

Overview of the Non-Public Interest Entity Audit Market in Hong Kong

30 October 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.

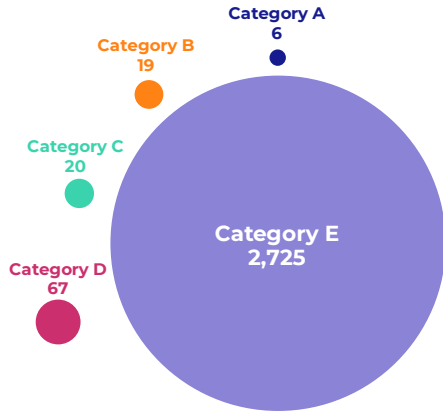
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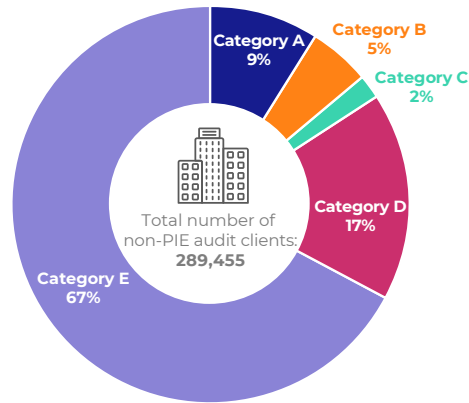
Key highlights

Market Competition

► Number of practice units that provided audit or assurance services (2022)

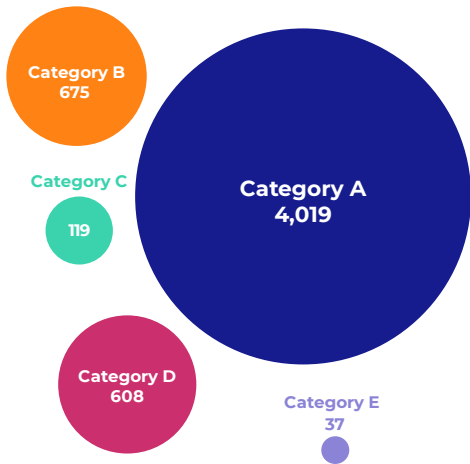


► Market share by number of non-PIE audit clients (2022)

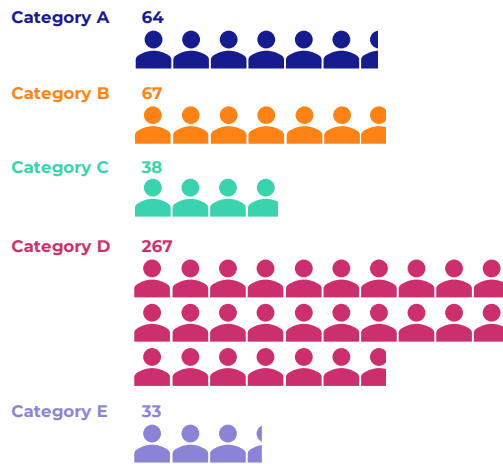


Supervision and Workload

► Median number of non-PIE audit clients per practice unit (2022)



► Median number of non-PIE audit clients per partner/director (2022)



Recommendations to practice units

<p>Strictly adhere to auditor independence requirements.</p>	<p>Ensure timely, proactive, and sufficient partner/director involvement in non-PIE audit engagements.</p>
<p>Set and reinforce tone at the top.</p>	<p>Determine appropriate and sufficient resources are available before undertaking a non-PIE audit engagement.</p>
<p>Develop and implement a robust system of quality management.</p>	<p>Offer relevant, specific, and high-quality CPD to partners/directors and staff.</p>
<p>Ensure integrity of audit documentation.</p>	

1. Introduction

- 1.1. The Accounting and Financial Reporting Council (**AFRC**) is pleased to present the findings of our research on the non-public interest entity (**non-PIE**)¹ audit market in Hong Kong. The research provides a better understanding of the market and underscores our commitment to promoting transparency, audit quality, and the sustainable development of the profession.
- 1.2. The research, based on selected findings from the AFRC's Inspection Questionnaire,² allows both auditors and company directors and management of non-PIEs to gain a deeper understanding of the non-PIE audit market and its importance to the business environment in Hong Kong. Further, the AFRC, as the independent regulator of the accounting profession in Hong Kong, aims to not only use the findings to inform our inspection function, but also to provide industry guidance and develop policies that will improve audit quality.
- 1.3. The findings are presented in Sections 2 to 5. Key messages to different stakeholders including practice units³ (**PU**s), and company directors and management of non-PIEs are provided in Sections 6 and 7.
- 1.4. As we move forward, the AFRC will continue to work closely with stakeholders to shape a competitive environment that will nurture and promote the healthy and sustainable development of the accounting profession.

¹ A non-PIE refers to a corporation other than a corporation (equity) that is listed on the stock market operated by the Stock Exchange of Hong Kong Limited.

