

# 2023 Survey Report on the Implementation of Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors

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).

## Foreword

COVID-19 has reshaped the world and our economies. Geopolitical tensions, interest rate hikes, supply chain disruptions, and the sluggish real estate market, among others, are all presenting enormous challenges on the operations of Hong Kong-listed companies. These external uncertainties also pose challenges to the quality of financial reporting, putting additional onus on audit committees. These pressures are magnified further as a result of other emerging risks, including environmental, social, and governance (ESG) reporting and cybersecurity risks.

Audit committees hold a unique and critical position in upholding the quality of financial reporting and audit. The level of engagement and the tone audit committees adopt can have a significant impact on audit quality. This is because audit committees are responsible for selecting a company's auditor, setting audit fees, overseeing the financial reporting process, monitoring audit effectiveness, resolving audit issues, and making timely and accurate disclosures.

In this light, a suitable auditor not only serves as an independent gatekeeper on the quality of financial reporting, but can also become a trusted advisor by providing value-added insights to alleviate the burdens of audit committees.

However, audit quality varies. In the 2022 AFRC Interim Inspection Report, it is evident that the quality of audit engagements completed by a number of audit firms is disappointing.<sup>1</sup> Significant deficiencies are continued to be identified in many of these audits despite previous findings.

The consequences of having a subpar audit can be substantial, especially when audits fail to probe rigorously going concern assumptions or detect fraudulent behaviour that may cause a company's collapse. The damage can be severe – from employees who lose their jobs, to lenders and vendors who are left with bad debts, as well as shareholders and pension funds who have to write down their investments. The effects can spread through the wider economy and damage trust and confidence in the capital markets. This is a risk that we should all be alert to especially in times of challenging economic conditions.

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<sup>1</sup> AFRC, "2022 Interim Inspection Report", 15 November 2022, [https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022\\_Interim\\_Inspection\\_report\\_EN.pdf](https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022_Interim_Inspection_report_EN.pdf).

Upholding audit quality is not the sole responsibility of the audit committee – the entire Board of directors and senior management are also responsible. Equally, auditors have an important role to play. Better audit quality improves the reputation of the audit market, which may translate to stronger bargaining power for auditors in the future.

For audit committees, one key priority is to understand and implement the practices they should adopt to allow them to properly discharge their fiduciary responsibilities. Likewise, audit firms would want to know how they are rated and benchmarked by audit committees since audit committees are effectively their immediate supervisors. To this end, we are pleased to provide you with the 2023 Survey Report on the implementation of Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors (**2023 Survey Report or the Report**). The Report captures the results of an AFRC survey, that sought to understand the perspectives of auditors and audit committees on the following issues:

- auditor selection and tender process;
- audit fee evaluation;
- quality of disclosures relating to auditor appointment;
- handling of audit issues and auditor resignation; and
- support required to effectively implement the Guidelines.<sup>2</sup>

A total of 165 listed companies and 63 PIE auditors participated in the survey. When we asked PIE auditors to comment on the overall implementation effectiveness of the Guidelines by listed companies, only one out of six Category A auditor (17%) believed that audit committees have implemented them effectively. This is far lower than overseas auditors, where 10 (or 71%) thought the implementation was effective, and responses from other categories of auditors fell somewhere in between. Other key highlights of the survey results are captured on pages 3 and 4.

This report aims to provide insights into the progress of implementation and seeks to identify challenges faced by auditors and audit committees. The survey results and related analyses would also provide the reader with the latest market developments and areas of improvement. It is AFRC's mission to ensure the long term, healthy development of the profession and we will continue to engage with stakeholders to advance our goal.

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<sup>2</sup> AFRC, "Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors", December 2021, [https://www.afrc.org.hk/en-hk/Documents/Publications/Guidelines-for-Effective-Audit-Committees\\_EN%20pdf.PDF](https://www.afrc.org.hk/en-hk/Documents/Publications/Guidelines-for-Effective-Audit-Committees_EN%20pdf.PDF).

# Key highlights

## Selection of auditors

Top three factors listed companies valued the most when selecting an auditor:

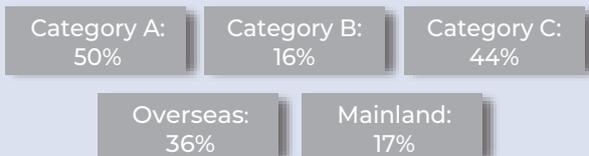


Most and least evaluated criteria (now and in 12 months):



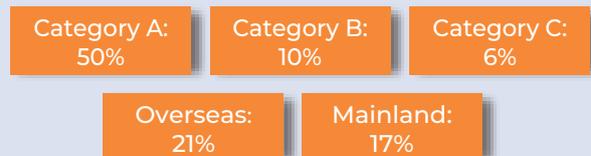
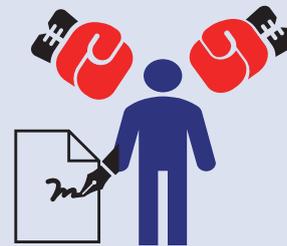
## Evaluation of audit fees

Percentage of auditors indicating they have experienced fee pressure that may compromise audit quality:



## Handling audit issues and auditor resignation

Percentage of auditors indicating they have experienced pressure to issue a clean audit opinion:



**Disclosures**

Disclosures made by the listed companies that are considered informative or satisfactory by auditors:



**Audit tenders**



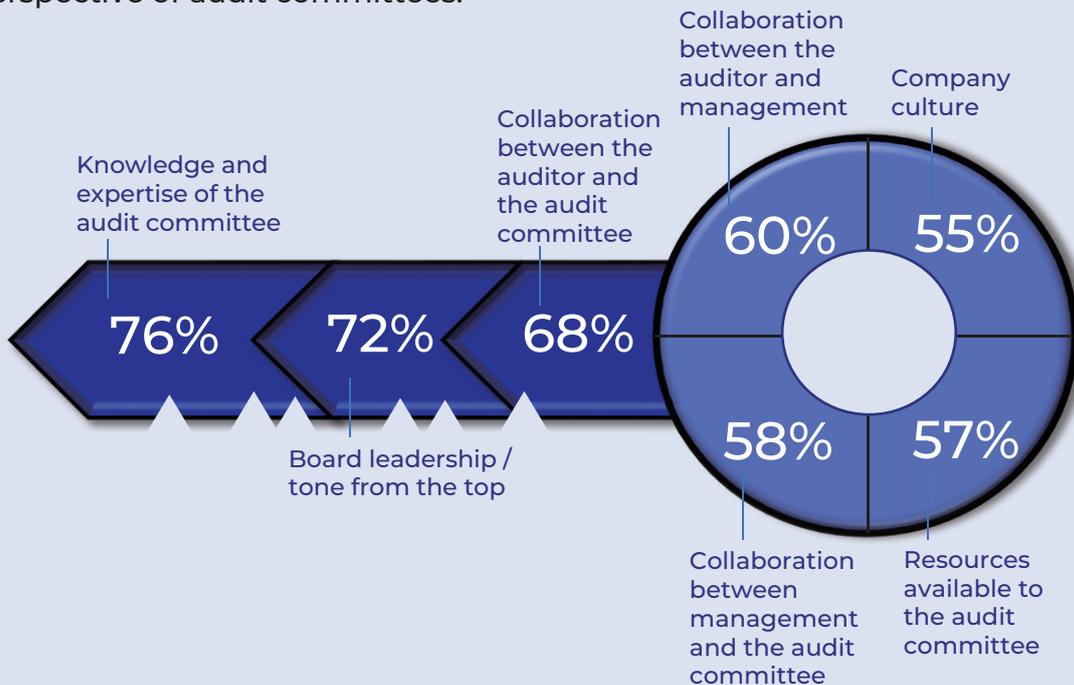
Listed company respondents that have never conducted an audit tender



Listed company respondents who have conducted tendering but have never conducted a "fee-blind evaluation"

**Support required for better implementation**

Key factors for improving the implementation of the Guidelines from the perspective of audit committees:



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## Section A

# Introduction

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### 1. About the study

- 1.1. In December 2021, the AFRC published a report titled *Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors* (the **Guidelines**)<sup>3</sup> to provide specific and practical guidance for audit committees to establish a robust process for the appointment of capable and experienced auditors. As a follow-up, the AFRC launched an online survey in November 2022 to better understand how well audit committees of listed companies in Hong Kong have implemented the Guidelines.
- 1.2. The survey sought to identify the practical realities in auditor appointments from the perspective of both audit committees and PIE auditors, the challenges audit committees face in evaluating auditor performance, and what additional resources are required.
- 1.3. Two unique sets of survey questions were developed for listed companies in Hong Kong (reproduced in *Appendix I*) and for PIE auditors (reproduced in *Appendix II*), respectively. Cross-referencing their responses can mitigate the threat of self-rating.
- 1.4. Moreover, the differences in replies by listed companies and PIE auditors to the same question can potentially demonstrate the expectation or communication gaps between the two parties. Eliminating such gaps would enhance the implementation of the Guidelines and improve the effectiveness of the audit process.
- 1.5. The survey attracted 165 responses from listed companies in Hong Kong and 63 responses from PIE auditors, with a response rate of 6% from listed companies and 100% from local PIE auditors that have active PIE audit engagements. The distribution of survey respondents is summarised on page 8.

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<sup>3</sup> AFRC, “Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors”, December 2021, [https://www.afrc.org.hk/en-hk/Documents/Publications/Guidelines-for-Effective-Audit-Committees\\_EN%20pdf.PDF](https://www.afrc.org.hk/en-hk/Documents/Publications/Guidelines-for-Effective-Audit-Committees_EN%20pdf.PDF).

- 1.6. The survey results used for the analysis in this report are discussed in the following subsections:
  - a. Overview (*Subsection 3*)
  - b. Selection, appointment and reappointment of auditors (*Subsection 4*)
  - c. Audit fees (*Subsection 5*)
  - d. Audit tender process (*Subsection 6*)
  - e. Disclosures in Corporate Governance Reports (*Subsection 7*)
  - f. Auditor resignation (*Subsection 8*)
  - g. Support required for better implementation (*Subsection 9*)
- 1.7. We recognise the limitations of the survey results. Responses to the survey are voluntary; therefore, those who chose to participate in the survey constitute a self-selected group. They might have specific areas of interest resulting in a self-selection response bias. Consideration on this limitation has been accounted for when interpreting the findings.
- 1.8. For example, despite our suggestion that the survey to audit committees should be completed by audit committees, of the 165 responses, only 57% were completed by audit committee chairpersons or audit committee members. Audit committees play a unique role in overseeing financial reporting and audit and therefore may be more knowledgeable, or have different perspectives in the areas concerned, compared with other board members and management. The relative high percentage of non-audit committee respondents may give rise to misalignments of interest and affect the reliability of the individual responses to each question.
- 1.9. The low response rate to the listed company survey may also suggest that listed companies and their audit committees do not pay enough attention to the importance of audit quality and the responsibilities they have in this matter.
- 1.10. Nonetheless, the survey results still provide valuable insights into the effectiveness of adopting the Guidelines and their required supports. The key takeaways are summarised in *Subsections 10 to 12*.
- 1.11. The methodology and other limitations are detailed in *Subsections 13 and 14*.
- 1.12. We thank all respondents for taking the time to respond.

## 2. About the respondents

Figure 1. Listed company respondents by market capitalisation\*

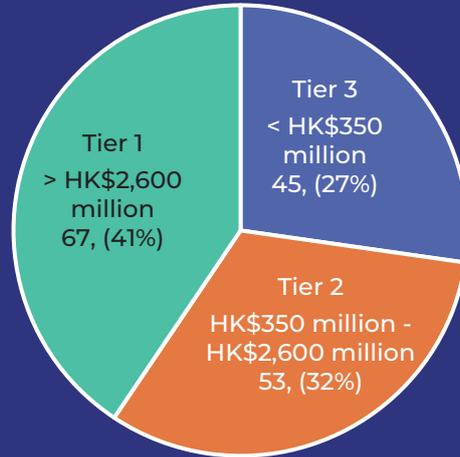
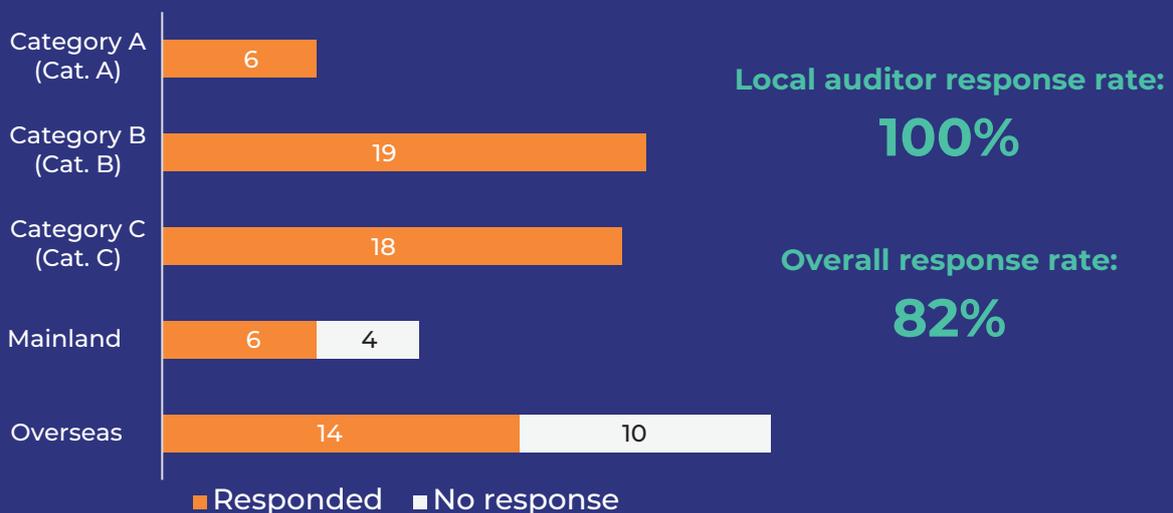


Figure 2. Listed company respondents by role



Figure 3. PIE auditor respondents by category



\* The market capitalisation threshold is derived by dividing all HK listed companies into three groups, each with an equal number of listed companies.

