

Reminder to PIE auditors: Be prepared for undertaking PIE engagements

1. Introduction

1.1. Objective of auditor registration

High-quality audits provide assurance to the reliability of financial reporting of companies. Upholding audit quality is particularly important for public interest entities (PIE),¹ because public trust is crucial for attracting investments and supporting the development of the Hong Kong capital market.

Audits of listed companies entail higher risks due to their potential impact on a larger number of stakeholders and higher public interest involved. The AFRC registration regime is important to ensure that audit engagements are carried out by competent independent auditors.

1.2. PIE auditors without PIE engagements for a prolonged period

The AFRC approves the application from a practice unit² for registration as a PIE auditor if the applicant meets the registration requirements as set out in the [Guide for the Registration of PIE Auditors](#). Upon registration, the PIE auditor becomes eligible to undertake PIE engagements in Hong Kong and is subject to more stringent regulation by the AFRC.

During the assessment of the 2024 renewal applications, the AFRC noted that some registered PIE auditors which applied for renewal had not carried out any PIE engagements for a considerable period of time.

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

² Under section 2(1) of the AFRCO, a practice unit 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.

Total no. of registered PIE auditors as of 31 December 2023: 79

PIE Auditors without PIE engagements

PIE Auditors with PIE engagements 50 (63%)	PIE Auditors without PIE engagements	
	Less than a year 14 (18%)	Over 1 year 15 (19%)

The AFRC expects PIE auditors to demonstrate the intention and readiness to undertake PIE engagements, and possess sufficient and appropriate resources and capacity commensurate with the complexity of the PIE audits. We are concerned about the significant proportion of registered PIE auditors which do not have PIE engagements for a considerable period.

1.3. Meetings with these auditors

To shape a competitive environment for nurturing and promoting the development of the profession, the AFRC strives to enhance audit quality by ensuring that there is a level playing field which allows PIE auditors, regardless of their size, to compete fairly provided that they have the necessary resources and capacity to perform the engagement properly. The AFRC also wants to ensure that these auditors, despite not having any PIE engagement, are well-prepared for it should the opportunity arises.

To gain a better understanding of the causes of the situation and their preparedness for PIE audits, as well as to assess their renewal applications, the AFRC met with these PIE auditors in January 2024 and gained insights into their operations, intention, and readiness for performing PIE engagements.

1.4. Purpose of issuing the reminder

During the meetings, the AFRC identified certain areas for improvement from the PIE auditors. We also communicated our expectations for registered PIE auditors.

The AFRC presents a summary of these observations and expectations as a reminder for both registered PIE auditors and practice units which are considering registration as PIE auditors with the AFRC, to help them prepare for undertaking PIE engagements.

2. Understand the PIE auditors' preparedness and challenges through meetings

2.1 Purpose of the meetings

In January 2024, the AFRC had meetings with a number of these registered PIE auditors without PIE engagements for a considerable period. The purpose of these meetings was three-fold:



i. **Understand the PIE auditors** – A primary purpose of these meetings was to gain a better understanding of the registered PIE auditors, particularly their operations, and their strategic intentions and business plan for maintaining their registration as a PIE auditor despite not having any PIE engagements.

ii. **Communicate AFRC's expectations** – We stressed that it is essential for PIE auditors to have a robust business plan and sufficient resources before accepting PIE clients. Additionally, PIE auditors should also have a proper client acceptance process in place.

AFRC's expectations are covered in more detail in **Section 3**.

iii. **Reminder on readiness for PIE engagements** – We emphasized the need for them to allocate sufficient time for planning and ensure they have the capability to deliver high-quality audits. This is particularly critical, as the responsibilities and requirements for PIE auditors are more stringent compared to those for non-PIE auditors.

2.2 Discussion and observations

The AFRC and the PIE auditors discussed a range of topics as follows:

- i. **The purpose of being a registered PIE auditor and overview of their business and strategies:**
 - The AFRC explored the motivations behind their decision to maintain the registration as a PIE auditor, even though they have not been engaged in any PIE engagements for a prolonged period.