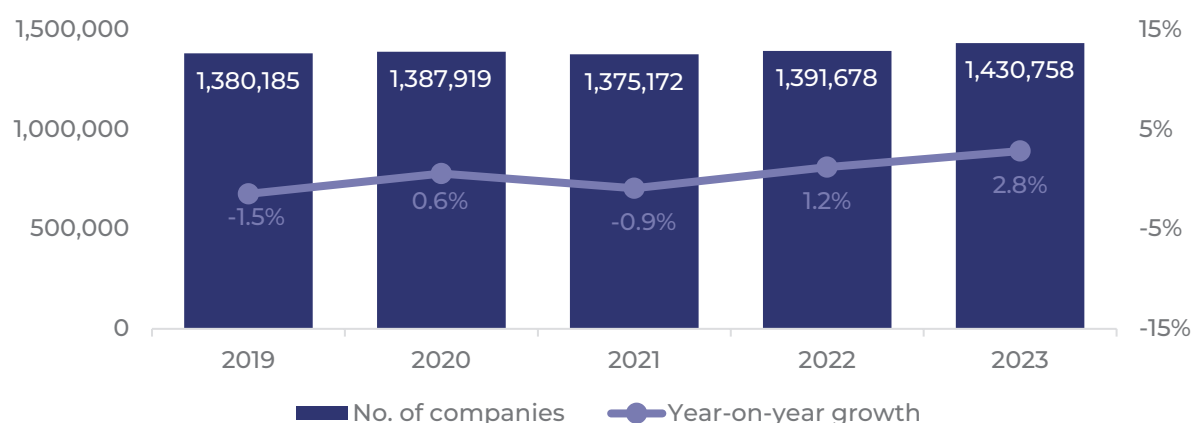
² The Inspection Questionnaire was distributed to all practice units from September 2023 to January 2024. All practice units responded to the Questionnaire. To access the Inspection Questionnaire, see the AFRC's [Inspection Questionnaire](#).

³ A practice unit as defined in section 2(1) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) means a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); a CPA firm; or a corporate practice.

2. Demand for non-PIE audits

- 2.1. All practice units, including non-PIE auditors,⁴ are responsible for conducting high-quality, independent, and objective audits of financial statements. This helps promote accountability, transparency, and integrity of financial reporting in Hong Kong.
- 2.2. As the number of companies registered in Hong Kong rises, the demand for non-PIE audits has grown in tandem. This is because, except for dormant companies, an audit of financial statements is required for all companies registered in Hong Kong.
- 2.3. The number of local companies that has remained registered on the Companies Register rose 3.7% from 1.38 million in 2019 to 1.43 million in 2023, with a compound annual growth rate (**CAGR**) of 0.9% (Figure 1).⁵ This indicates that despite significant headwinds during the period, such as the COVID-19 pandemic and geopolitical tensions, Hong Kong continues to be a destination for companies to set up and expand their businesses. As a result of sustained business activities in Hong Kong, there are abundant business opportunities for non-PIE auditors.

Figure 1. Number of local companies that has remained registered on the Companies Register



Source: Companies Registry

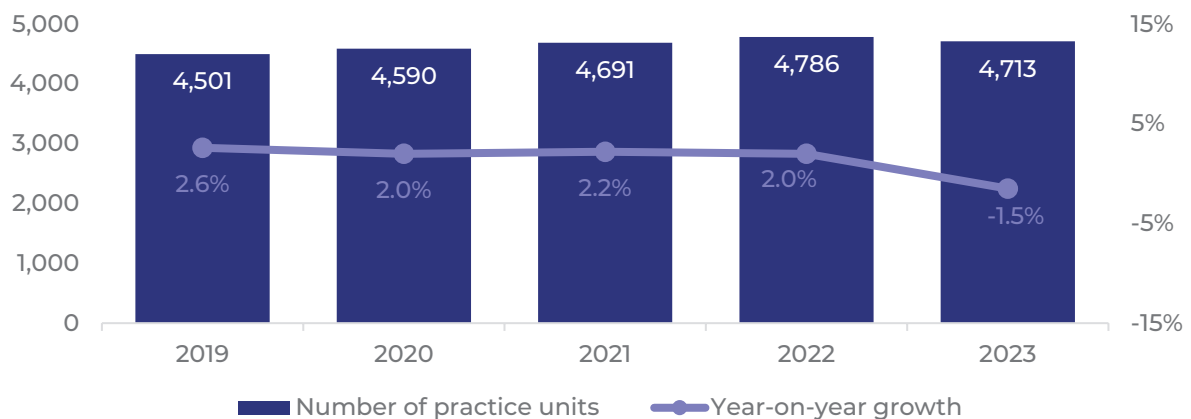
⁴ A non-PIE auditor means a practice unit that undertakes or carries out engagements other than PIE engagements specified in Part 2 of Schedule 1A of the Professional Accountants Ordinance (Cap. 50).

