

# Audit fees paid by listed companies in Hong Kong in 2020/2021

Policy, Registration and Oversight

March 2023



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## **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, 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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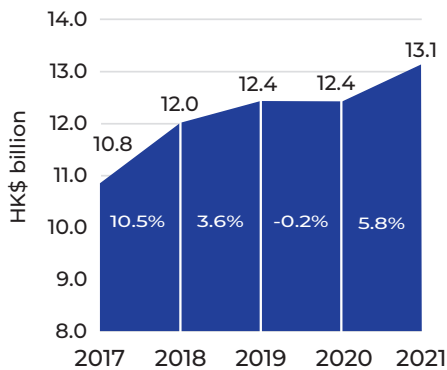
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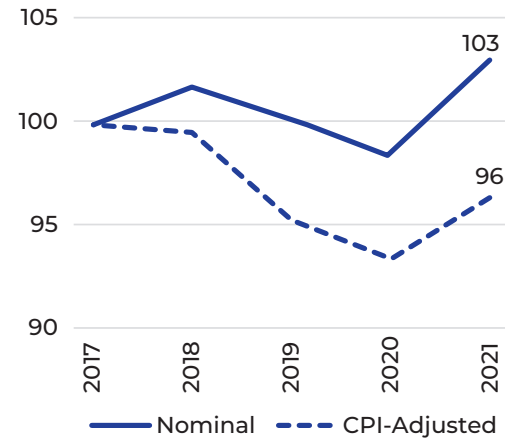
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## Five-year highlights

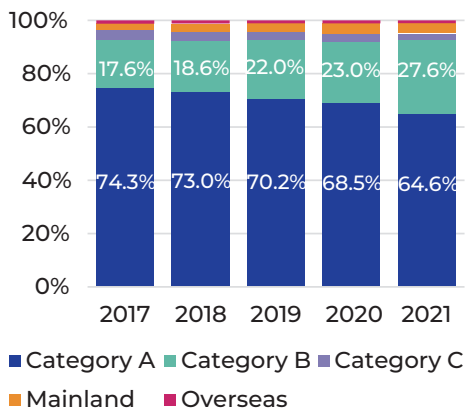
**Total audit fees and year-on-year growth**



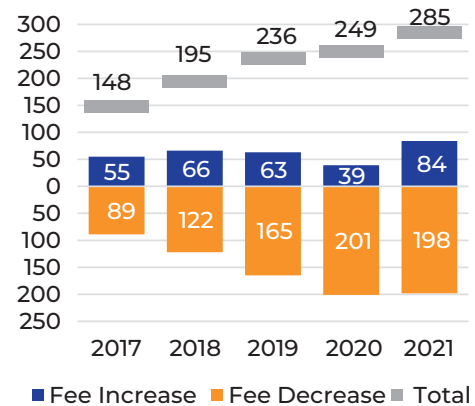
**Nominal and Consumer Price Index (CPI) adjusted mean audit fees**



**Market share in terms of number of engagements, by category of PIE auditors**



**Listed companies that changed auditors and their fee changes**



- Total audit fees paid by listed companies in Hong Kong were HK\$13.1 billion in 2021 and HK\$12.4 billion in 2020
- In nominal terms, mean audit fees increased by 3% from 2017 to 2021. However, when adjusted for CPI, mean audit fees showed a decline of 4% in the same period
- Market share of Category A PIE auditors (as measured by number of engagements) has been in decline since 2019 and dropped to 64.6% in 2021
- A growing number of listed companies changed auditors in 2020 (249) and in 2021 (285). For the years covered in this study, more than half of the listed companies which changed auditors experienced a fee reduction

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# Section 1

## Executive summary

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### 1.1 Introduction

For capital markets to function effectively, there needs to be a high degree of trust and confidence in the system. Audits of financial statements are important in this regard because they provide assurance that a company's financial statements are true, fair, and free from material misstatements. This assurance is essential for investors, creditors and other stakeholders to make informed decisions about whether to invest in a company or lend it money. When investors and other capital providers have confidence in the accuracy and reliability of financial statements, they are more likely to have trust in the overall financial system, which in turn promotes stability and growth in the capital markets.

The outbreak of COVID-19 in 2020 increased the complexity of audits. Widespread disruptions made certain audit procedures, in particular the assessment of the appropriateness of going concern assumptions and impairment of assets, more difficult. It also became more challenging for auditors to conduct effective and timely communications with the companies they were auditing.

In addition, the economic downturn that followed may have been one of the reasons companies start cutting costs and reducing the resources they deployed in the audit of financial statements – precisely at a time when there is intensified scrutiny of financial reports. In this regard, a study on audit fees paid by listed companies in Hong Kong provides a timely analysis on how auditors and listed companies handled these challenges.

In March 2021, AFRC published the report *Overview of the Market for Listed Entity Audits in Hong Kong* which covered the market for audit services between 2010 and 2019. In this report, we build on the work that we did two years ago by providing an update for 2020 and 2021, and analysing what effects, if any, COVID-19 and the economic downturn have had on the market. The study is instructive for stakeholders in the following ways:

- Audits create value for companies, therefore having a better understanding of such expenses will help companies and audit committees to make informed decisions when selecting auditors.
- The study provides insights into the competitive dynamics of both the supply and demand of audit services. How are audit firms competing and differentiating themselves? Is it purely through fees alone? What are the main motivators for listed companies when contemplating a change in auditors?
- Is the level of audit fee sufficient from the perspective of the profession's long term survival, and in the public interest? Competition may result in greater efficiencies, but it may also lead to unhealthy practices that would ultimately undermine audit quality and the sustainable development of the profession.

The relationship between audit quality and audit fees is a complex one.<sup>1</sup> In most instances, a higher quality audit requires better and more resources, resulting in a higher audit fee.

Research conducted in the context of other jurisdictions also indicates that the level of audit fee is generally positively associated with financial reporting quality and audit quality. For example, a study found that in the US, audit fees are negatively associated with the deficiencies identified through Public Company Accounting Oversight Board inspections as well as auditors' internal inspections.<sup>2</sup> Researchers also found that US public companies that pay lower audit fees than their peers are more likely to restate their audited financial statements subsequently.<sup>3</sup> This phenomenon was particularly evident during the 2008 financial crisis, when there was intense pressure to reduce audit fees by public companies.<sup>4</sup>

1 International Auditing and Assurance Standards Board. (2014). *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*.

2 Aobdia, D. (2019). Do practitioner assessments agree with academic proxies for audit quality? Evidence from PCAOB and internal inspections. *Journal of Accounting and Economics*, 67(1), 144–174.

3 Blankley, A. I., Hurtt, D. N., & MacGregor, J. E. (2012). Abnormal audit fees and restatements. *Auditing: A Journal of Practice & Theory*, 31(1), 79-96.

4 Ettredge, M., Fuerherm, E. E., & Li, C. (2014). Fee pressure and audit quality. *Accounting, Organizations and Society*, 39(4), 247-263.



Trade-offs in price and quality are ubiquitous and the audit market is no exception. As audit service is a credence good i.e. a service for which the quality is not readily observable, buyers may not have the relevant information to make rational decisions. More transparency from audit firms, audit committees and regulators will go a long way towards creating a market that is both competitive and effective. In this regard, the information and analyses in this study will contribute to the understanding of the issue.

## 1.2 Summary of key findings

- **Total audit fees in Hong Kong were HK\$13.1 billion in 2021:** This came after a very challenging 2020 in which the total audit fees amounted to HK\$12.4 billion, a figure similar to 2019. 2020 was the first and only year in which the market exhibited no growth since the start of our data series in 2010.
- **Mean and median audit fees<sup>5</sup> were stagnant in 2020 as compared with 2019, but recovered some ground in 2021:** On a per engagement basis, mean and median audit fees were HK\$5.4 million and HK\$2.1 million respectively in 2021 and 2020. Even though the number of engagements with high audit fees (i.e. audit engagements that generate fees of HK\$5 million or more) only constitute 20% of the market, the total fees they contribute eclipse the other 80% and represent 70.2% and 71.3% of total audit fees in 2020 and 2021 respectively.
- **When adjusted for inflation, mean and median fees show a decline of 20% and 10% respectively since 2010:** A combination of factors may have contributed to this. The availability of sufficient labour, the relocation of procedural operations to mainland China, cross-selling of other non-audit services, and technological advancements may have delivered cost savings and allowed auditors to be more price competitive. However, other factors may also be at play: (i) some auditors' inability to articulate, or listed companies' inability to understand, the value of an audit beyond compliance; (ii) the lack of experience or information to assess audit quality; and (iii) some audit firms' strategy to charge audit fees that are below cost recovery to gain market share (i.e. lowballing).

<sup>5</sup> In this report, "mean" refers to the average fees per engagement, calculated by dividing the sum of audit fees by the number of engagements. "Median" is the middle value in the data set of audit engagement fees arranged in order. Both mean and median are indications of the typical fees paid by listed companies, whereas median is less affected by outliers than mean.

- **The growth of mean audit fees significantly lags behind the growth of mean revenues and total assets of listed companies:** In this analysis we use revenues and total assets as indicators of company size and proxies for audit complexity. In addition to lagging behind CPI, both nominal and real audit fees lagged when compared with the growth in mean revenues and total assets.
- **The market share of local Category A PIE auditors by value of audit fees and by number of engagements peaked in 2019 and has been decreasing since:** The biggest beneficiaries of this shift are local Category B PIE auditors and mainland auditors. This is consistent with AFRC's observations that some Category A firms are re-focusing their resources on engagements with higher fees.
- **In 2021 and 2021, a total of 534 listed companies changed auditors:** Of which, 346 (65%) cited fees as a reason, followed by mandatory rotation (63, or 12%) and change of long tenure auditors (40, or 8%).
- **In 2020 and 2021, 80.7% and 69.5% of listed companies which changed auditors experienced a fee reduction:** This is mostly regardless of the reason cited for the change – whether it is because of fees, mandatory rotation, or shareholders opposing a reappointment. The exception is when audit issues are flagged (cited by 33 listed companies), or when audit firms had other internal issues. In those cases, audit fees tend to increase after a change in auditors.

## 1.3 Key messages to stakeholders

### Auditors

- Ensure fees are commensurate with the complexity and scale of the engagement
- Effectively communicate and explain to companies and stakeholders their value-add and the importance of an audit beyond compliance
- When competing for new engagements, focus on audit quality rather than fees
- Maintain a high degree of professional scepticism regardless of fee level

### Listed companies

- Ensure a high degree of management accountability, which is the foundation of high quality, reliable financial reporting
- Be mindful of the potential reputation and regulatory risks brought about by cutting corners

### Audit committees

- Do not reduce fees to a point that compromises audit quality
- When evaluating auditors, fees should not be the only focus
- Seek to resolve underlying audit issues in the event an auditor resigns
- Improve transparency by effectively communicating the approach to auditor selection and fee determination in the company's announcements and annual reports

### Shareholders and investors

- Encourage more transparent and timely disclosures on related issues
- Be proactive in scrutinising resolutions on audit-related issues

## 1.4 Conclusion and way forward

Although audit fees as a whole have increased substantially since 2010 due to the doubling of listed companies, audit fees on a per engagement basis have declined in real terms during the period.

Competitive fees may be a sign of a competitive market. However, this argument overlooks the importance of quality which can only be gauged when there is a degree of transparency in the market. Promoting disclosures on audit firms' performance by regulators, auditors and listed companies would improve transparency and facilitate the selection of auditors as well as determination of reasonable fees.

Fees are important because, for the sustainable and healthy development of the profession, the industry needs to be able to earn an adequate return on capital. On the one hand, conditions of the last decade, namely significant growth in the number of listed companies, relatively inexpensive and abundant staff, low inflation, and low interest rates were all working favorably for the audit industry. However, these trends have now reversed. Structural issues such as staff shortages, ongoing technological advances, more robust regulation, a slow down in capital raising, as well as a shift towards better sustainability disclosures signal more headwinds for the profession and a need for the industry to continue investing in staff development and new audit technologies. Our concern is whether fees are set at levels that would encourage firms to respond appropriately to these structural issues.