## Section B

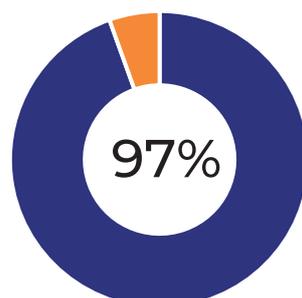
# Key survey results and observations

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### 3. Overview

- 3.1. Audit committees oversee the financial reporting process, and review and monitor the effectiveness of the audit process relating to the financial statements. Although primary responsibility for audit quality rests with a company's auditor, audit committees can help ensure audit quality through performing their various duties effectively. Those duties include selecting auditors, approving auditor remuneration, managing the relationship with auditors, and handling their resignations.
- 3.2. The purpose of an audit is to enhance the credibility of financial statements so as to allow investors and other stakeholders to make informed decisions. In light of this, as well as the observations of the roles and responsibilities of audit committees in paragraph 3.1 above, in December 2021 AFRC issued the Guidelines to help enhance the effectiveness of audit committees as it relates to auditor selection and appointment.
- 3.3. Encouragingly, a vast majority (97%) of respondents who were audit committee chairpersons or members agreed that audit committees play a pivotal role in monitoring how auditors enhance and maintain audit quality. This pattern is consistent across all market capitalisations.

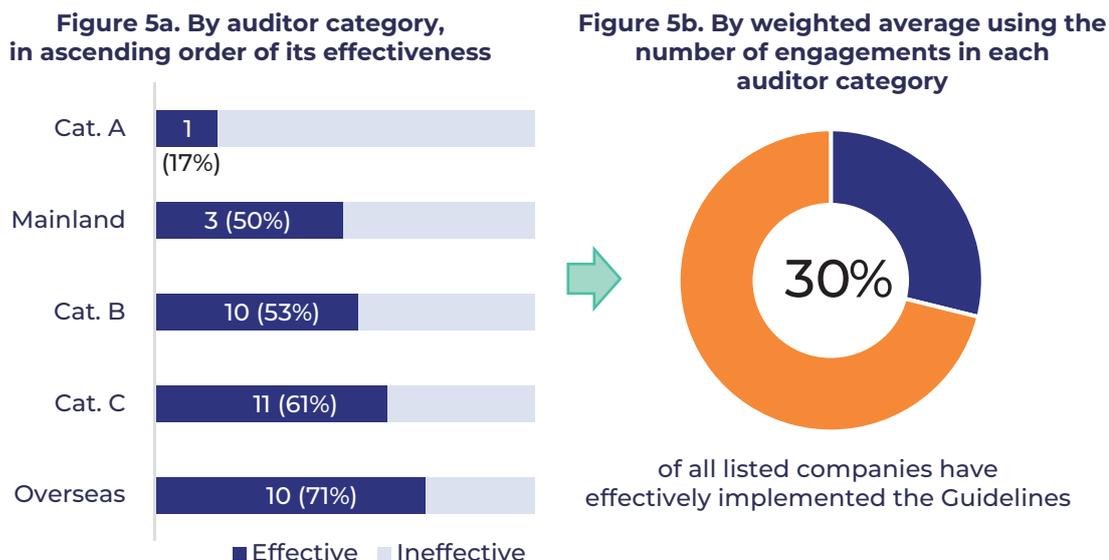
**Figure 4. Audit committees' views of their roles in audit quality**



agreed audit committees play a pivotal role in monitoring how auditors enhance and maintain audit quality

3.4. We asked PIE auditors to comment on the overall effectiveness of the implementation of the Guidelines by the listed companies they work with. The results are summarised in Figures 5. below.

**Figures 5. Auditors’ views on the effectiveness of implementation of the Guidelines by audit committees**



3.5. Only one out of six Category A auditors (17%) believed that the audit committees they work with have implemented the Guidelines effectively. It is far lower than overseas auditors, where 10 auditors (71%) thought the implementation was effective. Responses from other categories of auditors fell somewhere in between.

3.6. Of the overseas auditor respondents who believed the audit committees they work with have effectively implemented the Guidelines, half of the audited companies were from Singapore. The remainder came from Australia, Italy, Malaysia, Russia, and the United Kingdom. There was no clear market capitalisation pattern. Whether overseas companies generally have better established corporate governance practices than locally listed companies may merit further studies.

3.7. It is worth highlighting in the AFRC audit fee study<sup>4</sup> published in March 2023 (**Audit Fee Study**), the market share of Category A auditors was 65% in 2021 when measured by the number of engagements. When this market share information is incorporated, it suggests that fewer than one-third of listed companies (30%) have effectively implemented the Guidelines (Figure 5b.).

4 AFRC, "Audit fees paid by listed companies in Hong Kong 2020/2021", March 2022.

- 3.8. The low implementation rate is worrisome. Some comments made by the auditor respondents are quoted below:
- a. *It takes time for audit committee[s] to digest and implement the guidelines in selecting auditors. Perhaps some of the companies are not convinced.*
  - b. *It is good to have a guideline for best practice of all audit committee members. However, some audit committee members may not be familiar with the Guidelines nor have sufficient time involved in fulfilling their duties.*
  - c. *Audit Committee members have little incentive to follow the Guidelines unless [they are] compulsory.*
  - d. *At times, Audit Committee members are not aware of such publications nor have time to read through them.*
- 3.9. Given the above comments, we intend to continue to promote the adoption of the Guidelines. Audit committees are a key pillar of corporate governance, and good corporate governance can attract more investment, lower a company's cost of capital and improve return.<sup>5</sup> Therefore, effective audit committees are positive for the long-term growth and resilience of capital markets.
- 3.10. To identify the weakest link across the areas we advocated for, further analyses are performed in the respective subsections below.
- 3.11. Given that 97% of audit committee respondents agreed that they play a key role in overseeing how auditors enhance and maintain audit quality, we would like to work closely with them to improve implementation and, in turn, raise the standard of corporate governance. We recognise audit committees may need time to digest and implement the Guidelines effectively. Hence, we will continue to raise awareness, recommend and monitor the active adoption of the Guidelines.

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<sup>5</sup> Stijin Claessens. 2006. Corporate Governance and Development. The World Bank Research Observer, Volume 21, Issue 1, Pages 91 to 122. © World Bank. <https://elibrary.worldbank.org/doi/epdf/10.1093/wbro/lkj004> License: Creative Commons Attribution CC BY 3.0 IGO

## 4. Selection, appointment and reappointment of auditors

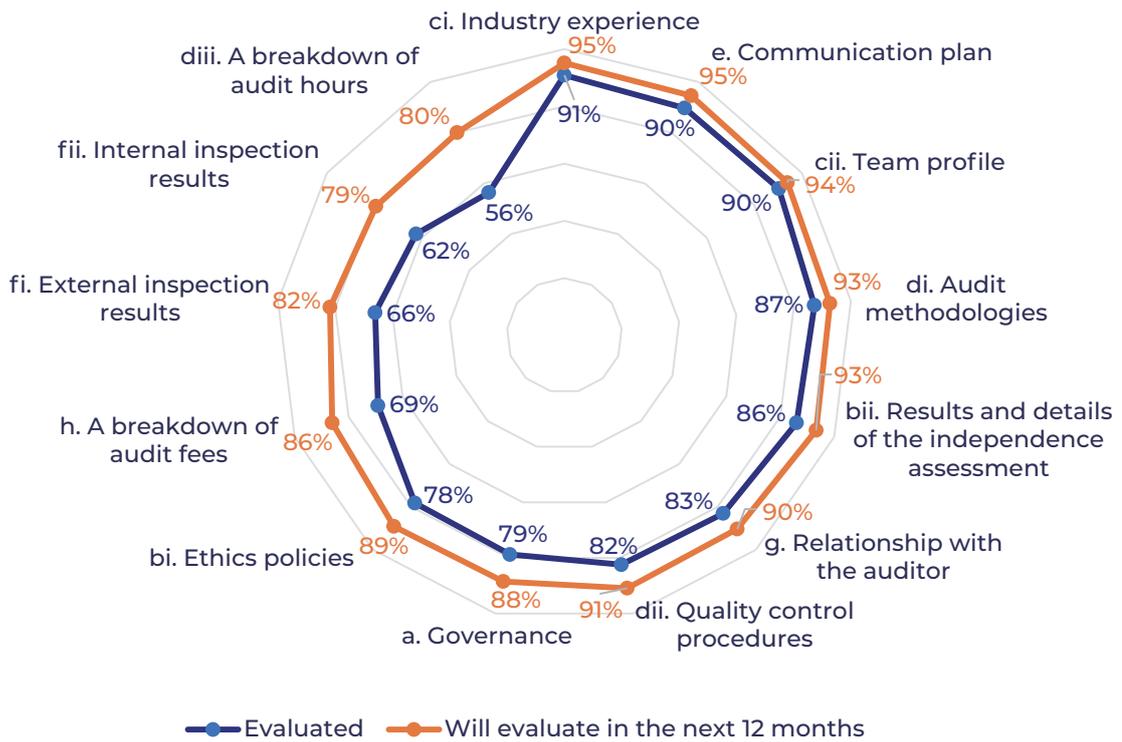
- 4.1. The two key factors that audit committees most often consider when selecting auditors are audit quality and audit fees. In this subsection, we look at the assessment of auditors. The evaluation of audit fees is presented in *Subsection 5*.
- 4.2. In the survey, we provided a list of criteria (Table 6.) and asked survey respondents which were considered by audit committees when selecting auditors. The first 11 items (factors a. to f.) are derived from the six factors advocated in the Guidelines for assessing an auditor's quality. Two additional items relating to a listed company's relationship with the auditor (factor g.) and audit fees (factor h.) were added to the list, even though such factors were not recommended in the Guidelines. While these items are not exhaustive, they represent a broad range of factors that are most typically considered by audit committees.

**Table 6. List of criteria posited to audit committees**

a.	Governance and leadership
b.	Compliance with relevant ethical requirements
	i. The firm's policies and procedures for monitoring and complying with ethical requirements
	ii. Results and details of the independence assessment
c.	Industry knowledge and technical competence
	i. The firm's industry experience
	ii. The audit team's composition and profiles
d.	Engagement performance
	i. The firm's audit methodologies
	ii. The firm's quality control procedures
	iii. A breakdown of the proposed audit hours by seniority of staff, geographical locations or business segments
e.	Audit team's communication with the audit committee
f.	Monitoring process
	i. Results of recent external inspections
	ii. Results of recent internal inspections
g.	Relationship with the auditor
h.	A breakdown of audit fees

4.3. We asked listed company respondents which items were evaluated by their audit committees when selecting auditors; and which items they plan to evaluate in the next 12 months.

**Figure 7. Information evaluated by audit committees when selecting an auditor, arranged in descending order**



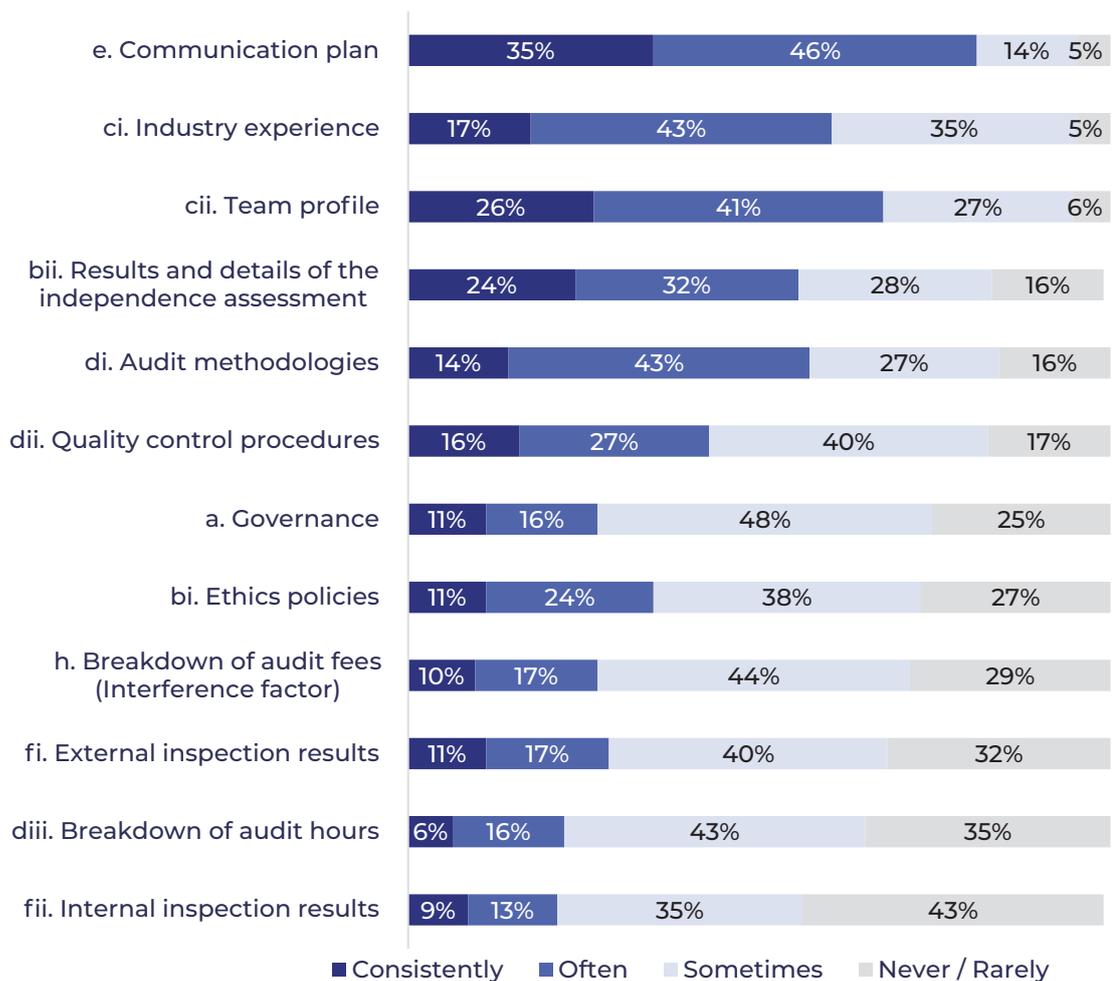
\* The difference between the two lines represents the improvement expected in the next 12 months

4.4. Over 79% of respondents have either evaluated the six factors advocated in the Guidelines, or will evaluate them in the next 12 months. This shows that the usefulness of these six factors in evaluating an auditor’s quality is being recognised by a majority of listed company respondents.

