Accounting Industry in Hong Kong

Overview

- The use of international standard accounting practices and rising business opportunities in Asia have attracted international accounting firms to set up in Hong Kong, riding on the city’s sound regulatory framework, availability of accounting expertise and proximity to fast growing economies like the Chinese mainland and ASEAN countries.

- With companies increasingly exposed to globalisation and the attendant needs for their supply and value chains, big international accounting firms have expanded their service scope to better serve their clients. Local accounting firms, mostly small-scale operators, may find it increasingly challenging in serving their clients.

- In January 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) launched a new Qualification Programme to ensure professional accountants are equipped with the skills, expertise and ethics to support Hong Kong as an international business and financial centre.

- Hong Kong and the Chinese mainland inked two new agreements on 28 June 2017, namely the Investment Agreement and the Economic Technical Cooperation Agreement (Ecotech Agreement) to progressively enrich the CEPA content over the years. The Ecotech Agreement does not cover market access commitments or substantive liberalisation measures, but set forth the direction for closer future cooperation between Hong Kong and the Chinese mainland.

- Hong Kong audit firms are exempted from an interim Chinese rule introduced in 2015 in their audit of financial statements related to mainland enterprises’ offshore listing, provided that certain conditions are met.

- Hong Kong’s exports of accounting, auditing, book-keeping and tax consulting services amounted to US$250 million in 2017, up 5.1% from 2016.

Industry Data

<table>
<thead>
<tr>
<th></th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of establishments of accounting, book-keeping and auditing services, tax consultancy</td>
<td>5,769</td>
</tr>
<tr>
<td>Employment</td>
<td>31,507</td>
</tr>
</tbody>
</table>

Range of Services

Major services provided by certified public accounting (CPA) firms include statutory audit services, tax advisory, company listing, corporate finance, company secretarial, liquidation and due diligence services. Although statutory audit work is still a major source of income for the accounting profession, CPA firms also provide a full range of business advisory services to their clients such as financial planning, corporate management and internal audit.

Non-CPA firms offer services like bookkeeping, general accounting services, year-end financial reporting, tax filing and company secretarial work.

Service Providers

Companies incorporated in Hong Kong are required under the provisions of Hong Kong Companies Ordinance to maintain proper books of accounts and satisfy statutory audit requirements on an annual basis. The Hong Kong Institute of Certified Public Accountants (HKICPA) is a self-regulating body governing the accountancy profession in Hong Kong, and the framework of Hong Kong Financial Reporting Standards (HKFRS) is modelled on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). According to HKICPA, its total membership reached 43,918 as end of March 2019, with 4,908 practising members.

Hong Kong’s accounting sector is dominated by the international firms, particularly the "Big Four", which hold a dominant market share in terms of professional fees earned. They provide audit services for the vast majority of blue chips and other large enterprises listed on the Hong Kong Stock Exchange (HKEx). Other accountancy firms, including the second-tier international accountancy firms and local Hong Kong CPA firms, mainly serve the local and mainland companies of smaller sizes.

Since April 2010, HKICPA has issued Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) for companies with no public accountability, eliminating some accounting treatments under full HKFRSs, including removal of some disclosure requirements not relevant to private entities. Besides, HKICPA has also issued a Financial Reporting Standard (SME-FRS) for certain qualifying SMEs.

In January 2017, HKICPA launched the new Qualification Programme (QP) to ensure professional accountants are equipped with the skills, expertise and ethics to support Hong Kong as an international business and financial centre. Key features include a progressive qualifying process of three levels (i.e. Associate, Professional and Capstone) in the professional programme and relaxed entry requirements to the Professional Level by making exemptions available in the Associate Modules to students with eligible academic background (including students with non-accounting degrees). The Final Examination under the new QP will have an increased emphasis on developing and assessing higher-order enabling skills such as problem solving, critical and lateral thinking. The new QP is set out to be implemented in June 2019.

Internationally, HKICPA members are accorded recognition on five continents, as the association has entered into agreements with the chartered accountant institutes of:

- Australia
- Canada
Accounting Industry in Hong Kong

- England and Wales
- Ireland
- New Zealand
- Scotland
- South Africa
- Zimbabwe
- National Association of State Boards of Accountancy/American Institute of Certified Public Accountants International Qualifications Appraisal Board of the US, Association of Chartered Certified Accountants, CPA Australia and Association of International Accountants, for access to membership in their institutes and practising rights in their countries

Exports

<table>
<thead>
<tr>
<th>Accounting, Auditing and Bookkeeping</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export of accounting, auditing, book-keeping and tax consulting services (US$ mn)</td>
<td>250</td>
</tr>
<tr>
<td>Contribution to total services exports (%)</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Report on Hong Kong Trade in Services Statistics, Census & Statistics Department

Hong Kong's exports of accounting services amounted to US$250 million in 2017. The Chinese mainland is the biggest export market for Hong Kong’s accounting services. Major export services include: statutory audit services, investment-related advisory services (e.g. due diligence), tax advisory and corporate advisory services.

