



DRIVING BUSINESS SUCCESS

Issue 2 Volume 16 February 2020

PLUS:

PROFILE

Hugh Chow, Chief Executive
Officer at ASTRI

ACCOUNTANT PLUS

Ivan Chan, Practising Director at
Mazars Hong Kong

THOUGHT LEADERSHIP

New environmental, social
and governance reporting
requirements





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“At the Institute, we’ve been developing ways to help members in business and practice to adjust and thrive.”



Dear members,

New years bring new opportunities and challenges, but the spread of the COVID-19 coronavirus is one of the most challenging starts to a year I remember. Many of us have had to cancel or postpone family reunions, social activities and professional events, and adjust to working from home. While this is disappointing, we must all do what we can to overcome this unexpected challenge.

At the Institute, we’ve been developing ways to help members in business and practice to adjust and thrive.

To protect members’ health we’ve cancelled continuing professional development events until at least 8 March. The library is also closed and the counter service hours limited. We’ve also issued an alert for practising members on the impact of the coronavirus on audits, and are working on further alerts to address various auditing and financial reporting issues. For Qualification Programme (QP) students, the Institute will postpone some of the June 2020 examinations (the Final Examination and the new QP Associate level modules) and reschedule and condense the workshops. We will continue to take the appropriate measures to safeguard the health of our students, while taking into account the concerns of employers, and uphold the integrity of the examinations. For the latest information on the Institute’s activities, please visit the new COVID-19 – CPA Information Centre webpage.

This epidemic has come at a challenging time for Hong Kong. The economy is in recession for the first time in a decade, as a consequence of the many difficulties faced over the past year. This is causing problems for businesses. Speaking as an insolvency practitioner, the lack of recourse to corporate rescue procedures

for companies facing financial difficulties is a situation that the government should look at resolving. In my experience, many companies are forced into liquidation when they could likely have survived if the provisional supervision legal framework, which is being awaited for almost 25 years since 1996, was in place. This would be a long-term improvement to Hong Kong’s business environment and international standing.

But before tackling the long term, the government needs to respond in the short term. I welcome the budget delivered by Financial Secretary Paul Chan on 26 February, and hopefully this will help to get our economy back on track through the expansionary fiscal policy and additional relief measures of HK\$120 billion he proposed including the cash handout scheme and support for businesses particularly affected by the downturn, such as tourism, retail and other consumption related sectors. The Institute has long been advocating a holistic review of Hong Kong’s tax regime, and so to hear that the government plans to undertake one is good news.

Before the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited issued their joint statement on 4 February providing guidance on results announcements, the Institute had taken the lead and met the two bodies to discuss an extension to the upcoming 31 March reporting deadline for December 2019 year end listed companies affected by the outbreak. The joint statement issued provides a framework to handle the situation where the issuers are not able to publish the preliminary results in full compliance with the Listing Rules, but requires much further clarification and

guidance. The Institute has been diligently following up with the regulators and other stakeholders on this as well as ascertaining the latest status and collecting statistics of the industry. We are very hopeful that the two regulators will issue further guidance shortly.

Although Council’s away day was cancelled due to the coronavirus situation, work continues in preparing the Seventh Long Range Plan, and the aim is for it to be finalized in the first half of the year. The plan will enhance our member services and support, engagement with specific groups of members, improve our communications, and elevate the Institute’s image in society.

I strongly believe that the Institute must be more engaged with the media in order to publicize our two key messages, firstly that accountants are leaders of our economy, and secondly that a career in accounting is a career for the future. This month, I was interviewed by many local media outlets, discussing the effects of the coronavirus epidemic on businesses and accountants, setting out how the Institute is helping its members, releasing our “Together for a Better Hong Kong” 2020-21 tax policy and budget proposals (see page 4), as well as promoting the Institute in general.

It’s good to be able to talk with the media about how we help Hong Kong, and improve the opportunities available for our members and society. Also, to focus on the positive future rather than solely worrying about the difficulties we face today. Hong Kong is strong and resilient, and like with SARS, we will get through this difficult situation and come out stronger. Let’s stay healthy, maintain good hygiene and all work “Together for a Better Hong Kong.”

Johnson Kong
President



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The trust builder

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From idea to success

Hugh Chow, Chief Executive Officer of ASTRI, went from co-founding his own chip company at the age of 30, to now leading the city in driving technological change and innovation



DRIVING BUSINESS SUCCESS

About our name

A Plus stands for Accounting Plus. It represents a profession that is rich in career options, stays relevant amid rapid changes, and adds value to business. This magazine strives to present the global mindset and varied expertise of Institute members – Accountants Plus.



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© Hong Kong Institute of Certified Public Accountants
February 2020. Print run: 7,310 copies
The digital version is distributed to all 45,323 members,
19,244 students of the Institute and 2,358 business
stakeholders every month.



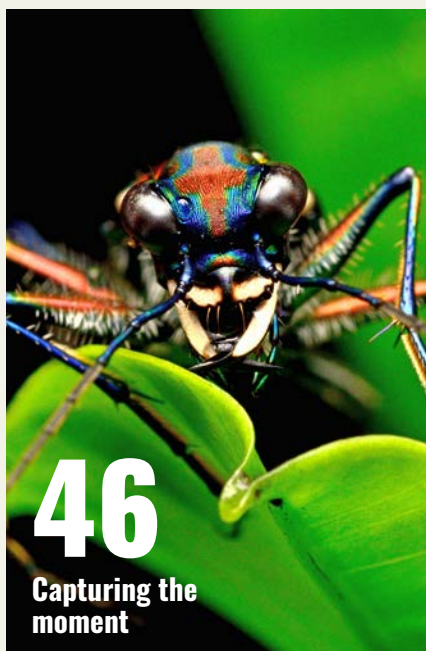
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Capturing the moment



Leisure Plus

NEWS

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Institute calls for more support for local businesses and citizens amid economic downturn

The Hong Kong Institute of CPAs announced on 10 February its tax policy and budget proposals for 2020-21, under the theme “Together for a Better Hong Kong.” The proposals encompass 13 different measures that aim to help support the city’s economy amid global and domestic pressures, and improve the lives of residents.

“Hong Kong’s economy is at a crossroad, facing various domestic challenges as well as a slowdown in global growth. The increasing pressure on public finances, coupled with intensifying competition for business from other jurisdictions in the region and globally, and the changing international tax landscape, all point to a need to take a harder look at the city’s long-term positioning and competitiveness. In order to maintain Hong Kong’s strength as a global financial hub, the government needs to conduct comprehensive review of business and tax policies to help secure Hong Kong’s future economic success,” said Institute President Johnson Kong.

“For business owners, the government should consider introducing a mechanism for tax loss carryback into our tax system, as a means to help relieve the cash flow pressure that businesses face during economic downturns,” said KK So, the Past Chairman of Institute’s Taxation Faculty Executive Committee (TFEC). Tax loss carryback is available in many developed countries, and taxpayers who are making a current-year tax loss may be able to get a refund of tax paid in the prior

year or years. The Institute asks the government to consider providing group tax loss relief to companies investing in start-ups.

The proposals emphasize providing additional support for the middle-class and low-income people not receiving any government assistance. “While they may not benefit greatly from the recent raising of the ceiling for the 2018-19 tax rebate to 100 percent from 75 percent, because the cap remains at HK\$20,000, providing an increased cap of HK\$30,000 under salaries tax, and for individuals taxed under personal assessment, as well as for profits tax, would help the middle class in the coming year. The government should also consider giving out a cash subsidy to permanent residents aged 18 and above, who are not taxpayers and do not own any property, so as to benefit the so-called ‘N-nothings,’” said Curtis Ng, Convenor of the Institute’s Budget Proposals Subcommittee.

The Institute reiterated the need for a holistic review of the Hong Kong tax system amid recent changes in the international tax landscape, as well as called for a better living environment for citizens that includes cleaner air. “One area that needs to be addressed is vehicular



(From left to right) William Chan, Johnson Kong and KK So

pollution. More needs to be done to cut pollution due to an aged vehicle fleet in Hong Kong”, said William Chan, TFEC Deputy Chair.

Members can find the tax policy and budget proposals for 2020-21 at the Institute’s website.

Institute launches new COVID-19 – CPA Information Centre webpage

The Institute acknowledges that the current exceptional circumstances are posing a significant challenge to the profession and wider society. To help members, it has set up a webpage to share information with them on the Institute’s services arrangements and support, relevant messages, and links to regulatory and government measures, including health advice and other relevant resources.

Resolutions by Agreement

Chan Wai Nam, William, CPA (practising), Jimmy Siu, CPA (practising) and Elite Partners CPA Limited

Complaint: Failure or neglect by Chan and Elite to observe, maintain or otherwise apply Hong Kong Standard

on Auditing (HKSA) 230 *Audit Documentation*, HKSA 500 *Audit Evidence* and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Failure or neglect by Siu to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Elite audited the consolidated financial statements of China Finance Investment Holdings Limited (formerly

known as Cypress Jade Agricultural Holdings Limited) (company), a Hong Kong-listed company and its subsidiaries for the year ended 31 December 2015 and expressed an unmodified auditor's opinion. Chan was the engagement director and Siu was the engagement quality control reviewer.

Under an agreement made with a third party during the year, the company acquired an option to require the third party to subscribe for the company's convertible bonds up to a certain amount. The company recognized the option as a financial asset in the financial statements at a year-end fair value determined by an external valuer, with a corresponding gain on changes in fair value of the financial asset recognized in the income statement. The company did not eventually exercise the option.

In the audit, the respondents failed to obtain sufficient evidence of the assumptions adopted by the valuer in valuing the option. The respondents also failed to prepare adequate documentation of their purported discussions with management concerning the option and other audit procedures purportedly carried out on it. In addition, the respondents failed to identify the inadequate financial statement disclosures of the fair value measurement and risks associated with the option.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:

1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. They be reprimanded; and
3. Chan, Siu and Elite pay an administrative penalty of HK\$35,000, HK\$20,000 and HK\$50,000, respectively, and they jointly pay costs of the Institute and the Financial Reporting Council totalling HK\$173,241.20.

Ng Ka Hong, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Ng was the engagement quality control reviewer in the audit of the consolidated financial statements of Superb Summit International Group Limited, a Hong Kong-listed company, and its subsidiaries (collectively group) for the year ended 31 December 2014 undertaken by a corporate practice that has now been deregistered.

The audit engagement team failed to perform adequate procedures in respect of the group's valuation of biological assets, prepaid land lease payments and impairment assessment of intangible assets. Those areas were material and involved significant judgements. Ng failed to perform an adequate engagement quality control review on those areas to ensure that the audit evidence obtained by the engagement team

was sufficient and appropriate to support the audit conclusions.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:

1. Ng acknowledges the facts of the case and his non-compliance with professional standards;
2. Ng be reprimanded; and
3. Ng pays an administrative penalty of HK\$20,000 and costs of the Institute and the Financial Reporting Council totalling HK\$80,530.

Disciplinary finding

Chik Wing Kan, Peter, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants; and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the code and being guilty of professional misconduct.

Chik is the sole shareholder of PCW CPA Limited (practice) and is responsible for the practice's quality control system and the quality of its audit engagements. A first practice review conducted on the practice identified significant deficiencies in its system of quality control and in two of its audit engagements. In addition, Chik was found to have falsely or recklessly provided untrue answers in the self-assessment questionnaire and "Audit Health Screening Checklist" submitted to the Institute in relation to the practice review.

Decisions and reasons: The Disciplinary Committee reprimanded Chik and ordered cancellation of his practising certificate with no issuance of a practising certificate to him for 15 months with effect from 3 February 2020. In addition, Chik was ordered to pay a penalty of HK\$50,000 and costs of disciplinary proceedings of HK\$41,802. When making its decision, the committee took into consideration the particulars of the breaches committed in this case and Chik's conduct. The committee noted that Chik's conduct shows serious disregard for regulatory requirements and raises doubt on his professional competence and integrity, and would have a detrimental effect on the confidence in the profession.

Details of the Resolutions by Agreement and disciplinary findings are available at the Institute's website.

IIRC BEGINS REVISION OF <IR> FRAMEWORK

The International Integrated Reporting Council (IIRC) announced plans to revise its current set of reporting principles, the Integrated Reporting (<IR>) Framework. The revision, which the IIRC hopes to launch before the end of this year, aims to emphasize how organizations can use the <IR> Framework more effectively, as they increasingly respond and adapt to megatrends, such as the United Nations' 17 Sustainable Development Goals, climate change, inclusive capitalism and corporate governance. The IIRC has called for market feedback on three specific themes to inform the direction of the revision of its <IR> Framework by 20 March. It plans to release the consultation draft in May. This is the first major revision since the IIRC published the <IR> Framework in December 2013.

HKEX DEMANDS MORE DISCLOSURE FROM IPO APPLICANTS

The Hong Kong Exchanges and Clearing (HKEX) is demanding initial public offering (IPO) candidates to clarify the impact the coronavirus outbreak has had on their business and operations. Applicants must fully disclose whether they have experienced value chain disruptions and the extent to which they have been able to resume normal operations since the outbreak in January. The decision, announced on 25 February, will cause difficulties for companies looking to launch IPOs but is necessary "to protect investor interests," said Wilson Chow, Global Technology, Media and Telecommunications Industry Leader at PwC. "Therefore, they are paying attention to whether the virus outbreak will dampen the prospects of IPO candidates," he said. Despite the measures, Hong Kong and Mainland China expect more companies, especially technology companies to list in the second half of the year, according to financial advisors.

U.K. WATCHDOG THREATENS FIRMS WITH REFORMS

The Financial Reporting Council (FRC) in the United Kingdom announced plans on 27 February to break up the Big Four accounting firms in letters sent to their leaders. The letters indicated guidelines for the Big Four to separate their audit and consulting operations in the U.K. as part of the FRC's efforts to improve audit quality. The FRC is calling for financially independent audit operations with separate boards led by independent chairs. "We are moving ahead under our own steam to push firms to make suitable changes to ensure sustainability and transparency in audit," said a spokesperson for the regulator.

"We are moving ahead under our own steam to push firms to make suitable changes to ensure sustainability and transparency in audit."

CHINA INJECTS

1.2 TRILLION YUAN

TO STABILIZE MARKETS AMID CORONAVIRUS

Mainland China's central bank pumped 1.2 trillion yuan into its financial markets on 2 February, as part of an effort by regulators to mitigate market volatility amid the coronavirus outbreak in the country. The People's Bank of China said the decision was to "ensure sufficient liquidity supply." It is the largest single-day reverse repo operation ever conducted and came a day after markets resumed following the Lunar New Year holiday. The injection is one of 30 measures announced to shield the economy against further disruption from the outbreak of COVID-19, another one of which includes subsidies on interest payments for some companies.

MYANMAR ADDED TO MONEY-LAUNDERING WATCHLIST

The Financial Action Task Force (FATF) has added Myanmar onto its money-laundering watchlist or "gray list," urging the country to boost its efforts to seize crime proceeds. In a statement issued on 21 February, the FATF noted that though Myanmar had made progress by introducing legislative measures to curb money-laundering and new regulations for its cash-based remittance system, it also found that the country still "faces extremely high levels of proceeds-generating crimes" and was "exposed to a large number of very significant money laundering threats."

ACCOUNTANTS IN THE U.K. URGED TO HELP FIGHT CLIMATE CHANGE

The Institute of Chartered Accountants in England and Wales (ICAEW) called on members of the Accounting for Sustainability Project (A4S) to integrate climate risk into audits to drive companies to set more sustainable business strategies. The ICAEW wants A4S's global alliance of accountants, which includes the Institute, to use their skills to help prepare businesses for the risks posed by climate change. "Chartered accountants bring practical skills like measurement and management to the table, and can work with business to build green policies into their working practices," said Michael Izza, Chief Executive of the ICAEW. The call comes a week after the Financial Reporting Council launched a review into whether companies and their auditors are adequately reflecting the financial risks of climate change in their annual financial accounts.



SEC TO INVESTIGATE MATTEL'S ACCOUNTING

Toy company Mattel has received a subpoena from the Securities and Exchange Commission in the United States seeking documents related to an anonymous whistleblower letter concerning allegations over accounting errors, the company announced in a regulatory filing on 25 February. The company's audit committee launched an independent investigation into the allegations upon receiving the letter in August 2019. The company announced in October that "the investigation determined that income tax expense was understated by US\$109 million in the third quarter of 2017 and overstated by US\$109 million in the fourth quarter of 2017." The probe also uncovered material weaknesses in its internal controls over financial reporting. Mattel said it's now responding to that subpoena.



36%
OF ORGANIZATIONS
HAVE CYBERSECURITY
MEASURES

Only 36 percent of organizations say cybersecurity is involved at the initial planning stage of new digital initiatives, according to a new survey by EY. The *EY Global Information Security Survey*, released this year, also reported that one in five respondents' companies spends less than 5 percent of their cybersecurity budget on supporting new initiatives. The study also found that a lack of communication with cybersecurity staff was common within companies. The results come amid increasing cyber and privacy threats, with 59 percent of the organizations surveyed found to have faced a material or significant incident in the past year.

