

2024-25 Annual Investigation and Compliance Report

July 2025



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, 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.

Introduction

High-quality financial reporting and audits are essential to maintaining Hong Kong's status as a leading international financial centre and a premier capital market for initial public offering fundraising. The AFRC plays a pivotal role within the financial regulatory framework by enforcing the rigorous standards in financial reporting and audit, and regulating the conduct of professional accountants and auditors in Hong Kong.

This Annual Investigation and Compliance Report covers the year ended 31 March 2025. The purpose of this report is to enhance the market's awareness of our findings and observations arising from our investigations and to offer guidance to the accounting profession aimed at preventing the recurrence of the identified misconduct.

During the year, we completed 16 investigations (2023/24: 7), 11 of which involved public interest entity (**PIE**) auditors (2023/24: 5) while five pertained to professional persons (2023/24: 2). Fourteen of the completed investigations were referred to our Discipline Department for consideration of appropriate disciplinary actions. Concurrently, we maintained a satisfactory complaints handling completion rate and reviewed a selection of financial statements through the Financial Statements Review Programme during the year.

Navigating global economic uncertainties amid market recovery has introduced emerging risks in financial reporting and audit quality. The audit profession must remain vigilant and adaptive, exercising heightened professional scepticism in evaluating management assumptions and identifying red flags that may signal potential management bias or risk of fraud, particularly as businesses seek to capitalise on opportunities presented by the rapidly evolving market conditions and technological advancements.

Our regulatory efforts focus on upholding the quality of financial reporting and audit to safeguard the interests of stakeholders and the public, through prioritising cases of significant public interest.

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Section 1

Overview

I Introduction

1. The financial year 2024/25 was a year of steady economy recovery for Hong Kong, while the emergence of new global economic uncertainties continues to test the robustness and resilience of our financial markets.
2. These turbulent times have introduced emerging risks in financial reporting and audit quality, particularly given the large number of auditor changes for PIEs in recent years, within which there have been some shifts in the PIE auditor categories. In this context, the AFRC's role as the regulator of Hong Kong's accounting profession is increasingly vital in maintaining public trust in financial reporting.

Our role and mission

3. As a financial regulator, we are committed to administering an investigation and enquiry regime that promotes high standards of professional conduct within the accounting profession, enhances the quality of financial reporting and audits, and delivers fair and robust investigation outcomes to deter misconduct and non-compliance.
4. The investigation and enquiry functions support the AFRC's mission to safeguard the public interest and promote the healthy, sustainable development of the accounting profession, thereby reinforcing Hong Kong's position as a leading international financial centre.

Purpose of this report

5. This report provides:
 - (a) An overview of our remit and powers, our processes, and the oversight mechanism of the investigation and enquiry functions (**Section 1 Part II**);
 - (b) An overview of the full-year results of our operations in investigations and enquiries, complaints handling, and proactive review of financial statements under the Financial Statements Review Programme (**FSRP**) (**Section 2**); and

- (c) An overview of key findings on misconduct and non-compliance identified from investigation completed during the year and observations from newly initiated cases (**Section 3**).
- 6. By sharing our findings and observations, we aim to alert the accounting profession to significant and common misconduct, serving as reminders of the quality of financial reporting and audit that the public rightfully expects. This transparency reinforces trust in the regulatory and enforcement processes, holds organisations and individuals accountable, and sends a strong deterrent message to discourage similar misconduct.
- 7. We expect the audit profession, professional persons and preparers of financial statements of PIEs to understand the AFRC's powers and our processes, and to timely and fully cooperate with our investigations and enquiries. They should also pay attention to audit deficiencies/ misconduct and identified non-compliance of accounting standards and any other messages communicated by the AFRC, and take appropriate actions to prevent similar misconduct and/or non-compliance.
- 8. With a thorough understanding of the AFRC's powers and authority, the public may more effectively assist AFRC in detecting potential misconduct or fraud by submitting well-founded complaints supported by appropriate evidence.

