

From Quality Control to Risk-Based Quality Management: Implementation Constraints in Hong Kong's Smaller Audit Practices under HKSQM 1

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Abstract

International Standard on Quality Management 1 (ISQM 1), adopted in Hong Kong as HKSQM 1, requires firms to design and operate a proactive, risk-based system of quality management. This study examines the challenges that this model may pose for smaller Hong Kong audit practices using qualitative analysis of standards, implementation guidance, and Accounting and Financial Reporting Council (AFRC) market and inspection publications issued through September 2026. Four themes emerge: the distinction between firm-level quality-risk assessment and engagement-level audit-risk assessment; partner capacity and access to specialist expertise; oversight of external engagement quality reviewers and other providers; and monitoring and remediation. The AFRC's findings on individual audit engagements provide evidence of execution risks, but do not by themselves establish deficiencies in firms' HKSQM 1 systems. The analysis instead connects engagement observations with the regulator's explicit system-level observations and the standard's requirements. It argues that proportionality permits simpler arrangements suited to a firm's circumstances while retaining the same quality objectives. Because inspections select firms and engagements on a risk basis, the study makes no population-level or causal claims. It offers a framework for interpreting resource constraints as risks to be assessed, governed, and monitored, and develops propositions for future firm-level research.

Keywords: ISQM 1; HKSQM 1; audit quality; small and medium-sized practices; quality management; regulatory inspection; Hong Kong; engagement quality review

1. Introduction

The international audit profession's move from quality control to quality management is more than a change in terminology. International Standard on Quality Management 1 (ISQM 1) requires firms to establish quality objectives, identify and assess quality risks, design and implement responses, and monitor whether the resulting system operates effectively. The International Auditing and Assurance Standards Board (IAASB) describes the model as robust, proactive, effective, and tailored to the nature and circumstances of the firm and its engagements. ISQM 1 replaced ISQC 1 and became effective on 15 December 2022; Hong Kong adopted the model as HKSQM 1, alongside HKSQM 2 on engagement quality reviews and a revised HKSA 220 (IAASB, 2020, 2021; HKICPA, 2025).

The transition has particular significance in Hong Kong because it coincided with a major change in regulatory architecture. From 1 October 2022, the Accounting and Financial Reporting

Council (AFRC) became the full-fledged independent regulator of the accounting profession, with its remit extended beyond public interest entity (PIE) auditors to auditors of all entities and to broader oversight of statutory professional functions (AFRC, 2022). The result is a setting in which a new risk-based quality-management standard and expanded independent inspection became operational at almost the same time.

The implementation problem is particularly salient outside the largest international networks. In the AFRC's 2024 overview of the non-public interest entity (non-PIE) audit market, 2,837 practice units (PUs) reported audit or assurance services in 2022. Of these, 2,725 (96.1%) were Category E PUs, a regulatory category outside Categories A–D. Category E PUs served 195,274 non-PIE audit clients, about 67% of the market by client count, while Category D PUs served a further 48,557 (AFRC, 2024a). These categories do not establish the size of each practice and are not equivalent to the International Federation of Accountants' definition of a small and medium-sized practice (SMP). They nevertheless show the extent of Hong Kong's non-PIE audit market and motivate closer examination of how firms with different resources implement the new standard.

Existing audit-quality research offers several reasons to expect implementation heterogeneity. Audit quality depends on engagement-level inputs, processes, firm characteristics, incentives, and institutional settings rather than on a single attribute (Francis, 2011; Knechel et al., 2013; DeFond & Zhang, 2014). Research on small audit firms and local offices has linked scale and resource availability to audit outcomes, while also cautioning against treating all non-Big Four or small firms as homogeneous (Choi et al., 2010; Comprix & Huang, 2015; DeFond & Lennox, 2011). Studies of partner workload similarly suggest that capacity pressure can weaken audit execution (Chen et al., 2020; Mnif & Cherif, 2022). These findings make HKSQM 1's

requirement for firm-specific risk assessment especially important: a standardized manual cannot itself resolve resource and governance constraints that vary across firms.