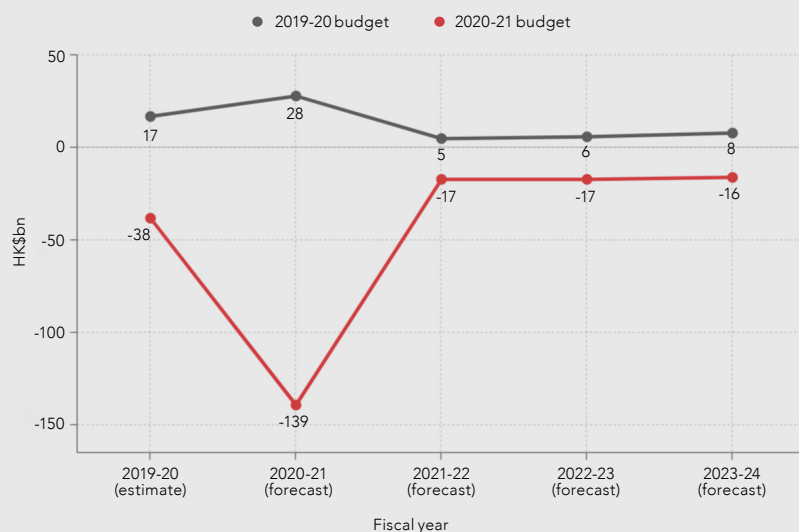
CAYMAN ISLANDS ADDED TO EU BLACKLIST

The European Union (EU) added the Cayman Islands to its tax havens blacklist on 12 February for failing to crack down on tax abuse. Blacklisted countries face difficulties accessing funding programmes from the EU, while European companies doing business in those jurisdictions have to take additional compliance measures. The EU said the Cayman Islands, which has no income tax, capital gains tax or corporation tax, does not have the appropriate measures in place to prevent tax abuse and allows companies to register there despite having minimal presence in the territory.



FACEBOOK SUED US\$9 BILLION FOR TAX EVASION

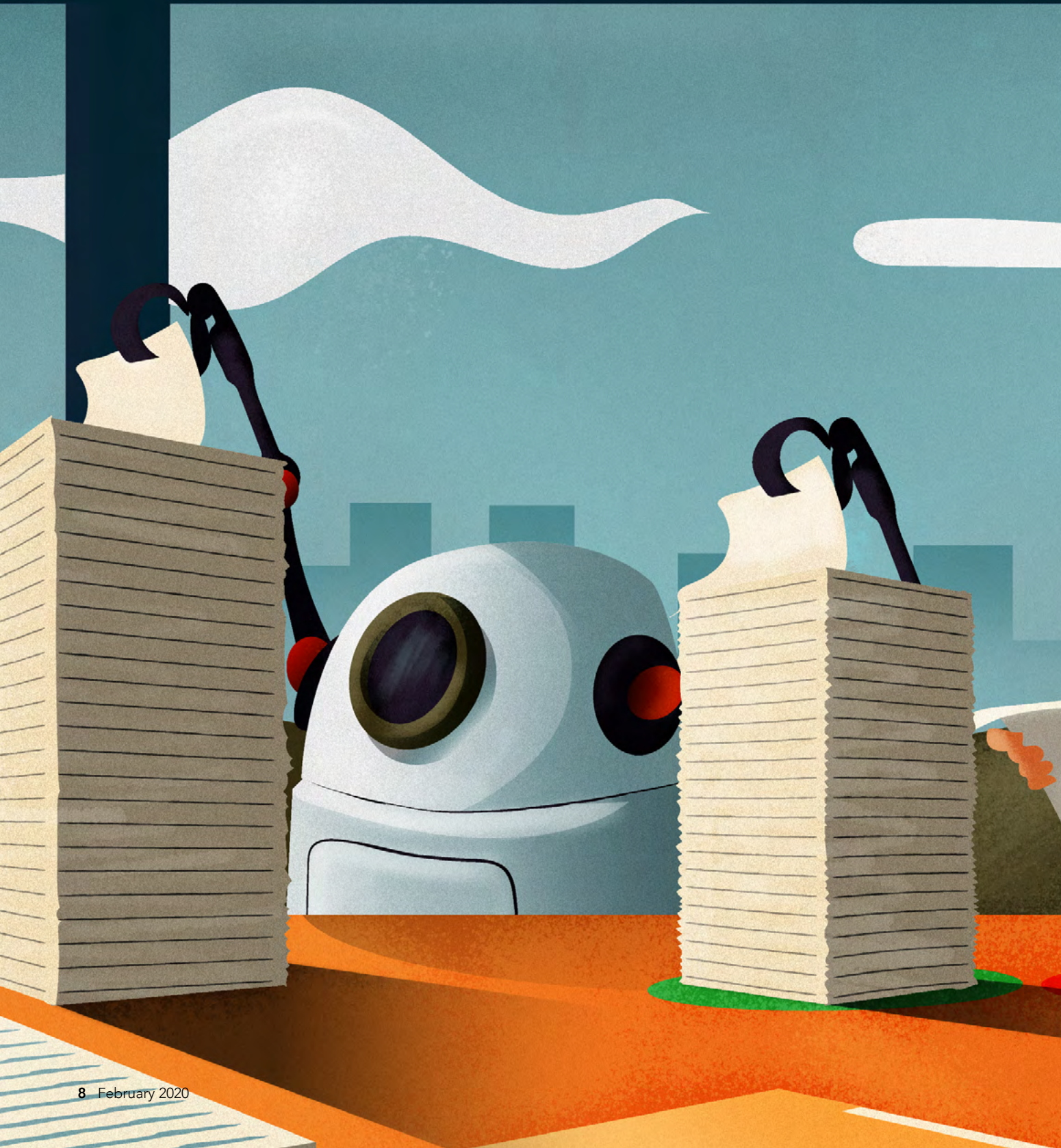
Facebook went to trial on 25 February on charges of owing more US\$9 billion in taxes linked to its decision to shift profits to Ireland to avoid paying higher taxes in the United States. The Internal Revenue Service (IRS) argues that Facebook understated the value of the intellectual property it sold to its Irish subsidiary in 2010 during its overseas expansion. The move is common among multinational companies in the U.S. due to Ireland's lower tax rates, one which the IRS claims reduced Facebook's U.S. tax bill. Under the arrangement, the Irish subsidiary paid its U.S. parent company more than US\$14 billion in royalties between 2010-2016 in exchange for access to Facebook's trademark, users and technology. The tech giant has defended its decision to sell intellectual property to its subsidiary, and attributes the low valuation to its international expansion, and development of a few profitable advertising products.



CONSOLIDATED HONG KONG GOVERNMENT BALANCE (HK\$BN) 2019-20 BUDGET VS. 2020-21 BUDGET

The Financial Secretary's 2020-21 budget, on 26 February, included medium-term budget forecasts showing Hong Kong would enter a lasting structural deficit due to increased recurrent expenditure. This was a significant downgrade on the 2019-20 budget, with public spending as a percentage of gross domestic product up by 2 percentage points each year from 2021-22 onwards.

SPECIAL REPORT: AN ASSURING



FUTURE



Audit has evolved. From a technological, regulatory and business standpoint, the age-old profession has seen remarkable developments, especially over the last five years. But one thing remains – the vital role CPAs play in the process. [Jeremy Chan](#) finds out how the role of auditors has expanded beyond the audit engagement, and how audit is more than just an entry to the profession, but a specialism that offers a career in building trust and building business

Illustrations by Gianfranco Bonadies

For most accountants, audit is something they are well aware of. They may have started their career as a junior auditor, be a sole practitioner, or worked with auditors in a corporate finance department. They will know that the fundamental principles behind audits have not changed – but they might not know that how auditors conduct their audits, and what is expected of them, have.

Adam Wong, Senior Audit Manager at EY, and his team used to face the dizzying task of analysing hundreds of contracts during an audit engagement, which took weeks to complete. But now, the job takes days. Using artificial intelligence (AI) software, Wong and his team analysed over 200 rental lease contracts during a recent engagement. “A single contract could be 20 or even a hundred pages, and it could take hours to go through each one – so a case like this could require reading through more than 20,000 pages,” says Wong, a Hong Kong Institute of CPAs member. By scanning and then uploading all the rental agreements, the application uses a combination of optical character recognition (OCR) and AI to scan through and locate key information such as lease terms in each contract and then compiles the data into a spreadsheet for the team to then verify.

Tools such as AI will continue to impact the way audits are done in the future. A 2018 study by the World Economic Forum predicts that 30 percent of all corporate audits will use AI in one way or another by 2025. Data analytics will also play a bigger role in audits. Already, almost a third of all audits employ the use of data analytics software, with 85 percent of the auditors surveyed deeming it crucial to audit coverage, according to a 2018 report by PwC.

Technological advancements are a driving force behind the evolution of audit, but other factors are also reshaping the role and work of auditors. New auditing standards reflect a greater expectation for transparency into the actions

undertaken by auditors, while professional standards have also strengthened the required ethical foundations in auditors.

Meanwhile, organizations increasingly acknowledge that business success depends on transparency into the internal processes of their operations. With that, there is greater demand for auditors to be business partners, collaborating with management to achieve audit objectives, and having a good understanding of the business and industry issues. To continue building public confidence in global markets, auditors must stay ahead of rapid changes in business models and regulations, and equip themselves with a broader range of skills. Audit is now more than just a once-yearly review.

Every company in Hong Kong needs an audit. This creates work for auditors of all sizes. The purpose of an audit is to form a view on whether the information presented in an organization’s financial report, taken as a whole, accurately reflects the financial position of the organization at a given date. Auditors meet with management to discuss the scope of the audit engagement and prepare an audit plan to determine the extent of audit procedures they will perform. They also review the company’s internal controls and financial information. Throughout the process, the auditors maintain their independence. Finally, they prepare an audit report for the organization’s owners, or for larger companies, their shareholders, setting out their opinion.

This special report looks at the various factors shaping the audit specialism. This includes the technologies and tools assisting auditors; the need to stay ahead of developing standards, added focus on audit reports and more stringent regulation; the new skills auditors need as the process continues to evolve; and why, even with all these developments, professional evaluation and judgement will remain pivotal in the future of audit.

TECHNOLOGICALLY IMPROVED EFFICIENCY

The use of more specialist tools is improving the efficiency and effectiveness of audits. “We are currently moving from traditional to more modern ways of performing audits, from the manual vouching of invoices to the use of data analytics and AI,” Wong says. But he adds that technology only assists with repetitive tasks and that auditors still need to rely on their analytical skills. “Right now, it’s still a combination of traditional and modern approaches. Technology helps us to see the bigger picture behind a company’s transactions and also highlight anomalies. But

it’s our job to identify whether the audit evidence is appropriate for their business.”

Paul Lau, Partner, Head of Capital Markets at KPMG China and Chairman of the Institute’s Auditing and Assurance Standards Committee, agrees. “The audit profession is a very old one, but it is one that has evolved the most over the past decade. We’re adapting to the changes in the business model of our clients,” says Lau, who has been an auditor for over 30 years.

Lau has employed the use of data analytics to help with audit sampling, which involves

examining a representative selection of items in a dataset, to gain reasonable assurance regarding the entire dataset. Auditors perform sampling when data population sizes are large, such as the items within an account balance or class of transactions, as examining the entire population would be inefficient.

“We might pick and focus on a sample of 60 out of a million transactions, and analyse the nature and frequency of this population,” says Lau. “But data analytics opens up a new world for us. We can now look at entire populations of data. If

“The audit profession is a very old one, but it is one that has evolved the most over the past decade.”

you have the data of all our client's transactions – this could be millions – you can then perform an analysis and then quickly define the outliers. Auditors could then zone in and figure out what's happening. This saves a lot of time."

Lau adds that auditors have also begun using AI to generate simple summary reports. One memorable banking audit saw his team using AI to scan through credit reports. "We have an AI-based tool which scans through thousands of credit reports in a matter of minutes to search for keywords, for example 'default' or 'past due' and then automatically generate a report. In the past, this was all done manually and would have taken almost a month."

Dilys Cheng, China South Operations Leader and China South Transformation Leader at PwC, employs the use of OCR and AI during audit engagements. "Twenty years ago, many tasks had to be done manually, but nowadays, we rely on automated controls," Cheng says. She adds how her firm developed a tool in 2019 that uses OCR technology to analyse bank confirmations. "Some banks give us electronic confirmations," Cheng says. "One time, we had to process over 250 electronic bank confirmations. With the push of a button, all the information from those confirmations were summarized into a single



spreadsheet."

Matthew Li, Partner at NOVA CPA, says his firm has also been using OCR technology for the past two years. "As a small- and medium-sized practice (SMP), we are still doing audit work quite manually, but we are dealing with a lot more digital data than before," Li says. "We use OCR with repetitive, routine processes, especially if we are dealing with a large volume of data that isn't too complex." He adds, however, that OCR technology hasn't matured enough to keep up with physical documents written in Chinese or handwritten in English.

Li says his firm also employs the use of cloud accounting to deal with bank feeds, which are automatically created lists of the spent and received transactions in a bank account. "Cloud accounting is extremely important, especially for SMPs right now," he says. "When our team has to deal with bank feeds during audits, all the banking data is transmitted directly to the cloud accounting systems. The software also uses AI to determine whether certain banking transactions are reconciled with our transactions," he says. "This also eliminates the need to print individual statements."

STAYING AHEAD

Even with the various new technologies available, auditors still face challenges such as dealing with tighter regulations, increasingly complex businesses and client and societal expectations. According to Lau at KPMG, it is an auditor's role to stay ahead of developments in business, regulation and corporate governance. "We're currently in an environment where there is more regulatory scrutiny and higher

expectation of our audits from the regulators," he says. "The consequences that come with having a bad inspection could be quite large in terms of reputational and monetary risks. This requires us to beef up our work."

Auditors have to have a good understanding of their client's business environment. "If you don't know your client's business or environment, you simply cannot

do a good job assessing risk," Lau says. "It's our job to provide client service of the highest quality. Knowledge of the business and client allows auditors to sit down with the chief executive officer or chief financial officer and have a meaningful dialogue."

As Cheng at PwC notes, it is an auditor's responsibility to keep clients informed of changes to regulations. "Changes take

“Clients should seek advice from auditors on how to improve in the coming year.”

Client cooperation

Preparing for the audit is the best way to ensure it goes smoothly and efficiently for both the client and audit engagement team. Companies should aim to do their part long before the auditors arrive at the office.

Months before the audit date, businesses could set a pre-planning meeting with the auditors to discuss client deliverables, timeline and expectations. Some companies schedule these meetings as far back as six months, while many will have met their auditors by three months before the onsite audit.

To avoid any issues during the audit, companies should set aside adequate time to fully prepare accounts. “Clients must prepare all required financial information and supporting documents for an auditor’s inspection to ensure a smooth audit,” says Adam Wong, Senior Audit Manager at EY.

Companies should aim to have all accounts reconciled, including cash, accounts receivable, inventory, accounts payable, and accrued expenses. Ideally, this should be done quarterly or even monthly to avoid any reconciliation issues during the audit. Matthew Li, Partner at NOVA CPA, also advises companies to provide documentation detailing their internal control procedures. “Include details of your sales cycle, inventory management cycle and human resources procedures. This information can help auditors to better understand the flow of a company’s operations and controlling procedures.”

While these steps do involve disclosure of a large amount of sensitive information, Dilys Cheng, China South Operations Leader and China South Transformation Leader at PwC, says clients need to put trust in their auditors. “Trust is essential,” she says. “Clients need to trust us and provide the necessary information for us to carry out the audit. They also need to trust the technology that we will use.” If the client has an electronic version of their entire ledger, that must also be made available to the auditor, adds Wong. “Since our audit approach uses more data analytics nowadays, clients are advised to arrange their dataset in advance.”

Communication should not be limited to the financial reporting team, notes Rossana Ley, Technical Partner at Deloitte, “but should take place with the top management and different business units. Timely and good communication on key activities, changes in business can help auditors to identify issues earlier and to plan the appropriate audit plans and work much earlier.”

To make the most of the audit towards the end of the engagement, clients are encouraged to ask more questions. “Clients should seek advice from auditors on how to improve in the coming year,” advises Li. “We may have a better understanding of your business situation and weaknesses, and problems related to the books and internal control systems. Our advice will help to improve efficiency in the long run.”

place in business and regulations all the time and industry trends aren’t always easy to understand. Clients view us as interpreters or middlemen to advise or even coach them on the best approach.”

Rossana Ley, Technical Partner at Deloitte and an Institute member, agrees. “This is a key role of every auditor. It’s not just about keeping in compliance with all these rules as well, but also informing clients of what is required from these standards, and how this can benefit their business development,” she says.

Increased transparency

With added complexities in audits, as well as in the companies being audited, regulators expect more transparency. For example, to communicate audit findings, auditors are now expected to produce more detailed and transparent audit reports. In 2016, a number of auditing standards were revised, affecting financial statements with year ends December 2016 onwards. This effectively changed the way auditors produced audit reports for listed entities and communicated key audit matters (KAMs), as investors and users of financial statements requested for a more informative auditor’s report and for auditors to provide more relevant information to users.

Since the revisions, audit reports are disclosing more KAMs. In 2018, two years after the revisions, the Institute reviewed 479 auditor’s reports from companies included in the Hang Seng Composite Index (HSCI) and the Growth Enterprise Market (GEM). It found that 96 percent of the HSCI companies and 94 percent of GEM companies’ auditor reports disclosed one to four KAMs, with the average being 2.4 for HSCI companies and 1.8 for GEM companies. Companies with the highest number of KAMs reported 8 KAMs for HSCI companies and 6 KAMs for GEM companies.

The study found improvements in reporting format, but noted that the language used in the auditor’s reports did not provide sufficient insight into the reported KAMs and the nature of work performed.

