

7 March 2022

Mr Clement Chan, MH JP  
Chairman  
Hong Kong Association of Registered  
Public Interest Entity Auditors Limited (PIEAA)  
25/F Wing on Centre  
111 Connaught Road Central  
Hong Kong

Dear Clement,

### **PIE Auditor Resourcing Challenges in the Current Environment**

I am writing to you in your capacity as the Chair of the PIEAA to acknowledge the significant challenges being faced by PIE Auditors given the synchronisation of the current listed entity reporting season with the most recent evolution in the pandemic (a highly contagious 5<sup>th</sup> wave) and a new high point in the impact of the “Great Resignation”.

Our outreach to PIE auditors about these issues reveals the acuteness of the challenges that PIE Auditors are facing in maintaining their audit staff resources at appropriate levels in this environment. On the whole, it also suggests that PIE Auditors are aware of the issues and are seeking to mitigate them proactively, where possible.

Our outreach also reveals that the latest wave of Covid infections is creating significant new uncertainty about possible constraints on staff mobility and is posing heightened concern for many that they may experience further unanticipated resourcing challenges in the remaining weeks of the reporting season for 31 December year-end listed entities.

PIE Auditors also express concern that, despite the concession for extending the reporting deadline, they may experience pressure from listed entities to complete their

audit work by the standard reporting dates. They note that some listed entities are facing similar challenges to meeting their own timetables for preparing the financial statements. This may further squeeze the time available for the auditor's work.

All of these challenges pose significant risks to the quality of listed entity audits. In particular, going concern and impairment assessments are some of most serious financial reporting risks in the current economic climate. They are likely to be significant risks given the levels of management judgment required and will likely require more experienced audit staff to address them. Shortages of experienced staff may therefore increase the risks to the quality of audits where these issues are salient.

Amidst and despite these circumstances, I want to reiterate our expectations for the pivotal role that PIE Auditors play in ensuring that the quality of financial reporting by listed entities is not compromised.

As the regulator of listed entity audits, the FRC has a duty to ensure that the quality of listed entity audits is not compromised despite the challenges being faced by PIE Auditors. Though we understand and recognise the nature and severity of these challenges, assuring the quality of listed entity audits is pivotal in upholding the quality of financial reporting by listed entities.

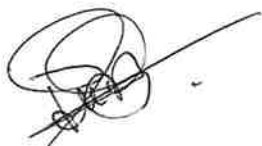
We expect PIE Auditors to maintain even closer dialogue with their listed entities' management and Audit Committees. This is likely to be critical in seeking to manage any challenges to the reporting timetable as early as possible. PIE Auditors will need to consider whether their work can be completed and appropriate audit judgments reached not only before they issue their report but also before unaudited financial statements may be published under the available concession from the HKEX.

When PIE Auditors believe that the listed entity is desired reporting timetable is creating risks to the quality of their audit or limiting their scope of audit, they should engage frankly and proactively with the listed entity's Audit Committee which has an important role to play in relation to the quality of financial reporting and audit.

Furthermore, we encourage all PIE Auditors to speak directly and immediately to us as their regulator in the event that they face undue challenges. This will not only enable us to understand the specific challenges they are facing but would allow us to provide such appropriate support as may be practical in the circumstances.

I would be grateful if you would share this letter with your members. Please do not hesitate to let me know if you would like to discuss the matters raised above or in any feedback from your members now or as the reporting season evolves. We aim to publish this letter on our website from 8 March 2022.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Marek Grabowski', with a long horizontal stroke extending to the right.

Marek Grabowski  
Chief Executive Officer