4.5. As captured by the qualitative comments in *Subsection 3*, it takes time for audit committees to fully align with the recommendations in the Guidelines. The percentage of audit committees which evaluated these items ranged from 56% to 91%, and the audit committees which indicated a commitment to evaluating them in the next 12 months were higher, between 79% and 95%. The increase demonstrates that audit committees are committed to making a difference and that our survey has served as a reminder for the need to take into account these factors.

- 4.6. A significant majority of listed company respondents (83%) considered relationships with the auditor as part of the selection process. While effective working relationships may contribute to the enhancement of audit quality, threats to independence such as familiarity threat and self-interest threat may arise. These threats could impair the auditors' objectivity and professional scepticism.
- 4.7. The extent to which the long-term association between Hong Kong listed companies and their auditors impacts independence requires further investigation.
- 4.8. To reduce the bias derived from self-evaluation, we also assessed the frequency of evaluating the abovementioned information through the lens of auditors. The results are summarised in Figure 8.

**Figure 8. Frequency of information requests from audit committees received by PIE auditors**



- 4.9. We compared the rankings of how often audit committees evaluated and requested certain information when selecting auditors, and noted that the responses from auditors were consistent with those from listed companies in Table 9.

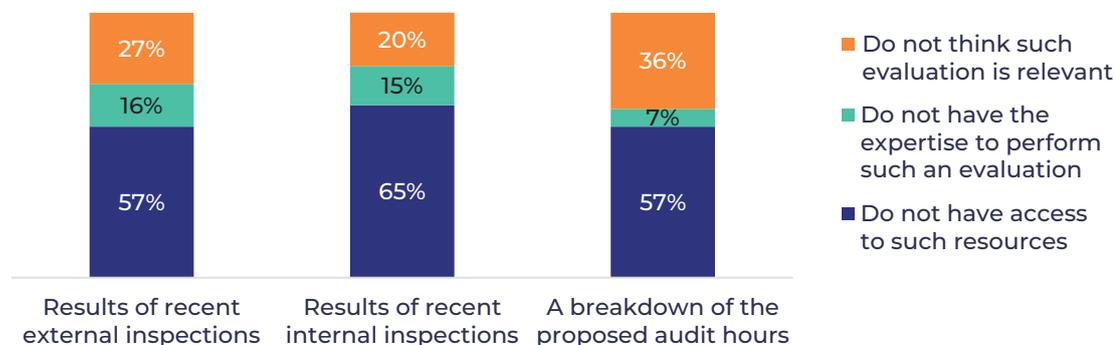
**Table 9. Ranking by how often audit committees evaluated and requested certain information when selecting auditors**

	Listed companies	PIE auditors
ci. Industry experience	1	2
e. Communication plan	2	1
cii. Team profile	3	3
di. Audit methodologies	4	5
bii. Results and details of the independent assessment	5	4
dii. Quality control procedures	6	6
a. Governance	7	7
bi. Ethics policies	8	8
h. A breakdown of audit fees	9	9
fi. External inspection results	10	10
fii. Internal inspection results	11	12
diii. A breakdown of audit hours	12	11

\* Remark: The factor on relationship with the auditor is removed from the table above.

- 4.10. Figure 7. and Table 9. indicate that the three items most frequently evaluated by audit committees when selecting an auditor are (i) the firm's industry experience (91%); (ii) the audit team's communication plan with the audit committee (90%); and (iii) the audit team's composition and profile (90%). The three factors least frequently evaluated are (i) a breakdown of the proposed audit hours (56%); (ii) internal inspection results (62%); and (iii) external inspection results (66%). A minority of respondents advised that they have not evaluated these items and would not consider them in the coming 12 months. We analysed their reasons in Figure 10.

**Figure 10. Reasons for not planning to consider certain factors in auditor evaluation**



- 4.11. One-fifth to nearly two-fifths of respondents do not think these three items are relevant. We disagree. In fact, to ensure sufficient and appropriate resources are assigned, audit committees should obtain an understanding of how an audit team plans to spend its time at different stages of the audit, and the seniority of the audit team members in different areas.
- 4.12. Although audit committees may wish to delegate to management the responsibility for assessing whether appropriate resources are allocated in the audit, they should refrain from relying solely on management. Instead, audit committees need to demonstrate their assertiveness in keeping both management and the auditor accountable.
- 4.13. Furthermore, results of recent external and internal inspections provide important information on the quality of a firm's audit work as well as the quality of its partners. Therefore, we urge audit committees to start requesting and evaluating such information. In evaluating inspection results, audit committees should consider their findings as well as the remedial actions taken by the auditor.
- 4.14. Figure 10. also shows that a majority of respondents agreed with the necessity for evaluating such information. However, they either do not have access (57% to 65%) or do not have the expertise to evaluate them (7% to 16%). There is a detailed discussion on the support required by audit committees for better implementation in *Subsection 9*, including the vital role played by PIE auditors. In any event, these responses have prompted us to consider whether publishing quantitative measures of audit quality in the form of audit quality indicators (such as training hours and partner-to-staff ratios) would help enhance market transparency.
- 4.15. One could argue that the frequency with which a piece of information is evaluated is only a proxy for its importance and may not be conclusive. Hence, we directly sought listed companies' views on the top three factors that audit committees focus on when selecting an auditor as shown in Figure 11.

4.16. The survey asked listed companies to choose the top three factors their audit committees valued the most when selecting an auditor. Over seven in ten respondents (72%) cited the firm’s industry experience and the audit team’s profiles as the most valued factor. Engagement performance (54%) and proposed audit fees (50%) rounded out the top three factors.

**Figure 11. Audit committees’ views on the top three factors in selecting auditor**



4.17. An audit firm’s industry experience and team profiles are deemed by listed companies as the driving force in achieving high audit quality, and therefore ranked the first. We concur these are important factors to consider. However, despite AFRC’s continuous efforts in promoting audit quality as the prime consideration when evaluating an auditor’s capabilities, we found that listed companies still ranked proposed audit fees as one of the top three factors in assessing the quality of the auditor. It is clear that more awareness building is needed on this issue.

4.18. We also found that differences were not apparent based on the company size except for their views on proposed audit fees. In fact, there is an inverse relationship between listed companies’ views on audit fees and their market cap: the larger the listed company, the less price sensitive it appears to be. The proportion of listed companies ranking proposed audit

fees as one of the top three factors decreased (from 69% to 34%) when their market capitalisation increased. We remind listed companies once again that a reduction of audit fees may not generate significant savings for the listed company but may impair audit quality, which would go against the interest of investors and other users of financial statements (details in *Subsection 5*).

- 4.19. In addition, there appears to be some inconsistencies in the factors audit committees choose to evaluate. Engagement performance, an indication of an audit firm's competence, was the second most important factor in auditor selection. However, results from recent external and internal inspections, a more direct and objective measure of a firm's capability and track record, are instead ranked second last. This is contrary to our expectations and suggests that audit committees may not fully understand what is the most useful and relevant information to consider.
- 4.20. Other factors cited by the listed company respondents as key factors in selecting auditor include:
- a. *Reputation of the firm in the market*
  - b. *Other advisory or tax services [provided] to [the] audit committee*
  - c. *Ability of the auditor to recommend other professional experts*
- 4.21. Several listed company respondents cited reputation of PIE auditors as a factor they would consider in selecting an auditor. While reputation matters, we recommend audit committees not to place over-reliance on it as each audit engagement has its own unique characteristics, such as industrial, geographical, or technical specialisation, and hence selecting an auditor solely focusing on its reputation may not be the most appropriate.
- 4.22. Certain studies<sup>6</sup> highlighted investors' desire to see an expanded scope of audit and regard the auditor as a trusted advisor. However, this is not necessarily achieved by providing more non-audit services (including advisory, tax services or relying on the auditor's referral to other professional experts in relation to the financial reporting). In fact, providing extensive non-audit services may create unnecessary independence threats through self-review and self-interest. This may prevent an auditor from exercising their professional judgement.
- 4.23. Once again, we recommend audit committees consider the comprehensive range of factors mentioned in the Guidelines to make an informed decision and to bear in mind that fees should not be the overriding consideration.

<sup>6</sup> CFA Institute, "CFA Institute Member Survey Report – Audit value, Quality, and Priorities", 2018, <https://www.cfainstitute.org/-/media/documents/survey/audit-value-quality-priorities-survey.pdf>.

## 5. Audit fees

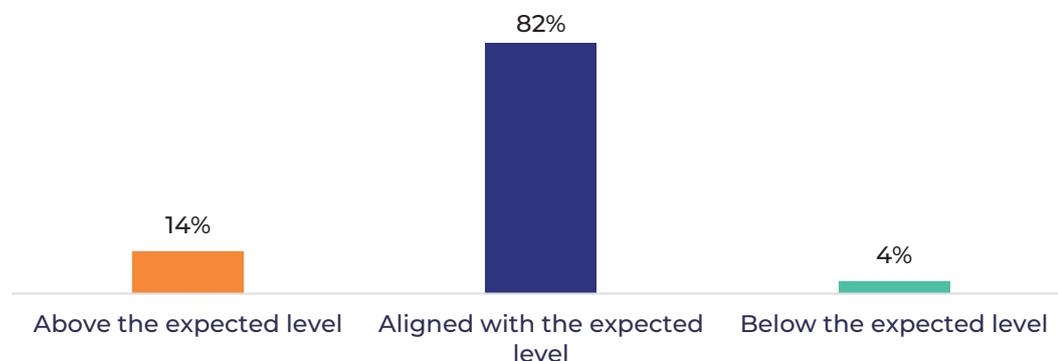
- 5.1. Investors and other stakeholders rely on audit committees to assess the reasonableness of audit fees relative to the risk, complexity and quality of the audit, and the role of audit committees in this area is indispensable.
- 5.2. The relationship between audit fees and audit quality is a complex one. The Audit Quality Framework<sup>7</sup> recognises that “[t]here is usually a relationship between the quality of an audit and the quality and quantity of the resources used in its performance; this will usually be reflected in the audit fee”.
- 5.3. A lack of awareness of the relationship between audit fees and audit quality may result in agreeing to fees that are insufficient to support for proper audit work, undermining audit quality. As shown in Figure 12., approximately two-thirds of listed company respondents agree that audit fees directly impact audit quality.

**Figure 12. Views of listed companies on whether audit fees directly impact audit quality**



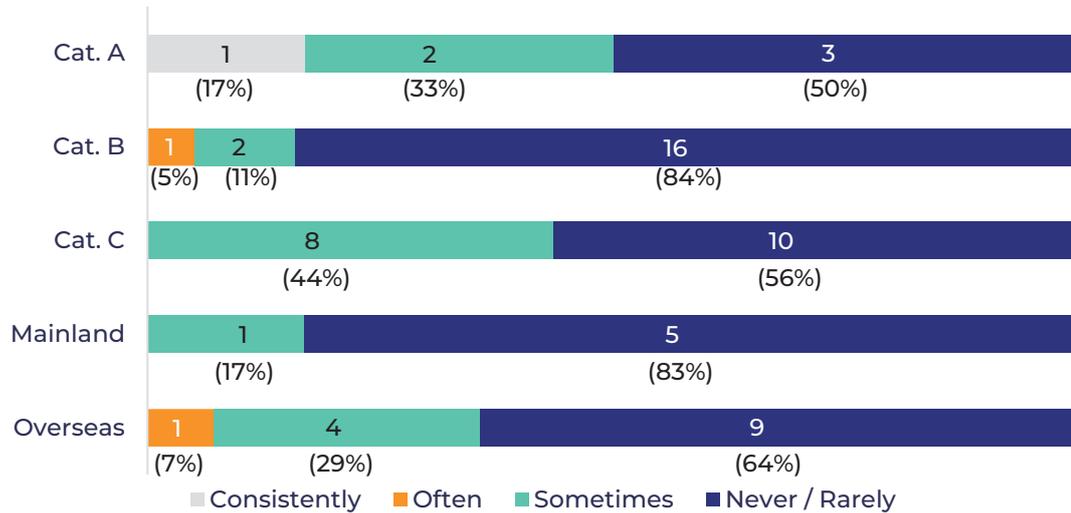
- 5.4. We also sought opinions from listed companies on their current audit fee levels. A vast majority of listed company respondents (96%) think the current audit fee levels are in alignment with (82%) or above their expectations (14%). No distinct deviation from this pattern was noted across the size of the listed companies.

<sup>7</sup> International Auditing and Assurance Standards Board, “A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality”, 18 February 2014, <https://www.ifac.org/system/files/publications/files/A-Framework-for-Audit-Quality-Key-Elements-that-Crete-an-Environment-for-Audit-Quality-2.pdf>. This text is an extract from A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality of the International Auditing and Assurance Standards Board, published by the International Federation of Accountants (IFAC) in February 2014 and is used with permission of IFAC. Contact Permissions@ifac.org for permission to reproduce, store or transmit, or to make other similar uses of this document or extract.

