



DRIVING BUSINESS SUCCESS

Issue 12 Volume 16 December 2020

PLUS:

CORPORATE GOVERNANCE

Strategies of the winners of
this year's Best Corporate
Governance Awards

PROFILE

Jacky Lai,
Assurance Partner at EY

SECOND OPINIONS

How can you leverage mindset to
change behaviour?

ROAD TO SUCCESS

Ellis Cheng, Chief
Financial Officer
at Kerry Logistics
Network Limited,
on how he keeps
the company and
his career moving



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Certified Public Accountants
香港會計師公會

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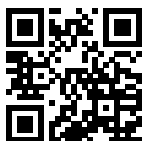
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“We have seen fundamental changes in how we work, live and play, but through it all I remain inspired by the incredible resilience, resourcefulness and resolution that I have witnessed.”



Dear members,

Last December, when I was elected President, I wouldn't have believed you if you told me about the year we have had. For my final message as President, I would have expected to discuss alongside the changes we had made to the Institute, all the events and outreach activities we'd engaged in over the year.

Although we were unable to hold these events, and I have often felt like a Virtual President, I am pleased that we have been able to undertake the three major tasks I set out for the Institute to focus on.

Firstly, releasing the seventh long range plan. This became the *Strategic Plan 2020-2022* published in June, which includes 27 key action items that the Institute will develop and implement by 2022.

Secondly, improving our member services. We have achieved this through holding free live webinars and expanding our e-programme offering, setting up a new Members-Help-Members initiative for small- and medium-sized practices, running seminars dedicated to members who work with the Audit Commission, Treasury and Inland Revenue Department and engaging with members.

Thirdly, enhancing the image of the profession. This year, we have improved our communications with members and the public through new video series, new social media channels, and celebrating the anniversary of some of our programmes. I have also been interviewed by the media about many topics that our profession is engaged in that are of interest to the public.

Leading the discussion with the Securities and Futures Commission and Hong Kong Stock Exchange for concessions to meet the 31 March 2019 reporting deadline for December 2019

year-end listed companies affected by the COVID-19 outbreak was certainly a unique experience. I am glad to see that the challenge was very well managed.

Like many times this year, the COVID-19 pandemic has caused disruption to our events this month. Both the Annual Dinner and the Best Corporate Governance Awards (BCGA) presentation ceremony have had to be adjusted. A video celebration was filmed and uploaded to the Institute's website replacing the annual dinner, and features the Chief Executive of Hong Kong delivering a message for the profession. I urge you to watch the video. The BCGA presentation ceremony was replaced by a virtual press conference announcement, and the team is working on a video featuring the awards winners. You can read more about the awards in the article on page 24.

I am very pleased to advise that at its last meeting the Council had endorsed the draft consultation paper on One Member, One Vote for the election of President and Vice-Presidents. The public consultation is planned to take place in the first quarter of 2021. I would like to thank the independent working group, set up early this year and chaired by Past President David Sun, for their hard work and wisdom.

Another pleasing development this month has been successfully holding the Qualification Programme (QP) Module Examinations. These are the final module examinations of the current QP, and I wish the Institute success in implementing the new QP modules next year.

As I reflect on the year, we have seen fundamental changes in how we work,

live and play, but through it all I remain inspired by the incredible resilience, resourcefulness and resolution that I have witnessed.

My journey to becoming President started while serving the Institute as a committee member back in 1994. It has been more than 25 years of continuing service and I believe I am the oldest reigning President of the Institute. Although the disruption this year has been immense, I still consider 2020, and at the age of 60, to be the apex of my professional career and I have lived a life that is full. So my fellow members, particularly young members, I want you to know that if you keep working towards your goals, they can be achievable.

I would like to take this opportunity to pay tribute to my beloved mother who passed away two years ago and also thank my wife and two children, who are also accountants, for their tolerance and support given to me over the years.

Finally, I thank my two Vice-Presidents, Nelson Lam and Loretta Fong, Immediate Past President Patrick Law, Council members and committee members for their concerted efforts over the year dedicated to our profession. I would also like to extend my special gratitude to the Chief Executive and Registrar Margaret Chan, the Institute's management and staff for their professionalism throughout this challenging year.

I have truly been honoured to serve as the President. I wish you and your family an enjoyable Holiday Season and a New Year filled with health, happiness and prosperity!

For the final time...

Johnson Kong
(Virtual) President

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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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Certified Public Accountants
香港會計師公會

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18,152 students of the Institute and 2,358 business
stakeholders every month.



NEWS

Institute news Business news

Institute elects new President and Council

The Institute elected Raymond Cheng as President for 2021, following the 48th annual general meeting (AGM) on 10 December. Rosalind Suk Yee Lee and Li Kin Hang were elected as Vice-Presidents.

Cheng, who is currently Chairman of HLB Hodgson Impey Cheng Limited, was first elected as a Council member at the 2010 AGM and has served on the Council since 2011. The two new Vice-Presidents joined the Council since 2018 respectively.

Cheng has been actively involved in the development of the profession through his participation in a wide range of Institute working groups and committees, including the Audit Profession Reform Working Group, the Registration and Practising Committee, and the Remuneration Committee. He is also the Chair of the Qualification Oversight Board.

Seven members were elected at the Council election to serve for a term of two years: Alan Au; Alan Chan; Larry Cheng; Raymond Cheng; Fong Wan Huen, Loretta; Lam Chi Yuen, Nelson; and Wong Wing Hei, Ernest.

Existing elected members who will hold office for one more year are Cheung Wai Lun, William; Choy Kai Sing; Ernest Fung; Rosalind Suk Yee Lee; Louis Leung; Roy Leung and Li Kin Hang. The Hong Kong government has also appointed Agnes Choi Heung Kwan and re-appointed Theresa Ng Choi Yuk as lay members of the Council for a term of two years from 1 December 2020 to 30 November 2022. Two continuing government-appointed lay members Wong Kam Pui, Wilfred and Au King Lun will fulfil the second year of their terms. The Immediate Past President Johnson Kong will hold office as a member of the Council until the conclusion of the 49th AGM.

Results of Best Corporate Governance Awards 2020 announced

The results of the Institute's Best Corporate Governance Awards (BCGA) 2020 were announced during a media briefing on

2 December. About 500 annual reports and around 500 sustainability reports were considered in the initial stage. The judges noted some positive signs, including improvements in the quality of environmental, social and governance (ESG) reporting, and decided to give out a record number of 30 awards. A diverse range of candidates reached the final stages, and seven new awardees emerged, including those winning awards for the first time in the sustainability and social responsibility or ESG reporting section.

This year, the awards celebrates 20 years of setting a benchmark for current corporate governance and sustainability standards in Hong Kong. "This year has been a year of disruption, due to the ongoing United States-China trade dispute and the global COVID-19 pandemic, and it is interesting to note that the awards were launched in 2000, the year that the dot com bubble began to burst. Throughout all this time, the importance of good corporate governance has always been clear, as a beacon of stability and a vital investor safeguard," said Johnson Kong, Institute President and Chairman of Judging Panel of the BCGA 2020. The full list of winners and the Judges' Report are available on the Institute's website. Find out more about the corporate governance practices of some of this year's winners on page 24.

New auditing guide for ESG reporting now available

The Auditing and Assurance Standards Committee has published Auditing and Assurance Technical Bulletin 5 *Environmental, Social and Governance (ESG) Assurance Reporting* to assist members performing assurance on ESG reports. It is available on the Institute's website. Read more about the guidance on page 42.

Annual report published

The Institute's 2020 annual report is available now. Themed "Leading with Trust," the report ties in with the Institute's *Strategic Plan 2020-2022* published this year and includes photo essays of the Institute's committees and panels members on how their efforts will keep Hong Kong's accounting profession sustainable and prepared for the future.

Virtual Annual Cocktail celebration video

Due to the pandemic, the Institute cancelled its Annual Dinner and instead released a celebratory video to showcase its achievements in building trust with members, stakeholders and society throughout this year. Celebrate with us by watching the video, available on the Institute's YouTube channel.



Resolutions by Agreement

Tam Kwok Chung, John, CPA (practising) and John Tam & Co. Certified Public Accountants

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 110.1 A1 (c) and R113.1 under Chapter A of the *Code of Ethics for Professional Accountants*.

The respondents issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A). They did not conduct their procedures fully in accordance with the rules and the Institute's Practice Note 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. The respondents failed to identify errors in the firm's ledger and the firm's lack of prior written notification to clients when its fees were settled by withdrawing money from clients' accounts. In addition, there were deficiencies in the respondents' procedures on testing of bank reconciliations and confirmation of bank balances.

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 areas of non-compliance with professional standards;
2. The respondents be reprimanded; and
3. The respondents pay an administrative penalty of HK\$25,000 and costs of the Institute of HK\$15,000 jointly.

Li, Tang, Chen & Co.

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 500 *Audit Evidence*, and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

The firm expressed an unmodified auditors' opinion on the consolidated financial statements of China Smarter Energy Group Holdings Limited, a listed company, and its subsidiaries for the year ended 31 March 2015. Both the engagement partner and the engagement quality control reviewer of the audit have since resigned from the Institute.

In the audit, the firm did not properly assess the method, bases and assumptions used by the company's management and valuer in valuing intangible assets acquired in a business combination. The firm also failed to identify the company's error in accounting for the consideration shares issued for the business combination, in that the fair value of the shares was not measured at closing market price on the date of acquisition as required under Hong Kong Financial Reporting Standard (HKFRS) 3 (Revised) *Business Combinations* and

HKFRS 13 *Fair Value Measurement* but at a significantly lower issue price.

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

1. The firm acknowledges the facts of the case and areas of non-compliance with professional standards;
2. The firm be reprimanded; and
3. The firm pays an administrative penalty of HK\$50,000 and costs of the Institute of HK\$15,000 and of the Financial Reporting Council of HK\$228,799.

Disciplinary finding

Wong Wang Tai, Ivan, CPA (practising) and Ng Ka Hong, CPA (practising)

Complaint: Failure or neglect by Wong to observe, maintain or otherwise apply 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 both Wong and Ng to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants*.

In April 2019, the Institute completed a practice review on McMillan Woods SG CPA Limited, a corporate practice that is now de-registered. The review covered the practice's audit of the 2017 consolidated financial statements of a Hong Kong listed company and its subsidiaries. Wong was the engagement director and Ng was the engagement quality control reviewer of the audit.

The practice review found significant deficiencies in the work carried out by the audit team under Wong in relation to valuations of an investment in an associate acquired, convertible notes issued as consideration for the acquisition, and certain share options granted by the company. Ng failed to adequately evaluate the audit team's judgements and conclusions, and review selected audit documentation as required under HKSA 220 *Quality Control for an Audit of Financial Statements*.

Decisions and reasons: The two respondents were reprimanded. The Disciplinary Committee ordered Wong and Ng to pay penalties of HK\$80,000 and HK\$120,000 respectively. In addition, Wong and Ng were ordered to pay costs of disciplinary proceedings of HK\$89,386 and HK\$39,004 respectively. When making its decision, the Disciplinary Committee took into consideration the particulars of the breaches committed in this case, the parties' submissions, the respondents' admission of the complaints, and Ng's past regulatory record.

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

NEW REPORT SIGNIFIES NEXT STEP TO ENHANCING CORPORATE REPORTING

Leading sustainability and integrated reporting organizations on 18 December published a co-authored report that aims to standardize the communication of sustainability-related information between companies and their stakeholders. *Reporting on Enterprise Value: Illustrated with a Prototype Climate-Related Financial Disclosure Standard*, by the Carbon Disclosure Project, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board, sets out a basis for the development of global standards for sustainability-related financial disclosure, and includes a prototype of a climate-related financial disclosure standard. It comes after the organizations issued a joint statement of intent in September, outlining a vision for a comprehensive and common corporate reporting system.

80%

OF TOP COMPANIES NOW REPORT ON SUSTAINABILITY

Eighty percent of leading companies around the world now report on sustainability, according to a KPMG report. The figure is up from 75 percent in 2017. The report, *The Time Has Come: The KPMG Survey of Sustainability Reporting 2020*, details the sustainability reporting of 5,200 companies, representing the top 100 companies in each of 52 countries. It focuses on risks of biodiversity loss; reporting on climate change and carbon reduction; and reporting on the United Nation's Sustainable Development Goals. One-quarter of the 52 countries polled by the firm have a sustainability reporting rate of 90 percent or more. The report also found that for the first time, more than 50 percent of companies are applying third-party assurance to their sustainability reporting.

DEUTSCHE BANK HEAD OF ACCOUNTING ON LEAVE OVER WIRECARD SCANDAL

Former EY partner, Andreas Loetscher, has reportedly temporarily stepped down as Deutsche Bank's head of accounting after German prosecutors launched an investigation into his role as a lead auditor for one-time financial payments giant Wirecard, which is currently embroiled in a US\$2 billion accounting scandal. In an email to staff seen by the *Financial Times* and *Reuters*, Germany's largest lender announced that Brigitte Bomm, Global Head of Tax, would replace Loetscher with immediate effect, and that this change would be temporary. Loetscher, who was one of the lead partners



for EY on Wirecard's audits from 2015-2017, had joined Deutsche Bank in 2018. Wirecard collapsed in June in one of Europe's biggest accounting frauds after it disclosed that €1.9 billion of corporate cash did not exist.



140 COMPANIES RAISE

US\$50 BILLION

IN HONG KONG THIS YEAR

The Hong Kong Stock Exchange has seen a 24 percent increase in terms of funds raised this year, according to KPMG, pushing the city to second place behind New York in the global ranking of destinations for initial public offerings (IPOs). A total of HK\$389.9 billion (US\$50 billion) was raised from the 140 IPOs expected to be completed by year-end, according to the firm. Nasdaq tops the global ranking with 175 companies raising a combined HK\$405.5 billion (US\$52.3 billion), based on Refinitiv's data. According to KPMG's forecast, between 130 and 150 IPOs may take place in Hong Kong next year, raising between HK\$350 billion and HK\$400 billion.

PWC'S U.K. PARTNERS TO TAKE 10 PERCENT PAY CUT AMID PANDEMIC

The partners of PwC in the United Kingdom are to take a 10 percent pay cut amid a fall in profits and slow growth caused by the pandemic. The move also comes as the firm attempts to protect jobs and bonuses for other staff, reported the *Financial Times*. PwC said on 17 December that revenue rose 3 percent to £4.38 billion in the 12 months to 30 June, while profit fell 8 percent to £938 million. The average distributable profit per partner dropped to £685,000, as the funding of staff salaries and bonuses was prioritized. "As is to be expected, the pandemic had a significant impact on our financial performance in 2020. However, I am proud that we have continued to invest in our people and regional growth opportunities," Kevin Ellis, PwC U.K. Chairman and Senior Partner, said. PwC had previously pledged not to use funding through the furlough scheme or guaranteed loans.

HONG KONG FINANCIAL COMPANIES MUST DISCLOSE CLIMATE-CHANGE POLICIES UNDER NEW RULES

A working group jointly led by the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission unveiled measures that will force the city's financial companies to declare how their assets and investments have an affect on climate change. The mandatory disclosure requirements will be introduced in 2025, regulators said, while banks and large fund houses will have to carry out stress tests next year to make sure their business models and investments could cope with events related to climate change. All commercial banks in Hong Kong support the idea of stress testing for climate-related risks, said Eddie Yue, Chief Executive of the HKMA. The Green and Sustainable Finance Cross-Agency Steering Group was set up by seven regulators and government departments in May as part of a major drive to promote Hong Kong as a green fundraising hub.

U.S. SENATOR BEHIND SARBANES-OXLEY ACT DIES

Paul Sarbanes, the United States senator, known for tightening the regulation of corporate accounting practices after the Enron scandal, passed away on 6 December at the age of 87. Sarbanes, with Michael Oxley, wrote the 2002 Sarbanes-Oxley Act, which was intended to ensure that publicly held businesses disclose to potential investors an accurate and complete portrayal of their financial condition. The Sarbanes-Oxley law gave prosecutors new tools to enforce laws against business executives who mislead and defraud investors, and was among the most far-reaching pieces of legislation regarding securities since the Great Depression reported *The Washington Post*. It came in the wake of accounting scandals at companies such as Enron, Tyco International and WorldCom.



CHINA PROBES ALIBABA OVER SUSPECTED MONOPOLISTIC PRACTICES

The State Administration for Market Regulation, Mainland China's antitrust watchdog agency, said in a statement that it recently kicked off investigations into Alibaba Group Holding for suspected monopolistic conduct such as "forced exclusivity." The term refers to a business practice in the country's Internet industry where companies make merchants choose only one platform as their exclusive channel of sales and distribution. "Alibaba will actively cooperate with the regulators on the investigation," the company said in a statement. "Company business operations remain normal," *People's Daily* said in an opinion piece that the antitrust probe into Alibaba was intended for "better regulating and developing [Internet platforms] and promoting their healthy development to make a greater contribution to the high-quality development of the Chinese economy."