⁵ The number of local companies that has remained registered on the Companies Register does not directly correspond to the number of audit clients served by practice units surveyed in the Inspection Questionnaire. This is because an audit client may include multiple local companies that has remained registered on the Companies Register or it consists of foreign companies.

3. Supply of non-PIE auditors

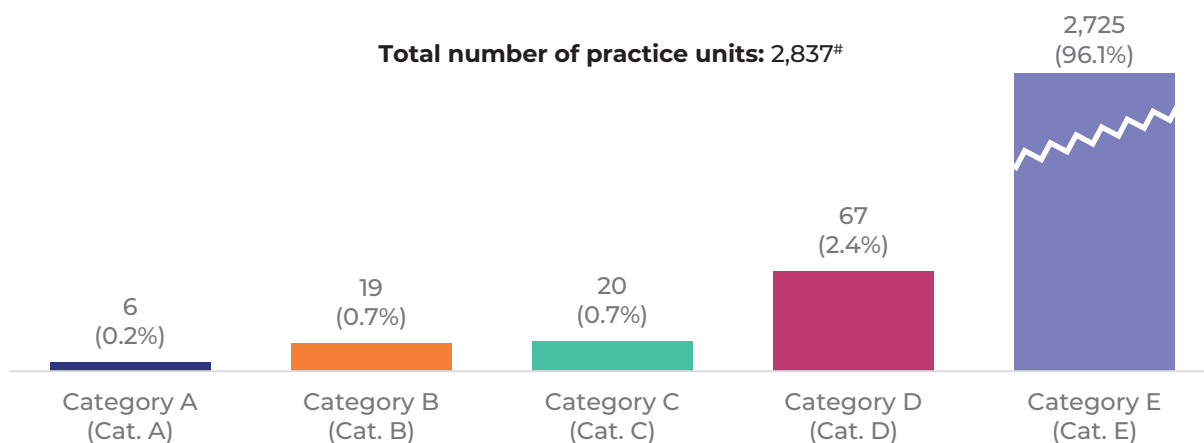
- 3.1. The total number of PUs registered with the AFRC rose from 4,501 in 2019 to 4,713 in 2023, representing an increase of 4.7% in the four-year period and a CAGR of 1.2%. (Figure 2). This growth rate broadly aligns with the growth rate in the number of local companies that has remained registered on the Companies Register during the same period.
- 3.2. The number of PUs registered with the AFRC declined slightly by 1.5% year-on-year in 2023. This can be attributed to a number of certified public accountants (practising) opting to reduce their modes of practice by practising solely under their own names or the names of CPA firms in 2023, rather than keeping both.

Figure 2. Number of PUs registered with the AFRC



- 3.3. Figure 3 shows the number of PUs that provided audit or assurance services in 2022 by category. Most PUs (98.4%) were not registered as PIE auditors and were only registered to audit non-PIEs. This indicates that a significant number of PUs, particularly smaller PUs, operate solely in the non-PIE audit and assurance market. Their market share by number of non-PIE audit clients will be further discussed in the next section.

Figure 3. Number of practice units that provided audit or assurance services in 2022 by category*^

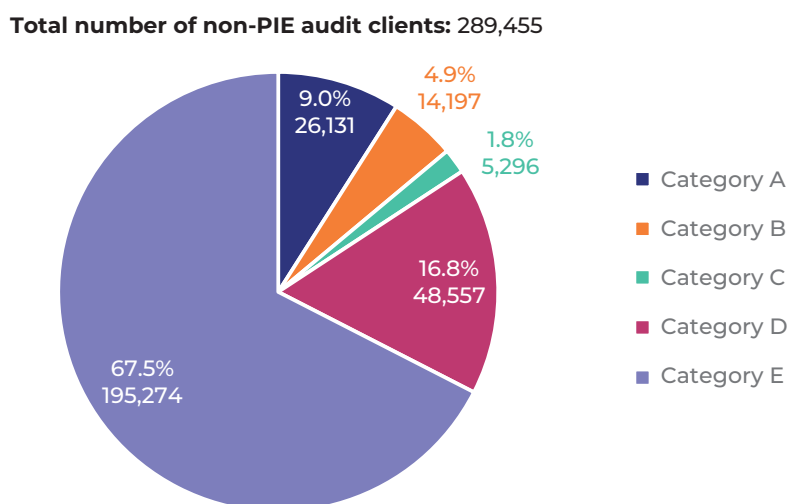


Notes: (*) The categorisation of PUs is detailed in Section 8.
 (^) Number of PUs as percentage of total in parentheses.
 (#) Amongst the 4,786 PUs registered with the AFRC in 2022, 1,949 practice units did not provide any audit or assurance services in 2022 and are therefore not included in Figure 3.

