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

10/F, Two Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong
香港鰂魚涌英皇道 979 號太古坊二座 10 樓

T 電話 + 852 2810 6321
F 傳真 + 852 2810 6320
E 電郵 general@afrc.org.hk

afrc.org.hk

Press Alert

13 February 2026

AFRC issues open letter to PIE auditors on upholding audit quality and professional integrity amid rising IPO engagements

The Accounting and Financial Reporting Council (**AFRC**) today issued an open letter to all public interest entity (**PIE**) auditors acting as reporting accountants for entities seeking to list their shares on the Stock Exchange of Hong Kong (i.e., initial public offerings or IPOs).

The recent surge in IPO activities has further underscored the pivotal role of PIE auditors in driving the growth and dynamism of Hong Kong's capital markets. However, this trend has also presented unprecedented challenges in maintaining high-quality audits. In light of this, the AFRC has expressed concerns over the rapid increase in IPO audit engagements, through its open letter. The letter reminds PIE auditors of their critical responsibilities, which include safeguarding audit quality, upholding professional independence and integrity, and reinforcing public trust in Hong Kong's capital markets.

The AFRC is aware that several PIE auditors have taken on an exceptionally high volume of IPO engagements in addition to their existing PIE engagement portfolios. This rapid growth raises serious questions about whether these auditors have the requisite competencies and capabilities to diligently fulfil their professional responsibilities without compromising audit quality.

Key Expectations

In the open letter, the AFRC outlines its key expectations for PIE auditors and reiterates their indispensable role in maintaining the quality of financial reporting and public trust in Hong Kong's capital markets. The key expectations include:

(i) Placing Audit Quality and Integrity Above All Other Considerations
(ii) Ensuring Sufficient Expertise and Resources for IPO Engagements
(iii) Committing to Sustainable Resources Management to Protect Audit Quality
(iv) Fulfilling the Critical Role of the Engagement Partner and Engagement Quality Reviewer
(v) Other Specific Expectations for IPO Engagements

Call for Immediate Action

PIE auditors are strongly urged to immediately undertake a thorough evaluation of their resources and critically assess whether they possess the necessary competencies and capabilities to deliver high-quality audits for both their existing and new IPO engagements. The AFRC will require PIE auditors to provide an updated list of their ongoing IPO engagements, their plans to take on any new IPO engagements, and details of their resourcing information.

Our Actions

To ensure that audit quality remains uncompromised, the AFRC will closely monitor how PIE auditors are managing their growing portfolios while maintaining audit quality, independence, integrity and professionalism. Practices that fall short of our expectations should expect heightened scrutiny and regulatory intervention.

The AFRC remains available to engage in dialogue with PIE auditors regarding any matters raised in the letter. Open and proactive communication is strongly encouraged to collaboratively address potential challenges.

End

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.afrc.org.hk.

For media enquiries:

Joyce Mak
Manager, Corporate and Public Affairs
Tel: +852 3586 7889
Email: joycemak@afrc.org.hk

Chelsy Chan
Senior Officer, Corporate and Public Affairs
Tel: +852 2236 6066
Email: chelsychan@afrc.org.hk

13 February 2026

Dear Public Interest Entity Auditors,

Upholding Audit Quality and Professional Integrity Amid the Vibrant Capital Market

In recent months, the Accounting and Financial Reporting Council (**AFRC**) has observed a substantial surge in demand for public interest entity (**PIE**) auditors to serve as reporting accountants for entities seeking to list their shares on the Stock Exchange of Hong Kong through initial public offerings (**IPO**s). While this expansion highlights the significant opportunities for the auditing profession to strengthen its contribution to the growth and dynamism of Hong Kong's capital markets, it also amplifies the risks and challenges in maintaining high-quality audits amid heightened demand.

The AFRC is aware that several PIE auditors have taken on an exceptionally high volume of IPO engagements in addition to their existing PIE engagement portfolios. This rapid expansion raises legitimate concerns as to whether these PIE auditors possess the competencies and capabilities to diligently fulfil their critical responsibilities without compromising audit quality.

