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**Exploring Cambodia: How accounting professionals in Hong Kong can
seize opportunities in ASEAN countries**

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1. Introduction

The Accounting and Financial Reporting Council (AFRC) published its 2023 Annual Inspection Report in July 2024. The inspection findings show that in some accounting firms, there has been a slack in the exercise of professional skepticism in risk assessment, and a lack of adequate audit procedures to verify asset impairment valuations and company-provided information. The AFRC thus urges the management of small and medium-sized accounting firms to prioritise audit quality over commercial considerations and strengthen the culture of compliance.

Earlier in the same month, we completed a week-long study tour in Cambodia and exchanged views with government departments, chambers of commerce, Hong Kong-invested companies, managers of large infrastructure construction site, professional services firm and university. Hong Kong is a major source of foreign investment for Cambodia. The locals not only expect Hong Kong to bring in capital and technology, but also hope to emulate Hong Kong's advanced

¹ Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academic, industrial and professional service sectors, the community and the government for sustainable development in Hong Kong and the Region. If you have any comments on this policy paper, email us at sushkhub@cityu.edu.hk.

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international practices and experience to further drive local economic development, we were told by our local hosts.

2. Bottlenecks for Hong Kong’s Accounting Industry

According to the 2023 Inspection Report, AFRC conducted an annual inspection of all accounting firms in Hong Kong. This is the first inspection to cover both accounting firms auditing public and non-public interest entities (i.e., PIE and non-PIE auditors). PIE firms are classified into Category A, B & C based on the number of PIE clients (A represents firms with more than 100 PIE clients, B represents firms with 10 to 100 PIE clients and C represents one to nine PIE clients). The results revealed that among the 26 audit engagements handled by the larger Category A firms, only 14 received higher ratings of 1 or 2, indicating good performance or requiring limited improvement. As for the smaller Category B and C firms, out of 23 audit engagements inspected, 3 had a rating of 3 while 20 received the lowest rating of 4, indicating the need to improve or significantly improve.

Table 1. Audit quality ratings (AQR) of audit engagements completed by audit firms (By category of audit firms and number of PIE (Public interest Entity) engagements inspected)

	AQR 1 or 2	AQR 3	AQR 4
Category A	14	12	5
Category B	0	1	16
Category C	0	2	4

Source: 2023 Annual Inspection Report, Accounting and Financial Reporting Council. Note: AQR 1, 2, 3 or 4 represents Good, Limited improvements required, Improvements required and Significant improvements required, respectively. 1 represents the highest score and 4 the lowest score for audit quality in the PIE engagements AFRC inspected.

Various factors have contributed to the less-than-satisfactory audit quality for accounting firms in Hong Kong, with declining audit fees to be one of the major factors. According to AFRC’s Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong (AFRC 2024), the audit fees of listed companies increased by only 0.2% annually from 2018 to 2023 (calculated in nominal terms). Indeed, after taking inflation rate into account, the fee levels actually fell by an average of 1.4% per year. More importantly, the downward trend in audit fees appears to be continuing. The 2023 survey reveals that one-third of the Category A accounting firms, and more than half of the smaller Category B and C firms have explicitly been demanded to reduce their fees.

After discussion with stakeholders, the AFRC identifies the intense price competition among accounting firms to be the primary cause of fee stagnation. Additionally, many companies tend to view audits as a mere compliance with Company Ordinances, making it challenging for auditors to convey the importance of high-quality audits to the company management. The stagnation and decline in audit fees may force accounting firms to downsize and reduce investment in technological updates for accounting. Over 90% of accounting firms who were asked to lower their fees believed price pressure had directly impacted audit quality.

Table 2 · Percentage of Accounting firms being asked to reduce audit fees (By Category)

	Year 2023	Year 2022
Category A	33%	50%
Category B	48%	15.8%
Category C	53%	44%

Source: Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong, AFRC (2024)

In 2015, we conducted a research project on the sustainability and social mobility of Hong Kong’s accounting profession.³ Of the 460 accountants interviewed, the majority agreed that Hong Kong should closely follow the international accounting standards to maintain its competitive edge against neighboring regions, despite the pressures of increasing operational expenses and reduced profits. The 2015 survey reveals that against decades of rapid growth, the Hong Kong accounting industry was facing multiple challenges including a shortage of manpower, declining audit fees and a lack of new business opportunities. The AFRC reports have echoed our earlier findings --- the industry is facing increasingly severe bottlenecks. We believe Hong Kong’s accounting industry remains one of the best globally, but AFRC’s Inspection Report is undoubtedly a wake-up call.