4. Number of non-PIE audit clients

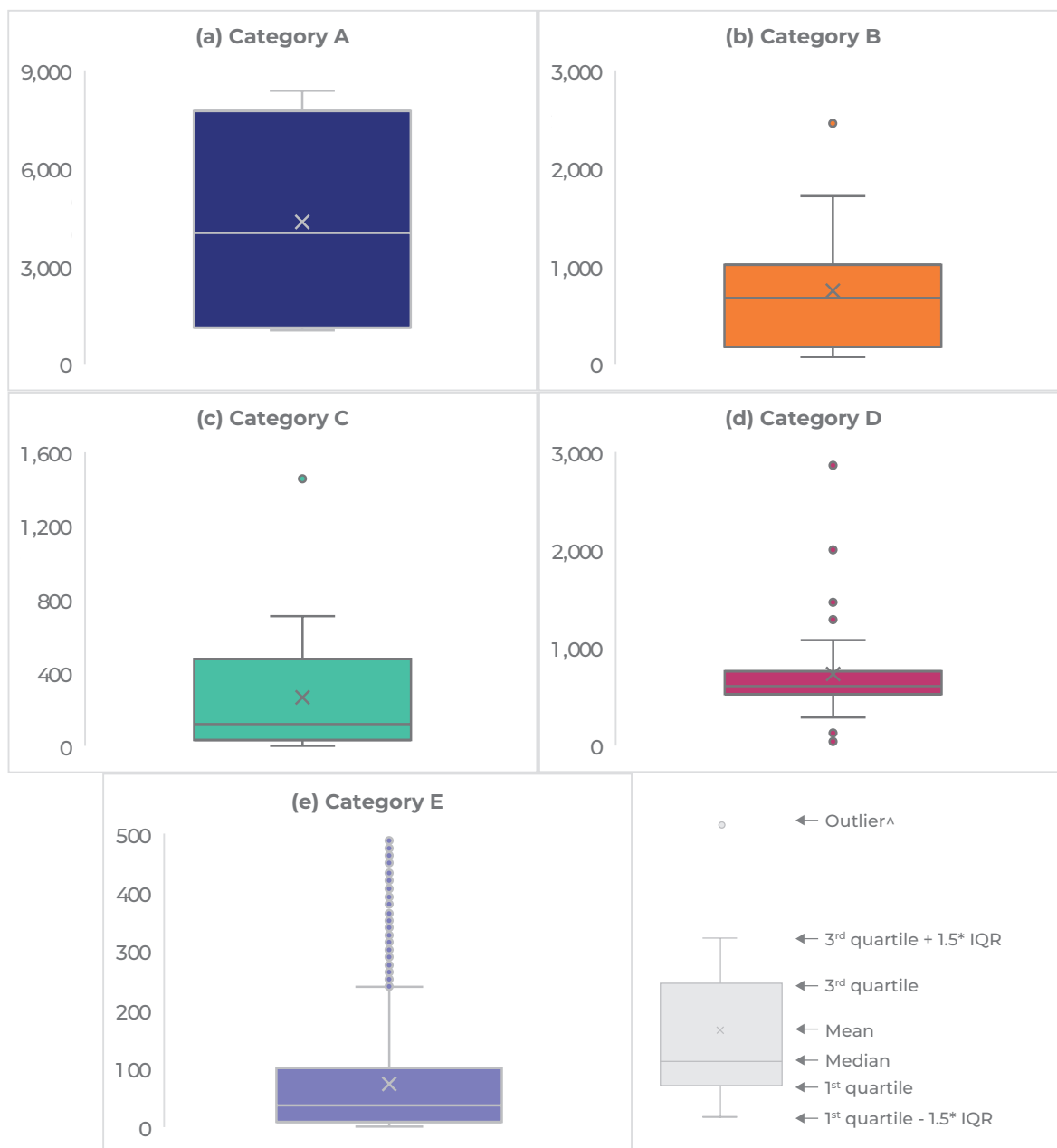
4.1. By number of non-PIE audit clients, Category E PUs dominated the non-PIE audit market in 2022, holding the largest share with 195,274 audit clients (67.5%) (Figure 4). Category D PUs came second with 48,557 audit clients (16.8%), while registered public interest entity auditors – Category A, B and C PUs – served a total of 45,624 audit clients (15.8%). This is due to Category D and E PUs auditing many small and less complex non-PIEs in total, while Category A audited fewer but large and more complex non-PIEs. Category B and C PUs tend to audit small to medium-sized non-PIEs.