SINGAPORE'S TOP CENTRAL BANKER CALLS FOR HIGHER AUDIT STANDARDS

Ravi Menon, Managing Director, Monetary Authority of Singapore, urged the country to raise its auditing and accounting standards following a series of corporate scandals in recent years. "There have been several failures that are due to lapses in accounting, auditing, and some fraudulent activities are not as easily detected," Menon was quoted as saying by *Bloomberg*. "It is an area that needs to be addressed." Singapore's corporate disclosure level improved this year, however it lags behind neighbouring countries like Malaysia and Thailand, according to an October report by the Securities Investors Association (Singapore). "When an auditor says this is in line with accounting standards, there is still a fairly wide range of what is acceptable," Menon told *Bloomberg*. "Getting more precision has been quite a challenge."

LUCKIN COFFEE TO PAY US\$180 MILLION TO SETTLE SEC CHARGES

Coffee chain Luckin Coffee has agreed to pay the United States Securities and Exchange Commission (SEC) a US\$180 million penalty to settle charges that it overstated its expenses, revenues and losses. It comes after the SEC found after an investigation that the company fabricated more than 2.12 billion yuan (US\$311 million) in retail sales between April 2019 and January 2020, while understating its net loss by as much as 34 percent. The company also inflated its expenses by more than US\$190 million to cover up the fabricated revenues, the SEC said. The company neither admitted or denied the SEC's fraud claims filed in the Southern District of New York. "This settlement with the SEC reflects our cooperation and remediation efforts and enables the company to continue with the execution of its business strategy," said Jinyi Guo, Chairman and Chief Executive of Luckin Coffee.



FRAUD ON THE RISE THANKS TO COVID-19

The COVID-19 pandemic has opened the door to increased pressure, opportunity and rationalization that can lead to fraud, according to a new survey released by the Association of Certified Fraud Examiners this month. The report, *Fraud in the Wake of COVID-19: Benchmarking Report*, found that 79 percent of anti-fraud professionals observed an increase in the overall level of fraud as of November, compared to 77 percent in August and 68 percent in May. Thirty-eight percent of the respondents said in November the increase has been significant, compared to 34 percent in August and 25 percent in May. The top three fraud schemes seeing increases, according to anti-fraud professionals, are cyber fraud, payment fraud and identity theft. The survey also found that 7 percent more anti-fraud professionals reported seeing financial statement fraud in November, compared with August.

At the PAIB Virtual Conference 2020, speakers discussed how their organizations were responding to the COVID-19 crisis, and their recommendations for professional accountants in business steering their own organizations through the disruption. **Paul Smith** reports.

Illustrations by Gianfranco Bonadies

Technology adoption was a common theme among the speakers on the “Succeeding in uncertainty: managing organizational risk in times of crisis” panel, part of the Hong Kong Institute of CPAs’ PAIB Virtual Conference 2020, held – fittingly, virtually – in September.

The moderator of the panel was Michael Chan, Chief Operating Officer, Inchcape Greater China, an Institute member, and member of the Institute’s Professional Accountants in Business (PAIB) Committee. He began by asking Maria Hui, Director, Marketing and Operations, Microsoft Hong Kong, about how usage of Microsoft products had changed during the pandemic.

“For Microsoft, COVID-19 has been the biggest driving force for digital transformation across the world,” she said. She quoted Microsoft’s Chief Executive Officer, Satya Nadella, who said in April, “we have seen two years’ worth of digital transformation in two months.”

“Everyone in the world is exploring options to help them to work remotely, and still at the same time be able to connect with their teams and maintain productivity,” she continued. For Microsoft, the growing use of its cloud services meant a renewed focus on protecting data. “We have been paying huge attention to the security, privacy and compliance aspects of using cloud platforms,” she noted.

She summed up by saying, “we believe that more companies are shifting their investment to technology, to expedite their digital transformation journey as well as to empower their teams to work anytime, anywhere.”

Data availability

For Bloomberg, access to its data for customers and its employees is important. Anthony Lee, Buyside Risk Specialist, North Asia, Bloomberg L.P., noted that Bloomberg had always been a cloud-based system, long before the term rose to prominence. This limited the impact of the pandemic on Bloomberg clients who were able to continue accessing its products and services.

Lee noted a change in recent years was the movement to a secure individual cloud-based sign in process authenticated by fingerprint. “Many clients already had their own Bloomberg terminal login, which means they could already access our system from home. We found that market volatility actually increased trading during the start of the pandemic, and it was one of our busiest periods,” he commented.

For the company, the main impact was on its help desk staff. “This actually is a bit of a challenge at the beginning, because our support staff were working at home on smaller laptop screens, but they have since adapted to this environment by using larger monitors,” Lee said.

“All in all, this period was a stress test on our technology, on our platform, and on our client relationships. But overall, we responded very well, without any major disruption.”

Adjusting to changing behaviours

Chan then turned to Alexander Li, Group Strategy Director, Mandarin Oriental Hotel Group. “I wonder for businesses that have so much invested in bricks and mortar, like Mandarin Oriental, how do they plan and or adjust their business model and targets set in view of COVID-19 and the United

THE SPEAKERS:

Top row, from left:
Maria Hui, Director, Marketing and Operations, Microsoft Hong Kong;
Michael Chan, Chief Operating Officer, Inchcape Greater China

Second row:
Alexander Li, Group Strategy Director, Mandarin Oriental Hotel Group;
Suzanne Cheng, Chief Financial Officer, Hutchison Telecommunications Hong Kong Holdings Limited

Bottom right:
Anthony Lee, Buyside Risk Specialist, North Asia, Bloomberg L.P.



"We have been paying huge attention to the security, privacy and compliance aspects of using cloud platforms."



"Cash is king, so how do organizations decide what to prioritize for investment?"



"You're really having to be a lot more flexible in what your product offers customers during this time."



"This is something you need your team to think about – other ways of getting the same revenue, or even getting market presence."

THE SUCCESS INGREDIENTS IN A PANDEMIC



"This period was a stress test on our technology, on our platform, and on our client relationships."

“Some of these changes will be for the short term, whereas others have fundamentally changed.”

States-China trade conflicts?” he asked.

“Businesses today really need to focus on how customer behaviours and needs have changed,” Li replied. “Some of these changes will be for the short term, whereas others have fundamentally changed. In the context of Mandarin Oriental’s business, travel demand in the short to medium-term will be very different to before. For example, we’re expecting domestic and regional demand to bounce back first.” He noted that in Mainland China this had already happened, and demand was almost at pre-pandemic levels.

His organization expected leisure demand to return before corporate, and group demand after that. This meant that for the next 12 months, the company would focus on domestic, regional, and leisure demand. “We’re having to change our product focus to match that. For example, by changing a few rooms into playrooms for children,” Li said. “You’re really having to be a lot more flexible in what your product offers customers during this time.”

Responding dynamically

2020 has been a big year for telecommunication companies, with the roll out of 5G cellular networks around the world, including in Hong Kong. But the pandemic has also challenged the business models in the sector. Chan then asked Suzanne Cheng, Chief Financial Officer, Hutchison Telecommunications

Hong Kong Holdings Limited, and an Institute member, “At Hutchison, how are you planning to adjust your business model in view of these times?”

Cheng noted that the pandemic had been a challenge, but this created opportunities. “We think there’s always an opportunity and threat. In terms of threat, we’ve experienced a very substantial increase in travelling restrictions, which affects revenue.” This was, however, a good chance for sales and marketing staff to think creatively of other ways to generate revenue, she added. For Hutchison, this includes offering contracted roaming packages given the view that travel restriction will be released one day, which offer a competitive pricing to customer and provide them flexibility for future travelling after the relax of restriction.

This offer had helped the company to stabilize roaming revenue and even sign up new subscriptions, even though there are heavy travel restrictions, she said. “This is something you need your team to think about – other ways of getting the same revenue, or even getting market presence.”

The need to change operations had been a stress test for the company’s systems, requiring enhancements to systems and servers, and cloud-based systems. “This facilitates all staff working from home, and ensures the system is able to handle it all,” she said.

Cheng also noted that the company’s corporate clients were requesting more support. “With more corporates allowing their employees to work from home, strong support for stable connection and mobility is a must. We have got a lot of requests for enhancing the virtual private network services and

server capacity for customers. Given the new 5G technology, we work together with clients to implement different types of solutions to improve work efficiency.”

Retail clients as well were increasingly going virtual, as footfall had decreased at shops, meaning it was important to review existing operations. While retail may be out of favour, Chan noted that people in Hong Kong are excited for 5G infrastructure to be ready in order to enjoy the fast Internet speed.

Handling a “black swan” event

Chan asked Bloomberg’s Lee about his conversations with investors. “Can you give us a peek into the brains of executives as to what are the top risks they are discussing, considering, or even spending time on?” Lee replied that Bloomberg has a diverse mix of client types across finance, from banking to insurance, asset management, corporate treasury, and more. “Most of them are in the business of managing money, and they may find opportunities in market volatility,” he said.

Typically, when a shock hits the system the primary consideration for businesses is liquidity, “or to be more accurate – the lack of liquidity,” he said.

For asset managers’ senior management, the worries were about honouring redemptions and the performance of portfolios. “Can they liquidate their portfolios without incurring heavy losses? Will their bond portfolios face default? Market liquidity concerns,” he said.

For corporate treasurers, he reiterated the concerns shared by Mandarin Oriental’s Li about revenue streams drying up. “They worry about how to pay for their



liabilities. Do they have enough banking liquidity? Enough credit lines to stay solvent to weather the storm?” he said.

“Invariably the storm will pass. Then everyone will begin to think that we are waking up from a nightmare,” he said. But he warns that the opportunity to revisit risk

“They worry about how to pay for their liabilities. Do they have enough banking liquidity? Enough credit lines to stay solvent to weather the storm?”

management frameworks should not be missed in order to prepare for the next wave, or a completely different shock. Organizations should consider questions like “do I need to run regular stress tests?” and “how do I build early warning test signals to the market, to the business?” so that they can react much faster next time, he recommended.

They also need to revisit their management structures, for example by building an independent risk team to review various risks. “CFOs or their finance teams may want to look at the impact of International Financial Reporting Standard 9 *Financial Instruments* for fair value hedging, or to apply hedge accounting to their balance sheet in order to reduce profit and loss volatility,” he suggested.

Investing for the future

Chan picked up on Lee’s comments about liquidity to move the discussion on to investment.

“Cash is king,” he noted, “so how do organizations decide what to prioritize for investment. Suzanne, could you share how your organization has changed its capex and research and development strategy?” he asked.

“We are in the full force of developing and improving our 5G coverage,” Hutchison’s Cheng replied, noting that the company had a very strict 5G coverage target. “Even with or without COVID, this is something we are putting our full force on.”

As the pandemic had increased the importance of 5G, the company had not slowed down its investment in the technology. “With COVID,

the only difficulty for us to face is providing more protection to contractors,” she said.

The roll-out of 5G had also required the company to invest in related solutions. She noted that the company had helped the Hong Kong Chinese Orchestra to livestream concerts over 5G in the summer. “We used 5G technology to provide a seamless livestreaming portal for them,” she commented.

Cheng thought that the pandemic would lead to changes in how contracts were negotiated. “After the challenging situations, now with all the contracts we are working on we carefully review the lengths and terms. Also, indemnity for uncontrollable situations like COVID-19. What we do now is in every contract make sure both sides are protected if there is any sudden change in the economic environment. Both parties should

be trying their best in order to get the best exit, or to explore the best ways to work together alternatively to deliver a service,” she said.

Acting with precision

Chan then turned to Li at Mandarin Oriental to ask if his organization had changed its investment strategy. “Has your organization decided to reduce investment, or even not to further invest in hotels?” he asked.

Li replied that he would love to be sharing the situation of Hutchison, and continue to invest everywhere. “For companies that have experienced demand falling to zero, there are broadly two stages you go through in terms of investment,” he advised.

The first stage is to stop investing. “If you’re in travel, the first thing to do is turn capex off, because as you said Michael, ‘cash is king’. You need to figure out what

the future is going to look like, or at least attempt to.”

The second stage is to ask whether your company is going to survive, and determine what you need to do in order to help it. He raised the question of “what do I need to invest in to accelerate out of this crisis as a winner?” noting that studies of past economic shocks had found that the companies that had won had invested in the right areas. He offered one piece of investment advice. “You have to be precise with the bets you are placing. What are the things that are really going to make a material difference? The capex process then becomes a lot more rigorous than it may have been in the past,” he commented.

Empowering individuals

Microsoft’s Hui then spoke about her company’s investment strategy. “At Microsoft we always believe



that investment is the right way to grow the business sustainably,” she said. Investment helped to grow the ecosystem of its products, and help its user community to achieve more.

The pandemic had seen the company invest more in data centres. “We’ve enhanced our capacity at such a rate that we’ve accelerated our two-year investment plan to make it happen in three months,” she noted.

The company had also launched new features for its products, including Microsoft Teams, to support remote working. Companies can hold seminars, and collaborate virtually using the platform. The company was also seeing its clients accelerating the use of virtual platforms.

She noted that the demand for different features and functionalities required investment to develop them. This required providing employees the right tools to deliver them. “At Microsoft we enable every employee with a service device, a lightweight and powerful machine, so that they can work anytime and anywhere. It is our belief that we must carry on investing so that everyone can be successful, and to help the economic recovery,” she said.

Chan then asked her to describe the key factors the company considers important to motivating staff during times of uncertainty.

Hui said that the most important way to motivate staff was to empower them. “We need to make sure that they have the necessary equipment, trust, and support from the company to help them to, first, work remotely, and to allow them to help our customers and partners.”

As well as their service device and mobile phone, employees can borrow equipment from the company including chairs, laptops,

monitors and other peripherals. The company has also made its on-boarding training available online, so that new employees can access it without distracting existing employees to provide training. Workplace training is also offered remotely.

She turned to the importance of building a trust culture. “Twenty years ago, managers would like to see employees sitting in front of them. Now we want to empower them to work remotely. Trust is a very key element. We need to measure employees on how they encourage and support our partners and the Hong Kong ecosystem, not by how long they sit in front of the computer,” she said.

Trust and flexibility are key for Microsoft. Even during the pandemic, the company did not close its offices, but provided employees with flexibility to choose the best way to work for them. Employees could choose to come in or to work from home.

She concluded by saying that there needed to be a fun element. “Even though we are connecting remotely, it’s very important that we continue to have fun,” she said. To help, the company had various virtual activities. “We have the virtual exercise time, virtual team lunch, and virtual happy hours – where we send cocktails to our employees homes, and everyone can enjoy the time together,” she said.

Supporting a return to the office

Chan ended the roundtable by asking Bloomberg’s Lee how they motivated their employees. Lee began by saying that his organization applied many of the same principles as Hui’s. “I truly believe that the motivation for our employees, and for myself as well, comes from achieving, or even

“The motivation for our employees, and for myself as well, comes from achieving, or even overachieving, our business goals – under a 100 percent safe and comfortable environment.”

overachieving, our business goals – under a 100 percent safe and comfortable environment,” he said.

For employees, the company had embraced work from home, flexible work hours, and virtual workouts and mental health sessions to motivate and support them. Although the company had begun by closing its offices, they had since reopened. “We are not downplaying the benefits of going back to work, and are strongly encouraging staff back,” he said, while noting that the safety of the offices was the priority. The company also offered support to its employees returning to work through paying for travel or parking. “At Bloomberg, there is the belief that we want face-to-face meetings, which are a lot more effective, and we think that clients are a lot more appreciative of them. But only under a safe environment,” he said.

The panellists viewed the pandemic as an unprecedented development. “It is a ‘black swan’ event,” said Lee, “and many will realize how inadequate their risk management frameworks are.” Organizational changes are therefore needed, and it was clear from the discussions that the pandemic will leave lasting changes in business.



SECOND OPINIONS: HOW CAN YOU LEVERAGE MINDSET TO CHANGE BEHAVIOUR?

“An inquiring mind is one key component of a mindset that drives ethical behaviour.”



GEOFF KWAN
PRINCIPAL,
THE INTERNATIONAL ETHICS STANDARDS BOARD
FOR ACCOUNTANTS

In today's complex work environment, what is ethical is not always straightforward. Professional accountants often must learn to navigate their way through a myriad of complicated issues to reach an ethical solution that serves the public interest. The International Ethics Standards Board for Accountants (IESBA), recognizing the increasing challenge to act ethically, recently released changes to its *International Code of Ethics for Professional Accountants* that reinforce the importance of having the right mindset that encapsulates certain behavioural characteristics expected of professional accountants.

An inquiring mind is one key component of a mindset that drives ethical behaviour. The IESBA's Role and Mindset revisions introduce this concept as a new requirement for all professional accountants and underlines two key elements: consider the source, relevance and sufficiency of information obtained; and be open and alert to a need for further investigation or other types of action.

Having an inquiring mind means having a sense of curiosity and not simply taking circumstances and information at face value. It will also guide a person to ask the right questions and obtain the necessary information to make decisions that are evidence-based and defensible.

The Role and Mindset revisions also emphasize the risk of bias (internal factor) and organizational culture (external factor) as factors that may influence a professional accountant's ability to make ethical decisions. Conscious or unconscious bias affects a person's ability to be objective, creates pre-conceived ideas about people or situations, and causes misjudgement of the relevance and value of information. The revisions highlighted eight common examples of types of biases, such as confirmation bias, anchoring bias and groupthink. Another example included is "automation bias," which is particularly relevant considering the increasing role of technology in the profession. The revisions also highlight the influence a positive organizational culture has on the professional accountants' ability to have the right mindset. In this regard, the revisions particularly recognize the role of leaders and tone at the top in setting the right organizational culture.