**Figure 13. Listed companies' views on the current level of audit fees**

- 5.5. Interestingly, analysis in the Audit Fee Study shows that average audit fees per engagement in Hong Kong declined by 2.0% per annum between 2010 and 2021 after adjusting for CPI. The growth of average audit fees also significantly lagged behind the growth of average revenues and total assets of listed companies, indicators of company size and proxies for audit complexity.
- 5.6. Audit fees should not be regarded as any ordinary miscellaneous expense that should be minimised. Instead, they are a meaningful expense for a listed company since an audit creates value beyond compliance. Reducing audit fees may only generate marginal savings for the listed company but upholding audit quality is in the interest of investors and other users of financial statements.
- 5.7. For the remaining six respondents (4%) who indicated audit fees are below their expectations, we note that three of them were either audit committee chairpersons or members.
- 5.8. While driving a hard bargain is a commercial reality, we urge audit committees to probe and understand the assumptions underlying below-market fee quotes, and ensure sufficient time and resources will be deployed to perform the necessary audit work. Unfortunately, as highlighted in *Subsection 4*, nearly two-fifths of audit committees did not request a breakdown of audit hours when considering the reasonableness of proposed audit fees.
- 5.9. In contrast to Figure 13., it is evident in Figure 14. that many auditors have experienced pressure on audit fees which may compromise audit quality on a consistent or often basis. This ranges from 16% for Category B auditors to 50% for Category A auditors. We cannot emphasise enough that audit committees should refrain from putting pressure on auditors to reduce fees to an extent that would impair audit quality.

**Figure 14. Frequency with which audit teams experienced fee pressure that may compromise audit quality in the past year**



- 5.10. Almost half of the Category A and C auditors experienced fee pressure consistently or sometimes. By contrast, only three Category B auditors (16%) indicated they often or sometimes experienced fee pressure.
- 5.11. The potential reasons for this occurrence may stem from a shift in market share from Category A auditors to Category B auditors. Based on the Audit Fee Study<sup>8</sup>, market share of Category A auditors, as measured by number of engagements, dropped from 70% in 2019 to 65% in 2021. Category B auditors were the biggest beneficiaries with their market share increasing from 22% to 28% in the same period.
- 5.12. A change of auditors from Category A to Category B would lead to fee decreases as Category B auditors typically charge a lower fee compared to Category A auditors. As a result, it is possible for some listed companies to put pressure on Category A auditors to reduce fees or lose their engagement.
- 5.13. Although there is no concrete evidence, it is difficult not to question whether fee pressure played a role in this shift in market share. This hypothesis is also consistent with the fact that audit fees were by far the most cited reason for an auditor change, with 346 incidents between 2020 and 2021.<sup>9</sup>
- 5.14. A possible reason for Category C auditors experiencing higher fee pressure than Category B auditor is the quality of engagements typically undertaken by Category C auditors. Category C auditors operate at the low end of the market and may not have much bargaining power when it comes to fees.

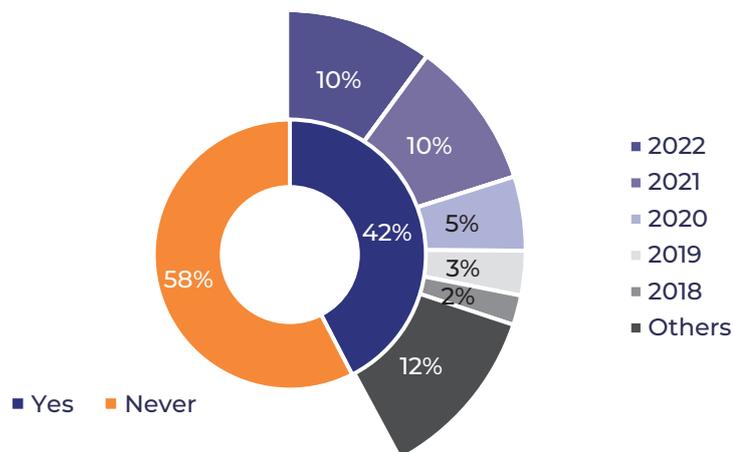
<sup>8,9</sup> AFRC, "Audit fees paid by listed companies in Hong Kong 2020/2021", March 2022.

- 5.15. Hence, the size of engagements undertaken by Category C auditors are usually smaller. Given the inverse relationship between listed companies' market capitalisation and their sensitivity to audit fees (paragraph 4.18), i.e. the smaller the listed company, the more price sensitive it appears to be, it is plausible that Category C auditors experience correspondingly higher fee pressure than Category B auditors.
- 5.16. To properly evaluate a product or a service, there needs to be sufficient information on both its price and quality. As audits are not homogenous, evaluation can be complicated. The emphasis placed by audit committees on audit fees may lead to other unintended consequences and also prompts a host of questions. First, how comprehensive the assessment is when it comes to auditor selection. Second, the degree of comfort that an audit committee has in the sufficiency of resources that its auditor will deploy. Third, in driving down fees, if and to what degree the listed company has compromised audit quality. These questions are not in scope for this report, and will only become apparent in future AFRC inspections and investigations.

## 6. Audit tender process

- 6.1. Regular tendering for the supply of goods and services is a sound commercial practice – this also applies to audit services. Audit tender ensures fairness in the auditor selection process as it enables the audit committee to assess and compare the capabilities and offerings of different audit firms. It is the process AFRC has been advocating for in the Guidelines.
- 6.2. As shown in Figure 15., a majority of audit committees have never conducted an audit tender (58%). This implies that the market has yet to widely recognise the real value of an audit tender. The pattern is consistent across listed companies of all sizes.

**Figure 15. The year in which the audit committees last conducted an audit tender process**



- 6.3. On a positive note, among audit committees which have conducted an audit tender, nearly half was done within the last two years.
- 6.4. In addition, we found that the proportion of Category A, B and C audit firms receiving tender invitations are 100%, 89% and 56% respectively. This indicates the more Hong Kong PIE audit engagements an audit firm undertakes, the more likely it is to be invited to participate in audit tenders.
- 6.5. The reason for this pattern can be linked with the highly concentrated nature of the audit industry in Hong Kong, where audit firms with a large number of engagements can garner stronger market influence by virtue of their reputation and industry experience. For instance, the market share distribution of Category A auditors is 65% by number of engagements. Category B and Category C auditors account for 28% and 2% respectively.

- 6.6. The phenomenon of a highly concentrated audit market is not unique to Hong Kong. In the UK, the Financial Reporting Council has been introducing new support measures for small audit firms seeking to grow their share of the audit market without compromising audit quality.<sup>10</sup>
- 6.7. Given it has been over a year since the Guidelines were published, we wanted to assess listed companies' acceptance and application of audit tendering. An indicator would be the experience of PIE auditors. The survey results reveal that six in ten of PIE auditors have not received more invitations to tender for audit services compared to the same period a year ago.
- 6.8. We recognise it takes time to plan and execute audit tendering; therefore, before concluding that the improvement was not significant, we want to understand the intention of listed companies in the next 12 months, and their reasons for not planning a tender.

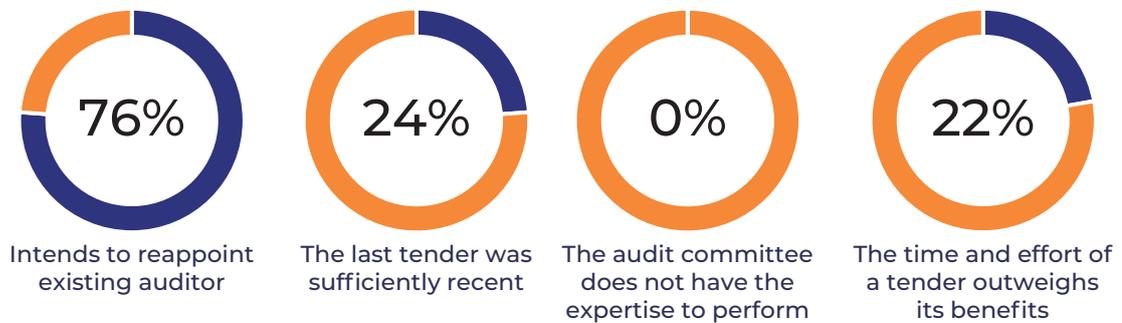
**Figure 16. Intention of listed companies in conducting an audit tender in the next 12 months**



- 6.9. The top driver for not conducting an audit tender is attributed to the intention to reappoint the existing auditor, as can be seen in Figure 17. There is a misconception that the two are mutually exclusive. They are not. A benefit of an audit tender is that it signals to the incumbent auditor not to be complacent in their work. At the same time, it conveys a message of a level playing field to the market, and may invite fresh thinking that will help enhance processes and controls.

<sup>10</sup> Financial Reporting Council, "FRC to introduce new support measures for smaller audit firms as their market share grows", 7 December 2022, <https://www.frc.org.uk/news/december-2022/frc-to-introduce-new-support-measures-for-smaller>.

**Figure 17. Reasons for listed companies not conducting an audit tender in the next 12 months**

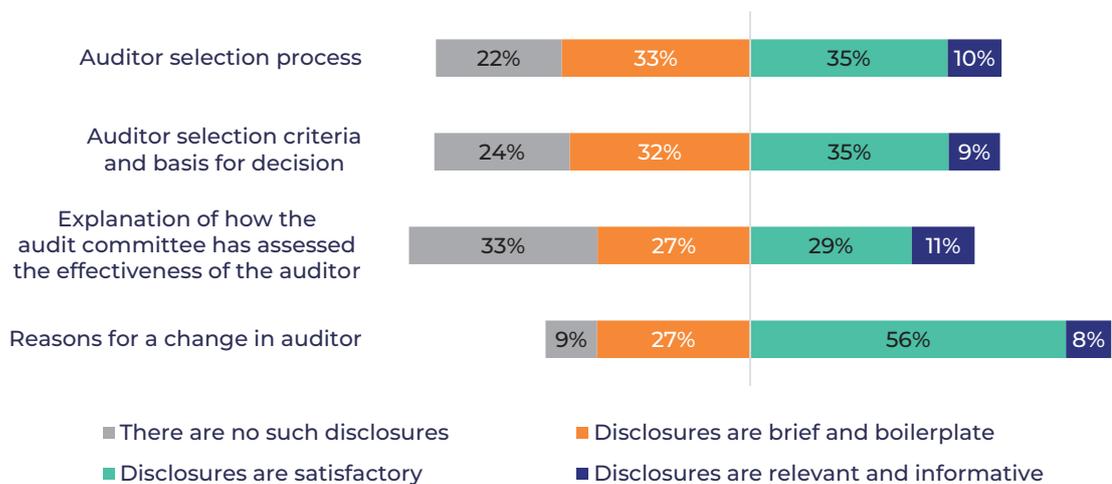


- 6.10. The results shown in Figures 16. and 17. suggest that listed companies and their audit committees may not fully recognise the benefits of an audit tender. In addition, none of the audit committees considered their own competence was the reason that prevented them from conducting an audit tender. If experience and ability are not perceived as an obstacle to an audit tender, it may be more of an uphill challenge to advocate for audit tenders.
- 6.11. The ultimate goal of an audit tender is to appoint an audit firm offering the highest quality audit. To achieve this, we advocate for audit committees to conduct a “fee-blind evaluation” i.e. audit committees should not open the envelopes containing the fee proposal until after the completion of the technical assessment.
- 6.12. Two-thirds of listed companies (66%) reported never adopting a fee-blind evaluation, of which, 65% of that population pool of respondents indicated they are cognisant of the process. From the results, we may deduce that awareness is not the major root cause for not adopting a fee-blind evaluation.
- 6.13. Instead, the majority of listed companies (74%) regards audit fees as a key element in an audit tender. This is the fundamental reason for not adopting a fee-blind evaluation.
- 6.14. As highlighted throughout the report, audit fees should not be the overriding consideration in the selection of an auditor at the expense of audit quality. Otherwise, the full benefits of an audit tendering process cannot be captured.

## 7. Disclosures in Corporate Governance Reports

- 7.1. Shareholders and investors rely on the Board of Directors and the audit committee to select an auditor and manage the relationship. Therefore, increasing transparency by providing more informative disclosures to articulate how the Board and the audit committee approach these responsibilities can help uphold the interest of shareholders and investors.
- 7.2. As our survey results show, there is significant room for improvement when it comes to listed companies' disclosures in relation to auditor selection and evaluation. While there are no prescriptive disclosure requirements under the Listing Rules in this respect, listed companies are strongly encouraged to provide informative summaries of the approach and factors considered in their Corporate Governance Reports. As stated in the Guidelines, such disclosures should be company-specific rather than boilerplate, with detailed explanations.

**Figure 18. Quality of disclosures made by listed companies from the perspective of PIE auditors**



- 7.3. Figure 18. captures the feedback from PIE auditors on the quality of disclosures by the listed companies they work with. In three out of the four areas, over half of the auditor respondents believed that disclosures made by listed companies were not satisfactory.
- 7.4. The quality of disclosure on reasons for auditor changes appears to be better, with over six in ten auditor respondents (64%) indicating that they are satisfactory or above.

7.5. However, only a small percentage of respondents (8% to 11%) in each of these four areas agree that their current disclosures are relevant and informative. This implies that current disclosures are insufficient for stakeholders to understand how the audit committee or the Board is carrying out its responsibilities.

7.6. We further analysed the findings by PIE auditor categories to see if there are any discrepancies between them (Figures 19.).