Figure 4. Market share by number of non-PIE audit clients in 2022 by category



- 4.2. Figure 5 shows that the median number of non-PIE audit clients across PUs of different categories varied considerably. Notably, the median number of non-PIE audit clients audited by Category A PUs in 2022 was 4,019. This is approximately 109 times higher than the median of Category E PUs, 34 times more than Category C PUs, and around six times more than Category B or D PUs.
- 4.3. Analysed by the mean number of non-PIE audit clients that a PU completed the audit work for, Category A PUs completed the audit work of approximately 17 non-PIE audit clients per business day in 2022, while Category B and D PUs completed the audit work of around three non-PIE audit clients, Category C PUs completed one, and Category E PUs completed 0.3.
- 4.4. This result is largely in line with the AFRC's observation of the industry – Category A PUs have more resources to take on a greater number of audit clients than smaller PUs.
- 4.5. Further analysis shows that, except for Category A, all other categories contain values that are considered statistical outliers. Specifically, these outliers exceed 1.5 multiplied by the interquartile range above the third quartile. Of note, Category E contains 199 outliers (Figure 5 (e)). This can be attributed to high variability and heavily positively skewed distribution where most values are concentrated at the lower end. Further, the mode, or the most common occurring value, in Category E is one, indicating that the most likely number of non-PIE audit clients a Category E PU had in 2022 was only one.

Figure 5. Distribution of the total number of non-PIE audit clients in 2022 by category



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	Cat. D	Cat. E
Highest	8,375	2,458	1,455	2,932	497
Mean	4,355	747	265	725	72
Median	4,019	675	119	608	37
Lowest	1,030	72	0	41	1

- 4.6. Given the high volume of non-PIE audits undertaken by some PUs, the AFRC emphasises that these PUs must ensure that they have met the conditions to maintain audit quality. Such conditions would include, amongst others, a tone at the top that fosters a culture of ethics, compliance, and integrity, a robust system of quality management (**SQM**), adequate partner/director supervision, sufficient technological, intellectual, and human resources, proper audit documentation, and the provision of relevant and high-quality continuing professional education (**CPD**).
- 4.7. Additionally, PUs need to thoroughly understand and consider the characteristics of their non-PIE audit clients, including the complexity of accounting policies and estimates, reliability of financial data and records, regulatory environment and compliance requirements, and availability of audit evidence. This understanding is essential for PUs to gauge and provide the necessary resources and procedures required to perform quality audits.
- 4.8. Even if PUs seek to capitalise on the business opportunities present in the market, maintaining audit quality and professionalism must be the overriding priority. The next section explores in more detail the level of supervision and workload in the non-PIE audit market, as well as the minimum conditions that non-PIE auditors should meet to deliver high-quality audits.

5. Level of supervision and workload in non-PIE auditors

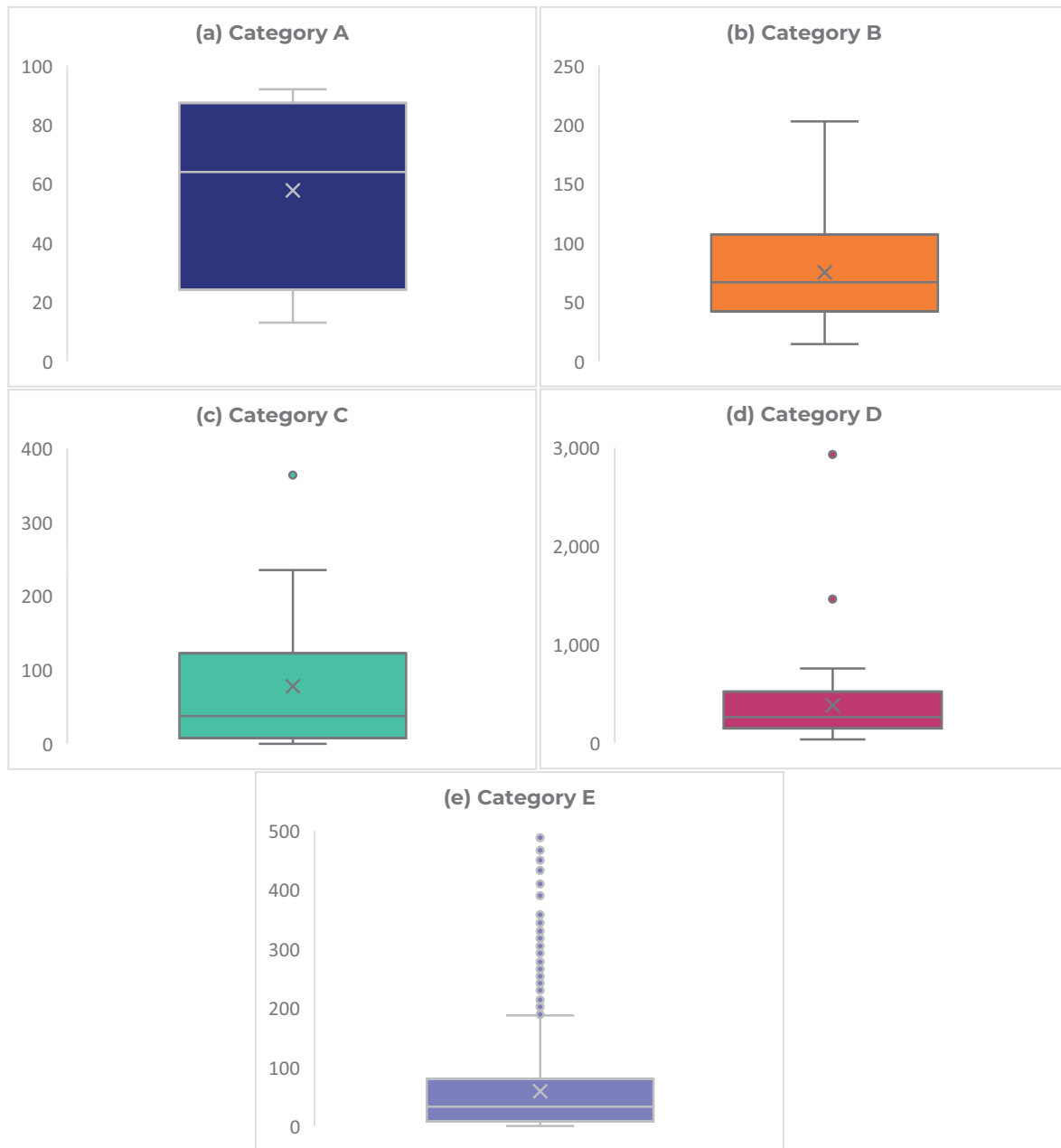
- 5.1. The level of supervision and workload of engagement partners/directors can serve as an indicator for audit quality. Notably, an overseas audit regulator uses the average number of non-PIEs per partner as an audit quality indicator to gauge the level of supervision of an engagement partner.⁶
- 5.2. It is natural for partners/directors to have their energy and time stretched thin when serving multiple clients and supervising numerous non-PIE audit engagements. Consequently, they may find it challenging to dedicate the necessary attention to ensure quality in each non-PIE audit engagement. Therefore, it is crucial for engagement partners/directors to be adequately involved in all non-PIE audit engagements to maintain the required quality standards. According to the Hong Kong Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements*, an engagement partner should assume responsibility for directing, supervising, and reviewing the work of the engagement team.⁷

