Audit Quality Under Pressure: Judgement, Accountability and Trust

Remarks at Forum of Firms' Regional Audit Quality Symposium

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Distinguished guests, ladies and gentlemen, good morning.

It is a great pleasure to join you at this important regional symposium.

Today, audit quality is discussed everywhere across our financial-reporting ecosystem. Regulators discuss it. Audit firms embed it in their methodologies. Audit committees interrogate it. Standard setters examine it. And here we are, gathered at this symposium, to consider it together.

But why, after decades of increasingly sophisticated standards, refined quality-management systems, professional training and regulatory inspection, does audit quality remain such an urgent and live debate?

We have more standards than ever, more data than ever, more powerful technology than ever, and more controls, implementation guidance and inspection cycles. Yet we continue to return to audit quality.

Why?

Perhaps because standards do not exercise judgement. Data do not create wisdom. Technology does not assume responsibility. And controls cannot manufacture integrity.

Audit quality ultimately depends on people: people willing to challenge when it is easier to agree, to investigate when it is easier to assume, to escalate when it is easier to remain silent, and sometimes simply to say: "I am not satisfied."

More than two thousand years ago, Laozi made an observation which I think is remarkably relevant today. In Chapter 18 of *Tao Te Ching*, he wrote:

「大道廢，有仁義；六親不和，有孝慈。」

A loose translation is: when the Great Way is lost, people begin to speak of benevolence and righteousness; when harmony within the family breaks down, people begin to celebrate filial piety.

Laozi offers us an uncomfortable observation: we tend to notice, and speak of most intensely, those things we can no longer take for granted.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

I certainly do not want you to conclude from Laozi that the fact we have gathered for an audit-quality symposium proves that audit quality is absent. But the intensity of the discussion should perhaps make us pause.

Audit quality can never simply be assumed. It must be built, tested and renewed through every important professional judgement.

That frames the question I would like to explore: when audit quality comes under pressure, what enables professional judgement to hold?

I will examine that question through three interlocking pillars: audit quality as market infrastructure; Hong Kong's distinctive governance challenge; and culture and professional courage.

Audit quality as market infrastructure

We sometimes discuss audit quality as though it were principally a professional matter or a regulatory-compliance issue. I believe it is more fundamental. Audit quality is part of the infrastructure of a functioning capital market.

Investors allocate capital based on information. Without reliable financial reporting, investors cannot properly distinguish performance from promise, sustainable value from short-term appearance, or genuine resilience from numbers that merely look reassuring.

Financial statements are the universal language of global business. A high-quality audit gives investors confidence that important management assumptions have been challenged and that the numbers can withstand independent scrutiny.

As I have said before, quality reporting replaces assumption with assurance.

For Hong Kong, this is especially important. Our standing as an international financial centre depends not only on how much capital we attract. It depends on whether investors trust the information behind their investment decisions.

Audit quality is therefore not a private arrangement between an auditor and an audit client. It is a public good.

To understand the pressures on that public good, we need to understand the structure of Hong Kong's listed market.

As at the end of October this year, 60% of our listed companies were Mainland enterprises. By market value, Mainland enterprises represented an even more striking 77% of our listed market.

This reflects one of Hong Kong's greatest strengths: our role as the leading international capital-raising platform for Mainland enterprises.

But it also adds another dimension to audit quality. A company may be listed in Hong Kong and accountable to international investors, while much of its operations, management, accounting records, internal controls, customers and suppliers are situated in the Mainland.

The auditor therefore needs to bridge more than geography. The auditor needs to understand how authority is exercised, whether information flows candidly upwards, whether a finance team can challenge senior management, whether the board receives information that has not already been filtered, and whether an uncomfortable question from an auditor is regarded as legitimate professional challenge or simply as an obstacle to be managed.

There is no single “Mainland corporate culture”, just as there is no single Hong Kong, British or American corporate culture. Mainland issuers range from state-owned enterprises to founder-led technology businesses and highly international private groups.

But culture affects how controls operate, how information travels and how readily authority can be questioned. For an auditor, corporate culture is part of the control environment.

Hong Kong's market is concentrated in another sense: ownership and liquidity.