Direct academic evidence on ISQM 1 remains limited. Owusu-Afriyie et al. (2024), using a survey of SMPs in Ghana, examine the relationship among regulatory monitoring, quality-standards compliance, and perceived audit quality. Febriani and Wondabio (2026), in a qualitative study of two large Indonesian public accounting firms, link differences in implementation maturity to resources, management commitment, and strategic orientation. Neither study establishes how Hong Kong's smaller practices have implemented HKSQM 1. An analysis that distinguishes the AFRC's observations about firms' systems from its findings on individual audits can therefore clarify the mechanisms suggested by the Hong Kong evidence.

This paper addresses that gap through qualitative document analysis of official standards, implementation guidance, AFRC market studies, and inspection reports. It asks three research questions:

- RQ1: What recurring implementation gaps are visible in Hong Kong's post-HKSQM 1 regulatory evidence, particularly for smaller and non-PIE-oriented audit practices?
- RQ2: How do resource constraints, engagement quality review requirements, and external regulatory oversight interact with the risk-based logic of HKSQM 1?
- RQ3: What does the Hong Kong evidence imply for the meaning of scalability and proportionality in quality-management systems?

This paper makes three contributions. It maps Hong Kong regulatory evidence to the firm-level requirements of HKSQM 1 while identifying where engagement-level findings support only a more limited inference. It uses resource-based and institutional perspectives to explain why documented compliance and operating capability may diverge. It also derives practical implications and testable propositions without assuming that small size predicts poor audit

quality. The organizing question is whether a firm can show a credible connection among its circumstances, quality risks, responses, monitoring, and remediation.

2. Regulatory and Theoretical Background

2.1 From quality control to a risk-based system of quality management

ISQM 1 was designed to replace a more static quality-control architecture with a system that responds to the firm's own circumstances. The standard requires firms to establish quality objectives, identify and assess quality risks, and design responses across interrelated components including governance and leadership, relevant ethical requirements, acceptance and continuance, engagement performance, resources, information and communication, and monitoring and remediation. A firm-level risk assessment process connects these components. The IAASB's first-time implementation guide emphasizes that the resulting system should not be a generic overlay: the nature, timing, and extent of responses should reflect the firm and the engagements it performs (IAASB, 2020, 2021). Hong Kong's HKSQM 1 adopts the same risk-based logic (HKICPA, 2025).

This design makes scalability an architectural feature rather than an exemption. A sole practitioner and a multinational network need not operate identical systems, but both must achieve the relevant quality objectives. Complexity of documentation, formal committees, specialist functions, and technological infrastructure can differ; the obligation to identify relevant quality risks and respond appropriately does not. This distinction is central to interpreting the AFRC's later statement that proportionality does not mean reduced expectations (AFRC, 2026).

2.2 Engagement quality reviews and external resources

HKSQM 2 separates engagement quality review (EQR) requirements from the firm-level quality-management standard and establishes requirements concerning the appointment and eligibility of the engagement quality reviewer, performance of the review, and documentation. Eligibility includes competence, capability, sufficient time, authority, and compliance with relevant ethical requirements. HKSQM 2 also imposes a cooling-off period before an engagement partner can act as engagement quality reviewer for the same engagement (HKICPA, 2021). For a small practice, these requirements create a governance question whenever internal eligible personnel are limited: external resources may be necessary, but outsourcing the task does not outsource the firm's responsibility for quality.

The AFRC's 2025–26 inspection report recognizes that non-PIE auditors may use external personnel for system-of-quality-management monitoring, completed-file reviews, audit execution, engagement quality reviews, information technology, and valuation work. At the same time, it emphasizes that use of external resources introduces its own quality risks and requires robust oversight (AFRC, 2026). This point is analytically important because externalization is both a scalability mechanism and a potential source of dependency, coordination cost, and monitoring risk.

2.3 Audit quality, organizational resources, and scale

Audit-quality scholarship has long treated resources and organizational characteristics as relevant inputs. DeAngelo's (1981) classic model links auditor size to incentives and quasi-rents, while subsequent research shows that local office size and engagement context can matter independently of national firm size (Choi et al., 2010). Comprix and Huang (2015) find differences in financial-reporting outcomes for clients of the smallest U.S. audit firms after

controlling for client characteristics, and DeFond and Lennox (2011) document substantial exit by small auditors after the Sarbanes–Oxley reforms. Guo et al. (2021), using PCAOB disciplinary orders, identify recurring compliance problems among sanctioned small U.S. firms including due-care failures, independence problems, and inadequate engagement quality reviews. These results should not be read as evidence that small firms are inherently low quality; they demonstrate that scale, portfolio composition, and regulatory capacity can shape the distribution of audit-quality risk.

