

Frequently asked Questions (FAQs) on the Levy payable by a PIE Auditor under the Accounting and Financial Reporting Council Ordinance (AFRCO)

These FAQs have been prepared by the AFRC to provide guidance on the levy payable by a PIE Auditor under the AFRCO (PIE Auditor Levy).

These FAQs are intended for general reference and are not exhaustive. They may be updated and revised from time to time. The AFRC reserves the right to exercise all powers conferred upon it under the law.

FAQ 1 – When and how is the PIE Auditor Levy payable by a PIE Auditor?

The PIE Auditor Levy is payable by an auditor for each calendar year during which the auditor is at any time a PIE Auditor (see **FAQ 4**).

A registered PIE Auditor (see **FAQ 4**) or a recognized PIE Auditor (see **FAQ 4**) must pay the PIE Auditor Levy to the AFRC in the way and within the time specified by the AFRC.

FAQ 2 – How should the PIE Auditor Levy payable by a PIE Auditor for a calendar year be calculated?

The PIE Auditor Levy payable by a PIE Auditor for a calendar year is the sum of:

- (a) HK\$6,155 x N (if N > zero); and
- (b) 0.147% of TR.

N is the number of PIEs (see **FAQ 3**) for which the PIE Auditor (see **FAQ 4**) is carrying out, as at 31 December of the preceding calendar year, a Specified Engagement (see **FAQ 5**); and

TR is the total remuneration (see **FAQ 6**) paid to the PIE Auditor, in the preceding calendar year, by the PIEs (see **FAQ 7**) for which the PIE Auditor carried out (see **FAQ 8**) Specified Engagements (see **FAQ 5**).

If N is zero, the PIE Auditor Levy payable by the PIE Auditor for the calendar year is HK\$2,000.

FAQ 3 – What is a PIE?

PIE means a public interest entity. A public interest entity is either:

- (a) A listed corporation (equity) – a listed corporation (i.e. a corporation that is or was listed), the listed securities of which comprise at least stocks or shares. A corporation is listed if any securities issued by the corporation are listed on a recognized stock market in Hong Kong. A corporation is a company or other body corporate incorporated either in Hong Kong or elsewhere; or
- (b) A listed collective investment scheme – a collective investment scheme that is or was listed. A collective investment scheme is listed if any interests in the scheme are listed on a recognized stock market in Hong Kong. A collective investment scheme is a collective investment scheme within the meaning of section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571).

FAQ 4 – What is a PIE Auditor?

A PIE Auditor is a registered PIE Auditor or a recognized PIE Auditor:

- (a) A registered PIE Auditor means a practice unit registered with the AFRC as a PIE Auditor.
- (b) A recognized PIE Auditor means an overseas auditor recognized by the AFRC as an overseas auditor to carry out a PIE Engagement for an overseas entity. This includes a Mainland auditor endorsed in accordance with the mutual recognition agreement, which is recognized under section 20ZT of the AFRCO.

For the avoidance of doubt, a component auditor on whose work the appointed PIE Auditor places reliance for the purposes of performing a PIE Engagement is not taken as being the PIE Auditor for that PIE Engagement.

FAQ 5 – What is a Specified Engagement?

A Specified Engagement is a type of PIE Engagement specified in item 1 of Part 1 of Schedule 1A of the AFRCO, as follows:

The preparation of an auditor's report in relation to the following financial statements or accounts of a PIE -

- (a) *if the PIE is a listed corporation (equity) -*
 - (i) *the financial statements required to be prepared under section 379 of the Companies Ordinance (Cap. 622); or*

- (ii) *the annual accounts required to be prepared under the Listing Rules; or*
- (b) *if the PIE is a listed collective investment scheme - the annual accounts required to be prepared under the relevant code or the Listing Rules.*

FAQ 6 – What does “remuneration” mean in the definition of “TR”?