As part of its mission, the AFRC aims to shape a healthy market environment that will nurture and promote the success of the accounting profession. In response to the findings of this study, we will continue to monitor market developments, in particular pricing behavior of audit firms, and ensure prompt regulatory policies can be developed to address any market malpractices. AFRC will continue to include audit fee levels as one of the criteria for engagement review selection, and proactively monitor audit firms' client and engagement acceptance practices.

## 1.5 Methodology

The population of listed company audits is based on the list of listed companies in the Fact Books from 2010 to 2021 published by Hong Kong Exchanges and Clearing Limited excluding the listed companies where no annual reports were issued in the year. Data from annual reports and announcements of listed companies were extracted by an external market data provider. For industry classifications of listed companies, reference is made to the Hang Seng Industry Classification System.

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 2021, the statistical information of that listed company will be classified as the 2020 statistical information.

Audit firms are segregated into the following categories based on their locations and the number of listed companies that they perform audits in the year:

Audit firm category	Description
Category A	Hong Kong PIE auditors registered under Division 2 of Part 3 of the AFRC Ordinance (Local PIE Auditors), which audit 100 or more Hong Kong listed companies
Category B	Local PIE Auditors which audit 10 to 99 Hong Kong listed companies
Category C	Local PIE Auditors which audit one to nine Hong Kong listed companies
Mainland	Mainland PIE auditors recognized under section 20ZT of the AFRC Ordinance
Overseas	Overseas PIE auditors recognized under Division 3 of Part 3 of the AFRC Ordinance

This report is presented in Hong Kong Dollars unless otherwise stated. The audit fees and financial statement items reported in foreign currencies are converted into Hong Kong Dollars using the prevailing exchange rates on December 31 of the relevant year.

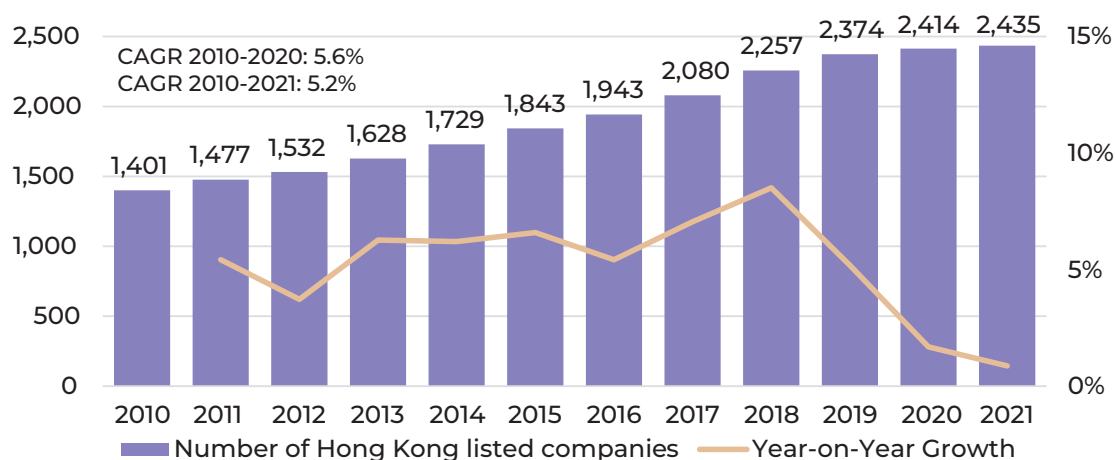
## Section 2

# Market analysis

### 2.1 Market size and fees per engagement

Since the beginning of our data series in 2010, the number of Hong Kong listed companies has risen significantly from 1,401 in 2010 to 2,435 in 2021, representing a CAGR of 5.2%. Growth was strongest between 2010 and 2018 but has tapered off in the last two years, as shown in Figure 1.

**Figure 1. Number of Hong Kong listed companies, and change over time**



Similarly, total audit fees for Hong Kong listed companies have displayed consistent year-on-year growth. However, that growth came to a halt in 2020, when total fee pool was stagnant at HK\$12.4 billion. The market recovered some ground in 2021 with an increase of 5.6% over 2020 to HK\$13.1 billion, as can be seen in Figure 2. This is equivalent to a CAGR of 6.0% between 2010 and 2021.

**Figure 2. Total audit fees for Hong Kong listed companies, and change over time**

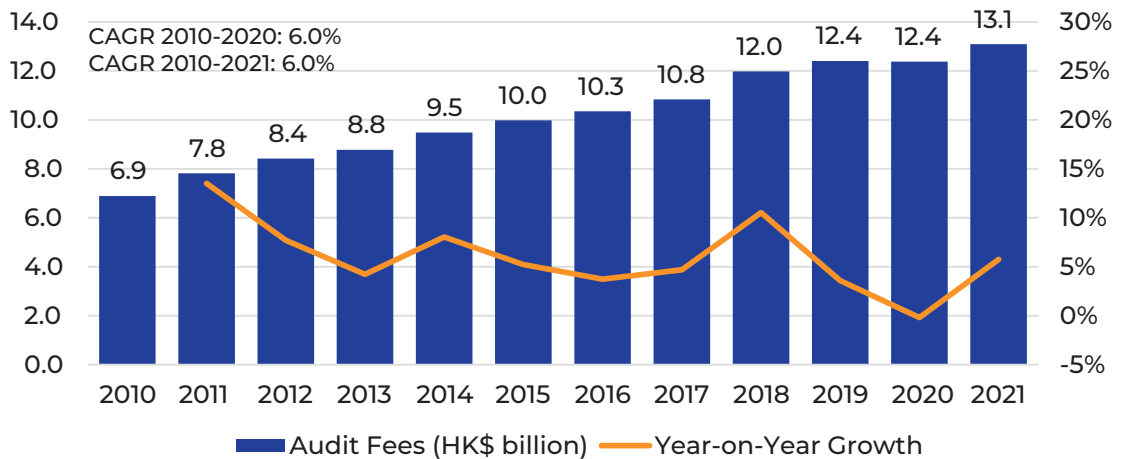


Figure 3 shows audit fees on a per engagement basis, which exhibit similar trends between 2019 to 2021. Both mean and median audit fees were stable in 2019 and 2020 and experienced an increase in 2021.

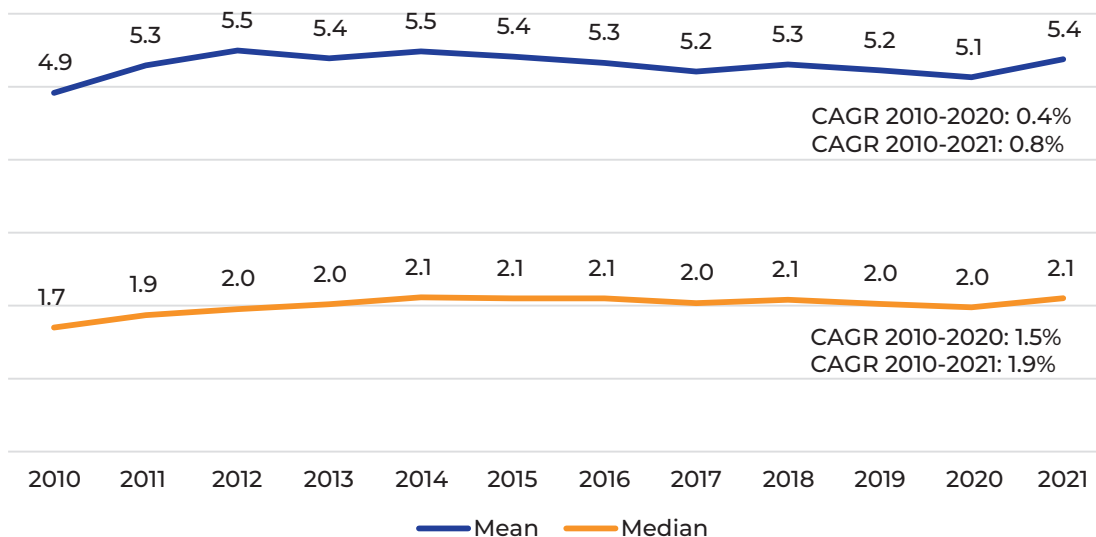
Mean audit fees dipped slightly from HK\$5.2 million in 2019 to HK\$5.1 million in 2020 and increased to HK\$5.4 million in 2021, which is the fifth highest increase since 2010 and represents a year-on-year increase of 5.9%.

The median audit fee was stable at HK\$2.0 million in 2019 and 2020 before increasing to HK\$2.1 million in 2021. This was the highest since 2010 and represents a year-on-year increase of 5.0%.

The large gap between mean and median audit fees shows that the market is skewed towards a small number of engagements with higher fees. Even though the number of engagements with high audit fees (i.e. the audit engagements that generate HK\$5 million or more in audit fees) only constitutes 20% of the market, the fees they contribute eclipse the other 80% and represent 70.2% and 71.3% of audit fees in 2020 and 2021 respectively.

From 2010 to 2021, the mean and median audit fees stagnated with a CAGR of 0.8% and 1.9%, respectively. Amongst different industries, the information technology industry experienced the strongest growth in mean and median audit fees with CAGR of 12.4% and 5.2% respectively for the period. By contrast, the banking and insurance industry and the property and construction industry experienced the largest declines in mean (median) audit fees with respective CAGR of -2.6% (-3.9%) and -0.4% (-1.1%) for the period.

**Figure 3. Mean and median audit fees for Hong Kong listed companies (HK\$ million)**

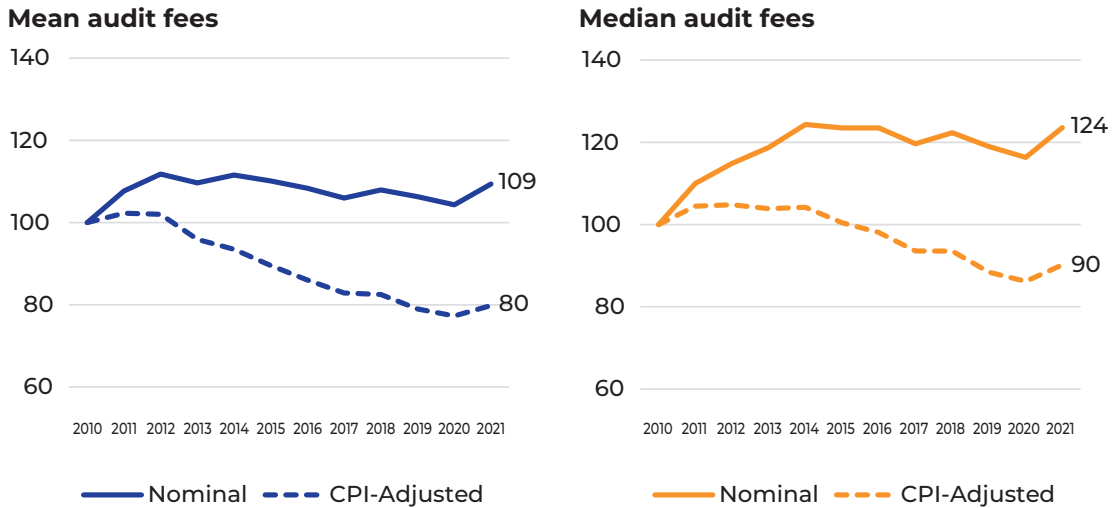


## 2.2 Level of audit fees in CPI-adjusted terms and relative to revenues and total assets

In this section we look at whether audit fees have kept pace with inflation. If audit fees grew slower than inflation, the purchasing power of the fee revenue earned would decline. A potential consequence is that audit firms may not be able to maintain the same level of resources on their engagements, or invest in the long term sustainability of their businesses. For this analysis, we adjust nominal audit fees with CPI which reflects the cost of goods and services in the general economy. Both nominal and CPI-adjusted audit fees are rebased to 100 and depicted in Figure 4.