³ CSHK conducted a project entitled “Sustainability and Social Mobility in Professional Services: A Case Study of Accounting Profession in Hong Kong”, funded by the Public Policy Research (PPR) Scheme of the Central Policy Unit in 2015. The research findings were compiled and published in a book entitled “Breaching the bottleneck for the Accounting industry in Hong Kong” (2017, Linda Chelan Li, Phyllis Lai Lan Mo, Iris Kam; CityU Press, Chinese Only). 《突破瓶頸:香港會計業》(2017年; 李芝蘭、巫麗蘭、甘翠萍編著; 香港城市大學出版社出版)

3. Foreign professionals in Cambodian accounting sector

In Cambodia, all companies that meet two of the following criteria: (i) having an annual revenue above USD 1 million, (ii) total assets above USD 750,000, or (iii) employing 100 or more people, are required to have their financial statements audited by an independent external auditor registered with the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA). Cambodia's Gross Domestic Product (GDP) has grown 7% annually before the pandemic, suggesting that more Cambodian companies will meet the criteria to have their financial statements be audited in the future. However, various factors such as wars in the past decades have caused a serious shortage of local accounting professionals in Cambodia.

The accounting profession in Cambodia is primarily regulated by the "Law on Accounting and Auditing" enacted in April 2016. By the end of 2023, KICPAA had 1,167 members, of which only 167 were qualified auditing practitioners. Among them, 89 are locals and 78 are foreigners. With foreigners making up 46.7% of all qualified auditing practitioners in Cambodia, they are critical to the development of the auditing profession in Cambodia.

Table 3. Registered members in the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA)

	Locals	Foreigners
Accountants	15	7
Auditors	89	78
Affiliates	143	16
Students	713	0

Source: KICPAA, Annual Report 2023

To expand the supply of qualified accounting professionals, KICPAA has recognized qualifications from foreign accounting professional bodies. For example, members of CPA Australia and the Association of Chartered Certified Accountants (ACCA) UK are eligible to apply for membership with KICPAA directly.

4. Suggestions to move the way forward

4.1 Securing direct recognition of Hong Kong's professional qualifications from ASEAN Countries

At the end of July, Hong Kong's Chief Executive, Mr. John Lee Ka-chiu, visited three ASEAN countries, with one of the main objectives being to secure support for Hong Kong's accession to the Regional Comprehensive Economic Partnership (RCEP). RCEP comprises 15 member countries, including the 10 ASEAN nations, along with China, Japan, South Korea, Australia, and New Zealand. Hong Kong applied to join RCEP immediately after it came into effect on January 1, 2022. However, since the member countries have yet to reach a consensus on the process for admitting new members, it remains uncertain when Hong Kong will be able to join.

RCEP is not only related to trade agreements but also includes commitments to opening up the services and investment sectors, thus making it extremely important. *While striving to join RCEP, the Hong Kong government and relevant professional bodies should also actively seek recognition of Hong Kong's professional qualifications in ASEAN countries.* For example, KICPAA already recognizes professional qualifications from CPA Australia and the UK's ACCA, but members of The Hong Kong Institute of Certified Public Accountants (HKICPA) cannot directly apply for KICPAA membership. In fact, the Hong Kong Institute of Certified Public Accountants (HKICPA) has already signed mutual recognition agreements with several overseas accounting bodies.

Hong Kong and Mainland Chinese enterprises are major sources of foreign investment in Cambodia, making it logical for Hong Kong's professional services sector to offer more tailored services. The Hong Kong government and the accounting professionals could use this as a point of entry to negotiate with the Phnom Penh government and local regulatory bodies, advocate the recognition of HKICPA members by KICPAA, and allow them to register directly as KICPAA members.