Human-capital and workload evidence is particularly relevant to HKSQM 1. Chen et al. (2020) find that audit partner workload compression is associated with weaker audit-quality outcomes in China, while Mnif and Cherif (2022) report an adverse association between partner overload and audit quality in Swedish listed companies, subject to contextual qualifications. In smaller audit firms, social capital and tacit knowledge sharing can also function as quality-related resources by supporting the diffusion of experience and professional judgment (Albawwat, 2022). Thus, limited headcount is not the only issue: the timing, availability, specialization, and deployment of people are all potential quality-management variables.

2.4 Resource-based and institutional lenses

The resource-based view (RBV) provides one lens for understanding implementation. Barney (1991) conceptualizes firms as heterogeneous bundles of resources and capabilities. Applied to quality management, the relevant bundle includes partner time, technical expertise, industry knowledge, information systems, training capacity, review capability, and access to external specialists. HKSQM 1 effectively requires firms to assess whether this bundle is sufficient for the quality risks created by their client portfolio. A resource shortfall therefore

becomes a quality-management issue when it is not identified, supplemented, or reflected in acceptance, continuance, staffing, supervision, and monitoring decisions.

Institutional theory supplies a complementary lens. Organizations under strong professional and regulatory pressure may adopt similar formal structures to signal conformity (DiMaggio & Powell, 1983). Meyer and Rowan (1977) warn that formal structures can become decoupled from operational activity when adoption serves legitimacy more than technical coordination. In the HKSQM 1 setting, a generic template can be a useful starting point, but it becomes a form of ceremonial compliance if quality risks and responses are not connected to the firm's actual clients, people, systems, and deficiencies. The theory therefore predicts a distinction between documentation completeness and substantive quality-management capability.

3. Research Design

3.1 Method and document corpus

The study uses qualitative document analysis to examine how standards and regulatory publications describe implementation risks (Bowen, 2009). The analytical categories were drawn from HKSQM 1 and audit-quality research, and the AFRC publications were then examined for observations relevant to each category. This is an interpretive synthesis of public documents, not an independent inspection of audit firms or a test of the causal effect of HKSQM 1.

The corpus covers materials available from 2020 through September 2026. HKICPA standards and AFRC publications supply the Hong Kong regulatory evidence; IAASB materials explain the international standard. Academic studies inform the interpretation of the regulatory material. Table 1 identifies the nine primary standards and regulatory documents considered, their dates, and their roles in the analysis.

Table 1
Primary regulatory and standard-setting document corpus

Source	Document	Analytical role
IAASB (2020)	ISQM 1	International risk-based quality-management requirements; replacement of ISQC 1
IAASB (2021)	ISQM 1 First-Time Implementation Guide	Non-authoritative implementation explanation and scalability guidance
HKICPA (2025)	HKSQM 1	Hong Kong adoption of firm-level quality-management requirements
HKICPA (2021)	HKSQM 2	EQR appointment, eligibility, performance, and documentation
AFRC (2022)	Launch of expanded regulatory regime	Institutional change to independent regulation from 1 October 2022
AFRC (2024a)	Overview of the Non-PIE Audit Market in Hong Kong	Market structure, client concentration, and partner workload
AFRC (2024b)	Inspection Insights—Root Cause Analysis and Remediation	Regulatory expectations for RCA, leadership, and remediation
AFRC (2025)	2024–25 Annual Inspection Report	Post-implementation inspection findings and remediation expectations
AFRC (2026)	2025–26 Annual Inspection Report	Latest inspection-cycle evidence on resources, risk assessment, external resources, and RCA

3.2 Coding procedure and analytical boundaries

The analysis used six categories: (1) governance and leadership; (2) firm-level quality-risk assessment and engagement-level audit-risk assessment; (3) resources and workload; (4) engagement quality review (EQR) and external resources; (5) monitoring, root-cause analysis (RCA), and remediation; and (6) oversight and proportionality. The documents were compared within these categories to identify converging observations and to distinguish AFRC findings from the paper's own interpretation. In particular, the report's observations about audit planning on individual files were coded separately from its findings about firms' systems of quality management (SoQMs). Appendix A gives the coding frame; Tables 1 and 2 trace the main evidence and interpretation.