II Our process

- 9. The AFRC has the statutory powers to:
 - (a) Investigate possible misconduct committed by PIE auditors and their registered responsible persons;
 - (b) Investigate possible misconduct committed by professional persons, i.e. certified public accountants and practice units; and
 - (c) Enquire into possible non-compliance with accounting requirements in the financial reports of PIEs.
- 10. In 2024/25, we continued to apply the principle of proportionality in allocating our resources effectively to cases with high public interest. We adopt a combination of proactive and reactive strategies to gather intelligence on potential irregularities and/or non-compliance:

- (a) Proactively, we use a combination of risk-based approach under FSRP to carry out our market surveillance and monitoring work, with considerations of the emerging trends and issues.
 - (b) Reactively, we receive complaints relating to PIEs, PIE auditors, and professional persons from both internal and external sources.
11. In handling the ongoing investigations and enquiries, we adopt a dynamic approach to ensure that cases of most significant public interest are prioritised for timely communication and feedback to the market and accounting profession, thereby achieving the greatest regulatory impact.

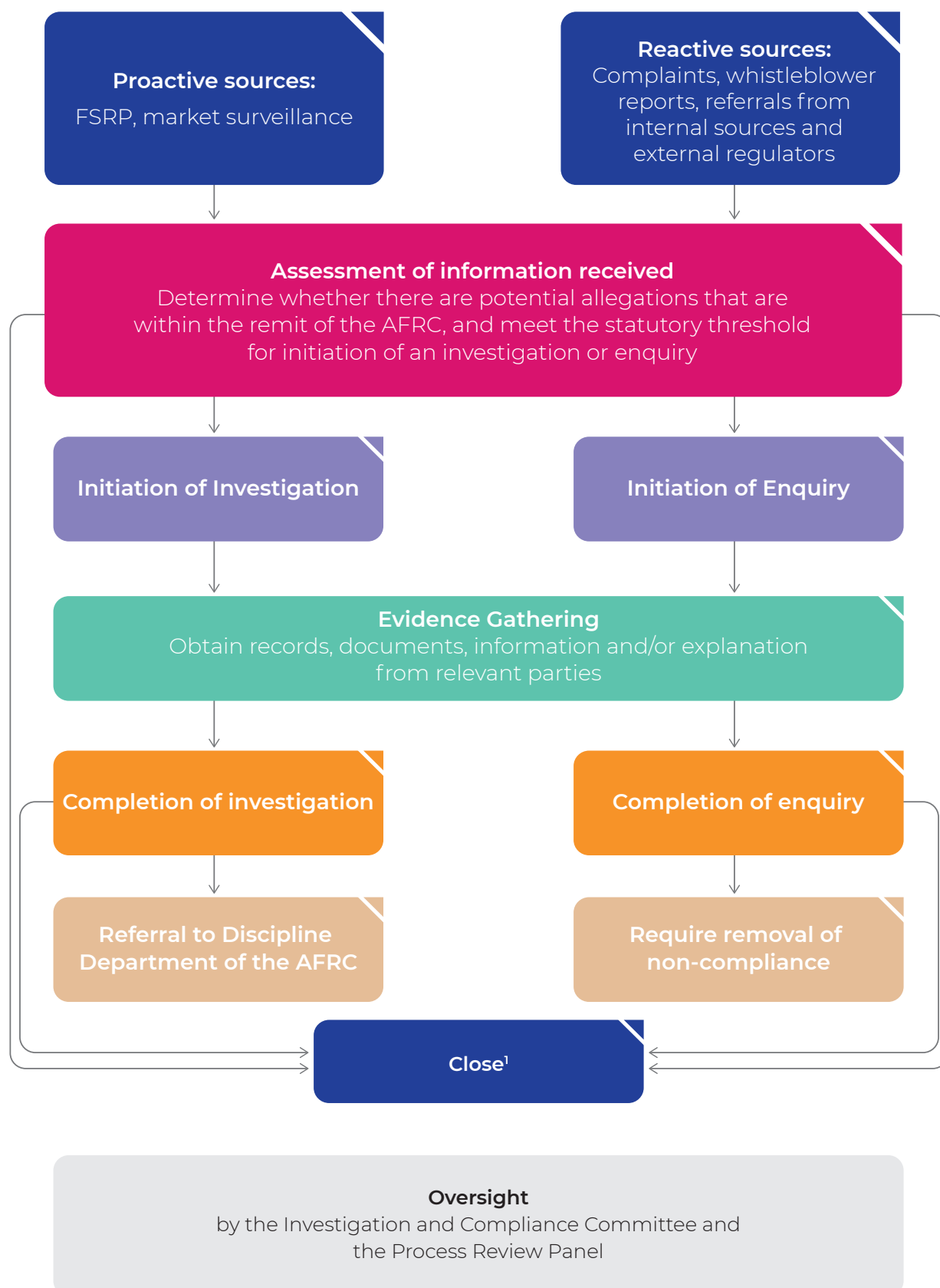
Oversights

12. Our investigation and enquiry functions are overseen by the Investigation and Compliance Committee (**INCC**) and the Process Review Panel (**PRP**) of the AFRC. The oversight ensures the reasonableness of the decisions made for individual cases, and the upholding of procedural fairness within the decision-making process.
13. The INCC is set up by the AFRC Board with oversight and advisory roles on matters concerning the investigation and enquiry functions. It conducts on-going reviews of the performance of the complaints handling, financial statements review, investigation and enquiry functions. The INCC also selects a sample of cases concluded without further actions and reviews both the adherence to procedural requirements and reasonableness of the decisions made.
14. The PRP, as an independent non-statutory panel established by the Chief Executive of the Hong Kong Special Administrative Region, reviews and considers if individual cases have been dealt with consistently, and that all actions and decisions taken are in line with internal procedures and guidelines.
15. In the recent reviews by both the INCC and PRP, the oversight bodies concluded that all cases reviewed were handled in accordance with the internal procedures. The INCC also concluded that the decisions to close the cases selected for review were reasonable. The [PRP annual reports](#) can be found on the website of the AFRC.