Additionally, Hong Kong could offer accounting training programmes for Cambodia, which would help build Cambodia's local talent pool, foster closer connections and exchanges between the two regions and benefit long-term development. By strengthening these ties, Hong Kong can enhance its influence and ensure that its professional services are well integrated into the rapidly growing Cambodian market.

4.2 Encouraging young professionals to explore opportunities in ASEAN countries

During our visit to Cambodia, a mid-level manager from a Hong Kong-based financial institution shared about his role in managing retail banking operations at Phnom Penh, and highlighted the learning experience and development opportunities that could not otherwise be gained should he not moved there from Hong Kong.

This has led us to consider whether Hong Kong based large international accounting firms with extensive global networks could provide similar opportunities to their young professionals. From our past interviews and research, many accounting professionals opined that the industry always follows its clients—wherever clients invest, the service providers will go, and often referring them to local professionals. *However, we believe that international accounting firms could adopt policies to encourage young employees to work abroad and support them in obtaining local professional qualifications.* This could not only help expand their business operations but also empower Hong Kong's younger generation to emerge as leaders in diverse cultural settings, and eventually supply a deep pool of cross-cultural talents to excel in the international talent hub of Hong Kong.

4.3 Mandating the Assurance of ESG Reports

The Hong Kong Stock Exchange (HKEX) will implement the revised sustainability disclosure guidelines in January 2025, enhancing disclosure of climate-related information for listed companies under the ESG framework. Additionally, HKEX has launched a consultation paper on "Review of Corporate Governance Code and Related Listing Rules Review" in June 2024, aiming at promoting effective, independent, diverse, and risk-aware corporate boards, along with several mandatory disclosure requirements.

The enhancement of disclosure requirements by HKEX reflects Hong Kong's effective response to global trends. However, since ESG reporting items do not require independent verification, some companies may treat this process as merely a "box-ticking" exercise, leading to inconsistent quality in disclosure standards.

We believe that HKEX should actively engage with relevant stakeholders, including the accounting regulators, through the Green and Sustainable Finance Cross-Agency Steering Group, to discuss a phased approach for incorporating ESG reporting items into categories that requires independent verification. Ultimately, this would mandate the inclusion of assurance reporting in all ESG reports.

Implementing such measures would enhance the quality of reporting for Hong Kong's listed companies, improve corporate governance standards, and elevate the overall image of Hong Kong as an international financial center. At the same time, the accounting industry in Hong Kong would benefit from the growth of new demands for its assurance services. We believe mandatory assurance for ESG reports will become an international trend, and Hong Kong will gain a significant "first-mover advantage." if we take the lead.

5. Conclusion: Doubling down on quality

Hong Kong's professional sector is currently facing a host of challenges, including a slowdown in Mainland China's economy, heightened geopolitical tensions and volatility in the financial and real estate markets, all of which have contributed to contraction in business.

During our research trip in Cambodia, we observed that Hong Kong-based firms which are established for 10 to 20 years have enjoyed a first-mover advantage, including the significant opportunities offered by Cambodia's rapid development. Additionally, Cambodia is attracting investments and talents from various countries, including Mainland China, Singapore, South Korea and the Philippines.

A prime example is the new Techo International Airport at Phnom Penh, the national capital. The airport is designed by the European firm Foster + Partners, constructed by the China Construction Third Engineering Bureau Co, surveyed by Singapore's RLB Consultancy and involved a consultancy management by South Korea's Heerim Architects & Planners Co. The project illustrates a collaborative effort of professional services from multiple countries, highlighting the growing international engagement in Cambodia's development.

The Cambodian officials we engaged with have high expectations to learn from Hong Kong's public governance and business operation standards. In addition to bringing in capital and technology, they hope Hong Kong can also enhance the quality of local governance in Cambodia, for example education, affordable urban housing and development of the digital economy. This sends a very strong message on the premium on quality. Hong Kong's professional services sector must maintain its superior standards to outshine its peers.

We hope the suggestions outlined above will serve as a catalyst for further discussion and inspire additional ideas for strengthening Hong Kong's professional services in the region.