The AFRC views this situation as a critical juncture for PIE auditors to reaffirm their indispensable role in safeguarding the quality of financial reporting and maintaining public trust to uphold the reputation of Hong Kong as a premier financial hub, especially during periods of heightened capital market activity.

PIE auditors serve as gatekeepers of financial integrity, and it is imperative that audit practices remain robust and free from compromise. Upholding professionalism and maintaining high standards of quality and integrity are fundamental to fostering investor confidence and preserving market stability.

The AFRC calls on all PIE auditors to fulfil their responsibilities with a long-term perspective, recognising the profound implications that poor quality audits can severely harm the reputation of firms and undermine confidence in Hong Kong's capital market.

Outlined below are our key expectations, which highlight the essential measures PIE auditors must take to meet their obligations.

Key Expectations to PIE Auditors

1. Placing Audit Quality and Integrity Above All Other Considerations

PIE auditors have a fundamental duty to protect the public interest. This duty is fulfilled through the consistent performance of quality engagements and applies to all engagements, whether IPO engagements or annual audits. They must never over-extend themselves in pursuit of more lucrative business opportunities or rapidly expand their portfolio in response to a highly active IPO market at the expense of quality work.

Amid a vibrant IPO market, PIE auditors frequently face intense pressure from working groups to meet tight or accelerated timelines. It is imperative that audit firms remain steadfast in their commitment to audit quality and integrity. This requires PIE auditors to firmly resist such pressures and perform sufficient work to support their audit opinions. Audit quality and integrity must always come first, with no exceptions.

2. Ensuring Sufficient Expertise and Resources for IPO Engagements

The AFRC has consistently emphasised that PIE auditors should only accept new clients or engagements when they possess the requisite competencies and capabilities to deliver high-quality audits. This principle is especially critical in the context of IPO engagements, which are characterised by heightened complexity, stringent regulatory requirements, and demanding timelines.

IPO engagements require not only technical and sector-specific knowledge but also expertise and experience of relevant regulatory or reporting requirements, as well as more robust resource planning. PIE auditors must undertake comprehensive evaluations to ensure that they are capable and competent before accepting any IPO engagement. Failure to do so risks compromising the quality of IPO audits and the profession's reputation, as well as undermining investor protection and Hong Kong's status as a leading international fundraising centre.

3. Committing to Sustainable Resources Management to Protect Audit Quality

Sustainable resources management is fundamental to protecting audit quality. This requires balancing workloads, avoiding excessive engagements or unrealistic deadlines, and fostering a supportive work environment that prioritises both professional excellence and staff well-being. Excessive workloads or prolonged working hours may result in fatigue, stress, and impaired judgement, ultimately undermining audit quality.

Further, PIE auditors must be vigilant in ensuring that new IPO engagements do not overburden teams already working in other audit engagements, including PIE audit engagements. Given the inherently dynamic and demanding nature of IPO audits, resource requirements are often subject to escalations. PIE auditors should regularly review and adjust resource allocations to safeguard audit quality.

Shortages of professional staff should never be addressed by relying on interns or staff from shared service centres. New joiners must first be well equipped with the requisite knowledge and experience, including a thorough understanding of relevant professional standards and regulatory requirements as well as the firm's quality expectations, and must be properly supervised.

4. Fulfilling the Critical Role of the Engagement Partner and Engagement Quality Reviewer

Assigning an appropriate number of capable and competent engagement team members is necessary but not sufficient to ensure a quality audit. Effective direction, supervision, and review (**DSR**) by the engagement partner is also critical. Additionally, the engagement quality reviewer (**EQR**) plays a pivotal role by providing an objective evaluation of significant judgments made and conclusions reached by the engagement team during the audit process.

PIE auditors must ensure that engagement partners provide clear direction, closely monitor the execution of work, and rigorously review all critical areas of the engagement to ensure adherence to the firm's quality expectations and professional standards. The EQR must independently evaluate significant judgements and conclusions to safeguard audit quality. This practice of timely and proactive DSR should cascade down to all team members who serve as reviewers within the engagement. PIE auditors must keep in mind that both the firm and the engagement partner who signs the audit report are ultimately responsible and individually accountable for the quality of the audit, regardless of the involvement of other partners.