6 Audit Oversight Board (Malaysia) "Annual Inspection Report 2023", 2024 <https://www.sc.com.my/api/documentms/download.ashx?id=a103ba33-d25e-46d0-bd9b-c7264fed6595>

7 Hong Kong Institute of Certified Public Accountants (**HKICPA**) "Hong Kong Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements", 2024 <https://www.hkicpa.org.hk/-/media/HKICPA-Website/Members-Handbook/volumell/hksa22021.pdf>

- 5.3. As Figure 6 shows, each of the partners/directors in Category D PUs was responsible for managing significantly more non-PIE audit clients. In 2022, Category D PUs had a median of 267 non-PIE audit clients per partner/director. This significantly outstripped the median of Category E PUs at 33, as well as Category A, B, and C PUs at 64, 67, and 38 respectively. This also indicates that a partner/director in more than half of Category D PUs completed more than one audit per business day throughout 2022.
- 5.4. It should be noted that one Category D PU had 2,932 non-PIE audit clients per partner/director in 2022, while another Category D PU had 1,464. These numbers exceeded the corresponding median by around 11 and five times respectively. In other words, a partner/director in these two PUs completed the audit of an average of 12 and six non-PIE audit clients per business day throughout the whole year respectively. Further, there are significant seasonal variations in the workload of a non-PIE auditor. The two months leading up to the tax deadlines in August and November are typically much busier than other months of the year.
- 5.5. Managing such an enormous portfolio of non-PIE audit clients per partner/director presents tremendous challenges to audit quality management. Without deploying sufficient time and resources, audit quality will be compromised.
- 5.6. Further analysis reveals that Category E contains 177 outliers (Figure 6(e)). This is consistent with the explanation provided in Section 4.5, where the high number of outliers can be attributed to high variability and heavily positively skewed distribution. In this distribution, most values are concentrated at the lower end, with the mode being one.

Figure 6. Number of non-PIE audit clients per partner/director in 2022 by category



	Cat. A	Cat. B	Cat. C	Cat. D	Cat. E
Highest	92	203	364	2,932	488
Mean	58	75	78	385	59
Median	64	67	38	267	33
Lowest	13	14	0	41	1

- 5.7. Given the variability in the size and complexity of non-PIE audit engagements in Hong Kong, there is no one-size-fits-all solution that can be applied universally. To consistently deliver quality audits, the AFRC expects PUs to, at a minimum, satisfy the following non-exhaustive list of conditions:
- (a) Thoroughly identify, evaluate, and address any threats to independence prior to accepting any non-assurance engagements.⁸ The AFRC has observed that many PUs provide non-assurance services to their non-PIE audit clients. While PUs can generate incremental revenue by offering various non-assurance services, such as serving as a company secretary, a bookkeeper, or an internal auditor, it is important to be always aware of threats to auditor independence. Strict adherence to professional standards and the Code of Ethics for Professional Accountants, in particular, Section 523 and Subsections 601 and 603 to 610, is crucial in mitigating threats to an auditor's ability to act with integrity, be objective, and exhibit professional scepticism.
 - (b) Senior leadership must set and reinforce tone at the top to foster an ethical and compliance culture centred on professionalism and delivering quality audits.⁹ Tone at the top must emphasise audit quality and protecting the public interest, and consistently communicate expected behaviours as an essential component of audit work, including complying with all legal and regulatory requirements, adhering to ethical and independence standards, and exhibiting professional scepticism. Regardless of the size of the PU, senior leadership should also ensure tone at the top permeates throughout the whole organisation and is practiced uniformly by all partners/directors and staff.