**Figures 19. Quality of disclosures, by category of PIE auditors**

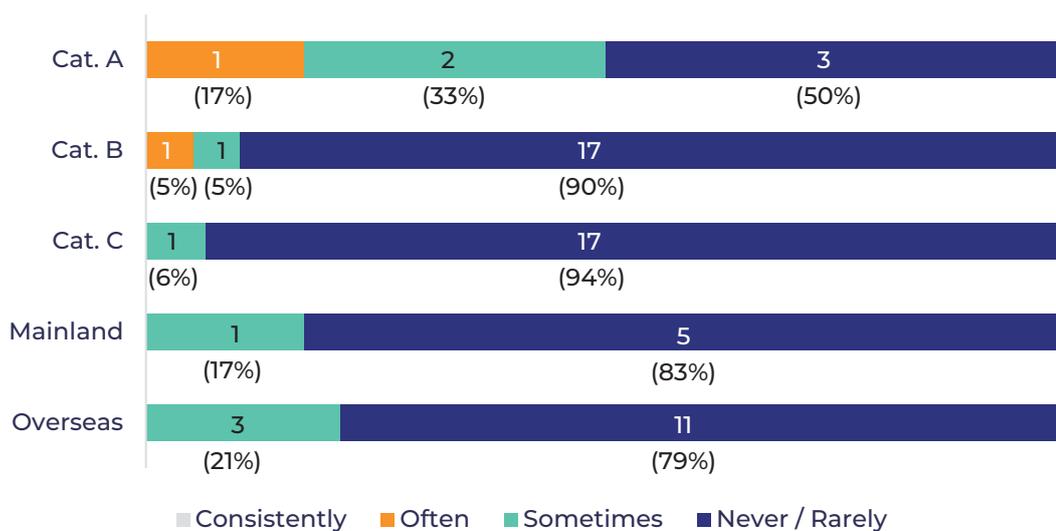


- 7.7. Figures 19. indicates that the overall disclosure ratings of listed companies audited by Mainland and overseas auditors are better than those audited by local PIE auditors. This includes listed companies from mainland China, the United Kingdom, Italy and Singapore. There is no meaningful market capitalisation pattern.
- 7.8. The experience of Category C auditors is generally more positive than that of their larger counterparts. We would like to encourage Category C auditors to be more discerning, and caution them not to become overly complacent and to always look for improvements.
- 7.9. Enhanced transparency will allow listed companies, investors and other stakeholders to better gauge quality, which in turn will improve the health and effectiveness of market competition. By raising the quality of disclosures, listed companies can signal to the market their seriousness in corporate governance matters, and allow investors and stakeholders to better assess these efforts and value them accordingly. From a stewardship perspective, it is also important for investors to proactively engage with listed companies and encourage them to provide more informative disclosures.

## 8. Auditor resignation

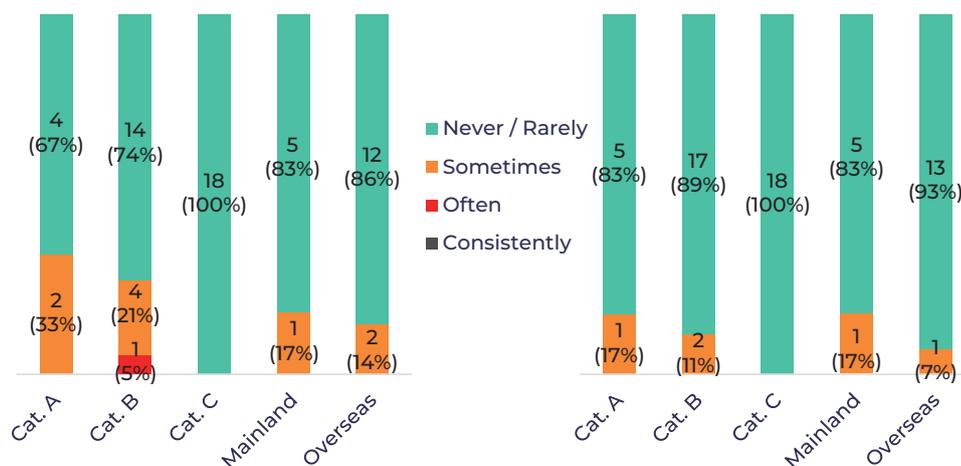
- 8.1. The role of audit committee does not simply end after making recommended actions to the Board on the selection of an auditor and approval of their remuneration. Monitoring financial reporting and audit quality and overseeing the relationship with the auditor require continuous effort.
- 8.2. To understand the relationship between auditors and listed companies, we sought to assess the degree of interaction between them (Figure 20.).
- 8.3. To evaluate this interaction, we asked PIE auditors the frequency with which they experienced pressure to issue a clean audit opinion. Even though no respondents were under such pressure on a consistent basis, the responses are nevertheless still concerning. As shown in Figure 20., each category of auditors has experienced a certain amount of pressure from time to time. In particular, half of the Category A auditors experienced pressure to issue a clean audit opinion (17% often and 33% sometimes). Even though a majority of auditors reported never or rarely experiencing such pressure, we view any interference or attempts to dissuade auditors from properly performing their audits as unacceptable and should not be tolerated.

**Figure 20. Frequency of PIE auditors experienced pressure to issue a clean audit opinion, by category**



- 8.4. As mentioned earlier, the market share of Category A auditors is 65% by number of engagements. If market share is factored into this survey result, the trend looks even more alarming, since it suggests that at least one-third of all listed companies have applied pressure on their auditors to issue a clean audit opinion. It may also degrade the credibility and trustworthiness of a clean audit opinion in the market.
- 8.5. The twin pressures to reduce fees and to issue a clean opinion may be linked to the spate of late auditor resignations (one month before or even after the end of the reporting period) we have been observing in the market. For instance, the number of late auditor resignations have surged from 71 in 2021 to 107 in 2022<sup>11</sup>, accounting for 29% and 38% of the total number of auditor resignations respectively.
- 8.6. How audit committees handle auditor resignations and more broadly how they oversee the relationship are important areas. On the subject of late auditor resignations, the AFRC had issued two open letters in October 2022 and January 2023. Both the Guidelines and January 2023 Open Letter<sup>12</sup> contain practical recommendations on these issues and we strongly urge audit committees to refer to them.
- 8.7. We sought feedback from auditors relating to their resignations. Our questions were designed to gather responses in two areas: (i) the level of involvement from the audit committee, and (ii) the degree of accuracy of listed company announcements regarding auditor resignations. The responses are summarised in Figures 21.

**Figures 21. Experience as an outgoing auditor**



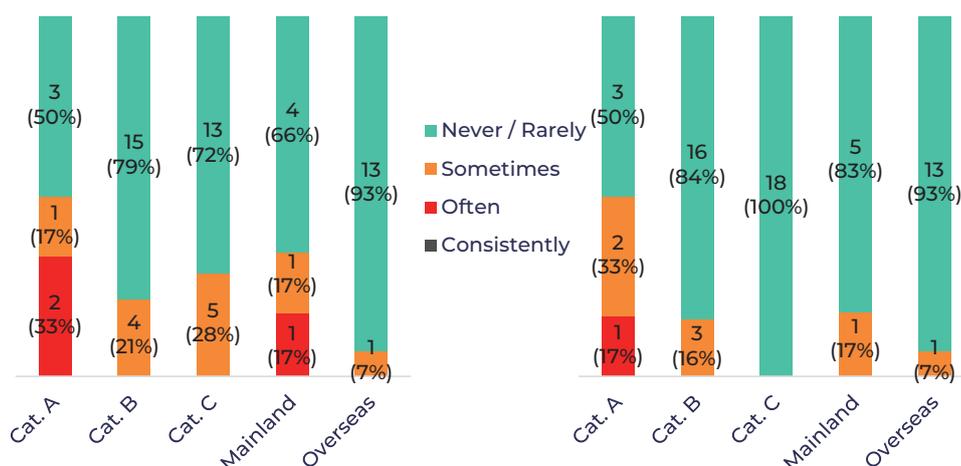
**Figure 21a. Frequency with which the auditor experienced a lack of proper understanding in, and investigation by audit committees of the underlying reasons for a resignation**

**Figure 21b. Frequency with which the auditor experienced inaccuracies or incompleteness in listed company announcement in relation to a change in auditors**

11 AFRC, "Open Letter to all Public Interest Entity (PIE) auditors (the Open Letter)", 27 October 2022, <https://www.afrc.org.hk/media/dogjbhtr/open-letter-on-late-changes-in-auditor-appointments.pdf>.  
 12 AFRC, "Follow-up open letter on auditor changes", 11 January 2023, [https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/Follow\\_up\\_Open\\_letter\\_to\\_PIE\\_and\\_AC.pdf](https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/Follow_up_Open_letter_to_PIE_and_AC.pdf).

- 8.8. As shown in Figures 21., the results from both areas at first glance may not cause too much concern, but it is AFRC’s view that on this matter, urgent improvements need to be made.
- 8.9. As suggested in the January 2023 Open Letter, first and foremost, a frank and open dialogue should be conducted to provide an opportunity for the auditor and the audit committee to discuss any contentious issues or disagreements that, if not resolved, could escalate to resignation.
- 8.10. In the event that an auditor decides to resign, the outgoing auditor should set out the precise circumstances leading to their resignation in the letter of resignation. For more information on the sequence of events and the appropriate course of action, please refer to the Guidelines and the two open letters.
- 8.11. We also sought opinions from PIE auditor respondents on their experience as an incoming auditor. Their responses are summarised in Figures 22.
- 8.12. The results show nearly one quarter (24%) of PIE auditor respondents experienced resistance from audit committees to arrange communications with outgoing auditors. Moreover, 13% indicated that audit committees did not fully disclose their disagreements with its previous auditor or unresolved audit issues. This is especially acute for Category A auditors, half of which (50%) often or sometimes experienced both situations.

**Figures 22. Frequency of certain experiences as an incoming auditor**



**Figure 22a. Pushback to arrange communications with the outgoing auditors**

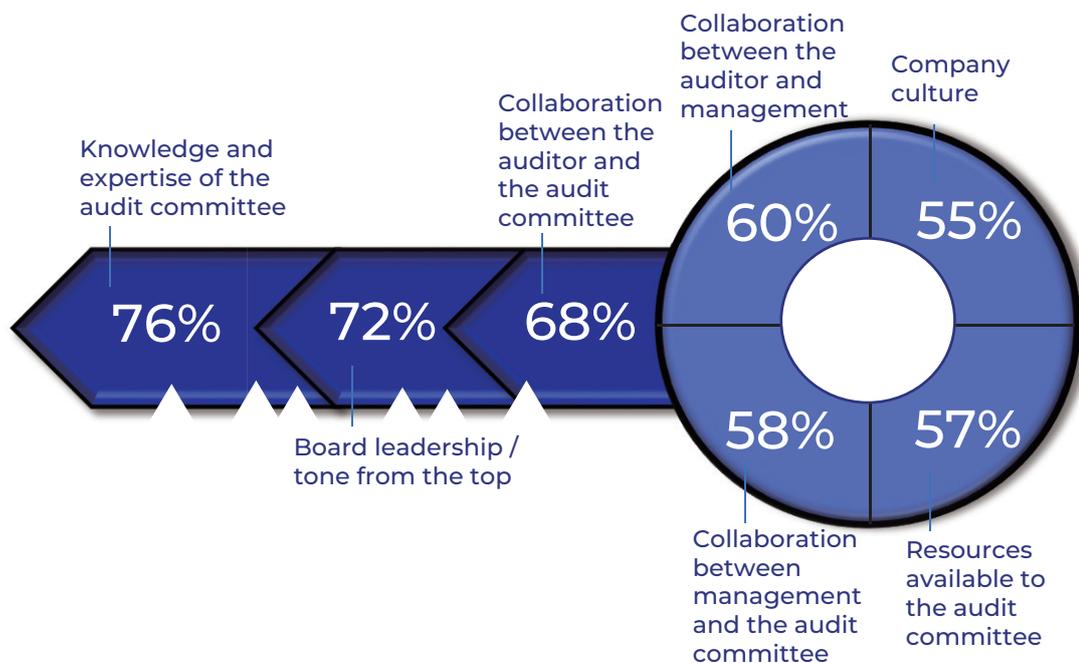
**Figure 22b. The company has not fully disclosed their disagreements with its previous auditor or unresolved audit issues**

- 8.13. Audit committees should assist the incoming auditor in understanding the circumstances relating to the resignation of the outgoing auditor. The overriding objective here is to provide incoming auditors with sufficient information so that they can perform proper client acceptance procedures, design and perform audit procedures, deliver a high-quality audit, and address any unresolved audit issues. Audit committees should authorise and encourage communications between incoming and outgoing auditors.
- 8.14. In instances when contentious issues arise, we have observed that the Board has, via the audit committee, requested the auditor to resign. Such behaviour is not acceptable. Audit committees should challenge the Board on the rationale of requesting an auditor to resign.
- 8.15. In the event the Board does not accept the audit committee's recommendations, the divergence should be documented together and made public via an announcement with the reasons why the audit committee and the Board have taken different views. The improved transparency could aid investors and other stakeholders in making informed decisions.

## 9. Support required for better implementation

- 9.1. As mentioned earlier, there is room for improvement in the implementation of the Guidelines by audit committees. In this section we sought to better understand the support required by audit committees to improve implementation.
- 9.2. We provided a list of seven factors to listed companies and asked them which were necessary to improve the implementation of the Guidelines. The results are shown in Figure 23.

**Figure 23. Factors that would improve the implementation of the Guidelines, from the perspective**

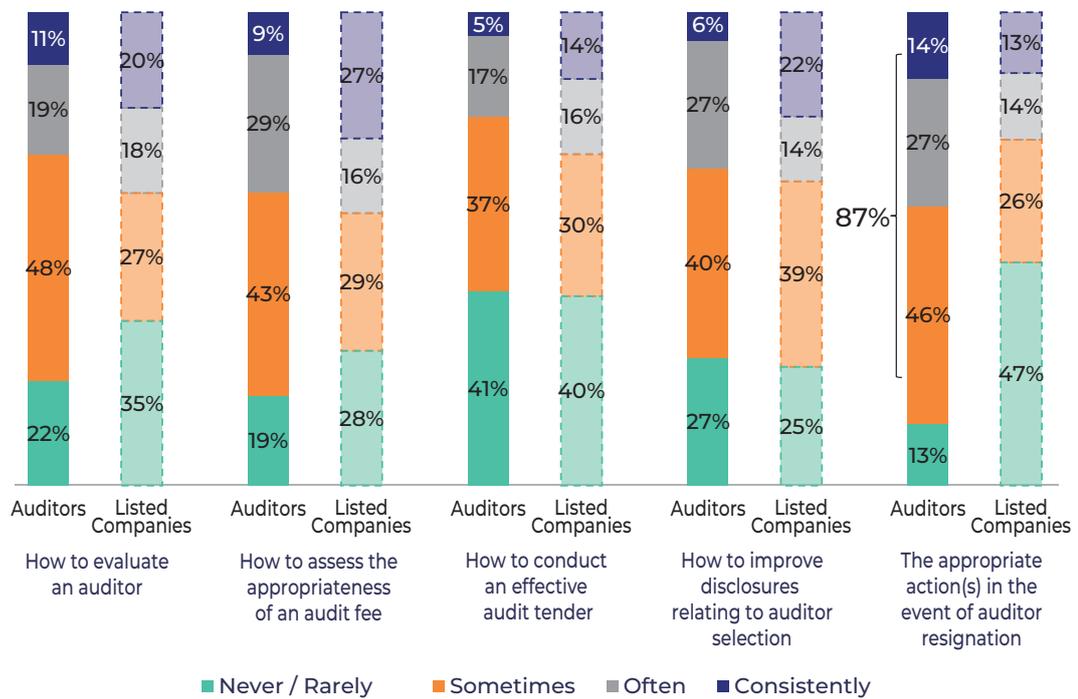


- 9.3. All factors were well received by listed company respondents, with each factor selected by at least one in two respondents.
- 9.4. The top factor is knowledge and expertise of the audit committees. The fact that this is selected as the most important factor, coupled with the low implementation effectiveness, may be construed as a tacit acknowledgement that audit committees need to further upskill.