**Figure 4. Indices of nominal and CPI-adjusted mean and median audit fees**



**Table 5. Indices of nominal and CPI-adjusted mean and median audit fees**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR 2010- 2020 2010- 2021		
<b>Indices of mean audit fees</b>															
Nominal	100	108	112	110	112	110	108	106	108	106	104	109	0.4%	0.8%	
CPI-adjusted	100	102	102	96	93	90	86	83	83	79	77	80	-2.5%	-2.0%	
<b>Indices of median audit fees</b>															
Nominal	100	110	115	119	124	124	124	120	122	119	116	124	1.5%	1.9%	
CPI-adjusted	100	104	105	104	104	100	98	94	94	88	86	90	-1.5%	-0.9%	

As we observe in Figure 4, between 2010 and 2021, even though in nominal terms, mean and median audit fees showed an increase from their 2010 levels, when adjusted for CPI mean and median audit fees declined by 20% and 10% respectively. This represents a CAGR of -2.0% and -0.9% for mean and median fees respectively. In other words, audit firms have not been able to price their services in line with the growth in the cost of goods and services in the economy.

A combination of factors may have contributed to this. The availability of sufficient labour, the relocation of procedural operations to mainland China, cross-selling of other non-audit services, and technological advancements may have delivered cost savings and allowed auditors to be more price competitive. However, other factors may also be at play, for example, (i) auditors' inability to articulate, or listed companies' inability to understand, the value of an audit beyond compliance; (ii) the lack of experience or information to assess audit quality; and (iii) some audit firms' strategy to charge audit fees that are below cost recovery to gain market share (i.e. lowballing).

At first glance, a decline in audit fees may be good news for listed companies as it shows that they have been enjoying strong buying power. However, for audit firms, with no real growth in audit fees, our concern is that this may signal margin erosion. If the situation persists, it may adversely affect the ability for firms to upskill their workforce or invest in new technology, or worse, audit quality. When audit quality deteriorates, listed companies also suffer.

In general, the level of audit fees is a function of the complexity of the audit, the size of the company being audited, the amount of resources required as well as the cost of providing that service. In our next analysis, we seek to find proxies for these factors and look at how they have evolved over time as compared to audit fees. For simplicity, we focus on two factors as follows:

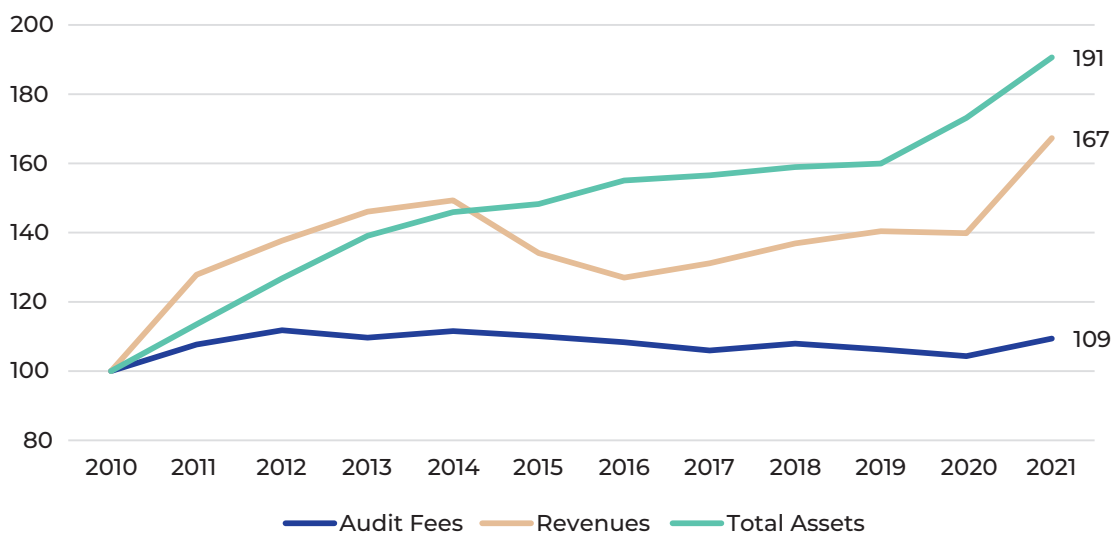
- **Revenues** of listed companies: this is an income statement-based summary indicator of the size of listed companies, and also a proxy of the resources available for their audits and their ability to pay a reasonable audit fee. The larger a company, the more complex its audit tends to be.
- **Total assets** of listed companies: this is a balance sheet-based summary indicator of the size of listed companies and is also an indication of the complexity of an audit.

For audit fees, revenues and total assets, we have computed their mean values to ensure they are comparable across years. Further, each series is depicted as indices in Figure 6, with their 2010 values rebased to 100 in 2010.

It is clear from Figure 6 that the growth of audit fees significantly lags behind both the revenue and asset growth of listed companies. Between 2010 and 2021, total assets of listed companies in Hong Kong increased by 91%, revenues by 67%, but audit fees only by 9%.

We saw in Section 2.1 that with the exception of 2020, total nominal audit fees have displayed consistent growth since 2010, albeit below the rate of inflation. But such growth was small when compared to the growth experienced by listed companies in revenues and assets. Further, we also saw on a per engagement basis fees have been relatively flat. By contrast, registrants of the US Securities and Exchange Commission paid a mean audit fee of US\$2.2 million in 2021, up 69% from US\$1.3 million in 2010.<sup>6</sup>

**Figure 6. Indices of mean audit fees, revenues and total assets**



<sup>6</sup> Audit Analytics. (2022). *Twenty-Year Review of Audit and Non-audit Fee Trend*.

In addition, we analysed the audit fee to revenue ratio for the Hong Kong market as a whole.<sup>7</sup> This ratio is used in international benchmarking exercises to gauge the significance of audit fees to listed companies. In Hong Kong, the mean fee-to-revenue ratio was 0.33% and 0.34% for 2020 and 2021 respectively. It suggests that in general audit fees do not constitute a significant cost to a company relative to its revenues. In other words, a reduction in audit fees may only generate limited savings, but such a reduction could have an enormous impact on audit quality which could potentially be very damaging to the company. Thus, we urge listed companies to focus on audit quality when determining audit fees.<sup>8</sup>

## 2.3 Segmental analysis

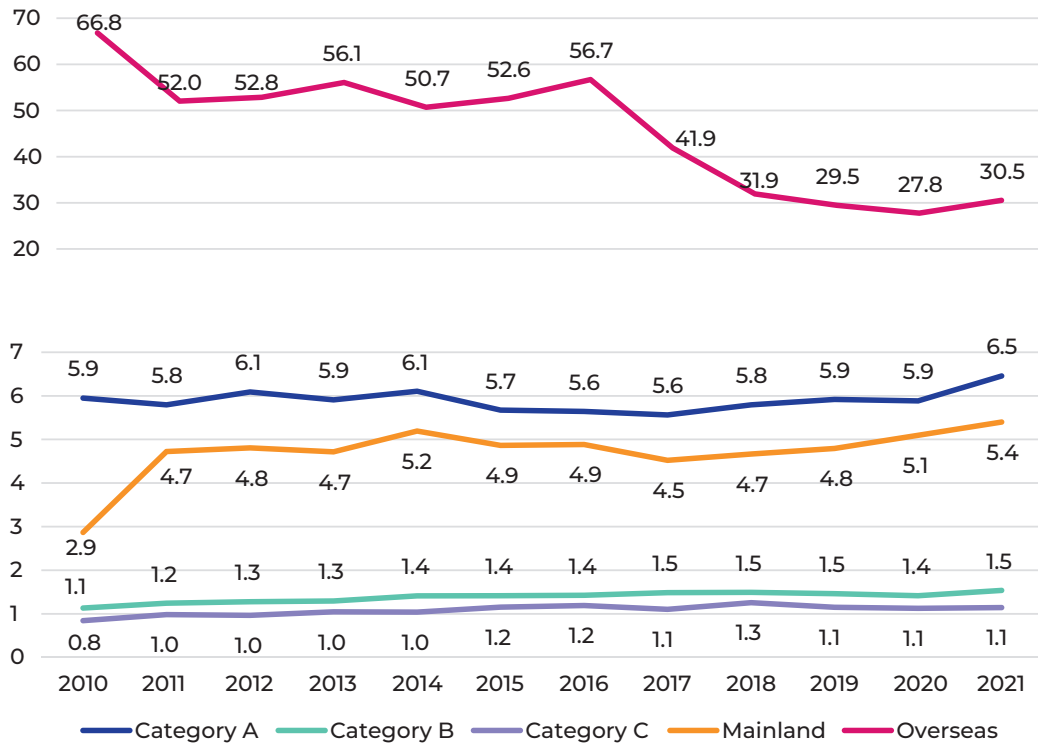
The segmental analysis on Figure 7 shows the mean audit fees by different categories of auditors, including Categories A, B and C auditors, as well as mainland and overseas firms. Without a doubt, the engagements with the highest audit fees are the ones performed by overseas<sup>9</sup> (HK\$30.5 million in 2021), Category A (HK\$6.5 million) and mainland firms (HK\$5.4 million). By contrast, in 2021, fees per engagement for Categories B and C firms were at HK\$1.5 million and HK\$1.1 million respectively. In all categories except mainland and Category C, the mean audit fees dropped in 2020 before increasing again in 2021.

7 We adopt the same methodology as that used in the International Federation of Accountants (2022) *Audit Fee Survey 2022 – Understanding Audit Fees and Non-Audit Service Fees, 2013-2020* by computing the audit fee-to-revenue ratio for each listed company on an individual basis before computing a market mean. Companies with revenues of HK\$80 million or below are excluded.

8 It is not uncommon for listed companies with lower revenues to have higher fee-to-revenue ratios because of a small denominator. Audit committees should consider the criteria outlined in section 2.3 of our Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors when determining audit fees, instead of applying a market average fee-to-revenue ratio.

9 In the past, the Overseas category was dominated by a small number of large engagements. Between 2010 and 2021, the number of listed companies employing overseas auditors increased three-fold from 15 to 45 with the net effect of reducing mean audit fees for this category by 54.3% in the period. The dilution is evident since the years in which mean fees decreased most noticeably coincide with the years in which overseas engagements rose. For example, from 2010 to 2011, the number of overseas engagements increased from 15 to 24, and from 23 in 2016 to 32 in 2017 and 44 in 2018.

**Figure 7. Mean audit fees per engagement, by category of auditors (HK\$ million)**



It would not require a stretch of one’s imagination to think the engagements with high audit fees (i.e. the audit engagements that generate fees of HK\$5 million or more in audit fees) are performed for multi-national companies, large mainland companies, and sizeable domestic companies in Hong Kong, whereas the ones with low audit fees are mainly small and medium sized enterprises. This reflects the diversity, breadth and depth of the capital markets in Hong Kong.

From the perspective of advancing the profession and ensuring its long term sustainable growth, however, a more considered approach is needed to close the gap by upskilling small- and medium-sized firms, especially when there appears to be a growing shortage of professionals. This is particularly important for ensuring firms' capabilities and preventing them from having to reduce both fees and quality in order to survive. These issues are not unique to Hong Kong. In the UK, in a bid to increase competition and reduce reliance on the big four accounting firms, the Financial Reporting Council has been actively providing guidance to the tier of "challenger firms" to ensure they invest in the requisite systems and talent and become viable alternatives to the big four.<sup>10</sup>

## 2.4 Market concentration

The following three charts show the market share by category of auditors in terms of number of engagements, audit fees and the market capitalisations of the listed companies they audit. In market share terms, Category A PIE auditors have always dominated. However, in the last few years, there are signs that the market is getting less concentrated, with market share of Category A PIE auditors declining from 70.2% in 2019 to 64.6% in 2021 when measured by number of engagements, from 79.6% in 2019 to 77.5% in 2021 when measured by audit fees, but increased marginally from 90.0% in 2019 to 90.3% in 2021 when measured using market capitalisation of listed companies.<sup>11</sup>

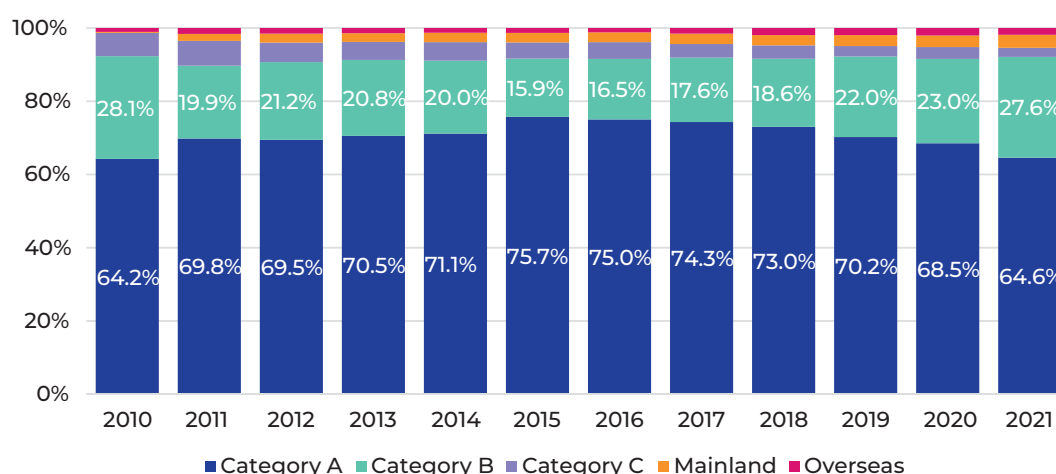
The biggest beneficiaries of this shift are local Category B PIE auditors and mainland auditors. For Category B PIE auditors, this is most notable when measured by number of engagements, where their share increased from 22.0% in 2019 to 27.6% in 2021. The increases are not as significant but still meaningful when measured by audit fees and market capitalization, with Category B PIE auditors' market shares rising from 6.2% in 2019 to 7.9% in 2021 (audit fees), or from 2.4% in 2019 to 3.1% in 2021 (market capitalisation). Likewise market share of mainland auditors also grew from 3.0% in 2019 to 3.6% in 2021 (number of engagements) and from 2.7% in 2019 to 3.6% in 2021 (audit fees) or from 0.9% in 2019 to 1.4% in 2021 (market capitalisation).