PRP annual reports



16. An overview of our process of handling reports about potential misconduct or non-compliance is set out in the flow chart below:



¹ Cases may be closed with or without further actions. Further actions may include referring the case to other appropriate authorities if the matter falls within their remit, or issuing compliance advice letters to the AFRC's regulatees and/or PIE.

Section 2

Operational Performance

I Overview

1. The Investigation and Compliance Department (**INC**) of the AFRC is responsible for the functions of handling of complaints and referrals, carrying out the FSRP initiatives and conducting investigations and enquiries. During the financial year, we completed 16 investigations (2023/24: 7), one enquiry (2023/24: nil), and the assessment of 255 pursuable complaints (2023/24: 197). Among the completed investigations, 11 related to PIE auditors (2023/24: 5) while five pertained to professional persons (2023/24: 2).

II Investigations and Enquiries

2. Conducting investigations and enquiries constitute the primary functions of the INC. They are initiated when there is prima facie evidence of possible misconduct by PIE auditors and professional persons, or potential accounting non-compliance in the financial reports of listed entities.
3. Upon the completion of an investigation, cases with serious findings that may warrant disciplinary actions are referred to our Discipline Department, while other cases may be closed without further actions or resolved through the issuance of compliance advice letters. For enquiry cases, listed entities may be required to remove the non-compliance which are considered to have significant impact on the public interest, within a specified manner and timeframe.

4. Of the 16 completed investigations, 14 have been referred to our Discipline Department for consideration of appropriate disciplinary actions. These investigations involved severe breaches of the Accounting and Financial Reporting Council Ordinance (**AFRCO**), including:
 - instances where the PIE auditor was found to have significant shortfalls in observing, maintaining, or otherwise applying professional standards across multiple areas of the audits;
 - audit practitioners performing duties as engagement partners (**EP**) or engagement quality control reviewers (**EQCR**) for registered PIE auditors without being properly registered in those roles; and
 - certain ethical issues.

Additionally, one case was closed with the issuance of a compliance advice letter to the concerned regulatee, and one completed investigation and the completed enquiry were closed without further action.

