

Press Release

31 December 2024

Driving quality improvement – Setting the right tone at the top for performing an effective root cause analysis and remediation

The Accounting and Financial Reporting Council (**AFRC**) today has published a report, [“Inspection Insights – Root Cause Analysis and Remediation: A Call to Action for Quality Improvement” \(the Insights\)](#).

The Insights share our observations on how PIE auditors, subject to our 2023 inspections, had performed root cause analysis (**RCA**) of the identified deficiencies and responded by designing and implementing remedial actions. It is observed that firms with proactive leadership are more pronounced in fostering a culture of continuous quality improvement and thus have invested more time and resources in developing a quality remediation plan.

We require practice units subject to inspection to submit a plan with a specific implementation timeline for corrective actions, including periodic reporting about their implementation progress, to facilitate and monitor the correction of their identified deficiencies. An effective RCA and remediation process helps firms, including PIE and non-PIE auditors, identify the underlying causes of deficiencies and determine the appropriate remedial actions to address them effectively for continued quality improvement. To reinforce the importance of RCA and remediation, which extend beyond mere compliance and are essential for the firms' betterment, we urge firm leadership, i.e. Chairpersons and Managing Partners, to prioritise the following actions:

- (a) Set the right tone at the top, emphasising audit quality and continuous improvement to ensure audit quality is always upheld;
- (b) Adopt a proactive approach to address the identified deficiencies in their firms' systems of quality management with concrete plans of remedial action; and
- (c) Allocate sufficient and appropriate resources to the RCA and remediation process.

The Insights also share leading practices that we strongly encourage all firms to adopt for improving their RCA and remediation processes. Auditors should focus specifically on the following critical practices:

- (a) Provide effective training and guidance to personnel involved in the RCA and remediation process;
- (b) Perform independent oversight to ensure effective implementation of remedial actions at both the firm and engagement levels;
- (c) Ensure execution of quality audits through coaching and hot reviews conducted before issuing auditor's reports; and

- (d) Maintain transparent communication with relevant stakeholders about the identified deficiencies and remedial actions.

Ms Eva Lau, Head of Inspection, stated, “Firms can greatly benefit from the Insights for improving their audit quality. By setting the right tone at the top, leadership's commitment to RCA and the remediation process can translate into real improvement. Audit firms of all sizes can develop effective RCA and remediation processes when dedicated to learning and growth. It is important to remember that no effort, no results.”

Ms Janey Lai, CEO of the AFRC, highlighted, “Firms that uphold audit quality and protect their reputation are better positioned to attract and retain talent as younger generations seek alignment with their values and skill developments. Chairpersons and Managing Partners, as influential leaders, should unwaveringly focus on enhancing audit quality – audit quality must not be compromised under any circumstances. All firms should strengthen their remediation efforts to promote continuous quality improvement, which is fundamental for fostering trust with stakeholders and ensuring the sustainable development of the accounting profession.”

End

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.

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