Accounting and Financial
Reporting Council
會計及財務匯報局

afrc.org.hk

2025-26 Annual Enforcement Report

14 July 2026

Regulation Governance Development

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 (**AFRCO**). 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.

Foreword

This Annual Enforcement Report marks an important milestone for the AFRC. For the first time, we present an integrated overview of our enforcement work across investigation, enquiry, and disciplinary functions, providing stakeholders with a more complete and transparent account of our regulatory activities.

The 2025-26 financial year has been characterised by a continued focus on safeguarding audit quality and maintaining confidence in financial reporting of Hong Kong. Through a strategic and risk-based approach to enforcement, the AFRC has prioritised high-profile cases involving significant public interest, addressed recurring misconduct in key thematic areas, and taken timely and proportionate disciplinary actions where warranted.

This report highlights key enforcement outcomes, including a number of significant disciplinary cases, as well as recurring deficiencies observed across audit engagements and firm-level systems of quality management. It also reflects our commitment to delivering clear regulatory messages to the profession, while supporting improved compliance through guidance, including the use of compliance advice letters, where appropriate.

The integration of investigation, compliance and disciplinary perspectives in this report underscores the AFRC's holistic enforcement approach. By bringing together insights from across the enforcement spectrum, the report enables stakeholders — including regulatees, financial statement preparers, and the public — to better understand how matters progress through the enforcement process and how regulatory outcomes are determined.

Looking ahead, the AFRC will continue to focus on areas of heightened risk and significant public interest, including deficiencies in systems of quality management and control, as well as serious audit deficiencies in public interest entity engagements and engagements involving entities regulated by other authorities, that may result in inappropriate audit opinions. We will also continue to strengthen our enforcement capabilities and cross-boundary collaboration with relevant regulatory bodies to enhance the effectiveness of our oversight and enforcement efforts.

We encourage all stakeholders to reflect on the findings, observations and reminders set out in this report and to take proactive steps to strengthen governance, enhance compliance, and uphold high standards of audit quality in the public interest.

Table of Contents

Section 1: Overview

I. Purpose of this report

The purpose of this Annual Enforcement Report is to provide stakeholders with greater visibility and insight into the AFRC's enforcement processes, priorities, key milestones and regulatory outcomes. It principally covers the 2025-26 financial year from 1 April 2025 to 31 March 2026, while also addressing some significant developments thereafter.

Through our investigative and disciplinary processes, the AFRC has taken timely and proportionate enforcement actions against misconduct, non-compliance and practice deficiencies identified in prioritised thematic areas, with the goal of safeguarding the integrity of the financial reporting ecosystem in Hong Kong, upholding audit quality, and supporting the healthy and sustainable development of the accounting profession.

By identifying recurring issues and emerging risks, and highlighting key findings and observations from completed and ongoing enforcement cases, the AFRC aims to offer practical guidance and lessons learned to assist the profession in recognising potential pitfalls and weaknesses in existing practices, while also enabling the public to have greater clarity on matters affecting the profession and the AFRC's expectations regarding proper standard of conduct.

 **Profession**	The profession should give due consideration to the insights set out in this report, particularly in areas that drive the AFRC's enforcement priorities. They serve as a reminder of our regulatory expectations, emphasising the importance of compliance with professional standards, alongside ongoing vigilance and maintaining professional scepticism. Our regulatees should also take note of the nature of the practice and professional irregularities being highlighted, and consider whether their own practices would benefit from timely enhancements or remedial actions, including targeted training and improvements to systems of quality management.
 **Preparers and Approvers**	Preparers and approvers of financial statements, including boards of directors, audit committees, chief financial officers and finance staff are invited to consider the information in this report, including common audit deficiencies and accounting non-compliance issues, and to assess its implications on effective planning, execution and oversight of the preparation and approval of financial statements.
 **Public**	Members of the public are invited to consider this report and enhance their understanding of developments within the accounting profession and their relevance to investors and the wider community.

II. Our enforcement process

The enforcement framework

The AFRC has powers to investigate possible misconduct by, and take disciplinary action against, public interest entity (**PIE**) auditors, registered responsible persons and professional persons (i.e. certified public accountants (**CPAs**) and practice units) under the AFRCO. We also enquire into potential non-compliance with accounting requirements by PIEs in their financial reports.