<sup>10</sup> Financial Reporting Council. (2022). *Competition in the audit market*.

<sup>11</sup> Although certain mainland firms belong to same network as Category A firms, their audit fees and market shares are analysed and prescribed separately. The reasons are: (1) only qualified mainland firms can be PIE auditors of qualified listed companies whose financial reports are prepared in accordance with China Accounting Standards, which means mainland firms compete in a separate and relatively closed market; (2) Section 3.1 suggests that category A firms and mainland firms provide different audit services, as reflected in the different level of audit fees; (3) in any event, the market share of mainland firms are not material relative to Category A firms, so the exclusion of mainland firms from Category A firms would not change the conclusion of our analysis.

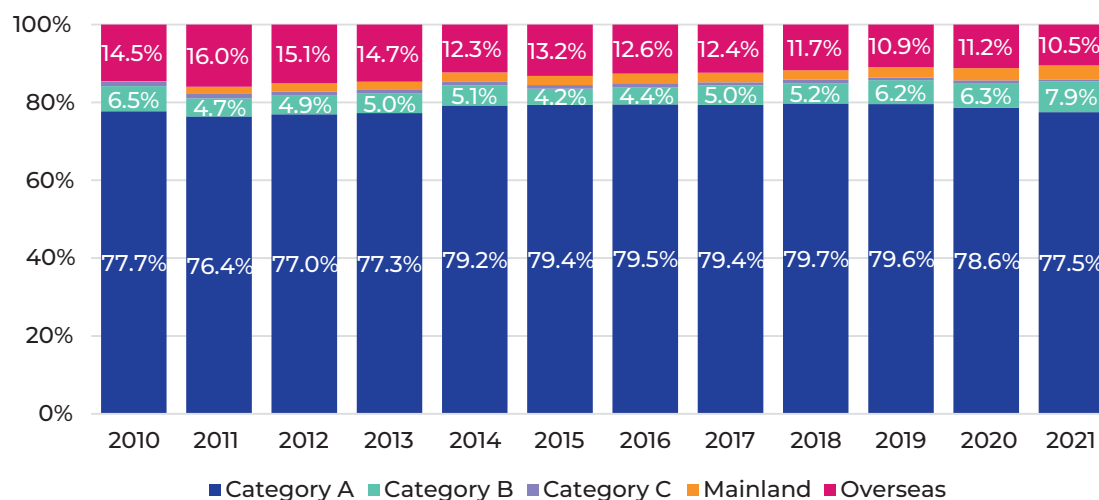
This is consistent with AFRC's observations that some Category A firms are re-focusing their resources on engagements with higher fees. On the surface, the peaking in market share of Category A PIE auditors signals greater competition, but we remain watchful as to whether incoming auditors have sufficiently understood and evaluated a listed company and assessed their own competence and capability before accepting a new audit appointment. This is something AFRC has been actively looking out for.

**Figure 8. Market share in terms of number of engagements, by category of auditors**



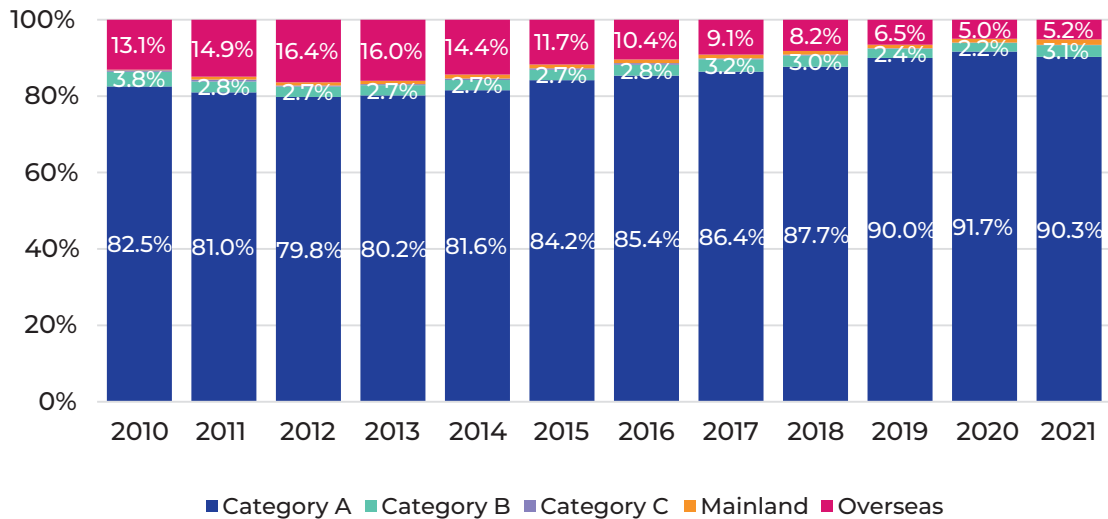
**Table 9. Number of engagements, by category of auditors**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Category A	900	1,031	1,064	1,148	1,230	1,396	1,458	1,546	1,648	1,667	1,654	1,572
Category B	393	294	325	338	345	293	321	366	419	522	556	671
Category C	89	100	82	80	87	81	89	77	83	68	78	60
Mainland	4	28	37	39	44	48	52	59	63	71	76	87
Overseas	15	24	24	23	23	25	23	32	44	46	50	45
<b>Total</b>	<b>1,401</b>	<b>1,477</b>	<b>1,532</b>	<b>1,628</b>	<b>1,729</b>	<b>1,843</b>	<b>1,943</b>	<b>2,080</b>	<b>2,257</b>	<b>2,374</b>	<b>2,414</b>	<b>2,435</b>

**Figure 10. Market share in terms of audit fees, by category of auditors****Table 11. Audit fees earned, by category of auditors (HK\$ million)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Category A	5,354	5,972	6,479	6,782	7,509	7,919	8,228	8,599	9,547	9,868	9,731	10,148
Category B	445	366	415	437	487	415	457	544	626	763	786	1,031
Category C	75	98	79	84	90	93	106	85	104	78	88	69
Mainland	11	132	178	184	228	233	254	267	294	340	387	470
Overseas	1,002	1,249	1,268	1,289	1,167	1,316	1,304	1,340	1,405	1,355	1,388	1,374
<b>Total</b>	<b>6,887</b>	<b>7,817</b>	<b>8,419</b>	<b>8,776</b>	<b>9,481</b>	<b>9,976</b>	<b>10,349</b>	<b>10,835</b>	<b>11,976</b>	<b>12,404</b>	<b>12,380</b>	<b>13,092</b>



**Figure 12. Market share in terms of market capitalisation, by category of auditors****Table 13. Market share in terms of market capitalisation, by category of auditors (HK\$ billion)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Category A	17,017	16,874	17,065	20,008	21,589	22,049	22,142	26,510	29,315	33,699	40,902	38,533
Category B	791	587	574	667	706	700	730	985	988	911	995	1,321
Category C	79	112	63	72	109	106	116	71	78	42	45	26
Mainland	31	155	182	220	269	263	247	302	328	346	447	613
Overseas	2,697	3,106	3,502	3,989	3,800	3,070	2,699	2,806	2,728	2,450	2,222	2,201
<b>Total</b>	<b>20,615</b>	<b>20,834</b>	<b>21,386</b>	<b>24,956</b>	<b>26,473</b>	<b>26,188</b>	<b>25,934</b>	<b>30,674</b>	<b>33,437</b>	<b>37,448</b>	<b>44,611</b>	<b>42,694</b>

## Section 3

# Listed companies and audit fees

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In this section we examine market concentration at the engagement level, grouping engagements in different fee bands. Further, we explore the rising trend of listed companies changing auditors and how audit fees typically change after a switch.

### 3.1 Market concentration by size of engagements

In this analysis, we segregate engagement fees into three levels:

- **High:** an engagement that generates HK\$5 million or more in audit fees
- **Medium:** from HK\$2 million to HK\$5 million
- **Low:** below HK\$2 million

In Figure 14, the number of engagements in each fee category is expressed as a percentage of the total. The percentage of engagements with low audit fees has steadily decreased from 56.0% in 2010 (with 2019 and 2020 being exceptions) to 47.4% in 2021. The share of engagements with high and medium audit fees rose: for engagements with high audit fees by 4 percentage points from 16.2% in 2010 to 20.2% in 2021, and for engagements with medium audit fees by 4.6 percentage points from 27.8% in 2010 to 32.4% in 2021.

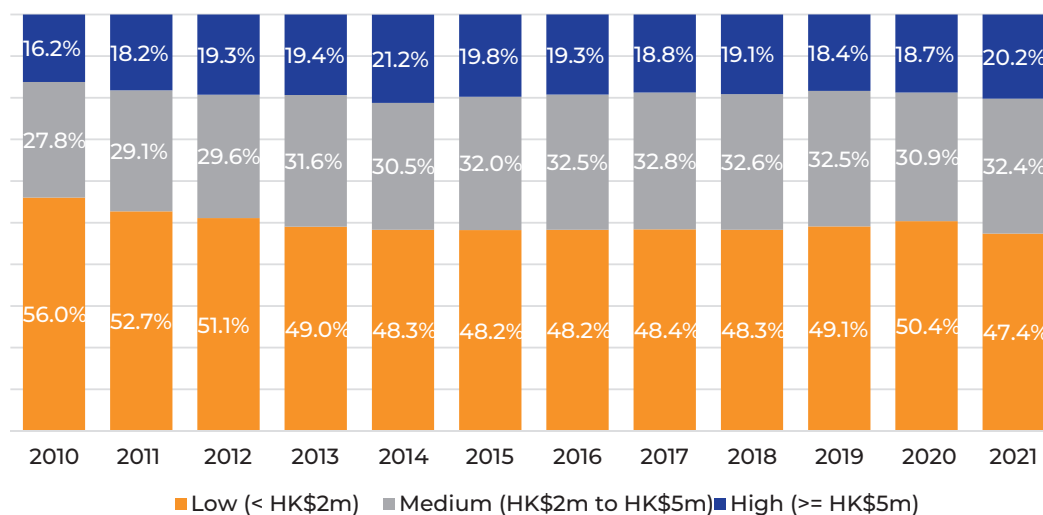
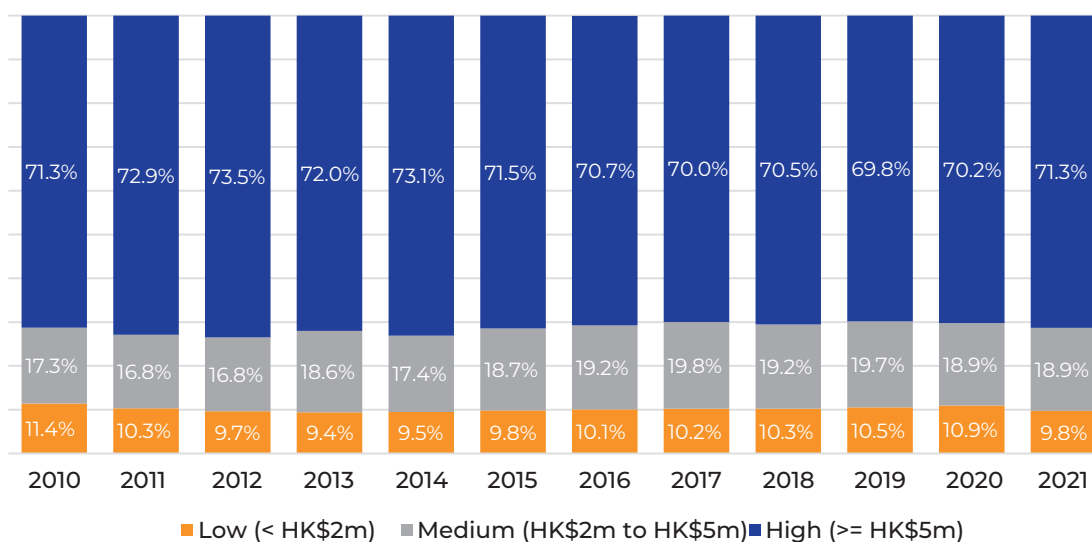
**Figure 14. Share in terms of number of engagements, by fee category**

Figure 15 shows the share in terms of audit fees by fee category. Even though the number of engagements with high audit fees only constitutes 20.2% of the market, the fees they contribute eclipse the other 80% and represent 70.2% and 71.3% of total audit fees in 2020 and 2021 respectively.