“Remuneration” in the definition of “TR” should be interpreted as having the same meaning as is given in the Companies Ordinance (CO) where the “auditor” is taken to be a PIE Auditor (FAQ 4) and the “company” is taken to be a PIE (FAQ 3):

“Remuneration, in relation to an auditor of a company, includes any sum paid by the company in respect of the auditor’s expenses.”

Based on this definition, remuneration would include, for example, any fees paid in respect of time spent on the audit by partners or staff and any fees paid in respect of other expenses incurred by the PIE Auditor in respect of a Specified Engagement.

Remuneration would therefore include any fees paid in respect of expenses incurred by the PIE Auditor for the services of any component auditor or other party that are necessary for the PIE Auditor to perform, or that the PIE Auditor relies upon in performing, a Specified Engagement.

FAQ 7 – How should “paid ... by the PIEs” be interpreted in the definition of “TR”?

The principle of the PIE Auditor Levy is for PIE Auditors to contribute to the funding of the AFRC based on the remuneration paid for their Specified Engagements. Therefore, in the definition of TR, remuneration paid to the PIE Auditor by a PIE should include all remuneration paid to the PIE Auditor in respect of each applicable Specified Engagement, regardless of whether such payment is made by the legal entity that is the PIE or by any of its subsidiaries or any other relevant parties.

FAQ 8 – When is a Specified Engagement undertaken, carried out, and completed?

A PIE Auditor is “carrying out” a Specified Engagement for a PIE on a day if:

- (a) the PIE Auditor “undertakes” the Specified Engagement on that day; or
- (b) the PIE Auditor has “undertaken” the Specified Engagement before that day and the Specified Engagement has not been “completed” by that day.

Section 5 of the Interpretation and General Clauses Ordinance (Cap. 1) provides that “[w]here any word or expression is defined in any Ordinance, such definition shall extend

to the grammatical variations and cognate expressions of such word or expression". Hence, while section 3(4) of Schedule 7 to the AFRCO defines "carrying out", the word "carried out" used in the definition of "TR" should be interpreted correspondingly.

The determination of when a PIE Engagement is "undertaken" is set out in section 3A(2) of the AFRCO to be the day on which the PIE Auditor accepts the appointment for carrying out the PIE Engagement.

The determination of when a PIE Engagement is "completed" is set out in section 3A(3) of the AFRCO and is summarized in the Table below.

Types of Specified Engagements	When completed?
<p>The preparation of an auditor's report in relation to the following financial statements or accounts of a PIE:</p> <p>(a) if the PIE is a listed corporation (equity) -</p> <p style="padding-left: 40px;">(i) the financial statements required to be prepared under section 379 of the Companies Ordinance (Cap. 622); or</p>	<p>When the auditor's report is sent under section 430 of the Companies Ordinance.</p>
<p style="padding-left: 40px;">(ii) the annual accounts required to be prepared under the Listing Rules; or</p>	<p>When the auditor's report is issued for the purpose of the Listing Rules.</p>
<p>(b) if the PIE is a listed collective investment scheme - the annual accounts required to be prepared under the relevant code or the Listing Rules.</p>	<p>When the auditor's report is issued for the purpose of the relevant code or the Listing Rules.</p>

Accordingly, for the purpose of determining "TR", if a PIE auditor has undertaken a Specified Engagement for a PIE, any remuneration paid by the PIE to the PIE auditor in the preceding calendar year in respect of the Specified Engagement (whether or not the Specified Engagement is completed) will be counted towards "TR".

FAQ 9 – What is the process for calculating the PIE Auditor Levy to be paid by a PIE Auditor for a calendar year?

Carrying out the following steps results in the amount of the PIE Auditor Levy to be paid by a PIE Auditor for a calendar year.

Step 1 – Ascertain “N”

For the purposes of determining the PIE Auditor Levy for a calendar year:

Identify each PIE for which the PIE Auditor was carrying out any Specified Engagements as at 31 December of the preceding calendar year and determine the total number of such PIEs. This total number = N.