5. As a result of the rising proportion of complaints concerning category B of the PIE auditors under the volatile market environment in recent years, analyses of investigations initiated against PIE auditors show that the share of investigations involving category B PIE auditors has increased compared to previous years.
6. While there is no definitive evidence of a direct correlation between auditor category and audit quality, lower-category firms are generally smaller in scale and possess less comprehensive quality control systems. Some may struggle to meet the required standard of audit quality, particularly when faced with a sudden uptake of engagements. Additionally, these firms often lack the resources, expertise, and readiness to handle audits of higher complexity or risk. Some of their clients also tend to be relatively smaller entities with varying standards of internal processes and control environments, often accompanied by lower audit fees. These factors contribute to the challenges faced by smaller audit practices in maintaining audit quality under such circumstances.
7. The above-described potential impact on audit quality cannot be overlooked. The AFRC will monitor the situation closely and take appropriate regulatory actions on these matters as they develop into issues of significant public interest.

8. Regardless of entity size, the board of directors holds ultimate responsibility for the financial statements, while audit committees play a crucial role in safeguarding financial reporting integrity and overseeing external auditors. Both should leverage their market experience and expertise to uphold financial reporting quality and audit oversight, particularly during periods of market uncertainty.
9. Audit committees should recommend auditors based on their ability to deliver high-quality audits. While auditors are expected to deliver high-quality audits regardless of the level of the audit fees, there is a reciprocal causal relationship between audit quality and audit fees. Therefore, audit committees must ensure fees are sufficient to avoid risks of compromising audit quality and are encouraged to refer to the AFRC's [Guidelines for Effective Audit Committees](#) and [Guidance Notes to Change of Auditors](#) for further considerations.
10. PIE auditors must ensure they have adequate resources, knowledge, and expertise prior to accepting audit engagements. A strong tone at the top focusing on fostering high-quality audits is essential, particularly as firms may face challenges balancing risk and reward with limited resources. Audit quality must remain non-negotiable, even amid intense fee negotiations and heightened competition. Auditors of all sizes are required to exercise heightened professional scepticism on matters involving management judgment and estimation, particularly in light of prevailing economic conditions.

Guidelines for Effective Audit Committees



Guidance Notes to Change of Auditors



Win-win collaboration with local and Mainland regulators

11. Building on the positive momentum in the previous financial year, we have further strengthened our regulatory collaboration with local and Mainland regulators this year, resulting in tangible regulatory outcomes.
12. Collaboration between the AFRC and Supervision and Evaluation Bureau of the Ministry of Finance of the People's Republic of China (**MoF**) during the year resulted in the identification of violations of Mainland laws and regulations by a Hong Kong audit firm, prompting subsequent regulatory actions by the MoF. Additionally, notable progress has been made in respect of several investigations involving cross-border audits with the support of the MoF to expedite the provision of essential evidence located in the Mainland.

Enhancement of case prioritisation policy

13. To further enhance resource deployment efficiency and effectiveness, we have adopted a more robust policy for selecting and prioritising investigations in 2024/25, while continuing to be grounded in the overarching principle of focusing on cases with significant public interest. This approach considers factors such as the nature and severity of potential misconduct, without bias towards any specific organisations or individuals.
14. Our case prioritisation is regularly monitored and reviewed to stay responsive to the rapidly evolving market environment and emerging issues. This continuous reassessment enables timely identification and attention of new risks, ensuring that resources are focused effectively to maximise regulatory impact and protect public interest. Such process is continuously overseen by the INCC.

III Complaints

15. Complaints from the public, reports from whistleblowers, and referrals from regulators/law enforcement agencies (**LEAs**) provide valuable intelligence of potential misconduct and/or non-compliance.
16. Upon receipt of allegations of possible misconduct or non-compliance, the INC assesses whether the allegations are within our remit (i.e. are pursuable). If the allegations are not within our remit, we inform the complainant accordingly or refer the matter to the relevant regulatory bodies as appropriate.
17. Every pursuable allegation is evaluated to determine whether it meets the statutory threshold for initiating an investigation or enquiry. This assessment considers a range of factors including the severity of the potential misconduct or non-compliance, the level of public interest, and the availability and sufficiency of evidence.
18. While the AFRC welcomes the provision of intelligence of potential misconduct or non-compliance from all sources, we can only follow up on precise allegations with substantiations. Our [Complaints Guidelines](#) provides further details on the complaint handling process.

