

Press Release

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AFRC advocates the role of transparency reports in driving trust and market confidence

The Accounting and Financial Reporting Council (**AFRC**) has today published an article titled "[Transparency Reports: Building Trust and Unlocking Audit Excellence](#)", highlighting key insights drawn from transparency reports published by audit firms. The article explains how relevant and meaningful disclosures assists audit committees and investors in making informed decisions regarding auditor appointments, while supporting the development of high-performing audit teams.

Communicating commitment and measures to uphold audit quality

High-quality audits are the result of deliberate and sustained investment by audit firms in people, principles, and processes.

As these measures are not always visible to audit committees and investors, this can result in auditor appointment or reappointment decisions being disproportionately influenced by audit fees, rather than by an informed assessment of an audit firm's audit quality.

Transparency reports help address this by communicating insights into an audit firm's governance and leadership priorities, quality management systems, investments in talent and technology, and commitment to ethical values and independence. Disclosing these measures also provides audit partners and staff with a clearer understanding of how audit quality expectations are set and reinforced.

Ms Janey Lai, CEO of the AFRC, said, "Audit quality is the cornerstone of public trust in financial reporting. Transparency reports reveal how audit firms are structured and governed to safeguard that trust. By making the drivers of audit quality visible, audit firms signal their leadership and strengthen public confidence in audits. Transparency reports also enhance staff engagement by highlighting the firm's investment in their development, reinforcing a culture where people feel supported to deliver quality work."

Strengthening public confidence through relevant and meaningful disclosures

Transparency reports published by Hong Kong audit firms typically disclose four key areas that underpin audit quality:

- 1. Governance and leadership:** Disclosures of governance structures and leadership teams enable stakeholders to assess a firm's priorities, leadership capability, and oversight approach. Information on a firm's regional network helps stakeholders understand how engagement teams are organised to apply consistent audit methodologies and how they are equipped with technical expertise required to handle complex cross-border audits.
- 2. Quality management measures:** Disclosures on a firm's quality management system, including root cause analysis of audit quality deficiencies, provide insights into how issues are identified, addressed, and prevented from recurring. Reporting on the remediation of inspection findings demonstrates accountability and a commitment to continuous improvement, enabling stakeholders to assess how effectively the firm responds to identified deficiencies.
- 3. Talent management and technology:** Disclosures on how firms attract, develop, and retain talent, alongside deployment of technology in the audit process, provide visibility into their capacity to deliver quality audits. When complemented with quantitative metrics such as staff utilisation rates, training hours, and partner to staff ratios, these disclosures enable stakeholders to assess whether firms have the resources and capability to conduct audits efficiently and effectively.
- 4. Ethical values and independence safeguards:** Disclosures on a firm's ethical values shows how strongly integrity and independence are embedded in its culture. By considering them together with disclosures on the firm's reliance on non-audit services, stakeholders can assess how independence is safeguarded to maintain objective professional judgement.

Dr David Sun, Chairman of the AFRC said, "Transparency reports are strategic investments in trust and resilience. By committing to quality and transparency, audit firms contribute directly to the healthy development of Hong Kong's capital markets. I encourage registered public interest entity auditors to proactively publish transparency reports. This would signal a collective commitment to uphold market integrity, strengthen investor confidence, and reinforce Hong Kong's role as a leading international financial centre."

End

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.

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