In October 2024, just 254 listed companies accounted for 90% of total market capitalisation. Among smaller issuers with market capitalisation below HK$4 billion, 40% had a single largest shareholder holding more than half the issued shares.

The pattern is equally striking in liquidity. Of roughly 2,700 Hong Kong-listed companies in 2025, those below HK$10 billion in market capitalisation represented more than 80% of issuers, but collectively generated less than 10% of average daily turnover. Around 300 of the largest companies accounted for close to 90% of trading activity.

Why does this matter for audit quality? Because ownership structure changes the governance problem. Concentrated ownership is not inherently poor governance. A committed controlling shareholder may provide stability, business knowledge and a valuable long-term perspective.

But where a controlling shareholder exercises substantial influence over management, board composition and major corporate decisions, minority shareholders depend more heavily on gatekeepers to protect their information rights. Where trading is thin, there may also be less institutional-investor engagement, less analyst coverage and less continuous price discovery.

The proposition for Hong Kong is clear:

When the external market provides less challenge, the internal governance ecosystem must provide more.

Hong Kong's distinctive governance challenge

Where external market discipline is muted, the internal governance ecosystem must carry a heavier burden of challenge and verification.

That is why audit committees, independent non-executive directors (INEDs), company secretaries, internal audit functions and external auditors are so important.

Their responsibilities are different and should remain different. But together they form a system through which corporate information is prepared, communicated, questioned, tested and challenged before it reaches investors.

Audit committees must ask management uncomfortable questions. INEDs must demonstrate independence not merely in name, but in mind. Company secretaries must support effective

information flow and disciplined governance processes. Internal audit should identify control weaknesses before they develop into failures. And external auditors must bring independent assurance and professional scepticism.

No single gatekeeper can deliver financial-reporting quality alone. I therefore prefer to think of financial reporting quality not as a linear chain, but as an interconnected system of checks and challenge.

When that system works, each participant examines an issue through a different lens, and one gatekeeper may identify what another has missed.

But there is also a risk. If everyone assumes that someone else will ask the difficult question, the apparent presence of many gatekeepers may result in no gatekeeper at all.

Supporting independent challenge

If we expect stronger challenge from INEDs and audit committees, we should ask whether these roles are properly resourced.

Recent research covering Hong Kong-listed companies found median annual remuneration for a Main Board INED at around HK$212,000.

By comparison, research from The Conference Board places median US public-company director compensation at around US$250,000 a year. Among S&P 500 companies, the median annual cash retainer alone is around US$105,000, before equity awards.

These are not like-for-like comparisons. Company size, fee structures, workload, legal exposure and remuneration practices differ significantly across jurisdictions. I would therefore not draw too much from the precise multiples. But the order of magnitude deserves our attention.

We expect INEDs to understand increasingly complex businesses, challenge management and controlling shareholders, oversee financial reporting and internal controls, assess emerging technology and cyber risks, engage constructively with auditors, and shoulder substantial legal, regulatory and reputational responsibility.

Have our expectations of what an INED should contribute moved faster than our expectations of what that contribution is worth?

Higher remuneration does not automatically create stronger independence. But remuneration that is too low creates a different risk.

If we want genuinely independent judgement in the boardroom, we need people with the experience, expertise and professional standing to exercise that judgement, and who can devote sufficient time to the role.

The principle is straightforward: remunerate sufficiently to attract independence and expertise, but not in a way that compromises either.

This is not simply about fairness to directors. It is part of the infrastructure supporting audit quality.

Headcount is not capacity

The same question of resources applies directly to the audit profession. Headcount is not capacity.

Adding more junior professionals to an engagement cannot compensate for insufficient partner attention, specialist expertise or experienced professional judgement.

If review time is compressed, engagement portfolios become too large, or the people making difficult judgements cannot access the expertise they require, numerical headcount tells us little about genuine capacity.

The important question is whether the right people have sufficient time, experience, authority and specialist support to resolve difficult matters properly.

When reporting deadlines converge, compressing review time is not a substitute for judgement. Nor should every efficiency gain from technology automatically be converted into additional engagement volume. Some of that gain should be reinvested in deeper analysis, stronger challenge and better quality control.