“This was something completely new for auditors at all firms,” says Lau at KPMG. “I grew up with auditing standards stating that the audit report should not deviate in order to provide an unmodified opinion – this was very important. If you start writing a report without these guidelines, people might get confused and question whether it’s a qualified audit report. So this was a big change.” He adds how it was initially a challenge for him and his team to adjust to the new guidelines. “We now need to provide our readers with more in terms of how we consider and address KAMs through the audit procedure. We’re now in the fourth year of adoption and we’re much more familiar with the level of details to include.”

Cheng adds the revisions do not increase the workload but promote greater transparency. “We want the public to know how we looked at the audit risks and the work we have done to address them,” she says. “We also have more open discussions

with our clients to state how we are going to look at the audit and disclose it to the public. This is important.”

Ley at Deloitte adds: “We also report to shareholders how we executed the audit, the critical areas for each particular client, and the procedures used in addressing the KAMs. We also make disclosures including going concern issues and management representation.”

Wong at EY says he familiarized himself with the new requirements by studying resources provided by the Institute and attending training provided by his firm. He adds the revisions changed the way auditors planned reports, and also led to more communication. “We became more proactive in discussing audit matters within the firm. The process of determining KAMs involves not only the engagement team but also professionals from our technical and risk management teams. The revised auditing standards require auditors to provide key audit insights and discuss how their audit opinions are justified. As a result, our audit reports are much more transparent now,” he says.

Independent auditors

Auditors are also expected to maintain a strict code of ethics in working with clients and conducting audits. The Institute’s *Code of Ethics for Professional Accountants* was revised in 2018, based on the *International Code of Ethics for Professional Accountants* (including *International Independence Standards*) issued by the International Ethics Standards Board for Accountants that same year. The revised *Code of Ethics* brings together key ethics advances over the past four years and includes Non-Compliance with Laws and Regulations and Long Association provisions. Auditors note that the biggest impact is the revision

requiring stronger independence regarding long associations of personnel with audit clients.

Firms that are auditors of listed companies for seven years must now allow a cooling-off period of five years, instead of the previous two years, for individual auditors. “Auditors who have a long and close relationship with clients

would create familiarity threats and increase the possibility of having audit deficiencies,” Wong notes. “So it’s important for auditors to maintain independence and exercise professional scepticism not only during the audit but also in day-to-day interactions with clients.”

For SMPs like Moore, the revisions needed time adjusting to.



“During the five-year cooling-off period, we aren’t allowed any engagement or contact with that particular client in order to maintain independence, so the client may choose to leave the firm,” explains Helen Tang, Managing Director at Moore and an Institute member. “It’s slightly challenging now. The longer cooling-off period is an issue for smaller firms if they do not have enough partners for the rotation.”

To ensure auditor independence, Wong adds that his firm has been maintaining awareness of the

new measures through regular training and questionnaires to test auditors’ knowledge. “We also urge team members to meet with their engagement executives prior to the start of each engagement to discuss how they can reduce familiarity threats,” he says. “We also rotate audit team members as part of our programme so each team member looks at our client’s audit issues with a fresh and unbiased mindset.”

Lau welcomes the changes and adds how it will further strengthen the fundamental notion of ethics

in every auditor. “Ethics is the foundation in which we auditors make judgement and perform our duties,” he says. “The revised *Code of Ethics* provides clearer and more specific guidance to auditors on how to apply those fundamental principles in practice. It was also make it easier for auditors to not rationalize questionable behaviour.”

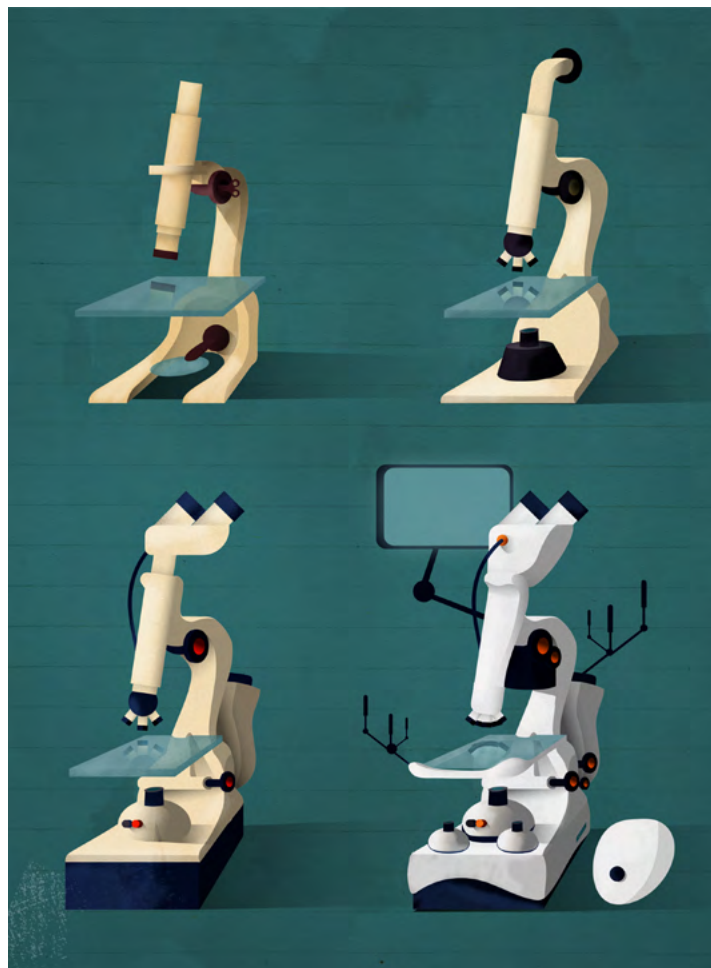
Less complex audits

Much of the focus on audits has been on those of listed entities, but changes are also being considered for the audits of less complex entities (LCEs), e.g. those with few owners, simple transactions or few products. With existing requirements in the International Standards on Auditing (ISAs) developed from the public interest perspective, local SMPs may be required to perform procedures and documentation which may be unnecessary in the audits of LCEs.

Following a discussion paper issued in April 2019, the International Auditing and Assurance Standards Board (IAASB) issued a feedback statement in December 2019 which included views and comments submitted by the Institute’s Auditing and Assurance Standards Committee in August 2019. It found that respondents welcome a combination of the three approaches – revising the ISAs, developing a separate standard, and guidance. Respondents also noted the need for a timely and global solution to the issue.

A survey conducted by the International Federation of Accountants (IFAC) at the same time the IAASB discussion paper was out for consultation found the

“The revised *Code of Ethics* provides clearer and more specific guidance to auditors on how to apply those fundamental principles in practice.”



“I have to make sure our audit staff working on the frontline are well trained.”

A day in the life

The tasks of an auditor are diverse. A typical day can revolve around team and client meetings, in-depth research on a company's financial history, making sure audit working papers are accurate, attending training, and of course, work on the actual audit itself.

Adam Wong, Senior Audit Manager at EY, says his typical day comprises of duties ranging from supervising engagement teams, to formulating audit plans to be communicated with clients. He also reviews audit working papers to ensure they are in compliance with the latest accounting and auditing standards. During audit engagements, Wong says he spends time evaluating how the latest accounting standards will impact his clients financially and enjoys suggesting ways to improve his client's internal controls.

Auditors work in teams on engagements throughout the year and gain different experiences through each one, which requires them to be team players as well as effective communicators. To achieve this, Matthew Li, Partner at NOVA CPA, ensures frequent communications with his team to track progress and address any problems at the onset. “This involves meetings with our management team to discuss issues concerning customer services, sales, or human resources management, for example,” he says. His day also consists of meeting new and existing clients to discuss industry updates, which he says, is an effective way of helping both parties updated on all developments. “I also meet with our relationship manager to keep track of their progress and understand their problems in meeting with clients.”

As Managing Director at Moore, Helen Tang's role involves less audit field work now, so she's responsible with looking after her firm's accounting, company secretarial, advisory and tax departments. This means starting most days with internal meetings to discuss updates, followed by conference calls with the global network, or treasury management. Her day might also include external meetings with clients or service providers, and staff training, which Tang says is crucial to development of a firm and maintaining staff integrity. “I have to make sure our audit staff working on the frontline are well trained and know what they are doing and facing, especially when it comes to dealing with regulators.”

three most significant issues that currently make ISAs challenging to apply include: (i) requirements resulting in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality; (ii) extensive and onerous documentation requirements; and (iii) a lack of separate implementation of support or guidance in respect of the application of ISAs to the audit of LCEs.

Lau at KPMG explains how new standards would eliminate some unnecessary work for auditors. “When we perform risk assessments, we are required to document it – but for many of these LCEs, it really isn't that difficult to assess risk. So auditors face a burden when it comes to documenting and writing up why a particular LCE isn't risky.” As LCEs are generally smaller in scale, Wong at EY adds how separate standards would save time. “In general, an LCE has fewer members of management, with each member in charge of a wider range of duties and that they also perform less complex transactions, have fewer products within their business line and fewer internal controls,” he says. “Separate auditing standards for LCEs would reduce unnecessary documentation and allow auditors to increase audit efficiency.”

As Cheng at PwC notes, audits for larger companies include additional responsibilities. “During an audit of a listed company, we have to be responsible for the major as well as minor shareholders, so the level of scrutiny is very different,” she says. “For privately owned companies, the key person is the owner. That owner may want auditors to verify the accuracy of books and records to ensure they make sense, so the risk level isn't the same.”

Tang at Moore believes separate auditing standards for LCEs would also cut down on costs. “When we first adopted these international auditing standards back in 2005, we were honestly quite surprised they would apply to companies of any size – with no shortcuts or workarounds,” she says. “A practice like ours is mid-sized so we have a mixture of big, medium and small clients and have to look after them across the board. With smaller clients, we still need to go through the same audit procedures we would for a big client. It's even embedded in our audit programme and software. It isn't cost-effective to go through the procedures that do not apply as much to an owner-managed company. This is a challenge we are facing.”

She adds that the benefits will also extend to clients. “This would cut down auditor fees for LCEs. Since every company has to be audited, many companies consider auditing fees to be a burden. We hope new standards will lessen the burden for smaller clients and for auditors – who will also have less documentations to deal with,” Tang says.

Ley at Deloitte welcomes revisions to the standards or separate standards altogether. “The current standards generate large compliance costs for SMPs,” she says. “Separate standards would directly address this issue and is likely to not affect the quality of auditors' work.”

EXTENDING ASSURANCES

Society is increasingly concerned with how businesses operate. This has led to demands for more insights into operations through detailed environmental, social and governance reports. For auditors, this has increased the scope of assurance services they are asked to provide to non-financial data. Integrated reporting (<IR>) is one of the widest-used of these extended external reporting (EER) frameworks.

Developed by the International Integrated Reporting Council (IIRC), The <IR> Framework, aims to transform existing modes of corporate reporting into more holistic forms by addressing current limitations and developing long-term business strategies. The purpose of an integrated report is to explain to investors and society

how an organization creates value over time. It does so through a combination of quantitative and qualitative information in the form of six capitals – financial; manufactured; intellectual; human; social and relationship; and natural. The framework, released in December 2013, is being updated this year.

According to Ley, in staying ahead of this shift, auditors need to develop a firm understanding of <IR> in order to provide the right assurance. “Auditors need to know how to carefully analyse information on integrated reports and determine whether readers of the report require any assurance,” she says. “As auditors, we are in the assurance business, so we need to determine whether the information is accurate and consistent and not

just a report the company has put out to improve its image.”

Wong at EY explains how auditors can make the most out of integrated reports in audits. “Integrated reporting paints a broader picture of a company’s governance, strategy and how changes in resources and environment is affecting the company,” he says, adding how this information is not easily measured using traditional financial reporting. “This provides auditors with additional corporate information, which can be used as audit evidence to support an audit opinion.”

To support auditors, the IAASB’s EER assurance project is developing guidance, scheduled to be released by the end of 2020, on using the existing standards to handle EER.

THE RIGHT TALENT

Another challenge facing the audit profession, especially within SMPs, is securing the right talent. As Li at NOVA notes, firms are now looking to hire accounting professionals who know how to utilize new technologies. “Accounting skills are only a standard skill set nowadays,” he says. “There are thousands of fresh graduates with accounting degrees and even more accountants with a few years of experience. But whether they have the knowledge or experience in IT is another question and they need these skills to really stand out.” Li adds that professionals with knowledge of emerging technologies bring added value to firms. “We are working with companies that use cryptocurrencies or software as a service platforms. We are also looking for better ways of auditing them,” he says. “Knowledge in this area will help auditors to understand the business risks involved and help them to ask the right questions during audits.”

Ley at Deloitte agrees. “We need

to be able to advise clients on the sorts of technologies available and how they will help their business,” she says. “Of course, if they have the skills in data analytics and AI software, that’s even better. This is something firms look for nowadays.”

With auditors expected to work closely with clients, stakeholders and their own engagement team, excellent communication skills are a must in today’s audit profession. “Audit is a procedure which involves careful communication and an exchange of ideas with clients, especially when we provide advisory,” Li says.

Tang at Moore says auditors who hone their communication skills and ask the right questions will have a better understanding of what clients want and the issues they are facing. “Fresh graduates, in particular need to be effective communicators – not just verbally, but also in writing. They should be tenacious and flexible at the same time to adapt the ever changing auditing

environment,” she says, adding how auditors ought to engage in self-learning and dedicate time whenever possible. “I understand auditors are very busy during peak season, but during low season they can try to attend seminars at the Institute or at their firm.”

Cheng at PwC encourages auditors to think outside the box and challenge conventional ways of working. “If you just stick to the status quo, this won’t help. We encourage our staff to bring new ideas and suggest new ways of doing things during the audit,” she says. “Auditors must be open to change. They must be able to think on their feet and ask themselves ‘how can I do this differently?’ or ‘how can I increase efficiency?’”

Wong at EY stresses the importance of staying updated. “Both junior and senior auditors should keep themselves updated on the development of accounting and auditing standards,” he says. In addition to having critical and

“If they have the skills in data analytics and AI software, that’s even better. This is something firms look for nowadays.”



analytical skills, Lau at KPMG says auditors need to be forward-thinking and also think about their own growth. “You need to start thinking about how you will grow over the next 10 or 20 years. You need to show your commitment to the profession,” he says.

Auditors should also work to

find a balance between having a sceptical and suspicious mindset. In the December 2019 report *Assess, Assure and Inform: Improving Audit Quality and Effectiveness* by Sir Donald Brydon, Chairman of Sage Group and former chairman of the London Stock Exchange, a high-quality audit is one which

involves the application of professional scepticism throughout and professional suspicion where appropriate. It also recommends auditors to make judgements based on tested information and that remain appropriate in the light of subsequent events that were reasonably predictable.

THE FUTURE

The audit profession is set to evolve further, spearheaded by developments in technology and tighter regulation. Ley says auditors must make use of the technologies available going forward. “These audit tools help us not just with the quantity, but also the quality of audits. At the end of the day, we put quality as our top priority,” she says. “In the next five years, we’ll see changes in the tools being used, the businesses we are auditing, and the scope of our work.”

But as Tang notes, SMPs might require more time in transitioning to using new technologies. “Though I believe it’s essential for all auditors to have a firm grasp of these new tools, it can be

challenging to firms with two to three partners to adopt them – they might think it isn’t cost effective,” she says. “It also depends on the sorts of clients they are working with and whether technology will help speed up the job. Small practices still rely on software such as Microsoft Excel and Word.” She says it is a matter of time before emerging technologies are seen in firms of all sizes. “We are waiting for these tools to reach a mature stage. By then, we envision even one-partner-practices to benefit from them too.”

Despite the various technological developments, it is up to auditors to rely on their own experience and judgement. “We

still need human accountants,” says Ley. “In fact, the increasing use of technology requires us to be more analytical and sensitive to figure out how to tailor our audit response to address certain issues.” Lau at KPMG agrees, noting that auditors have to focus on applying more professional judgement to manage risks and provide value-added business insights to clients. Wong says: “Technology can assist in handling repetitive tasks, but when it comes to complex issues requiring professional judgement, human accountants still play a key role in understanding and evaluating situations to determine if they comply with rules and regulations.”



Read more about a career in audit in an interview with Ivan Chan, Practising Director at Mazars, on page 32.

SECOND OPINIONS: WHAT SHOULD COMPANIES AND ACCOUNTING FIRMS DO TO TACKLE HIRING DIFFICULTIES?

“‘Pathfinding’ organizations, as we have called them, realize it’s a ‘worker’s market’ with greater competition for talent than ever before.”



PETER OUTRIDGE
PARTNER, HEAD OF PEOPLE AND
CHANGE ADVISORY,
KPMG CHINA

Insights from KPMG’s global *Future of HR 2020* survey, completed by over 1,300 human resources (HR) executives, has revealed four emerging capability areas of leading organizations committed to creating an attractive and compelling purpose-led place to work. They show a discrete pattern in regard to their areas of priority as they create a path for others to follow. These “pathfinding” organizations, as we have called them, realize it’s a “worker’s market” with greater competition for talent than ever before. They are committed to establishing their competitive position in this new landscape with a compelling employee value proposition (EVP) that will attract, shape and retain the required workforce. These organizations are committed to the role HR plays in enabling a competitive advantage:

Shaping the workforce of the future: Acknowledging that existing workforce structures are being disrupted by new technology and business models, and seizing the opportunity to reshape the workforce and gain the full benefits of humans and machines working together.