Doing the right thing is not always easy and may come with adverse consequences. For an individual to behave ethically, having the right mindset must go hand in hand with determination, courage and character. Recognizing this, the revisions emphasize the importance of having the strength of character to act appropriately by standing one's ground and by challenging others in a manner that is appropriate to the circumstances.



LINDA BIEK
DIRECTOR, COMPLIANCE
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Superhero fans celebrate Professor Xavier's mind-control power. But successful executives know mindset can be just as powerful. Simply put, mindset guides behaviour. Whether we seek to change the tone at the top, enhance professional scepticism or improve decision making, mindset is a central feature leading to those changes.

Each individual has a range of different mindsets. Using the right mindset at the right time is important. For auditors, both deliberate and implemental mindsets are commonly exercised during an audit engagement. A deliberate, or "open," mindset concentrates on goal-setting and demands the highest degree of working memory resources, or "cognitive load." At the other end of the spectrum is the implemental mindset, which is responsible for carrying out the tasks needed to achieve goals.

The quality of activities like audit planning and data analysis is highest when an open mind is employed. The mere act of considering positive and negative aspects of a hypothetical situation can arouse the deliberate mindset,

allowing auditors to expand their thinking. For example, an open mind can be motivated by asking an individual to list pros and cons of accepting an international work assignment. A study by Griffith, Hammersley, Kadous, and Young reveals that a deliberate mindset yields a higher-quality audit by improving an auditor's ability to process non-confirming evidence obtained in different audit areas.

Given the cognitive requirements of deliberate thinking, there is a high demand for working memory resources. When a deliberate mindset is required, engagement leaders should ensure adequate instruction is given and avoid scheduling activities when the auditor is tired (i.e. late night).

An implemental mindset seems to come naturally to auditors, who frequently exercise it when performing verification tasks common to many audit procedures. However, over-reliance on the implemental mindset can be fraught with problems. When motivated by a task-based, implemental mindset, an auditor may accept a client's explanations about non-confirming information without recognizing the need to obtain corroborative evidence and incorrectly concluding the explanations are reasonable. The Griffith study warned that audit tests on complex estimates tend to be verification exercises, ignoring incidental information that may contradict management's representations. Essentially, an implemental mindset is not conducive to critical thinking as it specializes in efficient processing of tasks without thorough consideration of the broader issues.

Mindset can be the key to a new superpower to celebrate.

"The mere act of considering positive and negative aspects of a hypothetical situation can arouse the deliberate mindset."



DANA SKAGGS
CHIEF EXECUTIVE OFFICER
PHOENIX AND FLAME PODCAST

Have you ever heard the phrase, "Keep your head in the game?" Athletes usually hear this from coaches when wandering minds are obstructing their ability to excel. As Usain Bolt once said "No matter how far you get ahead of me, I'm gonna catch you. That's my mentality." Cognitive ability, or mindset, is our control centre. Everything we do begins with cognition. You may not be able to control the world, but you can control your thoughts.

There are many ways to manage your mindset. As a psychotherapist, I ask many questions as a means of understanding my client's personality, history, and goals. During the interview, like during an audit, it is crucial to keep your mind open to whatever information may be presented. Having preconceived notions can bias perceptions and lead to incorrect conclusions.

Four obstructions to a productive mindset are: having a crippling fear of criticism, being problem-focused, lack of compartmentalization, and failing to reset when cognitively overloaded. Since criticism can be delivered with heightened emotion (anger, frustration, fear) it is helpful to differentiate content from delivery. Another person's emotional management is outside of your control. However, you can promote a productive mindset by focusing on the content then developing a solution-oriented response. A few examples include clarifying problematic issues through further discussions, demonstrating cognitive flexibility in producing novel vantage points, or seeking opinions from experts.

At times, the ability to field criticism effectively and derive helpful solutions is hindered due to lack of compartmentalization. Relationships with colleagues can be complex – they may be family or friends – so it is beneficial to "compartmentalize" conflict-driven emotion from these relationships to keep a clear mindset. For example, you can imagine a locked airtight chest storing emotional upheaval, so that those issues are not allowed to clutter the workday mindset.

Another method of preventing cognitive overload is to have brief, intermittent moments of mindfulness throughout the day. These five-minute exercises involve detaching from the task at hand, utilizing slow, deep breathing and drawing attention to inputs from the five senses. By having a clear and focused mindset you can better focus on your tasks at hand.

"The ability to field criticism effectively and derive helpful solutions is hindered due to lack of compartmentalization."

A VIEW OF THE NEW

From helping state-owned enterprises list to driving digital audit advancements in Hong Kong, Jacky Lai has focused on creating long-term value for his clients. The Assurance Partner at EY talks to **Nicky Burridge** about how sweeping technological changes are upending the profession and how audit has evolved in the last two decades

Photography by Calvin Sit

Jacky Lai, Assurance Partner at EY, did not plan to go into accounting. But after taking part in a simulated stock trading competition as a first-year finance student at the Hong Kong University of Science and Technology, something clicked.

“During the competition, I spent a lot of time studying the financial data of different companies. I became really interested in the financial data, but I had difficulties understanding the story behind it,” says Lai, a member of the Hong Kong Institute of CPAs.

He won the competition and decided to take more courses on accounting, with a view to learning about company data so that he could apply his own analytical skills to stock picking. He enjoyed these courses so much, he decided to change his major to accounting.

Lai joined EY as an audit trainee in the mid-1990s straight after leaving university. He remembers everyone being very bullish about the economic situation at the time. “Everyone was talking about the stock market and pouring money into buying new shares. They all had beepers to get the latest stock prices,” he remembers.

But in 1997, Hong Kong was hit by the Asian Financial Crisis, followed by the bursting of the dot com bubble in 2000 and the outbreak of SARS in 2003. “These were very low times. There were massive layoffs in every industry, even audit – I witnessed team members leaving one by one. There was a very pessimistic atmosphere in Hong Kong.”

Even so, Lai is glad he experienced this challenging environment, as he says it made him more willing to take up requests to work in different places, such as Mainland China, where he spent six months in Wuhan and a year in Beijing. “Going to Mainland China to work 20 years ago was very different to today. The accommodation, the conditions, the traffic was all very different,” he recalls.

Lai still looks back on this period as being the most memorable time of his career. He was working with large state-owned enterprises (SOEs), helping them restructure and do initial public offerings in the Mainland and Hong Kong.

“There would be over 100 team members working on one engagement. We all lived in one hotel. The timelines were very tight, and the pressure was huge, but I built friendships with members of the Hong Kong and Mainland teams and other professional parties. In particular, I found working with cross-border legal teams very fruitful in terms of enhancing my own knowledge and understanding. Before the pandemic, I would meet up with them regularly.”

He adds that there were many challenges and technical issues that needed to be overcome during the listing process, such as sorting out accounting policies for pensions used by the SOEs that did not follow general business rules. The SOEs had also often done transactions, such as the acquisition of schools or hospitals that were not always easy to justify as fair value acquisitions.



LEADERSHIP PROFILE

Jacky Lai

“We had to make sure these subsidiaries were carved out and not included in the listed vehicle, and we had to explain to the SOE why we were doing this. The process was very challenging, but it was a very memorable time,” he says. “We spent endless long nights, supporting each other, to accomplish various deadlines one by one. Going through challenges together spurs the team’s spirit and relationship.”

A packed schedule

Lai combines his current role as Assurance Partner with being Digital Audit Leader in Hong Kong, overseeing EY’s digital transformation strategy.

Unsurprisingly, these two roles keep him very busy. He typically starts his day at 6 a.m., responding to emails. He then takes a break to have breakfast with his wife and two children, a girl of eight and a boy of six. “This is the most important moment because I can talk to them and hear their school stories and about their feelings. Many of the family decisions are made at this time. I think it is very critical for our family to have this gathering, or family meeting as we call it.”

Lai usually gets into the office at 9 a.m., when he starts a series of calls and Zoom meetings with clients and leaders of other service lines at EY to discuss the progress of various initiatives and catch up on the audit work being done by his own team. “The work-from-home arrangement has definitely changed our routine work behaviour a lot. The restriction on travels and physical meetings forced us to communicate virtually, and the teams have had to adapt so that we can continue to work in a productive manner and learn the most

effective way of using technology.”

As an active member of the Institute, Lai often attends committee meetings or other public service meetings over lunch, followed by more internal meetings in the afternoon. Before COVID-19, his evenings would be spent attending client or Institute events.

While his day is busy, Lai gains a lot of energy from interacting with so many people from different backgrounds. “Because of the audit engagement, I have the chance to work with EY teams in other locations, such as Mainland China, Japan, Greece, Italy and the United States. A lot of the time I also need to work with people in different disciplines, such as tax, IT and even marketing and the media relations team. Externally, there are clients in retail, consumer products, environmental energy, and different professional partners, such as lawyers and valuers. It is challenging but it makes me happy because I like to talk to different people. It really widens my perspective,” he says.

Transforming the audit process

A large part of Lai’s work involves leading EY’s digital audit strategy in Hong Kong. He points out that the current period is a transformative age with technology reshaping business and society. “We have to transform the way we do audit to respond to this complexity,” he says.

He explains that there are three key differences between a traditional audit and a digital one. Digital audit focuses on three key principles: connecting, automating and analysing.

Connecting auditors and companies involves a secured audit platform for a data-first approach which can support global accessibility, data or information exchange and mobile application.

Processes are then automated for centralized data capture, and standardized service delivery. Robotic process automation is embedded in tools to remove the more time-consuming, tedious and process-heavy work that auditors did manually. “This makes space for the lead auditors to focus on identifying and

“We have put a lot of investment into digital audit because we think it is the future. It is constantly evolving and creating real benefits for clients.”



A portrait of Jacky Lai, a middle-aged man with short dark hair and round glasses, wearing a dark blue suit, white shirt, and patterned tie. He is sitting on a yellow chair with his hands clasped in front of him. The background is a dark, textured wall with a diagonal pattern.

Jacky Lai is both Assurance Partner and Digital Audit Leader at EY in Hong Kong, overseeing the firm's digital transformation strategy.

addressing risk issues,” says Lai.

Analysing is about generating full or large populations of data to produce a more complete business picture, “Our data analytics handle large data sets, and can clearly identify trends and anomalies, correlations and the relationships of different sets of data throughout a business cycle. It enables a more effective audit through targeted testing, focusing on the transactions that matter the most. We also adopt artificial intelligence (AI) technology to enable audit teams to

review business documents more effectively by leveraging machine learning technology and improved speed and accuracy of reading and interpreting contracts.”

EY started the digital audit transformation process in Hong Kong eight years ago as part of a global initiative, beginning by developing its own tools. “We have put a lot of investment into digital audit because we think it is the future. It is constantly evolving and creating real benefits for clients,” Lai says.

He explains that processing mining technology enables clients to have a more comprehensive view on their processes, hence eliminating process bottlenecks, gaining efficiency and achieving cost-savings.

Blockchain certifications verify the integrity of transaction records from distributed data sources within the supply chain. “This technology helps companies reassure their customers about the authenticity of products in the total supply chain, so they can know, for example, from

LEADERSHIP PROFILE

Jacky Lai



As an active member of the Institute, Lai is a member of the Professional Conduct Committee, the Registration and Practising Committee and the Professional Development Committee.

grapes to glass how a bottle of wine has been produced.”

He says EY is currently developing an AI tool that can read Chinese and other languages to do contract reviews, so that auditors do not need to read the documents manually. It has also developed a process mining tool that helps auditors assess the internal control points of different organizations’ structures for better risk identification and assessment processes.

Lai says the biggest challenges he has encountered in this area

of his work are not to do with the technology itself, but rather people’s attitude to it, with some people resistant to change as they feel comfortable with the current audit processes. “We need to change them from having a fixed mindset to a growth mindset. The market is changing very fast and if you change one or two years later than your competitors, you will be out of the market,” he says.

But Lai does not think there will ever come a time when the audit process is completely automated. “Our industry is not a machine-

led industry, it is an industry that counts on professional judgement, experience and knowledge. Machines are actually just replacing the tedious, repetitive work. Sometimes you might do 100 audit procedures but only two to three are critical, so it will enable you to focus your efforts on the right thing,” he says.

Giving back

Lai believes in giving back to the profession through involvement with various Institute committees. This all began six years ago when he

“It doesn’t matter if you succeed or fail, if in the process you learn something.”

joined the team managing the Institute’s CPA for NGO programme, which explores collaboration opportunities between members of the Institute and charities.

Today he is a member of the Professional Conduct Committee, dealing with complaints about the conduct of members and deciding whether or not there is a case to be answered, and the Registration and Practising Committee, which checks that applications for registration are in order.

He also sits on the Professional Development Committee, giving advice on the professional training members need and how they can advance their careers and enhance their technical competencies. “I think this committee is one of the most valuable functions for providing member support and services. It is visible and tangible, and helps members in their continuous development,” he says.

Lai particularly enjoys his work on this committee as he feels passionate about learning and encouraging a growth mindset. “You should not get into a binary mindset of judging in terms of success or failure. It doesn’t matter if you succeed or fail, if in the process you learn something. We can learn new capabilities with dedication and hard work, no matter how old or young we are,” he says.

He adds that he is still learning himself and has recently taken up coding, as he is increasingly recruiting people from a STEM (science, technology, engineering and maths), rather than an accounting, background. “They have a very different mindset and I need to be able to understand the jargon before I can have a meaningful conversation with them,” he says.

Advice for young members

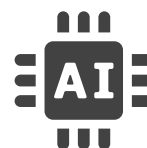
Lai thinks life is harder for young accountants than it was for his generation

because they not only face competition from people in the accounting profession, but also from those from other backgrounds, such as STEM ones, as firms recruit people from different backgrounds to keep pace with disruption. At the same time, he thinks there are fewer opportunities in Mainland China than when he first started practising, as the economy there has now developed so that it has its own capabilities and talents.

But he points out that the development of Greater Bay Area offers opportunities for the younger generation, while the increased use of technology is also creating new services that accountants can offer to their clients.

As a result, Lai thinks it is important for new accountants to have STEM-related skills and analytical skills, as well as what he has dubbed an “ABC” mindset. He explains: “A is for attitude and whether you are passionate about learning and adapting your behaviour. You need to be flexible to respond to any change or crisis. B stands for business acumen as you need to have extensive knowledge, and the right approach to provide you with a niche compared to others,” he says. “C is for communication. I think it is a very basic but long-lasting capability that people should have. No matter what technology you are using, the most important part is still how you communicate to stakeholders and other team members.”

When he’s not working Lai likes to keep fit. He is a keen cyclist and runner, regularly taking part in Hong Kong’s half-marathon. He also likes to involve his family in these activities, taking his children out cycling so that it doubles as family time. “Sport improves my physical and mental well-being. When you are under a lot of pressure and have a busy schedule, going out to do some sport really helps to clear your mind,” he says.



Jacky Lai thinks it is important for new accountants to have what he has dubbed an “ABC” mindset. A is for attitude and whether you are passionate about learning and adapting your behaviour. B stands for business acumen, and C is for communication skills.



The Founder and Senior Director at GROWDynamics Talent Development on fulfilling ESG and value creation through ethical leadership across different functional groups in an organization



How to apply ethical leadership in ESG

Environmental, social and governance (ESG) indicators are fast becoming a key consideration for listed companies and multinational organizations. Internationally, over 90 percent of listed companies are reporting their ESG performances, while in Hong Kong, more companies will issue ESG reports from this year after the Hong Kong Exchanges and Clearing (HKEX) strengthened its requirement on ESG disclosures.

It is important for organizations to consider how ESG helps the enterprise. The measurement of ethical behaviour, drives the creation of short- and medium-term metrics that are explicitly linked to long-term vision and strategy for value creation. These are considerations beyond just shareholder value and market share. In this process, it is crucially important for ESG leaders to be ethical leaders not only to form an important regulatory standard but also to facilitate integrated management across different functional departments to consider the relationships between ESG and financial performance when making decisions.

Ethics is a timeless concept

Adam Smith, the father of modern economics and a moral philosopher, wrote a great deal about ethics. "People stand always in need of each other", "businesses desire to do good partly to gain approval and be known as good, and partly out of self-interest" and so forth. Regardless whichever motive is paramount, the purpose of business is still to create value by serving the needs of people. Howard Gardner, in the book *A Synthesizing Mind*, emphasizes the importance of creativity and morality going together hand in hand and suggests "excellence, ethics and engagement."

The list goes on with numerous educators, economists and market leaders sharing their sentiment of ethics as a future proof system.

No man is an island

Two is better than one. A strong ESG culture can help to inspire employees when personal, organizational and social purposes meet. It helps employees to develop their own story about the why of the work, and the crafting narratives of purpose becomes the cornerstone for ESG.

ESG perspective is not just a vertical diagram but horizontally coming from diverse organizational stakeholders, breaking down the silos, emphasizing collaborative problem solving, considering broader implications of decision, and creating new solutions in their departments, their organizations and their communities. Leadership is key to this social influence process.