This matters particularly for global audit networks. A global firm may possess extraordinary expertise across jurisdictions and disciplines, but that expertise contributes little to audit quality if the local engagement team cannot access it when a difficult judgement arises.

Global scale must translate into stronger local execution.

International reach should produce more than a common name or methodology. It should produce accessible expertise, effective escalation and accountable execution.

Ultimately, a global network is judged through the quality of each local audit performed under its name.

Culture and professional courage

Resources and governance structures create the conditions for quality, but those conditions are not sufficient by themselves.

Many audit failures do not occur because professionals lack technical knowledge. They occur because commercial pressure, incentives, hierarchy or firm culture overwhelms professional judgement.

A firm may have excellent methodology and sophisticated quality-management systems. But no methodology can compensate for a culture in which people hesitate to challenge, hold back from escalation, or understand commercial delivery to be the dominant measure of success.

Professionals watch not only what leaders say. They watch what leaders reward, tolerate and promote.

What happens when an engagement partner raises an issue that could delay reporting? What happens when an auditor believes further evidence is required, while the client insists that the matter is already settled? What happens when a technically sound audit conclusion threatens a valuable commercial relationship?

This is where professional scepticism moves from a textbook concept into lived practice.

Professional scepticism is not unfounded suspicion. It is the disciplined willingness to ask whether the evidence genuinely supports the conclusion, especially when that conclusion is convenient.

Sometimes it means asking one more question. Sometimes it means telling an audit committee that the evidence is insufficient. Sometimes it means escalating a matter when everyone else is ready to move on. And sometimes it means reaching a conclusion that a powerful client does not want to hear.

Regulators can establish standards. We can conduct inspections. We can impose consequences.

Those interventions matter.

But regulation can influence behaviour. It cannot manufacture integrity.

Technology and accountability

Technology introduces another dimension.

Artificial intelligence can help auditors analyse more information, identify unusual transactions and examine patterns that human teams might otherwise miss. Used properly, technology should strengthen audit quality.

But technology cannot remove accountability.

A sophisticated system can produce an answer that appears precise and objective while resting on incomplete data, questionable assumptions or a poorly framed question.

If an auditor accepts such an output without understanding or challenging it, where is professional scepticism?

Having a human in the loop remains essential. But the human must be capable of challenging the loop.

That requires more than a human signature at the end of an automated process. The responsible professional needs to understand what the system was asked to do, what information it relied upon, what limitations affect its output, and why the conclusion is sufficiently reliable for its intended purpose.

Not every auditor needs to become a data scientist. But every auditor increasingly needs sufficient technological literacy to know when the machine should not be trusted.

Technology can expand what we examine. It cannot remove accountability.

Professional responsibility cannot be delegated to an algorithm.

Judgement under pressure

We began with Laozi. We tend to notice, and speak of most intensely, those things we can no longer take for granted. Perhaps that is why audit quality commands so much attention today. And perhaps that is not something we should regret. Because trust should never be taken for granted.

The true test of audit quality arrives when the evidence is incomplete, when the timetable is compressed, when the client is confident, when the controlling shareholder is powerful, when commercial pressure is real, when technology delivers a confident answer, and when the right conclusion is not obvious.

That is when audit quality reveals itself.

It is the resolve to investigate when time is short. The independence to challenge when agreement is easier. The courage to escalate when silence is more comfortable. And the accountability to stand behind a difficult conclusion when nobody else wants to. Technology can expand what we examine. Standards can define what is expected. Regulators can establish consequences. Global networks can provide extraordinary expertise.

But none can exercise professional judgement on our behalf. So after all the standards, metrics, inspections and technological advances, audit quality comes down to something surprisingly elemental:

- the questions we are prepared to ask
- the judgements we are prepared to defend, and
- the responsibility we are prepared to bear.

More than two thousand years separate us from Laozi. Our tools have transformed beyond recognition. Human nature, perhaps, has changed rather less. That is why audit quality is more than the absence of deficiencies.

It is the presence of sound judgement, under pressure.

That is what investors depend upon. That is what public trust requires. And that is what all of us, regulators, boards, audit committees and the profession, must continue to earn.

Thank you.