Example 1

Following the resignation of the incumbent auditor, on 15 June 2023 PIE Auditor X accepted the appointment for carrying out an audit of PIE A’s financial statements for each of the years ended or ending 31 December 2021, 2022 and 2023. PIE A’s financial statements are required to be prepared under section 379 of the CO. Each of the audits requires the issuance of a separate auditor’s report and is therefore a separate Specified Engagement. Consider the following scenarios:

A. None of the auditor’s reports had been sent under section 430 of the CO.

In determining the PIE Auditor Levy payable by PIE Auditor X for 2024, N should include PIE A as each of the three Specified Engagements were still being carried out as at 31 December 2023.

B. Only the auditor’s report on the financial statements for the year ended 31 December 2021 had been sent under section 430 of the CO.

In determining the PIE Auditor Levy payable by PIE Auditor X for 2024, PIE Auditor X was not carrying out as at 31 December 2023 the Specified Engagement for the audit of the financial statements for the period ended 31 December 2021. However, PIE Auditor X was still carrying out as at 31 December 2023 each of the two Specified Engagements for the audits of the financial statements for the years ended 31 December 2022 and 2023. Accordingly, PIE A should be included in “N” in determining the PIE Auditor Levy payable by PIE Auditor X for 2024.

Step 2 – Ascertain “TR”

For the purposes of determining the PIE Auditor Levy for a calendar year:

- (1) Identify each Specified Engagement that has been completed as at 31 December of the preceding calendar year but in relation to which the remuneration had not been fully paid by the PIE prior to 1 January of the preceding calendar year (**Relevant Completed Specified Engagement**).
- (2) Determine the remuneration paid by the PIE to the PIE Auditor (see **FAQ 7**) in the preceding calendar year for:
 - (a) Each Specified Engagement that the PIE Auditor was carrying out as at 31 December of the preceding calendar year (see Step 1); and
 - (b) Each Relevant Completed Specified Engagement (see Step 2 (1)).
- (3) Calculate the total of the remuneration paid by each PIE to the PIE Auditor for each Specified Engagement in Step 2 (2)(a) and (b) during the preceding calendar year. This total = TR.

Example 2

PIE Auditor Y has been the auditor of PIE B since 30 June 2019 and has carried out the following Specified Engagements for PIE B:

- A. The audit of the financial statements for the year ended 31 December 2019, which was undertaken on 30 June 2019 and completed on 31 March 2020 (**Specified Engagement A**). The engagement fees of HK\$1.35 million were paid in three instalments of HK\$0.4 million on 28 August 2019, HK\$0.6 million on 25 February 2020 and HK\$0.35 million on 16 April 2020.
- B. The audit of the financial statements for the year ended 31 December 2020, which was undertaken on 30 June 2020 and completed on 31 March 2021 (**Specified Engagement B**). The engagement fees of HK\$1.38 million were paid in three instalments of HK\$0.4 million on 1 September 2020, HK\$0.68 million on 28 February 2021 and HK\$0.3 million on 23 April 2021.
- C. The audit of the financial statements for the year ended 31 December 2021, which was undertaken on 30 June 2021 and is expected to be completed by 31 March 2022 (**Specified Engagement C**). The engagement fees of HK\$1.4 million were partially paid in one instalment of HK\$0.4 million on 27 August 2021 with two further instalments expected to be paid in February and April 2022.

Consider the determination of the PIE Auditor Levy for PIE Auditor Y for the calendar year 2022:

Step 1 – Ascertain “N”

Specified Engagements A and B were completed respectively on 31 March 2020 and 2021 and were not therefore being carried out as at 31 December 2021. However,