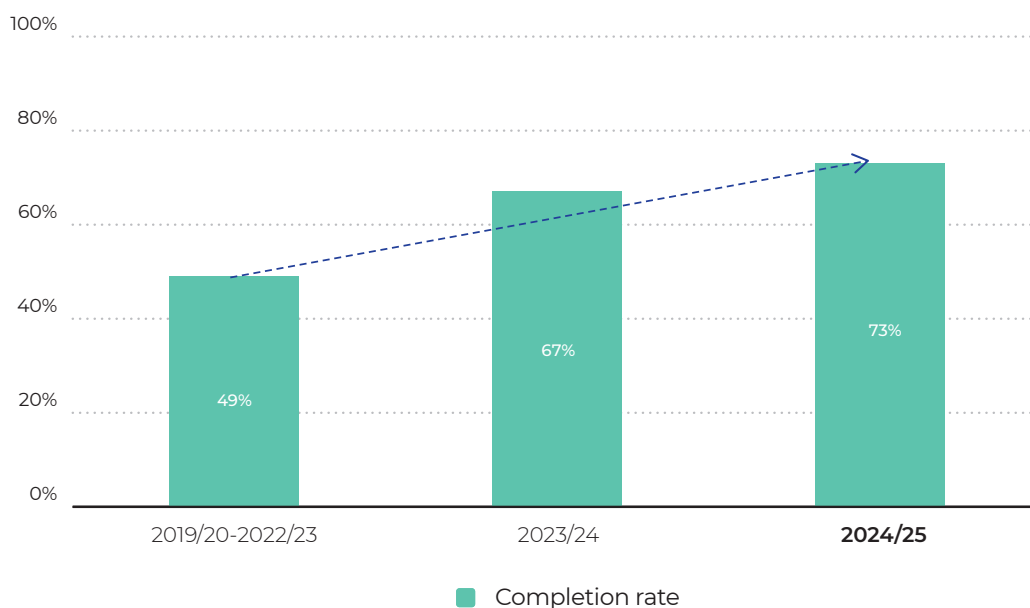
Complaints Guidelines



Sustainable operational efficiency

19. The number of new pursuable complaints received during the year increased significantly by 38% (2024/25: 262; 2023/24: 190). Together with those carried forward from prior year, we completed the assessment of 255 pursuable complaints in 2024/25, representing a year-on-year increase of 29% (2023/24: 197). As at 31 March 2025, the evaluation of 71 cases were in progress.
20. Since the expansion of the AFRC's regulatory functions in 2019, there has been a notable and continuous increase in pursuable complaints from both internal and external sources.
21. Nevertheless, the INC has sustained the rate of complaints assessment completed in the same year of receipt through process improvements and specialisation of the complaints handling team in 2024/25.

Chart 1: Assessment of complaints completed in the same year of receipt



IV Financial Statements Review Programme

22. The FSRP is a non-statutory, risk-based and proactive market monitoring initiative to monitor the quality of financial reporting by PIEs. The programme was carried out through the review of financial statements of PIEs selected by the AFRC based on a predefined criteria and scope.
23. Our selection criteria are based on indicators of higher risk of irregularities and/or non-compliance, such as late auditor resignation, financial statements with prior year adjustments, and changes in auditors due to unresolved audit issues. Our selection approach also remains adaptive to the emerging trends and issues such as rapidly changing market conditions of specific industries.
24. We also aim to identify sound presentation and disclosure practices in the preparation of financial statements on selected topics and periodically share these insights with the market in the coming year. This initiative is expected to further support accounting firms, particularly those smaller practices that may face greater resources constraints and challenges in adopting best practices for financial reporting and auditing.

Section 3

Findings and Observations

I Overview

1. This section highlights (i) the key findings of the misconduct identified in investigations completed by INC, and (ii) our observations on potential misconduct or accounting non-compliance identified from investigations initiated during the year.
2. Through this section, we seek to communicate the AFRC's expectations to the accounting profession in enhancing audit quality, discourage the recurrence of misconduct, and inform the market about emerging challenges or trends of non-compliance identified during the year.