- 9.5. Board leadership and tone from the top is ranked second to improve implementation. They underpin the culture of the company, which drives the mindset and behaviour of the audit committee, and consequently, the way how members of the audit committee discharge their responsibilities. This shows that even though many responsibilities are entrusted and delegated to the audit committee, ultimately the Board is responsible and its involvement is integral to the successful implementation of the Guidelines.
- 9.6. Collaboration is an important aspect, whether it is between the auditor and the audit committee, the auditor and management, or between management and the audit committee. Although there are no contractual obligations for auditors to support audit committees, there appears to be much room for auditors to add value on this front and provide assistance to audit committees such that they can better discharge their obligations. In any event, a high-quality audit yields high quality reporting, which in turn creates a win-win situation for all parties.
- 9.7. The primary purpose of the Guidelines is to provide practical recommendations to raise the knowledge of all audit committees, regardless of the size of the listed companies. However, the adoption of the Guidelines need to be tailored to each listed company and there is no one size fits all solution. A good auditor should have a reasonable knowledge of the unique circumstances of the listed companies they work with, and therefore, their collaboration with audit committees will undeniably expediate such knowledge transfer.
- 9.8. The support required by audit committees from auditors is also consistent with the third key element of the success factors in Figure 23. – collaboration between the auditor and the audit committee.
- 9.9. Since the guidance revolves around audit committees and auditors, we can use their relationship as a starting point to deduce if there are expectation gaps between the two that may weaken the adoption of the Guidelines. We sought feedback from both groups on the frequency of receiving (or providing) the relevant resources (Figure 24.).
- 9.10. As shown in Figure 24., between 57% and 73% of the listed company respondents reported that they have never / rarely or only sometimes received the resources in each of the five topics covered in *Subsections 4 to 8*, from their auditors; whereas only 13% to 27% of them reported to have consistently received such information from their auditors.

9.11. The results are consistent with the results from PIE auditor respondents where between 59% and 78% indicated that they have never / rarely or only sometimes provided the resources in the five areas to the audit committees they work with. Similarly, only between 5% and 14% of them reported to have consistently provided such resources to the audit committees.

**Figure 24. Frequency of listed companies receiving or PIE auditors providing certain resources**



9.12. Figure 24. shows that the major discrepancy between the responses from the two sides was in relation to “the appropriate action(s) in the event of auditor resignation”, where 47% of listed company respondents indicated that they have never / rarely received such resources, compared with 87% of auditor respondents who indicated that they have sometimes provided such resources (i.e. only 13% of the auditor respondents indicated that they have never / rarely provided such resources). Such discrepancy may stem from the level of complexity of this issue as perceived by the listed companies, thus creating an expectation gap between the actual and desired level of resources and support received.

9.13. The complexity of handling auditor resignations and a lack of help and resources may result in difficulties in audit committees exercising prudence and creating an environment that would allow auditors to leave their engagements properly. As described in *Subsection 8*, auditors face a range of obstacles, including a lack of proper understanding and investigation of the reasons leading to the resignation, pushback against arranging communications with outgoing auditors, and unsatisfactory disclosures of audit issues.

9.14. We have further analysed the reasons for auditors not to provide these resources on a more frequent basis. The results are summarised in Figure 25. below.

**Figure 25. Reasons for auditors to “never / rarely” or “sometimes” provide different types of resources to listed companies**



9.15. The predominant reason for auditors to not provide the resources is that audit committees have not asked for any support (79% to 86%), followed by the audit firm / teams not thinking such support is required (10% to 13%).

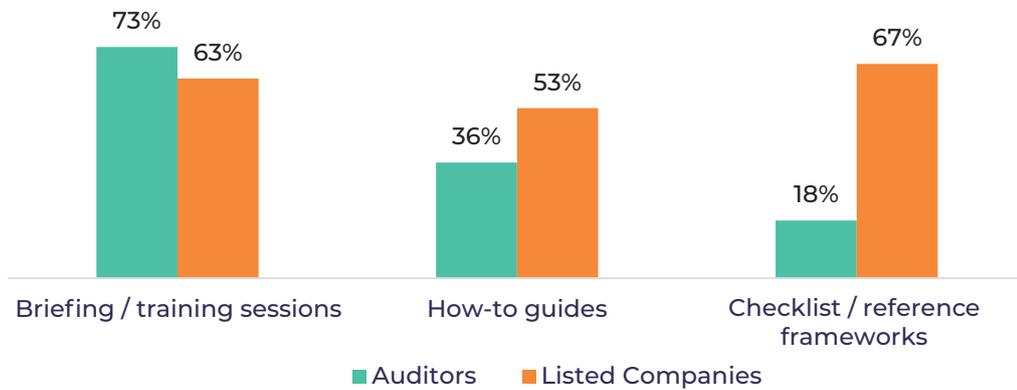
9.16. Some auditors prefer to take a reactive approach, and not to share resource unless explicitly requested by audit committees. However, as highlighted in paragraph 9.6, supporting audit committees could give rise to better financial reporting quality, which is also in the interest of auditors.

9.17. Auditors should take a more proactive role in providing relevant resources to audit committees they work with, whereas audit committees and listed companies should also ask for such information proactively. After all, it is the responsibility of both parties to implement the Guidelines properly.

9.18. Some auditors may be concerned that listed companies would appoint a new auditor after being informed about the proper evaluation process of an auditor. However, we emphasise that proper evaluation should be the industry standard for both initial appointment and subsequent reappointment of auditors. This would be conducive to the long-term improvement of financial reporting and auditing in Hong Kong.

- 9.19. The fear of loss of business should not prevent auditors from providing such resources to listed companies. As the Chinese proverb says, “true gold fears no fire”, an auditor who is technically proficient, exercises an appropriate level of professional scepticism, perform quality audits has no need to worry about scrutiny.
- 9.20. In addition, we explored whether there are any gaps between the two sides in respect of the format of resources provided by auditors to the audit committees and results are summarised in Figure 26.

**Figure 26. The preferred information format for listed companies against those which are “consistently” provided by auditors**



- 9.21. The most preferred format from the perspective of audit committees is a checklist / reference framework. However, this is the format provided by the least number of auditors.
- 9.22. Audit committees are reminded that there is no one single checklist that could fit all purposes. Audit committees could benefit from developing their own checklist that fits their specific circumstances as they become more experienced over time.
- 9.23. Once again, we reiterate the importance of communication and collaboration between auditors and audit committees. Their discussions should cover the quality, quantity and format of support suitable for the specific circumstances of each listed company. Effective collaboration between the two parties can maximise the usefulness of available resources and expertise.

9.24. The audit team is generally the direct representative of the audit firm responsible for communicating with the audit committee. Audit firms should have a systematic approach to (i) facilitate the transfer of relevant information to audit teams for distribution to audit committees; and (ii) provide appropriate guidance to their audit teams so that they can in turn support audit committees in discharging their responsibilities.

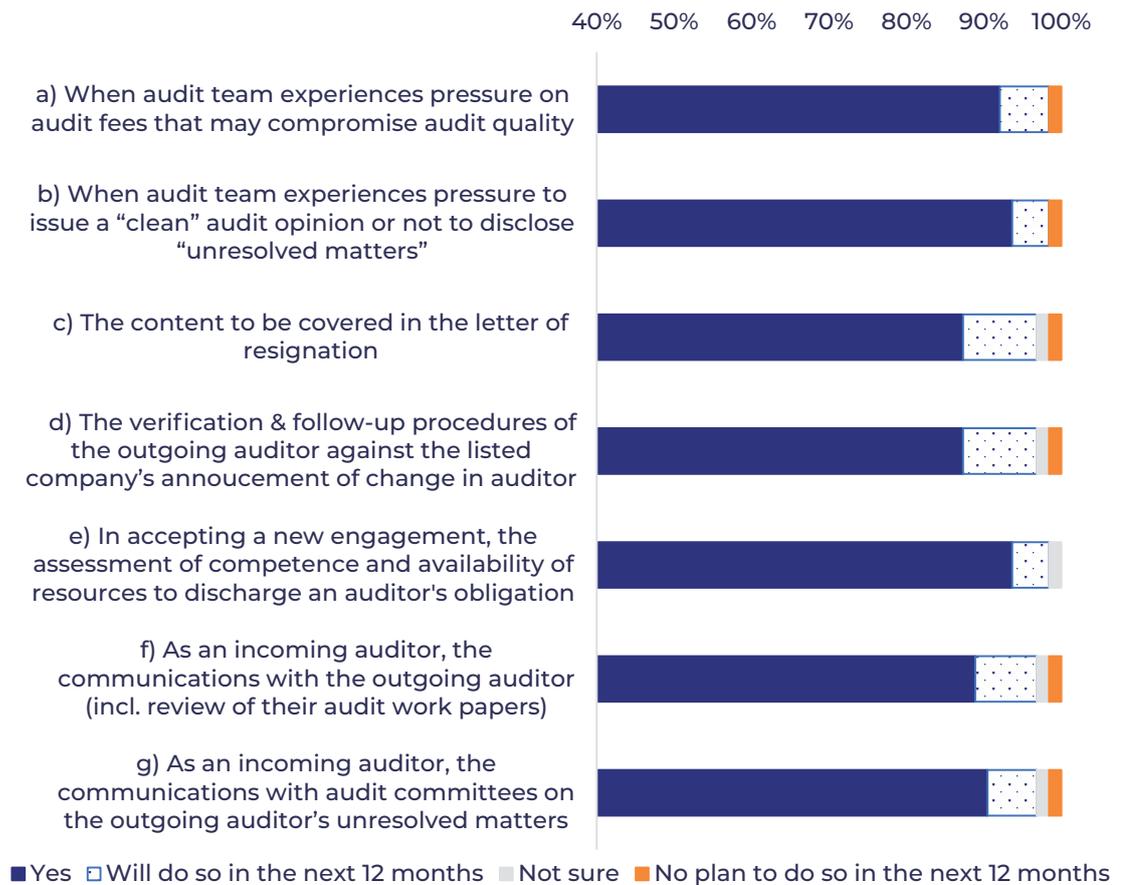
**Figure 27. Availability of guidance or relevant information made by audit firm to the audit teams for distribution to audit committees**



9.25. Figure 27. shows that between 90% and 97% of auditors indicated that relevant information are available for eight out of ten items, either now or in the next 12 months. The two items that have the least availability are recent internal and external inspections, but significant improvement is expected in the coming 12 months (i.e. an increase of 27 and 30 percentage points for recent internal and external inspections respectively). We recognise it takes time for auditors to prepare the relevant information. While we are encouraged to see such commitment, it remains to be seen if such intentions will materialise into concrete actions.

9.26. We also asked if audit firms have provided guidance to audit teams in situations in relation to certain pressures, including the pressure to resign (Figure 28.).

**Figure 28. Availability of guidance by audit firms to audit teams in handling certain pressures**



9.27. A majority (87% to 94%) of the firms indicated they have provided the relevant guidance to their audit teams on how to handle external pressures and audit issues. This level of support marks a great start especially when this figure is expected to increase further to 97% and 98% in the next 12 months. We are pleased with audit firms' commitment to safeguard audit quality.

9.28. We urge all audit firms to refer to our recommendations and provide audit teams with tailored guidance for each of the above situations. The recommendations provide a good overview of expected outcomes and courses of action to be taken. This will equip firms with the necessary skills and knowledge to exercise professional judgment.

## Section C

# Our expectations

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### 10. Our expectations of audit committees

10.1. In view of the survey results, we highlight the following four key areas that audit committees should pay particular attention to when discharging their fiduciary duties:

a. **Selection of auditors and performance of audit tenders**

- i. Audit committee should develop a robust set of processes and procedures when selecting auditors and conducting audit tenders by making reference to the Guidelines.
- ii. A tailored set of selection criteria should be established to ensure an auditor with the necessary quality (for example, if the regulator has imposed any conditions on the auditor), competence and capabilities (including manpower, time and other resources) is appointed. The consideration of audit quality should always outrank audit fees in the selection of auditors.
- iii. The relationship between the auditor and the audit committee should not be misinterpreted as a proxy for audit quality. For instance, an overly close relationship developed after a long tenure, or where an auditor provides extensive non-audit services to an audit client, can lead to familiarity or self-interest threats.

b. **Determination of audit fees**

- i. It should be the responsibility of the audit committee, not company management, to evaluate audit fees and conduct the negotiations. They should ensure that audit fees are agreed at a level that would allow auditors to devote sufficient time and specialised resources to conduct a quality audit.

