

Global Developments in Audit Regulation: Key Insights for Hong Kong

Policy, Registration and Oversight

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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, AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest, and promotes the healthy development of the accounting profession.

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

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Executive Summary

1. The Accounting and Financial Reporting Council (**AFRC**), formerly known as the Financial Reporting Council (**FRC**), **became a full-fledged independent audit regulator following two regulatory reforms:**
 - a. In 2019, we were vested with statutory powers of inspection, investigation, and discipline over public interest entity (**PIE**) auditors, as well as recognition of non-Hong Kong auditors of listed entities.
 - b. In 2022, our remit was expanded to include the registration of PIE auditors and accounting practice units, as well as the inspection, investigation and discipline functions in relation to the accounting profession.
2. Since the reforms, **we have strengthened our regulatory framework and practices.** Our PIE auditor registration regime has been updated to focus on firmwide quality management and resourcing. Our risk-based inspection programme has been refined to ensure our oversight remains targeted and proportionate. An increase in enforcement actions reflects our efforts to address and deter misconduct.
3. At the same time, **audit regulation continues to evolve globally.** Leading jurisdictions are adapting their regulatory practices in response to factors such as changing market dynamics, innovative business models, technological advancements, and rising stakeholder expectations of auditors. These developments inform our ongoing efforts to enhance our regulatory practices in support of the integrity and growth of Hong Kong's capital markets.
4. **This study examines audit regulation in six jurisdictions,** namely the Chinese Mainland, Hong Kong, Australia, Canada, the United Kingdom (**UK**), and the United States (**US**). Our analysis covers the following areas:
 - a. Registration policies;
 - b. Inspection programmes;
 - c. Enforcement mechanisms; and

- d. Strategic priorities.

Registration policies

5. The audit of PIEs is widely regarded as the pinnacle of the accountancy profession, demanding advanced technical proficiency from engagement leaders. **As the volume and complexity of PIE engagements increase, firms must move beyond individual expertise to building robust organisational capabilities.** Establishing a scalable and well-integrated system of quality management is therefore critical to sustaining audit quality.
6. In line with this approach, audit regulators have been refining their registration frameworks to prioritise **the establishment and ongoing maintenance of a robust and proportionate system of quality management (SQM).** Reflecting this trend, the AFRC now collects SQM-related information as part of the registration and renewal process for PIE auditors.

7. Other key regulatory approaches include:

- a. **Requiring exclusive practice within a single firm:** In the Chinese Mainland, individuals are prohibited from practising across multiple firms. This restriction helps ensure accountability and facilitates consistent oversight.

In contrast, Hong Kong permits a CPA (Practising) to practise in up to three firms, in addition to operating under his own name. While this flexible arrangement supports practitioner mobility, it may dilute dedicated focus and pose challenges for effective regulatory monitoring.

- b. **Requiring registered PIE auditors to undertake PIE engagements:** Some jurisdictions mandate that registered PIE auditors remain actively engaged in PIE audits. For instance, the UK Financial Reporting Council (**FRC**) requires an audit firm applying for PIE auditor registration to reasonably expect to undertake a PIE audit within 24 months. The UK FRC also has the authority to de-register firms that failed to do so.

In Hong Kong, as of 31 July 2025, 13% (nine) of registered PIE auditors had not conducted PIE audits in the preceding 24 months. The AFRC is actively engaging with these firms to ensure continued relevance of their registrations.

- c. **Imposing conditions on annual renewals when warranted:** The UK FRC is empowered to impose conditions on a firm's registration to address concerns related to audit quality and compliance with fit-and-proper requirements. In addition to formal conditions, the UK FRC may also impose undertakings, which are negotiated, voluntary commitments made by the firm at the time of registration.

In Hong Kong, the AFRC began imposing conditions on the renewal of PIE auditor registrations from **April 2023** onwards. These conditions are published on the public register available on our website, with the aim of enabling stakeholders such as audit committees and investors, to make informed decisions when selecting and appointing their auditors.

Inspection programmes

- 8. **An effective inspection regime is essential for upholding audit quality and protecting the public interest.** Regulatory approaches are evolving to address not only specific deficiencies but also the drivers of audit performance.

- 9. These underlying drivers include:

- a. **Emphasis on firm governance, culture, and leadership:** Audit regulators are increasingly recognising the influence of firm culture and leadership tone in driving sustainable improvements in audit quality, which is one of the core elements in the SQM.

In 2024, the US Public Company Accounting Oversight Board (**PCAOB**) published its insights on firm culture across the six largest audit firms, which showed that culture can drive audit quality.¹

¹ PCAOB (December 2024) *Spotlight: Insights on Culture and Audit Quality*.

In Hong Kong, the AFRC published an article in 2024 on the importance of firm culture for audit quality, signalling our expectation that firm leadership is accountable for fostering a culture that prioritises audit quality over commercial pressures.² Our inspection findings also consistently demonstrate a positive relationship between effective SQM and superior audit quality outcomes.³

- b. **Transparency of inspection findings:** Audit regulators globally are placing greater emphasis on the transparency of inspection findings.

The Chinese Mainland's Ministry of Finance (**MoF**) publishes enforcement bulletins that name accounting firms subject to inspection and disciplinary action. Similarly, the US PCAOB publishes firm inspection reports for all audit firms inspected and the UK FRC does so for the largest firms. The Canadian Public Accountability Board (**CPAB**) has announced that firm inspection reports will be published starting in 2026 and beginning with the four largest firms.

In Hong Kong, the AFRC has taken a calibrated approach. Audit Quality Ratings (**AQRs**) were first disclosed for the largest firms in the 2020 inspection report and subsequently extended to medium-sized firms in the 2024-25 report.

To further support informed oversight, the AFRC allows PIE auditors to share their inspection results and findings directly with their respective audit committees, and as of June 2025, nearly all inspected PIE auditors who received their 2024 inspection reports had done so.

- c. **Transparency reports to facilitate auditor selection:** Regulators increasingly use transparency reports to enhance visibility into audit firm quality and support informed auditor appointment. Both the Australian Securities & Investments Commission (**ASIC**)

² AFRC (June 2024) *Setting and Reinforcing Tone at the Top to Achieve Quality Audits*.

³ AFRC (July 2025) *2024-2025 Annual Inspection Report*.

and the UK FRC require audit firms to publish transparency reports.

To improve comparability of disclosed metrics, Canada's CPAB and the UK FRC have established frameworks for reporting specified Audit Quality Indicators (**AQIs**), while the Financial Reporting Council in Australia included AQIs in its 2023 action plan.

In alignment with these international developments, the AFRC has identified the development of an AQI framework as a strategic priority for 2024-27.⁴ This initiative aims to assist audit committees in making more informed decisions when selecting auditors, by providing consistent and meaningful indicators of audit quality.

Enforcement mechanisms

10. **Effective enforcement enhances auditor accountability.** Sanctions should be proportionate to the nature and seriousness of the breach. Where warranted, exclusionary measures such as practice bans or licence suspensions offer strong deterrence.
11. The AFRC will continue to refine its toolkit to strike the right balance between deterrence, timely remediation, and cooperative approaches that foster audit quality and uphold ethical standards as follows:
 - a. **Adopting a balanced, responsive, and proportionate approach:**

The 2020s saw a ramping up of enforcement activities in the US. In the UK, an audit reform was called for after auditing failures were blamed for the collapse of Carillion in 2018. Since then, audit regulators in both jurisdictions have adopted more responsive approaches tailored to the needs of the audit market and broader economies.

In this context, the AFRC adopts a balanced and proportionate approach where the objective is improvement, not punishment. While we encourage cooperation and timely remediation, where necessary, this is complemented by a more robust approach to address serious violations to ensure market integrity.