Three boundaries govern the interpretation. First, AFRC categories such as non-PIE, Category D, and Category E are regulatory classifications, not direct measures of SMP status; the

paper uses the AFRC's labels for reported data. Second, the AFRC selects firms and engagements primarily on a risk basis and also selects a small number randomly. Its findings therefore cannot be converted into prevalence estimates for all Hong Kong firms (AFRC, 2026). Third, a deficiency in an engagement's assessment of risks of material misstatement is analytically distinct from a deficiency in the firm's HKSQM 1 quality-risk assessment. The former may prompt questions about the effectiveness of firm-wide training, methodology, supervision, or monitoring, but it does not establish a system-level failure on its own. The public documents also cannot establish causation or show the internal decisions of uninspected firms.

4. Findings

4.1 Distinguishing engagement-risk findings from firm-level tailoring

The AFRC's 2025–26 report identifies a common finding in inspected non-PIE engagements: audit teams sometimes assessed risks of material misstatement generically, without sufficient regard to a client's business model, industry, or external conditions (AFRC, 2026, Section 4). That observation concerns engagement-level audit planning, not directly the firm's HKSQM 1 assessment of quality risks. It matters here because repeated generic planning could indicate a weakness in the firm's methodology, training, supervision, or monitoring. Establishing that connection would require firm-level evidence, which the report discusses separately through its review of SoQMs.

For smaller practices, a shared methodology or template can save time and support consistency. The AFRC also observes that some non-PIE auditors use HKICPA or service-provider manuals as references for their SoQMs (AFRC, 2026, Section 4). The firm-level question is whether the resulting system reflects the firm's own portfolio, staffing, expertise, and

provider arrangements. A practice auditing complex cross-border groups may face different quality risks from one auditing mainly dormant private companies; the contrast illustrates the standard's tailoring requirement rather than a finding that either type of practice has failed it.

The two levels of risk assessment should therefore be connected without being conflated. HKSQM 1 asks the firm to link its circumstances to quality risks and appropriate responses. Engagement-level evidence can then test whether responses such as methodology, training, supervision, and review work as intended. This is the paper's proposed traceability framework, not a finding that all firms using templates have deficient systems.

4.2 Partner workload and capability as quality-management risks

The AFRC's 2024 market overview provides evidence about the scale of partner portfolios. Category D PUs had a median of 267 non-PIE audit clients per partner or director in 2022, compared with 33 for Category E PUs. Two Category D PUs reported 2,932 and 1,464 clients per partner or director (AFRC, 2024a). These are client counts, not measures of hours worked or engagement quality; moreover, a reported audit client may comprise more than one company. The figures nevertheless identify an exposure that a firm should consider when assessing whether partners have sufficient time for acceptance, direction, supervision, review, and EQR duties.

The AFRC's 2025–26 report provides a more direct system-level link: its SoQM inspections continued to identify concerns about partner workload monitoring, resource adequacy, and acceptance decisions relative to firm capability. In its non-PIE section, the regulator also warns that excessive workload can weaken professional skepticism and internal review (AFRC, 2026, Executive Summary and Section 4). The evidence establishes regulatory concerns in inspected

firms and engagements; it does not establish how often the same conditions occur across Hong Kong's smaller practices.

Prior workload research offers a plausible mechanism: concentrated demands can reduce the time available for planning, supervision, and review (Chen et al., 2020; Mnif & Cherif, 2022). Under HKSQM 1, a firm can respond by adjusting acceptance decisions, staffing, portfolio mix, fees and budgets, training, specialist access, or review assignments. Which response is appropriate depends on the circumstances and requires evaluation rather than an assumption that a particular client count necessarily produces a deficiency.

