

Press Release

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AFRC publishes global audit regulation study, reinforcing dedication to world-class standards

The Accounting and Financial Reporting Council (**AFRC**) today releases a study titled [*“Global Developments in Audit Regulation: Key Insights for Hong Kong”*](#). The study aims to ensure that Hong Kong’s audit regulation actively upholds the integrity of its evolving capital market. As the market expands with cross-border listings, new financial products, and digital assets, our regulatory framework must provide robust oversight to maintain investor confidence.

The study examines audit regulatory practices across six selected jurisdictions with established regulatory frameworks—Australia, Canada, the Chinese Mainland, Hong Kong, the United Kingdom (**UK**), and the United States (**US**). It covers the following areas: registration policies, inspection programmes, enforcement mechanisms, and strategic priorities. At the same time, the study supports one of the AFRC’s key strategic priorities, “Evolving regulations to meet current needs”, by enabling a better understanding of emerging trends and identifying opportunities for enhancement.

The study confirms that the AFRC’s regulatory framework is firmly aligned with international practices, and also reflects its commitment to transparency and audit quality: it provides the profession with a clear view of where Hong Kong stands, and strengthens confidence in the regulatory framework.

Key insights from the study:

- **Strengthening systems of quality management (SQM) through registration**

Audit regulators globally are increasingly using registration as a mechanism to enhance accountability and drive continuous improvements in firm-wide SQM. For example, in the Chinese Mainland, individuals are prohibited from practising across multiple firms. In the UK, the FRC requires audit firms applying for PIE auditor registration to demonstrate an intention to undertake a PIE audit within a specified timeframe, and retains the authority to de-register firms that failed to do so.

In Hong Kong, the AFRC is evolving its registration regime to strengthen firm-wide SQM, alongside individual and team technical competence. It also imposes conditions on registration renewal to address audit quality concerns. This regulatory focus is essential to guide PIE auditors in meeting the rising stakeholder expectations and maintaining high standards of audit quality.

- **Inspections: Emphasising firm culture and transparency**

There is a growing recognition among audit regulators that audit quality is influenced by firm culture and governance. In June 2024, the AFRC published an article stressing the importance of fostering a culture that prioritises audit quality over commercial pressures. Later in the same year, the US PCAOB published insights on firm culture and audit quality across six largest audit firms.

Transparency is also gaining ground. The Chinese Mainland's Ministry of Finance publishes enforcement bulletins naming accounting firms subject to disciplinary actions, the UK FRC and the US PCAOB publish firm inspection reports, and Canada's CPAB will publish similar disclosures from 2026.

In Hong Kong, the AFRC has taken a calibrated approach, disclosing audit quality ratings for Category A firms in 2023 and extending this to Category B firms in 2024.¹ Nearly all inspected PIE firms have shared their engagement inspection findings with audit committees, supporting more informed auditor appointments.

- **Enhancing accountability through responsive, proportionate enforcement**

Audit regulators are refining their enforcement strategies to balance deterrence with remediation. In the UK and US, enforcement has evolved, with regulators adopting more responsive and proportionate oversight. In the Chinese Mainland, regulators have adopted a strong approach to enforcement, including license suspensions, to reinforce deterrence.

In Hong Kong, the AFRC is strengthening its enforcement, imposing HK\$4.5 million in penalties over seven months of FY2025 ending 31 October 2025, and suspension for serious breaches. It promotes cooperative resolution, for instance, by encouraging early settlement and reducing sanctions for firms that engage constructively, including acceptance of liability, during the investigation and disciplinary process. In addition, the AFRC issues compliance advice letters to improve future compliance.

- **Strategic Priorities: Future-proofing the profession for a digital age**

Audit regulators require a clear understanding of the evolving landscape of the profession, including the rise of artificial intelligence (AI) and talent shortages. The AFRC's strategic priorities recognise these realities, with initiatives focused on digital transformation, talent development, and market intelligence.

Dr David Sun, Chairman of the AFRC, said, "Robust audit regulation is essential to safeguarding market integrity, sustaining investor confidence, and reinforcing Hong Kong's standing as a leading international financial centre. This study reflects our

¹ Category A refers to registered Public Interest Entity (PIE) auditors with more than 100 PIE audit engagements; Category B refers to registered PIE auditors with 10 to 100 PIE audit engagements.

commitment to monitor international developments to keep Hong Kong's framework resilient and responsive. Our philosophy is clear: audit quality is not simply a matter of compliance, but the foundation for long-term confidence and resilience in the financial system."

Ms Janey Lai, CEO of the AFRC, added, "Effective audit regulation must be responsive and forward-looking. The study findings reaffirm that Hong Kong's framework is aligned with international best practices. Our aim is to provide constructive oversight that equips auditors to meet evolving challenges and sustain the standards that underpin confidence in Hong Kong's financial system."

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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.

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