⁴ AFRC (March 2025) *Strategic Priorities for 2025-2027*.

b. **Imposing a range of sanctions proportionate to circumstances:**

In the Chinese Mainland, the MoF and the China Securities Regulatory Commission (**CSRC**) have imposed licence suspension orders to address significant misconduct, underscoring their strong deterrent effect.

During the seven months of FY 2025 ending October 2025, the AFRC imposed penalties totalling **HK\$4.5 million**, a notable increase from **HK\$3.5 million** in FY2024. It has also imposed suspension orders for serious violations of professional standards and independence requirements.

c. **Cooperative resolution accelerates remediation:**

The UK FRC uses constructive engagement to address minor violations, encouraging firms to cooperate privately without full investigation. The AFRC's policies allow for reduced sanctions for cooperation in investigations and disciplinary actions, similar to other jurisdictions.

Strategic priorities

12. To be effective, audit regulators require a clear understanding of the evolving landscape of the profession, including the rise of technologies such as artificial intelligence (**AI**) and persistent talent shortages. The AFRC strategic priorities recognise these realities, with targeted initiatives in digital transformation and talent development to address both current needs and future demands:

a. **Anticipating technological developments and digital assets:**

The rise of AI, for example, presents both opportunities to enhance audit quality through improved efficiency and risk detection, and new risks related to data security and algorithmic bias.

The Chinese Institute of Certified Public Accountants (**CICPA**) included AI in audits as a topic in its training courses in 2025. The UK FRC has published a series of guidance on adoption of technology and AI in audit while the US PCAOB has established a Technology Innovation Alliance Working Group to explore the impact of AI on auditing. The AFRC's strategy includes assessing the opportunities and risks arising from the use of AI by audit firms and developing guidance as aligned with the Hong Kong

SAR Government's *Policy Statement on Responsible Application of AI in the Financial Market*.

Beyond AI, the AFRC is also actively monitoring emerging trends in digital assets, including stablecoins, and engaging with stakeholders as part of its strategic priorities. Hong Kong's new Stablecoins Ordinance (Cap 656), effective August 2025, requires licensed stablecoin issuers to undergo regular audits and disclosures. These developments highlight the increasing significance of audit and assurance in providing trust and transparency within technology-driven financial ecosystems.

- b. **Promoting healthy development of the profession:** Canada's CPAB, the UK FRC, and the US PCAOB have initiatives to support small and medium practices (**SMPs**). Notably, the UK FRC has launched regulatory sandboxes and scaleboxes focusing on addressing challenges such firms face in the audit market.

Meanwhile, the MoF in the Chinese Mainland published a comprehensive *Guidance Opinion on Strengthening Talent Development in the Accounting Profession in the New Era* in 2022 setting forth various measures.

For the AFRC, healthy development of the profession is a core strategic pillar. In FY2024, we actively supported the industry by publishing 15 educational resources and holding 54 stakeholder engagement activities. These efforts, complemented by our increased digital and social media presence, allowed us to engage with over 25,000 stakeholders.

- c. **Monitoring market health and dynamics:** Leading regulators are using market intelligence to assess the health, resilience, and competitiveness of the audit profession. The UK FRC monitors various market health indicators to evaluate progress towards its strategic goals, alongside operational KPIs. Canada's CPAB also has established key performance measures in its strategic plan.

The CICPA in the Chinese Mainland publishes a ranking of the top 100 accounting firms to evaluate their development level and raise risk awareness to strengthen audit quality and market integrity.

The AFRC draws on market data and a biennial survey to better understand developments in both the PIE and non-PIE audit markets. This includes reviewing indicators such as market share concentration, audit fee pressure, talent pipeline challenges, and gaps in technology adoption. These insights inform our regulatory priorities and support efforts to strengthen audit quality.

Conclusion

13. Our assessment confirms that the AFRC's regulatory framework is firmly aligned with international practices. Our comparison of international approaches highlights several themes, as follows:
 - a. **Registration is evolving beyond an administrative function.** Across jurisdictions, it is used to reinforce competence, integrity, and accountability, ensuring that those undertaking public interest work are equipped to meet heightened expectations.
 - b. **Inspections are broadening in scope.** Regulators are moving beyond technical compliance to examine governance, culture, and firm-wide systems, recognising that sustainable audit quality depends on behaviours and incentives as much as on methodology.
 - c. **Enforcement is being refined to balance deterrence with remediation.** A wider range of sanctions, from remedial directions to practice bans, allows regulators to respond proportionately while encouraging cooperation and timely resolution.
 - d. **Strategic priorities are shifting towards future challenges.** Digitalisation and talent shortages are shaping regulatory agendas, with more emphasis on adaptability and resilience in the profession.
14. These developments highlight that effective regulation is not about adopting a single model or checklist. It is about balancing independence and expertise, deterrence and cooperation, as well as oversight and support, in service of upholding trust in capital markets.

Section A: Introduction

The evolution of audit regulation

- A.1. High-quality audits are essential for maintaining market integrity and investor confidence. Independent audit regulators ensure that reporting entities and audit firms adhere to high standards of accountability in corporate reporting and audits. Strong regulatory oversight is crucial to fostering trust in financial markets.
- A.2. **Market crises in the late 20th century accelerated global development of financial regulation.** In Hong Kong, the Securities and Futures Commission (**SFC**) was established following the 1987 stock market crash. Its regulatory framework was strengthened after the 1997 Asian financial crisis. Audit regulation came into its own after corporate failures like Enron and WorldCom in the early 2000s prompted a global shift from industry self-regulation to independent audit regulation.
- A.3. There is evidence that audit quality has improved following the introduction of independent audit regulators.^{5,6} Nevertheless, regulatory regimes continue to evolve. **Regulatory functions such as registration, inspections and enforcement, are continually refined to address emerging risks and meet stakeholders' rising expectations.**
- A.4. **The AFRC, formerly known as the Financial Reporting Council, was established in 2006 and underwent two regulatory reforms.** In 2019, we became an independent audit regulator of Hong Kong, vested with direct powers of inspection, investigation, and discipline concerning PIE auditors as well as recognition of non-Hong Kong auditors of listed entities. In 2022, we were granted expanded statutory powers, including registering accounting practice units and PIE auditors, as well as the inspection, investigation, and discipline functions in relation to the accounting profession.

⁵ Ettredge, Heintz, Li, and Scholz (March 2011) *Auditor Realignment Accompanying Implementation of SOX 404 ICFR Reporting Requirements*, Accounting Horizons, Vol. 25 Issue 1.

⁶ DeFond and Lennox (June 2011) *The effect of SOX on small auditor exits and audit quality*, Journal of Accounting & Economics, Vol. 52 Issue 1.

- A.5. As we progress on our journey as an audit regulator, we review our regulatory toolkit and practices, while also considering international developments and emerging local risks.

Audit regulators covered in this study

- A.6. This study provides an overview of our regulatory functions, including registration, inspections, and enforcement, as compared to those in five other jurisdictions.

Table 1: Audit regulatory bodies

Jurisdiction	Audit regulatory body
Australia	Australian Securities and Investments Commission
Canada	Canadian Public Accountability Board
Chinese Mainland	Ministry of Finance of the People's Republic of China; China Securities Regulatory Commission
UK	Financial Reporting Council
US	Public Company Accounting Oversight Board
Hong Kong	Accounting and Financial Reporting Council

- A.7. **Our analysis is based on public information such as the regulators' annual reports and inspection reports, relevant laws, as well as information from third-party sources.** We have endeavoured to update the information till September 2025, unless otherwise specified. We have not verified the data and information with the respective regulators mentioned above.