**Figure 15. Share in terms of audit fees, by fee category**

## 3.2 Listed companies that changed auditors and their fee changes

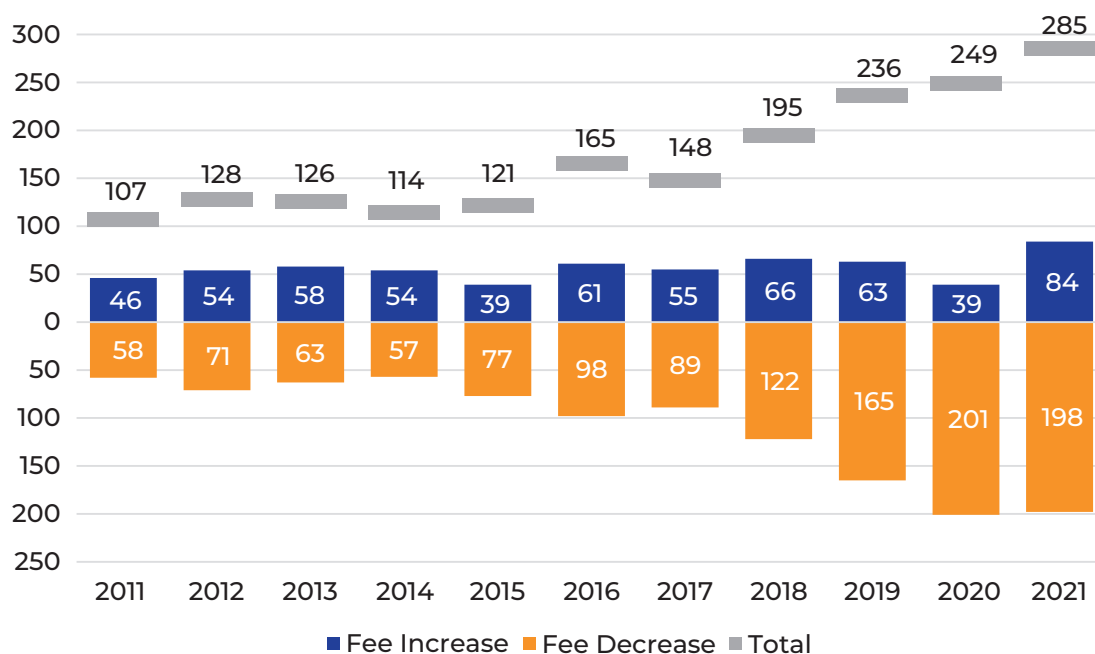
Audit independence is a key pillar of good corporate governance. One way to achieve this is to prevent entrenchment by rotations, either at the firm level or at the individual partner level. However, sudden, frequent, and unplanned changes in auditors may signal financial reporting and risk control issues. In particular when the changes occur at a late stage, or even after the end of the financial reporting period, audit quality may be compromised. This is because the incoming auditor may have limited time to plan and conduct a proper audit ahead of the deadline for results announcement. It is an area of ongoing concern for the AFRC, especially when in many of these instances, fees are often cited as the reason for change, as we shall see later.<sup>12</sup> Before that, in the next analysis, we look at what effects a change in auditors has on audit fees.

Figure 16 shows the number of listed companies that changed auditors during the year. Notwithstanding the need for mandatory rotation every five years for certain mainland state-owned enterprises and financial institutions, it can be seen from the chart that the trend has been an upward one since 2011, and has increased rapidly in the last five years, from 148, or 7.7% of all listed companies in 2017 to 285, or 12.2% of all listed companies in 2021.

For the years covered in this study, more than half of the listed companies who changed auditors experienced a fee reduction. In 2020, 80.7% listed companies who changed auditors lowered their fees. In 2021, this dropped 69.5%, a level similar to 2019.

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<sup>12</sup> The AFRC published an open letter on 27 October 2022 and a follow-up open letter on 11 January 2023 to express concerns relating to auditor changes, including the use of “disagreement over audit fees” as a catch-all explanation for auditor resignations.

**Figure 16. Listed companies that changed auditors\***

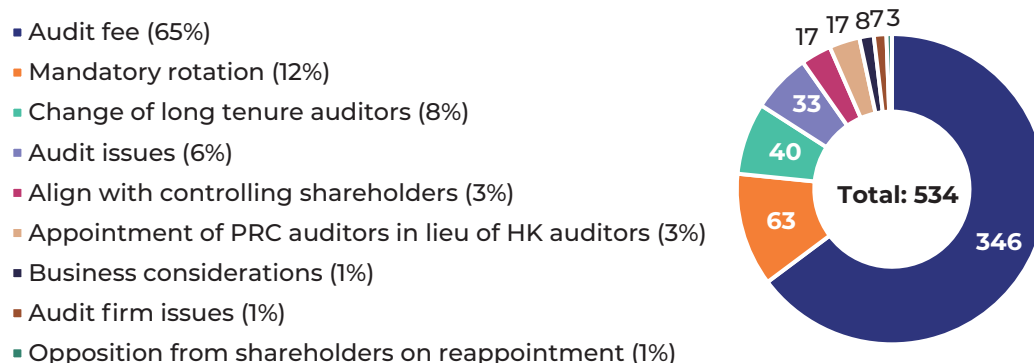
Note: The total population includes the listed companies that did not experience any fee changes following a switch in auditors.

**Table 17. Listed companies that changed auditors, and fee changes**

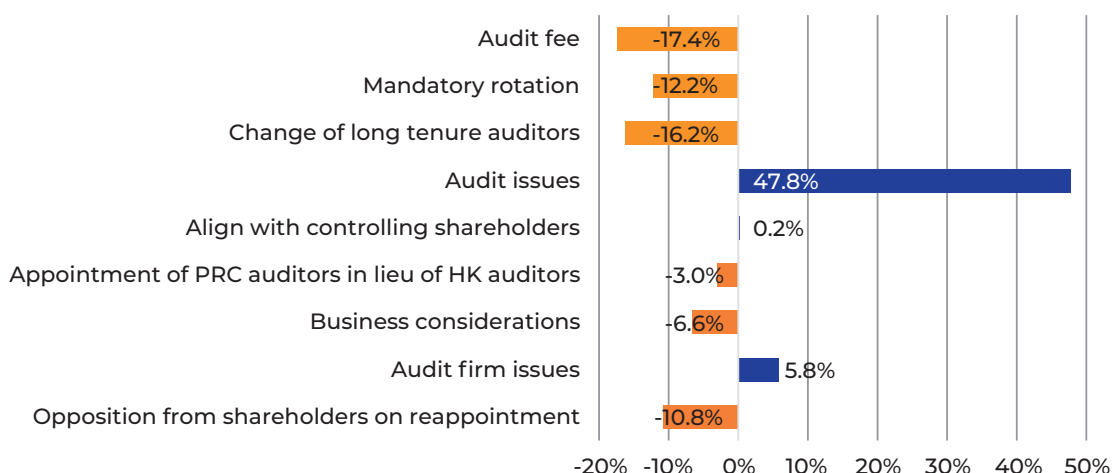
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of listed companies with a change in auditors</b>	107	128	126	114	121	165	148	195	236	249	285
<b>As a percentage of all listed companies in that year</b>	7.7%	8.7%	8.2%	7.1%	7.0%	9.0%	7.7%	9.5%	10.7%	11.0%	12.2%
<b>Percentage of which subsequently experienced a:</b>											
Fee reduction	54.2%	55.5%	50.0%	50.0%	63.6%	59.4%	60.1%	62.6%	69.9%	80.7%	69.5%
Fee increase	43.0%	42.2%	46.0%	47.4%	32.2%	37.0%	37.2%	33.8%	26.7%	15.7%	29.5%
No fee changes	2.8%	2.3%	4.0%	2.6%	4.2%	3.6%	2.7%	3.6%	3.4%	3.6%	1.0%

We further analyse the relationship between the reasons for auditor change as disclosed by listed companies and the change in audit fees, with a focus on 2020 and 2021. As shown in Figure 18, audit fees are by far the most cited reason for an auditor change and appeared 346 times. This was followed by mandatory rotation (63), listed companies' own initiatives to change long tenured auditors (40), and audit issues (33).

**Figure 18. Reasons for a change in auditors, 2020-2021**



**Figure 19. Percentage change in audit fees following a change in auditors, by reasons, 2020-2021**



Next we looked at how the average audit fee has changed for each of the reasons stated above (Figure 19). Unsurprisingly, where audit fee was cited as a reason for the change, 80% of the time a fee reduction would follow, with an average reduction of 17% in audit fees. In addition, audit firm rotations, no matter whether they are mandated by regulatory requirements of other jurisdictions or voluntarily implemented by listed companies, mostly experienced a fee reduction.

By contrast, where audit issues were cited as a reason, it was mostly accompanied by a fee increase (75.8% of the time), with audit fees increasing by 48% on average. This may be related to the fact that incoming audit firms require more resources to perform additional work in response to increased audit risks.

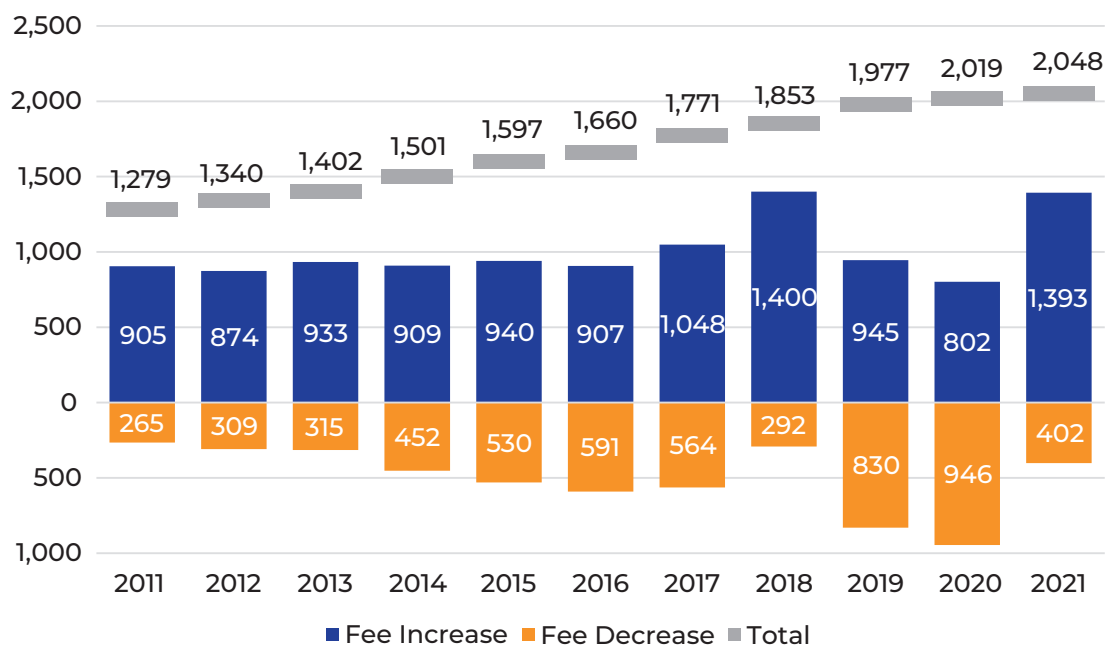
**Table 20. List of audit issues**

Auditors were unable to obtain sufficient audit evidence	23
Listed companies and auditors could not agree on reporting timeline	3
Auditors decided not to continue the appointment due to changes in listed companies' circumstances	3
Dispute on audit procedures and findings	3
Suspension of audit due to external disciplinary action taken against the listed company's director	1

Table 20 lists the common audit issues as disclosed by listed companies. The most common issue is insufficient audit evidence, which reflects the fact that auditors commonly face difficulties in obtaining sufficient audit evidence to form a solid opinion within the agreed timeline and thus lead to a resignation. To address such issues, listed companies may have to pay a higher fee to enable the incoming auditor to assign sufficient resources in assessing and reviewing all necessary documents and forming an opinion before the regulatory deadline.

