

Press Release

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AFRC's follow-up survey on the implementation progress of the new and revised quality management standards

The Accounting Financial Reporting Council (**AFRC**) today publishes the [results of its follow-up survey](#) (**Survey**) on the implementation progress by Public Interest Entity Auditors (**PIE Auditors**) for the new and revised quality management standards (**the new QMSs**) which require the firms to design a system of quality management (**SoQM**) to manage the quality of engagements performed by the firms. The new QMSs will become effective on 15 December 2022 (**effective date**). As of the end of September 2022, we surveyed in total 44 Registered PIE Auditors and 24 overseas Recognized PIE Auditors with a 100% response rate.

Ms. Janey Lai, Head of Inspection of the AFRC, explained, "This survey result puts an alarm to drive PIE Auditors regarding the fast-approaching effective date of the new QMSs. It provides a benchmark for them to measure their implementation progress against their peers. We urge those auditors who are lagging behind schedule to take swift actions to ensure the timely implementation of the SoQM such that audit quality would not be compromised."

Highlights of survey results:

1. Overview of the implementation progress of SoQM

In terms of readiness, while 68% of PIE auditors are on the right track following their original work plan, it is not satisfactory that 32% are still falling behind their planned schedule or have not even commenced the implementation.

2. Implementation progress of key processes in SoQM

Amongst certain key processes in the implementation of SoQM, 25% of the PIE auditors have yet to identify and assess quality risks, 46% have yet to establish policies and procedures to respond to the quality risks identified while 59% have yet to establish monitoring and remediation process. A number of them reported they are on their planned schedule although some key processes in SoQM are still in progress as of the end of September 2022. We are concerned about whether they are able to fully implement the SoQM by the effective date, in particular, establishing policies and procedures to respond to the quality risks was considered by the PIE auditors as the most significant challenge during their implementation.

3. Implementation progress of Engagement Quality Review (EQR)

43% of the PIE auditors have yet to establish EQR policies and procedures. They must take immediate action to do so in order to strengthen the eligibility of the

engagement quality reviewer and the performance and documentation of the EQR.

Ms. Lai said, “We strongly urge PIE auditors to pay attention to our observations, good practices and key reminders shared in the report. For those lagging behind the schedule, they need to speed up their actions to ensure that they can meet the implementation deadline as required by the new QMSs. Starting from 2023, the AFRC will inspect their SoQM under the new QMSs and take follow-up actions on the firms whom we find significant deficiencies in their compliance with the new QMSs.”

Communication with the profession is important for the AFRC in order to ensure the effectiveness of our approaches and decisions. The survey allows us to understand the readiness of the market and to plan for our actions accordingly. By publishing up-to-date surveys in relation to the latest accounting and auditing standards, we caution the profession of the ‘dos and don’ts’ necessary in upholding the quality of audit and financial reporting. Meeting the latest international standards is one of the key priorities for the accounting profession to constantly raise their level of quality and stay competitive in the market.

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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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