

Continuing Professional Development as a Key to Improving Audit Quality in Hong Kong

Introduction

High-quality audits are the foundation underlying the trustworthiness of financial reporting and the integrity of capital markets. The quality of audits in Hong Kong depends largely on the level of professional knowledge, skills, and experience of the city's auditors. The Accounting and Financial Reporting Council (**AFRC**) considers continuing professional development (**CPD**) a crucial component of talent management, essential to ensuring high-quality audits, and a key to the future-proofing of the profession through reskilling and upskilling.

This article outlines the link between CPD and audit quality in the context of the ongoing transformation of the audit profession and the need for auditors to acquire new skills. In it, the AFRC voices its concern with the current level of CPD compliance amongst CPAs and its potential impact on audit quality. It also sets out expectations of the leadership teams of audit firms regarding talent management.

CPD and audit quality

Cultivating human capital and developing talent of accounting professionals through CPD activities are essential to conducting high-quality audits in a sustainable manner. The AFRC's [2022 Annual Inspection Report](#), published in July 2023, revealed that "continuous focus on enhancing competence and capabilities" was amongst the key factors contributing to improved audit quality of certain public interest entity (**PIE**) auditors. Empirical research also suggests that human capital matters when it comes to audit quality, and efforts to improve it may lead to better outcomes. One study found that offices of a Big-4 audit firm with relatively more professionally qualified human capital deliver higher-quality audits. This benefit is more pronounced for audits performed during the busy

season than for non-busy season audits.¹ Another study found that the audit quality was linked to the expertise of the lead auditor rather than to that of the firm as a whole.² Other studies specifically looked at the relationship between CPD and audit quality and found a positive and significant association.^{3, 4}

The transformation of the audit profession

The audit profession is undergoing a profound transformation as the scope of what auditors analyse moves beyond traditional financial information. In particular, ESG and climate expertise is increasingly needed to analyse climate-related risks and their effect on companies' financials.

New technologies represent both an opportunity and a new challenge for the profession. The International Federation of Accountants (**IFAC**) notes that the use of artificial intelligence (**AI**) in auditing could substantially increase efficiency and “add greater value by focusing on the skills specific to humans such as innovation, creativity, critical thinking, and judgment.”⁵ On the other hand, new technologies implemented by audited companies necessitate the attestation of various aspects of these technologies to ensure investors' confidence in the resulting financial information.

In addition, accounting professionals need to keep up with continuing changes in accounting standards. The Hong Kong Institute of Certified Public Accountants (**HKICPA**) lists seven changes to accounting and financial reporting standards that

¹ Nagy, A., Sherwood, M., and Zimmerman A. (2023) "CPAs and Big 4 office audit quality", Journal of Accounting and Public Policy, Vol. 30, Issue 2. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0278425422000813?via%3Dihub>.

² Chin, Cl., and Chi, HY. (2009) "Reducing Restatements with Increased Industry Expertise", Contemporary Accounting Research, Vol. 26, No. 3. Available at: <https://ssrn.com/abstract=913446>.

³ Ocak, M., Ozkan, S., and Can, G. (2022) "Continuing professional education and audit quality: evidence from an emerging market", Asian Review of Accounting, Vol. 30 No. 4, pp. 432-464. Available at: <https://doi.org/10.1108/ARA-12-2021-0235>.

⁴ Lee, SC., Su, JM., Tsai, SB., et al. (2016) "A comprehensive survey of government auditors' self-efficacy and professional development for improving audit quality", SpringerPlus 5, 1263. Available at: <https://doi.org/10.1186/s40064-016-2903-0>.

⁵ IFAC (2023) "AI & Intelligent Automation – Disrupting Business; Elevating the Work of Accounting & Finance Professionals". Available at: <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/ai-intelligent-automation-disrupting-business-elevating-work-accounting-finance-professionals>.

are applicable to accounting periods beginning on or after 1 January 2023.⁶ Not to mention that accountants, like other professionals, need to continue refining their non-technical skills, in particular leadership, management, communication, and critical thinking.

An effective CPD programme incorporating several of these components helps audit professionals stay abreast of emerging industry trends, regulatory changes, and best practices. By engaging in CPD activities, auditors can enhance their technical proficiency, broaden their skill set, and boost their career prospects. Firms benefit from CPD activities by increasing competency, reducing their compliance risk, enhancing job satisfaction, and improving staff retention.