4.3 External reviewers and specialists extend capacity but require oversight

HKSQM 2 addresses the appointment, eligibility, performance, and documentation of EQRs. Eligibility entails competence, capability, sufficient time, authority, and objectivity; a former engagement partner must also observe a two-year cooling-off period before serving as reviewer on the same engagement (HKICPA, 2021). For a practice with few eligible people, an external reviewer may be a proportionate way to meet an EQR requirement where one applies. HKSQM 2 does not require an EQR on every non-PIE audit.

The AFRC reports that some inspected non-PIE auditors use external personnel for SoQM monitoring, completed-file reviews, audit execution, EQRs, IT audits, and valuation work (AFRC, 2026, Section 4). Its examples of shortcomings concern insufficiently defined scope, provider competence, ongoing oversight, and documentation. This is direct evidence of provider-governance risks in the inspected population, without establishing that outsourcing is inherently ineffective or widespread among all smaller firms.

From a resource-based perspective, external providers can add expertise or review capacity that a firm cannot efficiently maintain in-house. Institutional theory raises a different possibility:

a signed engagement letter may create an appearance of compliance without ensuring that the firm selects, instructs, oversees, and evaluates the provider effectively. The second point is an interpretation of the regulatory observations. Responsibility for the SoQM and for engagement quality remains with the firm.

4.4 Monitoring and remediation distinguish a living SoQM from a static manual

The fourth theme concerns the feedback loop between monitoring and change. The AFRC's December 2024 inspection insight emphasizes leadership, root-cause analysis, clear implementation timelines, and follow-up (AFRC, 2024b). Its 2025–26 report observes that engagement-specific fixes do not always produce sustained firm-wide behavioral change and calls for deeper analysis of recurring cultural and structural causes (AFRC, 2026). These observations speak more directly to the operation of an SoQM than isolated engagement findings do.

A monitoring finding should not automatically be treated as closed when a checklist changes or a reminder is issued. For example, repeated failures to obtain sufficient evidence might reflect gaps in training, fee and time budgets, supervision, client acceptance, or methodology. Root-cause analysis should test which explanation fits the evidence before the firm selects a response and evaluates its effectiveness. HKSQM 1's iterative design makes those results relevant to subsequent quality-risk assessment and resource decisions.

The distinction is also important for smaller practices because they may have fewer independent internal monitors. External completed-file reviews can provide valuable challenge, but the firm still needs to aggregate findings, identify patterns, determine severity and pervasiveness, and assess whether remedial actions are effective. The minimum viable system is thus not “real-time” monitoring in a technological sense; it is a sufficiently timely and recurring

process that generates evidence about whether the SoQM is functioning and whether identified deficiencies are being corrected.

4.5 Independent oversight raises the cost of ceremonial compliance

Since October 2022, the AFRC's mandate has extended to auditors of entities beyond PIEs, and its risk-based inspections include reviews of non-PIE auditors' SoQMs and selected engagements (AFRC, 2022, 2026). This permits comparisons between a firm's documented system and evidence of operation. It does not imply that every smaller practice is inspected at the same frequency or that the selected inspection results represent the market as a whole.

Institutional theory suggests a possible divergence between formally adopted procedures and day-to-day practice. Inspection can reveal that divergence by comparing firm-level policies with staffing, engagement execution, monitoring, and remedial action. This is an analytical interpretation of the AFRC's approach; the public reports do not quantify how many Hong Kong firms exhibit such decoupling.

Table 2**Synthesis of implementation themes and quality-management implications**

Theme	Regulatory evidence	Interpretive mechanism	Implication for SoQM design
Engagement-level risk assessment and firm-level tailoring	AFRC reports generic client-risk assessments on inspected engagements; the report separately reviews firms' SoQMs	An engagement finding may motivate investigation of firm-wide methodology, training, supervision, or monitoring; it does not prove a SoQM deficiency	Assess firm quality risks from its portfolio and capacity; use engagement findings to test whether firm responses operate effectively
Partner workload and resource gaps	High client-per-partner counts in the 2024 market overview; 2026 SoQM concerns about workload, resources, and acceptance	Capacity pressure can impair planning, supervision, and review, subject to client complexity and hours available	Capacity monitoring, acceptance/continuance discipline, fee/resource alignment, specialist access
EQR and external providers	AFRC observed external personnel in EQR, monitoring, audit execution, IT, and valuation in inspected non-PIE firms	Externalization expands capability but creates provider-governance risks	Due diligence, independence checks, scope clarity, timely access, evaluation of provider performance
Weak RCA/remediation	AFRC reported recurring remediation concerns and called for analysis of underlying causes	Symptom-level fixes fail to change recurring quality risks	Formal RCA, owner and deadline, effectiveness testing, feedback into risk assessment
Independent oversight	AFRC remit expanded to all auditors from October 2022; risk-based SoQM inspection	Risk-based inspection can compare documented firm responses with evidence of operation; results are not population prevalence estimates	Evidence traceability and operating proof rather than manual-only compliance