II Findings from investigations completed during the year

3. We highlight some of the key findings of misconduct identified that are relevant to the current economic environment, through a selection of investigations completed by INC during the year. The selective findings presented in this section do not necessarily suggest that similar issues are widespread across all audits with comparable facts and circumstances; rather, they are intended to inform and caution audit practitioners.

Asset impairment assessment of a PIE engaging in emerging business

4. In today's highly competitive economic environment, characterised by rapid technological advancements, businesses may periodically consider diversifying their operations into new and emerging markets or sectors to maintain relevance. Such strategic moves often involve business combinations, which may result in recognition of intangible assets.
5. During the year, we completed one investigation into possible irregularities by a PIE auditor concerning the impairment assessment of an intangible asset arising from a listed entity's diversification into a new business sector.
6. The PIE auditor identified the valuation of this intangible asset as a significant risk and engaged an auditor's expert to evaluate the value in use (**VIU**) of the asset as estimated by management.

7. The investigation revealed that the PIE auditor failed to exercise adequate professional scepticism when evaluating the key assumptions and data used by the management to determine the VIU. Notably, the auditor relied solely on management's revenue projections for the emerging business without obtaining a thorough understanding of the business or considering the risk of management bias in these estimates.
8. Furthermore, the PIE auditor failed to assess the adequacy of the work performed by the auditor's expert, who neither evaluate the relevance and reasonableness of key assumptions in the valuation model nor justify the use of the recoverable amount of the standalone intangible asset for supporting the amount of the intangible asset stated in the financial statements. The auditor should have recognised that the expert's work was insufficient and, accordingly, performed additional audit procedures.



Key messages

9. Auditors must remain vigilant in exercising professional scepticism and judgment in areas such as impairment assessments of assets relating to new or volatile businesses, which inherently carry greater subjectivity and uncertainty. Auditors should:
 - i. diligently identify red flags that may indicate potential management bias, especially when there are indications of potential fraud risks;
 - ii. critically evaluate the reasonableness of methods, significant assumptions, and source data used by the management;
 - iii. thoroughly assess whether the work performed by auditor's experts to support the auditor's assessment of recoverable value is adequate and appropriate; and
 - iv. pay greater attention to areas involving use of technology. Rapid technology advancements, including artificial intelligence and digital tools, should only support but not replace auditors' professional judgment.

Risk assessment and audit implications of a PIE engagement with heightened risk of fraud

10. Market recovery creates opportunities for businesses but also increases pressure on management to deliver strong results. This heightened pressure may incentivise management to manipulate financial information or override internal controls, thereby increasing the risk of fraud and other material misstatements.
11. Another investigation involved alleged fraudulent revenue reporting in a PIE engagement. The PIE auditor identified the risk of fraud in revenue recognition as a significant risk in the audits.
12. The investigation revealed that the PIE auditor failed to identify significant red flags, including internal control weaknesses in the revenue cycle with regard to segregation of duties. As a result, the auditor incorrectly concluded that these controls were designed and operating effectively without performing sufficient testing.
13. Despite the risk of fraud identified, the PIE auditor also failed to properly evaluate the business rationale for settlements of trade receivable by parties other than the customers. The auditor did not perform sufficient and appropriate additional procedures to address inconsistencies in the audit evidence and failed to understand or assess the controls implemented by management over these settlements.
14. The investigation also found that the PIE auditor failed to exercise appropriate professional scepticism by relying solely on documents provided by management, without obtaining independent evidence to support the occurrence of sales transactions during the year. Given the circumstances known to the auditor, this reflected an inappropriate overreliance on management representations.



Key messages

15. Rapid business expansion or significant revenue growth over a short period potentially signals a heightened risk of material misstatement due to fraud.
16. Auditors are reminded that risk assessment is a dynamic and ongoing process throughout the audit, especially given the prevailing economic conditions. When new information arises, auditors must promptly reassess the risk involved by carefully evaluating any contradictory evidence and considering the implications on the audit approach.
17. Where there are indications of potential fraud risks, auditors should be alert to all kinds of red flags, including conflicting or unusual discrepancies in evidence, unusual transactions without business rationale, unusual year-end adjusting entries, and changes in management's estimates that are not supportable by current facts and circumstances. Further, auditors must critically assess the validity and reliability of any information provided by management, and promptly communicate any significant internal control weaknesses to those charged with governance and the audit committee.