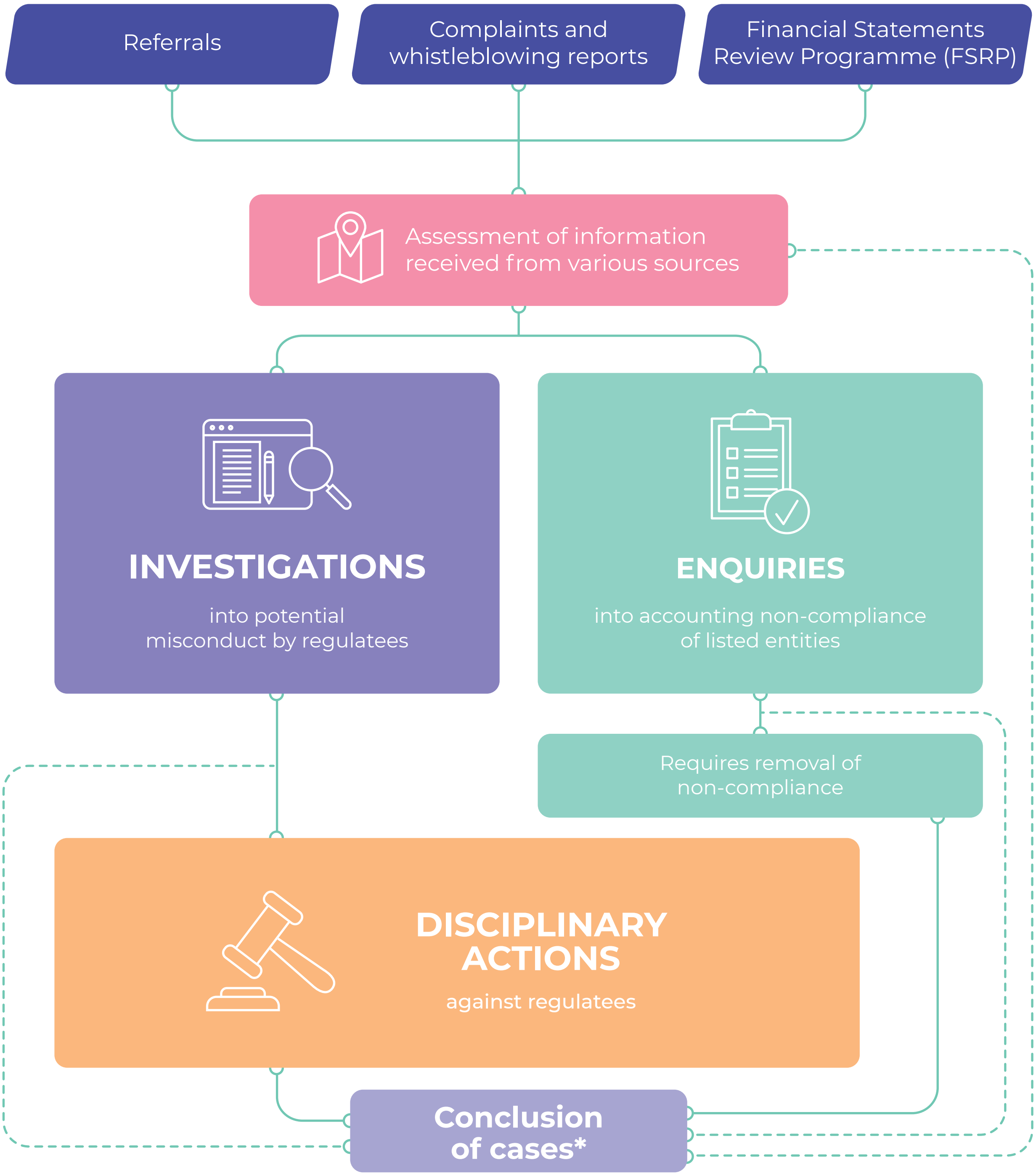
We regularly receive information regarding potential misconduct or non-compliance from a variety of sources, including complaints, whistleblowers, referrals from internal departments, other regulators and professional bodies, as well as our review of publicly available information. Based on a robust assessment of the available information, the AFRC may decide to commence an investigation and/or an enquiry. We may exercise our statutory powers to require the relevant parties to provide evidence, written responses and/or additional information to facilitate the relevant process.

Upon the completion of an investigation, and following due consideration of the investigation report, cases involving sufficiently serious findings may be referred for disciplinary assessment. If the AFRC determines disciplinary actions against the regulatees are warranted, we will issue a Notice of Proposed Disciplinary Action (**NPDA**) setting out the AFRC's preliminary views on the allegations and the proposed sanctions. After accounting for any further representations from the regulatees, the AFRC will issue a Decision Notice to the regulatees setting out the AFRC's decision, its reasons and the disciplinary sanctions to be imposed.

The AFRC will also publish a Press Release and a Statement of Disciplinary Action on its website to communicate the details of our sanction cases for the benefit of the public and the profession. Except where disciplinary actions are resolved by agreement, regulatees have the right to apply to the Accounting and Financial Reporting Review Tribunal (**Tribunal**) for a review of the AFRC's disciplinary decision and, if dissatisfied with the Tribunal's determination, to further appeal to the Court of Appeal.

Depending on the circumstances of the case, the AFRC may also consider that alternative regulatory outcomes are more appropriate. These may include referring the matter to another authority, closing the case where no further regulatory action is warranted, or issuing a Compliance Advice Letter (**CAL**) to provide guidance and promote future compliance. In enquiry cases, PIEs may also be required to rectify identified instances of non-compliance which are considered to have significant impact on the public interest.

Our enforcement process is outlined as follows:



* Cases may be concluded with or without further actions. Further actions may include referral to other authorities where appropriate, or issuance of compliance advice letters.

Operational efficiency and effectiveness

We conduct regular reviews of our operational efficiency and effectiveness, and where appropriate, implement targeted enhancements to our enforcement processes to improve efficiency and strengthen our regulatory impact. We allocate our resources in a risk-based and proportionate manner across different case types, which enables us to calibrate the level of supervisory attention according to assessed risk profiles, while maintaining comprehensive oversight of the profession and addressing a wide spectrum of potential misconduct.

We have been leveraging technology to further enhance the efficiency and effectiveness of our enforcement processes. In particular, we provide accessible information and interactive guidance on our enforcement functions and processes to the profession, other stakeholders and the public through the AFRC's Virtual Assistant, AVA. We are also exploring options to enhance our case management system and enforcement process through better use of artificial intelligence.

At the same time, we are committed to maintaining strong data security and safeguarding personal data and privacy, ensuring that our operations and technological advancements are conducted in a secure and responsible manner.

Oversight of our enforcement function

Our investigation and enquiry functions are overseen by the Investigation and Compliance Committee, while our discipline function is overseen by the Discipline Committee.[1] These committees were set up by the AFRC Board to have oversight and advisory roles on our enforcement matters.

Our enforcement work is also subject to external scrutiny by the independent Process Review Panel,[2] which reviews the decisions and processes in selected enforcement cases to assess whether they comply with our internal procedures and guidelines.

---

1 The composition, terms of reference, and activities of the Investigation and Compliance Committee and the Discipline Committee are described in detail in the AFRC's 2025-26 Annual Report.

2 The composition and the function of the Process Review Panel are described in detail in the AFRC's 2025-26 Annual Report.

III. The year at a glance (for the year ended 31 March 2026)

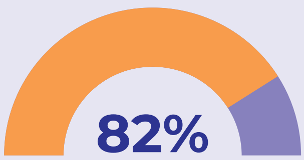
81
Investigation and enquiries completed

22
Disciplinary cases completed

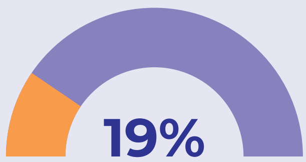
49
Compliance advice letters to regulatees

32
Decision notices issued to regulatees

HK$11.7million
Pecuniary penalties imposed#



Completed investigations with follow up actions*



Completed investigations sourced from public complaints

Under the AFRCO, all pecuniary penalties are to be paid into the general revenue of the Government of the Hong Kong Special Administrative Region.

* Further action may include referral to DIS for disciplinary action, other authorities where appropriate, or issuance of compliance advice letters.

