

Press Release

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AFRC emphasises the importance of leadership setting the right tone at the top

The Accounting and Financial Reporting Council (**AFRC**) today publishes an article titled [*Setting and Reinforcing Tone at the Top to Achieve Quality Audits*](#), emphasising the importance of an audit firm's leadership in setting and reinforcing a tone at the top that fosters a culture of ethical behaviour, integrity, and commitment to audit quality.

The article explains the importance of tone at the top in establishing and sustaining an ethical, compliance-oriented, and quality-focused culture to minimise illegal or unethical activities in an audit firm, thereby promoting audit quality and fostering talent development. A consistent tone between an audit firm's leadership and its engagement team will ensure audit staff follow the tone and reflect it in their audit work.

Tone at the top should prioritise professionalism over commercialism, ensuring commercial considerations do not drive decisions that impair audit quality. The right tone also plays a key role in advancing professional scepticism, which is essential in promoting audit quality and is an integral part of an audit professional's mindset.

Ms Tracy Wong, Acting Head of Policy, Registration and Oversight, said, "The AFRC has repeatedly emphasised that audit firms in Hong Kong should consistently and effectively demonstrate tone at the top. However, common causes of audit quality deficiencies that could have been mitigated by tone at the top continue to persist. We urge the top leadership of audit firms to implement and reinforce their tone at the top. Through their persistent communication and vigorous action to drive behavioural change in audit, it will undoubtedly nurture a quality-focused culture within their firm."

The AFRC's recommendations for the leadership of audit firms, audit committees, and management of companies are set out below:

Leadership of audit firms should set a right tone at the top to:

- Communicate expected behaviours as an essential component of audit work, including compliance with all legal and regulatory requirements, and adherence to ethical and independence standards.
- Prioritise professionalism, professional scepticism, and audit quality over commercial considerations.
- Cultivate and encourage a culture of effective communication and complete openness, and model advocated behaviours.
- Nurture audit team members to positively challenge management assertions if necessary, to avoid obedience to authority or fear of repercussions.

- Emphasise the importance and effectiveness of continuous professional development and allocate sufficient resources to support training and development of audit partners and staff in enhancing audit quality of their firm.
- Ensure compensation is duly tied to performance in upholding audit quality.

Audit committees should set a right tone at the top to:

- Prioritise audit quality during auditor selection and reappointment. We urge them to request their auditors to share the AFRC's inspection results and findings, which helps them leverage our insights for enhancing their effective oversight and driving continual improvement of the auditors.
- Reinforce the importance of professional scepticism within the engagement team and support their exercise of it by forging strong relationships with auditors independent of management and modelling sceptical behaviours themselves by asking probing questions to assess audit quality.
- Understand the tone set by the audit firm's leadership and hold them accountable for maintaining a high standard of professionalism.
- Scrutinise whether the engagement team has the appropriate industry expertise to perform high-quality audits, the audit firm's commitment to training and learning, and its support for the ongoing professional development of audit staff.

Management of companies should set a right tone at the top to:

- Forge a strong ethical and compliance culture by encouraging open communication, trust, and transparency throughout the financial reporting process.
- Set the tone at the top by prioritising financial reporting quality and discussing with audit committees all identified or potential significant issues related to financial reporting on a timely basis.
- Create an open and constructive relationship with auditors and welcome challenges from them where auditors' insight may help to improve the financial reporting quality.

Ms Janey Lai, CEO of the AFRC, said, "To safeguard audit quality and the interests of the wider public, audit firms' leadership should promote an ethical and compliance culture that emphasises audit quality. As the regulator of the accounting profession, the AFRC will hold audit firms' leadership, particularly Chairpersons and Managing Partners, accountable for setting and effectively communicating the tone at the top. By persistently promoting the values and behaviours that are essential for delivering high-quality financial reporting and audits, the credibility, integrity, and trustworthiness of Hong Kong's capital market are safeguarded."

End

About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, 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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