Shaping a purpose-led culture: Understanding that HR plays a vital role in shaping and maintaining a culture aligned with their business strategy.

Designing the employee experience: Providing meaningful, rewarding work for employees, who want on-demand customer service, and instant access to information. To meet those expectations, employee experience is on everyone’s agenda, especially for pathfinding HR organizations.

Cracking the data code through workforce insights: Embracing the power of data science to generate actionable insights that create value for the whole organization, and are investing accordingly.

An organization’s EVP refers to the value employees receive in return for their contribution in the workplace; learning and development opportunities; reward and recognition; career paths; shared purpose and values; and an inclusive culture, among other qualities that organizations can use as the framework to develop an EVP that is tailored to an organization’s market aspiration and positioning. Once developed, organizations should continue to assess the attractiveness and relevance of their proposition, and ensure that their external profile ensures that prospective employees are aware of all that is on offer. The EVP should be rooted in the values and purpose of the organization, and the ability to cultivate the right purpose-led company culture.

The big opportunity for employers is to create unique and targeted EVPs; what can they offer employees that is compelling and makes them stand out against competitors? To succeed, the key is to be increasingly nimble and flexible, experimenting with and testing new ways of working.



BECKY SO

DIRECTOR, HUMAN RESOURCES,
A EUROPEAN INVESTMENT BANK,
AND HKICPA MEMBER

Hiring the right candidates who can sustain and grow with your company is critical to business success. Here are the some recruiting challenges we hear about most often:

Talent shortages are a growing challenge for employers all over the world. If companies are trying to recruit someone with niche skills in a specialized market, it could be a hard search. Some companies may have to broaden the search outside their immediate geographic area. They should try to utilize a staff referral programme to recruit based on word-of-mouth referrals.

Attracting candidates with both the right skillset and the mindset that aligns with the company is another difficulty. There's a difference between candidates who are interested in a job and candidates who are attracted to your job and company. Companies should focus on attracting and retaining someone who has a genuine interest in their company, mission, values, and buys into their corporate strategy and organizational culture. This will lead to a more positive work atmosphere, happier staff, and overall better business performance. In addition, companies are regularly confronted with the challenge of finding the right candidates who meet the needs of changing

“Companies should put an emphasis on ‘hire for attitude and train for skills.’”

and emerging roles. Companies should put an emphasis on “hire for attitude and train for skills,” rather than focusing on hiring someone who can fit all criteria. With the right attitude and behaviour, there is higher probability for the candidate to demonstrate the agility and flexibility required in today's constantly changing environment. They could even consider an internal hire that does not

need to be a perfect fit for a role to be afforded an opportunity for growth or skills development.

Accessing a high-calibre diverse talent pool is also a common challenge. Companies could consider introducing a “returnship” programme, which aims to help experienced professionals who have taken career breaks to re-enter the workforce starting with a short-term contract. Such a programme usually lasts three to six months, typically offers compensation that commensurate with the individual's level of experience, and provides training and mentorship, helping the person to reacquaint himself or herself with the culture of the current work environment, and improve skills that may have become rusty. Based on the person's suitability, a permanent role could be offered at the end of the programme. Employers may find returnship candidates who have ample of relevant experience and niche skills – things that they currently lack.



WEBSTER NG

FOUNDER,
WEBSTER NG & CO.

As a member of the Institute's Accountancy Manpower Research Advisory Panel, I was engaged in a project that focused on providing advice or solutions in relation to the impact of certain trends on accountancy manpower, in particular on small- and medium-sized practices and small- and medium-sized entities (SMPs and SMEs). Given Hong Kong's declining birth rate and the increase of young people taking up postgraduate studies at university, the profession faces the rigorous challenge of recruiting sufficient manpower. Based on the feedback from firms of different sizes, it was clear that some large or mid-sized firms or organizations had insufficient manpower, both professional CPAs and back office staff, while manpower shortages were also experienced by SMPs and SMEs. I believe there are three reasons behind this.

Firstly, young members have more career choices than ever nowadays compared with previous generations of accountants. With new technologies, they are less attracted to the idea of joining the profession, and can set up their own start-up, or work in other areas of accounting or wider business. They have more opportunities to move away from being a 9-to-midnight auditor. This all adds to the survival problem for existing firms, which have also faced enhanced regulations or increasing public expectations in recent years. Firms should consider expanding the range of services they offer their clients to attract candidates interested in more than assurance.

Relatedly, the perception of the profession. The image of profession is the same as it was many years ago – boring work, no off-duty time, tough working conditions, etc. This was expressed to me by secondary school students when I presented at an accounting seminar. Most people still described us as accounting industry not accounting profession. I therefore believe strongly that we should enhance our professional image in order to improve the talent recruitment and retention rate, to show that accounting is a profession of many exciting opportunities.

Finally, competition grows for skilled, quality talent. As regulations get more complicated and basic tasks are more easily handled by technology or artificial intelligence, we need to have high-quality manpower who can focus on enriching the business and effectively offer value added to clients. This will also attract today's digital-native generation to the profession, by showing them that the profession is ready for the fast-changing digital world.

The Institute can help to enhance the professional image to the general public through its Accounting Plus branding and the new Qualification Programme. These changes, overall, would result in a better accounting “profession” – not “industry.”

“Most people still described us as accounting industry not accounting profession.”

LEADERSHIP PROFILE

Hugh Chow





FROM IDEA TO SUCCESS

Throughout his career, Hugh Chow has mainly focused on one thing – creating groundbreaking, innovative products and solutions. He continues to do this now for Hong Kong businesses as Chief Executive Officer of the Hong Kong Applied Science and Technology Research Institute. He tells **Kate Whitehead** that only by embracing innovation can the city sustain its prosperity and competitiveness

Photography by Leslie Montgomery

Hugh Chow likes to say that he can help pretty much anyone. Bankers, firemen, the elderly and CPAs – he can help you all. It's not a bad opening line, but the best part of it is that as Chief Executive Officer of the Hong Kong Applied Science and Technology Research Institute (ASTRI) he can actually follow through.

"I can ask, 'What keeps you up at night?' and we can give them a solution with the technology we have. It's not something you just dream up and write a paper that goes in an academic journal. Pretty much everything we do here you eventually see on the street, in businesses or everyday life," says the sprightly Chow, who was born and raised in Hong Kong and has been at the helm of ASTRI for two years.

ASTRI was set up by the Hong Kong government in 2000 to enhance the city's competitiveness in technology-based industries by subsidizing applied research. "ASTRI helps industry, whether it's the private or public sector, to use innovation and technology to increase efficiency, to make everyone's life safer, enhance the quality of life and to make Hong Kong more competitive," says Chow. It has since built a rich portfolio of intellectual properties and nurtured a large number of talented researchers for various industries and sectors.

Within an hour of being with Chow, it is clear his grand passions are technology and taking on challenges. It was his love of tech – microchips in particular – that guided his decision to study electrical engineering at the University of Hong Kong (HKU). “When I was at HKU, only the smartest of the smart could get into electrical engineering. I was driven to join them,” says Chow.

From there, he went on to do a postgraduate, also in electrical engineering, at the University of Colorado in the United States in 1991. Because there wasn’t much tech happening in Hong Kong, he left for Canada where he joined a start-up, ATI Technologies Inc., which specialized in the development of computer graphics processing units and chipsets. The company grew from 30 members of staff, when he joined, to 3,000 in seven years.

IPO front row

In November 1993, ATI listed on the Toronto Stock Exchange. “It was a front row seat on what an initial public offering (IPO) looks like. It was exciting and inspiring,” says Chow.

At the age of 30, and inspired by his experience at ATI, he co-founded a chip company, ViXS Systems Inc., in 2001. He led the expansion of ViXS into the U.S., Europe and Asia, and established eight research and development (R&D) centres worldwide, including one at the Hong Kong Science Park in 2007. As can be imagined, running his own company was stressful with constant attention to business decisions, market development, supply chain management, people

“My personality is not one that settles. I’d rather try the impossible and die trying than regret that I didn’t try.”

management and more. He took up running in order to carve out some quiet space in the day, a chance to think, and also to keep fit. In 2013, it was mission accomplished – he took the company public.

There are a number of points in Chow’s career where another person might have thought of sitting back, perhaps taking it easy or considering an early retirement, but Chow looks ahead to the next thing. “My personality is not one that settles. I’d rather try the impossible and die trying than regret that I didn’t try,” says the keen marathon runner.

In late 2016, he co-founded Pool Global Partners Inc., a venture capital investment firm specializing in artificial intelligence, big data and digital health, where he served as the managing partner. On a trip to China to discuss a joint venture, he stopped by in Hong Kong where Carrie Lam, then chief secretary for administration, was hosting a Belt and Road event. He was invited to join the Canadian delegation where a recruiter approached him and told him about the position at ASTRI, the largest government-owned research centre in Hong Kong. The timing was perfect. “I’ve done a start-up myself, I’ve got IPOs under my belt, I’ve done engineering management, and if there is a bucket list for being a public company CEO I’ve done that too. So serving the public is interesting,” says Chow.

Serving the public

While perhaps not many members of the public know about ASTRI, many of the products and services they consume on a daily basis have ASTRI technologies embedded. For example, at one of the largest global banks, local customers interact with a customer service chatbot developed by ASTRI that can deal with the peculiar language scenario in Hong Kong – it knows Cantonese, Putonghua and English. Major telecommunications companies, Internet service providers and network manufacturers use chips and software designed by ASTRI; and the touch-glass on top of an iconic smartphone brand is perfect because

ASTRI defect-detection technology is part of the quality assurance process.

ASTRI is unlike most companies – it is neither a university body, a government agency or a commercial enterprise. It could be seen as sitting in the goldilocks position between all three. Coming from the private sector, Chow says it took a little getting used to.

ASTRI doesn’t have the autonomy enjoyed in a university environment, but is secure in knowing that its research makes an impact in society. It’s not a government set-up and doesn’t have guaranteed pensions so-called iron bowl job security, but it has plenty of flexibility in terms of what it does through innovation and technology. It’s not in the private sector – so its mission is not profit-driven, but its work covers a variety of exciting projects, rather than just doing the one thing that makes money, over and over.

“A lot of people look at us and think we must be some kind of incubator. I say we are here to serve industry, to serve the community, to serve society. We have more of a serving mandate than a start-up mandate. We help our clients by solving pain points and helping them to commercialize,” says Chow.

The reward

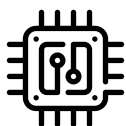
A couple of years ago one of its clients went public on Nasdaq. Only two years before that listing, the company consisted of two start-up entrepreneurs working in the same Science Park precinct as ASTRI. They licensed technology from ASTRI to create a 3D-display that didn’t require glasses – and the rest is history. Chow says he often gets asked whether ASTRI benefitted financially when that company went public. “The answer is no. Our motivation comes from the fact that we worked with one of the unicorns born in Hong Kong. Our reward is well defined – we don’t get to participate in some of the financial success that might distract our researchers. The research we do here, plain and simple, is world-leading, and has a great impact on society. If you’re interested in that,



Hugh Chow co-founded his first company, ViXS Systems Inc. in 2001 at the age of 30, which went public 12 years later. He then founded Pool Global Partners Inc. in 2016 and then joined ASTRI in January 2018.

LEADERSHIP PROFILE

Hugh Chow



ASTRI's core R&D competence in various areas are organized under five technology divisions – they form the cornerstones of the Information and Communications Technologies R&D Centre initiated by the Innovation and Technology Commission of the Hong Kong government – artificial intelligence and big data analytics; cyber security; cryptography and trusted technologies; integrated circuits and systems; and Internet-of-Things and sensors.

this is the place for you,” he says.

Indeed, the team at ASTRI – 600 of whom are researchers, making up 90 percent of the staff – are passionate about what they do. There are roughly 100 ongoing R&D projects each year, each lasting one to two years. Some clients roll out projects continuously to keep updating their technologies.

The teams are at the forefront of many new technologies. One project is the only autonomous vehicle in Hong Kong licensed by the Transport Department. It is part of the cutting-edge research that ASTRI is conducting in 5G-enabled Vehicle-to-Everything (V2X) technology, where vehicles communicate with roadside computers and sensors to improve driving experience and road safety. ASTRI also trains banking and law enforcement professionals in cybersecurity, investigating and fighting online crimes, and safeguarding Hong Kong's global financial centre status.

ASTRI is the largest of four research institutes set up by the government. As far as research and technology are concerned, Chow has nothing but praise for what he describes as the government's smart, well-designed policies. “People will always draw comparisons with Shenzhen, but we've done a lot of things that are well-designed and suitable for Hong Kong, for example the super tax deduction and the talent development schemes,” says Chow. ASTRI works closely with universities to bring up the next generation of researchers, through schemes including internships and post-doctoral intakes.

His eyes light up as he talks about fintech and the great opportunities ASTRI has had to support Hong Kong's position as an international financial centre. ASTRI worked with the Hong Kong Monetary Authority (HKMA) in 2018 to write two

white papers and support the authority to adopt blockchain technology for mortgage loan applications, trade finance and identity authentication management. “For most people, property is the biggest investment you will make in your lifetime. If it is dragged out for three weeks, that's three weeks of anxiety. But we were able to nail it down to a day or even less than that for the developers, the banks and the purchasers. It is a great way of relieving stress,” says Chow.

He admits getting slightly irritated when people suggest that Mainland China is way ahead of the fintech revolution because it is so advanced in terms of mobile payments. In his view, fintech represents something greater than mobile payments. One of the key reasons why Hong Kong is a global financial centre, he says, is because there is trust built into the system. “When we work with the HKMA, it's more important to understand how we can use technology to enhance that trust. If that trust goes away it doesn't matter how much technology we have in Hong Kong, we are not going to be the financial centre,” says Chow.

Here to help

Under Chow's leadership, ASTRI has focused on five core areas of technology: fintech, communication technologies, AI and big data, Internet of Things and sensors, and semiconductor design. A key part of his work is to ensure that ASTRI experts use these technologies to come up with the best solutions that industries can apply to solve problems, enhance operations and lower costs. And, Chow says, ASTRI can support CPAs. “I'm not a CPA myself, but I can guess what support they might need,” says Chow, surmising that trust issues may well be high on the agenda.

Blockchain technology, as used by law enforcement,



“If that trust goes away it doesn't matter how much technology we have in Hong Kong, we are not going to be the financial centre.”



Chow studied electrical engineering at the University of Hong Kong and then went on to pursue a postgraduate in the same subject at the University of Colorado.

regulators and banks sharing cyber security intelligence, would enable CPAs to track every piece of information, for example, in accounting fraud or anti-money laundering investigations. Also, he speculates, that as CPAs likely have a lot of forms to file, an advanced system which recognizes handwriting would be well received, as would be technologies that help track big data, predict trends and look for anomalies.

Flying success

Back in his Toronto days, Chow's

corner office looked out onto the air field of a regional airport. Every Friday, he remembers watching recreational planes taking off for weekend jaunts, until one day he walked over to the terminal building and signed up for flying lessons. "Flying an airplane has very little to do with flying and a lot to do about understanding regulations and how to navigate. I am instrument rated, so I can fly inside a cloud," says Chow, a Transport Canada licensed pilot.

These days, his corner office looks out onto Tolo Harbour, with

the lush hills of Ma On Shan to the right and the rolling hills of Pat Sin Leng Country Park to the left. It's a long way from Canada and, as much as he misses Toronto, he's grateful for the chance to return to Hong Kong and give something back to his homeland.

"I spent my first 25 years in Hong Kong and the next 25 in Canada, raising my family – my kids are Canadian. Having the opportunity to serve the place I call home doing what I do best and having a wide and deep impact on society – it's pretty satisfying," he says.

