

## Press Release

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### **AFRC calls on auditors and audit committees to strengthen independence safeguards around procurement and purchases from audit clients**

The AFRC has today published an article titled [Safeguarding Auditor Independence: Concerns Surrounding Procurement and Purchases from Audit Clients](#). The article highlights the AFRC's concerns regarding potential threats to auditor independence that may arise from procurement and purchases involving audit clients. It calls on audit firms to be vigilant in managing their relationships with audit clients and to implement robust procedures for identifying and mitigating potential independence threats.

Auditor independence is the cornerstone for maintaining objectivity and integrity in audits. Any breaches to independence requirements can undermine an auditor's professionalism and jeopardise audit quality. Upholding auditor independence goes beyond just following procedures and compliance; it necessitates committed efforts from both audit firms and audit committees.

Ms. Janey Lai, CEO of the AFRC, said, "Auditors' procurement and purchases from audit clients are often regarded as low-risk business transactions. However, improper management of these activities may pose significant threats to auditor independence, potentially compromising audit quality. When audit firms' policies do not directly address identified independence threats, exercising professional judgement is crucial. Firms should adopt a conservative approach beyond basic independence requirements to maintain trust and enhance audit quality."

As an overarching principle, audit firms and their personnel must remain alert to any transactions with their audit clients and the potential impact on their independence. Audit firms should actively identify and mitigate independence threats from procurement and purchases from audit clients. In addition, the AFRC highlights four key independence principles for reminding audit firms and professional accountants to uphold their independence:

- (a) Maintain proper corporate governance to set the right tone at the top, promoting ethical values that support auditor independence;
- (b) Establish a comprehensive independence policy to guide the behaviour of audit firms and their personnel regarding procurement and purchases from audit clients;
- (c) Implement rigorous measures for on-going monitoring of independence threats; and

- (d) Perform thorough diligent investigations on potential breaches to promptly mitigate independence risks.

The AFRC also emphasises that audit committees should take a more proactive role in safeguarding their auditors' independence. This involves setting the right tone to protect independence and performing proactive oversight on auditors through open communication and scrutiny, to ensure that auditors do not receive any preferential treatment, rights or privileges, such as better pricing, improved product availability or enhanced accessibility.

The AFRC believes that by actively applying the guidance in the article, audit firms and audit committees can better fulfil their roles as trusted, objective, and impartial gatekeepers. This approach will protect the interests of investors, creditors, and the public, ultimately strengthening trust in Hong Kong's capital market.

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## About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council 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 and promotes the healthy development of the accounting profession.

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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