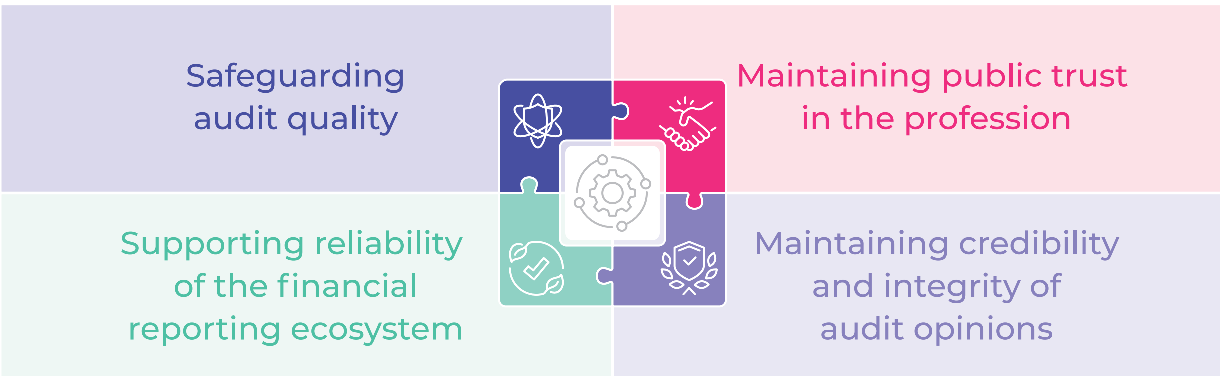
Section 2: AFRC's Enforcement in 2025-26

I. Highlights of our enforcement approach

During the year, the AFRC completed 81 investigation and enquiry and 22 disciplinary cases. We imposed disciplinary sanctions on 35 regulatees, including issuing public reprimands and imposing pecuniary penalties exceeding HK$11.7 million in total.[3] Where appropriate, we also imposed other sanctions on regulatees, including the suspension of registration and cancellation of practising certificates, ranging from 18 to 36 months.

We have adopted a strategic and risk-based approach to our enforcement, placing emphasis on case prioritisation and thematic enforcement. This approach has enabled us to identify and address key and emerging risks, ensure that our enforcement remains agile and responsive to developments across the profession, and thereby amplify our regulatory impact.

In applying this enforcement approach, the AFRC continued to prioritise high-profile cases involving significant public interest, as well as those concerning serious audit deficiencies in PIE engagements. In parallel, we have also directed our enforcement efforts towards specific categories of misconduct identified as regulatory priorities, having regard to their prevalence, seriousness, and potential impact on stakeholders and the public. Particular focus was placed on areas fundamental to:



Thematic enforcement, involving the grouping and analysis of cases with similar contexts, supports a coherent and targeted assessment of recurring deficiencies and misconduct. It enables the AFRC to identify common root causes, reinforce regulatory expectations, and deliver clear and consistent enforcement messages to the profession in respect of key areas of misconduct.

---

3 Under the AFRCO, all pecuniary penalties are to be paid into the general revenue of the Government of the Hong Kong Special Administrative Region.

Priority themes for enforcement during the year included:

Deficient systems of quality management/ control	A robust and effective system of quality management, including appropriate leadership oversight, governance structures, monitoring and remediation, is fundamental to audit quality. Weaknesses at the firm level are likely to be far more detrimental, giving rise to recurring and serious engagement-level deficiencies and significantly increasing the risk of audit failures.
Significant audit deficiencies/ inappropriate audit opinions	High-quality audits are critical to providing investors with assurance over financial information and supporting the proper functioning of capital markets. Audit deficiencies can result in material misstatements and other significant matters not being appropriately identified, evaluated or communicated to users of financial statements in a timely manner.
Systemic late file archiving and backdating of audit working papers	Timely and effective archiving of audit documentation is critical to deterring improper alteration or tampering of audit documentation, thereby preserving its integrity. Improper practices, including backdating of audit working papers, compromise the reliability of the records evidencing the work performed by the auditor at the time of the audit.
Non-compliance with registration requirements	Registration requirements under the AFRCO play a key role in upholding the high standards of accountability and transparency in audit engagements by ensuring practitioners are properly qualified and possess the requisite experience to undertake the work. Additional safeguards imposed on PIE engagements ensure that such activities are only carried out by registered individuals who are properly qualified and are subject to appropriate regulatory scrutiny.
Breach of auditor independence requirements	Auditor independence is a bedrock principle of auditing and professional ethics. It preserves the objectivity of the auditor and ensures opinions are rendered free from bias or influence. Any breach of the independence requirements could materially undermine the credibility of audits.
Non-compliance with AML/CTF Guidelines	Anti-money laundering and counter-terrorist financing (**AML/ CTF**) obligations are underpinned by statutory requirements and represent a fundamental professional obligation of auditors and professional accountants to assist with the detection and reporting of suspected criminal conduct.

In line with our enforcement approach to prioritise high-profile cases involving significant public interest, the AFRC completed an investigation into a high-profile case during the year, involving serious audit misconduct in relation to a property developer, which went into liquidation in 2024 and was delisted in 2025, and two related Hong Kong-listed entities within the same corporate group, and took disciplinary action in April 2026.

Case Highlight

In this case, the AFRC imposed disciplinary sanctions against the PIE audit firm responsible for the audits and two of its former partners, being the engagement quality control reviewer (**EQCR**) for the audits and quality control system responsible person (**QCSRP**) at the time.

Significantly, those sanctions included the first-ever practice limitation imposed by the AFRC on a PIE auditor, prohibiting it from accepting, performing, or issuing reports in respect of any PIE engagements for new clients for a period of six months. The sanctions also included pecuniary penalties totalling HK$310 million, representing the largest pecuniary penalties imposed by the AFRC to date.

These sanctions were necessary and appropriate, given the serious and egregious audit failures, the substantial weaknesses in the audit firm's governance and monitoring controls, and the profound and far-reaching impact on the public interest.

This case underscores that firm leadership setting the right tone-at-the-top, robust firm-wide governance, effective supervision and quality management systems are fundamental to audit quality. It also highlights that reliance on the work performed by network firms and component auditors does not diminish a group auditor's ultimate responsibility for audit quality.