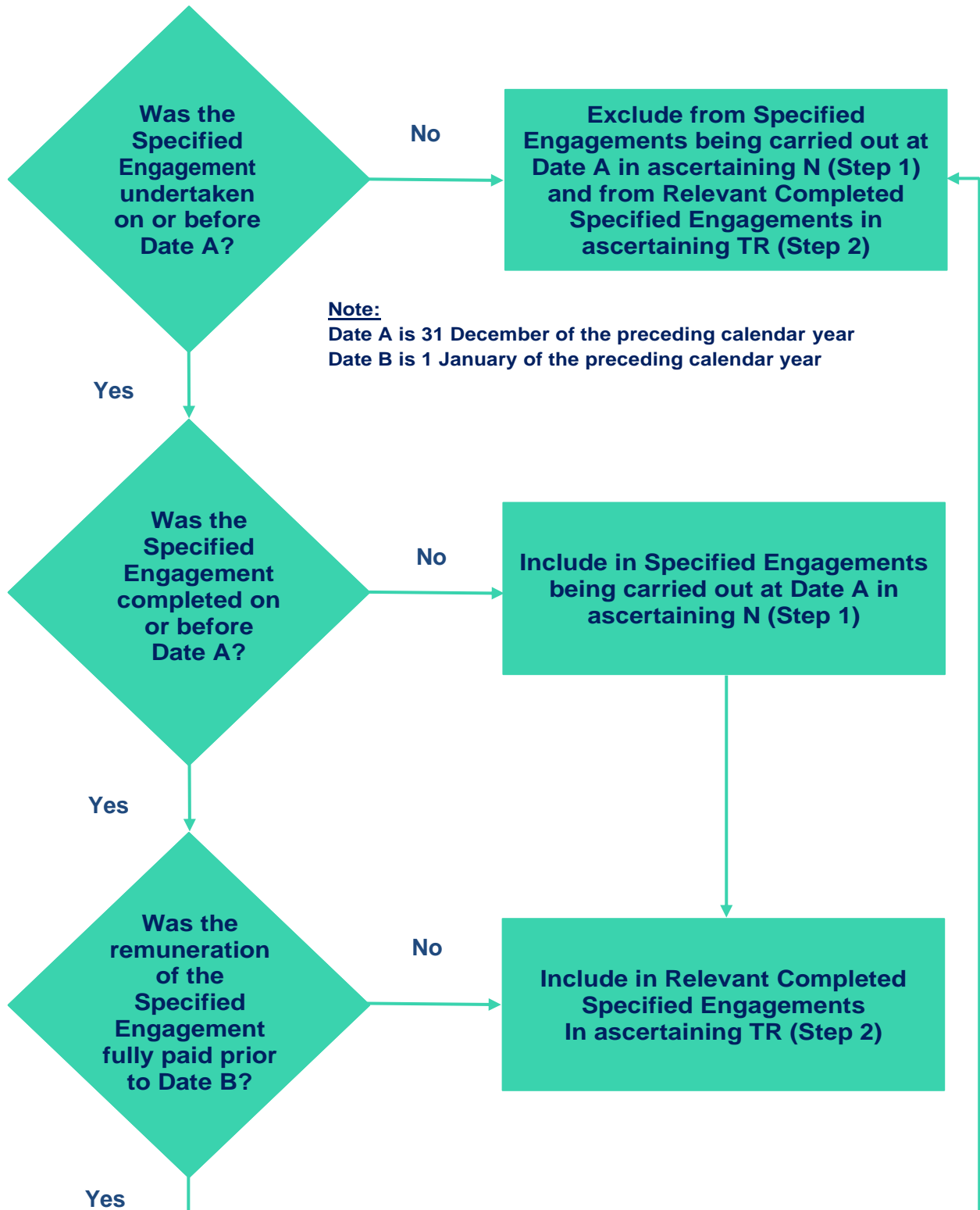
Specified Engagement C was being carried out as at 31 December 2021 as it had been undertaken before but not been completed by 31 December 2021. Therefore, in determining the PIE Auditor Levy payable by PIE Auditor Y for 2022, PIE B should be counted in ascertaining “N” because PIE Auditor B was carrying out Specified Engagement C for PIE B as at 31 December 2021.