Ethical behaviour by leaders

Being ethical is a powerful way to create value because this creates trust, trust builds strong relationships, and out of

relationships comes value. It is not just about following the rules and doing the right things but to instil distributed and relational leadership throughout the organization. Besides, ESG issues are in a wide spectrum, pressing and complex; we cannot rely on one person for solution and value creation. The leader therefore has two tasks: (1) to behave ethically (2) to persuade others to behave ethically.

Ethical value chain

Establishing the ethical position, communicating values and standards, motivating others, monitoring ethical performance and ensuring continuity are the engine room that powers the value creation process.

Many executives like to think of themselves as value creators. Actually, most value creation happens in the interplay between employees and customers. And so, mobilizing people, instilling trust and creating a culture of ethics at the heart of the organization is key. We may see an expanded balance sheet that includes people, risks and reputational factors for a new performance frontier.

To create a strong culture of ethics and ESG, leaders should consider taking the following actions.

Integration operationalized: As ESG is a cross-departmental issue, we need the actions of integrated business management. This calls for an understanding of differences functionally and even culturally. Systems thinking to build a symbiotic relationship between departments and cultural universalism to bring forth commonality with empathy and respect for a shared future would be key to an ESG culture.

Communication for resonance: An ethical leader communicates for resonance to build shared understanding and vision of a common future. In the ESG context, creating a new way of looking at the world and connecting business more strongly with society, we should start to align our world views and craft our voice of 4Ps: people, planet, purpose and principles, to transform minds and facilitate actions.

Promoting intrinsic desire: In our society that celebrates cognitive strength for our academic and career performance, we often overlook our affective domain to drive intrinsic connection for many essential soft skills that we need for leadership. Our head and heart have to go hand in hand to set clear targets and goals, and transform mindsets to effectively initiate changes.

New mindset and skillset for a new era

In today's world, we need a shift of mindset and behaviours to find opportunities for co-created value. There are many fluid skills that will fade as the market changes but lateral skills for leadership is transformational. We need to continue our professional development in both technical skills and humanistic soft skills to progress with the market and the world.

The Director – Sustainability and ESG Advisory of the Business Environment Council clarifies what a commitment to fulfilling the Task Force on Climate-related Financial Disclosures recommendations could entail



So you want to “do TCFD”?

The past year has been dominated by the COVID-19 pandemic with the business community concerned about the impacts both current and future. While COVID-19 was in the foreground, environmental, social and governance (ESG) and sustainability emerged in full force. No longer dismissed as a trend, ESG dominated the business news headlines with articles about ESG funds weathering COVID-related market volatility in the first quarter which, according to these articles, shows that ESG results in better returns. Another popular talking point throughout the year was that ESG will be part of the “new normal” in the investment world. Indeed, it seems that the pandemic accelerated interest in ESG with investors either managing risk or seeking investment return in the expected low growth environment.

ESG is a wide-ranging term and investors have diverse sets of interests however, anecdotally I have found that climate exposure very much dominates the conversation and as such, I have had quite a few interesting conversations around the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) over the past six months. Generally, these begin with some version of “we’re looking to ‘do TCFD’, would you be able to help?” Though this appears to be a simple question with a straightforward answer – “yes, of course we can help” – in fact, it belies a complex and multilayered response that always seems to surprise the person asking.

A company’s dedication to fulfilling the expectations of the TCFD framework depends on so many factors including the level of awareness, availability of resources, internal drive, depth of understanding and the stage of the sustainability journey. At its most basic level, or as a very first step, fulfilling the TCFD recommendations can be a disclosure exercise where companies restructure their communication about climate change and its impacts to align with the TCFD’s four categories – Governance, Strategy, Risk Management, and Metrics and Targets. Through this alignment, companies help investors efficiently locate that information in a standardized format. This disclosure can be one to two pages inserted into the annual sustainability report.

However, there is a misconception that TCFD is simply a disclosure exercise with the expectation that it will be a quick checkbox exercise. While disclosure is the first step, it is not recommended that companies stop there as it does not fulfil investor needs. That is, treating this like a checkbox exercise does not signal a true commitment to assessing and addressing climate risks to ensure business resilience in the face of climate change, which is truly an existential threat for many businesses. Investors want to see evidence of the company’s strategic thinking around climate risks and opportunities to ensure the best long-term returns under hypothetical future climate states.

This is where scenario analysis becomes a useful tool in the company’s strategy and risk management toolbox.

The TCFD framework recommends conducting a scenario analysis in line with the latest climate science, coherently covering both categories of climate risks, namely, physical and transition risks. Physical risks are the chronic (e.g. rising temperatures) or acute (e.g. extreme weather events) impacts that affect operations through disruption or direct damage. Transition risks result from the changing operating environment triggered by climate impacts including market and technological shifts, adjustments to stakeholder expectations, and policy and legal shifts. Looking at both risks helps companies examine potential futures, referred to as scenarios, and the actions needed to ensure growth and resilience in these futures.

Given each company’s unique context, the depth of a scenario analysis is variable. I prefer to think of it as a journey that can begin with an initial modest assessment looking at general trends and evolve into a very in-depth research project with detailed plausible development pathways. The timeframe for completing a scenario analysis depends on the level of depth but it is important to highlight that it should not be rushed. As a reference, our team worked with a large corporation headquartered in Hong Kong for 12 months to complete an in-depth transition risks scenario analysis, during which we developed scenarios, assessed climate risks and provided recommendations for enhanced resilience.

I have noted a preference in the market for a physical risk scenario analysis, likely due to the tangible and quantifiable characteristics of these types of risks, however, these analyses often focus on the impact on assets ignoring other potential effects such as supply chain disruptions or impacts on the labour force. As TCFD has pointed out, the feedback loops between physical and transition risks cannot be overlooked. Physical and transition risks should be examined in tandem for a coherent picture of the potential futures. A final point to emphasize is that a scenario analysis is not a one-off exercise. As the science changes and as a company implements actions to enhance resilience, it must reassess the validity of the developed scenarios and adjust as necessary. Communicating the impetus, progress and expected outcomes of this organizational change is what investors are seeking and that would take a lot more than one to two pages in the sustainability report.

So, when a company says they want to “do TCFD”, what they are really saying is we want to begin our climate resilience journey, which is an exercise in change management. It is a long-term and lasting transformation that requires organizational changes in governance that informs business strategy, addresses climate risks through the enterprise risk management process, and monitors progress through metrics and targets. Coincidentally, this fits very well into the TCFD disclosure framework.

THE BEST CORPORATE GOVERNANCE AWARDS AT 20:

WINNING THE LONG GAME

In the last of a series commemorating the Institute's Best Corporate Governance Awards' 20th anniversary, some of this year's judges and award winners tell [Nicky Burridge](#) how they are overcoming the challenges of building a strong company culture that embraces good corporate governance and sustainability, and what they are doing to keep up the momentum

The Hong Kong Institute of CPAs' Best Corporate Governance Awards (BCGA) saw a record 30 award winners announced this year, including seven new awardees, as the standard of corporate governance in Hong Kong continued to improve.

Loren Tang, Chair of the Organizing Committee of the BCGA 2020, says the judges were impressed by the sound and clearly explained corporate governance frameworks many organizations now have in place. She points out that companies are also providing more extensive information on their risk management framework, the key risks companies face, whistleblowing policies and the introduction of board evaluation processes.

In addition, organizations have increased their focus on board diversity. "Effective boards are key to good corporate governance, as a good board culture is an essential element in board performance," she says.

But despite these improvements, the judges did not give out any Diamond Awards for the third year in a row. Tang explains that Diamond Awards are based on whether organizations have met an absolute standard of corporate governance performance or whether there is still clear scope for improvement. "The judges this year noted that companies have been enhancing their corporate governance and environmental, social and governance (ESG) practices and some have begun to deal with specific issues raised by investors, such as succession planning, board refreshment and diversity. However, the general consensus among the judges was that more could still be done," she says.

In particular, the judges would like to see companies giving independent non-executive directors (INEDs) a stronger role to increase board accountability. Tang explains that INEDs in Hong Kong are often appointed by the controlling shareholders and seem to be more accountable to them than to shareholders generally.

The judges would also like to see faster progress in the area of board refreshment, with some boards having a substantial proportion of long-tenured non-executive directors (NEDs) and INEDs with a high average age, particularly in family businesses. Tang points out that the independence of INEDs who have been on a board for too long is open to question, adding that the Hong Kong Stock Exchange's Corporate Governance Code was recently changed to require companies to explain why an INED being proposed for reappointment was still considered to be independent after serving for more than nine years.

At the same time, the number of female directors in Hong Kong is still low and unchanging. "We urge companies to give more weight to the merits of board refreshment and greater diversity, not only in terms of gender, but also age and other factors."

**FROM TOP LEFT,
CLOCKWISE:
JOHNSON KONG**

President of the Institute and Chair of the Judging Panel of the BCGA 2020

LOREN TANG

Chair of the Organizing Committee of the BCGA 2020

DAVID SIMMONDS

Group General Counsel, Chief Administrative Officer and Company Secretary at CLP Holdings

JOHN HAFFNER

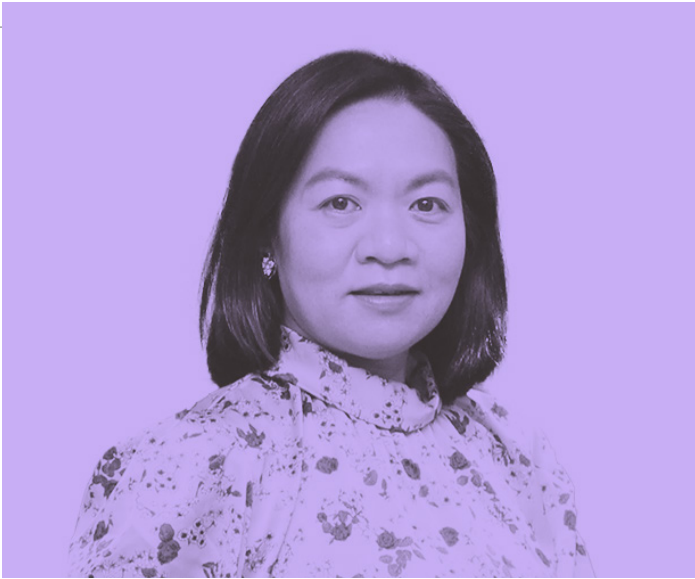
General Manager – Sustainability at Hang Lung Group Limited

JONATHAN LI

Senior Manager – Sustainability at Hang Lung Group Limited

ERIC MA

Chief Executive Officer at NWS Holdings Limited



Overall, however, the judges believe the standard of corporate governance in Hong Kong is improving. “Good corporate governance plays an even more important role in times of uncertainty to provide assurance and give confidence to international investors,” Tang says.

Advocating high standards

Since the BCGA were first launched 20 years ago, the regulatory framework, levels of awareness and standards of corporate governance in Hong Kong have evolved significantly.

Johnson Kong, President of the Institute and Chair of the Judging Panel of the BCGA 2020, points out that there is now a much greater recognition of the importance and value to companies of good corporate governance practices. “The Institute has been an advocate for better corporate governance in Hong Kong for 25 years and, since their inception, the awards have helped to stimulate and support changes in this area,” Kong says.

A highlight of this year’s awards, according to Kong, is the increasing quality of sustainability reporting, with companies becoming better at articulating their sustainability vision and improving disclosures regarding sustainability governance. But there is scope for further progress to be made, and going forward, the awards will put an increased emphasis on this area. “Sustainability considerations should be integrated into corporate strategies and risk management, and not treated as if they are in a separate silo. Sustainability vision, strategies and action plans should also be clearly connected,” Kong says.

He adds that only a few companies share their ongoing performance targets to help investors track progress towards their ESG goals.

Another area in which Kong



would like to see improvements is board disclosures, particularly in terms of companies’ evaluations of the performance of their board, disclosures regarding the appointment and resignation of directors and information about individual remuneration packages.

The Institute would also like to see listed companies develop a code for NEDs to help investors evaluate the role they expect NEDs and INEDs to play, and how effective they are in upholding good corporate governance standards and ensuring the board remains accountable.

Kong points out that the COVID-19 pandemic is testing companies’ corporate governance and ESG and has highlighted the need for good communication and disclosure.

“We believe that companies and public sector organizations with good corporate governance deeply ingrained are more resilient and are also more likely to be able to weather the storm and recover more quickly once it has passed,” Kong says. But he adds that it is also important that companies provide timely and specific information on

how COVID-19 is affecting their businesses, including an analysis of the impact on their operations, liquidity and overall financial position, as well as explaining how they are addressing the risks and uncertainties created by the pandemic and what their strategy is for dealing with these over both the short and longer-term.

Kong thinks the pandemic will increase the focus on ESG, adding to the momentum already gathering as a result of global trends, such as the need to meet the Paris Agreement targets on climate change issues.

Powering change

Energy company CLP won the Outstanding Achievement Award this year in recognition of the fact it is the only organization to have won a corporate governance award every year since the BCGAs were first launched, and a Sustainability and Social Responsibility Reporting Awards each year since these were introduced in 2011.

David Simmonds, Group General Counsel, Chief Administrative Officer and Company Secretary,

“When you have sustainability as a bolt-on to your business, it doesn’t work.”

says: “We invest throughout the organization a huge amount of time and effort in our corporate governance and reporting, and it is really pleasing recognition of our hard work and commitment.”

Simmonds explains that CLP has always been managed for the long-term with corporate governance and sustainability fully integrated. “When you have sustainability as a bolt-on to your business, it doesn’t work. We have a process from the board right the way through to the management team that has regard to these issues,” he says.

To help manage sustainability issues across different time scales, short-term, immediate risks are managed by the Audit and Risk Committee, and longer-term risks and opportunities are under the purview of the board’s Sustainability Committee. This approach is supported by a similar structure across management, who also help to identify what the material sustainability issues are for the company.

Simmonds explains that CLP’s corporate governance is constantly evolving to ensure it keeps pace with the changing expectations of both investors and the communities in which it operates. As such, its corporate governance strategy rests on two key pillars, namely transparency and a need to continuously review and adapt its principles and practices. “Every year our board and our Audit and Risk Committee do a review of the changes in corporate governance and how our own practices and policies are going. We regularly recommend tweaks and modifications along the way, so that it becomes an evolutionary change, rather than a revolutionary overhaul of our approach at some point along the line,” he says.

Simmonds advice for companies that are starting out on their corporate governance journey is to be patient and understand that the process takes time. He also suggests finding



David Simmonds,
Group General
Counsel, Chief
Administrative
Officer and
Company Secretary
at CLP Holdings

champions among the board and senior management that see the value of corporate governance

Going forward, Simmonds expects corporate governance in Asia to continue to evolve from a rules-based approach, to one that is more principles orientated and has a much broader application. He adds that during the past five years, the focus on climate change risks has increased, while the pandemic has caused companies to put more focus on the “social” component of ESG.

For its own part, Simmonds says CLP will continue to focus on long-term value creation, as it prepares to cope with the changes created by decarbonization and digitization. “We were an early mover on climate change reporting and setting decarbonization targets for the business and we will continue to focus on that as a priority issue.”

Building sustainability

Property developer Hang Lung Group Limited’s first Sustainability and Social Responsibility Reporting Awards win comes as it launches an enhanced sustainability framework.

The framework identifies four priority areas, namely climate resilience, resource management, wellbeing and sustainable transactions, on which the company will focus its efforts.

The company has set a series of goals and targets in these priority areas which it aims to achieve by 2030, such as building a nearly net zero carbon building and diverting 90 percent of waste away from landfill. To help the company achieve these goals, it has set around three dozen sustainability key performance indicators (KPIs) for the coming year, defining how departments and properties across the company must work together. John Haffner, General Manager – Sustainability at Hang Lung, says: “We see this journey as taking us on a path where we hope to be among the most sustainable real estate companies in the world a decade from now.”

To enable it to meet this ambitious target, Hang Lung’s boards have become more engaged with corporate governance and sustainability oversight. “The

integration of top-level management and board-level oversight with our long-term target setting and our annual KPI process is very important for being able to move forward,” Haffner explains.

Hang Lung’s focus on sustainability also extends to finance, and the group launched a green finance framework in 2019, under which it has issued green bonds worth HK\$2 billion and arranged green loans of HK\$1.8 billion. It also recently announced HK\$1.5 billion of sustainability-linked loans, the proceeds of

which will be used for initiatives that further improve its long-term sustainability performance. “We consider this to be an important milestone. What is exciting about sustainability-linked loans is there is an incentive for us to achieve against sustainability-linked performance targets,” Haffner says.

He adds that the loans mean the group’s finance department is also engaged in supporting the targets, further reinforcing its sustainability agenda.

Jonathan Li, Senior Manager – Sustainability at Hang Lung, says

when the company first started to build a company culture that embraced sustainability and good corporate governance, it looked for early successes, such as achieving green building certification, to help motivate staff. This approach also enabled them to see that corporate governance and sustainability were valued by investors and stakeholders, which led to them increasing their efforts to ensure the company continued to improve.

Even so, Li says Hang Lung did encounter some resistance when it started to introduce more ambitious goals that required employees to put in more effort. “It takes time to get beyond this stage, and it is important to have strong support from the top so that everyone understands that good corporate governance and sustainability is now something that is being built into the DNA of the company,” he says.

