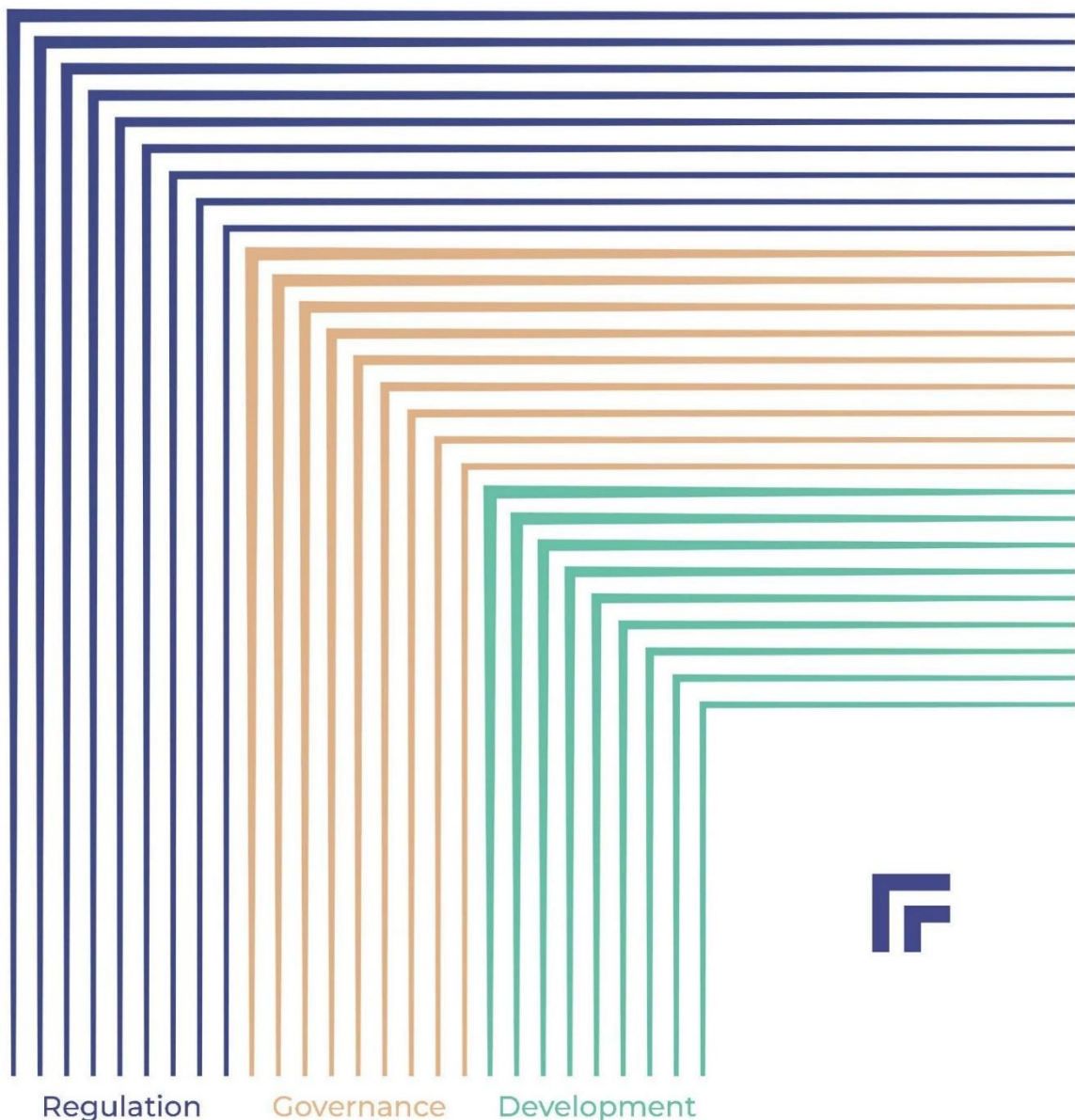


Transparency Reports: Building Trust and Unlocking Audit Excellence

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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

1. Communicating commitment to audit quality

- 1.1. Auditors play a vital role in fostering public trust and confidence in financial reporting by ensuring its credibility and reliability. It is therefore essential for companies to select, appoint, or reappoint audit firms that can consistently deliver high-quality audits.
- 1.2. **High-quality audits are the result of deliberate and sustained efforts by audit firms.** These include maintaining robust governance structures and quality management systems. Central to these efforts are the development of partners and staff through continuous training and an environment that empowers them to effectively exercise professional judgement and professional scepticism.
- 1.3. However, these efforts may not be readily visible to those outside the audit firm. **Greater transparency helps address this information asymmetry and raises stakeholder awareness and understanding of how audit quality is upheld.** It enables audit committees to make well-informed decisions on auditor appointments and reappointments, and reassures investors that audit opinions are supported by sufficient and appropriate audit work.
- 1.4. **Transparency reports demonstrate an audit firm's commitment to audit quality.** They offer insights into an audit firm's governance structure, leadership team, and quality management systems. They also describe investment in talent and technology, and the firm's commitment to ethical values, independence, and objectivity. By disclosing how the firm achieves and reinforces audit quality, transparency reports enable stakeholders to make more informed assessments of an audit firm's ability to deliver high-quality audits, thereby fostering trust and confidence in the audit process.

