

Press Release

30 November 2023

AFRC publishes Inspection Insights and an explanatory video on the inspection of non-PIE practice units to drive continuous improvements in audit quality

To drive continuous improvements in audit quality, the Accounting and Financial Reporting Council (**AFRC**) today published the [Inspection Insights](#) (**The Insights**) and an [explanatory video](#) on the inspection of non-PIE practice units.

Inspection Insights

The Insights provides detailed and timely observations from our inspection work to date in 2023. Our Insights is valuable to auditors and should enable them to achieve high audit quality when they learn and improve their systems of quality management (**SoQM**) and key aspects of the audit.

As at 30 September 2023, the AFRC has inspected 20 PIE engagements, 22 non-PIE engagements, 11 systems of quality management and 12 anti-money laundering (**AML**) and counter-terrorist financing (**CTF**) compliance monitoring. The Insights reveals certain areas of improvement related to the implementation of the new Hong Kong Quality Management Standards despite that it became effective on 15 December 2022.

The Insights also provides our observations to drive continuous improvement in audit quality and the critical areas for improvement throughout the audit process:

- a) Insufficiency in risk identification and assessment in audit planning and why it is important to maintaining audit quality;
- b) Lack of effective review by engagement partners and engagement quality reviewers throughout the audit; and
- c) Shortfall of enhancement of integrity and quality of the audit documentation.

Explanatory Video

In light of the Further Reform of the regulatory regime of the accounting profession, we have been taking a progressive approach to inspecting non-PIE practice units, including licensed corporations registered under The Securities and Futures Commission. We have also dedicated our effort to monitoring compliance with AML/CTF, which is important to the public. This progressive approach attempts to balance the need for accounting firms to go through the transition and adapt to the new regulation and the need to protect the public interest. To enhance the efficiency of our non-PIE inspections and alleviate concerns of the practice units, the AFRC has

created an explanatory video that provides non-PIE practice units with an overview of our inspection approach and their preparatory work necessary for an upcoming inspection.

Topics covered in the video include:

- a) The objective of inspection;
- b) The inspection regime and scope;
- c) The principle for selection of Non-PIE practice units and its application;
- d) The inspection process; and
- e) How to prepare for an inspection

Ms Janey Lai, Acting CEO and Head of Inspection of the AFRC remarked, “We observed that firms have underestimated the importance of developing a robust SoQM. Firms’ leadership, including Chairpersons, Managing Partners and Quality Control System Responsible Persons should have been set the right tone at the top and ensure that it has been effectively communicated to the engagement teams. Firms should dedicate sufficient time and resources to its implementation. This will create a ripple effect on the overall audit quality and the reputation of the firms in the long term.

It is critical for the firms’ leadership to acknowledge the importance of a well-established SoQM in ensuring high audit quality. We believe that a culture dedicated to integrity and quality commitment and the deployment of audit technology are conducive to enhancing the quality of audit work and attracting and retaining talented professionals.”

Ms Lai stressed, “We urge auditors to benefit from our Insights by thoroughly reviewing it and taking our recommended actions to address their identified deficiencies and relevant issues. We will continue to take a proportionate approach to the inspections of non-PIE practice units while not compromising the public interest. We strongly encourage non-PIE practice units to watch our video and get prepared for our upcoming inspections. At the same time, we will also maintain our risk-based approach and initiate special inspections on PIE auditors with unsatisfactory inspection results to uphold audit quality, so as to effectively protect the public interest.”

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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