- The discussion centred around the PIE auditors' intentions, willingness, strategies, and business plans to actively pursue PIE engagements. The AFRC also sought to understand the reasons behind any refusal of PIE engagements and any challenges that the auditors have encountered in their pursuit of PIE engagements.
- The discussion also covered the nature of the PIE auditor's current non-PIE audit and assurance clients and engagements, including the number of clients, client size and industries, and their experience in conducting such engagements.

"We are cautious and risk-averse!"



The PIE auditors are generally cautious and demonstrated a risk-averse attitude towards PIE engagements. Some PIE auditors shared their experiences of declining engagements due to insufficient time to conduct the audit thoroughly, while others cited the lack of the necessary industry experience required by the engagement as their reason for refusal.



Some other PIE auditors have little intention to pursue PIE engagements due to their perception that the risks associated with conducting PIE audits are significantly higher compared to non-PIE audits. Further, they are concerned that undertaking PIE engagements could increase their compliance costs due to more frequent inspections by the AFRC and stringent regulatory and compliance requirements.



PIE Auditors



AFRC

The AFRC acknowledges that PIE auditors should be able to accept any engagement they desire, provided that they possess the necessary resources, capacity, experience, and competence to perform it.

It is important for PIE auditors to diligently conduct the client acceptance process and carefully evaluate their resources and capacity before acceptance. However, we encourage PIE auditors to continue to enhance their readiness for undertaking PIE engagements (it will be discussed in more detail in Section 3.)

“We registered for better appeal in marketing and recruitment.”



Certain registered PIE auditors maintain their registration primarily for marketing purposes or to enhance their profile for recruitment, displaying limited interest in actively pursuing PIE engagements.



PIE Auditors



AFRC

This behaviour only serves the self-interest of the PIE auditors and is not in the public interest. We wish to remind these PIE auditors that they should refrain from making false representations about their PIE auditor registration, including any misleading claims about possessing PIE engagement experience when marketing their business or recruiting staff.

ii. Resources and capacity:

- The focus of the discussion was to ascertain the resources and capacity of the PIE auditor that are relevant to the performance of PIE engagements. This included understanding the PIE auditor’s staff composition, such as the number of professional staff, their qualifications, and years of experience.
- The AFRC also enquired about the PIE auditor’s efforts in professional development and training provided to their staff. Questions regarding resourcing model, including loaned staff or subcontracting arrangements, as well as their networks and affiliations, were also discussed.

“Aren’t on-the-job training more important?”



Some PIE auditors seemed to believe that on-the-job training is more effective in enhancing audit quality, perceiving continuing professional development (CPD) as being too theoretical and not practical.



PIE Auditors



AFRC

While on-the-job training is valuable for sharing experience and good practices within the firm, CPD is vital for keeping audit professionals updated on the latest standards and practices. We urge all auditors to continue investing in CPD initiatives, setting the right tone at the top for professional development, and encouraging staff participation in CPD activities.

iii. Policies and procedures to uphold audit quality

The discussion focused on the implementation of the 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 (HKSQM 1)*. The AFRC specifically asked the PIE auditor about the evaluation of the system of quality management.

“Oh no, we missed the HKSQM 1 evaluation deadline!”



Instances of potential non-compliance with HKSQM 1 were observed in some of the PIE auditors. These include:

- Failure to complete the evaluation of the system of quality management by the deadline in accordance with HKSQM 1. According to paragraph 13 of HKSQM 1, systems of quality management in compliance with HKSQM 1 are required to be designed and implemented by 15 December 2022, and the evaluation of the system of quality management required by paragraphs 53 – 54 of HKSQM 1 is required to be performed within one year following 15 December 2022.
- Overreliance on the system of the firm’s network without sufficient consideration and customisation to account for the unique characteristics and risk profile of the firm. According to paragraph 48 of HKSQM 1, even when the firm belongs to a network, “*the firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management.*”



PIE Auditors



AFRC

The AFRC emphasises the significance of establishing an effective quality management system. Such a system is vital to ensure that both the firm and professional staff fulfil their responsibilities and adhere to professional standards. It further ensures that audit quality is upheld and engagements are conducted in compliance with relevant standards and requirements.