- ii. Audit committees should obtain a breakdown of audit fees and follow Section 2.3 of the Guidelines in evaluating the reasonableness of such fees, taking into account the size, structure, nature and complexity, among others, of the listed companies. Low audit fees should trigger concerns in audit quality, and audit committees should challenge audit firms to prove otherwise.
- iii. Some audit firms may rely on more lucrative non-audit services to subsidise lower-margin audit services. Audit committees should question whether the involvement of their auditors in non-audit services are to an extent that may create perverse incentives and prevent the auditors from exercising their independence and objectivity properly.

**c. Provision of timely disclosures**

- i. Transparency is a key aspect of good corporate governance and is crucial for the effective functioning of audit committees. The provision of timely, useful and relevant disclosures relating to auditor selection and appointment would allow for better communications and understanding of an audit committee's decision making, which in turn enhances the trust between the listed company, its Board, shareholders, and other stakeholders. This would also allow audit committees to better fulfil their fiduciary responsibilities.
- ii. For the selection and appointment of auditors, as a base line, audit committees should take great care in ensuring disclosures are factually correct and not boilerplate. As a best practice, audit committees should articulate their approach in auditor selection (including for example, attitude towards voluntary rotation) and provide explanations on the rationale for auditor appointments. Section 6 of the Guidelines contains practical guidance on this matter.
- iii. In the event an auditor resigns, the audit committee is responsible for reviewing the listed company's draft announcements to ensure they are factually correct and contain all relevant material information. They should ensure that the circumstances leading to the auditor's resignation are brought to the market's attention and the basis for selecting the incoming auditor is sufficiently disclosed by making reference to Section 6 of the Guidelines.

d. **Monitoring and evaluating the audit effectiveness**

- i. The assessment of audit effectiveness should be integrated into an audit committee's routine activities, rather than treated as a separate one-off compliance exercise. The audit committee should maintain close and effective dialogue with the auditor throughout the audit. Moreover, proper supervision and support should be in place to ensure any audit issues that arise are resolved appropriately and in a timely manner.
- ii. As an impartial intermediary between the auditor and management, the audit committee should be open-minded to the auditor's professional questioning and findings, and ensure that there is a proper forum for the auditor to communicate any concerns or issues. The audit committee should challenge management and monitor their responses and responsiveness to the auditor's queries.
- iii. Likewise, the audit committee should apply the same level of care and scepticism when overseeing the auditing process. By scrutinising the audit plan, the audit committee can better assess whether the auditor has placed sufficient attention on the audit focus in accordance with AFRC's year-end audit reminders.<sup>13</sup> It can also shed light on how the auditor plans to address the common audit deficiencies described in AFRC's Inspection Reports.<sup>14</sup>
- iv. Audit committees should not in any way put pressure on auditors to issue a clean audit opinion or request them to resign after the emergence of audit issues. Instead, as the gatekeeper, audit committees should provide impartial advice to their Boards and facilitate the resolution of any audit issues in a professional and orderly manner.

<sup>13</sup> AFRC, "Audit Focus – 2022 financial year-end audit reminders", 22 December 2022, [https://www.afrc.org.hk/media/owofhcmd/year-end-reminder-2022-22-dec-\\_final.pdf](https://www.afrc.org.hk/media/owofhcmd/year-end-reminder-2022-22-dec-_final.pdf).

<sup>14</sup> AFRC, "2022 Interim Inspection Report", 15 November 2022, [https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022\\_Interim\\_Inspection\\_report\\_EN.pdf](https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/2022_Interim_Inspection_report_EN.pdf).

## 11. Our expectations of other stakeholders

- 11.1. While the Guidelines were designed for audit committees, they could also be instructive to other stakeholders, including but not limited to auditors, management and the Board, and shareholders and investors.
- a. **Auditors** – In an ideal world, auditors' roles should extend beyond their statutory duties of issuing an audit opinion, and encompass the provision of support to audit committees so that audit committees in turn can properly discharge their responsibilities. This will create a virtuous circle by raising the standards of corporate governance, leading to better financial reporting, which in turn will allow auditors to provide a higher level of value-add to listed companies. This will be the win-win scenario. As highlighted in *Subsection 9*:
- i. Auditors should play an active role in supporting audit committees in the implementation of the Guidelines. This is not limited to providing information to audit committees on how to evaluate audit quality or assess if audit fees were reasonable, but also to proactively share their knowledge and practical experience in relation to these areas.
  - ii. When audit issues arise, auditors should conduct a frank and open dialogue with audit committees and management to seek resolution of the issues, and endeavour to complete the audit. This frank and open dialogue should continue even after the auditor has resigned. As the outgoing auditor, they should be transparent to the audit committee and the incoming auditor about their concerns.
- b. **Management and the Board** – Although the responsibility for the preparation of financial statements and their integrity rests with management and the Board, an experienced and competent auditor would be able to identify deficiencies and make recommendations on the financial reporting process. This can further enhance the quality of financial reporting and, in return, improve the reputation of the listed company. We expect that listed companies should:
- i. Not pressure their auditors to reduce audit fees to a level that may compromise audit quality.
  - ii. Be receptive to challenges from auditors and should not pursue a clean audit opinion through opinion shopping or force an auditor to resign when experiencing audit issues.

- c. **Shareholders and investors** – the information asymmetry between management on the one hand, and shareholders and other investors on the other, creates risks for shareholders and investors when making investment decisions. They can be more assertive in exercising their rights and demand relevant, decision useful information, and we expect shareholders and investors to:
  - i. Encourage more transparent and timely disclosures on related issues.
  - ii. Attend shareholder meetings and exercise their voting rights on auditor selection and remuneration.
  - iii. Actively pose questions to listed companies on issues relating to auditor selection, audit fees and audit quality and encourage listed companies to build an open platform for constructive communication on unresolved issues.

## 12. Looking ahead

- 12.1. Through the survey responses, we are pleased to see the commitment demonstrated by audit committees in adopting the recommendations in the Guidelines. This demonstrates that the value of the recommendations is recognised by audit committees. However, it is clear that there is much room for improvement in the implementation of the Guidelines.
- 12.2. In the near term, the AFRC will continue to raise awareness, recommend and monitor the active adoption of the Guidelines, for example, through collaboration with other regulators or conducting follow-up surveys. This is vital as it will lay the foundation for a series of future steps aimed at further enhancing audit and financial reporting quality. This will serve to uphold the integrity of Hong Kong's capital markets and reinforce its position as a competitive international financial centre.
- 12.3. Rome was not built in a day. Enhancing the system is a marathon, and the Guidelines is just the first instalment in a series for audit committees. In future, the AFRC will issue additional guidance for audit committees to help them discharge their responsibilities more effectively.
- 12.4. As part of this project, we have also identified several areas that may warrant further studies, including but not limited to ways in which audit quality and its measurement, transparency and governance, and market competition can be improved. All of these will ultimately strengthen the trust and confidence that the public would expect of Hong Kong's capital market ecosystem.
- 12.5. We believe by working closely with other stakeholders, we can uphold and protect the public interest, and the role of Hong Kong as an international financial centre will only become stronger.

## Section D

# Methodology and limitations

### 13. Methodology

- 13.1. The survey of PIE auditors was conducted online from 16 November 2022 to 16 December 2022. Since the survey was designed to capture the practice of listed companies, this report reflects only the responses from PIE auditors that have active PIE audit engagements. If multiple responses were received from the same PIE auditor, only the latest response is reflected in this Report.
- 13.2. The survey of listed companies was conducted online from 16 November 2022 to 10 January 2023 with names of respondents kept anonymous.
- 13.3. The survey findings are presented by market capitalisation of listed companies and by audit firm category for PIE auditors, respectively. The listed companies have been segregated into different tiers based on their market capitalisations. Tier 1 includes companies with a market capitalisation greater than HK\$2,600 million, tier 2 between HK\$350 million and HK\$2600 million, and tier 3 below \$350 million.
- 13.4. Audit firms are segregated into 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

- 13.5. We find that responses of listed companies with different market capitalisation and auditors of different categories converge on most questions, except for areas specifically highlighted.

## 14. Limitations

- 14.1. Since the survey findings are projected to represent all the Hong Kong listed companies and their auditors, they are subject to sampling error. The response rates for local PIE auditors (100%), mainland PIE auditors (60%) and overseas PIE auditors (58%) are regarded as statistically significant to produce survey findings with acceptable levels of precision, as compared to the response rate of listed companies. Therefore, the survey findings for listed companies (6%) are potentially subject to a higher margin of error.
- 14.2. Response rates may also reflect stakeholders' interest. The lower response rate for listed companies compared to PIE auditors may reflect that listed companies are less interested in this subject.
- 14.3. The surveys are voluntary and therefore those who answered the survey constitute a self-selected group and might have response bias. Therefore, caution is needed in drawing conclusions about the findings.
- 14.4. The market capitalisation distribution of listed company respondents is as follows: 41% for tier 1; 32% for tier 2 and 27% for tier 3. While the distribution of market capitalisation among respondents was not strictly even, each group attracted a certain percentage of respondents. Therefore, our result findings should be representative across all tiers.
- 14.5. In assessing the practice of the auditor or the audit committee of a listed company, the respondent's role and familiarity would affect the reliability of the individual response to each question. The survey of PIE auditors was completed by the authorised partner or director of the practice unit; therefore, such margin of error would be smaller than the survey of listed companies which was completed by a range of representatives, including audit committee chairpersons and audit committee members (57%), as shown on page 8.
- 14.6. Respondents might intentionally not be forthcoming on sensitive questions. We sought to mitigate this by asking similar questions to both target groups, such that we can cross-reference responses from both surveys. However, some questions are unique to a particular target group and cross-referencing is not possible, such as whether the auditor has experienced pressure to issue a "clean opinion" or when auditors were asked to rate the quality of disclosures of the listed companies they work with.

## Section E

# Acknowledgements

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### 15. Acknowledgements

15.1. We would like to express our appreciation of the support from Hong Kong Exchanges and Clearing Limited (HKEX) and the following professional bodies (in alphabetical order) in promoting our surveys to their members:

- a. Association of Chartered Certified Accountants (ACCA);
- b. Chamber of Hong Kong Listed Companies (CHKLC);
- c. Hong Kong Association of Registered Public Interest Auditors Limited (PIEAA);
- d. Hong Kong Chartered Governance Institute (HKCGI);
- e. Hong Kong Independent Non-Executive Director Association (HKiNEDA);
- f. Hong Kong Institute of Directors (HKIoD);
- g. Hong Kong Investor Relations Associations (HKIRA);
- h. Society of Chinese Accountants and Auditors (SCAA).

# Appendix I

## Survey to Audit Committees

Survey questions					
<i>(Please select the appropriate option(s) by putting a "✓" in the box(es).)</i>					
<b>1. How often have you received the following resources from your auditor?</b>					
		Never/ Rarely	Sometimes	Often	Consistently
a	How to evaluate an auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	How to assess the appropriateness of an audit fee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	How to conduct an effective audit tender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	How to monitor management in resolving disagreements with your auditor on audit issues	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	The appropriate action(s) in the event of auditor resignation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	How to improve disclosures relating to auditors selection, appointment and reappointment in the corporate governance report	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>1B. For the resources you have selected "Never/Rarely" or "Sometimes" in the question above, please tell us the preferred format that you would like to receive from your auditor. (Select all that apply)</b>					
<input type="checkbox"/> Briefing/training sessions <input type="checkbox"/> How-to guides <input type="checkbox"/> Checklists/reference frameworks <input type="checkbox"/> Other, please specify [Insert the preferred formats]					

<b>2. Which of the following information did the audit committee evaluate when selecting an auditor?</b>				
		Yes	No, but the audit committee will do so in the next 12 months	No, and the audit committee has no plans to do so in the next 12 months
a	The firm's governance arrangements <sup>#1</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	The firm's policies and procedures for monitoring and complying with ethical requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Results and details of the independence assessment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	The firm's industry experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	The audit team's composition and profiles <sup>#2</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	The firm's audit methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	The firm's quality control procedures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h	The audit team's communication plan with the audit committee <sup>#3</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i	Results of recent external inspections performed by regulatory and professional bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j	Results of recent internal inspections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
k	A breakdown of the proposed audit hours to the audit committee (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
l	A breakdown of the proposed audit fees to the audit committee (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
m	The relationship with the auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<sup>#1</sup>	Examples of governance arrangements would include the person(s) who is/are ultimately responsible and accountable for quality management, their experience, seniority and authority.			
<sup>#2</sup>	Examples of composition and profiles would include experience and qualifications of the audit engagement partners, the engagement quality reviewer and the key audit engagement team members.			
<sup>#3</sup>	Examples of communication plans would include audit milestones, timing and content communication with the audit committee.			
<b>2A. Please provide any other factors that the audit committee evaluated when selecting an auditor. (Optional)</b>				
<b>2B. For each of the information you have selected "No, and the audit committee has no plans to do so in the next 12 months" in the question above, please provide reasons. (Select all that apply)</b>				
<input type="checkbox"/> The audit committee does not have access to such resources <input type="checkbox"/> The audit committee does not have the expertise to perform such an evaluation <input type="checkbox"/> The audit committee does not think such evaluation is relevant to auditor selection, appointment and reappointment <input type="checkbox"/> Other, please specify [Insert reasons]				