Section B: Regulatory remit

- B.1. This section provides an overview of the regulatory remits among the audit regulators in six jurisdictions. It highlights both similarities and differences from those in Hong Kong.

Entities under regulatory remit

- B.2. **All six regulators regulate auditors of PIEs**, which include listed entities. However, **the definitions of PIEs vary among the six jurisdictions**. For example, PIEs include collective investment schemes in Hong Kong (listed ones only) and Canada. In the UK, they include banks, credit unions, insurance and reinsurance companies. In contrast, in the Chinese Mainland, PIEs are mainly listed entities.
- B.3. Like the AFRC, **audit regulators in Australia and the Chinese Mainland also regulate non-PIE auditors directly**. Considering that non-PIEs account for a majority of audited entities in most markets, a broader scope helps raise the baseline standards across the profession.
- B.4. In contrast, the UK FRC delegates the tasks related to non-PIE (statutory) audits to Recognised Supervisory Bodies (**RSBs**) while overseeing them in this role. In the United States, non-PIE audits fall under the purview of the American Institute of Certified Public Accountants, while in Canada, they are overseen by the respective provincial CPA bodies.

Monitoring of financial reporting standards

- B.5. Better coordination on financial reporting oversight is critical to achieve effective compliance with financial reporting standards, and to foster a more robust regulatory environment. In Hong Kong, the Hong Kong Stock Exchange (**HKEX**) under the supervision of the SFC conducts annual reviews of financial reports of all listed issuers excluding collective investment schemes to ascertain compliance with disclosure requirements and the prescribed accounting standards.
- B.6. In addition, **the AFRC proactively monitors the quality of financial reporting** by listed entities under its Financial Statements Review Programme (**FSRP**). The FSRP is an initiative that helps the AFRC identify listed entities' non-compliance with accounting requirements or possible misconduct by their auditors.

- B.7. Like the AFRC, **the audit regulators in the Chinese Mainland, Australia, and the UK oversee the quality of corporate reporting** in their jurisdictions. The Chinese Mainland's MoF organises two-way extended inspections of audit firms' practices and audited companies' accounting information to prevent major accounting fraud and audit failures. The UK FRC monitors corporate reports of UK companies for compliance with the Companies Act and communicates with other agencies if enforcement actions are needed. **Australia's ASIC's surveillance of financial reports is integrated with audit inspections.** It inspects audits of companies whose reports are deemed at a higher risk of misstatements.

Issuance of professional standards

- B.8. There are varied approaches to the issuance of auditing and ethical standards. In Hong Kong, the Hong Kong Institute of Certified Public Accountants (**HKICPA**) sets these standards, overseen by the AFRC. In the US and UK, the audit regulators directly issue these standards for public interest engagements. In the Chinese Mainland, the CICPA sets these standards which are then approved by the MoF. In Canada, the auditing standard is set by the Auditing and Assurance Standards Board, which is funded by CPA Canada but operates independently, while ethical standards are set by individual provincial CPA bodies. In Australia, auditing and ethical standards are set by the Auditing and Assurance Standards Board and the Accounting Professional & Ethical Standards Board respectively, overseen by Australia's Financial Reporting Council.
- B.9. The approaches to accounting standard setting vary as well. In Hong Kong, the HKICPA also sets accounting standards, overseen by the AFRC. In the US, the standards are set by the Financial Accounting Standards Board under the SEC oversight. In the Chinese Mainland and the UK, the MoF and the UK FRC set the standards respectively. In Canada, the standards are set by the Accounting Standards Board, also funded by CPA Canada. In Australia, they are set by the Australian Accounting Standards Board overseen by Australia's Financial Reporting Council.
- B.10. These varied approaches to standard-setting illustrate the trade-offs between independence, agility, and professional expertise. Regulator-led models emphasise public accountability, profession-led models may be better at leveraging technical expertise and responsiveness to emerging trends, while independent boards aim to strike a balance between the two.

Table 2: Regulatory remit of audit regulatory bodies

	Hong Kong	Chinese Mainland	Australia	Canada	UK	US
Regulator	- Accounting and Financial Reporting Council	- Ministry of Finance of the People's Republic of China - China Securities Regulatory Commission	- Australian Securities and Investments Commission	- Canadian Public Accountability Board	- Financial Reporting Council	- Public Company Accounting Oversight Board
Accountable to	- Financial Services and the Treasury Bureau	- State Council	- The Australian Parliament	- Ontario Securities Commission	- Department for Business and Trade	- Securities and Exchange Commission
PIE definition*	- Listed corporations (equity) - Listed collective investment schemes	- Listed entities - Entities designated as PIEs	- Listed entities - Banks and credit unions - Insurance and re-insurance companies - Pension funds and trusts. - Pension fund manager and trustees - Collective investment schemes and mutual funds - Disclosing entities - Other issuers of debt and equity instruments to the public	- Listed entities - Collective investment schemes	- Listed entities - Banks and credit unions - Insurance and re-insurance companies	- Listed entities (including foreign ones listed in the US)
Audits in Scope	- PIE audit - Non-PIE audit	- PIE audit (also overseen by CSRC) - Non-PIE audit	- PIE audit - Non-PIE audit	- PIE audit	- PIE audit - Non-PIE audit	- PIE audit - Audit of SEC-registered broker-dealers
Other regulatory functions	- Regulation of the accounting profession - Oversight of the professional accounting body (HKICPA)	- Regulation of the accounting profession - Oversight of the professional accounting body (CICPA)	- Financial reporting	- None	- Oversight of the professional accounting bodies - Standard setting - Financial reporting - Corporate governance	- Standard setting

Note: (*) Source from the Accounting and Financial Reporting Council Ordinance (Cap 588) (**AFRCO**) and the International Ethics Standards Board for Accountants (**IESBA**) (April 2023) *Database of Public Interest Entity Definitions by Jurisdiction*.

Section C: Registration

Overview

- C.1. **Registration of audit professionals and audit firms safeguards public interest** by ensuring only auditors that meet the necessary qualifications and ethical criteria operate in the profession. This reinforces high levels of professional competence and integrity, while also promoting consistency in professional requirements, documentation practices, and compliance expectations across firms. Collectively, these safeguards strengthen confidence in the profession.
- C.2. In Hong Kong, individual CPAs need to obtain a Practising Certificate (**PC**) from the AFRC to conduct non-PIE financial audits. As of July 2025, there were 5,048 PC holders — a slight decrease from 5,098 in July 2024. Firms must also register with the AFRC as a CPA firm or a corporate practice (**practice units**).
- C.3. **Firms that plan to undertake PIE audit engagements need to register with the AFRC as PIE auditors**, in addition to holding a CPA firm or corporate practice registration. As of July 2025, 67 registered PIE auditor firms were supported by 1,268 unique responsible persons. This is down from 84 firms and 1,376 responsible persons in July 2024.
- C.4. **All practice units and holders of PCs must apply for a renewal on an annual basis**. This gives the AFRC the ability to evaluate each firm's and individual's qualifications every year, and to address any shortcomings as part of the vetting process.

Prohibition from practising in multiple firms

- C.5. In Hong Kong, the AFRCO allows various modes of practice including a CPA practising accountancy on his own account under a firm name. The AFRC's registration criteria state that a practising CPA should not be registered with more than three practice units.⁷
- C.6. Mainland regulations prohibit the sole-practitioner model of audit firms. Mainland accounting and audit firms that take the form of a general

⁷ AFRC (October 2025) *Guide for the Issuance of Practising Certificates*.

partnership must have at least two partners who are registered CPAs. Those formed as a special general partnership must have at least 15.⁸ Such requirements increase accountability and capacity while reducing the proliferation of small firms.