Haffner describes winning the award as a great honour for Hang Lung. “It is external validation that we are on the right track,” he says, adding that the judges’ feedback is also helpful. Li agrees: “It really motivates our colleagues, and makes us want to achieve more.”

“It takes time to get beyond this stage, and it is important to have strong support from the top.”

Setting goals

First-time winner NWS Holdings Limited, a diversified business with core interests in construction, roads and aviation, which won a Gold Award in the Non-HSI (Medium Market Capitalization) Category, has set itself the target of cutting its emissions by 50 percent by 2030. Chief Executive Officer Eric Ma says: “It is a very ambitious target, but everyone is buying into it.”

In order to meet its goal, NWS is focusing on building a strong corporate governance culture across the



John Haffner,
General Manager
– Sustainability
at Hang Lung
Group Limited



Jonathan Li,
Senior Manager
– Sustainability
at Hang Lung
Group Limited



Eric Ma, Chief Executive Officer at NWS Holdings Limited

organization, taking both a top-down and a bottom-up approach.

Ma explains that the first step in building this culture has been getting the support of the board and the Audit Committee, after which it created its corporate governance framework. "This was important so that all departments within the company knew what was expected of them," he says.

The group has also produced a code of conduct, and guidelines for internal controls and risk management, all of which have been made easily available for staff to consult. But Ma stresses that it is also important to have an open culture, so that employees feel able to speak out about any non-compliance or operational risks they identify. "It is very important to have two-way communication," he says.

One of the biggest challenges NWS faced in implementing a strong corporate governance culture is that, as a conglomerate, its operations are diversified. "It is very challenging to align all of these business units with our goals. This is why we need to have good communication, so that

employees know why good corporate governance is important not just to the company, but also to our shareholders, investors and business partners."

Ma explains that for NWS, ESG is seen as being equally important as corporate governance, while both corporate governance and sustainability have also been integrated into its enterprise risk management. "We conduct regular meetings with our staff on corporate governance and ESG, so they are part of our culture of risk management. People are really putting it into practice, and we are seeing a strong culture being built," he says.

NWS is paying particular attention to climate change and has piloted a study to assess the impact this issue will have on the Hong Kong Convention and Exhibition Centre in Wanchai. The study identified areas for improvements, such as enhancing existing facility management practices to better prepare for more extreme wind and flooding events. In its last financial year, it also committed

to HK\$1 billion of environmental performance-linked loans to further integrate sustainability into its operations.

On the corporate governance side, NWS is rolling out a board evaluation process, which started in 2017 with internally administered questionnaires, followed by a questionnaire led by an external consultant in 2019. The process led to a number of recommendations being put forward, such as enhancing the communication between the board and the management of NWS's different business units.

Ma says the company feels honoured to receive a BCGA, which not only serves as recognition for employees of their efforts in this area, but also provides a benchmark of its performance against other local conglomerates.

As the COVID-19 pandemic highlights the importance of good corporate governance and sustainability, and with these issues remaining high on investors' agenda, organizations are likely to have to redouble their efforts in these areas going forward.

The Institute's Best Corporate Governance Awards this year considered about 500 annual reports and around 500 sustainability reports in the initial stage. A diverse range of candidates reached the final stages, and seven new awardees emerged, including those winning awards for the first time in the Sustainability and Social Responsibility Reporting or environmental, social and governance section.


All the articles of the BCGA at 20 series can be found on the A Plus website.



ACCOUNTANT PLUS

Ellis Cheng





CONNECTING THE DOTS

Like other major logistics companies, Kerry Logistics Network Limited is intent on widening its network and boosting its expertise to deliver anything, including long-awaited COVID-19 vaccines. The company's Chief Financial Officer, Ellis Cheng, tells **Jeremy Chan** how he plans to make this possible and recounts his journey into the frantic world of logistics

Photography by Calvin Sit

When Ellis Cheng joined Kerry Logistics Network Limited in 2009, he was surprised at how it differed from the way most people viewed logistics companies at the time. "Before I entered the industry, people imagined logistics to be sweaty, shirtless guys with tattoos moving things around a warehouse or from one place to another," remembers Cheng, Chief Financial Officer of Kerry Logistics and a member of the Hong Kong Institute of CPAs.

The operations and face of the industry have since changed, he adds, especially at Kerry Logistics. "When most people visit our offices for the first time, they probably wouldn't think we're a logistics company," he says, pointing to the spacious coffee and bar area, colourful meeting spaces and a large team of IT professionals – all housed within a sleek and stylish office area bearing the grey and orange hues of the company logo.

Below the company's office building in the New Territories, its bright orange lorries can be seen whisking goods to and from the vast warehouse while employees wearing the company's uniform work to swiftly load and unload cargo in a floodlit carpark. This orchestrated efficiency, Cheng says, is the result of well-coordinated efforts and teams, backed by sophisticated IT platforms, working hard across the globe to make sure goods of all kinds are stored, picked, packed, transported and delivered to their destinations in perfect condition.

But in terms of pure logistics, the company is very much a new kid on the block. Kerry Logistics started out as a warehousing subsidiary of property developer Kerry Properties in 1981. "People would come to us asking for, say, 10,000 square feet of warehouse space, and we'd rent the space to them. We only began our logistics operations back in 2001 when we started buying our first lorries," says Cheng.

In less than two decades, Kerry Logistics has grown into a Hong Kong-listed company focused on third-party logistics, international and domestic freight forwarding, warehouse operations and supply chain solutions. Headquartered in Hong Kong, the company manages about 75 million square feet of land and logistics facilities, of which 31 million square feet is self-owned. Globally, the company covers 59 territories and employs over 43,000 members of staff and owns more than 10,000 vehicles.

Kerry Logistics was listed on the Hong Kong Stock Exchange (HKEX) in 2013 following its spin-off from Kerry Properties. Cheng arrived at Kerry Logistics to begin preparing its initial public offering (IPO), only to learn that the offering had to be delayed.

ACCOUNTANT PLUS

Ellis Cheng

As CFO, Ellis Cheng works closely with the chief executive officer to discuss Kerry Logistics' strategy, plans and potential projects, including mergers and acquisitions.



Nevertheless, Cheng saw this turn of events as an opportunity to familiarize himself with the ins and outs of the company's burgeoning operations. "I didn't come from a logistics background, so it was important for me to understand how our operations are responsible for our numbers," he says. "In the four years leading up to the IPO, I spent a lot of time interacting with people in charge of our operations to find out how each of our business units generates income."

Overseeing risks

As CFO, Cheng oversees Kerry Logistics' global corporate functions. He is in charge of finance and accounting, legal, company secretarial, mergers and acquisitions (M&A), investor relations and the treasury, as well as supervising the internal audit department on an administrative basis.

He works with those in charge of the company's international freight forwarding and integrated logistics operations to identify viable ways of cutting costs. "We are always finding ways to streamline processes," he says, adding that the rolling review of efficiency involves all goods, from large international shipments to local door-to-door deliveries. "Processes like 'last mile customization' on generic products moving between countries helps to eliminate the need to go back and forth between the origin and the destination."

The same flexible approach is applied to freight being transported by lorries. "When our lorries go outbound and carry cargo, they should never drive back empty. If they do, that incurs an additional cost," says Cheng. "We would even offer a lower price on a return trip to make sure they're not empty and have goods to drive back—something's always better than nothing."

Cheng's role also requires him to anticipate any potential risks that may occur in the moving of goods. "Since we transport different types of products, we need to make sure business risks are taken into account," he explains. Sudden

fluctuations in price can affect how cargo is moved and when it might arrive, he adds. "There are occasions when shippers raise costs at the last minute, which can affect the delivery of goods to our customers," says Cheng. This calls for coordination between the sales and operations team to consolidate cargo or use multiple modes of transport instead. "We could combine the cargo of five ocean carriers into, say, three. This allows us to receive a better volume rebate because of the higher volume of goods following the consolidation," he says.

"Our customers say that if we cannot reach a certain requirement in terms of our ESG reporting, we simply cannot qualify as their supplier."

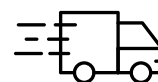
It is crucial that goods arrive at their destination the same way they were packaged. Therefore, Cheng says, Kerry Logistics plans several steps ahead by complying with international safety standards and ensuring that its supply chain partners also comply with health and safety regulations to transport goods. "For example, when it comes to moving foodstuffs, the business units involved must have ISO accreditation," he adds, referring to a quality assurance certification set out by the International Organization for Standardization. "When it comes to handling sensitive computer data, we have an accreditation with ISO cybersecurity standards, which is renewed yearly, and in handling medical products, we need a Good Manufacturing Practices certification," he says, referencing the tight guidelines laid out by Swiss certification company SGS S.A. Kerry Logistics works with external consultants to ensure the company's practices are aligned with international standards. "Not only does this help us deliver quality deliverables, but it is also a

very important selling point of our company," he notes.

Kerry Logistics is now one of a few companies in charge of the colossal task of transporting and storing COVID-19 vaccines, which will soon be administered to Hong Kong's population. The Hong Kong government announced this month that it had acquired vaccines from three separate sources to be made available to the public next year, with the first batch made accessible as early as next month. "Currently, we are one of a few facilities in Hong Kong that has the equipment and infrastructure to store these vaccines," says Cheng, adding that Kerry Logistics had been preparing for this immense effort months in advance.

Cheng has witnessed how environmental, social and governance (ESG) practices have taken on growing importance in recent years and increasingly influence how investors and customers make decisions. His role includes ensuring the company meets its ESG objectives and reporting requirements. "I currently lead a team to work on our ESG goals," he says, adding that this requires cooperation from its quality and risk management division, business units, the company secretary and human resources teams.

He says that Kerry Logistics intends to improve ESG reporting beyond the HKEX requirements and meet the standards issued by the Global Reporting Initiative within three years. "We've engaged an independent consultant to help us develop a three-year sustainability plan to achieve this," he adds. "Our customers say that if we cannot reach a certain requirement in terms of our ESG reporting, we simply cannot qualify as their supplier. It is the same with certain investors, who perform an annual ESG review on the company. If we fail to meet requirements, they will choose not to invest, even if our share price or financials are doing well. As a CPA, I have to make sure the company complies with these standards. We've put in place internal controls to track



Hong Kong-headquartered Kerry Logistics manages about 75 million square feet of land and logistics facilities, of which 31 million square feet is self-owned. Globally, the company covers 59 territories and employs over 43,000 members of staff and owns more than 10,000 vehicles.

our carbon emissions, water usage and staff safety. We deal with many international customers, so we can't just focus on local developments. We need to look at the bigger picture."

Exponential growth

Cheng works closely with the chief executive officer to discuss the company's strategy, plans and potential projects. M&As, he notes, have been instrumental in helping the company grow in recent years. "We usually have around 10-12 potential targets in our pipeline," he says. Through M&As with businesses around the globe, the company is able to build on its coverage, scale and capabilities, Cheng explains.

Within the last five years, Kerry Logistics has strengthened its presence in Mainland China, Canada, Egypt, Indonesia, Myanmar, Russia, the Philippines, Singapore, the United Arab Emirates, Central Asia and the United States, through a combination of M&As and joint venture arrangements. "By expanding into more countries, we are able to serve more brands, and go more in-depth in certain verticals and business segments," notes Cheng.

For example, in November 2019, Kerry Logistics acquired Asav Lojistik Hizmetleri Anonim Sirketi, one of Turkey's top air freight forwarders. This helped to expand its freight forwarding capabilities between Asia and Europe. In May, the company announced a joint venture with IAS Holdings Limited in Sri Lanka, extending its reach within South Asia.

Cheng says M&As help to improve the company's capabilities in moving goods. One major milestone in recent years was Kerry Logistics' acquisition of Apex Maritime Co. Inc, a San Francisco-headquartered non-vessel operating common carrier (NVOCC) company, in June 2016. It offers ocean freight, air freight, trucking, customs broking, and specializes in trans-Pacific trade lanes. "Before 2016, our operations in the U.S. weren't that strong. Though we'd entered a decade beforehand, we just couldn't scale up," says

Cheng. Now renamed Kerry Apex, the company, as of August, was the largest NVOCC operating between Asia and the U.S. in terms of cargo volume. The company now moves more than 400,000 20-foot containers annually, compared to approximately 275,000 in 2014.

The hard work has paid off. Since Kerry Logistics' IPO in 2013, Cheng says he has helped with the successful completion of more than 30 M&A deals. "As a new logistics company we want to grow organically, but also through M&As," he adds. "This helps us to grow quicker."

Constant motion

Cheng wouldn't be the CFO he is today without the experiences he gained in his previous roles. In 1988, a young Cheng joined Arthur Andersen & Co. as a budding auditor after graduating from Hong Kong Polytechnic University. "Working in audit taught me how to plan and complete engagements, lead a team and provide advice to our clients," he says.

He decided to further his experience in the commercial sector in the hopes of gaining a better understanding of how business works, building his network and developing a business mindset.

Despite being only in his late 20s, he landed the role of CFO at a printing company Midas Printing Group Limited in 1995. He was recruited to help the company, then focused on commercial book printing, to prepare for its listing on the HKEX. "Though I'd been in charge of many IPOs as a reporting accountant at Arthur Andersen, it felt like I had switched seats," he says. Undaunted by the prospect, he buckled down and helped Midas Printing Group to successfully list in 1996.

Moving in-house after working in a private practice presented unique challenges, Cheng recalls. "When you work in audit, engagements would be done in a matter of weeks or months," he says. "But in the commercial world, you carry everything with you, every day – and this means

carrying work home with you. The clock's always ticking. You have to know how to come up with strategic plans and execute them well, all while managing people."

After just over a year, Cheng took on the role of group financial controller of property developer Wing Tai Properties Limited in 1996, then known as USI Holdings Limited. "At the time, the company was only involved in the garment business, but they began developing property right after I joined." The company had also begun collaborating with local conglomerates, which led Cheng to take on a second role as a finance and administrative controller at Mandarin Communications Limited to build a new telecom brand. Cheng led a team of five to establish Sunday Communications Limited, a telecom brand under Mandarin Communications. Both companies were eventually acquired by mobile network provider PCCW Mobile HK Limited. "It was a multi-company role in one job, but it truly taught me how to multitask," says Cheng.

Three years later, he joined skincare products and services group Water Oasis Group Limited as their CFO and company secretary. Though Cheng knew little about the sector, he quickly acclimatized. "The first thing I learned at the company was how to properly clean my face," he laughs. "It was crucial to know how – otherwise I wouldn't have been able to sell the products to our investors." He stayed for more than seven years, helping the company to list on the HKEX in 2002 and expand into overseas markets such as in Mainland China, Taiwan and Singapore.

In 2007, he joined Miramar Group as CFO, and was quickly tasked with renovating The Mira Hong Kong hotel and offices in Tsim Sha Tsui. "My boss at the time, Martin Lee, told me that I'd be in charge of the project," says Cheng, referring to the son of Hong Kong business tycoon Lee Shau-kee. Many of the tasks extended beyond the role of accounting, prompting Cheng to learn and act quick. "I had to speak with different suppliers about the costs and

"The clock's always ticking. You have to know how to come up with strategic plans and execute them well, all while managing people."



Cheng, a Hong Kong Polytechnic University alumnus, worked as an auditor at Arthur Andersen & Co. before switching to the business sector.

with the contractors about the design and Feng Shui of the offices.” The project was a success, with Cheng and the company moving into the new 40,000 square foot office in Miramar Tower. The almost three years at Miramar tested Cheng, but by working outside his comfort zone did he acquire additional skills.

Looking back at his career, Cheng appreciates the knowledge and opportunities the CPA qualification has afforded him over the years. “No matter what your role is in an organization, the ability to analyse numbers is extremely important,” he says. “I’m able to understand the story behind them in a very short amount of time. My CPA training has given me this ability.”

Success, Cheng believes, takes time and effort. “My advice for young professionals is to be patient in their career development – a degree won’t bring you as far as you think. Once you graduate, you start from scratch, so you must be humble,” he says. “The moment you join a company, you’re a cost to the business. Think of how to shift yourself from being a liability to being an asset.”

Lending a helping hand

Outside of work, Cheng finds meaning in helping others. During the weekends, he works as an Auxiliary Medical Service Officer. This role sees him patrolling trails and sports events on a bicycle to lend help to those in need. “For example, during marathons, you’ll see some people in uniforms riding bicycles carrying oxygen, bandages and other supplies. When runners get injured or collapse, we’re the guys that come through to help,” he says.

Cheng began volunteering in 2014 and says that setting aside time to help people has truly made him happier. “Through voluntary work, I get to experience new things and meet different people. It’s nice to step out of the accounting world every now and then,” he says. He has also encouraged some colleagues at work to take part.

His most memorable experience was helping a young girl who had just fallen off her bike along with her cousin while he was on patrol duty in the New Territories one weekend. “It was a bad fall. She was crying

and both her legs were scratched and bloodied,” recalls Cheng. “My teammate helped her cousin while I did my best to console her and wrap her legs up with bandages.” He calmed the girl down and jokingly said he’d do his best to make her bandage look prettier than her cousin’s, which cheered her up. “Afterwards, she asked if she could take a photo with me,” he says with a smile. “You simply can’t buy the sort of happiness you get from helping or saving someone.” Cheng has also been a member of UNICEF Hong Kong’s Audit Committee since 2016.