3. The AFRC's expectations for PIE auditors

3.1 Have genuine intention to undertake PIE engagements

The application for and maintenance of PIE auditor registration should be driven by a genuine intention and preparedness to undertake PIE engagements. As the AFRC continues to support the healthy development of the accounting profession, our goal is to cultivate a dedicated pool of PIE auditors who are fully committed to embracing their responsibilities as a registered PIE auditor.

3.2 Be ready to undertake PIE engagements

- i. **Adequate resources** - PIE auditors should have adequate resources to support the demands of PIE engagements. These include:
 - The PIE auditor should have sufficient senior audit team members and professional staff with relevant experience for PIE engagements. In the [Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong](#) (AFRC, 2024), we stressed our expectations for PIE auditors to ensure there is sufficient partner direction, supervision and review, as well as adequate staffing, in all engagements to achieve audit quality at the engagement level.
 - The practice of redeploying or loaning staff from other practice units after accepting a PIE engagement should be discouraged as it can result in a lack of continuity and hinder the development of experience and expertise of the PIE auditor. These would also undermine the audit quality of the engagement and affect the long-term development of the firm.
 - The AFRC recognises the significance of CPD in enhancing audit quality.
 - In the article titled [Continuing Professional Development as a Key to Improving Audit Quality in Hong Kong](#) (AFRC, 2024), the AFRC emphasised that CPD activities would offer benefits ranging from increasing staff competency, reducing compliance risk, enhancing job satisfaction, and improving staff retention.
 - Considering these, we call for audit firms to continue investing in CPD to enhance the audit team's competencies and capabilities, enabling professional staff to keep themselves updated with accounting, auditing, and other professional standards.

ii. ***Proper client acceptance and continuance policies and procedures***

- PIE auditors should establish and maintain policies and procedures for client acceptance and continuance to ensure a robust and thorough assessment of risk, the firm's independence and capacity before accepting PIE engagements. Policies and procedures should be established in accordance with HKSQM 1.
- The AFRC also sets out the expectations and provides practical guidance for PIE auditors when accepting new engagements in the [Guidance Notes on Change of Auditors](#) (AFRC, 2023).

3.3 Pay attention to AFRCO and other requirements

It is essential for PIE auditors to fully understand the more stringent regulatory requirements for PIE auditors and comply with them to perform quality audits that adhere to all relevant standards. As an example,

- i. registered responsible persons of PIE auditors are required to fulfil the additional CPD requirements as mandated by Statement 1.500 *Continuing Professional Development* issued by Hong Kong Institute of Certified Public Accountants (HKICPA);
- ii. PIE auditors are also subject to more frequent inspections by the AFRC which focus on the quality of their engagements performed and the effectiveness of their system of quality management;
- iii. misconduct committed by a PIE auditor and its registered responsible persons carries heavier penalties as part of the sanctions under the PIE auditor disciplinary regime according to the AFRCO.

3.4 Do not make misleading statements regarding the registration

The granting of an application for PIE auditor registration is not an accreditation of the auditor's competence or an endorsement of its audit quality. It only signifies that the auditor meets the registration requirements and is eligible to undertake or carry out PIE engagements. Consequently, PIE auditors are reminded to refrain from making misleading statements regarding their registration status or experience. A registered PIE auditor should not claim that it has experience in auditing PIEs if it has not undertaken any PIE engagements before. Nor should it represent that it is accredited by the AFRC for performing high-quality PIE audits.

4. Conclusion

The public places significant reliance on the integrity and quality of work carried out by PIE auditors, which serve as gatekeepers for the capital market. It is crucial for the leadership of PIE auditors to set the right tone at the top, emphasizing a proper compliance attitude and adherence to professional standards and requirements.

This can be achieved by:

- demonstrating a genuine intention to undertake PIE engagements;
- understanding and complying with the more stringent regulatory requirements for PIE auditors to deliver high-quality audits; and
- allocating sufficient resources to audit engagements, establishing an effective system of quality management, and enhancing the audit team's competence and capacity through CPD.

Only those PIE auditors which are well-prepared and equipped with the necessary resources and capability can deliver high-quality audits and establish a sustainable presence in the PIE audit market. Through registration and regulation, the AFRC will continue to ensure that only competent auditors will qualify for undertaking PIE engagements, upholding the highest standard of audit quality.