⁸ For more information on the AFRC's key messages and expectations on auditor independence, see [Safeguarding Auditor Independence: Concerns Surrounding Procurement and Purchases from Audit Client](#).

⁹ For more information on the AFRC's key messages and expectations on tone at the top, see [Setting and Reinforcing Tone at the Top to Achieve Quality Audits](#).

- (c) Design and implement a robust SQM that is tailored to the nature and circumstances of the PU and the engagements it performs.¹⁰ The Hong Kong Standard on Quality Management 1 requires a firm to have a risk assessment process and monitoring and remediation process as part of the SQM,¹¹ the purpose of which is to establish a more sustainable, proactive, and scalable approach to managing quality. PUs should assign appropriate personnel to take up:
- (i) ultimate responsibility and accountability for their SQM; and
 - (ii) specific aspects of operational responsibility for their SQM to oversee compliance with all professional standards.
- (d) Thoroughly assess the workload of every partner/director and ensure that they can provide direction and supervision to address significant audit issues, especially areas involving significant professional judgment. Partners/Directors should be involved in planning an audit, including understanding the non-PIE audit client's business, designing and performing risk assessments to provide an appropriate basis for identification and assessment of risks of material misstatement, and developing audit procedures that respond appropriately to the risk assessment.

Further, partners/directors should thoroughly review audit documentations to ensure it accurately and sufficiently details the audit evidence obtained. They should issue audit reports only after obtaining appropriate and sufficient audit evidence.

¹⁰ For more information on the AFRC's key insights on SQM, see Section 1.1 of [Inspection Insights](#).

¹¹ 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", 2023 <https://www.hkicpa.org.hk/-/media/HKICPA-Website/Members-Handbook/volumelll/hksqm1.pdf>

- (e) Commit to providing appropriate and sufficient human, technological, and intellectual resources before undertaking a non-PIE audit engagement. PUs should confirm that they have enough time to effectively conduct a quality audit and have a thorough understanding of the characteristics of their non-PIE audit clients, such as the complexity of accounting policies and estimates, the reliability of financial data and records, the regulatory environment and compliance requirements, and the availability of audit evidence.

PUs should also ensure consistent quality audit execution by having a clear audit approach and guidance and using relevant audit working paper templates.

- (f) Ensure that audit documentation is archived on a timely basis and not improperly altered.¹² To safeguard audit documentation integrity, PUs must have an effective system of policies, procedures, and controls including written policies, reasonable time frames for archiving, change management procedures, compliance monitoring procedures, and sufficient education and training. Such a system can ensure audit documentation is complete, archived on a timely basis, and not improperly altered.
- (g) Regularly update specialised knowledge of staff when conducting non-PIE audits and offer relevant, specific, and high-quality CPD to partners/directors and staff. As stated in the AFRC's [2023 Inspection Report](#), non-PIE auditors must provide sufficient training and CPD opportunities¹³ to staff as well as prioritise assigning staff with appropriated specialised knowledge and relevant experience to specific non-PIE audit engagements.

¹² For more information on the AFRC's key messages and expectations on audit documentation integrity, see [The Importance of Audit Documentation Integrity](#).

¹³ For more information on the AFRC's key messages and expectations on CPD, see [Continuing Professional Development as a Key to Improving Audit Quality in Hong Kong](#).

6. Recommendations to practice units

6.1. Based on the findings of this publication, a summary of the recommendations to PUs is provided below:

	<p>Strictly adhere to auditor independence requirements.</p>
	<p>Set and reinforce tone at the top.</p>
	<p>Develop and implement a robust system of quality management.</p>
	<p>Ensure timely, proactive, and sufficient partner/director involvement in non-PIE audit engagements.</p>
	<p>Determine appropriate and sufficient resources are available before undertaking a non-PIE audit engagement.</p>
	<p>Ensure integrity of audit documentation</p>
	<p>Offer relevant, specific, and high-quality CPD to partners/directors and staff.</p>

7. Recommendations to company directors and management of non-PIEs

7.1. For company directors and management of non-PIEs, the AFRC provides the following recommendations:

Consider the non-PIE auditor's capacity and competence during the appointment and re-appointment process. To uphold audit quality, company directors and management of non-PIEs should, during the auditor appointment and re-appointment process, thoroughly evaluate the capacity and competence of the non-PIE auditor. They need to ensure that the auditor can allocate sufficient time and resources to maintain audit quality as well as possess the required skills and knowledge to effectively handle specific demands of the company's audit. Non-PIEs should assess the auditor's competence by considering their prior audit experience, technical and industrial knowledge, and [past disciplinary records](#). They should also enquire on the volume of the auditor's existing engagements and understand how the auditor plans to deploy sufficient resources to carry out a quality audit, given the potential for overlapping reporting deadlines across their client base.