Step 2 – Ascertain “TR”

- (1) Specified Engagements A and B were completed as at 31 December 2021. The final instalments of the remuneration for these two Specified Engagements were paid on 16 April 2020 and 23 April 2021 respectively. The remuneration for Specified Engagement A therefore had, but the remuneration for Specified Engagement B had not, been fully paid by PIE B prior to 1 January 2021. Therefore, Specified Engagement B is a **Relevant Completed Specified Engagement** but Specified Engagement A is not.
- (2) The remuneration paid by PIE B to PIE Auditor Y in the preceding calendar year (2021) for:
 - (a) Specified Engagement C, which PIE Auditor Y was carrying out as at 31 December 2021 (see Step 1), was HK\$0.4 million (paid on 27 August 2021); and
 - (b) Specified Engagement B, which is a Relevant Completed Specified Engagement (see Step 2(1)), was HK\$0.68 million (paid on 28 February 2021) plus HK\$0.3 million (paid on 23 April 2021) equals HK\$0.98 million.
- (3) The total of the remuneration paid by PIE B to PIE Auditor Y for each of Specified Engagements C and B (see Step 2 (2)(a) and (b)) during the preceding calendar year (2021) is HK\$0.4 million plus HK\$0.98 million equals HK\$1.38 million. This total should be included in TR.

The following flow chart may assist in determining whether a Specified Engagement for a PIE either:

- (1) Was being carried out by a PIE Auditor for a PIE as at 31 December of the preceding calendar year and therefore that PIE should be counted in arriving at “N” for the PIE Auditor (Step 1); or
- (2) Is a Relevant Completed Specified Engagement carried out by a PIE Auditor for a PIE and therefore should be included in arriving at “TR”(Step 2).



Step 3 – Calculate the PIE Auditor Levy payable

- (1) If N (see Step 1) = zero, then the PIE Auditor's Levy is HK\$2,000.
- (2) If N (see Step 1) > zero,
 - (a) Calculate: $N \times \text{HK}\$6,155 = A$
(Note: N must always be a whole number)
 - (b) Calculate: $\text{TR (see Step 2(3))} \times 0.00147$ (rounded to the nearest HK\$) = B
 - (c) Calculate the PIE Auditor Levy = A + B

FAQ 10 – Other miscellaneous questions

- (a) Q: Does “paid” in the definition of TR refer to the amount paid rather than the amount payable in the preceding calendar year (i.e., is TR determined on a cash basis)?

A: Yes, it is determined on a cash basis for each applicable Specified Engagement.

- (b) Q: Is remuneration paid in advance of a Specified Engagement being performed excluded from TR? For example, for the 2023 levy payable, would a payment made in 2022 for a Specified Engagement not performed until 2023 be excluded from TR?

A: A Specified Engagement is taken to have been carried out by a PIE Auditor on each day from and including the day on which the PIE Auditor accepted the appointment up to and including the day on which the Specified Engagement was completed (see **FAQ 8**). Therefore, any payment made in advance of the performance of a Specified Engagement which has been undertaken (see **FAQ 5**) should be included in the calculation of TR.

In the example, if the Specified Engagement is undertaken in 2022, the payment in advance of performance is a payment of remuneration for the Specified Engagement that was carried out during 2022 and is included in TR in calculating the levy payable for 2023.

- (c) Q: Does TR include fees for reporting or performing work on results announcements or continuing connected transactions, or for attending the annual meeting relating to a Specified Engagement?

A: TR should include such fees to the extent that they relate to work necessary to perform, or that was relied upon in performing, the Specified Engagement.

(d) Q: Does TR include fees for work on interim financial information of the PIE or accountant's reports on acquisitions or disposals by the PIE?

A: These engagements are not Specified Engagements (see **FAQ 5**). However, such fees may constitute remuneration for a Specified Engagement to the extent that they relate to work necessary for the PIE Auditor to perform, or that was relied upon by the PIE Auditor in performing, the Specified Engagement.

Other

Should you have any other questions, please do not hesitate to contact us at: PIEaudlevy@afrc.org.hk

The AFRC website can be accessed at: www.afrc.org.hk

The **Accounting and Financial Reporting Council Ordinance** (AFRCO) can be accessed at www.elegislation.gov.hk/hk/cap588