- 1.5. This article highlights the value of transparency reports, presents insights from the AFRC's discussions with public interest entity (**PIE**) auditors in Hong Kong, and showcases good practices observed in transparency reports published by them.
- 1.6. Further, several jurisdictions require auditors to publish transparency reports. Promoting broader publication of such reports supports Hong Kong in aligning more closely with international practices.



A glance at the global push for audit firm transparency



The European Union and the United Kingdom are among the first jurisdictions to require statutory auditors that prepare audit reports on the annual accounts of one or more PIEs to publish annual transparency reports.



Australia requires statutory auditors that conduct audits of 10 or more listed companies, listed registered schemes, or authorised deposit-taking institutions to publish annual transparency reports starting from the financial year ended June 2013.



Malaysia requires registered auditors that audit more than 50 PIE clients with a total market capitalisation exceeding RM10 billion to publish annual transparency reports commencing from 31 December 2019.



South Africa requires registered auditors that audit financial statements of publicly traded entities for periods beginning on or after 15 December 2025 to publish annual transparency reports.

2. Transparency reports in Hong Kong

- 2.1. **In 2025, seven locally registered PIE auditors published transparency reports for their Hong Kong operations.** The reports varied in the scope and details of information disclosed. Four PIE auditors were required to publish annual transparency reports due to foreign regulatory requirements, while the remaining ones published them on a voluntary basis.
- 2.2. Discussions with local PIE auditors indicated that transparency reports are valuable to stakeholders for the following purposes:



**Audit partners
and staff**

- **To provide partners and staff with a clearer understanding** of the firm leadership's priorities, strategic direction, and areas of industry specialisation.
- **To reinforce a culture of integrity and quality** by clarifying governance structures, ethical values, and performance expectations.



**Audit
committees**

- **To support informed auditor selection, appointment, and reappointment** by providing visibility on a firm's governance structure, quality management systems, and inspection outcomes.
- **To enable better oversight** through access to performance metrics.



Investors

- **To increase confidence** by revealing inspection outcomes and independence and objectivity safeguards.
- **To support informed decisions** through insights into an audit firm's network, specialisation, and investments.

Building a robust and sustainable audit practice

- 2.3. **A robust and sustainable audit practice is like a sturdy home. Its strength comes not from chance, but from deliberate design.** Just as a home is built to withstand the elements, an audit practice must be built to mitigate risks, respond to regulatory changes, and meet evolving stakeholder expectations.
- 2.4. **Transparency reports serve as a window into audit quality in a firm.** They communicate the policies and practices that support high-quality work. The diagram below outlines key disclosure areas that help stakeholders gain a comprehensive understanding of the audit firm, its operations, and the drivers of audit quality.



Governance and leadership

- 2.5. **All seven PIE auditors provided varying level of information about their governance structures and leadership teams.** Good practices observed include:
- a. **All seven PIE auditors disclosed their organisational structures, including their links to international networks.** This provides clarity on their global and operational models, enabling stakeholders to assess the audit firm's capability to handle complex cross-border audits and / or audits of highly specialised industries.
 - b. **Five PIE auditors communicated the profiles and strategies of local leadership teams,** allowing stakeholders to assess leadership priorities, their commitment to audit quality, and depth of experience.
 - c. **Six PIE auditors described how global and local leaders collaborate.** This offers insights into how global resources are leveraged to address local market challenges and helps stakeholders assess an audit firm's ability to deliver audits that are tailored to local needs.

Quality management measures

- 2.6. **All seven PIE auditors disclosed details of their quality management systems.** Good practices observed include:
- a. **Two PIE auditors disclosed the establishment of risk management committees** to evaluate and accept clients that fit their desired risk profile. This demonstrates a proactive approach to client selection and informs stakeholders that audit risks are considered and addressed from the outset.
 - b. **Two PIE auditors detailed their root cause analysis processes,** explaining how the results are used to promote recurrence of positive outcomes and not merely to prevent recurrence of deficiencies. This approach to remediation highlights the audit firms' resolve to continuous improvement in audit quality.