This case further emphasises the importance of the AFRC's close cross-boundary collaboration with the Supervision and Evaluation Bureau (**SEB**) of the Ministry of Finance of the People's Republic of China (**MoF**), and demonstrates the significantly enhanced regulatory impact which can be achieved through coordinated action with other regulators, such as the Securities and Futures Commission (**SFC**).

For further details of the AFRC's findings and disciplinary decision

II. Cases with disciplinary sanctions imposed

This subsection highlights selected disciplinary cases aligning with the key areas of misconduct designated as thematic priorities during the year, together with our insights and our expectations of the profession. Our observations and reminders associated with the relevant ethical principles, professional standards and regulatory requirements are applicable to all audit engagements (regardless of whether PIEs or private or non-equity listed companies (**non-PIEs**) were involved). Practitioners are expected to recognise that compliance with these requirements are fundamentally part of their professional responsibilities and not merely matters of an administrative nature. They must therefore take all necessary and proper steps, and apply the necessary rigour and discipline, to ensure full regulatory compliance.

Significant deficiencies in PIE audits

The enforcement outcomes this year reflect the AFRC's resolute commitment to addressing poor audit quality. During the 2025-26 financial year, in respect of five disciplinary cases published by the AFRC involving significant audit deficiencies, pecuniary penalties exceeding HK$4.5 million in aggregate were imposed on the regulatees concerned. The AFRC also made directions for additional continuing professional development in appropriate cases.

These disciplinary cases highlight the recurring weaknesses in core audit areas and the importance of maintaining sufficient **professional scepticism** throughout the audit process:

Revenue recognition

Impairment assessments

Asset valuations

Inadequate audit procedures to obtain sufficient appropriate audit evidence

Failure to perform adequate audit procedures to obtain sufficient appropriate audit evidence in the above high-risk areas is a recurring feature in disciplinary cases. When audit procedures are not sufficiently robust or adequately responsive to identified risks, there is an increased risk of undetected material misstatements, and audit conclusions being made without sufficient basis.

Inadequate risk assessment and audit planning

Deficiencies were frequently preceded by weaknesses in risk assessment and audit planning, particularly where transactions, estimates or business developments involved heightened complexity or judgmental areas. Where risks of material misstatement were not properly identified and audit procedures were not sufficiently responsive, the auditors' ability to timely identify and address material issues is significantly compromised.

Over-reliance on management representations	Inappropriate evaluation of external experts
Auditors should not place undue reliance on management representations, assumptions and explanations without sufficiently evaluating their reasonableness, and consequently fail to perform necessary additional audit procedures despite contradictory or inconsistent evidence.	When relying on the work of external experts in specialised areas, such as valuations and impairment assessments, auditors failed to critically evaluate the experts' work, the key assumptions and underlying data, resulting in a failure to obtain sufficient appropriate audit evidence to address the relevant risks.

Engagement partners (**EPs**) and EQCRs have also been personally held accountable for such serious audit deficiencies and failures, given that:

EP	EPs bear the ultimate responsibility for the quality of the audits. This responsibility is not delegable, but requires active, informed and continuous involvement in key judgments and audit execution.
EQCR	EQCRs are responsible for independently evaluating significant judgments in audits. This is not a procedural formality but a critical safeguard requiring active, timely and well-documented involvement, particularly in higher-risk engagements.

Auditors in some of these cases issued unmodified audit opinions when they should not have done so. The AFRC also observed that some of the PIEs in these disciplinary cases subsequently made material prior-year adjustments or recognised significant write-offs of relevant accounting items. This highlights the potential serious implications of undetected material misstatements in prior period, and underscores the critical role that auditors play in safeguarding the interests of PIEs, stakeholders and the public, and maintaining market confidence.

Addressing serious audit deficiencies remains a key area of enforcement focus for the AFRC in the year ahead, as further set out in subsection IV below.

The AFRC's Commitment to Effective Oversight in Cross-Boundary Audits

The number of investigation cases involving audit working papers in the Chinese Mainland has continued to increase. During the year, the AFRC also concluded its first batch of disciplinary cases arising from cross-boundary audits. In these cases, audit working papers located in the Chinese Mainland were obtained with the support of the SEB of the MoF pursuant to established cooperation arrangements. These outcomes demonstrate the effectiveness of our regulatory collaboration in supporting audit oversight and enforcement. They also reaffirm the AFRC's commitment to holding auditors accountable for their work, regardless of where audit documentation is located, and to safeguard audit quality and public confidence in Hong Kong's capital markets.

Systemic late file archiving and backdating

Auditors shall assemble and archive audit documentation in an audit file and complete the process of assembling the final audit file on a timely basis, which is ordinarily not more than 60 days after the date of the auditor's report. This ensures that the audit documentation provides a complete and accurate record of the work performed, audit evidence obtained and professional judgments made at the time of the audit.

During the year, the AFRC disciplined two PIE auditors for widespread failures to archive audit files on a timely basis and deficiencies in the firms' systems of quality control/management. In one of the cases, despite a PIE auditor having submitted to the AFRC its root cause analysis and remediation plans, over 490 engagements, including both PIE and non-PIE engagements, had not been archived in accordance with the 60-day requirement. Of these, over 300 engagements remained unarchived for more than one year, and more than 40 of them for over three years. This reflected the auditor's failure to take prompt and timely remedial actions as well as clear breaches of professional standards to establish and implement effective archiving policies and procedures, resulting in widespread and prolonged failures.

In another case, the AFRC disciplined a firm for improper backdating of audit working papers, where key audit documentation was retrospectively created or altered after audit file assembly and backdated to dates preceding the issuance of the auditor's reports in relation to a PIE and a licensed corporation registered with the Securities and Futures Commission.

Such improper practice misrepresents the timing and nature of the audit work performed, calls into question whether the necessary audit procedures had in fact been carried out at the relevant time, and fundamentally breaches the integrity of the audit process and professional ethics.

The AFRC further observed that the breaches and practices found in these enforcement cases often indicate deficiencies in multiple aspects of the firm's system of quality management, including ineffective policies and procedures, inadequate communication and training, and weaknesses in monitoring, oversight and remediation processes.

Reminders

Strong firm-level governance and quality management: Effective firm-level governance, together with robust quality management practices, is essential to ensure timely adherence to proper documentation and archiving requirements.

Integrity and timeliness: Audit documentation must accurately and contemporaneously reflect the work performed and judgments made at the time of the audit, in order to safeguard the authenticity and integrity of audit documentation throughout the engagement lifecycle. This requirement applies equally to both PIE and non-PIE engagements.

