.** Initiatives could include implementing family-friendly employment policies, and implementing policies and procedures to ensure equal opportunities are taken into account in the recruitment process and in career development and advancement. By promoting gender equality, PIE auditors can leverage a diverse talent pool and enhance audit quality.

13.1.2. Systems

- a) **Ensure sufficient supervision and partner involvement in audit engagements.** PIE auditors should ensure that partners review the work performed by the audit team on a regular basis, as well as direct and supervise staff, including SDC staff, of the engagement team.
- b) **Avoid imposing excessive workload and working hours on staff.** PIE auditors should establish policies and procedures to actively monitor and manage the workload and working hours of their staff. Excessive workload and long working hours could lead to fatigue and stress which, in turn, could compromise audit quality.
- c) **Allocate appropriate investment in technology and establish policies and procedures for the use of technological tools.** PIE auditors should stay abreast of technology development and allocate an appropriate amount of investment in technologies such as data analytical software and artificial intelligence to improve operational efficiency and reduce clerical errors in the audit process and improve audit quality.

More importantly, PIE auditors should ensure the inputs and outputs of these technological tools are with integrity and reliability. Policies and procedures should also be in place to obtain, develop, implement, and maintain appropriate technological tools.

13.1.3. Strategy

- a) **Actively communicate and demonstrate the value of a quality audit to listed companies.** PIE auditors should communicate the value proposition of audits to listed companies and showcase the value of a quality audit. These can be achieved by maintaining strong and effective communication with listed companies, carrying out a comprehensive and effective audit process, and demonstrating professional scepticism to identify areas for improvement.

- b) **Adjust competitive strategy from price-based to audit quality-based to ensure audit quality will not be compromised.** PIE auditors should not compromise audit quality by engaging in competition over audit fees. They should focus on differentiating themselves based on their expertise, experience, and the value they bring to the engagement.

14. Key messages to other stakeholders

14.1. For audit committees, the AFRC provides the following key recommendations:

14.1.1. **Ensure that audit fees are agreed at a level that allows auditors to devote sufficient time and appropriate resources to conduct a quality audit.** Audit committees are fully accountable for ensuring that audit fees are set at a level that is commensurate with the complexity of the listed company's operations, the risks involved, and the scope of work required.

14.1.2. **Assert role in audit fee negotiation.** Audit committees should actively assert their role in audit fee negotiation to reflect the level of effort and resources required to conduct a quality audit. They should strive to deter the Board and other senior management from exerting pressure on audit fees that could compromise audit quality.

14.1.3. **Ensure a robust set of processes and procedures when selecting auditors.** The audit committee must consider a variety of factors when selecting a PIE auditor. These factors include the PIE auditor's industry knowledge, technical competence, and a breakdown of the proposed audit hours by seniority of staff. A set of robust processes and procedures should be in place to enquire about the adequacy and appropriateness of the PIE auditor's resources including attrition and vacancy rates, the level, nature and quality of CPD training provided to staff, and the utilisation of technology in the audit process.

14.1.4. **Exercise diligence and scepticism.** Consistently high level of diligence and scepticism should be exercised when overseeing the audit process to hold the PIE auditor accountable. When the audit process involves the deployment of technology, the audit committee can question about the procedures implemented by auditors to ensure the integrity and reliability of inputs and outputs generated by technological tools. Furthermore, the audit committee should assess the adequacy of the engagement partner's involvement and supervision over their staff, and the level, nature and quality of CPD training provided to staff.

14.2. For the HKICPA, the AFRC provides the following key messages:

14.2.1. **Promote the profession to attract and retain people.** By showcasing the value and reputation of the accounting and audit profession, the HKICPA can boost the attractiveness of the profession to attract more qualified talent and contribute to its sustainable development.

Likewise, other major organisations supporting the profession in Hong Kong, such as the SCAA and the PIEAA, should also continue to offer support to promote the profession and nurture talent.

14.2.2. **Assess training gaps and regularly offer additional relevant, specific, and high-quality CPD training to the profession.** The assessment should include identifying training gaps in regulatory changes and evolving industry practices. This ensures that audit professionals possess the knowledge and skills required to perform their roles effectively.

15. Closing and looking ahead

15.1. The PIE audit market in Hong Kong is navigating a rapidly evolving landscape. Over the past few years, the growth in demand for PIE audits has slowed and mean audit fees for local PIE auditors has remained stagnant. Fee pressure remains prevalent in the market, especially for Category B PIE auditors, who faced increased fee pressure in 2023 compared to 2022.