- C.7. Mainland regulations prohibit accountants and auditors from working in more than one firm. In Hong Kong, where such prohibition does not exist, 3.8% of individual PIE auditors work in two or three firms. This raises concerns about accountability and enforcement. For example, when a firm is sanctioned for audit deficiencies, the individual responsible may continue practising in another firm without interruption. This weakens the deterrent effect of firm-level penalties and creates a regulatory gap, where individuals can sidestep consequences by shifting affiliations.

Requirement to have recent PIE audit activity

- C.8. In Hong Kong, the criteria for registering a practice unit as a PIE auditor are set out in the AFRCO and further elaborated in guidance published by the AFRC. Among other things, the practice unit's nominated responsible persons must be fit and proper. However, there is currently no requirement regarding the practice unit's or the individual's expectation or intention to engage in PIE audit work.
- C.9. As of 31 July 2025, nine PIE auditors (13% of total) had not had any PIE engagements during the preceding two years. This raises concerns about whether the responsible persons of those firms remain up to date with the latest standards and regulatory expectations. We noted that some auditors maintain their registration for marketing or recruitment appeal, potentially misleading stakeholders and undermining the credibility of the PIE auditor pool. In June 2024, the AFRC issued a reminder to the inactive PIE auditors, emphasising the importance of the right intent and adequate preparation.⁹
- C.10. Unlike the AFRC, the UK FRC **requires that an audit firm applying for PIE auditor registration knows or has grounds to believe that it will**

⁸ A general partnership comprises partners who bear unlimited and joint liabilities for the debts of the partnership. A special general partnership refers to a general partnership in which the partners whose intentional or serious wrongful act incurred debt for the partnership will bear unlimited and joint liabilities, while the liabilities of other partners are limited to their share in the partnership's financial assets.

⁹ AFRC (June 2024) *Reminder to PIE auditors: Be prepared for undertaking PIE engagements.*

undertake a PIE audit within 24 months.¹⁰ This requirement also applies when firms submit their annual returns (the UK FRC does not require renewing registrations each year but conducts registration reviews for each firm every 12 to 18 months). The UK FRC may remove an audit firm from the PIE Auditor Register if the firm has not undertaken PIE audit in the preceding 24-month period. There were no registered PIE audit firms with no PIE audit clients in 2023.

Imposition of conditions on registration

- C.11. The AFRC may impose any condition on a PIE auditor at any time during its registration or recognition.¹¹ Imposition of conditions may be triggered by fit and proper or audit quality issues noted during the renewal assessment.
- C.12. Registration is a relatively new function for the AFRC. As we gain experience understanding the market dynamics, we are beginning to use this mechanism more actively — drawing on international practices — to reinforce audit quality, accountability, and public confidence. As of July 2025, we had imposed conditions ranging from training to independent monitoring review to require the PIE auditors concerned to address the deficiencies identified.
- C.13. Like the AFRC, the audit regulator in the UK **also imposes measures (conditions or undertakings) on the registration** of firms where it has quality concerns with the firm or there was non-compliance with registration requirements. Conditions may include requiring the UK FRC's approval prior to accepting PIE audits, as well as improving aspects of the firm's system of quality management. Undertakings are voluntary, negotiated commitments made by the firm at the time of registration. They reflect the UK FRC's less formal, collaborative approach to oversight when warranted. As of 31 October 2025, 43% of 37 registered PIE audit firms had such conditions or undertakings.

¹⁰ The UK FRC issued a consultation in July 2025 on PIE auditor registration regulations, including setting out proposed textual amendments to this requirement. The changes are expected to be effective in January 2026.

¹¹ Sections 20S and 20ZR of the AFRCO. The AFRC may impose or amend conditions.

Recognition of non-Hong Kong PIE auditors

- C.14. As of July 2025, there were 1,511 Chinese Mainland enterprises, representing 57% of the listed entities in Hong Kong. Of these, 393 entities were incorporated on the Chinese Mainland (H-shares), while the remainder were controlled by Chinese Mainland government entities or individuals. The 11 recognized Mainland audit firms, endorsed to audit H-shares, audited 100 of these entities, reporting in accordance with the China Accounting Standards for Business Enterprises or the Mainland Auditing Standards. This marks an increase of 5.3% compared to July 2024.
- C.15. Meanwhile, **the AFRCO requires that a non-Hong Kong entity listed in Hong Kong must apply to the AFRC if it proposes to appoint a non-Hong Kong auditor to carry out a PIE engagement for it.** As of July 2025, 23 non-Hong Kong PIE auditors were recognised, who are mostly part of international network firms. Collectively, they were the auditors of 48 non-Hong Kong listed entities. More than 80% of their reports used IFRS standards or equivalent, or International Standards on Auditing. Almost all non-Hong Kong entities used their local audit firms.¹²
- C.16. While foreign PIE auditors are in principle subject to the same level of oversight as domestic ones, it is not uncommon for regulators to rely on the home jurisdiction's supervisory framework to achieve more effective and proportionate outcomes. In practice, audit regulators often enter into bilateral arrangements, such as Memoranda of Understanding (**MoUs**), to share inspection intelligence, coordinate enforcement actions, and avoid duplicative oversight. This approach recognises that sanctions and remedial measures are often more impactful when applied by the auditor's primary regulator. For instance, the UK FRC may exempt certain third-country auditors from direct oversight if it considers the home jurisdiction's regulatory regime to be equivalent. These arrangements support audit quality and accountability while leveraging existing regulatory infrastructure. In practice, a regulator may encounter challenges when inspecting foreign auditors or conducting investigations in jurisdictions that limit cross-border access to data, including audit working papers (**AWPs**). The exception is the US PCAOB that carries out cross-border inspections in coordination, or jointly, with the home country

¹² Local audit firms based on primary businesses, headquarters, or incorporation.

regulators. Following the enactment and amendments to the Holding Foreign Companies Accountable Act in 2020, the SEC can also delist companies if the PCAOB is unable to inspect their audit records for two consecutive years.

- C.17. In addition, Canada's CPAB undertakes a set of sequential steps to access AWP's of foreign component auditors. These include:
- a. Notifying the group audit firm to request access, utilising MoUs with local audit regulators if any;
 - b. Requesting voluntary access through the group audit firm, with the reporting issuer already required to permit such access; and
 - c. Requesting the component auditor to enter into access agreement with CPAB; and
 - d. If these steps fail, the CPAB will issue a no access notice to the audit firm and impose restrictions on the engagement of non-compliant foreign component auditors.
- C.18. **The AFRC has signed an MoU with the Chinese Mainland's MoF to support each other in discharging audit regulatory responsibilities** in relation to inspection, investigation, and discipline. This collaboration led to regulatory actions by the Chinese Mainland's MoF in August 2024 against a Hong Kong audit firm for violations of Mainland laws, and in September 2024, administrative sanctions were imposed on a Mainland firm for serious infractions in the audit of a major property developer. These outcomes reflect the growing effectiveness of coordinated enforcement and the AFRC's commitment to deepening regulatory synergies across jurisdictions.

Registration of component auditors

- C.19. **Like the AFRC, all audit regulators studied except for the US PCAOB do not require registration or recognition of component auditors.** The PCAOB requires the registration of foreign auditors that play a "substantial role" in audits, such as component auditors, and subjects them to its regulations, including inspections and enforcement.

