

## Press Release

28 September 2023

### **AFRC urges auditors and audit committees to follow Guidance Notes on Change of Auditors**

The Accounting and Financial Reporting Council (**AFRC**) has been closely monitoring the phenomenon of late auditor resignations and its adverse impact on audit quality. In view of the remaining concerns arising from the issue, the AFRC published today the paper titled "[AFRC Addresses Concerns Surrounding Auditor Changes](#)" ("the Paper") and the [Guidance Notes on Change of Auditors](#) ("the Guidance Notes").

The AFRC urges auditors and audit committees of listed companies to remain vigilant about the remaining issues raised in the Paper and to follow the Guidance Notes so as to uphold audit quality. Given the importance of audit quality on market confidence, the AFRC reminds PIE auditors taking on late engagements to maintain a heightened awareness of the AFRC's expectations of them.

Since October 2022, the AFRC has expressed its concern regarding late auditor resignations and the negative impact they have on audit quality in two open letters dated 27 October 2022 and 11 January 2023. As a result of the open letters and other regulatory actions taken by the AFRC, we have brought public attention to the potential deterioration in the quality of financial reporting that could arise from these circumstances. Despite a recent decline in the number of late auditor resignations and some improvements in the information disclosed by listed companies, two issues remain:

- (i) insufficient planning and resources by incoming auditors; and
- (ii) unwillingness of listed companies to resolve critical audit issues leading to the auditor resignation.

The progress made following the AFRC's regulatory actions and its ongoing initiatives aimed at addressing these issues have been summarised in the Paper.

Ms Mary Leung, Head of Policy, Registration and Oversight, said, "Our concerns extend beyond the issues related to late auditor resignations. We also focus on whether auditors and audit committees fulfill their respective responsibilities in managing auditor changes. To help PIE auditors and audit committees navigate such situations, the AFRC publishes the Guidance Notes which articulate our expectations of PIE auditors and audit committees when changing auditors. They also provide concrete examples of how auditors and audit committees should conduct themselves in these circumstances."

The Guidance Notes comprise three major parts targeting different parties:

- i. guidance for outgoing auditors when resigning from audit engagements,
- ii. guidance for incoming auditors when accepting new engagements and
- iii. guidance for audit committees when an auditor resigns.

Ms Leung continued, “The AFRC urges auditors and audit committees to follow the recommendations outlined in the Guidance Notes. We will continue to closely monitor changes of auditors, and will not hesitate to impose appropriate and proportionate sanctions for audit irregularities in engagements resulting from late auditor resignations, up to and including the revocation of the PIE auditor registration.”

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](http://www.afrc.org.hk).

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