Cheng says he looks forward to building on Kerry Logistics’ brand and business, and wholeheartedly intends on staying for the long run. “I want to continue growing Kerry as an international brand and position ourselves as an all-round professional services provider – I appreciate how we are changing the image of logistics. This is what I like the most,” he says. “If I didn’t like the job, it wouldn’t be the company that I’ve served the longest in my career. I believe that will remain the case for the rest of my working life.” 



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The role of company secretary and the continuing obligations of a listed company

Once a company lists its shares on the Hong Kong Stock Exchange, it needs to fulfil various continuing obligations in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. This has not been an easy task this year. Ip Pui Sum's e-Series will help CPAs to understand how a company secretary can contribute essential efforts to these compliance matters



Ip Pui Sum, an Institute member, has provided company secretarial services for a number of Hong Kong-listed companies and is familiar with the compliance requirements of the listing rules in Hong Kong. He also provides company secretarial services to small- and medium-sized companies in Hong Kong and has experience in fulfilling the obligations and requirements under the Companies Ordinance.

Every listed company in Hong Kong is required to publish its preliminary annual results announcement no later than three months after the end of the financial year.

But the unexpected COVID-19 outbreak has called for the revision of that timetable. One of my clients, for example, experienced unprecedented disruption to the audit of its financial statements. As the client's company secretary, I acted as a communication channel between them and the Hong Kong Stock Exchange (HKEX) to ensure the HKEX was aware of the difficulties that the client encountered. Following an announcement of its unaudited annual results at the end of March, I was relieved that the client was not required to suspend the trading of its shares on the HKEX before the release of its audited annual results in April. This experience had laid a solid base for all parties in handling similar crises in the future.

General meetings of shareholders

Following an announcement of its audited annual results, a listed company in Hong Kong should convene an annual general meeting in compliance with the relevant requirements under its own Articles of Association or the Companies Ordinance (Cap. 622). However, the announcement of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Cap. 599G) presents great challenges. The company secretary of a listed company in Hong Kong must thereafter cautiously review the latest regulations introduced by the government about social distancing and quarantine and the relevant guidance issued by the Companies Registry, the Hong Kong Institute of Chartered Secretaries and the Hong Kong Institute of CPAs for appropriate measures in arranging meetings. None of the proposed arrangements or measures is ideal on its own. However, it is still advisable to consider the following ideas, on a case-by-case basis:

- Pre-registration and proxy voting
- Restrictions on the number of attendees
- Hybrid meetings
- Physical meetings with precautionary measures

Disclosure of inside information

The timely disclosure of inside information is certainly a key issue that has caught the special attention of a company secretary. Under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Listing Rules of HKEX, a

listed company in Hong Kong must disclose inside information as soon as reasonably practicable when the information has, or ought reasonably to have, come to the knowledge of an officer of the listed company in the course of performing his functions as an officer. The further guidance joint statement issued by the Securities and Futures Commission and the HKEX on 16 March has also specifically drawn attention to the frequently asked questions stating that "if the issuer's business operations, reporting controls, systems, processes or procedures are materially disrupted by the [COVID-19] outbreak and/or the related travel restrictions, management should assess whether any inside information has arisen under Part XIVA of the Securities and Futures Ordinance and, if so, make a separate announcement as soon as reasonably practicable."

Nevertheless, it is still worthwhile to reiterate that the board of directors of a listed company should closely monitor any changes in the current and future financial position of the company and maintain effective communication with key senior management, including the company secretary in particular, in times of crisis.

About the e-Series

In an e-Series entitled "Independent Non-Executive Directors – Key Issues and Skills as a Member of Audit Committee, Nomination Committee, Remuneration Committee and Board of Directors," I share my company secretarial experience and allow participants to learn more about corporate governance best practices. The e-Series course will benefit CPAs who act as a company secretary or an independent non-executive director (INED) of a listed company. From the perspective of a company secretary, the course will provide practical guidance in the proper setting of timetables, agendas and procedures for convening meetings involving audit, nomination and remuneration committees. INEDs in these relevant committees will be taught how to effectively deal with key issues in reviewing, including but not limited to, results announcements, connected party transactions, internal controls and risk management, and other significant or unusual transactions. The course also covers the procedures and skills in handling a meeting as a chairman of a committee and maintaining effective communication with the board of directors. Members can enrol in the e-Series course on the Institute's website.

Examining the new DIPN covering ship leasing and management tax concessions

A look at the implications of the Inland Revenue Department's newly-issued DIPN 62

The Inland Revenue Department (IRD) has released Departmental Interpretation and Practice Note (DIPN) No. 62 *Taxation of Ship Leasing Activities*, setting out its views on the implementation of the ship leasing and ship leasing management concessions introduced in the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020, enacted in June.

Overview of the new tax concession

Under the new tax concessions, qualifying ship lessors would be chargeable to profits tax on their qualifying business operations, as defined in the relevant provisions in the Inland Revenue Ordinance (IRO) at a concessionary rate (i.e. 0 percent for the year of assessment commencing on or after 1 April 2020). In addition, qualifying ship leasing managers would be charged at half the normal profits tax on profits generated from qualifying business activities, or 0 percent where the services are intragroup.

The legislation, while providing a useful tax concession for certain businesses, also raised a number of questions for others. DIPN 62 addresses some, but not all, of these concerns.

Incidental income

In paragraph 7 of the DIPN, the IRD has stated that qualifying profits includes income incidental to profits from a ship leasing business, like interest income, exchange gains or hedging gains, as long as the transactions are ancillary to the qualifying activities. This appears to be a concession as the legislation does not

contain any mention of incidental profits, leaving the risk that a small amount of bank interest could have prevented the lessor from qualifying for the reduced tax rate.

Substance requirements

It is a condition of the concession that central management and control be exercised in Hong Kong. The DIPN stresses the role of day-to-day work by the directors in Hong Kong. From a practical perspective, the IRD's comments show the importance of ensuring that the directors are competent to perform their role, that they are provided with the relevant information to make their decisions and are seen actively to investigate whether proposals are in the best interests of the company, and that board meetings are properly held and minuted.

Anyone claiming the concession is required to have substance in Hong Kong. For ship leasing activities, this consists of at least two full-time employees with appropriate qualifications and at least HK\$7.8 million of operating expenditure in Hong Kong. For ship leasing management activities, the appropriate minimums are at least one full-time employee and at least HK\$1 million in operating expenditure. In addition, the number of employees and the amount of the expenditure must be adequate in the opinion of the assessor and they must undertake the business' core income generating activities (CIGAs) in Hong Kong.

The CIGAs are defined to align with the definition of a ship leasing activity in schedule 17FA of the IRO. These are: agreeing funding terms, identifying or acquiring ships to be leased, setting the lease terms and duration, monitoring

or revising any funding agreements and managing any risks associated with leases.

A wide range of expenditure will be regarded as operating expenditure including staff costs, rental and admin costs. It also includes any finance costs directly related to the acquisition of a ship for use in the leasing business. Importantly, provided the loan is taken out for the purpose of acquiring a ship for use in a Hong Kong ship leasing business, the IRD will accept that it is incurred in Hong Kong even if it is borrowed from an overseas financial institution. The DIPN does not discuss the case where the money is borrowed from someone other than a financial institution, for example a related party, although logically the same test should apply.

The DIPN states that depreciation on the vessel cannot be included as operating expenditure on the basis the ship is used for earning lease payments but not for carrying out CIGAs. It is a little hard to follow the logic here, given that they have accepted that interest payments on loans taken out to acquire the vessel can be included. Nevertheless, it is unlikely many lessors will need to rely on depreciation to meet the expenditure threshold, provided they have incurred sufficient interest expense.

The DIPN confirms that outsourcing of CIGAs to an associated person in Hong Kong is allowed provided that an arm's length fee is charged and appropriate monitoring is undertaken by the special purpose vehicle (SPV). In this case the number of employees employed by and the service fee paid to the associated person can be taken into account in determining whether the substantial

activities requirement is met. Note that the wording of the relevant section does not make it clear whether the total number of employees and expenditure is to be determined on a per-SPV basis or on a group basis.

It will typically be easy for a SPV to meet the expenditure threshold, provided the SPV is incurring interest on the acquisition of the ship. From any commercial perspective, the number of employees adequate to run a business is more closely related to the number of vessels operated than the number of SPVs that may hold them, and in the case of a long term bare-boat charter business would clearly be substantially less than two per vessel. However, concerned taxpayers may wish to consider obtaining an advance ruling.

Our observations

What is a lease and what is a ship operator?

One of the biggest concerns that has not been fully addressed by the DIPN was that the envisaged segregation of the activities of ship owners into "pure leasing" and "ship operating" is not as clear as the IRD would have us believe. Many ship owners engage in a range of activities, seeking to maximize the return on their vessels in whatever ways they can, according to the nature of the market at different points in time. The nature of the market in recent years has tended to require greater flexibility on the part of ship owners to consider short-term charters or taking on greater operational risk.

Against this kaleidoscope of activities, the legislation sought to impose an all-or-nothing test, posing problems for

more complex businesses. Unfortunately, the DIPN largely does not address these concerns. The DIPN reiterates that ship operators are not eligible for the exemption and that to be eligible a lessor must be acting as a standalone corporation engaging solely in ship leasing activities. It makes clear that the provisions can apply to leases regardless of whether the lessor provides the crew (i.e. both wet and dry leases).

Although not addressed in the DIPN, the IRD has indicated in correspondence with concerned parties that some leasing arrangements may continue to fall within section 23B of the IRO. In particular, the IRD has stated that where a ship operator generates income from leasing a ship on a voyage charter or a time charter fully equipped, crewed and supplied, this will be treated as income of the ship operator's ship operations. They have also stated that income from bare boat charters which are an incidental or ancillary activity of the ship operator may also continue to be assessed in accordance with section 23B.

The test set out in the IRD's correspondence is not straightforward and leaves room for interpretation. Nevertheless, it does appear that the IRD has accepted that there is a need for flexibility in the application of the two sets of rules in order to avoid the situation where a taxpayer ends up paying tax despite conducting business which is supposed to fall entirely outside the tax net. The exact application of the rules and how best to apply them is likely to vary from business to business, and ship owners should pay careful attention to this. It may be that the best way to obtain certainty is to apply for an advance ruling.

It is disappointing that the IRD's wider

comments on the distinction between operators and lessors did not make it into the DIPN. It is an important distinction for taxpayers to understand and one that the IRD is aware has caused concern. For Hong Kong to maintain its position as an international business hub, and for tax concessions designed to assist in that to be successful, it is vital that the IRD's interpretations are made available publicly to all so that investors can have a clear understanding of their position.

The IRD also reiterates the position, which is clear in the legislation, that to be a qualifying lease, the term must exceed one year, unless it is a sublease. A ship owner engaging purely in a charter hire business would need to be careful that they did not lease ships out for periods of less than a year if they did not want to crash out of the regime. The IRD's solution appears to be to set up subleases, although clearly there would be commercial considerations to this.

Substance requirements

The IRD does not go into detail about what qualifications it would regard as appropriate for employees of a ship leasing business, but notes they would be expected to include the leasing manager, marketing manager, legal counsel, financial controller and credit risk analyst. The test to be applied is based on average employees over a year – this should be given attention as it is possible that any enterprise operating on the minimum number of employees could crash out of the regime if it has a vacancy for any period of time after an employee leaves.

The comments on the adequacy test are concerning. The Commissioner of Inland Revenue will review each case on its facts



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and circumstances taking into account a range of factors and would deny any tax benefit that seems disproportionately large relative to the number of employees employed and the amount of operating expenditure incurred in Hong Kong. The DIPN gives an example in which there are two ship leasing companies engaged in a similar business. One makes a larger profit, and has lower operating expenses and fewer employees than the other. Based on this comparison, the IRD's view is that the more profitable company has *prima facie* failed the adequacy test and would be denied the concession unless sufficient evidence could be produced that CIGAs were being carried out in Hong Kong.

The example as set out suggests that running an efficient business is seen by the IRD as a risk factor. We do not know why one business is more profitable than another – it may have fewer employees because it makes better use of technology or it may make more profit because it is better at adapting to customer requirements. Given the international nature of shipping, it is unlikely that many businesses can be entirely conducted within Hong Kong, especially where they involve the provision of crew or the undertaking of port agency services. A working assumption that making too much profit is in itself problematic risks making the incentive unattractive to investors.

BEPS 2.0

The potentially fleeting nature of the exemption from tax on ship leasing activities is set out plainly in paragraph 27 *et seq* of the DIPN. Here, the IRD notes that the introduction of a minimum tax rate under Base Erosion and Profit Shifting (BEPS) 2.0 may mean that the 0 percent

tax rate is unsustainable and may rise. Investors should factor this in to their projected returns.

While a fairly detailed blueprint for the minimum tax proposals under Pillar Two of BEPS 2.0 has been produced by the Organization for Economic Cooperation and Development (OECD), there are still many details to be finalized, not least the minimum tax rate itself. Discussion is still ongoing as to whether the shipping industry may be exempted from the minimum tax rules and if so what the scope of that exemption would be. Further, not all taxpayers and holding structures would necessarily be directly affected by the new rules.

However, the legislation and the DIPN both clearly lay the groundwork for the tax rate to increase, and have set out rules for the calculation of a tax base should it become relevant. Of particular interest here is the 20 percent concession on the tax base for lessors under an operating lease. It is explained as a substitute for depreciation allowances, which lessors of ships operating outside Hong Kong are not allowed to claim under section 39E of the IRO. The minimum tax rules are likely make some adjustment to exclude some or all of the effect of accelerated capital allowances from the calculation of the effective tax rate, as this is a common adjustment in most jurisdictions. Again, the details have not yet been finalized, but there is a risk that by disallowing depreciation and instead allowing a notional deduction against income the Hong Kong rules will not fall within the scope of the accepted adjustments to effective tax rate. In this regard, the leasing regimes of other significant centres may more closely align with the BEPS model.

In the context of BEPS more widely, we also note that the DIPN spends a lot of time discussing various anti-avoidance provisions. While Hong Kong of course needs to be mindful of being seen to help profit shifting, the ship leasing rules have been reviewed by the OECD and it is important to remember that the purpose of the incentive is to encourage the ship leasing business in Hong Kong.

Conclusions

The IRD has provided helpful clarifications on their interpretation of the legislation, although a number of uncertainties remain. Given the complexity of the arrangements and the IRD's form on applying concessionary rates, taxpayers should review their business models to ensure compliance and may be well advised to seek a ruling to ensure their proposals are in line with the IRD's view.



The article is contributed by
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A summary of the Institute's new assurance technical bulletin for ESG reporting

An overview of the Institute's recently published guidance on environmental, social and governance assurance

The Institute's recently published Auditing and Assurance Technical Bulletin (AATB) 5 *Environmental, Social and Governance (ESG) Assurance Reporting* provides practical non-authoritative support material intended to assist practitioners in performing assurance engagements on ESG information. This article goes through the guidance.

Globally, there is an increasing demand for ESG information by investors and stakeholders who pursue long-term investment in sustainable and socially responsible companies. Since 2016, the Hong Kong Exchanges and Clearing (HKEX) requires all companies listed on the HKEX to issue an ESG report in accordance with its *Environmental, Social and Governance Reporting Guide*. In December 2019, the HKEX released an enhancement to the guide to strengthen the leadership role and accountability of the issuer's board on ESG information. This became effective for issuers' financial years commencing on or after 1 July 2020.

Paragraph 9 of the enhanced reporting guide encourages issuers to seek independent assurance to strengthen the credibility of ESG information disclosed. An issuer may choose to obtain external assurance for all or part of its ESG report. While optional, the HKEX states that where independent assurance is obtained, the issuer should clearly describe in the ESG report the level, scope and processes adopted for the assurance given. Issuers may decide whether to disclose the name of the assurance practitioner.

Chapters 1 and 2: Introduction and assurance framework

Chapter 1 introduces the purpose of AATB 5, which is to provide practical non-authoritative support material intended to assist practitioners in

performing assurance engagements on ESG information. The basis of the reporting framework is Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and with reference to the International Auditing and Assurance Standards Board's *Proposed Guidance: Extended External Reporting (EER) Assurance*. It is tailored with reference to the ESG reporting circumstances in Hong Kong.

Chapter 2 provides practice guidance on particular challenges practitioners may face in performing assurance engagements on ESG information in accordance with HKSAE 3000 (Revised). The chapter also makes it clear that AATB 5 is not a substitute for HKSAE 3000 (Revised).

Chapter 3: Special features of ESG reporting

An ESG report is a way for entities to demonstrate their business activities in relation to their sustainability practices. This chapter describes some of the differences between financial statements and ESG reports. Including how, unlike for audited financial statements, there are no standardized report formats and structures in presenting ESG information, and that ESG reports may contain a diversity of information including qualitative and quantitative information.

Chapter 3 covers the different types of qualitative and quantitative information, differences between and similarities shared by popular ESG reporting frameworks, and reporting boundaries. It also discusses the board's oversight of ESG matters, and how to identify important matters.

