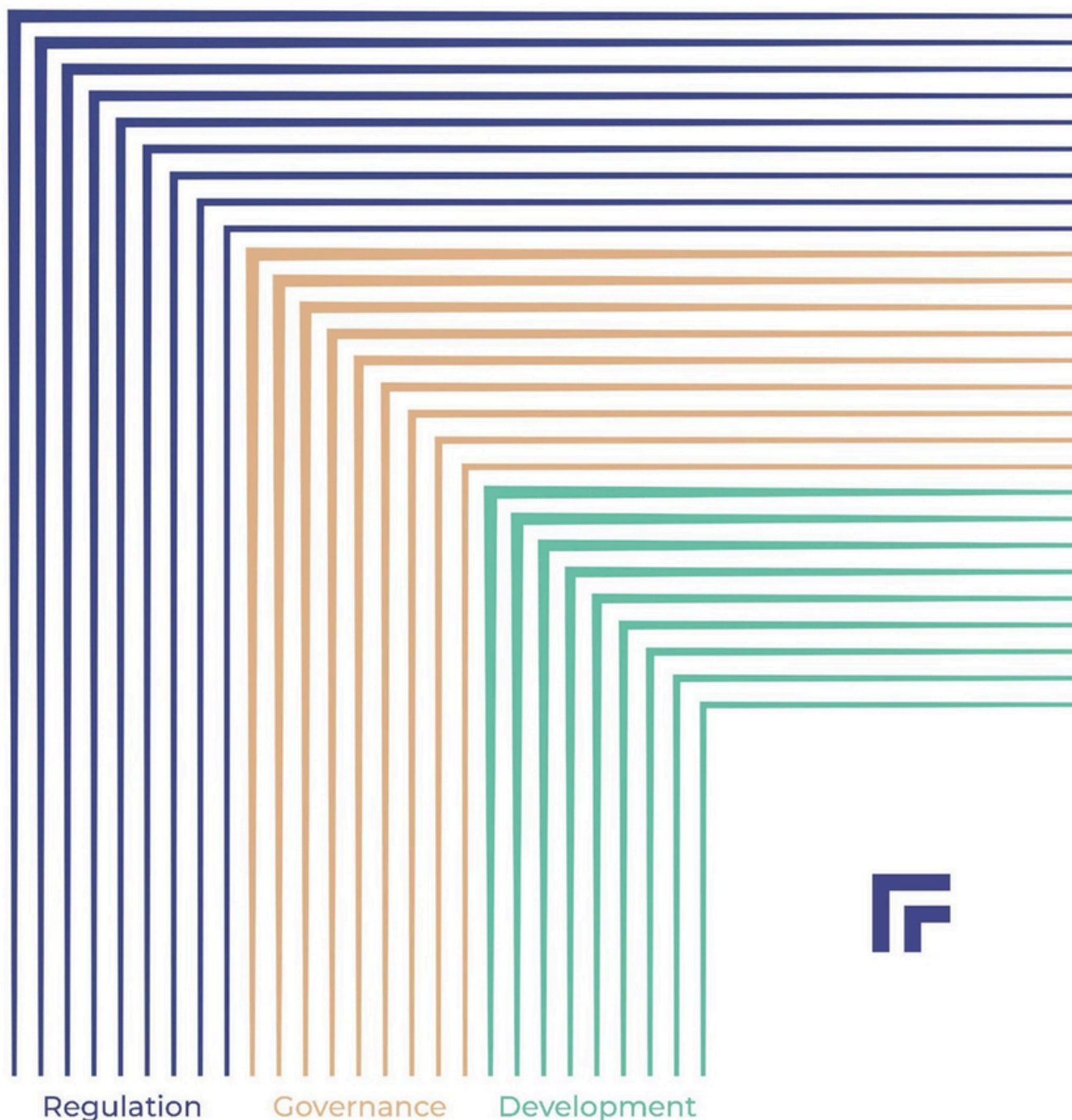


Key Observations from the AFRC Survey 2025

2 June 2026



About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (**AFRC**) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC leads the accounting profession by upholding professional standards, safeguarding the public interest, and promoting the profession's healthy development.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

Table of Contents

	Page
Background and Objectives	1
Section 1 Regulatory Requirements <ul style="list-style-type: none">• Appointment of Corporate Practices' Auditors• Independence of Corporate Practices' Auditor	1
Section 2 System of Quality Management <ul style="list-style-type: none">• Audit Methodology• Annual Evaluation• Inspection of Completed Engagements	2-3
Section 3 Service Providers <ul style="list-style-type: none">• Segregation of Duties	4
Section 4 Final Engagement Documentation <ul style="list-style-type: none">• File Assembly and Retention Period	4
Section 5 Audit Personnel <ul style="list-style-type: none">• Qualification and Experience of Audit Manager	5
Section 6 Audit Support <ul style="list-style-type: none">• Service Delivery Centres	6
Annex Additional Guidance and Resources	7

Background and Objectives

In September 2025, AFRC has invited Practice Units (**PU**s) to share their insights via the **AFRC Survey 2025 (Survey)**.