Non-compliance with registration requirements

The AFRC has repeatedly emphasised that compliance with registration requirements is a fundamental safeguard underpinning audit quality, professional accountability and public confidence in the profession. Registration requirements are not administrative formalities. They are the statutory mechanism designed to ensure that only individuals and firms meeting the requisite competence, experience, and regulatory standards are permitted to undertake regulated audit activities. During the year, the AFRC took disciplinary action against three PIE auditors and five CPAs for non-compliance with registration requirements.

Regulatees in some of these cases sought to justify their non-compliance by asserting that they had misinterpreted the registration requirements under the AFRCO, mistakenly believed that their applications for registration were complete upon submission pending formal approval, or assumed that approvals were merely a matter of formality.

Such explanations reflect a concerning lack of understanding of the registration framework under the AFRCO. The statutory framework is clear that audit firms and practitioners must ensure that all requisite registrations are in place before undertaking audit engagements. The responsibility for compliance rests squarely with both the firms and individual practitioners, who are expected to understand and adhere to the regulatory requirements governing their practices. A mistaken belief, assumption, misunderstanding of the law, or reliance on pending applications does not displace these statutory obligations.

In one particularly serious case, a PIE auditor undertook a dozen PIE engagements during various periods over two consecutive years when its EPs did not have the requisite registrations. The PIE audit firm also operated for approximately five months without any registered EP and QCSRP, and failed to notify the regulator of these circumstances within the prescribed timeframe. As a result, the PIE auditor and the unregistered practitioners contravened multiple registration and notification requirements under the AFRCO and were subjected to disciplinary action.

Contravention of statutory registration requirements constitutes serious misconduct under the AFRCO. In addition to disciplinary sanctions, it may also give rise to criminal consequences. Further, when auditor's reports are signed off by individuals who are not duly registered or not holding a valid practising certificate, the validity and credibility of those reports may be called into question. The affected PIEs may also face consequential compliance and governance concerns.

Reminders

Always verify: All firms and practitioners should always proactively verify all relevant registration statuses before undertaking any regulated activities:

- Practitioners should be a registered CPA holding a valid practising certificate issued by the AFRC at the time of signing the auditor's reports, whether in respect of PIE or non-PIE engagements.
- Practitioners should also be a registered EP or EQCR of a registered PIE auditor before carrying out any activities in such roles for that auditor in PIE engagements (and not merely at the time of signing the auditor's reports).

Effective policies and procedures: Firms should implement appropriate policies and procedures to ensure full and timely compliance with all registration and notification requirements under the AFRCO.

Auditor independence requirements

The AFRC has continuously placed strong emphasis on the fundamental principle of auditor independence, and took disciplinary actions in four cases involving two firms and five CPAs during the year.

In two cases, the auditor (or his family members) acted as a director or company secretary of, or held financial interests in, the audited private companies, giving rise to clear self-interest and self-review threats. One of these cases was particularly serious, involving fundamental independence breaches covering nearly the entirety of the CPA's professional career and his firm's operation. The regulatees' review application to the Tribunal and the subsequent application for leave to appeal to the Court of Appeal were both dismissed. This reflects the strength and robustness of our enforcement work, as well as the fairness and appropriateness of our disciplinary decisions.

Case Highlight

For over 20 years, the CPA and his firm audited the financial statements of five private companies while he and his family members were also the directors, company secretary and/or shareholders of those private companies during different periods.

The regulatees also failed to establish and maintain a system of quality control and policies and procedures to provide the firm with reasonable assurance that it and its personnel had maintained independence on an ongoing basis.

The AFRC determined that these matters constituted serious and fundamental auditor independence breaches, which warrant robust disciplinary sanctions against the regulatees. This included public reprimands, 3-year suspension of registrations and cancellation and non-issuance of practising certificate, pecuniary penalties, and orders for the payment of investigation costs and expenses.

The regulatees subsequently applied to review the AFRC's disciplinary decision before the Tribunal. The Tribunal affirmed the AFRC's decision and emphasised that the principle of independence underlies the accountancy profession and independence breaches warrant proportionate disciplinary sanctions. The regulatees' later applications to the Court of Appeal for leave to appeal and stay of execution of the decision pending appeal were also dismissed.

The regulatees were further ordered to pay the AFRC's costs in both the Tribunal and appeal proceedings.

For further details of the Tribunal proceedings

For further details of the appeal proceedings

In two other cases, conflicts arose where a director of a PIE auditor's network firm also served as the company secretary of the PIE audit client. Despite the PIE auditor and the EP responsible for the audit having identified the threats to independence arising from such dual roles, they failed to properly evaluate, address and resolve the threats that compromised independence. The EQCRs also failed to properly assess the engagement team's evaluation in this regard. Disciplinary actions were taken against the PIE auditor, the EP and EQCRs concerned.

The published cases demonstrate that breaches of auditor independence requirements may take different forms, and practitioners must be aware of the potential, actual and perceived threats arising from their engagements.

Reminders

Applicable to all audit engagements: Auditors must maintain both independence of mind, which underpins objective and impartial judgment, and independence in appearance, which requires the avoidance of circumstances that could reasonably be perceived as conflicts of interest.

Quality management systems: Practitioners should ensure that robust quality management systems are established and maintained to identify, evaluate and address independence threats effectively across all engagements, and throughout the engagement lifecycle.

Non-compliance with AML/CTF Guidelines

In the 2025-26 financial year, the AFRC took disciplinary actions against multiple practice units and individuals for non-compliance with the AML/CTF Guidelines.

The identified non-compliance ranged broadly in nature and extent — from fundamental non-compliance observed in two enforcement cases involving smaller practices completely lacking AML/CTF policies, procedures, and controls as basic requirements of the relevant standards, to significant implementation deficiencies in a case for a medium-sized PIE auditor, where certain AML/CTF policies were in place but proved inadequate to enable timely and effective identification and management of heightened AML/CTF risks.

These cases also reflect systemic firm-level weaknesses, including failures to tailor AML/CTF controls to risk profiles and to ensure that staff were adequately trained and equipped to discharge AML/CTF responsibilities. They also highlight the gaps in AML/CTF awareness and implementation across the profession, encompassing both PIE auditors and other practice units and CPAs, as well as staff at different levels.