The clients requiring accounting services on the mainland can be broadly divided into four types, namely multinational corporations, Hong Kong companies which have invested or intend to invest on the mainland, Hong Kong-listed mainland enterprises and mainland enterprises expanding overseas.

Industry Development & Market Outlook

In April 2014, China’s Ministry of Finance (MOF) proposed new rules to regulate foreign accounting firms to perform audits for mainland enterprises planning to list offshore, triggering concern over a potentially adverse impact on Hong Kong accounting companies. After the MOF discussed with the Hong Kong government and the accounting sector, it was decided that Hong Kong audit firms would be exempted from the new rules on mainland companies’ offshore listings, provided that certain the conditions were met.

The exemption would apply to audits of mainland companies applying to list or are already listed on HKEx, of which at least 50% of the shares are held by Hong Kong investors. However, Hong Kong audit firms are still subject to the rules’ ban on taking audit working papers out of the Chinese mainland, and sending their staff to audit mainland companies under a temporary licence.

The new rules, the Interim Provisions on Accounting Firms’ Provision of Auditing Services for the Overseas Listing of Enterprises on the Chinese Mainland (the Interim Provisions), were published on 26 May 2015 and came into force on 1 July 2015. The aim of the Interim Provisions is to standardise the audit by foreign accounting firms for offshore listings of mainland enterprises.
Closer Economic Partnership Arrangement between Hong Kong and the Mainland (CEPA)

Hong Kong’s accounting sector and professionals benefit from the CEPA agreement signed with the mainland. In general, CEPA does not include significant market liberalisation measures for Hong Kong’s accounting firms and professionals. For smaller Hong Kong accounting firms, the main option for them to serve the mainland market is via the Temporary Audit Business Permit. Under Supplement V to CEPA, which took effect from January 2009, Hong Kong accounting firms which conduct auditing business on a temporary basis on the Chinese mainland can apply for a Provisional Licence to Perform Audit-Related Services with the validity period extended from two years to five years. This helps reduce the administrative burden for Hong Kong accounting firms compared with the requirements which otherwise apply to non-CEPA beneficiaries.

After ten annual Supplements to keep widening and broadening the liberalisation measures in favour of HKSS, Hong Kong and the mainland entered into a subsidiary agreement under CEPA in 2014 to achieve basic liberalisation of trade in service trade in Guangdong (“Guangdong Agreement”). This was then followed in December 2015 by the Agreement on Trade in Services (“ATIS”) to extend the coverage of the 2014 agreement from Guangdong to the rest of the mainland. Unlike the Supplements which adopted a positive-list approach to introducing liberalisation measures, the two latest CEPA agreements adopt a hybrid approach to granting preferential access to Hong Kong using both positive and negative lists. The ATIS, which covers and consolidates commitments relating to liberalisation of trade in services provided in CEPA and its Supplements and also the Guangdong Agreement, is effective from June 2016.

Hong Kong professionals who have obtained the Chinese Certified Public Accountants (CPAs) qualification are allowed to become partners of partnership firms on the mainland, and are further allowed to apply to become partners of accounting firms on the mainland, with the length of auditing experience acquired in Hong Kong treated as equivalent to that on the mainland. These measures build on those under Supplements IX and X, where the applications for becoming partners were confined to Qianhai, Pingtan and Guangdong. Please click to view the details of the preferential access concerning the accounting services sector.

Hong Kong and the Chinese mainland inked two new agreements on 28 June 2017, namely the Investment Agreement and the Economic Technical Cooperation Agreement (Ecotech Agreement) to further facilitate trade and investment between the two. The Ecotech Agreement has three major highlights:

1. Supports Hong Kong’s participation in the Belt and Road Initiative through building a communication platform.

2. Promotes deepening economic co-operation within the Pan Pearl River Delta Region, in particular the Guangdong-Hong Kong-Macau Bay Area (Bay Area). It also supports further liberalisation for Hong Kong services industries, such as finance, transport and shipping, commerce and trade, professional services and technology in the Pilot Free Trade Zones, as well as in Qianhai, Nansha and Hengqin.

3. Consolidates and enriches prior CEPA co-operation provisions to offer new opportunities for Hong Kong’s professional services providers. In total, 12 areas of co-operation activities are listed under the Ecotech Agreement, including co-operation in
accounting. For details, please refer to TID website.

Mainland Standards Convergence

In recent years, there have been an increasing number of CPA firms/international affiliates and their clients entering the mainland market. In 2007, HKICPA signed joint declarations with the China Accounting Standards Committee and the Chinese Auditing Standards Board in relation to the financial reporting and auditing standards in Hong Kong and the Chinese mainland.

Find this page at

Copyright©2019 Hong Kong Trade Development Council. Reproduction in whole or in part without prior permission is prohibited. While every effort has been made to ensure accuracy, the Hong Kong Trade Development Council is not responsible for any errors. Views expressed in this report are not necessarily those of the Hong Kong Trade Development Council.