Our analysis of the Survey, which covered information from PUs that operated during the period from 1 July 2023 to 30 June 2025, identified several areas that may indicate **non-compliance with applicable legal requirements and professional standards**, including:

- Companies Ordinance (Cap. 622) (**CO**)
- Hong Kong Code of Ethics for Professional Accountants (**HKCoE**)
- Hong Kong Standards on Quality Management (**HKSQMs**)

In light of these observations, this publication is issued to **highlight key areas of concern** and **remind PUs of their ongoing obligation** to fully comply with relevant laws, regulations, and professional standards.

Section 1 – Regulatory Requirements

Appointment of Corporate Practices' Auditors

12%

of corporate practices had **not appointed an auditor** as at 30 June 2025.



Section 394(1) of the CO



An **auditor** must be **appointed** for **each financial year** of a company, including corporate practices.

Independence of Corporate Practices' Auditor



Section 393(2) of the CO prohibits **an officer or employee of a company from being appointed** as the company's **auditor**.



Section R523.3 of Chapter A of HKCoE provides that **a partner or employee of the firm, or of a network firm, shall not serve as a director or officer of an audit client** of the firm.

5%

of corporate practices **appointed themselves**, or **PU**s with **common directors**, as their auditors, in breach of independence requirements.



Independence is a fundamental principle under the HKCoE, and appointing oneself as auditor, or serving as an auditor for PUs with common directors, **may constitute CPA misconduct**.

Section 2 – System of Quality Management (SoQM)

Audit Methodology



Paragraph 32(g) of HKSQM 1 requires **appropriate intellectual resources** to be obtained or developed, implemented, maintained, and used, to enable the **consistent performance** of quality engagements.

4%

of PUs **relied solely on auditing standards** when performing audits **without developing an audit methodology** to provide further guidance on audit execution.

5%

of PUs used audit methodology and standardised documentation template that were **last revised before 1 January 2022**.

For example, one of the **recent major revisions** under HKSA relates to *HKSA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement (HKSA 315 (Revised 2019))*, which was effective for audits of financial statements for periods beginning on or after 15 December 2021 (**Effective Date**):

15 December 2021

1 July 2023

30 June 2025



Effective Date of HKSA 315 (Revised 2019)

Period in which the AFRC Survey 2025 covered

Some PUs were still using audit methodologies **developed before 1 January 2022**, which may **not capture the updates** introduced in *HKSA 315 (Revised 2019)*.



Risk of non-compliance with applicable auditing standards

PUs should maintain an **up-to-date** audit methodology and standardised documentation templates to ensure that all audits are conducted **consistently, accurately, and in compliance with applicable professional and legal standards**, enabling engagement teams to follow a **step-by-step framework** to conduct audit engagements.



Section 2 – SoQM

Annual Evaluation



Paragraphs 53 and 54 of HKSQM 1 require that, **at least annually**, the individual(s) assigned ultimate responsibility and accountability for the SoQM shall **evaluate the SoQM** and, based on the evaluation, conclude whether it provides the PU with **reasonable assurance** that the objectives of the SoQM are being achieved.

17%

of PUs had **never** performed any evaluation of their SoQM **since HKSQM 1 came into effect in 2022.**

3%

of PUs **last evaluated** their SoQM **over one year ago.**

i

The annual evaluation of the SoQM is intended to ensure it is subject to **ongoing, holistic oversight by firm leadership**, so that **findings** are **identified, evaluated, and remediated on a timely basis**, and that the SoQM continues to operate effectively. Refer to paragraphs A187 – A190 and A195 of HKSQM 1 for further guidance.

Inspection of Completed Engagements



Paragraph 38(c) of HKSQM 1 requires firms to *select at least one completed engagement for each engagement partner on a cyclical basis* for inspection.

29%

of PUs did **not** inspect any completed engagements **in the past two years.**

34%

of PUs that inspected completed engagements had **engagement partners (EPs) acting as inspectors of their own engagements.**



Paragraphs A153 and A156 of HKSQM 1



Firms may **establish a standard inspection cycle** and adjust that cycle in response to relevant circumstances. For example:



Audit EPs are inspected **at least once every three years**



More frequent inspections are warranted in case of:



Higher-risk engagements



New EPs or EPs with prior **unsatisfactory monitoring results**



When a firm **lacks sufficient objective personnel** to review completed engagements, it may **engage external service providers** to inspect completed files.