15.2. Audit fees that do not cover the cost of an audit may result in the decrease in both short- and long-term investment in staff retention, resource allocation in PIE audit engagements, provision of CPD training, and technology. These, in turn, will have a pernicious impact on audit quality to varying degrees.

15.3. This landscape is further marked by structural issues such as labour shortages, declining attractiveness of the profession, and comparatively high attrition rates which present significant hurdles to overcome.

- 15.4. This report on the PIE audit market in Hong Kong highlights that while challenges persist within the PIE audit market, there are also opportunities. Looking ahead, shifting market dynamics, changing regulatory requirements, and development in technology mean that it is imperative that stakeholders, including PIE auditors, remain adaptable and forward-thinking. Fostering a culture that leads to the provision of high-quality audits requires PIE auditors to prioritise continuous investment in human capital, deploy technologies, provide CPD training, foster gender equality in the workplace, and ensure appropriate workload and supervision of audit professionals.
- 15.5. The sustainable development of the PIE audit market requires stakeholders to collaborate closely and leverage on the report's findings and key messages to overcome challenges and seize opportunities.
- 15.6. The report will also guide future initiatives and actions of the AFRC. This is vital as it will lay the foundation for a series of future steps aimed at further enhancing audit and financial reporting quality as well as fostering sustainability and accountability in the PIE audit market.
- 15.7. The AFRC believes that by promoting collaboration with relevant stakeholders, the public interest can be protected and the integrity of Hong Kong's capital markets and its role as an international financial centre upheld.

Section D

Methodology and limitations

16. Methodology

- 16.1. The online survey of PIE auditors was conducted in November 2023, with participation from all registered PIE auditors with at least one PIE audit engagement in the period from 1 July 2020 to 30 June 2023. If multiple responses were received from the same PIE auditor, only the latest response is reflected in this report.
- 16.2. To ensure the accuracy of the analysis and to focus specifically on the PIE audit market in Hong Kong, survey questions that are related to PIE auditors' experiences, actions, or opinions in 2023 were limited to respondents that had PIE audit engagements as at 30 June 2023.
- 16.3. The number of listed company audits is based on the list of listed companies in the HKEX's Fact Books from 2018 to 2021, as well as additional information published by the HKEX. The data analysed excludes listed companies without annual reports issued. Data on the audit fee and market share of PIE auditors has been updated from the AFRC's "Audit fees paid by listed companies in Hong Kong in 2020/2021" report issued in March 2023 to include listed companies that had earlier refrained from publishing their annual reports on or before the reporting deadline and had subsequently issued their annual reports thereafter.
- 16.4. Data from annual reports and announcements of listed companies were extracted by an external market data provider.
- 16.5. Financial years ending in January through May are assigned to the year in which the financial period begins. Financial years ending in June through December are assigned to the year in which the financial period ends. For example, if a listed company's financial year-end is March 2022, the statistical information of that listed company will be classified as 2021.

- 16.6. PIE auditors are assigned to categories based on their location and the number of listed companies they audit in the year.

Audit firm category	Description
Category A/Cat. A	Local PIE auditors with more than 100 PIE audit engagements ³²
Category B/Cat. B	Local PIE auditors with 10 to 100 PIE audit engagements
Category C/Cat. C	Local PIE auditors with one to nine PIE audit engagements
Mainland	Mainland PIE auditors recognised under section 20ZT of the AFRCO
Overseas	Overseas PIE auditors recognised under Division 3 of Part 3 of the AFRCO

- 16.7. The grades of PIE audit professionals are represented as follows:

In the report	In the survey
Partners	Partners/Principals/Directors or equivalent
Senior Managers	Senior managers/Associate directors or equivalent
Managers	Managers or equivalent
Senior Associates	Senior associates/Assistant managers/Supervisors or equivalent
Associates	Associates/Staff or equivalent
SDCs	Service Delivery Centre staff (All grades)

³² Since 2019, one of the surveyed PIE auditors was categorised as Category A. In early 2023, the PIE auditor's PIE engagements fell below 100. However, as the PIE auditor was in Category A for most of the period analysed in this report, the report has categorised it as Category A for consistency and for comparative purposes.