The AFRC's concerns

The AFRC commenced inspecting PIE engagements of PIE auditors in Hong Kong on 1 October 2019. The results of the inspections conducted in the first three-year inspection cycle show that far too often the quality of the audits falls below the AFRC's expectations. The 2022 Annual Inspection Report lists "lack of knowledge and experience of engagement team members" and "insufficient training and guidance on accounting knowledge and auditing skills" amongst the most common causes of audit deficiencies. Moreover, 64% of firms under full review in 2022 were identified as having "insufficient internal training and/or insufficient monitoring of external training attended by professional staff." Not only does such neglect of training impact the firms' ability to deliver quality audits, but it also negatively affects the morale of junior staff, whose career progression depends on acquiring new skills.

At the same time, a recent audit of CPD compliance conducted by the HKICPA, which sets CPD requirements for its members, reveals that nearly a third of its members failed to meet their CPD requirements during a three-year period ending in November 2021.⁷ In light of the inadequacies in the level of skills and knowledge of auditors noted in the 2022 Annual Inspection Report, the AFRC is

⁶ HKICPA (2023) "Hong Kong Financial Reporting Standards Update". Available at: https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/05_Members-Handbook-and-Due-Process/frsc/nas0123.pdf

⁷ As reported in the AFRC "[2023 Oversight Report on HKICPA's Performance of Specified Functions](#)", published in November 2023, the HKICPA's 2021 CPD compliance audit covered the period from 1 December 2018 to 30 November 2021.

concerned with the potential impact of such high level of CPD non-compliance on audit quality, and how it reflects on the general learning culture amongst the profession.

CPD and talent management

The AFRC acknowledges the challenges audit firms in the city are experiencing in maintaining staffing levels, as we noted in our [2021 Annual Inspection Report](#). However, when it comes to public interest, staff shortages should not be an excuse for poor audit quality. Staff development – including upskilling and reskilling through CPD – becomes even more important for mitigating the effects of resourcing challenges and boosting the attractiveness of the profession for new entrants.

The way forward

The AFRC expects auditors to comply with CPD requirements set by the HKICPA in order to remain in good standing with the professional body. However, we also strongly encourage accountants and auditors in Hong Kong to go beyond the bare minimum. It will benefit members and the profession, if accountants adopt a mindset of continuous and lifelong learning, and devote effort to acquire knowledge and skills essential to furthering their professional development.

The AFRC expects audit firms to invest in CPD initiatives and encourage their staff's participation in them in order to maintain and improve audit quality. In particular, we recommend that firms take the following actions:

- **Regularly assess the upskilling needs of staff** to identify knowledge gaps and areas for development. Based on the assessment, audit firms should make appropriate arrangements to equip their staff with up-to-date technical competence, skills, and knowledge. By ensuring that CPD training is targeted and aligned with audit professionals' needs, audit firms can maximise the positive impact of these initiatives on audit quality.
- **Promote professional qualifications and offer training sponsorships** to support staff in obtaining professional certifications and job-related knowledge. Professional certifications provide a recognised benchmark of

expertise and competence, enhancing auditors' professional standing and credibility.

- **Focus on outcomes, both at the individual and the firm level:** Outcome-focused CPD requires individuals to take greater ownership of their learning, and to consider not only what they have learned but also how it has led to improvements in audit quality. Firms should aim to quantify how investments in CPD have impacted staff morale and retention.
- **Prioritise efforts to expand the talent pool of the audit profession by attracting and developing audit staff.** Audit firms should actively participate in industry-wide initiatives aimed at promoting the audit profession and attracting skilled professionals. This can include collaboration with universities, launching internship programmes, and engaging with relevant industry associations. By fostering a collaborative environment, audit firms contribute to the growth and development of the audit profession and ensure a sustainable pipeline of auditors.
- **Encourage staff to broaden their skills, embrace innovation, and adopt a mindset of continuous and lifelong learning.** Such a mindset benefits not only individuals by helping them advance their careers, but also boosts the competitiveness of firms. Conversely, firms that neglect staff development risk not only compromising the quality of their audits, but also failures of compliance with laws and regulations. Talent management should therefore be seen by management to mitigate compliance risk.

Summary

Senior leaders of audit firms should view talent management, and particularly CPD, as an ethical obligation to their staff, the profession, and the public. They need to organise or facilitate participation in CPD activities. Through mentoring and oversight, they should help their staff identify professional development needs and the most suitable CPD activities to pursue. Audit firms will reap benefits not only in the improved quality of their work, but also in the confidence, high morale, and professional satisfaction of their staff.