In response to the growing trend of changes in auditor appointments, the AFRC will continue to monitor and follow up on the situation closely. We will also consider to assess what impact, if any, such changes may have on audit quality, and what additional resources are needed for the audit profession and for audit committees.

**Figure 21. Listed companies with auditors reappointed\***



Note: The total population includes the listed companies that did not experience any fee changes following an auditor reappointment.

**Table 22. Listed companies with auditors reappointed, and associated fee changes**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of listed companies with reappointed auditors</b>	1,279	1,340	1,402	1,501	1,597	1,660	1,771	1,853	1,977	2,019	2,048
<b>As a percentage of all listed companies in that year</b>	92.3%	91.3%	91.8%	92.9%	93.0%	91.0%	92.3%	90.5%	89.3%	89.0%	87.8%
<b>Percentage of which subsequently experienced a:</b>											
Fee reduction	20.7%	23.1%	22.5%	30.1%	33.2%	35.6%	31.8%	15.8%	42.0%	46.9%	19.6%
Fee increase	70.8%	65.2%	66.5%	60.6%	58.9%	54.6%	59.2%	75.5%	47.8%	39.7%	68.0%
No fee changes	8.5%	11.7%	11.0%	9.3%	7.9%	9.8%	9.0%	8.7%	10.2%	13.4%	12.4%

For those listed companies that retained their incumbent auditors, fee reductions were observed, but not as frequently. As Figure 21 shows, in 2021, listed companies were more willing to increase audit fees after reappointing their auditors as compared with 2020. In 2020, 60.3% of listed companies which reappointed their incumbent auditors either lowered or maintained their audit fees. The trend was reversed in 2021 where 68.0% of those listed companies increased audit fees after reappointing their auditors.



## Section 4

# Key messages to stakeholders

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From our analysis, it is apparent that some of the immediate effects brought about by COVID-19 are already having an impact on the audit market. Inflation, interest rate increases, and staff shortages are threatening audit firms' ability to maintain resourcing levels. Under these circumstances, our messages to stakeholders are as follows:

### 4.1 Auditors

#### **Ensure fees are commensurate with the complexity and scale of the engagement**

When considering whether to accept or continue an audit engagement, auditors should ensure that fees are sufficient for the allocation of appropriate and adequate resources, taking into account the complexity and scale of the engagement. Moreover, auditors should not rely on obtaining additional, higher margin non-audit services to subsidise an audit. Although some audit firms may use audit as a loss leader, and make the assumption that future fees will compensate for initial losses, we remind auditors not to compromise audit quality by deliberately reducing or even skipping essential procedures.

**Effectively communicate and explain to companies and stakeholders their value-add and the importance of an audit beyond compliance**

In addition to fulfilling statutory requirements, a well-executed audit can help companies identify weaknesses and make improvements on their reporting systems. From AFRC's *2023 Survey Report on the implementation of Guidelines for Effective Audit Committees* (Survey Report), it is clear that audit committees would like further support from auditors. If auditors can extend such support and help listed companies raise their standards in areas such as corporate governance and financial reporting, this can potentially be a win-win situation for all parties.

**When competing for new engagements, focus on audit quality rather than fees**

When competing for new engagements, auditors should focus on industry knowledge and experience, technical competence, past inspection results, and not on fees alone. Competing through fees alone is not sustainable and damages the ability for firms to upskill their workforce or invest in new technology which is crucial for their long-term competitiveness or even survival.

**Maintain a high degree of professional scepticism regardless of fee level**

An auditor needs to exercise professional judgment and, importantly, professional scepticism to achieve a quality audit. Insufficient professional scepticism is a deficiency repeatedly identified in AFRC findings. We would like to reiterate that regardless of the fee level, auditors should maintain an inquisitive mindset and be alert to indications of possible misstatements. This is especially critical when evaluating areas involving significant judgment, such as valuation of assets and goodwill, revenue recognition, expected credit loss, as well as a company's going concern assumption.

## 4.2 Audit committees

### **Do not reduce fees to a point that compromises audit quality**

Audit committee plays a pivotal role in overseeing a listed company's financial reporting process and the auditors' performance. In addition to making recommendations to the board in relation to auditor appointment, audit committees are responsible for approving the remuneration and engagement terms of the auditors.<sup>13</sup> It is important for audit committees to be satisfied that audit fees are set at a level that would enable auditors to dedicate sufficient and appropriate resource to the engagement. Obtaining a breakdown audit fees is a start.

In December 2021, AFRC published the *Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors* (Guidelines) in which practical guidance is provided on, among other things, fee assessment, auditor evaluation, and disclosures. Audit committees are strongly encouraged to refer to the Guidelines. We caution audit committees against reducing fees to such a level that undermines the resources that are allocated to, and hence the quality of, the audit.

### **When evaluating auditors, fees should not be the only focus**

When assessing audit fees, audit committees should take into account (i) the size and operational structure of the listed company and (ii) the nature and complexity of the underlying businesses. Both audit quality and fees are important considerations, but quality should take precedence over fees. Given that mean fee-to-revenue ratio is as low as 0.33% and 0.34% in 2020 and 2021, we are doubtful that driving audit fees down will have a significant impact on the profitability of a listed company, but it may have an outsized impact on audit quality.

In a follow-up survey to gauge the implementation of the Guidelines by audit committees,<sup>14</sup> listed company respondents cited industry experience, engagement performance and audit fees as the top three factors they evaluate when selecting an auditor. While it is encouraging that industry experience and engagement performance are high on the list, we remain concerned that some companies are still prioritising fees over quality.

<sup>13</sup> Code provision D3.3 under the Corporate Governance Code as set out in Appendix 14 of the Main Board Listing Rules and Appendix 15 of GEM Listing Rules issued by the Hong Kong Exchanges and Clearing Limited.

<sup>14</sup> AFRC. (2023). *2023 Survey Report on the Implementation of Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors*

**Seek to resolve underlying audit issues in the event an auditor resigns**

The rising trend of auditor resignations is a concern, especially if these resignations happen close to, or right after, the financial year end. Fees are often used as a reason for auditor resignations, but they can also be a distraction from underlying audit issues. When an auditor resigns, audit committees should follow the steps outlined in AFRC's open letter published on 11 January 2023. An important part is for the audit committee to have open and honest discussions with the incumbent auditor to understand the underlying causes of the resignation, and to resolve outstanding issues proactively by collaborating with management and the incumbent auditor. It is not acceptable to avoid a qualified audit opinion by changing auditors or by requesting auditors to resign. Audit committees should also review the company's draft announcements to ensure they are factually accurate and the circumstances leading to the auditor's resignation are fully disclosed.

**Improve transparency by effectively communicating the approach to auditor selection and fee determination in the company's announcements and annual reports**

Institutional investors in Hong Kong have commented that disclosures in listed companies' announcements and annual reports surrounding the appointment and remuneration of auditors are boilerplate and formulaic. Audit committees should explain their approach to auditor selection and appointment, and to the determination of audit fees. Such disclosures should also be provided on a timely basis.

### 4.3 Listed companies

#### **Ensure a high degree of management accountability, which is the foundation of high quality, reliable financial reporting**

In the preparation of financial statements, management responsibility and accountability are fundamental. As set out in the Companies Ordinance and the Listing Rules, management has the primary responsibility in ensuring timely preparation of accurate financial statements.

#### **Be mindful of potential reputation and regulatory risks brought about by cutting corners**

Maintaining effective financial records and internal controls is a must at all times. Although companies are under pressure to reduce costs and maintain profitability during an economic downturn, cutting audit fees to a point that compromises audit quality may backfire, and may potentially damage investors' confidence in the company.

### 4.4 Shareholders and investors

#### **Encourage more transparent and timely disclosures on related issues**

Effective competition in the audit market does not come merely from more service providers but also from more information. It is hence important for investors to engage with companies in a proactive manner and encourage them to provide informative and timely disclosures in relation to auditor selection and appointment, as well as on-going oversight of the auditor's performance. This will help raise transparency and resilience of the audit market which, in turn, will underpin investor protection.

#### **Be proactive in scrutinising resolutions on audit-related issues**

Investor stewardship is perceived as an important value-add from institutional investors, especially given the increasing popularity of ESG investing. We encourage investors to scrutinise resolutions on auditor appointment, reappointment and remuneration, clarify with management at shareholders' meetings and vote against those resolutions that are not in the best interest of shareholders. This will send a strong signal to listed companies that this is an important issue and management are being held accountable.

## Section 5

# Conclusion and way forward

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We noted earlier the level of audit fees reflects the amount of resources that an audit firm may devote to the performance of an engagement and, in turn, affects its quality and comprehensiveness. Therefore, audit fees are often regarded as an easy-to-observe indicator of audit quality, even though the relationship may not be perfect.

As our study shows, while there may be large variations in fee levels across audit firms and listed companies in Hong Kong, average audit fees per engagement have only managed to grow by 9% in nominal terms and actually dropped by 20% in real terms in the last decade. This contrasts with the experience in other international markets such as the US and the UK where nominal fees per engagement increased from US\$1.2 million and £1.1 million in 2011, respectively, to US\$2.5 million and £1.9 million in 2020 (respective increases of 108% and 70%).<sup>15</sup> In Hong Kong, cross-selling of other non-audit services and productivity gains may help cushion the blow, but if the situation persists over a period of time, it may adversely affect the ability for firms to upskill their workforce and invest in new technology, or worse, undermine audit quality.

Fees are important because, for the sustainable and healthy development of the profession, the industry needs to be able to earn an adequate return on capital. On the one hand, conditions of the last decade, namely significant growth in the number of listed companies, relatively inexpensive and abundant staff, low inflation, and low interest rates were all working favorably for the audit industry. However, these trends have now reversed. Structural issues such as talent shortage, ongoing technological advances, more robust and extensive regulation, a slow down in capital raising, and a shift towards better sustainability disclosures are creating significant headwinds. Many firms are already reexamining their strategies as a result. Our concern is whether fees are set at levels that would encourage firms to respond appropriately to these structural issues.

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<sup>15</sup> Financial Education & Research Foundation (Multiple: 2015-2020), *Annual Public Company Audit Fee Study Report*; and UK Financial Reporting Council (Multiple: 2011-2020), *Key Facts and Trends in the Accountancy Profession*.

This becomes a catch-22 – without the necessary expertise and skills, it will be difficult to justify and earn a higher fee. This is especially pertinent for the small and medium firms that may not have the benefit of economies of scale or access to a global network with a track record in investing in people and technology.