!

Independence is a fundamental principle under the HKCoE, and EPs acting as inspectors of their own engagements **may constitute CPA misconduct.**

Section 3 – Service Providers

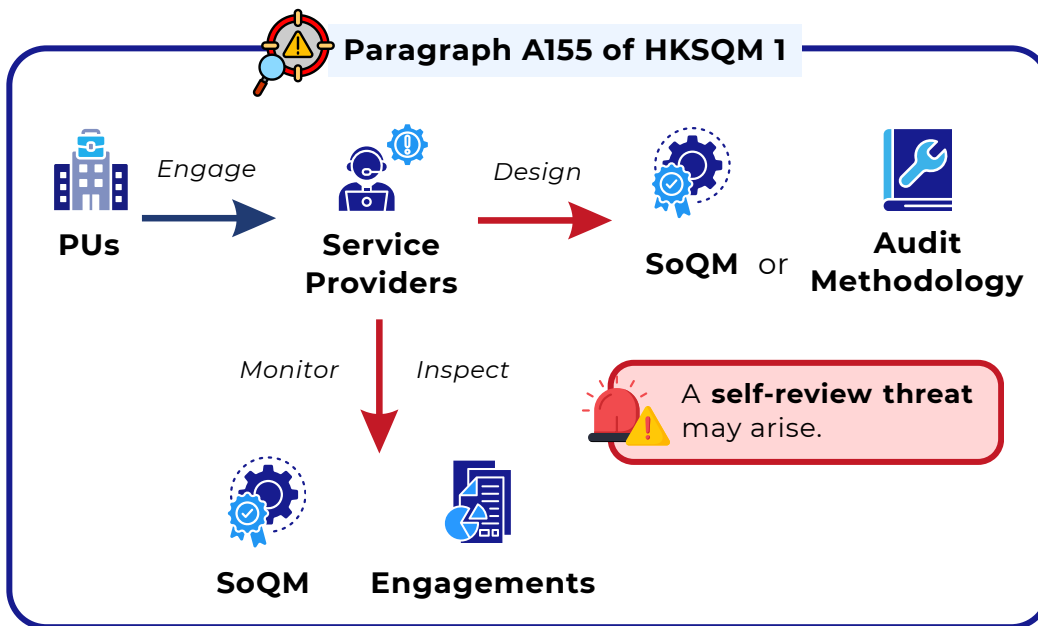
Segregation of Duties




Paragraph 39(b) of HKSQM 1 requires that *the firm shall establish policies or procedures that **address the objectivity** of the individuals **performing the monitoring activities**.*





Certain PUs engaged a monitoring service provider who had also been **involved in the design or operation of the responses being monitored**.



PU's should:

 **Identify, evaluate, and address** potential threats to independence when engaging service providers

 **Ensure** SoQM service providers are **independent and objective**.

 Ensure service provider's monitoring conclusions are **NOT unduly influenced by any prior involvement in, or reliance on, its earlier work**.

Section 4 – Final Engagement Documentation

File Assembly and Retention Period



Paragraph 31(f) of HKSQM 1 requires engagement documentation to be assembled **on a timely basis after the date of the engagement report**, and to be appropriately maintained and retained.



Instances were noted where PUs **failed to assemble** final engagement documentation **within 60 days** and **retained** final engagement documentation for **less than five years**.



Paragraph A83 of HKSQM 1



Final assembly should ordinarily be completed **no more than 60 days** from the date of the engagement report.



Paragraph A85 of HKSQM 1



Retention period is ordinarily **no shorter than five years** from the later of:

- the date of the engagement report; and
- the date of the auditor's report on the group financial statements.



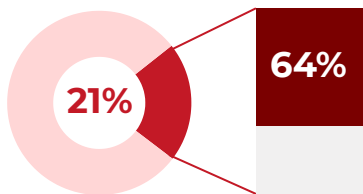
Scan QR code or click here to read [The Importance of Audit Documentation Integrity](#).

Section 5 – Audit Personnel

Qualification and Experience of Audit Manager



Paragraph 32(d) of HKSQM 1 requires **engagement team members** to have **appropriate competence and capabilities** to perform quality engagements.