Registration of audit practitioners in PIE engagements

18. Given the continued frequent changes of auditors for PIEs, as well as switching audit firms by audit practitioners in recent years, one possible increased risk is that audit practitioners may fail to complete the required registrations in a timely and appropriate manner.
19. A key finding from an investigation completed this year was non-compliance with laws and regulations, where certain audit practitioners performed duties as EP or EQCR for a registered PIE auditors without being properly registered in those roles. The registered PIE auditors had authorised these unregistered individuals to act as EPs or EQCRs for PIE engagements, in breach of the regulatory requirements under the AFRCO.

20. The investigation revealed that the audit practitioners delegated the management of their registration processes to inexperienced personnel, while the registered PIE auditor lacked formal policies and procedures to effectively monitor the registration status of its responsible persons. Furthermore, the investigation found that the parties concerned failed to exercise diligence in overseeing and ensuring the timely completion of the registration requirements.



Key messages

21. Registration requirements for PIE engagements are established to ensure that only fit and proper individuals undertake these critical roles. Timely and appropriate registration of audit practitioners remain a fundamental obligation that must be strictly observed under all circumstances, and frequent changes in auditors or negligence in this regard are not acceptable excuses for lapses or failures in complying with registration obligations.
22. The public expects the accounting profession, entrusted with safeguarding their interests, to fully comply with registration requirements under the AFRCO and to strictly adhere to all relevant laws and regulations governing the profession. Any non-compliance, even if resulting from ignorance or unintentional oversight, undermines the reputation of the accounting profession.
23. It is incumbent upon the accounting professionals and firms to maintain a comprehensive understanding of the applicable laws and regulations and to act with diligence and care to prevent any actions that may lead to non-compliance. We will take stringent enforcement actions against any firms or individuals found to have committed such misconduct and may refer such matters to the relevant LEAs.

III Observations from initiated investigations and enquiry

24. During the year, the AFRC initiated 41 investigations, of which 21 related to PIE auditors and 20 concerned professional persons, and 1 enquiry, based on complaints and referrals. From these newly initiated investigations and enquiries, we observed certain emerging trends that are worth highlighting to auditors, directors, management of listed entities, and preparers of financial statements, to promote future compliance.
25. Regarding newly initiated PIE investigations, we noted that the predominant areas of deficiencies relate to failures in (i) obtaining sufficient appropriate audit evidence (71% of newly initiated cases), (ii) maintaining professional scepticism (33%), and (iii) exercising professional judgment (33%), while the key areas of alleged misconduct in investigations initiated against professional persons relate to registration of audit practitioners, deficiencies in the audit of non-PIE engagements, and certain ethical issues.
26. Allegations of audit deficiencies in newly initiated investigations remain similar to our observations from previous years, while there is also an increasing trend of potential deficiencies in the engagement quality review process. These issues are evident across various stages and aspects of the audit, including those identified in the investigations outlined in section 3 Part II above. In this section, we further highlight observations in the abovementioned key areas of misconduct.

Assessment of risk of material misstatement

27. Economic conditions significantly influence companies' strategies and financial positions. In today's environment of ongoing uncertainty and unpredictable changes, whether due to technological advances, regulatory shifts, or geopolitical developments, new or emerging risks can arise or change rapidly.



Reminders

28. Auditors should remain attentive to changes in economic conditions and the entity's environment, ensuring that these changes are thoroughly considered in the iterative risk assessment process. This includes a rigorous evaluation of any changes in associated business risks, the financial reporting framework, accounting policies, and internal control systems. It is crucial not to assume that these factors remain constant from the previous year, a deficiency noted in certain initiated investigations.

