

Press Release

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AFRC issues an open letter to express its growing concern over late auditor resignations

The Accounting and Financial Reporting Council (**AFRC**) today issues an [open letter](#) to all public interest entity (**PIE**) auditors to express its growing concern over the surge in number of PIE auditors resigning just one month before or even after the end of the reporting period of a listed entity.

Audit quality may be compromised by late auditor resignations because the incoming auditor will have limited time to plan and conduct a proper audit in order to meet the listed entity's deadline to announce their audited results.

Ms Janey Lai, Head of Inspection, said, "There has been a surge in the number of late PIE auditor resignations from 71 in 2021 to 107 in 2022. In around 60% of these cases, the listed entity made a generic statement that the resignation was due to the outgoing auditor's inability to agree the audit fee with the listed entity, and around 30% were due to unresolved audit issues. This raised our concerns as to whether the market had been adequately informed of the precise circumstances leading to the resignations.

The majority of the late PIE auditor appointments for listed entities with significant operations in Mainland China or overseas were taken up by PIE auditors whose relevant experience and available resources appeared disproportionate to these audits. We have two concerns on the late auditor resignation. First, we question whether these incoming auditors possessed the necessary competence and adequate capabilities (including manpower, time and other resources) to perform quality audits within limited time frame. Second, we query whether there was appropriate communication between the incoming and outgoing auditors on the audit implications of the circumstances leading to the outgoing auditors' resignations."

Amidst the phenomena, the AFRC sets out its expectations of outgoing and incoming auditors in the open letter to remind auditors on the importance of high-quality financial reporting and audits and hopefully safeguards public interest on a preemptive manner.

Mr Marek Grabowski, CEO of the AFRC remarked, "We urge PIE auditors to fully address our concerns and public expectations on their duties. Auditors have a duty to report timely to the AFRC if they have any concerns in relation to the matters leading to their resignations. The AFRC will continue to monitor closely the late changes in auditor appointments and the audit quality of the relevant entities and will not hesitate to take follow-up actions when appropriate."

Dr Kelvin Wong, Chairman of the AFRC remarked, “PIE auditors are the gatekeepers to ensure quality financial reporting and thus enhance public trust in the Hong Kong capital market. By issuing open letter, we hope to remind the auditors and their listed clients of their respective roles and responsibilities, to share our expectations on them, and to pre-empt possible compromise or trade-off of audit quality. We urge PIE auditors to adopt a proactive attitude in addressing our grave concerns in relation to the late changes in auditor appointments and to maintain a close and effective dialogue with audit committees of listed entities in resolving any contentious audit matters. This will help ensure audit quality and 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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