

Press Release

11 January 2023

AFRC issues a follow-up open letter to reiterate expectations on auditor changes

The Accounting and Financial Reporting Council (**AFRC**) today issues [a follow-up open letter](#) (the **follow-up letter**) to public interest entity (**PIE**) auditors and audit committees of PIEs to express its concerns and reiterate its expectations on auditor changes.

The AFRC first published an [open letter](#) in relation to late PIE auditor resignations on 27 October 2022. Since then, there were 56 auditor resignations between 1 November and 31 December 2022, representing a 15% decrease from 66 for the same period in 2021. Announcements by PIEs show that the number of auditors attributing their resignations to disagreement over audit fees has decreased. Nonetheless, we remain concerned about certain market developments (such as the use of voluntary rotation under the guise of good corporate governance as a reason for changing auditors), and their implications on audit quality as well as on the wider issue of market discipline such as opinion shopping.

In the follow-up letter, the AFRC highlights the following four observations and concerns:

- (i) Auditors were requested to resign by listed entities as a result of issues identified in audits.
- (ii) “Corporate governance considerations” is misused as a reason for auditor resignation.
- (iii) Premature announcements regarding the appointment of an incoming auditor.
- (iv) Using “disagreement over audit fees” as a catch-all explanation for auditor resignations.

In view of the above issues, the follow-up letter sets out specific expectations for incoming auditors, outgoing auditors and audit committees, all of which have their important roles to play and are accountable for ensuring the quality of financial reporting and audits.

Ms Janey Lai, Head of Inspection, said, “Auditors have a pivotal role to safeguard the quality of the financial reporting through conducting quality audits. The incoming auditors should take all reasonable steps to identify relevant facts and circumstances and maintain professional scepticism before making an acceptance decision. On the

other hand, the outgoing auditors should provide sufficient information about the reasons for resignations to incoming auditors and audit committees.”

Ms Mary Leung, Head of Policy, Registration and Oversight said, “Audit committees have significant responsibilities in overseeing the financial reporting and audit process, as well as in the appointment of auditors — this latter role is even more important when there is a late auditor resignation. In such circumstances, members of audit committees must make sure their fiduciary obligations are discharged properly with due regard to all legal and regulatory requirements. This should be achieved through persistent efforts to resolve outstanding audit issues as well as open and honest discussions with both incoming and outgoing auditors. We also urge them to follow AFRC’s 2021 [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#), in particular on disclosure of circumstances leading to auditors’ resignations, and selection of incoming auditors.”

Ms Janey Lai remarked, “Since the issuance of our last open letter on late auditors’ resignations, we have noticed some initial signs of improvements in both the number and reasons for resignations. Notwithstanding this, there are emerging signs of other malpractice, which will adversely impact the audit quality and the quality of financial reporting. We urge PIE auditors and audit committees to take heed of our concerns and implement our recommendations. This will allow them to responsibly discharge their obligations, and fulfil their duties in relation to the maintenance of audit quality, which is a cornerstone of market confidence and the effective functioning of capital markets.”

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.

For media enquiries:

Celian Cheung

Associate Director, Corporate Communications

Tel: +852 2236 6025

Fax: +852 2810 6320

Email: celiancheung@afrc.org.hk

Chelsy Chan

Corporate Communications Officer

Tel: +852 2236 6066

Fax: +852 2810 6320

Email: chelsychan@afrc.org.hk