Table 3. Registration policies

	Hong Kong	Chinese Mainland	Australia	Canada	UK	US
Registration of local auditors	- PIE and non-PIE audit firms - Individuals	- Accounting firms¹³ - Accounting firms providing securities services report to the CSRC	- Statutory audit firms - Individuals	- PIE audit firms - Individuals¹³	- PIE audit firms - Individuals¹³	- PIE audit firms
Mechanism and frequency of renewal	- Annual renewal process for both firm and individual	- Annual reporting for the firm	- Annual reporting for the firm and individual	- Annual submission for the firm	- Annual return submission for the firm	- Annual reporting for the firm
Local firm size and permissibility to practise in multiple firms	- No minimum practice size - An individual may practise in up to three firms	- Minimum two partners — CPAs for general partnership - Minimum 15 — CPAs for special general partnership - An individual shall practise in one firm only	- No minimum practice size - No restriction on practising in multiple firms	- No minimum practice size - No restriction on practising in multiple firms	- No minimum practice size - No restriction on practising in multiple firms - The firm expects an audit engagement within 24 months	- No minimum practice size - No restriction on practising in multiple firms
Fit-and-proper criteria	- Individuals	- Firms, individuals¹³	- Firms, individuals	- Individuals¹³	- Firms, individuals¹³	- Individuals¹³

¹³ The registration of accounting firms or individuals is administered through professional CPA bodies.

Regulatory conditions on registration	- Ability to impose conditions on registration	- No explicit mention in the regulations	- Ability to impose conditions on registration	- Ability to impose conditions on registration	- Ability to impose conditions on registration ¹⁴	- May ask for additional information. No mention on conditions.
Registration of component auditors	- No	- No	- No	- No	- No	- Yes, and renewed through annual reporting
Registration / Recognition of foreign auditors	- Register as a recognized PIE auditor Done through annual renewal process (F)	- To operate in partnership with a domestic accounting firm ¹⁵	- To operate via domestic subsidiaries	- Register as a foreign audit firm Done through annual submission and payment of participation fees (F)	- Register as a foreign or third-country firm Done through annual fees (F)	- Register as a foreign firm, including foreign component auditors Done through annual reporting and annual fees (F)

¹⁴ Source: FRC *PIE Auditor Registration Conditions, Undertakings, waivers and suspensions*. Examples of conditions include the UK FRC's approval prior to accepting new PIE audits and to improve aspects of the firm's SQM.

¹⁵ This pertains to the audit of the Chinese Mainland enterprises listed overseas.

Section D: Inspection

Overview

D.1. The AFRC inspects:

- a. PIE engagements carried out by PIE auditors to ascertain their compliance with the provisions of the AFRCO and professional standards;
- b. Non-PIE engagements carried out by practice units to ascertain their compliance with the professional standards issued or specified by the HKICPA pursuant to the Professional Accountants Ordinance (Cap. 50) (**PAO**);
- c. The firm's system of quality management; and
- d. The firm's compliance with anti-money laundering and counter-terrorist financing requirements applicable to accounting professionals.¹⁶

D.2. The AFRC adopts a robust, risk-based approach and applies the principle of proportionality when selecting firms and their engagements for inspection. **We identify and assess market, firm, and engagement-specific risks based on relevant information gathered from our ongoing market monitoring activities, intelligence shared by other regulators, and information submitted periodically by firms.** To further increase robustness, we also incorporate an element of randomisation when selecting firms and engagements for inspection.

Frequency of audit inspections

D.3. In Hong Kong, we inspect Category A PIE auditors (those that audit more than 100 PIEs a year) on an annual basis, and smaller PIE auditors at least once every three years. We inspect practice units other than PIE auditors

¹⁶ We note that the other five regulators do not mention these as focus areas in their inspection programmes.

from time to time, and the selection considerations include practice units' size, risks and complexity of the practice, and their regulatory history.

- D.4. Like the AFRC, all regulators studied, except Australia's ASIC, conduct **annual inspections of the largest PIE audit firms**, typically those that audit 100 or more PIEs. Smaller firms are inspected less often, on a two-year, three-year, five-year, or six-year cycle, or at the discretion of the regulator.
- D.5. From November 2022, Australia's ASIC has adopted an integrated approach that combines financial reporting surveillance with audit inspections. Under this system, published financial reports, especially those at higher risk of material misstatement, guide the selection of audits for further review. The switch of Australia's ASIC from periodic inspections to integrated inspections has resulted in a decrease in the number of inspected audits from 45 in the fiscal year ending on 30 June 2022, to 10 audits in the year ending on 30 June 2025.
- D.6. Like the AFRC, the UK FRC also inspects firms that audit large non-PIE entities (AIM companies, Lloyd's syndicates, and listed non-UK entities) but delegates most monitoring of non-PIE auditors to RSBs.

Increased use of thematic reviews

- D.7. **The AFRC conducts general inspections and specific scope inspections.** General inspections evaluate a firm's SQM and the audit quality of its engagements, while specific scope inspections target concerns identified by the AFRC in more depth.
- D.8. The AFRC also conducts follow-up inspections on engagements with previous significant findings to evaluate remedial actions taken. In 2024, the AFRC conducted inspections of 51 PIE engagements, of which five were follow-up inspections, and 46 non-PIE engagements. We conducted specific scope inspections of two engagements.
- D.9. In addition to engagement inspections, the AFRC conducts inspections of firms' SQM. The inspections are aimed at addressing the specific quality management challenges faced by firms and effectively allocating our resources to areas of the greatest concern. In 2024, the AFRC inspected the SQM of 33 firms, including PIE and non-PIE auditors.

- D.10. **The UK FRC and Canada's CPAB conduct thematic reviews to supplement their inspection programmes.** As part of the thematic reviews, the UK FRC reviews specific aspects of firms' policies and procedures, such as root cause analysis and audit sampling. It makes comparisons between firms with a view to identifying good practices and areas of common weakness. Canada's CPAB conducts thematic reviews on topics such as fraud, sustainability, and going concern, to identify progress observed and areas of improvement needed.

Growing emphasis of culture audit

- D.11. **Firm culture plays an important role in driving audit quality.** The audit regulators in Canada and the UK include a review of firms' culture and leadership in their inspections. Canada's CPAB highlights practices that demonstrate a firm's commitment to establishing a culture that reinforces its public interest role. This may include defining leadership key performance indicators (**KPIs**) to drive expected behaviours, as well as having a governance structure with members independent of the firm's leadership.
- D.12. The importance of ethical leadership and robust governance for driving a culture that promotes ethical behaviour was recognised in a 2025 fact-finding report by the IESBA. Following its publication, the IESBA launched a standard-setting project on accounting firm culture and governance.

Publication of inspection findings

- D.13. All regulators except the Chinese Mainland's MoF publish annual inspection reports with aggregated results, which give an overview of audit quality in the jurisdiction. The MoF regularly issues bulletins on financial and accounting supervision and inspections. The bulletins include names of accounting firms inspected and disciplined.
- D.14. **There is a global trend to provide transparency over firm-specific findings.** This approach allows companies and other stakeholders to make informed assessment of their current auditor and deter audit deficiencies in future engagements.
- D.15. The **AFRC publishes audit quality ratings for inspected PIE engagements** carried out by large and medium-sized firms (Category A and B). Firms are also encouraged to share specific findings with their

clients' audit committees, and audit committees are reminded to proactively request this information if it has not been provided.

D.16. The other jurisdictions take the transparency to the next level:

- a. The US PCAOB leads the way by **publishing individual firm inspection reports** for all audit firms inspected, while the UK FRC does so for the largest firms. Publishing individual firm inspection reports enhances transparency, strengthens auditor accountability, and enables investors and audit committees to make more informed decisions.

Australia's ASIC **communicates audit quality findings to company directors where they found concerns**. The UK FRC shares inspection results including an overall assessment of audit quality, good practice points, key findings, and other findings with the relevant audit committees. Canada's CPAB requires audit firms to communicate any significant inspection findings along with its response to audit committees. Further, from 2026, Canada's CPAB will publish firm inspection reports, starting with the four largest firms.

