

## Press Release

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### AFRC issues its first Report on the Analysis of the PIE Audit Market in Hong Kong

The Accounting and Financial Reporting Council (**AFRC**) today publishes its first [Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong \(Report\)](#). The Report provides a comprehensive overview and industry analysis of the public interest entity (**PIE**) audit market in Hong Kong.

The Report and its findings were based on our survey conducted in November 2023 to all local PIE auditors with at least one PIE engagement during the period from 1 July 2020 to 30 June 2023 and research on market share and audit fee trends from 2018 to 2022.<sup>1</sup>

According to our survey results, the total number of individuals working in PIE audits was 8,960 as at 30 June 2023, with associates and senior associates comprising 62.4% of the total. Further, the industry has been experiencing high staff vacancy and attrition rates, particularly at junior grades. As at 30 June 2023, the vacancy rate for associates and senior associates was highest in Category C PIE auditors at 25.5% and 24.2% respectively, followed by Category B PIE auditors at 16.1% and 16.9% respectively, and 5.8% and 4.5% respectively for Category A PIE auditors.<sup>2</sup> The average attrition rate for associates and senior associates in different categories of local PIE auditors ranged from 33.2% to 36.2% and 22.1% to 39.0% respectively in the year ended 30 June 2023.

The survey results also indicate that the share of service delivery centre (**SDC**) staff as a percentage of total number of individuals working in PIE audits rose from 8.3% as at 30 June 2022 to 10.3% as at 30 June 2023.<sup>3</sup>

Ms Janey Lai, Acting CEO of the AFRC says, “High vacancy and attrition rates raise questions as to whether there are sufficient experienced audit staff to perform the necessary audit procedures. The AFRC emphasises that PIE auditors must ensure they have sufficient and appropriate resources before accepting an audit engagement, and staff shortages should never serve as an excuse for compromising audit quality.

<sup>1</sup> The research on audit fee and market share trends is an update to the AFRC’s research report on the audit market published in March 2023, “[Audit fees paid by listed companies in Hong Kong in 2020/2021](#)”

<sup>2</sup> Category A, B, and C PIE auditors completed more than 100, between 10 and 100, and at least one but fewer than 10 listed entity audits annually, respectively.

<sup>3</sup> 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”.

Moreover, while the use of SDC staff can potentially help alleviate the impact of a high vacancy rate, PIE auditors should have policies and procedures to ensure proper direction, supervision and review of the work performed by SDC staff.”

The Report also reveals the following key findings:

- a. Market share is a key indicator of market competition. The market share of Category A PIE auditors in terms of the number of engagements has experienced a noticeable decline, dropping continuously from 73.0% in 2018 to 62.1% in 2022. 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.
- b. When asked how frequently audit teams of PIE auditors experienced fee pressure that may compromise audit quality in 2023, 33.3% of Category A PIE auditors, 47.6% of Category B PIE auditors, and 52.9% of Category C PIE auditors experienced such pressure.
- c. There is a noticeable gap between the technologies that PIE auditors had deployed and the technologies they believe will positively impact audit quality. The most significant technology gap is the adoption of data analytical software. While 88.6% of auditors agreed that it has a positive impact on audit quality, only 22.7% had implemented it during the audit process in the period from 1 July 2022 to 30 June 2023.
- d. 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 in the period from 1 July 2022 to 30 June 2023.<sup>4</sup> The problem is most acute for Category C PIE auditors with 76.5% providing less than 20 verifiable CPD hours, followed by Category B PIE auditors (38.1%).
- e. Analysed by gender, the survey results reveal that males dominate in partner (74.2%), senior manager (56.3%), and manager (57.0%) grades, but not in the associate grade (45.3%). Further, approximately one-third of PIE auditors (29.5%) did not have any female partners as at 30 June 2023. This indicates a gender imbalance at the more senior level.

Ms Tracy Wong, Acting Head, Policy, Registration and Oversight says, “Audit quality would be compromised if audit fees are not commensurate with the time, effort, and quality of an auditor’s work. A reasonable audit fee allows firms to not only grow and

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<sup>4</sup> 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 annually as a benchmark for comparative purposes.

thrive but also allocate sufficient investment into building their systems, staff, and information technology.

### **Key messages to stakeholders**

Based on the report's findings, the AFRC urges PIE auditors to act on eight key messages outlined in the Report. These key messages are categorised into three sections, namely: Staff, Systems, and Strategy. The Report also provides key messages to audit committees of PIEs. Highlights of these messages is provided below.

a. PIE Auditors:

- Ensure staff resources are sufficient before undertaking a PIE audit engagement and ensure adequate supervision and partner involvement in audit engagements.
- Actively communicate and demonstrate the value of a quality audit to listed companies and adjust competitive strategy from price-based to audit quality-based to ensure audit quality will not be compromised.
- Implement initiatives to support gender equality. This could include policies and procedures to ensure equal opportunities are considered in the recruitment process and in career development and advancement. This could allow PIE auditors to leverage a diverse talent pool and enhance audit quality.

b. Audit Committees:

- Assert role in audit fee negotiation and ensure that audit fees are agreed at a level that allows auditors to devote sufficient time and appropriate resources to conduct a quality audit.
- Consider a variety of factors when selecting a PIE auditor, such as 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.

Ms Lai concludes, "We believe that the Report will foster constructive dialogue and collaboration among stakeholders which will lead to the sustainable and healthy development of the accounting profession. The Report will also guide stakeholders to address challenges and seize opportunities, as well as lay the foundation for future actions that the AFRC will take to further enhance audit and financial reporting quality."

End

## 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](http://www.afrc.org.hk).

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