17. Limitations

- 17.1. The survey was distributed to local PIE auditors only and excluded Mainland auditors, overseas auditors, and individual staff members. This is because the purpose of the study is to analyse the local PIE audit market, focusing particularly on the local PIE audit workforce. Hence, only local PIE auditors were surveyed. Given that local PIE auditors conducted audits for 94.7% of Hong Kong listed companies during the financial year ended 2022, the exclusion of non-local PIE auditors is considered appropriate as the scope of the survey adequately covers the relevant information.
- 17.2. Although the AFRC endeavours to ensure the accuracy of the information provided by the PIE auditors in preparing this publication, the AFRC has not performed a detailed verification of the data and information supplied. The respondent's role and familiarity of its practice unit could affect the reliability of the individual response to each question. Respondents may provide responses that they believe are more desirable, particularly on questions that are opinion-based. To enhance the accuracy of the collected survey data, follow-up communications were conducted with selected respondents to clarify any ambiguities or inconsistencies in their responses.
- 17.3. The PPI of legal, accounting, auditing, and bookkeeping services was used in this report to adjust audit fees for inflation. The consumer price index was used in the AFRC's "Audit fees paid by listed companies in Hong Kong in 2020/2021" report issued in March 2023. Therefore, audit fees adjusted for inflation between the two reports are not strictly comparable. Caution should be exercised when comparing this information between the two reports.

Appendix I

Survey to PIE auditors

Survey questions							
1. Headcount of partners and staff* who carried out listed company audit engagements by grade and gender as at the following dates: (Please fill in the headcount in the table)							
		30 Jun 2021		30 Jun 2022		30 Jun 2023	
		Male	Female	Male	Female	Male	Female
a	Partners/Principals/Directors [^] or equivalent						
b	Associate directors/Senior managers or equivalent						
c	Managers or equivalent						
d	Assistant managers/Senior associates/Supervisors or equivalent						
e	Associates/Staff or equivalent						
f	Service delivery centre staff (All grades)						
*		Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".					
^		Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".					

**2. Man-hours of partners and staff* who carried out listed company audit engagements# by grade and by gender during the following periods:
(Please fill in the total man-hours in the table)**

		1 Jul 2020 to 30 Jun 2021		1 Jul 2021 to 30 Jun 2022		1 Jul 2022 to 30 Jun 2023	
		Male	Female	Male	Female	Male	Female
a	Partners/Principals/Directors [^] or equivalent						
b	Associate directors/Senior managers or equivalent						
c	Managers or equivalent						
d	Assistant managers/Senior associates/Supervisors or equivalent						
e	Associates/Staff or equivalent						
f	Service delivery centre staff (All grades)						

* Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".

[^] Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".

[#] If a partner or staff carried out more than one listed company audit engagement in the period, the total man-hours should be the summation of all the hours that a partner or staff incurred in each audit engagement.

**3. Number of vacancies* of partners and staff^ who carried out listed company audit engagements as at the following dates:
(Please fill in the number of vacancies in the table)**

		30 Jun 2021	30 Jun 2022	30 Jun 2023
a	Partners/Principals/Directors# or equivalent			
b	Associate directors/Senior managers or equivalent			
c	Managers or equivalent			
d	Assistant managers/Senior associates/Supervisors or equivalent			
e	Associates/Staff or equivalent			
f	Service delivery centre staff (All grades)			
*	Vacancies refer to unfilled job openings which are immediately available, and for which active recruitment steps are being taken by your practice unit.			
^	Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".			
#	Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".			

**4. Attrition rate* of partners and staff^ who carried out listed company audit engagements during the following periods:
(Please fill in the attrition rate in percentage in the table)**

		1 Jul 2020 to 30 Jun 2021	1 Jul 2021 to 30 Jun 2022	1 Jul 2022 to 30 Jun 2023
a	Partners/Principals/Directors# or equivalent			
b	Associate directors/Senior managers or equivalent			
c	Managers or equivalent			
d	Assistant managers/Senior associates/Supervisors or equivalent			
e	Associates/Staff or equivalent			
f	Service delivery centre staff (All grades)			
*	The attrition rate should be calculated using the following formula: (total number of assurance professionals that have left your practice unit in the period/number of assurance professionals in your practice unit at the start of the period) X 100.			
^	Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".			
#	Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".			

5. Headcount of partners and staff* who carried out listed company audit engagements with your practice unit by length of service (to the nearest year) as at 30 June 2023: (Please fill in the headcount^ in the table)

		0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	Over 30 years
a	Partners/ Principals/ Directors# or equivalent							
b	Associate directors/Senior managers or equivalent							
c	Managers or equivalent							
d	Assistant managers/Senior associates/ Supervisors or equivalent							
e	Associates/Staff or equivalent							
f	Service delivery centre staff (All grades)							

* Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".