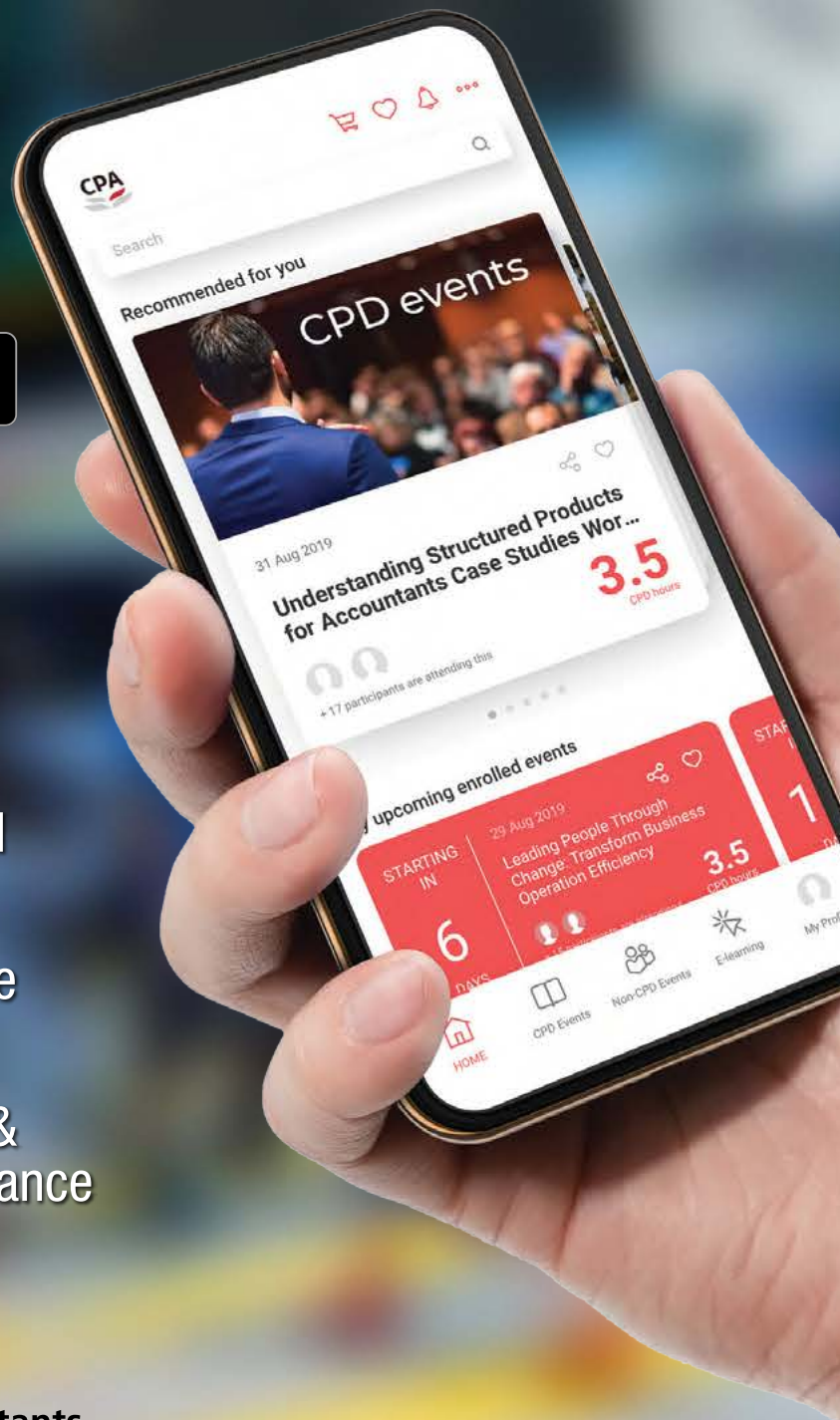


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The Director, Risk Advisory at Deloitte China looks at what the strengthened environmental, social and governance reporting requirements mean for companies and stakeholders



Hong Kong's new ESG reporting requirements: time for a more strategic approach

The Hong Kong Stock Exchange (HKEX) announced its enhanced environmental, social and governance (ESG) reporting requirements in December 2019. With effect from financial years commencing on or after 1 July 2020, Hong Kong-listed companies will need to disclose additional information in their ESG reports, with a shortened reporting deadline of five months from the end of their financial years.

Company boards are now expected to play a more substantial role in governing ESG issues, and companies are being asked to be more transparent regarding how their material ESG issues are identified, evaluated and managed, as well as how the boards oversee and review these issues. This implies companies should establish formal ESG governance structures and mechanisms, incorporate ESG elements into their existing risk management and operational frameworks, and develop appropriate controls and monitoring systems to enable their boards to discharge their duties properly.

Although this can require substantial efforts, it is a good chance for boards to revisit what ESG means to their businesses, as well as understand not just the key risks, but also the opportunities to drive value, from this compliance exercise. It also promotes accountability and ensures an appropriate tone at the top on ESG, which will ultimately help improve related performance.

HKEX also requires companies to disclose how they adopt the reporting principles set out in the HKEX ESG reporting guide (i.e. materiality, quantitative and consistency), and explain the reporting boundaries (i.e. entities or operations covered in their ESG reports). Given companies have different ESG reporting practices, which affect the comparability of ESG information, such disclosures will help stakeholders determine whether a specific ESG report is comprehensive enough to cover the material issues and businesses of the company, and whether the data presented is calculated and reported in accordance with generally accepted standards, thereby facilitating more effective assessment of ESG across different companies.

Under this new ESG regime, there are also additional required disclosures on specific environmental and social issues.

The first covers reduction targets for emissions, waste, energy and water. Currently, listed companies are only required to describe their environmental initiatives and results in these four areas. Establishing and disclosing specific targets can motivate companies to refine their environmental management strategies and practices, and make further progress over time.

However, companies might need to consider whether the

targets they plan to commit to are feasible, and realign these with their business plans and stakeholders' expectations to avoid being too aggressive or too conservative. With this in mind, HKEX allows some flexibility for companies to express their targets as directional statements or quantitative descriptions.

Secondly, companies will need to formulate policies to identify and mitigate climate risks, as well as disclose major climate-related issues in their businesses and their plans to manage them. Unlike general environmental protection efforts, which focus on minimizing the negative impact on the environment from companies' activities, this new concept of climate change reporting emphasizes mitigating the risks caused by extreme weather events, which can disrupt companies' operations and damage their assets.

According to the most recent *Global Risks Perception Survey* by the World Economic Forum, five of the top 10 long-term risks, in terms of likelihood and impact, are climate related. It is time for companies to recognize the effect of climate change in a business context, and prepare themselves for the unfavourable climate conditions that are expected to appear more frequently, and with greater magnitude.

Besides these new environmental reporting requirements, HKEX has also upgraded the disclosure obligations of all social related key performance indicators (KPIs) from "recommended practice" to "comply or explain." This means companies can no longer exclude data on employee turnover rate, lost days due to work injuries, work fatalities and product recalls from their ESG report. These are considered important indicators not only from a corporate responsibility perspective, but also as they pertain to operational and financial performance. Practices to identify ESG risks and promote environmentally friendly products and services have also been added as social KPIs, which can help drive companies to exercise greater influence over suppliers regarding responsible business practices.

Under HKEX's strengthened requirements, listed companies should adopt a more strategic approach towards ESG reporting, rather than just treat it as an annual box ticking exercise, in order to create value for their businesses, as well as address stakeholders' growing concerns about companies' ESG performance. ESG should also be integrated further into corporate policies and business processes, to formalize efforts and get everyone working at a company involved in transforming it into a more sustainable business, backed by appropriate training and resources. Enhanced ESG reporting will soon give stakeholders a more comprehensive and detailed understanding of companies' ESG performance to facilitate their decision making.



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The Content and Investor Relations at AngelHub, an Securities and Futures Commission-licensed start-up investment platform, on what companies should consider when approaching venture capital firms



Getting a VC to fund expansion or a new business idea

Venture capital (VC) firms have always been considered to be the most desired source of funding for start-ups. VC investments are usually long-term partnerships, are controlled by an individual or a small group, require a high rate of return and a significant percentage of ownership in the funded entity. In addition to financing, VC firms can also provide introductions to strategic partners and customers, as well as introductions to additional investors and significant industry players.

If a company decides to opt for VC funding, one needs more than a great pitch deck and a unique business concept. Here are a few important things to expect and consider:

Know the VC

It is important to understand that when approaching a VC, one needs to understand their objectives. VC funds usually focus on companies that have a high growth rate with high operational costs. Additionally, before approaching a VC, one should assess whether the company fits with the fund's investment strategy or sphere of focus. For example, certain funds may be sector focused (software, education, hardware, biotech, mobile, etc.). Other factors such as the stage of company (early-stage/seed, Series A, or later stage) and geographic focus are also important to look at before approaching the investor. For example, if you are a Hong Kong-based company with market opportunities in Asia, you should approach a VC that focuses on companies scaling in Asia.

Even though disruptive ideas and successful management teams are definitely favoured by VCs, the following criteria should also be considered when approaching them:

- The management/founding team – can this team can actually lead the company to meet its objectives?
- A minimum viable product – an abstract concept of a product is not enough for a VC or any investor. The company must demonstrate the actual product and show how it works.
- Customers – it is crucial to show that there is an actual customer base or users of the product. This is known as traction.

Pitch deck and presentation

It is crucial to have a strong pitch deck to present to the VC that provides a thorough yet concise overview of the business. The presentation should clearly describe and tell the story of the product or service, business model, market analysis, and opportunities, company financials, funding needs and management's capabilities.

Term sheets and financials

A term sheet is the primary document that the founder sees from a VC when they are considering investing. The term sheet

signals that the VC is strongly considering an investment and wants to proceed to the due diligence stage and prepare legal investment documents. Term sheets usually include:

- The financial guidelines of the proposed investment – the amount of money the VC is offering and what it expects in return.
- The corporate governance section – details of the decision-making protocols of the founders and investors pertaining to the company.
- Liquidations and exit scenarios – what will happen to investors and shareholders in the event that the company is liquidated, dissolved or sold.

Valuation of the company

The valuation is typically referred to as the “pre-money valuation,” which is the valuation before the new money or capital is invested and is a critical issue for both the entrepreneur and the VC investor. There are many different ways to arrive at valuation amounts. Valuations are usually determined based on:

- The experience track record of the founder;
- Market size and opportunity;
- Technology of the company;
- Traction: partnerships/users/customers;
- The revenue of the business model;
- The capital viability of the business model; and
- Valuations of comparables in the market.

Due diligence

Founders must prepare well for due diligence, or the process by which investors gather all the information and assess the potential risks involved in an investment. Due diligence may include:

- Analysis of the financial statements;
- Analysis of the financial projections and assumptions;
- Sales contract and contract reviews and litigation and claims;
- Review of corporate records and legal records;
- Founder background checks;
- Review of patents and any intellectual property;
- Market and competition analysis; and
- Investment agreement analysis.

Fundraising can be a long and daunting process that is key throughout the entire lifecycle of a start-up, from early start-stage support through family and friends, VC, private equity, merger and acquisition, all the way up to an initial public offering.

To learn more, join the Startup Impact Summit in the upcoming months, organized by WHub, Hong Kong's first startup community platform, and hear first-hand from serial entrepreneurs and successful investors, across all stages and industries.



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Tools, strategies and skills for advisors to global citizens

The Institute will hold the Strategic Succession series in the coming months. Edwin Choi looks at how high-net-worth families should apply international trust structures and insurance tools to help with tax optimization, asset protection and succession planning



Edwin Choi is Legal Counsel at Cosmos Management Consultancy Limited, a multi-family office specializing in helping families conduct succession planning. He is a non-practising solicitor of the Hong Kong High Court, and a former part-time lecturer of the Faculty of Law of The University of Hong Kong. He frequently provides training to finance professionals in Hong Kong, Mainland China and Taiwan, and offers private consultations to high-net-worth individuals in those regions.

Every professional has a secret wish to be Liam Neeson, the actor who plays the protagonist in the film *Taken* – and say the line “I have a very particular set of skills” – and then go on to singlehandedly save the day.

These days, serving high-net-worth clients is not that different from helping them fend off those who want to get a piece of what they treasure most. The “particular set of skills” here includes cross-jurisdictional knowledge of legal systems, trust law, tax law, insurance regulations, investment know-how, bank financing nuances and mediation skills. The most challenging part is integrating all of that knowledge and explaining it to clients in layman terms, while also motivating them to act.

The current global situation makes this “particular set of skills” useful – the impact of the coronavirus on the Chinese economy and global supply chain; the recent legislation in Guangzhou that hints at potential encroachment on private property rights; the continuing theme of state advances and private sector retreats; the irreversible trend of global tax transparency; and the tension between global powers.

With the trends above, high-net-worth individuals should know the importance of international asset allocation, which if properly executed, could diversify risks without impacting return.

The tax consequences

Those who have already diversified their assets geographically have already taken a step in the right direction. But the devil is always in the details. Take, for example, a Chinese citizen who has an insurance policy in Hong Kong, and children in the United States. In the foreseeable future, his children might need to pay up to 40 percent tax when they receive the insurance proceeds because the policy is not treated by the Internal Revenue Service as U.S.-compliant, and hence the proceeds will be treated as an investment gain.

Another example is the Chinese citizen’s wife, who has an insurance policy in Hong Kong, and will, in a few years’ time, become a U.S. citizen. She will be facing a lot of filing obligations, non-compliance of which will incur a penalty and even jail time.

These are real, overwhelming problems that

most people would want to sweep under the carpet. Finance professionals can help bring clients clarity and peace of mind by helping them understand practical policies for different future family situations.

Setting up a firewall

In addition to global tax complexities, another issue a global citizen would face is protecting assets from various forms of risks, such as creditors, divorce risks, government, litigation, etc. Setting up a firewall to shield current and future assets from those risks is the first step.

A trust, as a tool, is gradually becoming more common. But there have been well known cases of trusts going wrong. This is why, as opposed to just one trust, you need the right set of tools, strategies and skills to ensure your client has various structures that fit different purposes. The key things an advisor should know about when it comes to setting up a trust will be covered in the Institute’s e-series – “An introduction of international tools for global high-net-worth individuals” in the coming months. Through this e-series, participants will be able to fully understand the various types of trusts, how to set them up properly, and how clients can benefit from them.

About the workshops

The Strategic Succession series of workshops, which will run later in the year, aims to help participants learn about the operation, benefits and advantages of international trust structures and insurance tools. It also aims to discuss family succession planning best practices, including the key principles in establishing a family governance system. The workshops will conclude by covering the proper use of insurance tools, clearing up misconceptions regarding how to properly assess the sufficiency of the insurance coverage of a family. After taking the workshops, members will be able to help their clients with insurance planning and international tax optimization, while maintaining control over investment returns. This workshop would benefit chief financial officers, financial controllers and accountants.

With the right tools and knowledge, advisors can help make the long road of succession planning a fruitful journey for their client’s family, for generations to come. Watch for enrolment details on the Institute’s website.

THE TRUST BUILDER

When Ivan Chan, Practising Director at Mazars, decided to go into auditing, he never imagined his job would involve having to learn about radioactive isotopes.

“One of my clients traded uranium, so I needed to know all about uranium and its different isotopes. They all have different numbers of neutrons and not all of them can be used to generate nuclear power,” he remembers.

For another client, he found himself having to track fluctuations in oil prices due to the impact it had on the cost of plastic. “Plastic is used a lot in industry and because its component is a byproduct of petroleum. I needed to know how the price of oil would affect the price of plastic,” explains Chan, a Hong Kong Institute of CPAs member.

Over the years, Ivan Chan has seen what makes audit attractive yet tough – from technological developments impacting the nature of the work to greater accountability and scrutiny. The Practising Director at Mazars tells **Nicky Burridge** about his varied role and how he is constantly adapting

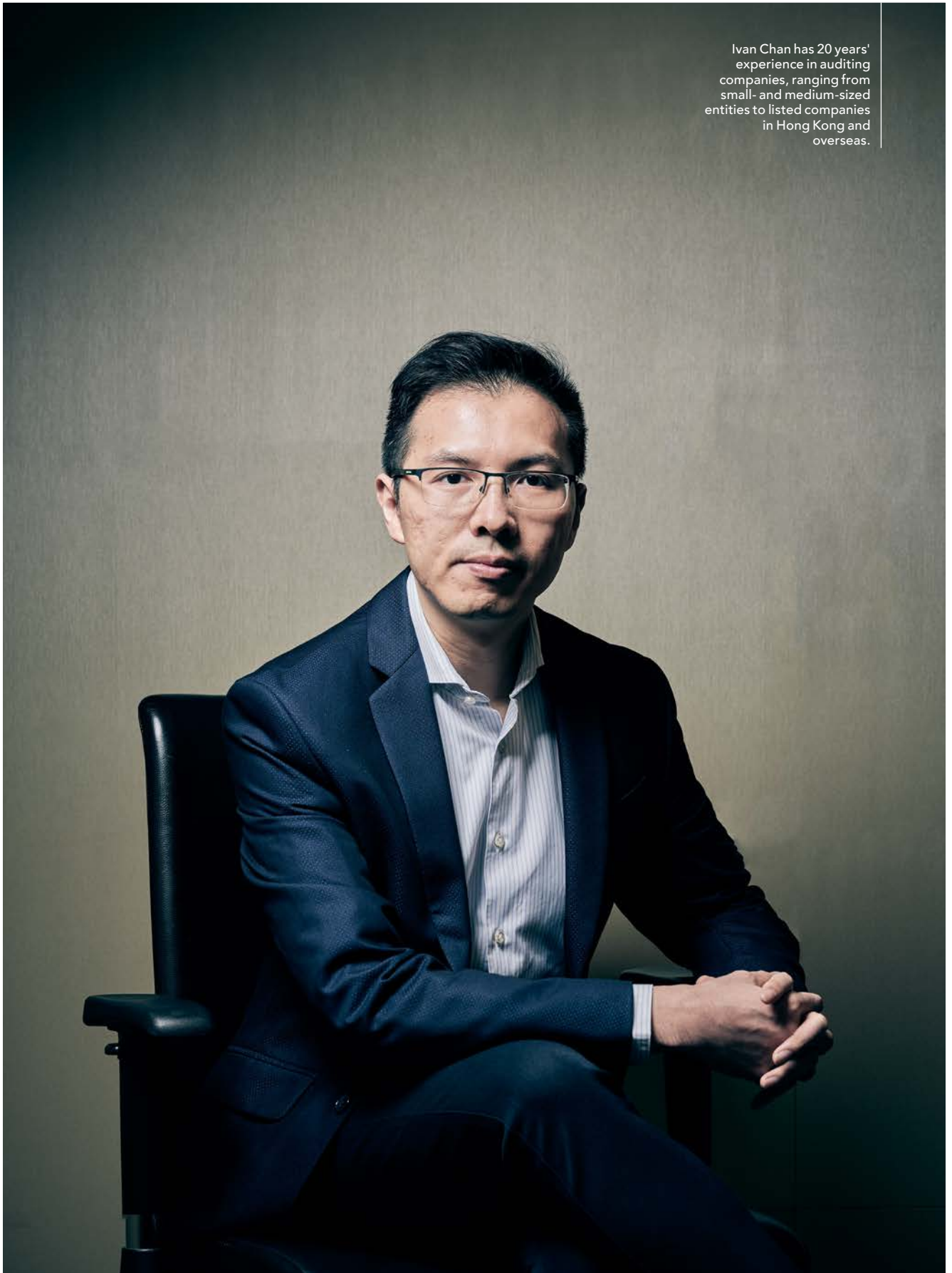
Photography by Calvin Sit



ACCOUNTANT PLUS

Ivan Chan

Ivan Chan has 20 years' experience in auditing companies, ranging from small- and medium-sized entities to listed companies in Hong Kong and overseas.