When any work is outsourced to external parties, such as staff from other firms (including network firms) or shared service centres, PIE auditors must be alert to the risks that these individuals may lack the incentive to adhere to the firm's quality expectations and may not be held to the same level of accountability as internal team members are. Therefore, a higher level of DSR is essential to ensure that their work meet the firm's quality expectations and professional standards.

5. Other Specific Expectations for IPO Engagements

a. **Exercising a heightened level of professional scepticism.** The inherently demanding nature of IPO engagements, coupled with their unique complexities, requires auditors to exercise a heightened level of professional scepticism. Auditor must accept only clients who demonstrate IPO readiness through a rigorous vetting process, as getting it right at the outset is the first critical line of defence in safeguarding audit quality and public trust. Throughout the IPO process, auditors must remain alert throughout the entire IPO process, carefully review the prospectus for any contradictory information or inconsistencies between management's representations and information obtained from other professional parties.

b. **Developing a thorough understanding of the client and its environment.** A comprehensive understanding of the client and its operating environment is critical in IPO engagements to identify and address key audit risks. The transition to becoming a public company often reveals gaps in corporate governance, internal controls, and financial reporting processes. PIE auditors must obtain a thorough understanding of the client's business, industry, internal controls, financial reporting systems, and the legal and regulatory environment to design targeted audit procedures to address identified risks and to make informed professional judgement.

c. **Diligently fulfilling the responsibilities of reporting accountants.** The responsibilities of reporting accountants extend beyond expressing an opinion on the historical financial information. Reporting accountants are required to report on unaudited pro forma financial information, working capital statements, indebtedness statements, and profit forecast/estimate, if necessary. They may also be requested by sponsors to provide comfort in the integrity of certain financial and non-financial information disclosed in the listing documents and comment on changes in selected financial statement items after the latest reporting period. Auditors must independently perform their procedures and obtain sufficient and appropriate evidence to discharge their duties, and refrain from placing undue reliance on the work of other professional parties involved in the IPO process.

d. **Maintaining independence of reporting accountants.** Independence is the cornerstone of audit quality and public confidence. Throughout the IPO process, auditors must rigorously safeguard independence and never assume a management function or perform tasks that are the sole responsibility of the client. These tasks include, but not limited to, selecting or approving accounting policies; preparing financial forecasts; or performing accounting estimates or valuations.

e. **Completion of required procedures before issuing reporting accountants confirmations.** When providing required confirmations on the accountants' reports, unaudited pro forma financial information and profit forecasts in the Application Proofs and subsequent draft listing documents as required by the Listing Rules, PIE auditors must ensure that all necessary procedures have been substantially completed. Any outstanding procedures should be limited to those that remain to be performed on the types of information that, by nature, can only be finalised and incorporated in the draft listing documents at a later date.

Call for Immediate Action

The AFRC strongly urges all PIE auditors to immediately undertake a thorough evaluation of their resources and critically assess whether they possess the necessary competencies and capabilities to deliver high-quality audits for existing engagements and new IPO engagements. PIE auditors are expected to ensure that their resource planning aligns with the demands of their client portfolios while adhering to the highest professional standards.

PIE auditors will be required to provide the AFRC with an updated list of their existing IPO engagements, plans to take on any new IPO engagements, and details of their resourcing information.

Our Actions

The AFRC will intensify its regulatory oversight to ensure that PIE auditors are effectively managing their growing portfolios while maintaining audit quality, integrity and professionalism. PIE auditors whose practices fall short of our expectations should expect heightened scrutiny and regulatory intervention.

The AFRC remains available for dialogue with PIE auditors who wish to discuss any matters raised in this letter. We encourage proactive engagement to address potential challenges collaboratively and transparently.

The foundation of Hong Kong's capital markets rests on the trust placed in auditors by investors, regulators, and the public. This trust is earned through an unwavering dedication to quality and integrity. In times of heightened activity and competition, let us all strive to ensure that these principles remain steadfast and uncompromised. By consistently upholding the highest standards of professionalism, we reaffirm Hong Kong's position as a global leader in financial markets and a trusted hub for international investment.

Yours faithfully,

Janey Lai
Chief Executive Officer