21%

of **audit managers*** were **not CPAs** as at 30 June 2025;

of whom **64%** were not undertaking any **professional CPA examinations.**

**including senior managers, associate directors, managers, or equivalent professional personnel.*

PU's Prerequisites for Manager Promotion/ Recruitment



Paragraphs 32(a) and A88 of HKSQM 1

Firms shall hire, develop, and retain competent audit managers. Competence is the integration and application of **technical knowledge, professional skills, and professional ethics, values, and attitudes**. Such competence could be assessed by firms through a personnel's **audit experience, attainment of a CPA qualification, and compliance with ethical requirements**.



An audit manager should be a **qualified CPA** because the role requires:

- ✓ a proper understanding and application of **professional standards**;
- ✓ exercise of professional judgment; and
- ✓ effective supervision and coaching of junior staff.



CPA qualification gives firm leaders, regulators, clients, and audit teams **confidence** that the manager can:

- ✓ **review** work critically;
- ✓ **guide** less experienced team members;
- ✓ **uphold audit quality**; and
- ✓ **protect** the firm's **reputation**.



Therefore, PUs should actively **support** managers and senior staff in **attaining CPA qualifications, establish clear and structured career pathways**, and continue to **invest in their professional development and retention**.

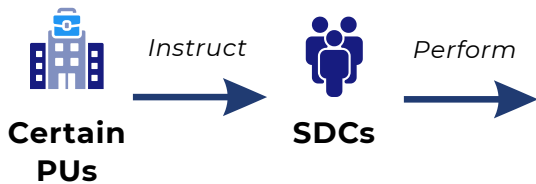
Section 6 – Audit Support

Service Delivery Centres (SDCs)



Paragraph 31(b) of HKSQM 1 requires that the **nature, timing, and extent of the direction and supervision of engagement teams, and the review of work performed, are appropriate based on the nature and circumstances of the engagement and the resources assigned or made available.**

The survey results showed:











Audit procedures that require:

- **Professional judgment**; or
- **In-depth understanding of client's businesses**




Examples of audit procedures that SDCs may not be able to complete independently:

 Test of Controls	 Test of Details
 Risk Assessment	 Analytical Review Procedures
 Journal Entry Testing	 Prepare the Group Audit Instructions
 Perform Physical Inspection of Tangible Assets	
 Evaluate the Work of Management's/ Auditors' Experts	



EPs **remain ultimately responsible** for work performed by SDCs.



EPs

Ongoing Supervision
Rigorous Review



SDCs



EPs should first **assess** whether the **SDCs** are **capable** of performing the work, particularly when it requires:

- **professional judgment**; or
- a strong **understanding of the client's business and processes.**

When **reviewing the work performed by SDCs**, reviewers should critically assess whether:

- SDC members have **followed the instructions given** by the engagement team; and
- the **work** has been **performed properly.**

Annex:

Additional Guidance and Resources

The AFRC is dedicated to fostering a culture of continuous improvement within the accounting profession. To support this, we have published a range of communications, including reports, guidelines, and videos etc. Auditors are encouraged to draw upon these resources to advance their professional excellence and uphold audit quality.



Audit Focus for 2025 year-end audits

This publication offers practical reminders and highlights key areas that require particular attention from auditors.



Audit Focus for 2025 year-end audits - Financial Services Sector

The publication provides practical guidance for effectively addressing unique and evolving risks of the financial services sector, while also outlining firm-specific readiness considerations.

Checkpoint

The Checkpoint series provides guidance to auditors on obtaining an understanding over:



[Obtaining an Understanding of the Audit Clients' IT Environments](#)



[Reminders for Auditors' Reporting on Licensed Corporations](#)



[Information Produced by the Entity for Use as Audit Evidence](#)



AFRC Connect Video Series

The video series provides practical insights and essential technical reminders in an engaging and digestible format.



[How important is Audit Risk Assessment?](#)



[Understand and Evaluate IT Risks and Controls](#)



[Revealing the Hidden Truths of Management Fraud: The Vital Role of Journal Entry Testing](#)



AFRC Audit Uncovered EP 1 - Seeing Audit Through a New Lens

The video illustrates how auditors assess the credibility of financial statements, identify significant risks, evaluate internal controls, and identify areas for improving operational effectiveness.



Upholding Audit Quality and Professional Integrity Amid the Vibrant Capital Market

The open letter reminds public interest entity auditors of their critical responsibilities, including safeguarding high-quality audits, maintaining independence and professional integrity, and strengthening public trust in Hong Kong's capital markets.



Getting an audit wrong can have profound consequences for credibility

The opinion piece underscores the crucial role of audits in capital markets and calls on boards, management, and audit committees to treat audit as a shared responsibility, focusing on leadership, governance, and technical excellence rather than cost alone.



Contacts

If you have any enquiries or comments, please feel free to contact us.