This need to learn about a wide range of things and understand the potential impact events around the world could have on his clients is one of the things Chan likes most about auditing. “People think auditing is just about figures, but it about so much more,” he says.

He also relishes the varied nature of an auditor’s work. “You see a lot of different companies and meet a lot of different people in our work, and I really enjoy that.” Chan’s clients over the years have ranged from a wine importer to a company that specialized in the relocation of prestige machinery, to a car manufacturer. “When I was auditing the car manufacturer, I would see how a car was made. It was very complicated,” he says.

Chan adds that auditors not only audit accounts for companies, but they may also be engaged in an initial public offering as the reporting accountant or carry out other transaction related services. “In just one year, you will see a lot of different things and do various types of work.”

A stable career

Chan joined Mazars as an auditor immediately after graduating from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting. “My career has been really very stable. I have worked with my fellow partners here for 20 years,” he says. It was this stability that attracted him to auditing in the first place, as well as the opportunity to interact with a variety of companies.

Chan has worked his way up through the ranks of Mazars. He says his two most memorable milestones are becoming a CPA and being appointed as practising director. As practising director, he finds himself juggling a number of different roles. “First of all, I need to work on my own assignments and engagements, review the work of people within my team and communicate with the team,

clients and other professionals.” At the same time, he has to manage Mazars as an organization, monitoring staffing levels and other resources and managing risk. “I need to think more about how to run the business and attract and develop new talents. It is not easy.”

In addition, he continues to bring in business. “As practising director you are also in sales. You have to go and sell to people and bring in business, then you also have to lead the team performing the work. The role of practising director is a multifaceted one, which is full of excitement,” Chan says.

While most of the audit groundwork is now carried out by his colleagues, he still needs to give advice, resolve any issues they may be having, help find solutions and lead the team. “There is a lot of communication,” he adds.

Chan sees risk management as being the biggest challenge he faces in his role as practising director, pointing out that there is a lot of risks in the work auditors carry out.

He gives the example of auditing a company with investments in an emerging industry. “The investment may be in its initial stage. It may have a very good business plan, but it is still just a plan at this time. The industry is still quite new, there is not a lot of history, so deciding whether it is a successful investment or not involves a lot of judgement,” he explains. “We need to decide if the forecast is correct or not and this involves a risk, which needs to be managed.” For example, his team manage these risks through carrying out a detailed and in-depth review of the business and the business plan, holding discussions with management and conducting a feasibility study. “We also do a careful examination of the various assumptions, make comparisons with similar businesses and operations, and seek other expert or professional advice if necessary,” he says.

Another challenge is the high level of competition in Hong Kong.

“Whether you are a big firm or a small firm, it is very challenging. You have to provide a excellent service at a lower price.”

He also needs to manage costs and human resources, which can be difficult given the cyclical nature of the work done by auditors. He points out that if a firm is focused on auditing listed companies, given that most listed companies have a December year-end and have to announce their results within three months of this date, most of its clients will need to publish their results by the end of March. “The peak season has been squeezed to three months, so you always find that you do not have enough resources during those three months. But, at the same time, after the peak season, there may be excessive resources, as you may not have enough work for your people,” he says. “I look at it positively, it is all of these challenges that make the work interesting. Audit is always challenging work.”

A changing profession

One of the biggest changes Chan has seen in his 20 years of working in audit is the impact technology has had on the field. “IT brings a lot of convenience. Twenty years ago, you had to travel for your assignments, and it was difficult to communicate. Now, with technology, you can work remotely.”

He adds that technology is also creating new challenges for the audit profession, such as how cryptocurrencies, like bitcoin, should be audited. “This area is still very high risk, and there are still a lot of technical issues that cannot be resolved at the moment. I think it will change the industry quite a lot,” he says.

But despite advances in technology, Chan does not think it will ever replace auditors completely. “I foresee technology helping us and providing analysis, but at the end of the day, people will still be the ones who think about what the figures really tell you and what they mean



Ivan Chan is a member of the Institute’s Auditing and Assurance Standards Committee, which is responsible for gathering and communicating information relating to auditing and assurance between the stakeholders in Hong Kong and the International Auditing and Assurance Standards Board.

for the company,” he says.

He adds that big data can help by giving information on trends, and auditors can compare their clients’ data with the data of other businesses in the same sector, but they will still need to have an analytical mind to understand what everything means.

Chan thinks globalization and increased economic connectivity has also made the work of auditors more complicated. He points out that many companies in Hong Kong are either investment companies or holding companies, and while their head office may be in the city, their operations are usually somewhere else. “A company may have a lot of subsidiaries and their businesses could be all over the world. In order to audit that type of company, you really need to be part of an international firm and have connections with member firms in different countries, so that they can carry out the work in those countries and give you assistance in understanding local laws you may not be familiar with,” he says. But alongside the challenges.

Chan thinks globalization also offers opportunities as companies increase both their inbound and outbound investment, creating increased demand for accountants’ services. “New investors may need services like due diligence, reorganization and tax planning etc. In particular, for listed companies, the publication of investment circulars would generally require the involvement of reporting accountants,” he says.

Increased scrutiny

The audit profession has come under increased scrutiny in recent years, with regulators and policymakers interested in the quality of audits.

For Chan, this highlights the importance of ensuring robust risk management is in place throughout the audit process. “Risk management is not just something you do at

the end when you sign off on the accounts, there are many things you need to do at the beginning when you accept a client,” he says.

He adds that as the world changes, so do the risks auditors have to be aware of and manage. “This is why we are always thinking about different practices for different industries, and strengthening the audit and quality control. The quality control within an audit firm itself can help to identify potential risks at an early stage, enabling you to minimize their impact,” he says.

There is also a growing trend for auditors to be asked to perform non-financial statement assurance services in areas such as a company’s environmental, social and governance performance or its sustainability reporting. Chan says: “It is an interesting development. People think an auditor is like superman and he or she should know everything. We are trying to rectify what an auditor can do in non-financial areas, but it is not perfect and there are limitations as we are not experts in every aspect.”

He adds that further clarification and communication with stakeholders may be required to understand exactly what is expected of them in different areas. He gives the example of Hong Kong’s Product Eco-responsibility (Regulated Electrical Equipment) Regulation, under which suppliers of regulated electronic equipment are required to provide recycling labels for the equipment and pay a recycling levy. “The government requires an audit report on the records kept by registered suppliers.”

Introducing new standards

Alongside his work at Mazars, Chan is also a member of the Institute’s Auditing and Assurance Standards Committee, which is responsible for gathering and communicating information relating to auditing and assurance between the stakeholders

in Hong Kong and the International Auditing and Assurance Standards Board (IAASB).

Chan explains that he joined the committee because, having worked in the audit field for years, he was keen to use his experience, expertise and knowledge to contribute to the development of auditing and assurance standards. “It is a pleasure to be part of this committee, not just to contribute, but I also learn a lot from others, in particular, in areas with which I was not familiar. There are lots of papers and material to read,” he says.

The committee oversees the adoption of new and revised standards on auditing and assurance from the IAASB. “It basically divides into international and local work. As Hong Kong follows international standards, our international work involves sharing the IAASB’s exposure drafts and other requests for comment within Hong Kong and giving our feedback,” Chan says.

When a new standard is approved by the IAASB, the committee then develops the appropriate local standard on auditing. “For the local work, the committee also needs to develop local Practice Notes, Auditing and Assurance Bulletins, Technical Bulletins, Circulars and etc. to provide information and/or guidance to members. We also develop standards for reporting accountants in the conduct of engagements involving investment circulars intended to be issued in connection with securities transactions.”

In addition, the committee works closely with the Institute’s departments, flagging up areas in which members may need more training, and identifying current and developing issues that may be suitable topics for continuing professional development and education events. One area in particular that Chan currently thinks needs attention is the audit of group financial statements. “With



Chan graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting.

the increasing number of audits of group financial statements and the involvement of component auditors, I think practising members may need to focus on the documentation of the audit of group financial statements,” he says. But Chan adds that while the committee takes a leading role in these areas, much of the groundwork is carried out by the Institute’s staff.

Advice for auditors

For those interested in going into auditing, Chan says they must be prepared to work hard due to the long hours they will have to put in during the peak season, while they must also be proactive about learning new things and studying new accounting and auditing standards when they come out. “If you are prepared to learn and work hard and gain experience, then audit will be very good for you,” he says.

In addition, he stresses that people must have an analytical mind. “You need to think about what the figures tell you and whether they make sense to you. You need common sense, as well as knowledge,” he says. Interpersonal skills, such as being able to communicate and negotiate, are also important, as well as being a good problem solver.

Finally, he suggests aspiring auditors should ensure they have a solid grounding in accounting. “I think to be a good auditor, you have to be a good accountant. When you are doing the audit, apart from verification [of the figures], you also have to comment on whether the application of the accounting standards is correct or not. You need to know about all of the accounting standards because companies are always asking for your advice.”

Striking a balance

When he is not working, Chan likes to spend time with his family. “I try my best to find a good work-life balance. I have two children, and I try to spend more time with them. If it is a school holiday, we will travel to Japan and Southeast Asian countries for short trips and the United States and Canada for long ones,” he says.

He adds that after a very stressful day at work, it is important to find a way to relax when you get home. “Sometimes when I get home, I just listen to music. I like all types of music, particularly jazz. I also enjoy watching movies and sports, especially football.”

Despite the reputation auditors have for working long hours, Chan thinks it is possible to achieve a good work-life balance. “It just depends on how you manage your time.”



Economic substance law – the British Virgin Islands

A look at the implications of the new economic substance laws on Hong Kong businesses

Economic substance laws were introduced in major offshore jurisdictions including the Bahamas, Bermuda, British Virgin Islands (BVI), Cayman Islands, Channel Islands (Guernsey and Jersey), Isle of Man, Marshall Islands, and became effective on 1 January 2019. The introduction of the new laws was in response to the various efforts made by the Organization for Economic Cooperation and Development to enhance global tax transparency, as well as the review by the Code of Conduct Group of the European Union (EU) into certain low or no corporate income tax jurisdictions.

The underlying concept behind these laws, that economic substance should align with where profits are booked, and thus the tax outcome should follow, is not new. The laws also aim to level the playing field among the no or low tax jurisdictions and therefore the laws are substantially similar.

The BVI's Economic Substance (Companies and Limited Partnerships) Act, 2018 (the act) is of particular interest to Hong Kong corporate groups because it is common to find BVI companies within them. Therefore, the act has wide implications for Hong Kong businesses.

The framework

A "relevant entity" (including BVI incorporated companies, foreign entities registered in the BVI and limited partnerships having legal personality) that engages in one or more of the nine "relevant activities" are required to comply with the act by maintaining an

appropriate level of economic substance in the jurisdiction commensurate with the entity's business.

The relevant activities are 1) banking, 2) distribution and service centres, 3) finance and leasing, 4) fund management, 5) headquarter business, 6) holding companies, 7) insurance, 8) intellectual property holding, and 9) shipping. The coverage of these relevant activities are intentionally wide.

The economic substance requires that the relevant entity should be able to demonstrate that it is managed and directed by the board locally. This means a sufficient quorum of the board of directors should meet periodically in the BVI to manage the entity. The core income generating activities that correspond to the entity's business should also be conducted locally by qualified employees stationed within a physical premise. Lastly, an appropriate level of expenditure would naturally be spent in the BVI as a result of the above local business substance.

To provide the necessary implementation guidance, the *Rules on Economic Substance in the Virgin Islands* (the rules) were finalized on 9 October 2019.

There are potentially three ways to respond to the act if a relevant entity falls within its scope:

1. Build economic substance locally.

BVI entities could choose to build and maintain local substance if this is commercially practicable and justifiable. The key challenge in this regard is the limited resources

available in the BVI. The cost and effort required to acquire and then manage local resources (including the logistics of personnel travelling to the BVI) should not be underestimated;

2. Revise the corporate group's operational and legal structure.

Make the entities fall outside the scope of the act. There are some important exceptions and exclusions that are discussed below; and

3. Transfer business operations and assets out and liquidated or wind down the BVI entities.

If the BVI entities are intermediate or direct holding companies, special attention should be paid to whether the local laws where the subsidiaries are located would deem such change as an indirect transfer of ownership which may trigger tax implications. Based on the rules, the act would still need to be complied with until the liquidation is officially completed. Re-domiciling the BVI entities would also withdraw the entities from the BVI regime. However, the Hong Kong Companies Ordinance (CO) currently does not provide for a re-domiciling regime. This is currently being proposed by a number of professional bodies in Hong Kong.

Compliance with the act is assessed based on a 12-month period which can be different from the accounting period of the entities, and may be shortened on election. Reporting should be done within six months after the relevant financial period. For entities incorporated before 1 January 2019, the first reporting period



runs from 30 June 2019 (when a transition period expired) to 29 June 2020 (or an earlier date upon election). Therefore, the immediate reporting deadline will be 29 December 2020 if no such election is made. For entities incorporated on or after 1 January 2019, the first reporting period runs from the date of incorporation to 12 months thereafter, unless elected otherwise.

Reporting should be done through the entities' registered agents. The information collated including the entities' tax residence status, turnover, number of employees, amount of expenditure, address, etc., together with supporting documentary evidence where relevant, will be reported to the authorities through the existing Beneficial Ownership Secured Search system.

There are potentially severe penalties, which could be imposed as a result of non-compliance, including monetary penalties, exchange of information with the tax authorities where the beneficial owners are located, and – in extreme situations – striking off the entities.

Exceptions and exclusions

There are some exceptions and exclusions that may result in the BVI entities operating fully outside the prescribed operations of the act.

No relevant activities

Although the coverage of "relevant activities" is wide, there are still some activities that are not covered. For example, investment funds and entities

holding immovable properties (outside the BVI) are not "relevant activities."

Also, if no actual business activities are conducted, or if no income is generated, the entities would not be considered as engaging in "relevant activities."

This is practically useful, for example, if an intellectual property holding company received no royalties or license fees for the relevant financial period it would fall out of scope of the act. Corporate groups using a BVI special purpose vehicle to hold legal title of the intellectual property for other legal and commercial reasons, and not to generate income from the exploitation of the intellectual property, could potentially maintain status quo. However, for an entity that had been charging royalties in the past and decided to stop charging royalties, the group's wider transfer pricing and local tax implications should also be considered before such changes are undertaken.

Pure equity holding company

Holding companies are subject to a less stringent economic substance requirements where only an appropriate level of employees (or outsourced resources) and business premises are required. The reduced requirements apply to a "pure equity holding company" (PEHC) that is narrowly defined as an entity that only holds equity investment and receives dividends and capital gains only. A PEHC is not required to be managed and directed in the BVI. This would suggest that maintaining sufficient qualified director(s), maintaining sufficient quorum of each board meetings physically present in the

BVI, and making key decisions in the BVI are not necessary.

Having said that, this narrow definition also likely means a very strict application of the law. For example, a holding company that provides financing to its subsidiary by way of an interest bearing loan is likely not a PEHC, and could potentially be subject to the economic substance requirements applicable to a financing and leasing company if it is regarded as carrying on a financing business.

Interestingly, the rules clarified that for a PEHC that actively manages its equity participations, adequate and suitably qualified employees and appropriate premises should be maintained locally. This could mean that a PEHC that trades listed shares (as these are by definition equity investments) frequently may need to employ at least one investment manager who would manage the buying and selling of the shares from a local office. While outsourcing is always permissible, the practical aspects of this operating model should be considered. For completeness, it is important to note that by virtue of its share trading activities, this BVI entity may have already constituted a taxable presence or permanent establishment somewhere outside the BVI notwithstanding the enactment of the act, and thus the relevant (historical) tax implications should also need to be dealt with in tandem.

Non-resident in the BVI

BVI entities that are tax residents in another jurisdiction which is not "black-listed" (i.e. not a jurisdiction included in the

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EU's list of non-cooperative jurisdictions for tax purposes) are out of scope, provided their income from relevant activities are subject to tax in a jurisdiction outside the BVI. The underlying rationale is that such entities should be properly taxed in such another jurisdiction.

That said, the rules go on to explain that: *"It is accepted that some jurisdictions charge tax by reference to a criterion other than residence. What matters is whether the tax authority in the jurisdiction in question has accepted that the entity (or its participators in the case of a transparent entity) is chargeable to tax (to the extent that the jurisdiction charges tax on income) in that jurisdiction by reference to the relevant local criteria."*

The underlined explanation is of importance and relevance to Hong Kong, which only taxes Hong Kong sourced profits. As mentioned above, Hong Kong does not have a re-domiciling regime and so to be regarded as a tax resident in Hong Kong, the procedure would involve registering the BVI entity as carrying on business in Hong Kong (i.e. a place of business in Hong Kong), and exercising management and control from Hong Kong.