Reminders

Operationalised AML/CTF framework: AML/CTF compliance should form an integral part of professional practice. AML/CTF frameworks must be operationalised and embedded in day-to-day practice and operations, rather than treated as documentation exercises.

Effective system management: Effective policies, procedures and controls, as well as ongoing monitoring, proper documentation and adequate staff training are essential to the effective management of AML/CTF risks on an ongoing basis.

Nature of engagements: Practitioners should be aware of whether the engagement with the audit client constitutes a specified service under the AML/CTF Guidelines and, if so, they need to undertake the proper procedures mandated under the AML/CTF Guidelines.

Deficient systems of quality management/control

As illustrated in the high-profile case and several other disciplinary cases during the year highlighted above, serious and widespread breaches of professional standards or regulatory requirements, including severe audit deficiencies, independence breaches, registration non-compliance and failures in audit file archiving, also reflect significant deficiencies in the firms’ systems of quality management and/or control.

This recurring pattern suggests that significant engagement-level deficiencies are often symptoms of broader firm-level weaknesses. These weaknesses may include ineffective policies and procedures, inadequate monitoring and oversight, insufficient accountability mechanisms, poor communication and training, and failures to identify, escalate, and remediate deficiencies on a timely basis.

The AFRC’s enforcement experience continues to show that sustainable audit quality cannot be achieved through engagement-level controls alone. It depends fundamentally on strong leadership, an effective system of quality management, and a culture in which quality, integrity, and regulatory compliance are consistently prioritised throughout the firm. Where firm leadership fails to set an appropriate tone at the top or to hold personnel accountable for compliance with professional standards, deficiencies are more likely to become systemic and persistent.

Deficiencies in systems of quality management and control therefore remain one of our enforcement priorities. Firms should regularly assess whether their governance arrangements, quality management systems, monitoring processes, and remediation mechanisms are operating effectively and achieving the intended objectives. The AFRC will continue to scrutinise these areas closely, as further discussed in subsection IV below.

III. Compliance advice letters

For cases where formal disciplinary action is considered unwarranted, enforcement cases may be concluded by the issuance of CALs. CALs are an important regulatory tool used by the AFRC to communicate regulatory concerns, reinforce professional standards, and provide guidance to regulatees on areas requiring improvement.

By providing clear and timely regulatory advice to regulatees, we support PIE auditors, professional persons, and other stakeholders in strengthening the quality of financial reporting and audit, enhancing their systems of quality management/control, and improving compliance with applicable laws, professional standards, and ethical requirements. This approach encourages regulatees to take ownership of their compliance responsibilities through timely self-correction, without the need for immediate disciplinary action, thereby contributing to improved and proportionate regulatory outcomes.

While such letters are non-public communications between the AFRC and the recipient and do not constitute disciplinary sanctions, they are not without regulatory significance. They form part of the regulatee's compliance history maintained by the AFRC.

In deciding whether the issuance of a CAL is appropriate in a particular case, the AFRC considers all relevant circumstances, having regard to the public interest. Factors may include the nature, seriousness, frequency, duration, and impact of the misconduct or non-compliance, as well as the degree of cooperation demonstrated by the regulatee.

In the 2025-26 financial year, a total of 49 CALs were assessed to be issued at various stages of the enforcement process, to PIE auditors, including both large and small firms, as well as to professional persons. The regulatory concerns identified were diverse and covered a broad range of regulatory requirements and professional standards. The breadth of issues identified demonstrates the continued need for regulatees to strengthen compliance, professional judgment and audit quality across multiple aspects of these practices.

Regulatees should treat CALs seriously and strengthen their practices and addressing emerging risks before more significant compliance issues arise.

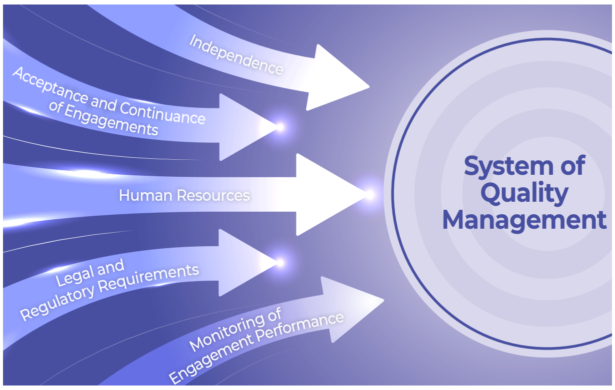
IV. Enforcement priorities in the year ahead

The AFRC has identified several recurring areas of misconduct in ongoing enforcement cases that warrant continued regulatory attention, including recurring themes that indicate a higher degree of seriousness. In some cases, they suggest broader or systemic concerns within the profession. Accordingly, the AFRC considers it important to highlight these regulatory concerns early and signal key areas of enforcement focus for the year ahead.

Deficient systems of quality management/control

A firm's systems of quality management/control underpin the quality of all engagements and govern key aspects of its operations, governance and decision-making. The AFRC has imposed disciplinary sanctions in several cases during the 2025-26 financial year for failures relating to firms' systems of quality management/control. Ongoing enforcement cases continue to reveal potential deficiencies across a broader range of quality management components.

In the year ahead, we will continue to focus our enforcement efforts on potential failures in firms' systems of quality management/control, including recurring concerns relating to independence and the monitoring and remediation processes. We will also scrutinise deficiencies in other key areas, including the acceptance and continuance of client relationships and engagements, human resources, and the adherence to applicable legal and regulatory requirements.



Particular attention will be given to whether firms have appropriately assessed their competence, capabilities, capacity and available resources before accepting or continuing engagements. Firms are reminded that commercial considerations must not override quality considerations. Engagements, including capital market transactions, should only be accepted or retained where the firm can reasonably demonstrate that it possesses sufficient and appropriate resources, expertise and time to perform the work to the required professional standard.

The AFRC also expects the QCSRP to exercise effective oversight of the firm's system of quality management and control. The QCSRP should ensure that the system is appropriately designed, effectively implemented, continuously monitored and timely remediated where necessary, and should be accountable for its overall adequacy and effectiveness.

Significant audit deficiencies and inappropriate audit opinion

The AFRC remains firmly focused on promoting high-quality audits and taking appropriate enforcement action against significant audit deficiencies and failures. Particular attention will be given to cases where audit deficiencies are so serious that they call into question the appropriateness of the audit opinion issued and consequently, the reliability of information provided to investors.