^ Total headcount should be in agreement with the summation of headcount by grade as at 30 June 2023 in Question 1.

Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".

6. Research shows that there is a relationship between Continuing Professional Development (CPD) training and audit quality (Ocak, Ozkan, and Can (2022) *Continuing professional education and audit quality: evidence from an emerging market*; Lee, Su, Tsai, Lu, and Dong (2016) *A comprehensive survey of government auditors' self-efficacy and professional development for improving audit quality*).

Do you agree that relevant CPD training* will positively impact audit quality?

- a) Yes
- b) No (Please explain: _____)

* CPD training as used in this survey refers to the verifiable learning activities that develop and maintain professional competence of partners and staff. These activities should be relevant to the individual's roles and supported by verifiable evidence as described in Statement 1.500 Continuing Professional Development issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

7. What is the average verifiable number of CPD training hours that your practice unit has provided to each partner and staff* who carried out listed company audit engagements, in the period from 1 July 2022 to 30 June 2023 in the following areas? (Please fill in the number of hours in the table)

		AFRCO and AFRC inspection and regulatory findings	Auditing and accounting standards and specific industry knowledge	Environmental, social, and governance (ESG)	Hong Kong Listing Rules	Professional ethics (including independence and AML)	Use of technologies	Others
a	Partners/Principals/Directors [^] or equivalent							
b	Associate directors/Senior managers or equivalent							
c	Managers or equivalent							
d	Assistant managers/Senior associates/Supervisors or equivalent							
e	Associates/Staff or equivalent							
f	Service delivery centre Staff (All grades)							
*	Partner and staff pertain to individuals who are engaged or employed by the practice unit that perform audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".							
[^]	Partners/Principals/Directors pertain to sole practitioners, practising partners or authorised signatories of a CPA firm or practising member directors of a corporate practice. Partners/Principals/Directors who do not belong in the aforementioned group should be included in "b) Associate directors/Senior managers or equivalent".							

8. In March 2020, the United Kingdom’s Financial Reporting Council published a report titled *AQR Thematic Review-The use of Technology in the audit of financial statements*. The report highlighted enhanced audit quality as being a likely outcome of widespread use of technological resources, but also identified some challenges.

In your opinion, please indicate whether the following listed technologies positively impact audit quality:

		Yes	No
a	Artificial intelligence	<input type="radio"/>	<input type="radio"/>
b	AML/KYC screening tools	<input type="radio"/>	<input type="radio"/>
c	Audit documentation tools	<input type="radio"/>	<input type="radio"/>
d	Blockchain technology	<input type="radio"/>	<input type="radio"/>
e	Cloud technology (including OneDrive)	<input type="radio"/>	<input type="radio"/>
f	Data analytical software	<input type="radio"/>	<input type="radio"/>
g	Data visualisation software	<input type="radio"/>	<input type="radio"/>
h	Drones	<input type="radio"/>	<input type="radio"/>
i	Microsoft Office (excluding OneDrive)	<input type="radio"/>	<input type="radio"/>
j	Natural language processing	<input type="radio"/>	<input type="radio"/>
k	Process mining	<input type="radio"/>	<input type="radio"/>
l	Robotic process automation	<input type="radio"/>	<input type="radio"/>

Conditional question: If respondent chose “No” for all technologies listed in Question 8

8-1. Please explain why you think none of the listed technologies positively impact audit quality:

--

9. Has your practice unit deployed the following technologies during the audit process in the period from 1 July 2022 to 30 June 2023?				
		Yes	No, but expect to deploy it in the next 12 months	No, and there are no plans to deploy it in the next 12 months
a	Artificial intelligence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	AML/KYC screening tools	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Audit documentation tools	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	Blockchain technology	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	Cloud technology (including OneDrive)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	Data analytical software	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	Data visualisation software	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h	Drones	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i	Microsoft Office (excluding OneDrive)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j	Natural language processing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
k	Process mining	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
l	Robotic process automation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
m	Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Conditional question: If respondent chose "Yes" for "Other" in Question 9				
9-1(a). Please specify the technology:				
Conditional question: If respondent chose "No, but expect to deploy it in the next 12 months" for "Other" in Question 9				
9-1(b). Please specify the technology:				

Conditional question: If respondent chose "Yes" for any of the technologies listed in Question 9

**9-2. What are the challenges (including those that your practice unit has overcome) when deploying the technologies listed in Question 9?
(Check all that apply)**