To achieve this, the BVI entity would have to be registered as a non-Hong Kong company under Part 16 of the CO (and consequently registered under the Hong Kong Business Registration Ordinance). The rationale behind is, perhaps, that once the BVI entity is registered in Hong Kong, it would be subject to profits tax under the Hong Kong Inland Revenue Ordinance. The BVI entity would have to produce evidence such as a

tax identification number, copies of profits tax return, notice of assessment, Business Registration Certificate, certificate of tax residence, etc.

The fact that the BVI entity may have some non-taxable income (i.e. dividend income or offshore interest income) should not disqualify that entity from being regarded as a Hong Kong tax resident. While this interpretation would fall within the "relevant local criteria" basis of taxation for Hong Kong, this position has not been tested and may be subject to the views of the BVI authorities.

Assuming this position can be sustained, registering the BVI entities as tax residents in Hong Kong may be a practical way out to Hong Kong corporate groups with BVI entities (that are not holding companies) as part of their corporate structure. However, before registering such BVI entities in Hong Kong, historical and go-forward Hong Kong profits tax implications (if any) should be considered. Particularly, late registration under both the Companies and Business Registration Ordinances, and late or under reporting of prior year profits tax would trigger potentially significant penalties.

Going forward

The act is part of the game plan in enhancing global tax transparency, which also fundamentally changes the legal and tax considerations in using offshore entities. Although the BVI entities have issued the rules to provide implementation clarifications to the act, a lot of uncertainties remain. Corporate

groups should not only implement measures to ensure compliance with the act, but a holistic review of the group's entire legal and operational structure should be conducted to develop a longer-term solution. It is also necessary to bear in mind potential changes in view of the changing global tax landscape, and the potential stricter interpretation and enforcement of the act in the medium term. Finally, as one may notice from the above, the act and the potential solution and compliance have wide and multidisciplinary implications from the aspects of legal, tax, finance, operations and compliance, etc. A detailed project plan, with support from different internal and external experts, is key to the successful implementation of the solution.



This article is co-authored by **Eugene Yeung** and **Johnson Tee**, Directors of KPMG's Corporate Tax Advisory practice in Hong Kong.

TECHWATCH 208

The latest standards and technical developments

Local updates

Invitations to comment

The Institute is seeking comments on:

- The International Ethics Standards Board for Accountants (IESBA) Exposure Drafts: *Proposed Revisions to the Non-Assurance Services Provisions of the Code and Proposed Revisions to the Fee-Related Provisions of the Code* by 3 April.
- The International Accounting Standards Board (IASB) Exposure Draft ED/2019/7 *General Presentation and Disclosures* by 22 May.
- IASB Request for Information: Comprehensive Review of the IFRS for SMEs Standard by 12 June.

New webpage on goodwill and impairment

The new webpage on goodwill and impairment provides details of the Hong Kong Institute of CPAs' involvement in local and global discussions on accounting for goodwill, as well as upcoming activities.

New webpage on accounting for crypto-assets

Crypto-assets, including cryptocurrencies such as bitcoin, have generated a significant amount of interest in recent years. As activity related to crypto-assets has increased, one important issue is how to account for crypto-asset transactions. The new webpage on crypto-assets explains how the Institute is monitoring the developments of crypto-assets and participating in the global discussions on accounting treatments. It also provides relevant guidance and publications on accounting for crypto-asset transactions.

Illustrative examples on rent concessions

Due to the recent market conditions, some landlords have chosen to lessen tenants' difficulties by providing rent reduction or other means of subsidy. The Institute has issued a publication to illustrate the application of Hong Kong Financial Reporting Standard 16 *Leases* to some commonly seen rent concession arrangements and highlight key factors to be considered for lessees and lessors when accounting for these transactions.

International updates

Audit and assurance

- The International Auditing and Assurance Standards Board (IAASB) Auditor Reporting Project Update.
- The International Federation of Accountants (IFAC) article on *Achieving High-Quality Audits*.

Ethics

- IESBA December 2019 meeting highlights.
- IFAC *Exploring the IESBA Code: Second Installment*.
- IESBA *Proposed Revision to the Code Addressing Objectivity of Engagement Quality Reviewers*.
- IESBA webinars explaining its proposed revisions to international independence standards.

IFRS updates

- January 2020 IASB update and podcast.
- IFRS 17 *Insurance Contracts* podcast covering the January IASB's meeting.
- January 2020 IFRS for SMEs update.
- January 2020 IFRS Interpretations Committee update.

Professional accountants in business

HKEX publishes results of latest review of issuers' annual report disclosure

Hong Kong Exchanges and Clearing (HKEX) has recently published a report on findings and recommendations from its review of issuers' annual reports for the financial year ended in 2018. HKEX was generally satisfied with its findings and recommends the following:

- Business review in management discussion and analysis
Issuers should make clear disclosure about risk areas such as major regulatory or governmental policy changes, and an assessment on the impact to their business operations and previously announced business plans. Where applicable, issuers should also discuss the impact of the policy changes to their financial performance during the financial year.
- Financial statements with auditors' modified opinions
Issuers with audit modifications should actively engage their auditors to discuss their action plans with a view towards taking appropriate and effective actions to remove the modifications. On asset valuations of receivables and deposits, issuers should maintain a credit loss policy supported by historical loss information and adjusted by forward looking economic factors, and make impairments according to such policy.
- Material intangible assets, including goodwill
Issuers should ensure that the key assumptions applied in impairment testing are not overly optimistic and provide sufficient information for

investors to understand how issuers assess the reasonableness of key assumptions.

- Using non-GAAP financial measures
Issuers should ensure that the non-generally accepted accounting principles (GAAP) financial measures should be unbiased, presented with no greater prominence than GAAP measures, clearly defined, reconciled to the relevant amounts in the financial statements with sufficient explanation on adjusting items and presented consistently over time.

Preparers of financial statements, in particular for those listed entities are encouraged to read the report and follow HKEX guidance to improve annual report disclosures to enhance transparency to stakeholders.

Digital transformation in finance functions

The Institute of Chartered Accountants in England and Wales Tech Faculty's latest publication – *Digital Transformation in Finance Functions: ASEAN and U.K. Perspectives* – focuses on practical experiences, drawing on interviews with around 20 chief financial officers or digital transformation leads in finance functions from the United Kingdom, Singapore, Malaysia, Vietnam, Indonesia and Cambodia, and shares key lessons about the challenges of transformation in practice.

The findings indicate that the role of digital technology in finance is clear. It can be used to automate standard, repeatable processes, and thereby free up staff to spend more time on higher-value work, such as critical thinking, problem-solving and business partnering.

The research also highlights a range

of challenges that typically need to be addressed, and the report focuses on three important messages in this regard:

- The pace of technological and business change is creating an urgent need to build the capabilities and demand for higher value activities – it is no longer an option, finance teams must act now.
- People are the key to transformation, and finance functions need to prioritize re-skilling, training and cultural change in their activities – partly around tech skills, but also business and commercial awareness and soft skills.
- Transformation is difficult, it doesn't happen overnight, and therefore small steps matter – focusing on marginal gains can prove helpful in managing the expectations of stakeholders and keeping staff motivated.

Future ready: accountancy careers in the 2020s

The Association of Chartered Certified Accountants has recently published a report entitled *Future Ready: Accountancy Careers in the 2020s*, which explores the major forces affecting the future of the accountancy profession. Apart from the major force transforming the world of work – technology, other forces include changing expectations of individuals in the workplace, shifting social norms and values, new types and levels of connectivity and demographics.

The report also tells the trends changing careers in accountancy and identifies the following five careers zones emerging, which represent broad areas of opportunity which individuals may develop their careers in.

- Assurance advocate – driving transparency and trust to meet growing regulatory demand.

- Business transformer – supporting business transformation in the digital age.
- Data navigator – organizational storytelling driving faster, more credible insights.
- Digital playmaker – champions of data governance driving productivity and decision support processes.
- Sustainability trailblazer – helping organization transform to accounting for the whole business.

Small and medium practices

Key factors in evaluating software investment

According to the recent *IFAC Global SMP Survey*, 28 percent of small- and medium-sized practices (SMPs) that responded are committed to invest 10 percent or more of their firm's practice revenue on technology. While investing in technology is important to SMPs, the exploration process can be daunting.

The IFAC SMP Committee has recently compiled a five-step software investment evaluation process for SMPs:

1. Evaluate the suppliers' business history and reputation.
2. Evaluate the underlying technologies that comes with the software.
3. Evaluate the training and support options.
4. Review the budget and evaluate costs and contract conditions. This will need to be in alignment with the firm's middle and longer-term strategies.
5. Evaluate testimonials and references.

There are also a number of articles and videos on IFAC's Knowledge Gateway highlighting the importance of technology as a new strategic advantage.



Success symbol



Success ingredient

There are many ways to salute success. In business, there's one sure step you can take to be a winner. With a member of the Hong Kong Institute of CPAs on your team, you'll always be going for gold.



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Corporate finance

HKEX seeks views on corporate weighted voting rights beneficiaries

HKEX released a consultation paper on 31 January to seek views on a proposal to allow corporate entities to benefit from weighted voting rights (WVR), subject to additional conditions and investor protection measures. Please refer to the press release for details.

The consultation explores the feasibility of whether an issuer can grant WVR to both individual and corporate beneficiaries, subject to specific suitability and eligibility criteria applicable to it.

The deadline for responding to the consultation paper is 1 May. Members are welcome to submit any views or comments on the proposals in the consultation paper, together with their membership number and contact details, to the Advocacy and Practice Development Department on or before 27 March.

Hang Seng Indexes Company Limited seek views on structure of Hang Seng Index

On 13 January, the Hang Seng Indexes Company Limited (HSICL) released a consultation paper to seek views on the following areas:

1. Positioning of the Hang Seng Index (HSI).
2. Eligibility of WVRs for the HSI.
3. Eligibility of secondary-listed companies for the HSI.
4. Weighting of the financial sector in the HSI.
5. Matters related to the Hang Seng China Enterprises Index.

In particular, HSICL is considering including listed companies with dual-class shares and WVR, most notably applicable to the

Mainland technology giants.

The deadline for responding to the consultation paper to HSICL is 13 March.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Gazettal of Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Bill 2020.
- Notifications of change of address:
 - Employers
 - Individuals
- Latest arrangements for Inland Revenue Department services.
- Revision of departmental interpretation and practice notes (DIPNs):
 - DIPN 18, DIPN 35, DIPN 36, DIPN 37, DIPN 56 and DIPN 57
- Interest on Tax Reserve Certificates.
- Stamp Duty statistics (January 2020).

Legislation and other initiatives

Anti-money laundering notices

For the current lists of terrorists, terrorist associates and relevant persons or entities under United Nations (UN) sanctions, members should refer to the Institute's anti-money laundering webpage, which is updated regularly. The UN Sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of UN sanctions currently in force in Hong Kong.

AML/CFT guidance

For mandatory guidelines and information from the Institute on the anti-money laundering or counter-terrorist financing (AML/CFT) requirements for members, see the Institute's *Guidelines on Anti-Money*

Laundering and Counter-Terrorist Financing for Professional Accountants. Member practices may also find the Financial Action Task Force's (FATF) *Guidance for a Risk-Based Approach for the Accounting Profession* to be a useful reference when developing their own risk-based approach to applying the AML/CFT requirements.

Members who are licensed to provide trust or company services should also see the Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers, by Companies Registry.

The FATF published guidance, in October 2019, entitled, *Best Practices on Beneficial Ownership for Legal Persons*. This paper aims to provide suggested solutions to the disclosure of beneficial ownership, supported by cases and examples of best practices from delegations of member jurisdictions of the FATF.

Members should ensure that they are aware of the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* (in particular Chapter 6, covering designated non-financial businesses and professions), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.



Please refer to the full version of TechWatch 208, available as a PDF on the Institute's website: www.hkicpa.org.hk

CAPTURING THE MOMENT

There are various types of photography – landscape, macro, abstract, portrait and black and white – to name a few, with each requiring a different set up and location. But they all have one thing in common – a passionate photographer behind the lens. Institute members tell [Louise Tam](#) how they started doing photography, and what it takes to get the perfect shot

It's 8:00 p.m. and Jerry Mo is tip-toeing into Tai Po Kau Nature Reserve looking for bugs. He can barely see his fingers in the dark, but his camera is poised to capture the nocturnal life of insects unfolding around him.

This is not how Mo, a 61-year-old Chief Financial Officer of a listed company and Hong Kong Institute of CPAs member, thought he would be spending his spare time. Until recently, he was afraid of insects, with spiders inducing a special shudder down his spine. But after joining the Institute's Photography Interest Group three years ago, Mo became drawn to the genre of microphotography, in which macro lenses are used to allow for greater magnification and to capture the finest details, for example, the hairs on an insect's face. "Previously, I was mainly taking pictures of my family, and landscape shots. Really nothing else," says Mo. "To be honest, I love nature. I love what God's created for us, and I enjoy looking at the world."

What he saw through his camera lens gave him a new perspective on Hong Kong. In the country parks at night, the insects fly around and sometimes rest on handrails. With his Nikon D7100, he has taken intimate portraits of rainbow tiger beetles, sleeping dragonflies and spiders hunting for their prey. His favourite subject, though, is the mantis. "They are very quiet and when they face the camera, they are not actually afraid of you," he says. In his work, the green insect seems to be peering into the camera with an enquiring eye.

Mo, who lived in the United Kingdom for five years – it was

**"I love nature.
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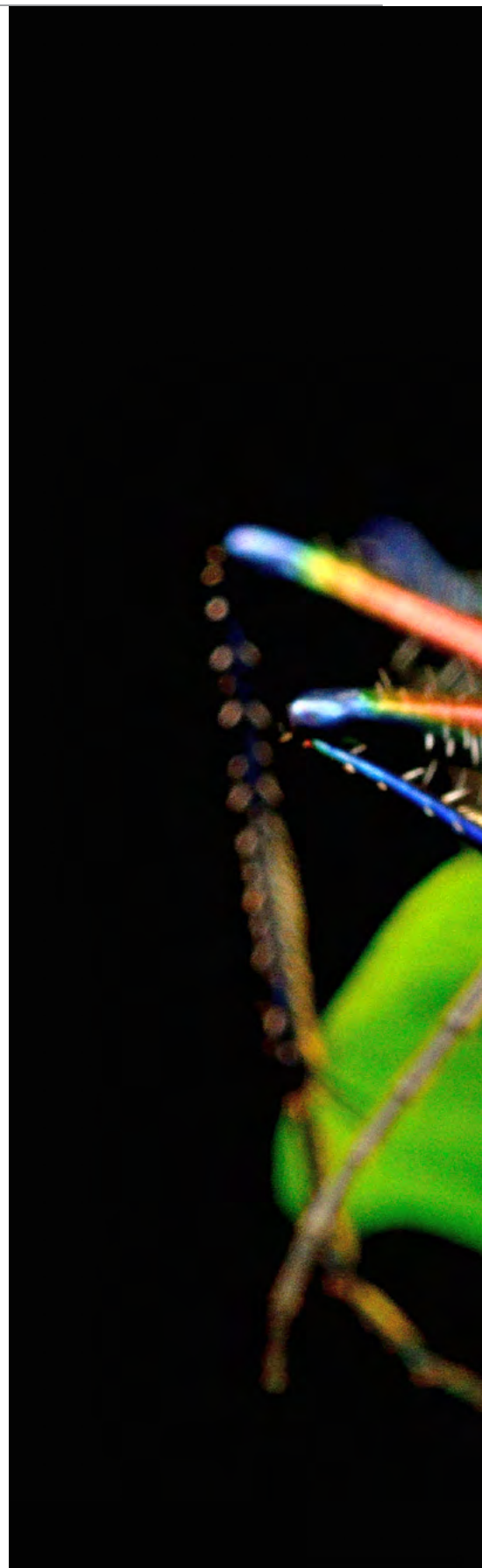




Photo by Jerry Mo



there he trained to be a chartered accountant – and Australia for seven years, was given his first camera by his uncle when he was still in primary school in Hong Kong. That, he says, was “just a plastic box.” As digital photography technology has advanced, his interest in the field and technical ability has grown. “It’s a totally different ballgame to film,” he says, “because there are no additional costs to using the camera apart from the actual fixed costs of the camera itself. For each picture that you take, you don’t have to pay for it to be developed. A lot of my pictures are stored in the computer.”

The ease of digital photography, and the community he has found online for sharing his pictures, has made his hobby a mobile one that he can take on the road. Mo travels a lot

internationally for work and says that photography gives him a creative outlet while he’s away.

“A lot of accountants are reserved,” he says.

“Photography helps us to express ourselves.”

All in focus

If Winnie Law’s photographs have a touch of magic to them, she knows who she owes it to. Her ethereal style of photography is inspired by Leo KK Wong, the master of pictorial photography who was born in Hong Kong in 1932 and went from being a physician to one of the world’s best photographers. Law, Senior Finance Manager at Nan Fung Group, had always been interested in photography, but Wong’s work opened her eyes to a more creative, less documentary side of the art. “I was impressed by his unique style, in that the



Photos by Winnie Law

She is most proud of a photo she took of a lotus flower, which was taken at Chi Lin Nunnery.

photo is presented as a painting, which is very different,” says Law, an Institute member.