Chapter 4: Appropriate competencies and capabilities of the assurance practitioner

This chapter sets the conditions for engagement partners to be a member of a firm that applies 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* and have appropriate assurance skills and techniques and to understand the underlying ESG subject matter and its measurement and evaluation.

The chapter also covers the responsibility of the engagement partner throughout the engagement, including in regards to the work of subject matter experts engaged to work on specialized subject matter.

Chapter 5: HKEX ESG reporting guide – Specific considerations

Performing ESG report assurance engagement involves collecting and evaluating evidence about the ESG subject matter against suitable criteria to arrive at a set of findings and conclusions. The entity and assurance practitioner should agree the objective and the scope of ESG information to be assured for the assurance engagement.

The chapter discusses the different requirements in the HKEX reporting guide, namely the mandatory and "comply or explain" provisions, and what practitioners should consider when accepting engagements.

Chapter 6: Level of assurance

Assurance practitioners can perform a combination of reasonable and limited

assurance on different underlying ESG subject matters in the same assurance report. If the report contains different levels of assurance, these differences should be clearly differentiated and separate conclusions should be expressed.

HKSAE 3000 (Revised) allows certain flexibility for the responsible party, intended user and the assurance practitioner to agree the level of comfort that is relevant to the purpose of the ESG report. However, it also makes clear that the practitioner remains responsible for obtaining suitable evidence to justify their conclusions.

Chapter 7: Suitable criteria

Criteria are the benchmarks used by practitioners to measure or evaluate an ESG subject matter. During an engagement, the practitioner evaluates the ESG subject matter and provides their opinion on whether it is prepared in accordance with the applicable criteria. The chapter describes the characteristics of suitable criteria: relevance, completeness, reliability, neutrality and understandability.

Suitable criteria can be established with reference to regulations, industry, market and internal practices, and should be available to the intended users allowing them to understand how the ESG subject matter information has been measured or evaluated.

Chapter 8: Qualitative information

There is often a high degree of uncertainty inherent in the measurement or evaluation of underlying ESG subject matters, which gives rise to subjectivity in their measurement or evaluation and a greater range of possible measurement or evaluation outcomes than may typically

be the case with historical financial information assurance engagements.

When underlying ESG subject matter cannot be measured and expressed in quantified terms, it may be more susceptible to being more reflective of, and more variable with, the views of those reporting it. Therefore, additional disclosure criteria may be needed.

The ESG subject matter information for some aspects may be expressed primarily in qualitative terms, rather than in quantified terms. This information may be factual (that is, directly observable) or inherently subjective. It is therefore particularly important that qualitative information is understandable (including being unambiguous as to its intended meaning) and neutral.

This chapter also includes examples of the types of ESG information practitioners may encounter, and specific considerations for assuring them.

Chapter 9: Future-oriented information

ESG reports may contain different forms of future-oriented information, such as that about future conditions or outcomes and an entity's intentions or future strategy. This may include forecasts, projections, and information about future risks and opportunities.

Evidence may be available to support assumptions, but such evidence is itself generally future-oriented and, therefore, speculative in nature. This chapter explains some of the steps a practitioner should go to when conducting the engagement, including whether the entity has the capability to carry out the intent, there is a reasonable basis behind assertions, and whether assumptions are supported by evidence.

Chapter 10: Reporting

The practitioner should form a conclusion about whether they have obtained reasonable or limited assurance, as appropriate, about the ESG subject matter information. This evaluation should include consideration of the qualitative aspects of the entity's quantification methods and reporting practices, including indicators of possible bias in judgements and decisions in the making of estimates.

This chapter includes the basic elements that an assurance report should include.

It is important that the practitioner complies with HKSAE 3000 (Revised) and any ESG subject matter-specific HKSAEs relevant to the engagement. Where an ESG subject matter specific HKSAE applies to only part of the ESG subject matter information, it may be appropriate to cite both that ESG subject matter specific HKSAE and HKSAE 3000 (Revised).

Appendices

The appendices include guidance on the procedures in limited and reasonable assurance engagements, to help practitioners to plan their engagements. There are also illustrative examples of assurance reports on ESG information.



The article is contributed by the Institute's Standard Setting Department

TECHNICAL NEWS

The latest standards and technical developments

Financial reporting

Webinar on interest rate benchmark reform and its effects on financial reporting

On 12 January, the Institute is holding a live webinar to provide an overview on the effects of the interest rate benchmark reform on financial reporting. The webinar will go through the necessary amendments to financial reporting standards, and walk participants through how to apply the amendments with illustrative examples.

Q&A for Hong Kong Interpretation 5 (2020) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The Institute has published questions and answers for Hong Kong Interpretation 5 (2020) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*, which was revised in October as a consequence of the amendments to Hong Kong Accounting Standard 1 *Presentation of Financial Statements* introduced by *Classification of Liabilities as Current or Non-current* in August. The amendments clarify how to classify debt and other liabilities as current or non-current but do not change the existing requirements, are effective for annual periods beginning on or after 1 January 2023, and apply retrospectively, with earlier application permitted.

November 2020 IASB podcast update

The November podcast, focusing on the International Accounting Standards Board (IASB) at its monthly meeting, and the *November IASB Update*, highlighting the tentative decisions reached at the IASB monthly meeting and discussions from the Joint IASB and Financial Accounting Standards Board education meeting held on 19 November, are now available.

IASB educational material on the effect of climate-related matters on financial statements prepared under IFRSs

The IASB has issued educational material highlighting how climate-related matters should be considered when companies prepare financial statements using International Financial Reporting Standards (IFRSs). The educational material complements an article an IASB member wrote in November 2019, and includes a non-exhaustive list of examples of when companies may need to consider climate-related matters in their reporting. The educational material is aimed at supporting the consistent application of IFRSs, and does not add to or change the requirements in IFRSs.

Auditing and assurance

Webinar on solicitors' accounts rules and PN 840 reporting engagements

Practising members are sometimes engaged to issue an accountant's report on a firm of solicitors. The report is prepared with regard to the requirements of the Solicitors' Accounts Rules and Accountant's Report Rules made under the Legal Practitioners Ordinance (Cap. 159) as explained in Practice Note (PN) 840 *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. The Institute's webinar on 4 January will explain solicitors' obligations with respect to their handling of clients' money and common breaches of such obligations, followed by a panel discussion on pitfalls in solicitors' accounts reporting.

IAASB November virtual meeting

The meeting audio of the International Auditing and Assurance Standards Board (IAASB) November virtual meeting is now available.

IAASB's videos on quality management standards

The IAASB has published video introductions to the new and revised quality management standards explaining the

key aspects of the three standards to help stakeholders begin their implementation efforts.

IAASB's support material on using automated tools and techniques when identifying risks of material misstatement

The IAASB has published non-authoritative frequently asked questions assisting auditors to understand the types of automated tools and techniques that can be used, and how they can be used, in performing risk assessment procedures in accordance with International Standard on Auditing 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement*.

IAASB's key takeaways from roundtable series on fraud and going concern

This IAASB's publication summarizes key themes and insights from the virtual roundtables previously held on issues and challenges related to fraud and going concern, which comprise one aspect of the IAASB's broader information-gathering activities related to fraud and going concern that will be considered in determining possible future actions.

U.K. FRC consolidated COVID-19 guidance for companies and auditors

The United Kingdom's Financial Reporting Council has published consolidated guidance for companies and auditors addressing audit engagements that may be affected by COVID-19.

Ethics

IESBA new role and mindset fact sheet

The International Ethics Standards Board for Accountants (IESBA) has released a new fact sheet providing an overview of the recently released revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* to better promote the role and mindset expected of all professional accountants.

Corporate finance

Invitations to comment

HKEX's concept paper on fast interface for new issuance

On 16 November, the Stock Exchange of Hong Kong (HKEX) launched a concept paper on fast interface for new issuance, proposing to streamline the initial public offering (IPO) settlement process. In particular, the time gap between IPO pricing and trading may be shortened from five business days to one business day.

The deadline for submissions to the HKEX is 15 January 2021. Please refer to the press release for details.

HKEX's consultation on Main Board Profit Requirement

On 27 November, the HKEX issued a consultation paper on proposals to increase the profit requirement for Main Board listing applicants. Please refer to the press release for details.

The deadline for responding to the consultation paper is 1 February 2021. Members are welcome to submit any views or comments on the proposals to the Institute (quoting their membership number and contact details) to the Advocacy and Practice Development department at apd@hkiipa.org.hk on or before 8 January 2021.

SFC's proposals to introduce investor identification for the securities market in Hong Kong

On 4 December, the Securities and Futures Commission (SFC) issued a consultation paper on proposals to introduce investor identification for the securities market in Hong Kong. Please refer to the press release for details.

The deadline for submission to the SFC is 4 March 2021.

Consultation conclusions on proposed amendments to the Code on REITs

On 27 November, the SFC issued consultation conclusions on its proposals

to amend the Code on Real Estate Investment Trusts (REITs). The proposals received broad support and, with some modifications to clarify specific requirements, such as those which apply to minority-owned properties, the amendments were gazetted on 4 December and became effective immediately. See the press releases on 27 November and 4 December for details.

The Institute issued a response to the original consultation paper in August, which, in general, supported the SFC's proposals.

Insolvency

Disqualification of Directors – Revised Arrangement on Submission of Form D1 and Form D2

The Official Receiver (OR) issued ORO Circular No.2/2020, on 12 November, setting out a revised arrangement on submission of Forms D1 and D2 by provisional liquidators/liquidators to the OR, which includes submitting a questionnaire when filing a Form D1. The circular is effective from 1 December.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- List of Qualifying Debt Instruments (as at 30 September 2020).
- Latest arrangements of Inland Revenue Department's public services.
- Departmental Interpretation and Practice Notes No. 62 *Taxation of Ship Leasing Activities*.
- Interest on Tax Reserve Certificates.
- Legislative Council question on relief measures.
- Abolition of Doubled Ad Valorem Stamp Duty on non-residential property transactions – ad valorem stamp duty and relevant frequently asked questions and illustrative examples.
- Stamp Duty statistics.

Legislation and other initiatives

Announcements by the government

Members may wish to be aware of the following matters:

- Government gazetted specifications under Prevention and Control of Disease (Compulsory Testing for Certain Persons) Regulation (Cap. 599J).
- Government further tightens social distancing measures and extends expiry dates of Regulations under Prevention and Control of Disease Ordinance.
- Government further tightens testing and isolation arrangement for crew members of aircraft and other exempted persons including Cap. 599C exempted persons.
- The Office of the Privacy Commissioner for Personal Data issues three practical Guidance Notes under the series "Protecting Personal Data under Work-from-Home Arrangements."

AML guidance

Members may be interested in *Anti-Money Laundering: The Basics*, developed by the International Federation of Accountants and the Institute of Chartered Accountants in England and Wales, which provides brief guidance covering different AML topics.

AML notices

The United Nations Sanctions (Mali) Regulation 2019 (Amendment) Regulation 2020 and the United Nations Sanctions (Central African Republic) Regulation 2020 (Amendment) Regulation 2020 were gazetted on 10 November.

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations sanctions, members should refer regularly to the Institute's AML webpage. Other useful documents and guidance can also be found on the same page.



Please refer to the full versions of Technical News on the Institute's website: www.hkiipa.org.hk

GIVING PROFESSIONAL ADVICE

There are many ways to give back to the community. One could donate to a charity or dedicate time to helping with one. One can also use their professional skills – acquired over a lifetime of hard work – to improve the operations of a non-governmental organization (NGO) in need. Three CPAs tell [Jeremy Chan](#) how they use their accounting knowledge and expertise to help NGOs and the most deeply fulfilling aspects of making time to do so

Elizabeth Law hopes other CPAs know that their skills can genuinely help the operations of a non-governmental organization (NGO) and that volunteering can be enjoyable, rewarding and fruitful. “I don’t consider helping out at an NGO to be ‘work,’” says Law, Managing Director at Law & Partners CPA Limited and a member of the Hong Kong Institute of CPAs. “It’s a great way to connect with the community. I feel that God wanted me to become an accountant so that I could use my skills to give back.”

For more than two decades, Law has helped out as an Honorary Treasurer at The Hong Kong Council of Social Service (HKCSS), a local federation of non-government social service agencies. It was established in 1947 with the aim of planning and coordinating large scale relief work and social welfare. She was introduced to the organization in 1998 through her friend, Eric Li, then the chairman of the HKCSS. Her role involves helping with the NGO’s accounting, financial statements, reports, internal controls and to ensure proper governance and procurement. “Helping out with its finance matters has helped me to understand the organization,” adds Law.





Elizabeth Law (centre) has been volunteering at the Hong Kong Council of Social Service since 1998.

She is also a member of committees under the HKCSS such as the Executive Committee, Caring Company Scheme Steering Committee, Steering Committee on HKCSS WiseGiving, HKCSS Development Fund, Steering Committee on NGO Governance Platform Project, Advisory Committee on Group Retirement and Provident Fund Scheme, and the Innovation and Technology Business Management Committee. She is also a Chairman of the Hong Kong Employment Development Service, an organization set up by the HKCSS in 2002 to provide professional employment counselling and training services to disadvantaged job seekers.

Being part of numerous committees makes her role in charity diverse as well as far-reaching. Her role in the Steering Committee on NGO Governance Platform Project, for example, involves partnering up with large and small firms around the city with the purpose of helping NGOs. “We’d visit a lot of different organizations to identify their problems and needs and to pair

“Many NGOs around the city face the issue of not having people to help them, especially with their finances and accounting. Or they might know people who can help but struggle to secure funding or in asking them to work for free.”

them up with professionals,” she explains. “Many NGOs around the city face the issue of not having people to help them, especially with their finances and accounting. Or they might know people who can help but struggle to secure funding or in asking them to work for free.” Law says she reaches out to the professionals at the Institute, the Big Four, small- and medium-sized practices, law firms, the Companies Registry and the Inland Revenue Department. “Once professionals are paired, they help NGOs to set up their internal control systems and advise them on having better governance,” she adds.

Law says that the COVID-19 pandemic this year has brought unprecedented challenges for NGOs across the world. But this also presented an opportunity for her to help. “NGOs have had to cancel a lot of their fundraising activities and a lot of people have lost their jobs,” she says. By reaching out to her friends inside and outside her network of NGOs, Law helped to raise money and also secure face masks when the city faced a shortage at the beginning of the outbreak. “What really touched me was seeing a lot of my friends and people I know through the organization offering to help. They helped to donate masks, face shields, money, food assistance and emergency fund support. The HKCSS was able to raise HK\$150 million in funding for the underprivileged in a few months. I was also able to secure more than a million face masks at the start of the COVID-19 outbreak for them. This year has brought many challenges, but seeing so many people willing to help has been the silver lining.”

Law has been helping others

for most of her life. Her foray into charity work began when she was a college student at McGill University in Montreal, Canada. During her long summer breaks, she dedicated her time to helping the Chinese population in Chinatown. “We applied to the government for funding and set up an organization called the Chinese Family Service of Greater Montreal,” she recalls. “Some of the Chinese people there were sold to Canada at a young age but they couldn’t speak any English or French. That was our target.” Law would bring them to hospitals, help them get around town and organize picnics and outings for them. As word got around about the organization, they were invited to visit a children’s home a few hours away from Montreal. “The children there suffered from serious illnesses or disabilities. Some couldn’t move at all and others were mentally challenged. They could only move around on wheelchairs or had to be wheeled out on their beds.” The somber experience struck a chord in Law, who made it her life’s duty to help others. “That was when it hit me how lucky I was. Many people might feel dissatisfied with their lives or want more out of it. But when one already has two eyes, a mouth, a nose, two hands and two feet – that’s a blessing.”

Helping out at a young age paves the road for a lifetime of giving back, she says. “As an accountant, not only can we help NGOs with their financials and controls, but we can also volunteer, share our experience and provide them with guidance and support,” she adds. “Helping with charities is a part of my life and something I find deeply enjoyable and fulfilling.”

Ronald Yam (second row, left) with members of the Hong Kong Children's Choir at an event in Sydney.



Dedicated for life

For Ronald Yam, having the heart to help is more important than having time to help. Though he is busy with his duties as a Partner at RSM Hong Kong, he has found a way to strike a fine balance between work, family and charity. Currently, he divides his time to help out as an Honorary Treasurer for organizations under the Young Men's Christian Association (YMCA) such as World Alliance of YMCAs, Asia and Pacific Alliance of YMCAs, YMCA of Hong Kong, Chinese YMCA of Hong Kong, other NGOs such as Habitat for Humanity and Hong Kong Children's Choir, and religious organizations such as the Association of Christian Accountants. He is also a member of the school management committee of Island Christian Academy and C. & M.A. Chui Chak Lam Memorial School.

"All the NGOs I am serving are of equal importance of me," says

Yam, an Institute member. Yam first began helping at the Chinese YMCA of Hong Kong in 2006 as a director and the honorary treasurer, and at one point, was the honorary treasurer of all four YMCAs at the same time from July 2018 until September 2019. "I use my knowledge as a professional accountant to take care of their accounting, financials, treasury and investments," he explains. "I also have to review their annual budgets, approve expenses, review and analyse financial results and report to their board of directors from time to time and seek approval."