Auditors are required to obtain sufficient appropriate audit evidence to support their opinion on whether the financial statements give a true and fair view. Where sufficient appropriate audit evidence cannot be obtained, or where material misstatements remain uncorrected, auditors must express the appropriate modified opinion as required by professional standards.

The AFRC recognises that a modified audit opinion may have significant consequences for a PIE, including potential regulatory action or trading suspension, and is concerned these consequences may incentivise certain PIEs to seek to obtain a more favourable audit outcome through opinion shopping or by exerting pressure on audit practitioners. However, such circumstances must never influence an auditor's professional judgment. Auditors must remain objective and independent and should not allow commercial considerations, fee dependence, time pressures, or client-retention concerns to compromise audit quality or the integrity of their reporting responsibilities. Their opinions and conclusions should be based solely on the requirements of applicable professional standards and the evidence obtained.

The same expectations apply to reporting accountants undertaking capital market transactions. Reporting accountants play a critical gatekeeping role in Hong Kong's capital markets and must maintain objectivity, professional scepticism, and independence when performing reporting accountant engagements, regardless of commercial pressures or transaction timelines.

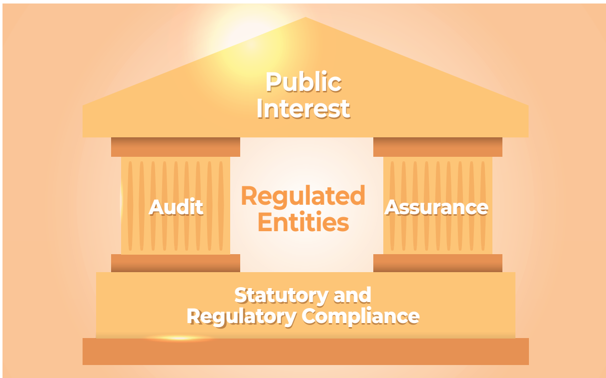
Audit and assurance work for regulated entities

Apart from PIE audits, other non-PIE engagements involving a high degree of public interest are also a part of the AFRC's enforcement focus. Particularly, audit and other assurance engagements for SFC licensed corporations and other regulated entities are critical to maintaining confidence in Hong Kong's regulatory framework and protecting investors.

Licensed corporations frequently hold client assets and manage investments on behalf of investors. Accordingly, their financial soundness and regulatory compliance are matters of significant public interest. Auditors performing work in this sector play an important gatekeeping role in identifying material non-compliance and other matters that may adversely affect investor protection.

The AFRC has identified potential misconduct in relation to audit and assurance engagements for licensed corporations and other regulated entities, including serious deficiencies in audit execution; failures to identify or appropriately respond to the regulated entities' non-compliance with statutory requirements; and excessive reliance on management representations without sufficient independent corroborations.

Such failures may expose investors to significant risks, particularly where the regulated entities' non-compliance involves the circumvention of safeguards designed to protect investor interests. Auditors and assurance practitioners should maintain a thorough and up-to-date understanding of the relevant regulatory framework of regulated entities.



Section 3: Working together to uphold trust and financial reporting quality

We call upon all practitioners, preparers and approvers of financial statements, other stakeholders, and the public to cooperate and work collaboratively with the AFRC — both in facilitating different stages of our enforcement processes and in supporting the broader financial reporting ecosystem. Such cooperation is essential to maintaining and enhancing the quality, integrity, and transparency of financial reporting, promoting the accountability and development of the profession, and ultimately upholding public confidence in Hong Kong's capital markets.

I. Profession — Facilitating effective enforcement outcomes

Profession

The AFRC has consistently encouraged the profession to provide timely, proactive and meaningful cooperation throughout our enforcement processes. In certain circumstances, cooperation is also a statutory obligation under the AFRCO. Proactive cooperation reflects a commitment to professional accountability and public interest. It facilitates the efficient investigation of potential misconduct, supports the timely resolution of regulatory matters, promotes early remediation of deficiencies, and contributes to a culture of responsibility, continuous improvement and sustained behavioural change.

Conduct during investigations and enquiries

In the investigation and enquiry cases handled in the past years, the AFRC has observed both commendable examples of cooperation and conduct that has hindered the efficient progression of regulatory processes.

Depending on the circumstances, a regulatee's conduct during an investigation may be taken into account when determining enforcement outcomes. Conversely, poor cooperation, delays, incomplete responses, or conduct that impedes an investigation may be treated as aggravating factors. Enforcement actions taken by the AFRC during the 2025-26 financial year demonstrate that the nature, quality, extent and timeliness of a regulatee's cooperation may have a material impact on the sanctions ultimately imposed.

Examples of cooperative and uncooperative behaviour observed during investigations and/or enquiries include:

Good practices to keep

- Admitting misconduct in appropriate circumstances, particularly when the facts are clear and not in dispute
- Responding promptly to the AFRC's requirements and requests for information, including those located in the Chinese Mainland
- Providing complete, relevant information and supporting documentation on a timely basis
- Taking prompt remedial actions (e.g. modifying and improving the firm's policies and procedures or implementing specific training, in a targeted manner, to prevent recurrence of similar misconduct)

Poor practices to avoid

- Providing incomplete, inaccurate or insufficient information, resulting in multiple rounds of follow up enquiries and unnecessary delays
- Making assertions about audit work performed without providing any supporting contemporaneous audit documentation or other reliable evidence
- Failing to exercise due care to ensure that documents and information provided to the AFRC are complete, relevant and accurate
- Requesting extensions shortly before, or after, stipulated deadlines without reasonable justification or evidence of unforeseen circumstances

To support efficient and effective investigations and enquiries, the AFRC encourages regulatees to adopt good practices demonstrated in past cases and avoid conduct that may impede timely and effective regulatory outcomes. Regulatees should refer to the Guidance Note on Cooperation with the AFRC for further guidance.

Guidance Note on Cooperation with the AFRC

Resolution of disciplinary action by agreement

Making admissions of misconduct and accepting proportionate sanctions in appropriate cases are important forms of cooperation and may facilitate the resolution of disciplinary proceedings by agreement. Where regulatees demonstrate a high degree of cooperation and agree to resolve the disciplinary matter before the issuance of NPDAs, the AFRC may in accordance with the Guidance Note on Cooperation with the AFRC reduce sanctions by up to 30%.