29. We observed that in some cases, there are indications of insufficient professional scepticism and inadequate response to identified risks. Auditors should be alert to information or evidence that may be contradictory, and this heightened scrutiny should guide the design and execution of audit procedures that are more tailored to address such specific risks.
30. In certain new cases under investigation, the involvement of EPs and EQCRs during audit planning and risk assessment appears to be insufficient, adversely impacting audit quality. We therefore reiterate the importance of their timely involvement in planning, review and supervision. EPs should provide ongoing guidance to engagement teams and exercise professional judgment particularly in addressing complex and emerging issues. EQCRs should provide robust oversight and rigorously challenge, rather than merely endorse the judgments and conclusions of the engagement team.

Auditing accounting estimates

31. Accounting estimates carry higher audit risks given the subjectivity, uncertainty or possible management bias involved and auditors are required to obtain sufficient appropriate audit evidence in evaluating the methods, significant assumptions and data used in determining accounting estimates.



Reminders

32. There are several newly initiated investigations indicating that auditors failed to demonstrate sufficient professional scepticism when performing retrospective reviews and challenging management's assumptions, particularly when changes from prior periods were involved.
33. For complex accounting estimates, auditors should engage independent experts with relevant competence and capabilities despite the additional costs incurred and the increased fee pressures faced by audit firms in the current economic environment.
34. We observed indicators of deficiencies in several newly initiated investigations concerning the use of the work of an auditor's expert, which potentially resulted in insufficient audit evidence being obtained for accounting estimate.

35. In evaluating the work of the auditor's expert, auditors should critically assess the relevance and reasonableness of the expert's procedures and conclusions regarding the assumptions, methodologies, and source data used in determining the accounting estimate. Auditors should also carefully evaluate any reservations, limitations, or restrictions on the expert's work and determine their implications on the audit.

External confirmations

36. Several initiated investigations contained indications of insufficient professional scepticism in identifying circumstances that might indicate a risk of material misstatement due to fraud or risk of management override of controls in executing external confirmations audit procedures.



Reminders

37. Auditors must determine whether to modify or supplement audit procedures when doubts arise about the reliability of information used as audit evidence, such as in certain cases where there are concerns on the completeness of management's information for bank confirmations.
38. Additionally, an observation from an initiated case involved an audit practitioner who potentially failed to take adequate measures to address the recurring issue of not securing bank confirmation responses prior to issuing the auditor's reports. In this case, the practitioner circumvented the external confirmation procedures by modifying the audit opinion.
39. Auditors should thoroughly investigate any exceptions or inconsistencies identified from external confirmations and non-response to confirmation requests to determine whether they indicate misstatements, including risks of material misstatement due to fraud that may not have been previously identified, and perform appropriate alternative audit procedures as necessary.

IV Call for action

40. As highlighted above, it is evident that the same areas of misconduct continue to recur year after year in both completed and newly initiated investigations. Similar issues have also been observed in various ongoing investigations of high public interest. This persistent pattern underscores the urgent need for audit firms, regardless of size, to take proactive measures to enhance audit quality.
41. Leadership within audit firms must establish and maintain a robust system of quality management as required by Hong Kong Standard on Quality Management 1 — *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.
42. Prior to accepting any new engagements, auditors must objectively assess their capabilities and competencies to ensure they are both able and committed to dedicating the necessary resources and expertise to properly deliver a high-quality audit.
43. EPs must take ownership of their audits by allocating sufficient time and effort throughout the audit process to monitor and ensure their teams fully understand the risks present in the evolving market environment and consistently apply the required professional scepticism and judgment in all key audit areas.
44. Only through deliberate, concerted, and sustained efforts on the above actions can the quality and integrity of audits be upheld, thereby reinforcing the credibility of auditors and supporting Hong Kong's standing as a leading international financial centre.

Glossary

This glossary provides definitions of the acronyms, abbreviations, and key terms used in this report:

AFRCO	Accounting and Financial Reporting Council Ordinance
EP	Engagement partner
EQCR	Engagement quality control reviewer
FSRP	Financial Statements Review Programme
INC	Investigation and Compliance Department
INCC	Investigation and Compliance Committee
LEAs	Law enforcement agencies
MoF	Supervision and Evaluation Bureau of the Ministry of Finance of the People's Republic of China
PIE	Public interest entity
PRP	Process Review Panel
VIU	Value in use

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