Wong sometimes organized public talks on photography in Hong Kong, which Law attended. She listened to him talk about how he pioneered the combined use of a reflex lens and multiple exposures to take photos in the style of pictorial photography. In this genre, photographers manipulate images to blur the background and create an otherworldly atmosphere, Law explains. That effect is achieved by using a multiple exposure

function, which is commonly built into high-grade cameras, including the Sony A7II Law currently uses. This function, she explains, allows a photographer to merge two or more exposures – usually one is in focus and one is out of focus – to create a single image. Often, Law will intentionally jog the camera while shooting to create the movement that gives her images a magical, otherworldly aesthetic. The result is photographs that look like watercolour paintings, in the style of the French Impressionists like Claude Monet, Pierre-Auguste Renoir and Édouard Manet.

Law is also a member of the Institute’s Photography Interest Group, which, she says, offers a lot of help to newbies. Law has attended other classes on photography skills run by other photography associations, and offered to Institute members at discount prices, and joined field trips around Hong Kong to places such as Ma Tso Lung, Lei Yue Mun and Lung Kwu Tan, where Law shot a beautiful sunset.

She is most proud of a photo she took of a lotus flower (above), which was taken at the Chi Lin Nunnery. The shot looks uncannily



The Institute's Photography Interest Group organizes sharing sessions, practice sessions, photography courses, photography tours and gatherings for members. To find out how to join, visit the Institute's website.



like a Monet rendition of his flower garden at his home in Giverny in France.

Law has plans to broaden her horizons in the future. “I’d like to switch from nature,” she says. “I like travelling and also cars. I want to show the beauty of so many things.”

A developing interest

When Tom Zhang moved from Guiyang, in Guizhou, to Hong Kong at the age of 18, he was amazed by the cityscapes in this concrete jungle. While Zhang’s home province is famed for its karst landscapes and caves with stalactites and stalagmites, Hong Kong presented a totally different environment for his eyes – and camera – to feast on. He remembers seeing old Chinese-style buildings rubbing up against more modern-looking skyscrapers. “Hong Kong was a juxtaposition of a lot of eastern culture and western culture,” he says. “It wasn’t blending. It was all co-living. It’s a live and let live thing.”

That inspired Zhang, Senior Consultant at KPMG Advisory and an Institute member, to “capture as much as possible of what is happening on the street corners. There is an explosion of visual arts here,” he says. “It inspired me to develop my photography from portraits to cityscapes and landscapes.”

Zhang, who had previously focused on portrait photography, began to broaden his skill set to connect with his new home. He honed his skills through researching the styles and being inspired by other photographers such as Shanghaiese photographer Fan Ho, whose work comprises of black and white street scenes of everyday life in Hong Kong. Group f/64, a San Francisco-based photography movement from the 1920’s and 1930’s, was a huge influence on his landscape framing, with many of Zhang’s dramatic shots of the city inspired by the group’s dedication to detail and sharply focused images.

Zhang describes his own style as “moody, natural and stylized.” He takes photographs on a Canon 5D Mark II with a few lenses, including 30mm f/1.4 and 70-200mm f/4. He also relies on his iPhone for urban photography, and can often be found snapping stills of a Kowloon road network from above or the glistening lights of Causeway Bay at night-time.

During his third year of university, where he studied accounting and finance, Zhang spent a year in Leeds in the United Kingdom, which gave him a chance to be inspired by a whole new type of natural environment.



Photos by Tom Zhang

“There is an explosion of visual arts here. It inspired me to develop my photography from portraits to cityscapes and landscapes.”



“The Lake District in the U.K. was one of my biggest influences,” he says. “In the morning, you have the fog and then you have sunlight piercing the fog,” he remembers. A trip through Europe that year allowed him to see snowy mountains as well as different landscapes in Germany and Italy.

When Zhang came back to Hong Kong and started working at KPMG, he managed to find time to explore the mountains in his own

city with his camera. “That’s really the life,” he fondly says. “I’m still at a relatively early stage of my career,” he adds. “So there’s a lot of pressure to move upwards in the corporate ladder – but it’s good that I have photography as a hobby. I can have a short break from the commercial world, and enjoy the company of the lens, an instrument that teaches us how to see the world without it.”

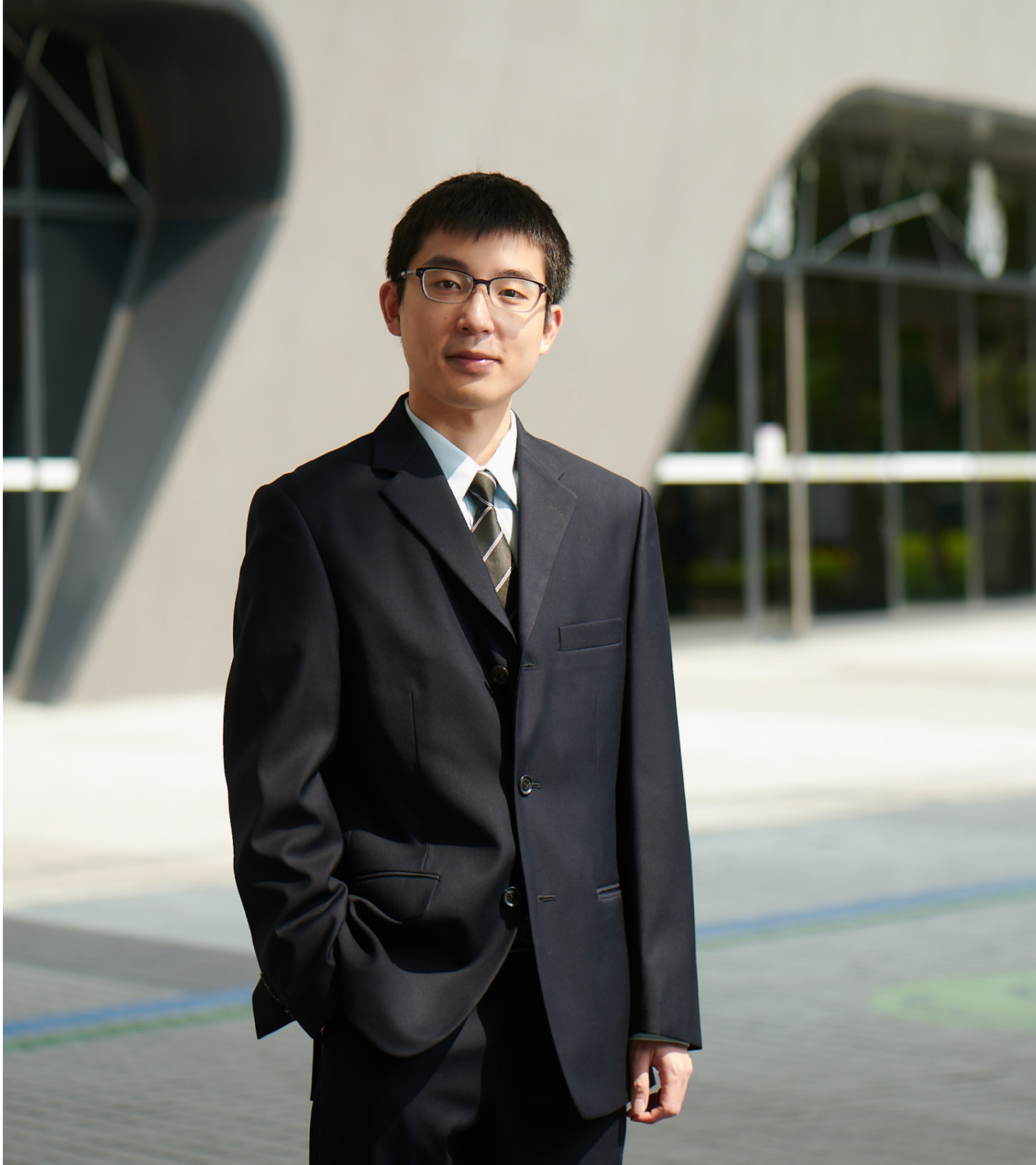


YOUNG MEMBER OF THE MONTH

Thomas Sin

THOMAS SIN

Manager, Legal and Compliance
at Cigna Worldwide Life Insurance
Company Ltd





Thomas Sin, Manager, Legal and Compliance at Cigna Worldwide Life Insurance Company Ltd, began his career at a Big Four firm like many fresh graduates. He tells *A Plus* why he later decided to work in the insurance industry, and the professional opportunities open to him from working in compliance

What is your current role and responsibilities? How is it going so far?

I'm currently Manager, Legal and Compliance at Cigna Worldwide Life Insurance Company Ltd. I'm focused on implementing new regulations and rules issued by the Insurance Authority, the insurance regulator. This involves communicating with other departments such as the underwriting department, which looks at the risks involved in insuring people who are interested in our products. We make sure that they comply with the rules. I'd say it's going well so far. I spent the first two years after graduation working at PwC as an auditor, where most of my work involved auditing insurance companies, so I got to understand their operations, and I became interested in the regulation side of things. After that, I joined the Insurance Authority. I worked there for around two years before transitioning to an in-house role at insurance companies.

What are the most rewarding and challenging aspects of your role, and why?

We've had to deal with new regulations, as part of the Insurance Authority's recent reform of the insurance industry. They are trying to more strongly regulate insurance intermediaries and make sure that they are qualified by increasing the barrier of entry. Implementing those reforms under a tight deadline is definitely a challenge, especially with a lot of internal back-and-forth communication. For example, we need to work with the sales department, which mainly focuses on meeting their sales targets, to implement regulations. This means working together to achieve a balance of good sales and good compliance. The rewarding part is when you actually make new controls – which could be abstract initially – work within the company and get people to successfully comply with them. It makes you feel like you've actually made a change.

What inspired you to become an accountant?

It's a relatively stable career. I remember deciding on what to major in at university right after the financial crisis in 2008 and hearing people say that accounting is one of the most recession-proof professions. This idea that companies turn to accounting professionals for assistance in both good and bad economic conditions really attracted me to the profession. I went on to study accounting at the Hong Kong University of Science and Technology.

Where do you see yourself in the next five to 10 years?

I would like to stay in the legal and compliance department and take on an even higher managerial role in the future. There are a lot of opportunities for me to touch on different areas of compliance – and there are a lot of areas. For example, I usually focus on anti-money laundering, but I've also looked at data privacy, anti-bribery and anti-corruption. I've also helped to implement related controls within the company to determine whether to accept or turn down insurance applicants based on our risk appetite.

What are the biggest lessons you've learnt so far from work experience or managers?

I had a manager before who really emphasized work-life balance, which I think is important for our generation, particularly those who are accountants and auditors. At PwC, like most auditors, I worked until quite late. Obviously, it's good to work hard, but to me, achieving good work-life balance keeps you and your mind healthy. After work, try to do something that helps you to relax.

How has the Qualification Programme (QP) helped you in your career?

It was really relevant in my first job as an auditor at PwC, especially Module A financial reporting and Module C business assurance, and their focuses on standards. Even though I'm no longer an auditor, Module C is still very relevant to my compliance testing work. It taught me the Hong Kong auditing standards, how to perform an audit, how to design a self-audit process, and sampling methodologies. Even though we don't have to follow auditing standards, the knowledge around how you test something and how to recommend ways to enhance the controls after testing, still apply.

SPOTLIGHT ON KUALA LUMPUR

Institute member Patrick Wong, AECOM's Malaysia Country Director and APAC Leader for Global Key Accounts, shares his favourite places for your next business trip to Malaysia's capital city



Stay at...

The Majestic Hotel

"The colonial look and furnishing sets this hotel apart from other more modern ones. It's close to city centre and reasonably priced. If you're not spending the night, try the afternoon tea at the Orchid Room. There is a good variety of both hot and cold food, and the service is very friendly," says Wong.



Relax at...

Sky Mirror tour at Kuala Selangor

Kuala Selangor Beach is in the middle of the sea and known as "Sky Mirror," as the shallow waters create a mirror-like reflection of the sky. "It's a great way to experience walking in shallow waters by the ocean and take great photos with friends. Do book the tour in advance as tours don't usually operate daily and departure time varies depending on the tides. Make sure to plan this one in advance as it is about a one-hour drive from the city centre followed by a 30-minute speedboat ride," says Wong.



EYES & EARS

Institute members on what music they are currently listening to and what books are worth reading

Jon Bon Jovi

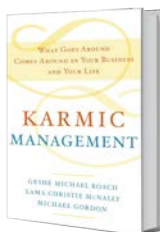


What I'm listening to

- Perry Kwok, Leasing and Property Manager at Pret a Manger

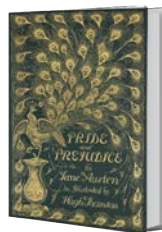
I am currently listening to Bon Jovi's album *Crush*. "*It's my life*" is one of my favourites, especially the lyrics: "*I just want to live while I'm alive*", I think everyone of us should have faith in ourselves and live a life with no regrets.

What I'm reading



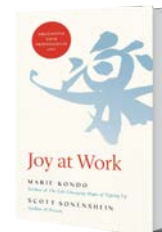
I recommend *Karmic Management: What Goes Around Comes Around in Your Business and Your Life* by Christie McNally, Michael Gordon, and Michael Roach. It's a small book with big lessons in business. It teaches readers why helping others is the path to success. This lesson is also exemplified with how the authors helped bring a company suffering losses to one with an annual turnover of US\$100 million. If you are seeking success in your life and career, this book is a must read.

- Kan Miu Yee, Life Coach



I first read Jane Austen's *Pride and Prejudice* in 2006, and have kept going back to it. The story is set in 19th century England and centres around the unstable relationship between Elizabeth Bennet, the daughter of a modest farmer, and Mr. Fitzwilliam Darcy, a rich aristocratic landowner. The book takes readers on a whirlwind journey along with the main character, as she deals with relationships and problems, both inside and outside of the family. I highly recommend this one for its valuable life lessons.

- Janet Wong, Senior Analyst, Internal Audit at Estee Lauder



Many Institute members are currently working from home, fighting spouses, kids and cats for precious desk space to rest their notebook computer. Netflix star Marie Kondo and organizational psychologist Scott Sonenshein have joined forces to help readers of *Joy at Work: Organizing Your Professional Life* to declutter and, they say, to make space for the work that matters. This book teaches practical tips for maintaining a tidy workspace, and includes life-changing advice on paving a career path that sparks joy for you.

- Recommended by A Plus editors

Working from home

Hong Kong's humorist on why working from home is not all it's cracked up to be



Nury Vittachi

is a bestselling author, columnist, lecturer and TV host. He wrote three storybooks for the Institute, *May Moon and the Secrets of the CPAs*, *May Moon Rescues the World Economy* and *May Moon's Book of Choices*

My children are aggrieved with the adult world – and with good reason. Grown-ups have created a system in which earning a living involves getting off the sofa and going out. How inconsiderate! How unreasonable!

On the plus side, young people's love of home means they are continually creating ways of earning money without stepping outdoors.

Some schemes (like a dad live-streaming himself cutting his toenails hoping to earn advertising dollars) fail to make a single cent. Others (such as making YouTube channels featuring kitchen disasters) actively send families into debt.

Yet it's changing. These days, we all have to work from home at regular intervals – not just because of viruses – but also due to the weather, transport strikes, political disruptions, etc.

What actually happens? The kids, with no school to go to, climb onto the playground equipment and play their usual cute childish games like sending abusive texts and hacking nuclear missile silos.

Adults sit at dining tables with their laptops and try to find ways to work remotely. It's tricky. People think accounting is mostly about numbers and screens, but it's really about people and ideas.

In-house accountants have to interact with staff before they can crunch numbers. And auditors, of course, do much of their work at clients' offices.

Tax specialists, in particular, can hardly advise people from their beds. Well, I suppose they could, if they made it a unique marketing proposition: "Pillow Talk Can Be Tax Talk." But let's not go there.

Yet, all of us are being forced to find portions of work we can do at home.

Writers are masters of the home-office scene, so let me share my experiences. The first three things you discover:

1. Instead of your day being mostly work with occasional snack consumption breaks, it can become mostly snack consumption with occasional work breaks. Clients eventually ask why they can hear you eating every time

they phone you.

2. You eventually start wearing the same clothes every day until they become stiff. Work-from-home veterans live in pajamas. Discussing tax regimes with clients when you are in bed or not wearing trousers can feel awkward. Eventually you may start to enjoy this aspect, which may feel even more awkward.
3. You will soon persuade yourself that you work better while listening to your favourite band. But the day will come when you forget to turn it down during calls and your client will ask about the background sound: "They play BTS at 100 decibels in your offices now?"

Working at home involves physical challenges too, particularly when you are doing a long project and don't need to speak to anyone for several days.

After about three days, you and your larynx atrophies forget how to talk to humans. This is embarrassing when someone comes to the door and you can communicate only by screaming and jumping up and down, like monkeys, children, or compliance officers.

But there are advantages for everyone. Women save on cosmetics, men save on razors, everyone saves on transport costs, and – best of all – the loss of time wasted on getting to the office means that you get two extra hours in each day.

They'll be used. The migration of the tax sector from paper documents to fully digital systems will mean that managing that stuff will soon be something you can do from anywhere. And with the cost of offices being so high, it will make sense to do more from home.

But if telecommuting becomes a major part of your life, you must prepare your home properly. You need a dedicated workspace with a door that can be locked and bolted, particularly if you have children, pets, or difficult clients.

And be aware that there is one huge downside. The loss of human social connection can be a serious problem for people who work at home for long periods.

Journalistic interviewers frequently ask me: "As a full-time writer, do you feel lonely, and can you please let go of my hand?"



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