- b. In the Chinese Mainland, the MoF **issues bulletins on financial and accounting supervision and inspections which include names of accounting firms inspected and disciplined**. The CSRC publishes sanctions imposed for violations of the securities laws based on investigation results.

Transparency reports to facilitate auditor selection

D.17. Regulators increasingly use transparency reports to enhance visibility into audit firm quality and support informed auditor appointment. Both the Australia's ASIC and the UK FRC have requirements for certain audit firms to publish these reports annually. The primary objective is to provide stakeholders, particularly audit committees and investors, with a clear view of a firm's internal operations and governance. This enables a more holistic assessment of the firm's commitment to audit quality.

Table 4: Inspections of audit firms

	Hong Kong	Chinese Mainland	Australia	Canada	UK	US
Auditors inspected	- PIE auditors - Non-PIE auditors	- Accounting firms (MoF) - Accounting firms providing securities services (CSRC)	- PIE auditors	- PIE auditors	- PIE auditors (<i>Inspection of statutory auditors delegated to Recognised Supervisory Bodies</i>)	- PIE auditors
Frequency of inspection	- Firms that audit more than 100 PIE audits: Annually - Other PIE auditors: Once every three years	<u>MoF</u> - Large or significant firms: Annually - Mid-sized firms: Once every three years - Other firms: Once every five years	- Not specified	- Firms that audit 100 or more issuers: Annually - More than 50 issuers: Once every two years	- Firms with the largest share of the PIE and Major Local Audit markets: annually - Firms with several audits (e.g. ten or more): every three years - Other firms: every six years.	- Firms that audit 100 or more issuers: Annually - Other firms: Once every three years
Number of reviews (latest year available)	- 21 PIE auditors and 14 non-PIE auditors - 51 PIE engagements - 46 non-PIE engagements (2024-25)	- 2,362 accounting firms (2024) - 41 accounting firms providing securities services (2023)	- 8 firms - 10 engagements (2024-25)	- 31 firms - 131 engagements (2024)	- 18 firms - 120 engagements (2024-25)	- >230 firms - >900 engagements (2024)
Scope of review	- AML/CTF requirements - Systems of quality management	- Compliance with licence to practice - Reporting status - Practice conditions - Risk management and quality control system - Unified management of branches	- Key audit areas in the audit working papers - Systems of quality management	- Core areas: materiality, risk assessment, fraud - Two to four focus areas - Systems of quality control - Firm culture and leadership	- Quality of work in the selected areas - Key audit judgments - Audit evidence obtained - Systems of quality management - Firm culture and leadership	- Risk assessment process - Areas affected by economic pressures - Areas presenting challenges and risk - New accounting standards - Areas of recurring audit deficiencies - Systems of quality control
Publication of inspection findings regarding SQM	- Aggregated findings of all firms	- Enforcement actions based on inspection	- Aggregated findings of all firms	- Aggregated findings of all firms	- Firm reports for the largest firms - Aggregated findings of other firms	- Criticisms of, or potential defects in, the firm's SQM with the firm's name if the firm has not addressed them within 12 months
Publication of inspection findings regarding engagements	- Audit quality ratings for inspected PIE engagements of firms with 10 or more audits with the firm's name - Aggregate audit quality ratings for inspected PIE	- Enforcement actions based on inspection	- Aggregated findings of all firms	- Aggregated findings of all firms	- Firm reports for the largest firms - Aggregated findings of other firms	- Firm reports for all firms

	engagements of firms with one to nine audits					
Communication method	- Published in public domain - Encourage communication with Audit committees	- Published in public domain	- Published in public domain - Direct communication to company directors	- Published in public domain - Inspection reports are shared with audit committees.	- Published in public domain - Direct communication to audit committees	- Published in public domain
Powers to inspect registered / recognised foreign firms	Yes	Not applicable. No foreign firms may operate in China, except in a partnership with a local firm	Not applicable. Foreign firms operate in Australia, through local subsidiaries	Yes. Non-collaboration results in a practice ban.	Yes	Yes
Firm culture review mentioned as part of SQM inspection	Yes	Not disclosed	Not disclosed	Yes	Yes	Yes

Section E: Enforcement

Overview

- E.1. Enforcement is a broad function that encompasses investigations of potential misconduct, and the imposition of commensurate sanctions for the purposes of deterrence, investor protection, maintaining market confidence in the quality of financial reporting and audits, and upholding the standards of conduct in the profession.
- E.2. **The AFRC generally imposes disciplinary sanctions following a thorough investigation**, which may be initiated as a result of inspection findings, whistleblowers' reports, referrals from other regulators and law enforcement agencies, or on the AFRC's own initiative. The AFRC has the power to investigate possible misconduct committed by PIE auditors and registered responsible persons, non-PIE auditors, and CPAs.
- E.3. Disciplinary sanctions should be proportionate to the nature and seriousness of the breach. A broad range of sanctions allows the regulator to tailor disciplinary sanctions to the circumstances of the case and take into account aggravating and mitigating factors including the sanctioned party's level of cooperation.
- E.4. The AFRC can impose a range of sanctions, from a reprimand to a pecuniary penalty to a suspension or revocation of registration or recognition as a PIE auditor. The types of sanctions applicable to PIE auditors and registered responsible persons, and professional persons are set out in Table 5.

Table 5. Disciplinary sanctions

PIE auditors and registered responsible persons	Professional persons
• Remedial action • Reprimand (private / public) • Pecuniary penalty • Registration or recognition ◦ Imposition of a condition	• Reprimand (private / public) • Pecuniary penalty • Registration ◦ Suspension ◦ Revocation

○ Suspension ○ Revocation ○ Prohibition from application • Removal of name from the list of registered responsible persons	• Practising certificate ○ Cancellation ○ Non-issuance • Investigation costs and expenses
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E.5. In addition, the AFRC has the power to initiate enquiries into possible non-compliance with regulatory requirements for financial reports of listed entities, and to secure removal of non-compliance by specifying the revision of the relevant financial reports or other remedial actions the AFRC thinks fit.

E.6. Under the AFRCO, the AFRC has the power to impose disciplinary sanctions on PIE auditors and registered responsible persons where there has been misconduct in relation to PIE engagements completed on or after 1 October 2019. The maximum pecuniary penalty for each misconduct is HK\$10 million or three times the profit gained or loss avoided, whichever is higher. For PIE engagements completed before 1 October 2019, while the AFRC also has the power to impose sanctions, the auditor or the reporting accountant concerned is regarded as a professional person and the AFRC can only impose sanctions that are applicable to professional persons, with a lower maximum pecuniary penalty of HK\$500,000 for each misconduct.

E.7. The AFRC took its first disciplinary action in August 2023 after establishing the relevant policies and processes under the first regulatory reform. During the seven months of FY 2025 ending October 2025, the AFRC imposed penalties totalling HK\$4.5 million, a notable increase from HK\$3.5 million in FY2024. The AFRC has to date focused on completing disciplinary cases under the old regime. As the AFRC prioritises cases under the new regime which carries a higher maximum pecuniary penalty, we expect the average size of fines to increase and become a stronger deterrence against misconduct.¹⁷

¹⁷ The AFRC's disciplinary remit also includes CPAs in their non-audit-related capacity, which is not the case with the FRC and the PCAOB. Such cases tend to carry lower penalties, which may contribute to lower average fines.