<b>3. Please select the top three factors that the audit committee focuses on when selecting an auditor.</b>	
<input type="checkbox"/>	The firm's governance #1 and leadership
<input type="checkbox"/>	The firm's compliance with relevant ethical requirements
<input type="checkbox"/>	The firm's industry experience and the audit team's composition and profiles #2
<input type="checkbox"/>	The firm's engagement performance, including their audit methodologies and quality control procedures
<input type="checkbox"/>	The audit team's communication with the audit committee #3
<input type="checkbox"/>	The auditor's relationship with the audit committee
<input type="checkbox"/>	Results of recent internal inspections and external inspections performed by regulatory and professional bodies
<input type="checkbox"/>	The proposed audit fees
<input type="checkbox"/>	Other. Please specify the factor [Insert factors]
<b>4. Has the audit committee ever conducted a tender process for auditor appointment or reappointment?</b>	
<input type="radio"/>	Yes, the year that last happened was [Insert year]
<input type="radio"/>	Never
<b>4A. Has the audit committee ever adopted a fee blind evaluation # (a.k.a. a two-envelope two-stage approach) for auditor selection and appointment?</b>	
<input type="radio"/>	Yes
<input type="radio"/>	No, please provide reasons. (Select <b>all</b> that apply)
<input type="checkbox"/>	The audit committee is not aware of a fee blind evaluation process
<input type="checkbox"/>	The audit committee considers audit fee as one of the key elements in auditor selection
<input type="checkbox"/>	Other, please specify [Insert reasons]
<p># A fee blind evaluation is an approach advocated by the ICAC which could be achieved by requesting firms to submit information relating to their technical and quality capabilities and the proposed audit fees separately in two sealed envelopes. Under this two-envelope approach, audit committees would not open the envelopes containing the fee proposal until the technical assessment has been completed.</p>	
<b>5. Do you expect to conduct a tender process for auditor appointment or reappointment in the next 12 months?</b>	
<input type="radio"/>	Yes
<input type="radio"/>	Not sure
<input type="radio"/>	No, please provide reasons. (Select <b>all</b> that apply)
<input type="checkbox"/>	The audit committee intends to re-appoint its existing auditor
<input type="checkbox"/>	The last tender was sufficiently recent
<input type="checkbox"/>	The audit committee does not have the expertise to perform audit tenders
<input type="checkbox"/>	The time and effort involved to conduct a tender outweigh the benefits
<input type="checkbox"/>	Other, please specify [Insert reasons]
<b>6. Do you agree that the level of audit fees have a direct impact on the audit quality?</b>	
<input type="radio"/>	Yes
<input type="radio"/>	No
<b>7. Do you think audit committees play a pivotal role in monitoring how auditors enhance and maintain audit quality?</b>	
<input type="radio"/>	Yes
<input type="radio"/>	No
<b>8. Do you think the current audit fee your company is paying is in line with your expected level?</b>	
<input type="radio"/>	Above the expected level
<input type="radio"/>	Aligned with the expected level
<input type="radio"/>	Below the expected level

**9. What are the necessary factors that would help improve the implementation of the Guidelines? (Select all that apply)**

- Board leadership/tone from the top
- Company culture
- Knowledge and expertise of the audit committee
- Resources available to the audit committee
- Collaboration between the auditor and the audit committee
- Collaboration between the auditor and management
- Collaboration between management and the audit committee
- Other, please share [Insert factors]

**10. Do you have any further comments to share with us? (Optional)**

**General information**

**From whom did you hear about our survey? (Check all that apply)**

- Accounting & Financial Reporting Council (AFRC)
- Association of Chartered Certified Accountants (ACCA)
- Chamber of Hong Kong Listed Companies (CHKLC)
- Hong Kong Association of Registered Public Interest Auditors Limited (PIEAA)
- Hong Kong Chartered Governance Institute (HKCGI)
- Hong Kong Exchanges and Clearing Limited (HKEX)
- Hong Kong Independent Non-Executive Director Association (HKINEDA)
- Hong Kong Institute of Directors (HKIoD)
- Hong Kong Investor Relations Associations (HKIRA)
- Society of Chinese Accountants and Auditors (SCAA)
- Your auditor
- Other, please specify [Insert the relevant bodies]

**Particulars of the listed company**

Current Market Capitalisation	<input type="checkbox"/> > HK\$2,600 million <input type="checkbox"/> HK\$350 million – HK\$2,600 million <input type="checkbox"/> < HK\$350 million
Listing Board	<input type="checkbox"/> Main Board <input type="checkbox"/> GEM
Industry	
Stock Code (Optional)	
Company Name (Optional)	

**Particulars of person who completed the survey**

What is your role on the audit committee	<input type="checkbox"/> Audit Committee Chairperson <input type="checkbox"/> Audit Committee Members <input type="checkbox"/> Other, please specify [Insert your role]
Would you want to provide your contact information with us for future collaborate activities with AFRC?	<input type="checkbox"/> Yes, please provide contact details <input type="checkbox"/> No

## Appendix II

# Survey to PIE Auditors

<b>Survey questions</b>					
<i>(Please select the appropriate option(s) by putting a "✓" in the box.)</i>					
<b>1. Has the audit firm received more invitations to audit tenders from January to October 2022, as compared to the same period a year ago?</b>					
<input type="radio"/> Yes					
<input type="radio"/> No					
<b>2. Did the audit tenders your firm participated in 2022 adopt a fee blind evaluation #1 (a.k.a. a two-envelope two-stage approach)?</b>					
<input type="radio"/> Yes					
<input type="radio"/> No					
<input type="radio"/> Not applicable – the audit firm did not participate in any audit tenders in 2022					
<small>#1 A fee blind evaluation is an approach advocated by the ICAC which could be achieved by requesting firms to submit information relating to their technical and quality capabilities and the proposed audit fees separately in two sealed envelopes. Under this two-envelope approach, audit committees would not open the envelopes containing the fee proposal until the technical assessment has been completed.</small>					
<b>3. For the listed companies you work with, which statement most closely describes the disclosures in each of the following areas?</b>					
		Disclosures are relevant and informative	Disclosures are satisfactory	Disclosures are brief and boilerplate	There are no such disclosures
a	Auditor selection process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	Auditor selection criteria and basis for decision	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Explanation of how the audit committee has assessed the effectiveness of the auditor, in particular in handling key audit matters	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	Reasons for a change in auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

4. How often has your firm provided the following resources to the audit committees you work with?					
		Never/ Rarely	Sometimes	Often	Consistently
a	How to evaluate an auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	How to assess the appropriateness of an audit fee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	How to conduct an effective audit tender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	The appropriate action(s) in the event of auditor resignation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	How to improve disclosures relating to auditor selection, appointment and reappointment in the corporate governance report	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4A. For each of the activities you have selected "Rarely/Never" or "Sometimes" in the above question, please provide reasons. (Select all that apply)					
<input type="checkbox"/> The audit committees have not asked for any support <input type="checkbox"/> The audit firm/teams do not think such support is required <input type="checkbox"/> The audit firm/teams do not have the expertise to provide such support <input type="checkbox"/> The audit firm does not have access to such resources <input type="checkbox"/> Other, please specify [insert reasons]					
4B. For the activities you have selected "Consistently" in the above question, in which of the following formats were they provided? (Select all that apply.)					
<input type="checkbox"/> Briefing/training sessions <input type="checkbox"/> How-to guides <input type="checkbox"/> Checklists/reference frameworks <input type="checkbox"/> Other, please specify [insert formats]					

5. How often have the audit committees you work with asked for the following information?					
		Never/ Rarely	Sometimes	Often	Consistently
a	The firm's governance arrangements <sup>#1</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	The firm's policies and procedures for monitoring and complying with ethical requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Results and details of the independence assessment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	The firm's industry experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	The audit team's composition and profiles <sup>#2</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	The firm's audit methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	The firm's quality control procedures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h	The audit team's communication plan with the audit committee <sup>#3</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i	Results of recent external inspections performed by regulatory and professional bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j	Results of recent internal inspections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
k	A breakdown of the proposed audit hours to the audit committees (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
l	A breakdown of the proposed audit fees to the audit committees (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<sup>#1</sup>	Examples of governance arrangements would include the person(s) who is/are ultimately responsible and accountable for quality management, their experience, seniority and authority.				
<sup>#2</sup>	Examples of composition and profiles would include experience and qualifications of the audit engagement partners, the engagement quality reviewer and the key audit engagement team members.				
<sup>#3</sup>	Examples of communication plans would include audit milestones, timing and content communication with the audit committee.				

<b>6. How often have your audit teams shared the following information to the audit committees they work with?</b>					
		Never/ Rarely	Sometimes	Often	Consistently
a	The firm's governance arrangements #1	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	The firm's policies and procedures for monitoring and complying with ethical requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Results and details of the independence assessment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	The firm's industry experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	The audit team's composition and profiles #2	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	The firm's audit methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	The firm's quality control procedures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h	The audit team's communication plan with the audit committee #3	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i	Results of recent external inspections performed by regulatory and professional bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j	Results of recent internal inspections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
k	A breakdown of the proposed audit hours to the audit committees (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
l	A breakdown of the proposed audit fees to the audit committees (by seniority of staff, geographical locations or business segments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
#1	Examples of governance arrangements would include the person(s) who is/are ultimately responsible and accountable for quality management, their experience, seniority and authority.				
#2	Examples of composition and profiles would include experience and qualifications of the audit engagement partners, the engagement quality reviewer and the key audit engagement team members.				
#3	Examples of communication plans would include audit milestones, timing and content communication with the audit committee.				
<b>6A. For each of the activities you have selected "Never/Rarely" or "Sometimes" in the above statement, please provide reasons. (Select all that apply.)</b>					
<input type="checkbox"/>	Such information has not been requested by audit committees				
<input type="checkbox"/>	Such information is publicly available				
<input type="checkbox"/>	Such information is not in a form readily available to be shared with audit committees				
<input type="checkbox"/>	The audit team does not think such information is relevant to audit committees				
<input type="checkbox"/>	Other, please specify [-]				

<b>7. Has your firm provided internal guidance and, where relevant, made the following information available to your audit teams for distribution to audit committees?</b>				
		Yes	No, but our firm will do so in the next 12 months	No, and our firm has no plans to do so in the next 12 months
a	The firm's governance arrangements <sup>#1</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	The firm's policies and procedures for monitoring and complying with ethical requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	Results and details of the independence assessment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	The firm's industry experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	The audit team's composition and profiles <sup>#2</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	The firm's audit methodologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	The firm's quality control procedures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h	The audit team's communication plan with the audit committee <sup>#3</sup>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i	Results of recent external inspections performed by regulatory and professional bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j	Results of recent internal inspections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<sup>#1</sup>	Examples of governance arrangements would include the person(s) who is/are ultimately responsible and accountable for quality management, their experience, seniority and authority.			
<sup>#2</sup>	Examples of composition and profiles would include experience and qualifications of the audit engagement partners, the engagement quality reviewer and the key audit engagement team members.			
<sup>#3</sup>	Examples of communication plans would include audit milestones, timing and content communication with the audit committee.			

8. Has your firm provided any guidance to your audit teams in the following situations?				
		Yes	No, but our firm will do so in the next 12 months	No, and our firm has no plans to do so in the next 12 months
a	The specific actions that could be taken when audit team experiences pressure on audit fees that may compromise audit quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	The specific actions that could be taken when audit team experiences pressure to issue a “clean” audit opinion or not to disclose “unresolved matters”	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	The content to be covered in the letter of resignation (including the circumstances leading to their resignation and incidents that affect the relationship between the listed company and outgoing auditor) when the audit team resigns from the listed company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	As an outgoing auditor, the verification and follow-up procedures regarding the accuracy and completeness of the announcement made by the listed company in relation to a change in auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	In accepting a new engagement, the assessment of competence and availability of resources to discharge your obligation as an auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	As an incoming auditor, the communications with the outgoing auditor (including review of their audit work papers)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g	As an incoming auditor, the communications with audit committees on the outgoing auditor's unresolved audit matters	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

<b>9. In the past year, how often have your audit teams experienced the following situations?</b>					
		Never/ Rarely	Sometimes	Often	Consistently
a	Fee pressure that may compromise audit quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b	Pressure to issue a “clean” audit opinion or not to disclose “unresolved matters”	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c	In instances where your firm resigned from an audit engagement, lack of proper understanding and investigation by the audit committee of the underlying reasons	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d	Inaccuracies or incompleteness in the announcement made by the listed company in relation to a change in auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e	Pushback to arrange communications with the outgoing auditor (including review of their audit work papers)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f	The company has not fully disclosed their disagreements or unresolved audit issues with its previous auditor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>10. To the best of your knowledge, have the Guidelines been effectively implemented by audit committees?</b>					
<input type="radio"/> Yes					
<input type="radio"/> No					
<b>10B. If you have selected “No” in the above question, please provide comments (if any). (Optional)</b>					
<b>11. Do you have any further comments to share with us? (Optional)</b>					
<b>General information</b>					
<b>Particulars of contact point for follow-up on the survey</b>					
PIE Auditor Number and/or PIE Auditor Number					
First Name					
Last Name					
Position					
Telephone number					
E-mail					

## **Authors**

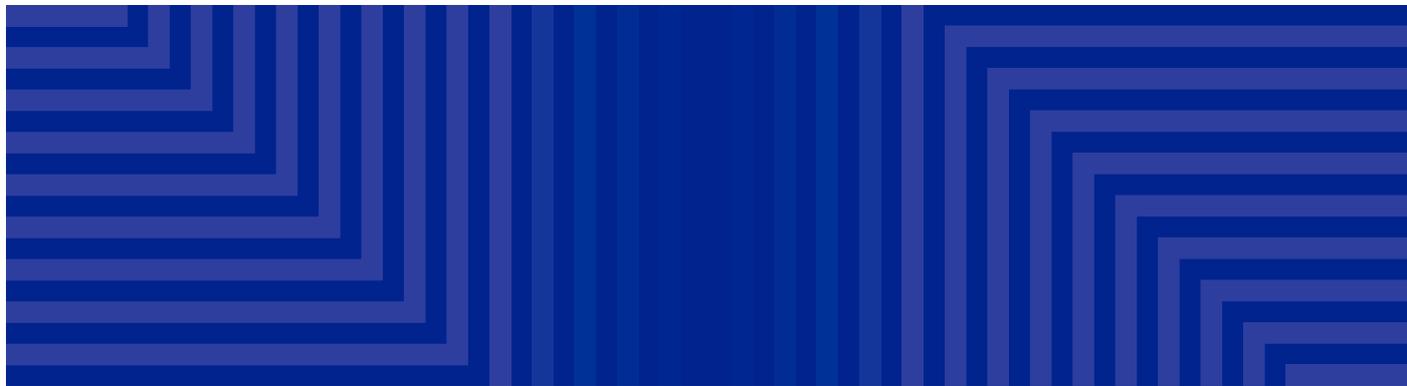
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