

## Press Release

31 July 2025

### **AFRC advocates healthy practices in auditor appointments and audit fee setting to safeguard public trust**

The Accounting and Financial Reporting Council (**AFRC**) today releases an article titled ["Upholding trust in capital markets: Maintain healthy practices in auditor appointments and audit fee setting"](#). In this article, the AFRC highlights encouraging progress in the reduction of late auditor resignations. As part of its ongoing efforts to ensure high quality of audit in Hong Kong, the AFRC sets out further steps needed to strengthen practices in auditor appointments and audit fee setting.

As the audit regulator in Hong Kong, the AFRC maintains vigilant oversight of market conduct. In 2022 and 2023, we issued two open letters and a guidance note addressing late auditor resignations. To rally industry action, we also held briefing sessions in collaboration with professional bodies and fellow regulators, engaging over a thousand participants.

These combined efforts have contributed to a notable decline in late auditor resignations from 70% of all auditor resignations in the financial year 2021 to 30% in the financial year 2024. While there is notable progress, further improvement can be achieved only through collaboration with stakeholders. In particular, audit committees have an essential part to play in the recognition of high audit quality as key to the trustworthiness of financial reporting.

Dr David Sun, Chairman of the AFRC, said, "As guardians of market integrity, we are committed to advancing practices that enhance audit quality and bolster public trust. By working together with the stakeholders, we can cultivate a robust audit market, which is essential for the sustainability of the accounting profession and the reputation of Hong Kong as a leading international financial centre."

#### **Key insights from our research:**

- **Late auditor appointments continue to challenge audit delivery.**

Between 2020 and 2024, 45% of auditor resignations took place one month before the financial year-end or later.

Late auditor appointments compress audit schedules, increasing the risk of undetected misstatements in first-year audits, as new auditors must quickly familiarise themselves with the business and carry out additional audit procedures.

- **Aggressive fee reductions to secure audits remains widespread.**

Annual reports from 2020 to 2024 showed that 73% of auditor changes resulted in fee reductions.

When audit fees are set too low, some auditors may perform fewer procedures, reduce sample sizes, rely on less experienced staff, or forego the use of specialists. If not properly managed, these choices may compromise the scope and depth of the audit, increasing the risk of non-compliant audits.

- **Delayed settlement of audit fees is an emerging concern.**

As at 31 March 2025, public disclosures indicate that at least 10 listed companies had not fully settled audit fees for their FY2023 and/or FY2024 audits. Submissions to the AFRC further revealed that some audit fee payments were delayed by up to nine months after the audit opinion was issued, with one outlier deferring payment for 30 months.

Such delays may compromise auditor independence, particularly when firms become financially reliant on clients. This heightens the risk of biased audit opinions. The Code of Ethics therefore generally expects overdue audit fees to be fully settled before the audit opinion is issued.

Ms Janey Lai, CEO of the AFRC, said “**Audits are professional services that uphold trust in our capital markets** – not commodities to be undervalued. Audit fee should be commensurate with the reliable audit service provided and paid on time, enabling accounting firms to invest in talent and technology to get ready for future challenges.”

### **Strengthening audit integrity: Calls to action**

The AFRC reiterates its call for all stakeholders to play their part in safeguarding the integrity of financial reporting:

#### **Audit committees should:**

- Appoint auditors early to avoid compressed audit schedules.
- Scrutinise audit bids with unusually low fees.
- Ensure timely payment of audit fees to support auditor independence.

#### **Auditors should:**

- Set fees that match the audit's scope and complexity.
- Decline engagements initiated late in the reporting cycle unless sufficient resources are available to maintain audit quality.
- Agree on payment terms that support auditor independence.

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### **About the Accounting and Financial Reporting Council**

The Accounting and Financial Reporting Council 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.afr.org.hk](http://www.afr.org.hk).

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