- c. **Only two PIE auditors disclosed the outcomes of their inspections by regulators**, including the remedial actions taken to address inspection findings. From a regulatory standpoint, such disclosures are a positive practice. They demonstrate the audit firms' efforts to address identified deficiencies and enable stakeholders to assess the effectiveness of their responses. **One of them extended this disclosure to cover internal inspections as well.**

Talent, technology, and other information

- 2.7. **Six PIE auditors disclosed their staff recruitment and management policies and procedures.** Good practices observed include:
 - a. **Three PIE auditors disclosed results of their global people and culture survey**, providing insights into their personnel's perception of the firm. Such disclosure enables stakeholders to assess how strongly and pervasively the firm's tone at the top and culture of upholding high-quality audits are understood and internally perceived.
 - b. **Four PIE auditors disclosed the average training hours per audit professional.** They enhanced the usefulness of this disclosure by describing the content of the training programmes, demonstrating how audit professionals are supported to keep pace with emerging industry developments, regulatory changes, and evolving best practices.
 - c. **Two PIE auditors reported their partner to manager and partner to staff ratios**, providing insights into partners' capacity to direct, supervise, and review audit work. Of the two, one PIE auditor also disclosed its staff utilisation rate, which helps stakeholder to assess workload management. Separately, another PIE auditor published the average tenures of its partners and staff with the firm, offering an additional measure of experience.
- 2.8. **Five PIE auditors disclosed about the deployment of technology in their audit processes.** Good practices observed include:

- a. **All five PIE auditors explained the types and purposes of tools deployed across key audit processes.** These ranged from automating confirmations and managing audit workflow to the use of artificial intelligence-enabled tools for risk profiling and obtaining substantive audit evidence on revenue and operating expenses. **They also described structured training pathways to equip audit team members to effectively use these tools,** demonstrating a firm-wide commitment to building digital audit capability.
- b. **Two PIE auditors detailed their information security and data privacy policies,** including the system certifications obtained. These disclosures help address client concerns over data privacy, which is a key barrier to wider use of technology-enabled audits.

2.9. **Five PIE auditors disclosed their financial and / or client information,** including:

- a. **Four PIE auditors provided composition of their Hong Kong-specific revenue,** providing insights into the firms' revenue segmentation. While three of them disclosed audit revenue by PIE and non-PIE segments, only one provided prior-year comparative figures to support trend analysis.
- b. **Four PIE auditors disclosed a full list of their PIE audit clients in Hong Kong.** This help stakeholders evaluate the firm's experience and strength in specific sectors and their capability to serve large, complex, and higher risk PIEs.

Ethical values and independence safeguards

2.10. **All seven PIE audit auditors emphasised embedding ethical values and independence safeguards.** Good practices observed include:

- a. **All seven PIE auditors articulated how their ethical values and code of conduct guide professional behaviour and decision-making.** They also described how these values are reinforced through mechanisms such as ethics hotlines, integration into performance and accountability frameworks, and ethics training.

- b. **All seven PIE auditors described their independence management and monitoring mechanisms.** They include partner rotation and policies on the provision of non-audit services, showing how they safeguard their audit teams' objectivity and prevent conflicts of interest.
- c. **Three PIE auditors disclosed information on their Hong Kong-specific non-audit revenue,** which stakeholders may use to assess threats to auditor independence. Such disclosures offer stakeholders a clearer view of the firm's financial reliance on non-audit services.

3. A collective commitment to transparency

- 3.1. **Transparency reports should be viewed as strategic investments in trust and long-term resilience.** By articulating how audit quality is upheld, audit firms demonstrate a commitment to accountability, professionalism, and quality.
- 3.2. **PIE auditors that publish transparency reports set a positive example for the profession.** While this is an encouraging start, the depth and usefulness of disclosures vary across firms, indicating room for further improvement.
- 3.3. **PIE auditors that have yet to publish transparency reports are strongly encouraged to begin doing so.** Even limited but purposeful disclosures can spark change, elevate dialogue with audit committees, investors, and audit personnel, and help build a more robust and sustainable audit practice.

Additional guidance and resources

The AFRC is dedicated to fostering a culture of continuous improvements within the auditing and financial reporting ecosystem. To support this, we issue a range of publications including guidance materials and articles. Stakeholders are encouraged to make use of these resources to uphold audit and financial reporting quality and strengthen corporate governance.



Guidance materials



[An External Auditor's Guide to Performing Root Cause Analysis](#)



[Guidance Notes on Change of Auditors](#)



[Guidelines for Effective Audit Committees - Selection, Appointment and Reappointment of Auditors](#)

Articles



[Continuing Professional Development as a Key to Improving Audit Quality in Hong Kong](#)



[Safeguarding Auditor Independence: Concerns Surrounding Procurement and Purchases from Audit Clients](#)



[Setting and Reinforcing Tone at the Top to Achieve Quality Audits](#)



[Upholding Trust in Capital Markets: Maintain Healthy Practices in Auditor Appointments and Fee Setting](#)

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