Questions that company directors and management of non-PIE should ask include:

- (a) Does the non-PIE auditor possess the knowledge and experience in the industry in which the non-PIE operates?
- (b) Has the non-PIE auditor taken any quality initiatives to address issues identified in the AFRC's inspections and investigations, as well as from the non-PIE auditor's internal review?
- (c) Is the non-PIE auditor independent when providing other services to the non-PIE?

Confirm that the non-PIE auditor is registered with the AFRC. The AFRC notes that there are concerns surrounding the possibility of bogus accountants operating in Hong Kong. Hence, company directors and management should always verify that the non-PIE auditor they engage with is a practice unit registered with the AFRC. This responsibility cannot be overstated as the involvement of bogus accountants can result in audit failures right from the outset. Company directors and management should use the following links to verify whether the practice unit is registered with the AFRC:

- (a) **Find a CPA (Practising):**
<https://www.afrc.org.hk/en-hk/auditor-search/find-a-cpa-practising/>
- (b) **Find a CPA Firm/Corporate Practice:**
<https://www.afrc.org.hk/en-hk/auditor-search/find-a-cpa-firm-corporate-practice/>

8. Methodology

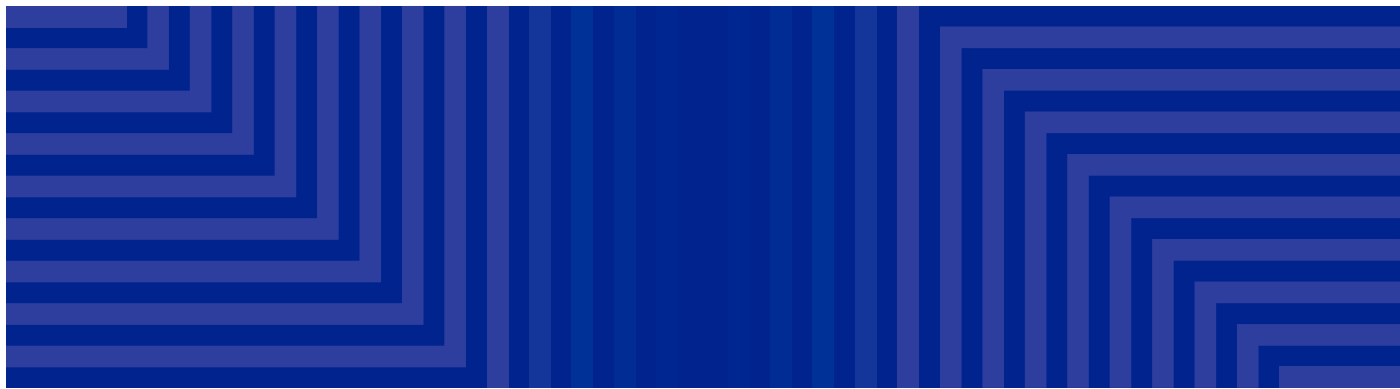
- 8.1. The [Inspection Questionnaire](#) was conducted online from September 2023 to January 2024, with participation from all practice units registered with the AFRC as at 31 August 2023. If multiple responses were received from the same practice unit, only the latest response is reflected in this publication.
- 8.2. The number of practising partners/directors in each practice unit in 2022 was extracted from the AFRC's internal data system. The extracted data represents the number of practising partners/directors as at 31 December 2022.
- 8.3. The percentages in all figures have been rounded to the nearest tenth. As a result, the sum of some percentages may not add up to exactly 100%.
- 8.4. Practice units are assigned to categories based on the number of PIEs, non-PIEs, and non-PIEs with greater public interest elements they audit in the year.

Audit firm category	Description
Category A	PU with more than 100 PIE audit engagements.
Category B	PU with 10 to 100 PIE audit engagements.
Category C	PU with one to nine PIE audit engagements.
Category D	Non-PIE PU with more than 20 non-PIE audit engagements with more public interest elements and/or more than 500 non-PIE audit engagements.
Category E	PU not in Categories A, B, C, or D.

9. Limitations

- 9.1. Although the AFRC endeavours to ensure the accuracy of the information provided by the practice units in preparing this publication, the AFRC has not performed a detailed verification of the data and information supplied. To enhance the accuracy of the data collected from the Inspection Questionnaire, follow-up communications were conducted with selected PUs to clarify any ambiguities or inconsistencies in their responses.
- 9.2. There were former PUs that had provided audit and assurance services from 2021 to 2022 but ceased to be PUs by the time the Inspection Questionnaire was conducted from September 2023 to January 2024. As a result, no data were obtained from former PUs.

Contacts



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

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