- a) Insufficient audit documentation due to the black box nature of some technologies
- b) The technology(ies) deployed could not meet the users' needs of the practice unit
- c) Audit working paper preparers/reviewers have insufficient technological skills and/or expertise
- d) Unreliable and/or low-quality data from listed companies
- e) Other (Please specify: _____)

Conditional question: If respondent chose "Yes" for any of the technologies listed in Question 9

**9-3. What are the key benefits that your practice unit experienced from the technologies deployed in Question 9 in the audit process?
(Please select from 1 to 3 answers)**

- a) Increase operational efficiency
- b) Reduce cost
- c) Improve branding/reputation
- d) Respond agilely to changes
- e) Increase audit quality
- f) Facilitate real-time monitoring of listed companies' financial reporting/transactions
- g) Reduce compliance risk
- h) Free up staff for other more fulfilling tasks
- i) Other (Please specify: _____)

Conditional question: If respondent chose "No, and there are no plans to deploy it in the next 12 months" for any of the technologies listed in Question 9

**9-4. In your opinion, what are the reasons for not planning to deploy the technologies listed in Question 9?
(Check all that apply)**

- a) Insufficient knowledge and experience of staff
- b) Cybersecurity concerns
- c) Lack of in-house capability to develop or deploy such technologies
- d) Perceived costs outweigh benefits
- e) Resistance from staff
- f) Listed companies not willing to support technology deployment
- g) Compliance risk
- h) Other (Please specify: _____)

10. Promoting gender equality in the workplace can increase diversity (Kulik (2021) *Gender (in)equality in Australia: good intentions and unintended consequences*), and research shows that diversity positively impacts audit quality (Zhang, Srinidhi, and Yang (2023) *Gender Diversity and Audit Quality: Evidence from the Pairing of Audit Partners*; Lisic, Seidel, and Truelson (2021) *Does Gender and Ethnic Diversity among Audit Partners Influence Office-Level Audit Personnel Retention and Audit Quality?*; Cameran, Ditillo, and Pettinicchio (2018) *Audit team attributes matter: How diversity affects audit quality*).

**In your opinion, how does gender equality in your practice unit positively impact audit quality?
(Check all that apply)**

- a) Enhance teamwork within audit teams
- b) Improve talent retention and recruitment
- c) Maintain audit independence
- d) Improve risk management
- e) Diversify perspective and experience
- f) Other (Please specify: _____)
- g) Gender equality has no positive impact on audit quality

11. Does your practice unit have the following initiatives in place to support gender equality as at 30 June 2023?				
		Yes	No, but expect to have in place in the next 12 months	No, and there are no plans to have in place in the next 12 months
a	Defined KPIs/targets such as reducing the gender pay gap	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	Embedded gender diversity consideration in recruitment policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Family-friendly employment practices (e.g., parental leave, flexible work arrangements etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	Internal communication channels (e.g., workshops, emails, seminars etc.) to raise awareness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	Mentorship programmes focusing on gender equality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	Written policies on the practice unit's position on gender equality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Conditional question: If respondent chose "Yes" for "Other" in Question 11				
11-1(a). Please specify the initiative:				
Conditional question: If respondent chose "No, but expect to have in place in the next 12 months" for "Other" in Question 11				
11-1(b). Please specify the initiative:				

**12. To the best of your knowledge, except for retirement, what were the key reasons for partners and staff* who carried out listed company audit engagements leaving the audit market in the period from 1 July 2022 to 30 June 2023?
(Please select from 1 to 3 answers)**

- a) Lack of career development and advancement opportunities
- b) Excessive workload/working hours
- c) Lack of workplace flexibility
- d) Workplace inequality
- e) Low compensation and benefits
- f) Health considerations
- g) Emigration
- h) Other (Please specify: _____)

* Partners and staff pertain to individuals who are engaged or employed by the practice unit that performs audit procedures on the listed company audit engagements, excluding an external expert and client's internal auditors. Please refer to the definition in HKSQM1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and HKSA 220 (Revised) "Quality Management for an Audit of Financial Statements".