- E.8. The AFRC's disciplinary powers expanded to cover professional persons (i.e. CPAs and practice units) only from 1 October 2022. However, the AFRC imposed its first ever permanent non-issuance of practising certificate order for serious CPA misconduct just one year later, in November 2023.
- E.9. The AFRC recognises and values cooperation in its investigations and disciplinary actions as it assists the AFRC to achieve its regulatory objectives in a timely manner. In 2024, the AFRC reached an early settlement to achieve a swift resolution with an audit firm which accepted its breaches in full. However, the AFRC considers that, as a general principle, it would not be in the public interest for disciplinary actions to be resolved in private or on a "no admission of liability" basis, and such terms are unlikely to be acceptable or regarded as cooperation.¹⁸
- E.10. The AFRC recognises the deterrent effect of disciplinary actions that are publicised. Subject to the exceptions to disclosures stipulated in the AFRCO, the AFRC publishes the material facts of a case, its decision to impose sanctions and the underlying reasons, as well as communicates its regulatory expectations through press releases and statements of disciplinary action.

International perspectives

- E.11. **International approaches to enforcement vary in the use of the investigation process, the range of sanctions that may be imposed, or the emphasis on a specific type of sanctions.** The range of sanctions may include warnings, censures, practice restrictions, practice bans, licence suspensions, and de-registrations. In addition, the regulators can pursue legal action, either criminal or civil, or refer cases to other relevant regulators if warranted.
- E.12. **Practice bans or suspensions have the strongest deterrence effect,** since they severely impact the firm's ability to provide services. Firms facing suspensions tend to lose audit clients, staff, and even partners, which poses a challenge to long-term viability of the business. The MoF and the CSRC in the Chinese Mainland stress a zero-tolerance policy stance and strong deterrence approach to enforcement to ensure the

¹⁸ AFRC Guidance Note on Cooperation with the AFRC.

integrity of the capital markets, and have imposed licence suspensions in serious cases.

- E.13. **Pecuniary penalties provide flexibility in tailoring the penalty to the severity of misconduct.** Most regulators have the power to impose pecuniary penalties. However, Canada's CPAB can only recover the anticipated costs of monitoring the firm's compliance with imposed sanctions, but it may not impose punitive penalties.
- E.14. In FY 2024/25, the UK FRC reported £14.5 million (pre-discount) in total financial sanctions imposed. This represents a 70% reduction from the £48.2 million imposed in the previous year. That said, the UK FRC has also highlighted that numerous factors impact the amount, number, and nature of sanctions imposed in each year including the financial strength and resources of those subject to sanction.¹⁹
- E.15. The US PCAOB similarly tailor its fines to the severity of a case. In April 2024, it imposed a \$25 million fine, the largest single fine in PCAOB history, against a firm where widespread improper answer-sharing over a five-year period was found and which made multiple misrepresentations to the PCAOB. In the first three quarters of 2025, fines of various amounts have been imposed in different cases ranging from violations related to required audit records to breaches of quality control standards.
- E.16. **Greater flexibility in tailoring enforcement measures** allows regulators to more effectively use their resources and address audit issues more expeditiously. The UK FRC has a structured process for **constructive engagement**, aimed at addressing minor violations of rules or standards with full cooperation of the firm.
- E.17. The enforcement activities of Canada's CPAB are governed by its legal framework. In addition, each firm is required to sign a participation agreement which sets out additional rights and obligations. This provides the CPAB additional flexibility in tailoring enforcement measures. The CPAB routinely takes enforcement actions following inspection findings, which include imposing conditions, restrictions, or sanctions. The CPAB may investigate when it considers that a violation event (including

¹⁹ UK FRC (July 2025) *Annual Enforcement Review 2025*

breaches of CPAB rules or professional standards) may have occurred and wishes to seek additional information.

- E.18. While sanctions have a direct deterrence effect against poor audit quality, **publicising enforcement decisions has positive spillover effects.** Other non-sanctioned audit firms tend to improve their audit quality to avoid reputational harm. Regulators publicise their enforcement actions and provide transparency around their decisions to maximise these effects.
- E.19. **The US PCAOB publicises their sanctions widely, which may have a strong deterrence effect.** A recent study found that large audit firm offices improved their audit quality following enforcement naming another office within their firm.²⁰ It also found improvements in audit quality at non-sanctioned firms, particularly when their audit clientele is closer to the sanctioned firm's clientele.
- E.20. **Audit regulators are evolving their enforcement approaches to align with overall policy priorities.** The UK FRC has embarked on a comprehensive review of its enforcement activities. It is looking at governance structures and decision-making processes to ensure they are efficient, effective, and proportionate. The direction reflects the UK FRC's stated priority to support economic development in the UK by easing regulatory burdens, especially on small and medium enterprises. The US PCAOB ramped up its enforcement activities in the early 2020s, with a significant increase in monetary penalties during that period. However, the recent evolution in policy priorities has resulted in the extended timelines for the implementation of a stricter quality control system.

²⁰ Lamoreaux, Mowchan, and Zheng (May 2023) *Does PCAOB regulatory enforcement deter low quality audits?* The Accounting Review, Vol. 98 Issue 3.

	Hong Kong	Chinese Mainland	Australia	Canada	UK	US
Investigation as part of the enforcement process	Investigation is typically conducted before a disciplinary sanction is imposed	Inspection and investigation are part of the same process, and sanctions may be imposed as a result.	Investigation is a necessary step before a disciplinary sanction is imposed	Disciplinary sanctions may be imposed without an investigation	Some remedial actions may be imposed, or constructive engagement may be undertaken without an investigation	Investigation is conducted before a disciplinary sanction is imposed
Range of enforcement actions on PIE auditors or responsible persons	- Remedial action - Reprimand - Condition, suspension, revocation of registration or recognition - Deregistration as responsible person	- Confiscation of illegal gains - Suspension of practice - Deregistration - Rectification order - Confiscation of revenue - Reprimand - Notice	- Licence restrictions - Deregistration - Infringement notices - Court-enforceable undertakings	- Requirements - Restrictions - Terminations - Public censure	- Notice - Reprimand - Order of mitigating actions - Prohibitions banning individuals from carrying out statutory audits - Declaration of failure to meet audit reporting requirements - Repayment of audit fees - Individual prohibitions - Exclusion from RSB	- Censures - Suspension, revocation of registration - Practice limitations - Additional professional education - Engagement of an independent monitor
Monetary penalties may be imposed?	Yes, up to HKD 10 million, or three-times profit gained or loss avoided (PIE auditors & registered responsible persons)	Yes, up to five times of illegal gains (MoF), or up to ten times of revenue (CSRC)	Yes	Yes, only to recover costs of monitoring compliance with sanctions imposed	Yes	Yes
Publication	Sanctions are published	Sanctions are published	Sanctions are published	Enforcement actions from investigations and significant enforcement actions from inspections are published	Sanctions are published	Sanctions are published

Section F: Strategic priorities

Overview

F.1 The AFRC's Strategic Priorities for 2025-2027 are designed to address the key challenges facing the profession, including technological advancements, talent shortages, and the need for balanced enforcement. Our strategy is built upon four foundational pillars: Regulation, Governance, Development, and Organisational Effectiveness. Guided by the core philosophy of "Quality and Growth", these priorities focus on upholding the highest standards in financial reporting and audit quality while promoting the sustainable growth of the accounting profession through forward-looking initiatives in digital transformation and talent management.²¹

International perspectives

F.2 In their strategic plans, audit regulators in other jurisdictions similarly prioritise enhancing the credibility of corporate reporting, safeguarding audit quality, and promoting the healthy development of the profession.

F.3 In the Chinese Mainland, the State Council (of which the MoF is a constituent ministry and under which the CSRC is a directly affiliated commission) issued opinions respectively in 2021 and 2023 outlining in detail the strategic priorities of further strengthening financial and accounting supervision and fostering the healthy development of the accounting profession.^{22,23}

F.4 In its 2025-28 strategic plan, the UK FRC emphasises applying the principle of proportionality to regulation and oversight, guided by its

²¹ AFRC (March 2025) *Strategic Priorities for 2025-2027*.