5. Discussion**5.1 Proportionality means tailoring the system to the firm**

The AFRC explicitly states that proportionality does not reduce expectations for audit quality (AFRC, 2026, Section 4). The relevant flexibility lies in how a firm designs and operates responses appropriate to its circumstances. A smaller firm may need a shorter manual and simpler communication arrangements, but it still needs to identify relevant quality risks, implement suitable responses, and evaluate whether those responses work.

Resource heterogeneity is expected under a risk-based standard. The question is whether the firm's portfolio and service commitments are consistent with the time, skills, and review capacity

available to it. When a gap emerges, acceptance and continuance, staffing, EQR eligibility, consultation, or monitoring may need to change. Limited resources alone do not prove a deficiency, but they require an intentional response when they create quality risks.

5.2 The Hong Kong evidence reveals a capability–documentation gap

A further distinction is between documented policies and the capability to carry them out. The AFRC's concerns about partner workload, external-provider oversight, and remediation show why a longer manual alone cannot establish effective operation. Those concerns may require different decisions about time, expertise, clients, supervision, or accountability. Institutional decoupling offers a theoretical explanation for a divergence between formal policy and practice (Meyer & Rowan, 1977); the public reports cannot measure its prevalence.

This point also qualifies the common response of purchasing a third-party HKSQM 1 package. External manuals and service providers can be efficient and entirely legitimate, especially for smaller firms that cannot economically reproduce specialized infrastructure. Their value, however, depends on absorption and governance. A generic quality objective becomes meaningful only when the firm identifies which of its circumstances create a related quality risk and can show that the chosen response operates. In that sense, the most valuable scarce resource may be not software or the manual itself but partner attention devoted to tailoring and follow-up.

5.3 Regulatory oversight may improve quality while increasing consolidation pressure

Stronger audit regulation can also reshape the supply of audit services. In the United States, DeFond and Lennox (2011) document exits among small auditors after the Sarbanes–Oxley reforms and the introduction of PCAOB oversight. The Hong Kong documents examined here do not establish a comparable effect. They do identify demands for partner time, specialist capacity,

eligible EQRs where required, remediation, and oversight of providers that may impose fixed or semi-fixed costs on some firms.

The possible effect on market structure is therefore a question for research, not a demonstrated Hong Kong outcome. Regulators and professional bodies can support proportionate implementation through examples of firm-specific decision making, technical resources, and guidance on evidence of operation, while retaining the standard's quality objectives. Whether such support changes audit quality or the availability of auditors for smaller entities would require additional data.

5.4 Propositions for future empirical research

The documentary analysis suggests three propositions for testing with firm-level data. None is presented as a causal finding of this study:

- Proposition 1: Higher partner workload relative to engagement complexity will be associated with less tailored engagement-risk assessments and less effective firm-level monitoring, controlling for firm size and client mix.
- Proposition 2: Access to external quality-management resources will be associated with more effective SoQM implementation when the firm actively assesses provider competence and objectivity and oversees the scope, timing, and results of their work.
- Proposition 3: The association between documented HKSQM 1 policies and engagement-level audit quality will be stronger where monitoring findings are followed by substantive root-cause analysis and effective remediation.

