

Press Release

31 July 2023

Audit Focus - Importance of effective audit planning

The Accounting and Financial Reporting Council (**AFRC**) today issues [Audit Focus](#) to urge auditors to take a proactive approach and commence their audit planning process well in advance of the financial year-end. Effective audit planning is the key to assuring high-quality audits.

Ms Janey Lai, Head of Inspection, stresses acutely, “Our 2020-22 inspection results reveal that many auditors underestimated the significance of effective audit planning. Engagements for which auditors failed to allocate sufficient time and resources to planning were more prone to significant audit deficiencies and poor audit quality. To ensure effective and quality audits, audit firms’ leadership, including Chairpersons and Managing Partners, should set the tone from the top and foster a culture that promotes timely and comprehensive audit planning. We also expect these leaders to ensure this culture happens by setting firm-wide policies accordingly. They should pay particular attention and effort to those medium and high-risk issuers, such as entities in financial distress, those that have undergone significant acquisitions or disposals, and those with complex or judgemental accounting estimates, and commence audit planning in the third quarter of the financial year.”

Our Audit Focus highlights five key areas that require special consideration in audit planning. It also sets out AFRC’s clear expectations that auditors, management and audit committees must fulfil their respective statutory duties, roles and responsibilities during the audit planning process. By fulfilling their roles and responsibility, they act together to uphold the quality of audits and financial reporting and earn the trust from the public.

Ms Lai asserts repeatedly, “A well-planned audit provides benefits beyond compliance. It allows management to identify and address potential issues pre-emptively before they become too costly, both legally and economically, or too late to manage. It is therefore imperative for management and audit committees to engage auditors earlier and develop a comprehensive audit plan.”

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.

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

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