²² State Council (August 2021) *Opinion on Further Regulating Financial Auditing and Fostering the Healthy Development of the Accounting Profession*.

²³ State Council (February 2023) *Opinion on Further Strengthening Financial and Accounting Supervision*.

commitment to supporting economic growth.²⁴ It is undertaking a review of its methods of supervision to improve efficiency and effectiveness.

- F.5 The US PCAOB Strategic Plan 2022-2026 is guided by the priorities of investor protection, engagement with stakeholders, and adaptability to the developments in the audit profession.²⁵ It includes goals such as enhancing inspections and strengthening enforcement.
- F.6 Investor protection is the main theme of Canada's CPAB's 2025-2027 Strategic Plan.²⁶ The plan emphasises integrating emerging technologies in audit practice, preparing for sustainability assurance, and improving audit quality at smaller firms.
- F.7 The AFRC's Strategic Priorities for 2025-2027 emphasise upholding high standards in financial reporting and audit quality and promoting the sustainable growth of the accounting profession through digital transformation and talent development.²⁷

Anticipating technological developments and digital assets

- F.8 Audit regulators monitor the developments in audit technology and are keenly aware of the opportunities and challenges emerging technologies, such as AI, bring to audit practice.
- F.9 In the Chinese Mainland, the CICPA in 2025, as part of its efforts to implement the MoF's 2022 *Guidance Opinion on Strengthening Talent Development in the Accounting Profession in the New Era*, included the use and application of AI in audits as one of the topics in its live-streamed training courses.²⁸
- F.10 The UK FRC has published several reports and guidance documents on the use of technology in audit, covering a range of tools, from data analytics to AI. Recognising that PIE auditors are already implementing AI capabilities in their systems, in 2025 the UK FRC published a guidance

²⁴ FRC (December 2024) *Draft FRC 3-Year Strategy 2025-28*.

²⁵ PCAOB (November 2022) *Strategic Plan 2022-2026*.

²⁶ CPAB (December 2024) *2025-2027 Strategic Plan*.

²⁷ AFRC (March 2025) *Strategic Priorities for 2025-2027*.

²⁸ CICPA (March 2025) *Notice on the Work on National Education and Training of CPA Professionals in 2025*.

on the use of AI in audit and a thematic review on certification of automated tools and techniques, including those using AI.^{29, 30}

- F.11 The US PCAOB created a Technology Innovation Alliance (**TIA**) Working Group in 2022, tasked with studying the effect of AI and other emerging technologies on audit and financial reporting. In its two reports, published in 2023 and 2024, the TIA Working Group noted high potential of AI and other emerging technologies to improve audit quality and efficiency, but concluded that adoption was still in early stages and pursued primarily by large firms.^{31, 32}
- F.12 Canada's CPAB published an article in 2024 on the use of AI-enabled tools in audit. The article covered risks associated with AI in audit and the regulator's expectations of firms and auditors on how such tools should be utilised.³³
- F.13 The AFRC is proactively future-proofing the profession by leading its digital transformation. A key priority is assessing the opportunities and risks from the use of AI in audit, in alignment with the Hong Kong SAR Government's *Policy Statement on Responsible Application of AI in the Financial Market*. We are also actively monitoring emerging trends in digital assets, including stablecoins, to ensure the profession is prepared to provide trust and assurance in these new, technology-driven financial ecosystems.

Development of the audit profession and market monitoring

- F.14 The healthy and sustainable development of the audit profession and the audit market is a core priority for several audit regulators. It includes addressing challenges such as talent shortage and unhealthy competitive practices in the audit market.

²⁹ FRC (June 2025) *AI in Audit: Illustrative Example and Documentation Guidance*.

³⁰ FRC (June 2025) *Thematic Review: Certification of Automated Tools and Techniques*.

³¹ Technology Innovation Alliance Working Group (August 2023) *Current State Deliverable*.

³² Technology Innovation Alliance Working Group (May 2024) *Transforming Audit Quality Through Technology*.

³³ CPAB (September 2024) *CPAB Exchange: The Use of Artificial Intelligence in the Audit – Balancing Innovation and Risk*.

- F.15 The MoF in the Chinese Mainland has emphasised that a commitment to integrity is a core value of talent development. To address talent shortage, forward-looking measures are to be taken including publishing guidance and regular reports to analyse the demand and supply trends of accounting talents amidst the national and international developments and socio-economic changes, which would serve as a reference for policy-making and refinement.³⁴ The CICPA publishes a ranking of the top 100 accounting firms to evaluate their development level and raise risk awareness with a view to strengthen audit quality and market integrity.
- F.16 The US PCAOB has launched a Smaller Firm Resource Group – an advisory body that will help PCAOB understand the needs of smaller audit firms. Canada's CPAB's strategic plan includes plans to bolster audit quality at smaller firms through engagement and collaboration.
- F.17 The UK FRC has launched several initiatives that help smaller audit firms to compete in the market. They include capability building and the Audit Firm Scalebox – an engagement forum whose aim is to improve audit quality at smaller firms, promote their resilience, help them understand regulatory expectations, and develop strategic capabilities. In turn, participating firms that make significant progress can expect temporary reductions in formal inspection, supervision and registration requirements.
- F.18 The UK FRC has adopted a set of market health indicators it will monitor to assess the status of the audit market and inform its future regulatory initiatives. They include accounts restatements due to errors, firm-level AQIs, number of responsible individuals, audit firm survey results, stakeholder perceptions and behavioural changes resulting from regulatory activity. These indicators are in addition to operational KPIs such as number of inspections performed and percentage of enforcement cases concluded within the target timeline.
- F.19 For the AFRC, the healthy development of the profession is a core strategic pillar, including addressing challenges such as a declining talent pipeline. Key initiatives include positioning CPD as a crucial tool for improving audit quality and talent retention and providing timely

³⁴ MoF (June 2022) *Guidance Opinion on Strengthening Talent Development in the Accounting Profession in the New Era*.

guidance to the industry, including SMPs, through ongoing engagements and educational materials. In addition, the AFRC conducts ongoing industry analysis to provide market intelligence on the PIE and non-PIE audit sectors. This includes monitoring key indicators such as market share concentration, shifts in competition, talent pipeline challenges like staff vacancy and attrition rates, audit fee pressure, and gaps in technology adoption. This market monitoring provides crucial data that informs our regulatory focus and helps safeguard audit quality.

Glossary

AFRC	The Accounting and Financial Reporting Council
AFRCO	Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
AQI	Audit Quality Indicator
AIM	Alternative Investment Market (a sub-market of the London Stock Exchange)
ASIC	The Australian Securities and Investments Commission
AWPs	Audit working papers
CICPA	Chinese Institute of Certified Public Accountants
CPA	Certified Public Accountant
CPAB	Canadian Public Accountability Board
CSRC	China Securities Regulatory Commission
FRC	Financial Reporting Council of the United Kingdom
FSRP	Financial Statements Review Programme
HKEX	Hong Kong Exchanges and Clearing Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
IESBA	International Ethics Standards Board for Accountants
IFIAR	The International Forum of Independent Audit Regulators
KPIs	Key performance indicators
MoF	Ministry of Finance of the People's Republic of China
Non-PIE	Non-public interest entity (to be distinguished from the legal definition of non-PIE under the AFRCO)
PCAOB	Public Company Accounting Oversight Board
PAO	Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)
PIE	Public interest entity (jurisdictions may define it differently).
RSB	Recognised Supervisory Body

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