Some may argue that competitive fees are a sign of a competitive market, but this argument overlooks the importance of quality. Quality can only be gauged when there is a high degree of transparency in the market. However, information about an audit firm's execution capabilities, inspection results, and investigation and disciplinary records may not be readily available. A condition of perfect competition is identical or commoditised products, which is not the case in audit. Another is for buyers and sellers to have complete information to make rational decisions, and this is an area that improvements can, and should be made. Promoting disclosures on audit firms' performance by regulators, auditors and listed companies would improve transparency and facilitate the selection of auditors as well as determination of reasonable fees.

As part of its mission, AFRC aims to shape a healthy market environment that will nurture and promote the success of the accounting profession. In response to the findings of this study, we will continue to monitor market developments, in particular pricing behavior of audit firms, and ensure prompt regulatory policies can be developed to address any market malpractices. AFRC will also continue to include audit fees as one of the criteria for engagement review selection, and proactively monitor audit firms' client and engagement acceptance practices.

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## Appendix **Data tables**

**Table A1. Descriptive statistics of audit fees and other variables in 2021 and 2020**

2021	Total	Mean	SD	Min	Median	Max
<b>Total (Number of listed companies, N = 2,435)</b>						
Audit fees (HK\$m)	13,092.4	5.4	19.9	< 0.1	2.1	684.8
Revenue (HK\$bn)	57,971.9	23.8	132.0	< 0.1	0.9	3,227.7
Total assets (HK\$bn)	418,455.9	171.9	1,711.8	< 0.1	2.4	42,367.4
Market cap (HK\$bn)	42,694.2	17.5	122.2	< 0.1	0.9	4,389.1
<b>Listed companies audited by Category A PIE auditors (N = 1,572)</b>						
Audit fees (HK\$m)	10,148.5	6.5	15.9	0.2	2.9	241.0
Revenue (HK\$bn)	48,211.1	30.7	157.5	< 0.1	1.7	3,227.7
Total assets (HK\$bn)	364,192.2	231.7	2,035.2	< 0.1	4.7	42,367.4
Market cap (HK\$bn)	38,532.7	24.5	149.0	< 0.1	1.7	4,389.1
<b>Listed companies audited by Category B PIE auditors (N = 671)</b>						
Audit fees (HK\$m)	1,031.1	1.5	1.9	< 0.1	1.0	20.8
Revenue (HK\$bn)	2,287.3	3.4	18.2	< 0.1	0.2	329.7
Total assets (HK\$bn)	7,780.4	11.6	62.5	< 0.1	0.6	1,023.5
Market cap (HK\$bn)	1,321.3	2.0	10.5	< 0.1	0.2	213.4
<b>Listed companies audited by Category C PIE auditors (N = 60)</b>						
Audit fees (HK\$m)	68.6	1.1	0.8	0.4	1.0	4.8
Revenue (HK\$bn)	24.8	0.4	0.7	< 0.1	0.1	3.3
Total assets (HK\$bn)	90.6	1.5	3.3	< 0.1	0.3	21.3
Market cap (HK\$bn)	26.4	0.4	0.7	< 0.1	0.2	3.5
<b>Listed companies audited by Mainland PIE auditors (N = 87)</b>						
Audit fees (HK\$m)	469.7	5.4	6.9	0.5	2.9	33.7
Revenue (HK\$bn)	5,837.0	67.1	160.1	< 0.1	10.5	1,228.7
Total assets (HK\$bn)	8,849.8	101.7	213.7	0.1	25.4	1,629.8
Market cap (HK\$bn)	612.5	7.0	12.9	< 0.1	2.0	83.1
<b>Listed companies audited by Overseas PIE auditors (N = 45)</b>						
Audit fees (HK\$m)	1,374.5	30.5	108.5	0.2	1.3	684.8
Revenue (HK\$bn)	1,611.7	35.8	98.5	< 0.1	0.5	497.0
Total assets (HK\$bn)	37,542.9	834.3	3,610.5	0.1	0.8	22,991.2
Market cap (HK\$bn)	2,201.2	48.9	158.0	< 0.1	1.6	967.7

2020	Total	Mean	SD	Min	Median	Max
<b>Total (Number of listed companies, N = 2,414)</b>						
Audit fees (HK\$m)	12,380.4	5.1	20.3	0.2	2.0	720.6
Revenue (HK\$bn)	48,042.5	19.9	103.9	< 0.1	0.7	2,368.4
Total assets (HK\$bn)	376,837.0	156.1	1,520.2	< 0.1	2.3	37,499.9
Market cap (HK\$bn)	44,611.6	18.5	148.2	< 0.1	0.9	4,740.8
<b>Listed companies audited by Category A PIE auditors (N = 1,654)</b>						
Audit fees (HK\$m)	9,731.1	5.9	15.5	0.2	2.7	250.8
Revenue (HK\$bn)	40,464.5	24.5	119.5	< 0.1	1.3	2,368.4
Total assets (HK\$bn)	325,316.0	196.7	1,730.6	< 0.1	4.0	37,499.9
Market cap (HK\$bn)	40,902.1	24.7	176.2	< 0.1	1.6	4,740.8
<b>Listed companies audited by Category B PIE auditors (N = 556)</b>						
Audit fees (HK\$m)	786.2	1.4	1.5	0.2	1.0	13.0
Revenue (HK\$bn)	1,657.0	3.0	16.4	< 0.1	0.2	286.5
Total assets (HK\$bn)	5,390.4	9.7	56.6	< 0.1	0.6	874.9
Market cap (HK\$bn)	995.3	1.8	9.6	< 0.1	0.4	196.0
<b>Listed companies audited by Category C PIE auditors (N = 78)</b>						
Audit fees (HK\$m)	87.9	1.1	0.7	0.3	1.0	3.5
Revenue (HK\$bn)	23.8	0.3	0.5	< 0.1	0.1	2.4
Total assets (HK\$bn)	112.6	1.4	3.6	< 0.1	0.4	25.1
Market cap (HK\$bn)	45.0	0.6	1.0	< 0.1	0.2	6.2
<b>Listed companies audited by Mainland PIE auditors (N = 76)</b>						
Audit fees (HK\$m)	387.2	5.1	6.6	0.4	2.8	31.2
Revenue (HK\$bn)	4,075.6	53.6	135.1	< 0.1	8.8	1,023.8
Total assets (HK\$bn)	6,856.0	90.2	190.1	0.1	24.4	1,397.6
Market cap (HK\$bn)	447.2	5.9	9.5	< 0.1	1.8	49.2
<b>Listed companies audited by Overseas PIE auditors (N = 50)</b>						
Audit fees (HK\$m)	1,388.0	27.8	106.6	0.2	1.2	720.6
Revenue (HK\$bn)	1,821.5	36.4	111.5	< 0.1	0.4	489.2
Total assets (HK\$bn)	39,161.9	783.2	3,454.1	0.1	0.5	23,146.1
Market cap (HK\$bn)	2,222.1	44.4	161.9	0.1	0.6	1,058.8

**Table A2. Audit Fees in 2021 and 2020, by industry, company size, and auditor category**

2021 Industry	Company Size Total assets (HK\$ billion)	Audit fees of listed companies audited by Category A PIE auditors (HK\$ million)				Audit fees of listed companies audited by Category B PIE auditors (HK\$ million)			
		N	Q1	Median	Q4	N	Q1	Median	Q4
Bank and Insurance	Below 600	10	3.55	4.54	10.98	2	4.54	5.16	5.78
	600 to 1,200	12	3.64	4.99	10.78	1	5.30	5.30	5.30
	1,200 to 5,000	12	7.86	20.77	29.08				
	Above 5,000	10	33.57	63.82	117.26				
Conglomerates	Below 1.5	1	2.50	2.50	2.50	3	0.90	0.95	1.06
	1.5 to 10	3	0.82	2.50	7.83	4	1.34	1.54	1.68
	10 to 100	6	8.17	10.04	15.96				
	Above 100	6	18.70	41.34	121.00				
Consumer-Related	Below 0.36	71	0.70	0.90	1.50	88	0.58	0.72	0.95
	0.36 to 1.345	107	1.40	1.70	2.22	65	0.90	1.30	1.60
	1.345 to 6.81	145	2.32	2.96	3.93	30	1.24	1.62	2.36
	Above 6.81	151	3.77	6.26	10.14	14	2.00	4.97	7.99
Energy	Below 0.7	3	0.70	1.30	2.37	14	0.60	0.92	1.28
	0.7 to 4.1	12	1.97	2.71	3.85	6	1.00	1.15	2.20
	4.1 to 14.61	12	2.64	4.87	5.39	5	1.28	1.65	1.91
	Above 14.61	13	5.51	10.30	24.69	3	3.48	3.49	9.28
Healthcare	Below 1.155	22	1.28	1.74	2.30	25	0.70	1.10	1.60
	1.155 to 3.258	45	2.04	2.51	3.37	4	0.93	1.28	1.57
	3.258 to 8.5	43	2.77	3.37	4.67	4	1.59	2.00	2.91
	Above 8.5	46	4.04	5.30	8.49				
Industrials	Below 0.5	27	0.72	1.00	1.30	38	0.63	0.80	1.04
	0.5 to 2.02	40	1.51	1.72	2.01	23	0.93	1.11	1.35
	2.02 to 14.5	48	2.01	2.64	3.29	13	1.05	1.30	2.00
	Above 14.5	43	3.10	3.90	9.58	7	2.31	4.68	8.50
Information Technology	Below 0.306	17	0.70	0.83	1.28	30	0.55	0.67	0.83
	0.306 to 1.06	27	1.30	1.56	2.35	29	0.85	1.05	1.66
	1.06 to 7	43	2.02	2.87	3.96	9	1.58	1.95	2.65
	Above 7	47	4.76	8.43	33.83	3	2.40	2.83	3.50
Materials	Below 0.84	16	0.96	1.23	1.53	11	0.68	1.07	1.28
	0.84 to 3.1	17	1.90	2.12	2.48	11	1.20	1.58	2.69
	3.1 to 18	22	2.08	2.90	4.85	8	1.05	1.59	2.12
	Above 18	19	5.06	7.77	13.97	4	2.36	3.93	5.35
Other Financials	Below 0.44	14	0.40	0.71	0.88	27	0.34	0.48	0.75
	0.44 to 1.7	18	0.75	1.65	2.38	23	0.76	0.95	1.30
	1.7 to 14.6	27	1.95	3.50	4.34	15	1.06	1.35	1.80
	Above 14.6	38	4.15	6.76	9.97	4	2.25	3.24	4.19
Properties & Construction	Below 0.48	50	0.82	0.97	1.28	60	0.61	0.75	0.93
	0.48 to 3.05	70	1.30	1.66	2.35	39	0.88	1.10	1.45
	3.05 to 21.8	97	2.05	2.80	4.08	17	0.84	1.76	2.29
	Above 21.8	101	4.24	5.89	10.24	12	3.85	5.84	10.70
Telecommunications	Below 1.5	1	1.08	1.08	1.08	3	0.67	1.10	1.12
	1.5 to 16	4	1.61	2.45	4.95				
	16 to 120	4	7.18	11.68	23.00				
	Above 120	4	30.10	58.71	93.36				
Utilities	Below 2.9	7	1.48	1.99	2.89	10	0.94	1.15	1.30
	2.9 to 24	11	2.71	3.61	6.22	4	1.60	3.25	4.28
	24 to 110	14	3.09	4.87	8.73	1	6.02	6.02	6.02
	Above 110	16	9.61	12.24	14.80	2	8.37	11.16	13.96