13. Do you agree that the level of audit fees has a direct impact on audit quality?

- a) Yes
- b) No (Please explain: _____)

Conditional question: If respondent chose "Yes" for Question 13)

**13-1. In which areas do audit fees impact audit quality?
(Check all that apply)**

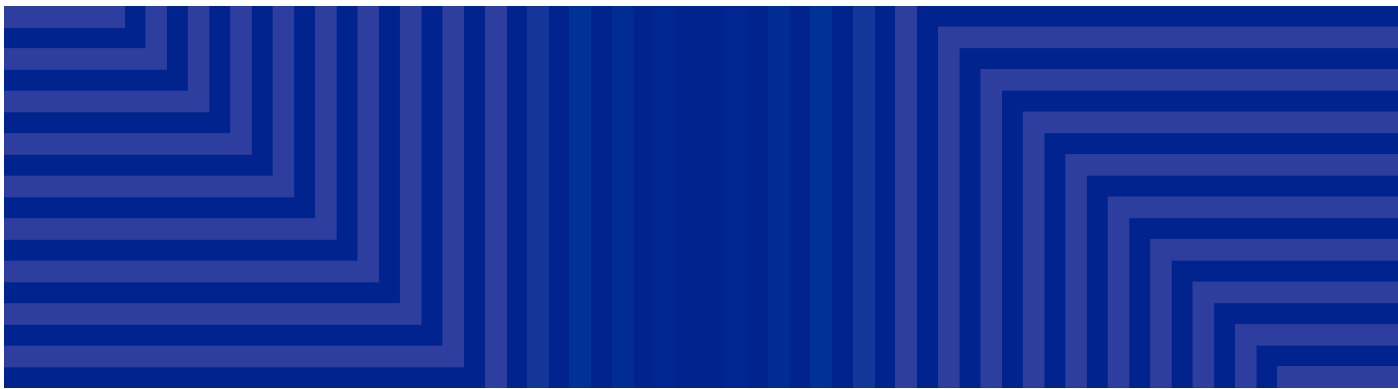
- a) Investment in technology
- b) Investment in staff training and development
- c) Sufficiency of compensation and benefits to retain staff
- d) Level of people resources deployed in audit engagements
- e) Use of technical expertise/specialists in complex audit matters
- f) Other (Please specify: _____)

**14. The audit fee report published by the AFRC in March 2023 shows that from 2010 to 2021, the nominal compound annual growth rate (CAGR) of median audit fees was 1.9%. In comparison, in the same period, the CAGR of GDP in current market prices was 4.5% and the consumer price index was 2.9%. In your opinion, what are the key factors contributing to the sluggish growth in audit fees?
(Please select from 1 to 3 answers)**

- a) Increase in audit efficiency (due to reasons such as the use of service delivery centre staff, technology deployment and training)
- b) Other practice units have been charging lower audit fees to cross-sell non-audit services
- c) Other practice units have been charging lower audit fees to gain audit market share
- d) Other practice units have been charging lower audit fees to maintain long-term relationship
- e) Listed companies lack the information and experience to differentiate audit quality
- f) Listed companies perceive audit as a compliance requirement and do not recognise its value
- g) Unfavourable economic environment
- h) Other (Please specify: _____)

15. In the past year, how often have your audit teams experienced fee pressure that may compromise audit quality?	
<input type="radio"/> a) Never/Rarely <input type="radio"/> b) Sometimes <input type="radio"/> c) Often <input type="radio"/> d) Very often	
<i>(Conditional Question – Applicable for responses other than “Never/Rarely” in Question 15)</i>	
15-1. When negotiating audit fees, from whom did you experience the most fee pressure?	
<input type="radio"/> a) CFO/Finance Department <input type="radio"/> b) CEO/Other members of senior management <input type="radio"/> c) Members of the Audit Committee <input type="radio"/> d) Members of the Board <input type="radio"/> e) Shareholders	
16. In your opinion, what are the key factors that would improve audit quality? <i>(Please select from 1 to 3 answers)</i>	
<input type="radio"/> a) Increased number of staff per audit engagement <input type="radio"/> b) Higher audit fees <input type="radio"/> c) More relevant CPD training <input type="radio"/> d) Improved organisational culture/tone at the top <input type="radio"/> e) More technology investment <input type="radio"/> f) Better gender equality in the practice unit <input type="radio"/> g) Better financial reporting quality of listed companies <input type="radio"/> h) More partner involvement <input type="radio"/> i) Other (Please specify: _____)	
General information	
Particulars of contact point for follow-up on the survey	
PIE Auditor Name	
PIE Auditor Number	
First Name	
Last Name	
Position	
Telephone Number	
E-mail	
Years of registration as a practice unit (to the nearest year)	

Contacts



If you have any enquires or comments, please feel free to contact us.

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