The profession has developed a progressively stronger understanding of the AFRC's cooperation framework. We have observed an increasing willingness among regulatees to engage in constructive discussions, acknowledge their misconduct, accept proportionate sanctions, and resolve matters at an early stage. During 2025-26, around 77% of our concluded disciplinary cases were resolved through agreements, with a number of regulatees receiving the maximum available reduction of 30% in sanctions.

This trend has contributed to more efficient enforcement processes, more timely delivery of regulatory messages to the profession, and demonstrates a growing recognition of professional accountability. Regulatees also directly benefit from early resolution of disciplinary matters, reduced sanctions where appropriate, greater certainty of outcome, and avoid certain stages of the disciplinary process, which may, in some circumstances, reduce legal and other costs.

Admission of past misconduct also demonstrates accountability and a willingness to learn from past deficiencies. They signal a commitment to remediation and continuous improvement, and help foster a culture of compliance with professional standards, laws and regulations.

II. Preparers and approvers — Safeguarding the quality of financial reporting

Preparers and Approvers

High-quality financial reporting begins long before an audit is performed. Boards of directors, audit committees, chief financial officers and finance staff play a critical role in ensuring that financial statements are prepared, reviewed and approved with the necessary competence, due care and professional judgment. Many of whom are our regulated professional persons and may be personally liable for professional misconduct where their responsibilities are not properly discharged.

Their ongoing diligence is essential to maintaining effective internal controls over financial reporting supporting high-quality financial reporting, and sustaining public confidence in Hong Kong's capital markets.

Through our 2025-26 financial statement review program, the AFRC continues to identify opportunities to improve transparency, informativeness and usefulness of financial reporting. The observations below highlight practices that preparers and approvers may consider adopting in areas involving significant judgment and estimation uncertainty.

Impairment of non-current assets

Quantitative disclosures of key assumptions: When a reasonably possible adverse change in key assumptions could result in impairment, enhance transparency by providing more detailed quantitative disclosures of key assumptions (e.g. profit margins and sales volumes) and additionally disclosing quantitative information on headroom that may assist users in understanding the sensitivity of the asset values to changes in those assumptions.

Analysis of impairment triggering changes in assumptions: Provide disclosures on reasonably possible changes in key assumptions that would trigger impairment, thereby enabling users to assess and evaluate the variability and robustness of those assumptions.

Valuation of assets

Comparative quantitative disclosures of valuation assumptions: Present concise tables setting out the ranges of key valuation inputs used in highly judgmental valuations for both the current and prior years, enabling users of financial statements to identify changes in assumptions, assess their magnitude, and consider their impact on fair values.

Disclosure for management oversight of fair value measurement: Where external valuers are engaged, disclosure should demonstrate how management, within established governance structures, exercises oversight and governance over the valuation process, rather than relying solely on external experts.

Expected credit loss provisions

Disaggregation of trade receivables and disclosure of credit risk policies: Include meaningful disaggregation of trade receivables by nature of customer accounts, together with related expected credit loss information, and provide more detailed disclosure of credit policies by business and geographical segments.

The recommended practices above serve to advance the following underlying core principles:

Reminders

"Tell your story" instead of using boilerplate disclosures: Financial reporting should not be approached as a compliance checklist exercise. Disclosures should be tailored to the entity's specific circumstances and designed to enhance users' understanding of the financial statements and the underlying business.

Explain changes in key assumptions: When there are significant changes or reasonably possible changes in key assumptions between reporting periods (e.g. a substantial year-on-year shift in revenue growth rates), entities should supplement quantitative disclosures with meaningful qualitative explanations describing the reasons for, and drivers of, those changes.

Enhance transparency on methodology and policies: Entities should consider providing disclosures that explain the methodologies, policies, and governance processes applied in areas involving significant estimation or judgement. Relevant qualitative and quantitative information, including, where applicable, key definitions, approaches, and relevant indicators and thresholds (e.g. staging approaches and definitions of default) can help users better understand the basis of significant accounting estimates and judgments.

Ultimately, high-quality financial reporting is a shared responsibility. Through effective governance, robust financial reporting processes, high-quality audits, and constructive engagement with regulators, all participants in the financial reporting ecosystem contribute to maintaining trust in Hong Kong's capital markets.

III. Public — Supporting market integrity through reasonable reporting of suspected misconduct

Public

The public plays an important role in safeguarding the integrity of Hong Kong's financial reporting ecosystem. Information provided by investors, employees, market participants and other members of the public can assist the AFRC in identifying potential misconduct or non-compliance and may provide valuable intelligence that supports our regulatory and enforcement work.

The AFRC welcomes reports of suspected misconduct or non-compliance that fall within our statutory remit. We will proactively assess and pursue matters where there is sufficient prima facie information indicating that a regulatee may have engaged in material misconduct or failed to comply with applicable professional requirements or statutory obligations. However, the AFRC can only investigate matters that fall within our regulatory powers and responsibilities under the AFRCO.

The quality, relevance and completeness of the information provided can significantly affect the efficiency and effectiveness with which complaints are assessed and handled. The following aspects will assist the AFRC to assess the merits of a complaint:

- A clear and concise explanation of the allegations;
- An explanation of how the conduct may constitute misconduct or non-compliance with applicable professional standards, accounting or statutory requirements;
- Information regarding the actual or potential impact of the alleged misconduct or non-compliance; and
- Relevant supporting documents and evidence that can substantiate the allegations.

While the AFRC welcomes information from all sources, effective regulatory action depends on the availability of sufficiently specific, credible and substantive information. Reports that are supported by relevant facts and evidence enable the AFRC to assess matters more efficiently and direct regulatory resources to issues that may have the greatest impact on the public interest.

Complaint Guidelines

Further information regarding the submission and handling of complaints is available in the AFRC's Complaint Guidelines.

Working together to uphold trust

The quality and credibility of financial reporting cannot be maintained by regulators alone. It requires the collective efforts of practitioners, reporting accountants, preparers, approvers, investors and the wider public. Through constructive cooperation, professional accountability, high-quality financial reporting, and responsible reporting of suspected misconduct, all participants contribute to a trusted and resilient financial reporting ecosystem that supports confidence in Hong Kong's capital markets.

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

Regulation Governance Development