Accounting and Financial Reporting Council

10/F, Two Taikoo Place, 979 King's Road,
Quarry Bay, Hong Kong

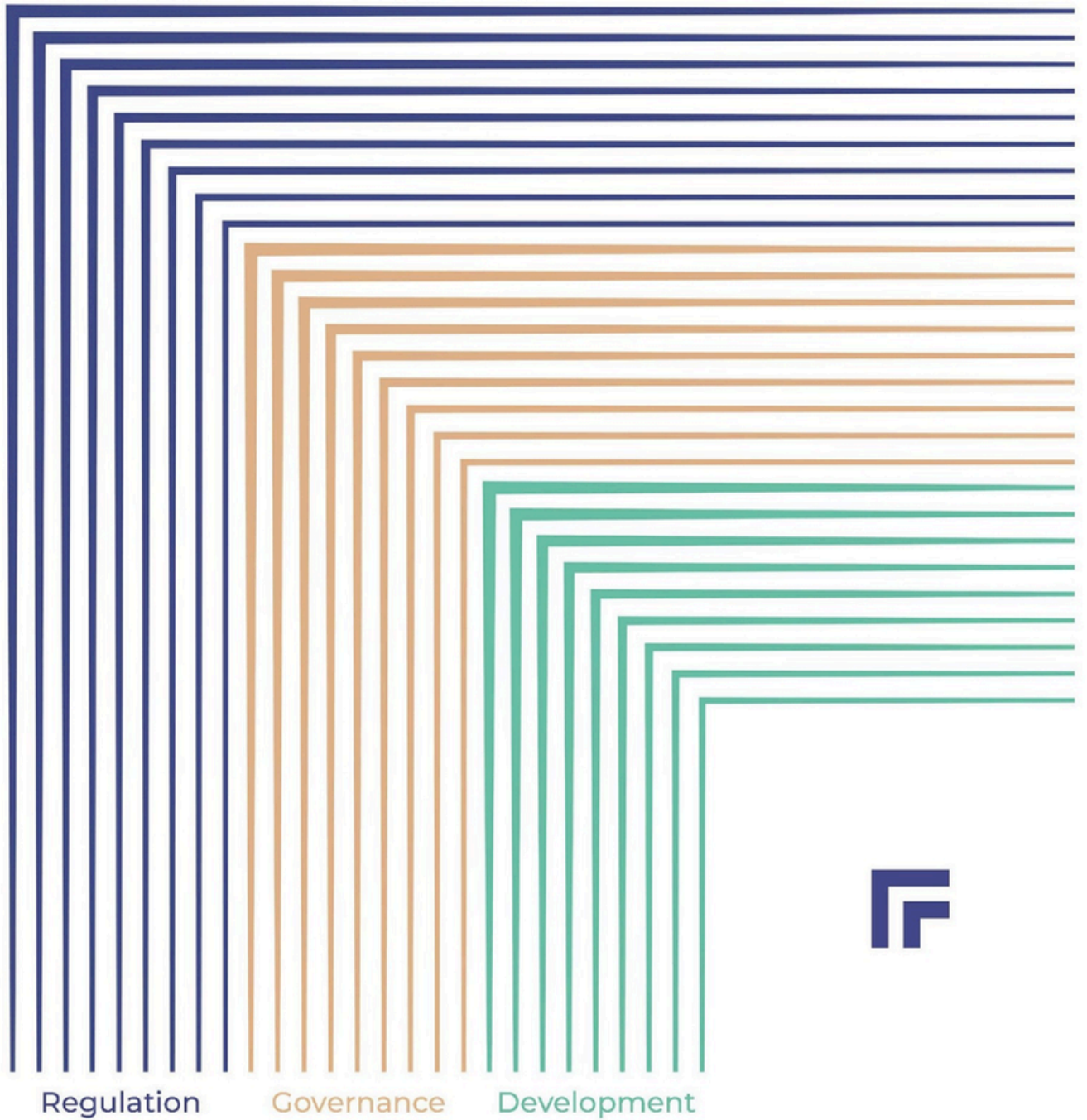
T (852) 2810 6321
F (852) 2810 6320
E general@afrc.org.hk
www.afrc.org.hk



Copyright © 2026 Accounting and Financial Reporting Council

Disclaimer

This publication contains information compiled by the AFRC which is not intended to be exhaustive. The information has been prepared in general terms for reference only, without considering specific circumstances pertaining to any individual or individual case. It does not constitute advice from the AFRC and cannot be relied upon to cover specific situations. You should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. The AFRC does not accept any liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon information contained in this publication.



Regulation

Governance

Development