6. Implications for Practice and Policy

For smaller audit practices, the analysis points to a relatively compact but evidence-rich operating model. First, the firm should maintain a risk register that begins with actual portfolio and organizational characteristics rather than with generic standard language. Each material

quality risk should identify a response, an owner, evidence of operation, and a monitoring mechanism. Second, capacity should be treated as a measurable quality variable. Partner portfolios, peak-period workload, specialist needs, EQR commitments, staff turnover, and training gaps can be monitored alongside financial metrics. Third, external EQR reviewers and specialists should be subject to documented due diligence and periodic evaluation, with particular attention to competence, objectivity, availability, scope, and information access. Fourth, monitoring findings should be aggregated and subjected to RCA when patterns recur; the remediation plan should specify responsibility, timing, and how effectiveness will be tested.

For HKICPA and the AFRC, the findings support continued guidance on proportionate implementation without relaxing quality objectives. Examples that show how a firm's circumstances give rise to a quality risk, how a response is selected, and how its operation is evaluated would be more useful than generic templates alone. Public reporting that separates firm-level SoQM findings from engagement-level audit findings would also help readers avoid treating non-PIE or small-practice labels as proxies for audit quality.

For researchers, Hong Kong provides an unusually attractive post-implementation setting because the introduction of HKSQM 1 coincides closely with the expansion of independent regulation. Future work could combine AFRC inspection outcomes, firm characteristics, audit-fee data, client portfolios, partner workload, and staff movement. Interviews with smaller practices could also test whether external EQR and quality-management providers function mainly as capability extensions, compliance substitutes, or both.

7. Limitations and Future Research

This study relies on public standards and regulatory publications rather than direct access to firms' SoQMs, internal decisions, or complete engagement files. The AFRC's principally risk-

based selection means its findings are not a representative census; its non-PIE categories are not SMP classifications. Findings about generic engagement-level risk assessments also cannot, without further evidence, establish a defect in firms' HKSQM 1 risk assessments. The review was undertaken by one analyst, with no independent coding or intercoder reliability assessment, and it cannot attribute changes in audit outcomes to HKSQM 1. These limits restrict the claims to interpretation of documented mechanisms and priorities.

Future research could improve on these limitations in three directions. A survey or interview study could measure implementation maturity across HKSQM 1 components and relate it to firm resources and external-provider dependence. A panel design could examine whether repeated AFRC inspection and remediation are associated with subsequent engagement quality. Finally, market-level work could test whether quality-management regulation affects audit-firm entry, exit, consolidation, pricing, and the availability of auditors for smaller entities. Such evidence would allow researchers to separate the quality benefits of independent oversight from its market-structure effects.

8. Conclusion

HKSQM 1 replaces HKSQC 1's quality-control framework with a risk-based SoQM that requires firms to identify quality risks, respond to them, and learn from monitoring. Hong Kong's regulatory publications illustrate why implementation may be demanding when partner capacity and specialist resources are limited. The AFRC reports firm-level concerns about workload, resource adequacy, external-provider oversight, and remediation, as well as distinct engagement-level findings about generic audit-risk assessment. The latter raise questions about the effectiveness of firm-wide responses but do not, by themselves, prove a firm-level quality-risk assessment failure.

The evidence supports a bounded conclusion: smaller firms can operate simpler systems suited to their circumstances, but they need to demonstrate how their responses address identified quality risks and how monitoring findings inform change. Neither firm size nor non-PIE status establishes low audit quality. By separating system-level evidence from engagement findings, the Hong Kong case clarifies what proportionality requires and offers a basis for future research using direct firm-level data.

Data Availability Statement

All regulatory and standard-setting documents analyzed in this study are publicly available from the websites of the Accounting and Financial Reporting Council, the Hong Kong Institute of Certified Public Accountants, and the International Auditing and Assurance Standards Board. Bibliographic details are provided below.

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Appendix A. Coding Frame

Table A1

Directed coding categories used in document analysis

Category	Illustrative indicators
Governance and leadership	Ultimate responsibility, tone at the top, accountability, quality-first incentives
Risk assessment and tailoring	Firm-level quality objectives and risks; separate engagement-level risks of material misstatement; links between the two
Resources and workload	Partner capacity, staffing, competence, specialists, technology, fee/resource alignment
EQR and external resources	Reviewer eligibility/objectivity, external personnel, provider oversight, independence
Monitoring and remediation	Completed-file review, deficiency evaluation, RCA, corrective action, effectiveness testing
Oversight and proportionality	AFRC inspection, risk-based selection, scalability, proportionality, evidence of operation