This year has been particularly challenging for NGOs due to the pandemic leading many into financial troubles. As Honorary Treasurer of the World Alliance of YMCAs, Yam was involved in setting up a fund called the YMCA Solidarity Fund, which helped to finance struggling YMCAs around the world. "This required

us to gather resources from within and outside of the organization," explains Yam. "YMCAs from around the world, especially in Africa and Latin America applied for this assistance." He adds that the fund has already helped to save the jobs of 350 staff members at the YMCAs globally this year, according to the Secretary General.

For Yam, it is most rewarding witnessing the impact an NGO can have on individuals and families living in distress. Through fundraising activities and donations in Hong Kong, Yam helped Habitat for Humanity as an Honorary Treasurer to raise enough money to build more than 1,800 houses and one school for the victims of the 2008 and 2013 earthquakes in Sichuan. Yam remembers visiting in 2013 when he went to view the building progress. "I was moved to tears when I saw all the damaged houses," he says. "At the same time, we saw how happy some families were in their new houses. Helping

out with this project brought me happiness from the bottom of my heart.”

Though Yam has to carefully manage his time to fulfil his many roles, he embraces the opportunities he has to help others. “The most rewarding thing is using my skills to serve these NGOs so they can carry out their work in accordance to their missions,” he says. “The only challenge is finding sufficient time for office work, serving NGOs and spending time with my family. My partners at the firm are very understanding and they know my passion for serving the community. I have to thank them.”

Just a year ago, Yam says his schedule required him to fly to other places to attend NGO-related meetings in countries such as Switzerland, the Netherlands, Australia, Taiwan and Canada, which meant less family time. But this year’s pandemic and travel restrictions have provided Yam with more time to see his wife and daughter and even help to plan her wedding in October. “A year ago, it would have been difficult to always make it back for dinner. But now that all meetings have moved online this year, I’ve been able to always have dinner at home with family. My wife’s happy, but complains about having to cook every night,” he laughs.

“The most rewarding thing is using my skills to serve these NGOs so they can carry out their work in accordance to their missions.”

NGOs, Yam highlights, are always looking for CPAs to volunteer. He hopes those who do are able to commit to the job. “You need to have a heart to serve the community. Consider your availability of time, as working at NGOs can be a long-term commitment,” he notes. “They can always start out by helping out at smaller NGOs and then moving onto larger ones. We as CPAs have the skills to help improve the standard and governance of these organizations.”

The joy of giving

Wendy Hui will never forget the smiles, laughter and joy she witnessed – and the profound compassion she felt – at her first charity event. It was October 2011 and Hui was invited to attend a fundraiser organized by the Hong Kong Rehabilitation Power (HKRP), a small non-profit organization founded in 1995. The organization focuses on assisting disabled and mentally-challenged individuals to overcome difficulties, with the goal of integrating them within society. The gathering, Rehab Power Day, took place in Victoria Park and saw volunteers organize games and singing events for the participants. The yearly event raises funds to subsidize specially-designed vocational training programmes to train those with disabilities, increasing their chances of becoming employed.

“I met a lot of disabled people, many in wheelchairs that day. I was so touched to see the disabled, volunteers and sponsors all having a good time together,” says Hui, who is retired and an Institute member. Hui, who has suffered from poliomyelitis ever since she was a child, felt a particularly strong connection to the

event’s attendees and the urge to help the organization in any way possible. “I saw myself as one of them. I told my friend I wanted to join the organization as soon as I retire.”

As soon as Hui retired in 2014 after 35 years as an accountant for the Hong Kong government, she joined the HKRP as a councillor and then took on the role of honorary treasurer until 2019. She was immediately confronted with the challenge of managing the organization’s finances. At the time, the NGO had little accounting expertise and had to outsource its accounting duties to external firms over the years. As Hui recalls, its accounts were outdated, messy and the organization had been experiencing a deficit. Apprehensive about the daunting task at first, she knew she had to turn things around. She established an accounting department, and along with another volunteer, helped to devise accounting systems and procedures, enhance the NGO’s internal control systems and update its accounts. “The accounts were a year behind. We had to take over its accounting records, update the entries and prepare the accounts. It took some time to gradually improve the situation,” recalls Hui.

Hui’s impact on the NGO went beyond the finances. During her time as honorary treasurer, she came to know a few disabled members who had the same passion as her for playing the *erhu*, a two-stringed bowed Chinese musical instrument. Hui later formed a group with them and began organizing practice sessions, which eventually led the small band to perform at the HKRP’s charity events. Hui was deeply moved to see how enthusiastic and gratified the members were when they played music together. She

Wendy Hui (centre playing Chinese drums) volunteered at the Hong Kong Rehabilitation Power from 2014 to 2019. She is pictured here with the HKRP Chinese Orchestra, a group made of abled and disabled members, that she established during her time there.



soon wanted to promote Chinese music to disabled persons and brighten up their lives. She also dreamed of establishing an orchestra integrating both disabled and abled musicians. She was introduced to Ko Tit-kwan, a famous Chinese musician who supported Hui's vision and was willing to help. She sought funding from local rotary clubs and donations from friends to organize music classes, pay the tutor's fees and rent for rehearsal venues, and organize performances at charity

"I met a lot of disabled people, many in wheelchairs that day. I was so touched to see the disabled, volunteers and sponsors all having a good time together."

events. The group was eventually named the HKRP Chinese Orchestra. With Ko currently as its music director, the orchestra has expanded to include four sections comprising bowed string and plucked string instruments, and wind and percussion instruments. It now has more than 50 members.

Beyond events at the HKRP, the ensemble began playing bigger shows such as their 2017 Cross All Borders performance, organized by the Arts With the Disabled Association Hong Kong, an organization that promotes equal opportunities for people with disabilities to have access to and excel in the arts and advocates an inclusive society through the arts. The orchestra won the Most Potential Performance Award following a performance of *The Butterfly Lovers*, a piece arranged by Ko, which was accompanied by a wheelchair dance performance. In 2018, the HKRP Chinese Orchestra performed at their own fundraising charity event at the

463-seat City Hall Theatre and then the 1,430-seat City Hall Concert Hall in 2019. Though events and rehearsals had been called off this year due to COVID-19, the ensemble gave five virtual performances to participate in the Hong Kong Chinese Orchestra's Net Festival. All events and venues were organized and booked by Hui, who feels overjoyed every time she performs with the band. "I think this orchestra is the first of its kind in Hong Kong," she says. "I'm truly proud of this achievement."

She encourages other CPAs to find time to help out with NGOs and do charity work, as doing so has brought meaning to her life and provided an outlet to reconnect with an old hobby. "Doing volunteer work for an NGO has been a wonderful way to put my CPA skills to good use. I went from being an accountant to a volunteer involved in charity work and also a musician. I've found it to be so meaningful," says Hui.



CPAs interested in giving back can apply on the Institute's website to become Accountant Ambassadors and volunteer in its "Rich Kid, Poor Kid" corporate social responsibility programme, which holds free seminars to educate young children and teenagers on positive financial management concepts and techniques.

YOUNG MEMBER OF THE MONTH

Corwin Kwong

CORWIN KWONG

Internal Auditor
at The Salvation Army





As an Internal Auditor at The Salvation Army, Corwin Kwong is responsible for overseeing internal controls and ensuring the compliance of the organization's several service units and social enterprises around the city. He tells *A Plus* how accountants can make their impact felt, especially within non-governmental organizations

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

At The Salvation Army, I'm responsible for conducting internal audits on our service units, which are made up of educational institutions, social services centres, social enterprises and churches. I work on various types of risk-based audits including financial audit, operational audit, compliance audit and fraud investigation. In addition to offering recommendations on weaknesses identified in internal audits, I also support our service units by providing updates on policies and regulations, common internal and external audit findings and advise on internal controls. These all helps to maintain accountability, transparency, operational effectiveness and efficiency and adherence to laws and regulations. The job is going well so far. I've been working at The Salvation Army since 2018 and the role is very rewarding.

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

I would say auditing skills and communication skills are equally important to an internal auditor. Before I start an audit exercise, I'd usually visit the service unit and have a casual chat with the unit supervisors, telling them about my role, the audit procedures and how I will provide feedback on discrepancies identified. It's important that people feel comfortable during audits – they shouldn't think an auditor simply shows up to point out mistakes. An ongoing dialogue help us to resolve conflicts and validate concerns from both our headquarters and service units. It's most rewarding when the staff members give positive feedback and express their gratitude, and mention how the audit helps to strengthen their internal controls, compliance and streamline their work procedures. The board also appreciates our contribution to organization's risk management, internal control and governance process.

What inspired you to become an accountant?

While studying for my accounting bachelor's degree, I had the chance to visit underprivileged families in Cambodia twice through my church to see how NGOs helped them. The two-week trips really struck me how privileged I was, as not many children there even had the opportunity to attend secondary school, let alone university. I wondered how accountants could help, so I asked a church friend. He told me that accounting is a universal financial language spoken across businesses around the world, and that beyond helping companies with their financial reporting and making profit, we can also help NGOs to run more smoothly. It changed my perspective on things and made me want to devote myself to helping people – and to do so through accounting.

What has been the biggest challenge you have faced in your career so far and how did you overcome it?

When I first joined in 2018, things were really tough. Since I had to audit our educational and social services units, I had to understand various types of educational and social services, how they operate and the relevant laws and regulations. It was really intense – I had to spend time in the evening to study rules and regulations in order to familiarize myself with them. It was very challenging making sure that I fully understood the sets of rules stipulated by several government departments across different social and educational services such as the Education Bureau and Social Welfare Department.

Which of the continuing professional development (CPD) courses did you find most helpful in your day-to-day work or in getting you to the next stage of your career?

I appreciate the CPD webinars the Institute has put out in response to the COVID-19 pandemic. I enjoyed the financial reporting standards updates. Changes to standards are always lengthy, so this CPD update really helped me to understand developments in a few hours. I also enjoy taking courses related to corporate governance. Good corporate governance isn't only restricted to large, listed companies. Since NGOs depend heavily on government subventions, support from other funding agencies and public fundraising, sound corporate governance helps to shape stewardship, accountability and an environment that is commitment to ethics and integrity.

SPOTLIGHT ON CHRISTMAS FILMS

Institute members share their favourite films to get you into the Christmas spirit

Jingle Jangle: A Christmas Journey

“*Jingle Jangle: A Christmas Journey* is an American Christmas musical fantasy film on Netflix. It is the story about Jeronimus Jangle, a depressed toy maker who after 30 years, is greeted by his granddaughter when she appears on his doorstep on Christmas Eve and breathes happiness into his life again. The main message of the movie is to stay positive amid life’s challenges, and that as long as we don’t give up, miracles can happen. There are many moments throughout the movie where the characters break out into song which makes it a great film for kids, too. I hope this family-friendly movie keeps you warm during Christmas!” says Wu.

- Parco Wu, Founder and Managing Director of PW CPA & Co.



Jingle Jangle: A Christmas Journey

Miracle on 34th Street

“My favourite Christmas movie has always been *Miracle on 34th Street*. It’s about a man who is upset that another gentleman asked to play Santa Claus at Macy’s Thanksgiving Day Parade is intoxicated. He complains to the event director but is then asked to take his place. He ends up doing so well that he is hired to play Santa at Macy’s flagship store on 34th Street in New York City. I found the film to be a heartwarming story and one to reflect on too. It is a movie for all ages – especially those wondering if Santa really does exist!” says Li.

- Basy Li, Audit Manager at Mazars CPA Ltd.



Miracle on 34th Street

Love Actually

“I like the movie *Love Actually*. The overall theme of the movie is that ‘love is actually all around.’ The shots in London are absolutely sublime, and the comic relief provided by the aging rocker Bill Nighy is mischievous and funny. It is a feel-good movie and, of course, it’s definitely alright to feel good during Christmas. This is certainly one of the best romantic comedies to watch during the holiday season,” says Chan.

- Cynthia Chan, General Manager of Milverton Limited



Love Actually

EYES & EARS

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

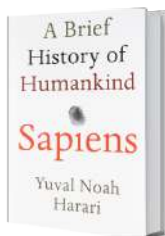


What I'm listening to

- Elaine Kwong, Senior Manager at Deloitte

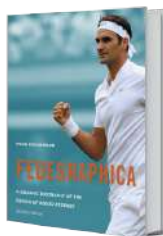
"I have been listening to Panther Chan's songs recently. Her music is unique and comes with inspiring lyrics. The one I love most is *In Good Hands*. A fast-paced song with motivational lyrics, it can give you a quick mood boost when you're feeling down. This song always makes feel better again and also reminds me that everything will be fine in the end," says Kwong.

What I'm reading



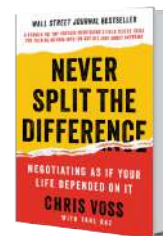
Sapiens: A Brief History of Humankind by Yuval Noah Harari is an inspiring book about human history, more precisely, about our species. Harari lays out momentous events in our species' evolution such as the cognitive revolution, agricultural revolution, the rise of religion, money – all in an entertaining way. As you go along, you will find it fascinating to learn about the major milestones of modern human civilization.

- Michael Teh, Financial Controller of Algorand Foundation



I recommend *Fedegraphica* by Mark Hodgkinson. It is a biography of Roger Federer, arguably the greatest tennis player of all time. Based on interviews with Federer himself and those close to him, the book tells how a young boy from Basel, Switzerland grew up into a poised tennis player capable of beating players younger than him. I enjoyed its statistics and analysis of Federer against his rivals and also the infographics analysing his serving patterns. If you are a fan of Federer or a tennis fanatic like myself, this book will not disappoint.

- Jason Lee, Finance Manager at Time Grand Limited



Though I'm only halfway through the book, I recommend *Never Split the Difference* By Chris Voss. The author is a former FBI hostage negotiator who shares his years of experience in negotiating. I learned of Voss via some of his YouTube videos which had me really intrigued and led me to buy his book. Whether you are interested in learning his high-stakes negotiation techniques or curious about the human mind, this book is filled with insights that will blow your mind.

- Wallace Lau, Chief Financial Officer of Alès Group Limited

Tell me how you're feeling

Hong Kong's humorist on why this year's pandemic is a valuable lesson in the art of making the most out of the worst



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*

The pandemic has been a shock to the world of commerce, and the result is a huge amount of mental stress for business people, doctors say. How to help?

In Australia, they are training accountants in basic psychology techniques so they can help clients with anxiety, I heard from a Hong Kong friend with family there.

That sounds awkward. "Good morning, Mr Chan. While I am auditing your accounts, why don't you lie down on this sofa and tell me about your relationship with your parents?"

I guess it might work in California, where even patches of tree moss have personal therapists, but surely not in Hong Kong, where people don't like to admit that they have feelings, even to themselves. You'd have to cajole them – subtly, of course – into revealing personal details. "So, you inherited the business from your dad? Did he beat you? Did you ever feel you wanted to kill him?"

Yet, even if clients did reveal their problems, how could Hong Kong accountants be expected to help solve them?

Wait. I just read the details of the Australia intervention and it says that accountants are advised only to spot signs of stress and call for help – they don't have to do the difficult conversations themselves. That's good.

On the morning of writing this, I met two Hong Kong entrepreneurs in the food business. One had an upmarket restaurant and was clearly depressed. Nobody wants to buy caviar-topped smoked salmon in a styrofoam box. But the other had a chain of stalls selling takeaway snacks and was feeling great. My empathy circuits found it hard to weep and celebrate at the same time.

And that's something the writers of gloom-and-doom articles miss: a surprising number of clients have found ways to thrive during the pandemic.

A startling example can be found in the United States, where the market for legal marijuana

grew rapidly during the lockdowns. The logic was: If you're going to do more chilling out away from your boss and colleagues, you might as well *seriously* chill out.

The sector grew so much in some parts of the country that special accounting firms emerged to serve the industry, with names such as Dope CFO.

Now I know that accountants who focus on the food or wine industries tend to meet clients over haute cuisine or a glass of pinot noir, so one can assume some accountants whose clients are from the marijuana industry meet over joints. I wonder how the conversations go.

ACCOUNTANT: "So, can you email me your P&L documents?"

CLIENT: "What P&L documents? Ha ha ha ha."

ACCOUNTANT: "Ha ha ha ha ha."

[Both fall off chairs and break their bones.]

BOTH: "Ha ha ha ha ha."

Fortunately, Hong Kong is rather conservative on such matters – although I do know an accountant who specializes in the entertainment industry and actually used to go to all the wild parties until COVID-19 replaced all gatherings with boring Zoom conferences.

In Hong Kong, bookshops report a rise in sales as people spend less time travelling, and the sales and marketing team for Netflix must feel that they have died and gone to heaven. Supermarkets are thriving, since people have been doing more home cooking, and of course alcohol sales are up, since you don't have to wait until happy hour to have a drink.

And that may be the bigger problem in Hong Kong – not so much mental stress from managing difficult businesses (we're used to that by now), but the effects on our bodies of eating more and moving less.

Will Australian accountants also be helping their clients with that problem in the future, I wonder? "Good morning, Bruce. Let's hope your revenue and profits have ballooned as dramatically as your waistline, ha ha ha."





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time.”

“
I would say it's
one of the most valuable
courses I have ever
attended in my life.”

Please check the website for more details about the 2020 programme.



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