Audit fee of listed companies audited by Category C PIE auditors (HK\$ million)				Audit fee of listed companies audited by Mainland PIE auditors (HK\$ million)				Audit fee of listed companies audited by Overseas PIE auditors (HK\$ million)			
N	Q1	Median	Q4	N	Q1	Median	Q4	N	Q1	Median	Q4
								1	69.95	69.95	69.95
								3	196.58	207.53	684.77
				1	1.45	1.45	1.45	1	0.99	0.99	0.99
				1	3.13	3.13	3.13				
13	0.71	0.88	1.16					9	0.53	0.81	0.99
5	0.58	0.61	0.98					4	1.09	1.26	6.13
2	0.90	1.53	2.17	5	0.87	1.06	1.93				
1	4.83	4.83	4.83	9	2.24	3.59	6.00	6	6.87	18.49	21.93
1	0.88	0.88	0.88								
				1	1.26	1.26	1.26				
				1	4.46	4.46	4.46	1	7.46	7.46	7.46
1	1.00	1.00	1.00					1	0.75	0.75	0.75
1	0.44	0.44	0.44								
				3	0.70	1.02	5.78				
				4	1.63	2.63	16.31				
5	0.85	1.07	1.10								
2	1.43	1.44	1.45	2	0.90	0.96	1.02	3	0.68	0.84	1.85
3	1.00	2.17	2.85	5	2.05	2.24	2.77	1	2.28	2.28	2.28
				20	2.89	5.41	10.60				
5	0.70	0.70	0.83								
				2	0.48	0.61	0.75	1	0.83	0.83	0.83
				4	1.08	1.26	1.90				
				5	2.31	7.23	8.49				
2	0.49	0.78	1.06								
3	1.03	1.20	2.99					2	1.16	1.47	1.79
				1	2.54	2.54	2.54				
				6	2.89	4.10	11.08	2	5.04	20.99	36.94
1	0.42	0.42	0.42								
2	0.56	1.40	2.25								
				1	1.57	1.57	1.57				
				1	2.13	2.13	2.13				
6	0.40	0.56	0.70					2	0.61	0.81	1.01
3	0.96	1.30	1.67	1	1.93	1.93	1.93	5	0.93	1.04	1.33
2	1.90	2.22	2.54	1	2.41	2.41	2.41	1	3.33	3.33	3.33
				5	6.87	9.40	9.49				
1	1.40	1.40	1.40	1	1.37	1.37	1.37				
1	1.20	1.20	1.20	3	1.54	1.92	2.29				
				3	3.04	3.13	3.73				
				1	10.53	10.53	10.53	2	3.38	5.46	7.53

2020 Industry	Company Size Total assets (HK\$ billion)	Audit fees of listed companies audited by Category A PIE auditors (HK\$ million)				Audit fees of listed companies audited by Category B PIE auditors (HK\$ million)			
		N	Q1	Median	Q4	N	Q1	Median	Q4
Bank and Insurance	Below 350	11	3.19	4.48	10.58	2	0.94	2.25	3.55
	350 to 1,000	12	3.37	5.74	9.19	2	3.81	4.15	4.50
	1,000 to 5,000	14	7.31	18.68	29.00				
	Above 5,000	11	19.74	74.31	158.52				
Conglomerates	Below 2					5	0.86	0.96	1.15
	2 to 16	3	2.25	2.50	23.10	2	1.50	1.60	1.70
	16 to 100	5	7.73	11.60	16.28				
	Above 100	5	17.24	54.00	94.00				
Consumer-Related	Below 0.355	82	0.68	0.90	1.22	71	0.57	0.70	0.90
	0.355 to 1.36	113	1.26	1.67	2.10	60	0.89	1.24	1.45
	1.36 to 5.76	149	2.23	2.78	3.37	27	1.10	1.30	2.10
	Above 5.76	161	3.80	5.57	9.37	9	2.70	4.72	6.68
Energy	Below 0.55	5	0.98	1.19	1.30	12	0.60	0.84	1.20
	0.55 to 3.5	11	1.80	2.38	3.75	6	1.04	1.33	2.20
	3.5 to 12	12	2.49	3.18	5.09	4	1.29	1.95	2.84
	Above 12	12	5.22	8.77	31.70	3	3.46	11.02	11.13
Healthcare	Below 0.92	20	0.95	1.52	1.98	14	0.70	0.88	1.35
	0.92 to 2.9	30	1.90	2.52	3.00	6	1.45	1.65	2.00
	2.9 to 9.1	37	2.23	2.70	3.90	2	1.05	2.36	3.66
	Above 9.1	37	3.46	4.84	6.97				
Industrials	Below 0.486	36	0.78	0.95	1.32	26	0.55	0.76	0.97
	0.486 to 1.8	40	1.43	1.62	1.92	25	0.91	1.16	1.50
	1.8 to 12.5	50	1.81	2.37	2.84	14	0.95	1.06	1.66
	Above 12.5	46	3.10	3.87	8.45	7	1.97	3.26	5.17
Information Technology	Below 0.258	17	0.64	0.80	0.92	30	0.54	0.66	0.85
	0.258 to 0.828	32	1.05	1.44	2.00	21	0.78	1.00	1.85
	0.828 to 4.2	39	1.50	2.31	3.30	12	0.82	1.65	2.45
	Above 4.2	46	3.88	6.79	13.29	3	2.21	2.75	3.00
Materials	Below 0.87	16	0.82	1.05	1.45	11	0.50	1.00	1.25
	0.87 to 2.95	19	1.59	2.05	2.23	9	1.20	1.45	2.80
	2.95 to 12.3	23	1.98	2.88	3.94	8	1.15	2.16	3.14
	Above 12.3	20	3.50	5.24	9.40	4	2.22	3.69	4.77
Other Financials	Below 0.475	18	0.42	0.62	1.10	22	0.34	0.55	0.65
	0.475 to 1.6	17	0.98	1.60	1.80	21	0.78	0.90	1.15
	1.6 to 16	30	1.89	2.45	3.48	11	0.94	1.36	1.83
	Above 16	37	3.78	5.45	9.05	4	1.90	2.47	3.12
Properties & Construction	Below 0.45	66	0.74	0.94	1.25	44	0.60	0.75	0.89
	0.45 to 3.75	82	1.30	1.58	2.25	32	0.80	1.02	1.20
	3.75 to 28	109	2.03	2.70	3.94	11	0.67	1.25	1.88
	Above 28	111	4.55	6.30	9.50	4	4.12	7.87	10.98
Telecommunications	Below 5	1	1.07	1.07	1.07	2	1.10	1.21	1.32
	5 to 20	4	1.90	4.32	6.00				
	20 to 500	4	10.52	12.41	21.50				
	Above 500	3	85.96	86.40	122.58				
Utilities	Below 3.5	12	1.48	1.71	2.16	5	0.86	1.14	1.30
	3.5 to 21.5	14	2.50	3.21	3.88	3	1.80	2.39	3.60
	21.5 to 93.6	15	3.15	4.72	8.15	1	7.87	7.87	7.87
	Above 93.6	17	9.00	11.28	12.90	1	12.71	12.71	12.71

Audit fee of listed companies audited by Categories C PIE auditors (HK\$ million)				Audit fees of listed companies audited by Mainland PIE auditors (HK\$ million)				Audit fees of listed companies audited by Overseas PIE auditors (HK\$ million)			
N	Q1	Median	Q4	N	Q1	Median	Q4	N	Q1	Median	Q4
1	1.08	1.08	1.08					1	116.34	116.34	116.34
								3	162.11	177.69	720.56
								12	0.49	0.92	1.06
				1	3.37	3.37	3.37	4	1.06	1.25	2.30
								6	6.88	13.61	34.13
18	0.60	0.73	0.81								
6	0.58	0.70	0.98	1	1.35	1.35	1.35				
3	2.10	2.81	3.06	5	0.90	0.97	1.80				
1	3.50	3.50	3.50	7	1.24	2.36	7.42				
1	1.63	1.63	1.63								
1	1.45	1.45	1.45	1	1.18	1.18	1.18				
				1	5.12	5.12	5.12	1	8.49	8.49	8.49
3	0.50	0.78	0.95								
1	0.34	0.34	0.34	3	0.56	0.90	4.36	3	0.75	0.87	1.28
				2	0.69	0.79	0.90				
				3	1.84	3.15	27.55				
8	0.72	0.88	1.20								
4	1.03	1.25	1.39	1	0.79	0.79	0.79	1	0.51	0.51	0.51
2	2.02	2.34	2.65	4	1.20	2.01	2.88	1	1.25	1.25	1.25
1	1.32	1.32	1.32	17	2.76	3.80	9.67	1	2.12	2.12	2.12
3	0.45	1.05	1.06								
1	0.70	0.70	0.70	1	0.40	0.40	0.40	2	0.61	0.71	0.81
1	1.90	1.90	1.90	2	0.92	1.14	1.35				
				5	1.82	1.92	5.40				
3	1.03	1.20	1.31								
4	0.91	1.11	2.11	1	2.37	2.37	2.37	2	0.94	1.12	1.30
				6	2.81	5.12	10.45	2	4.65	22.88	41.11
1	0.98	0.98	0.98								
4	0.63	1.10	1.80	1	1.88	1.88	1.88				
				1	1.74	1.74	1.74				
6	0.50	0.91	1.20								
3	0.65	0.96	1.40	1	0.85	0.85	0.85	4	0.69	0.87	0.98
1	2.64	2.64	2.64	1	1.80	1.80	1.80	4	0.82	0.96	1.34
				7	6.45	8.43	11.64	1	2.83	2.83	2.83
1	1.35	1.35	1.35	1	1.22	1.22	1.22				
				1	1.35	1.35	1.35				
				1	2.83	2.83	2.83	2	3.00	4.67	6.33
				1	9.89	9.89	9.89				

Table A3. Year-on-year growth rates and CAGR

Year/Time period	Year-on-year growth rate				
	2011	2012	2013	2014	2015
Number of listed companies	5.4%	3.7%	6.3%	6.2%	6.6%
Total audit fees	13.5%	7.7%	4.2%	8.0%	5.2%
<b>Audit fees per engagement – Nominal</b>					
Mean	7.7%	3.8%	-1.9%	1.7%	-1.3%
Median	10.0%	4.4%	3.4%	4.7%	-0.7%
<b>Audit fees per engagement – CPI-adjusted</b>					
Mean	2.3%	-0.3%	-6.0%	-2.5%	-4.2%
Median	4.5%	0.3%	-0.9%	0.3%	-3.6%
CPI <sup>16</sup>	5.3%	4.1%	4.3%	4.4%	3.1%



Year-on-year growth rate						CAGR	
2016	2017	2018	2019	2020	2021	2010-2020	2010-2021
5.4%	7.1%	8.5%	5.2%	1.7%	0.9%	5.6%	5.2%
3.7%	4.7%	10.5%	3.6%	-0.2%	5.8%	6.0%	6.0%
-1.6%	-2.2%	1.9%	-1.5%	-1.8%	4.8%	0.4%	0.8%
0.0%	-3.1%	2.3%	-2.7%	-2.2%	6.2%	1.5%	1.9%
-3.9%	-3.6%	-0.5%	-4.3%	-2.1%	3.3%	-2.5%	-2.0%
-2.4%	-4.6%	-0.1%	-5.5%	-2.5%	4.6%	-1.5%	-0.9%
2.4%	1.5%	2.3%	2.9%	0.3%	1.5%	3.0%	2.9%

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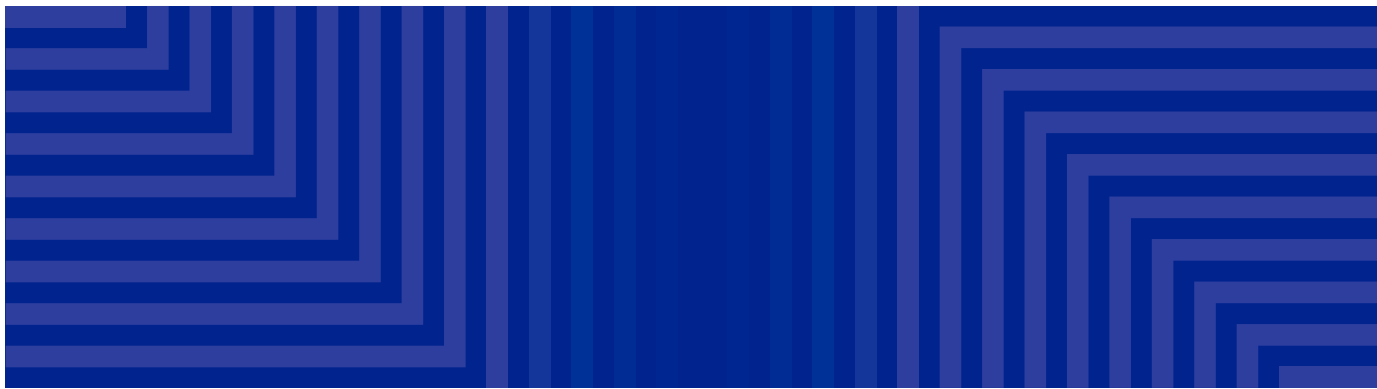
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