



**DRIVING BUSINESS SUCCESS**

*Issue 3 Volume 17 March 2021*

**PLUS:**

## **PROFILE**

Len Jui, Deputy Chair of the International Auditing and Assurance Standards Board

## **REACHING NEW STANDARDS**

What will new Quality Management Standards mean for the profession?

## **SECOND OPINIONS**

How will the recently announced changes to the Hang Seng Index enhance Hong Kong's status as an international financial centre?

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# **STAYING ABOVE IT ALL**

Kitty Mok, Group Company Secretary and Director of Risk at Pacific Basin Shipping Limited, on thriving amid disruption and the lessons she has learned during her 25-year-long career in the shipping industry



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

# Consultation on the proposed framework for the one member one vote election of the President and Vice-Presidents

Have your say about the proposed framework  
by **31 May 2021**



Visit [www.hkicpa.org.hk/consultation\\_PandVPelection](http://www.hkicpa.org.hk/consultation_PandVPelection) for the consultation paper, introductory messages, videos of forums introducing the consultation, and a feedback questionnaire.



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Scan the QR code to visit  
the consultation webpage



**“These proposals are not cast in stone, your views are important for us to help us meet your expectations about how we change our election model.”**



Dear members,

On 1 March the Institute released the consultation paper on a proposed framework for the one member one vote election of the President and Vice-Presidents. This is the outstanding action from the Extraordinary General Meeting held in March 2018. The consultation paper proposes an election model developed by an Independent Working Group, and endorsed by Council, albeit with divergent and divided views on the model.

On behalf of the Leadership Team, I urge you to read and consider the consultation paper as well as the accompanying message from the Leadership Team and covering letter from the Council, before responding to the consultation. These proposals are not cast in stone, your views are important for us to help us meet your expectations about how we change our election model.

We held two briefing sessions on the consultation paper in late March, one in Chinese and one in English, featuring myself, Margaret W.S. Chan, Chief Executive and Registrar, and other members of the Institute's management team. These were recorded and are available via the consultation's dedicated webpage. The webpage also contains the message from the Leadership Team, covering letter from the Council, and the consultation paper, and other useful

information about the consultation.

We treasure your feedback and look forward to receiving your views on the proposed election framework. The consultation will end on 31 May, after which the Council will then consider the results before responding as soon as is practical. I hope that we can quickly progress with this important governance matter.

With the recent news that the government is considering loosening restrictions after the decreasing number of daily local COVID-19 cases, we can now hope for the future. The necessary social distancing restrictions in place over the past year, while important for minimizing the spread of COVID-19, have affected all our lives. One aspect that I know has affected many is the lack of group sports and competition events.

Well now that we can see the end of the disruption, we have a treat for our joggers. Although we cannot offer a physical race – we are delighted to offer a virtual race this year. The CPA Virtual Run 2021 welcomes all members to participate in the 10 km races or in the 3 km Fun Run on an individual or team basis.

My thanks go to the sponsors of the prizes and gifts for taking part, and the team organizing the run. It should be a fun event and I hope you'll consider taking part. Register

by 5 May, and upload your results on or before 16 May to compete for one of the awards, and obtain a finisher pack.

In order to be able to hold large-scale competitions and experience more normal times again, enough of us must be vaccinated against COVID-19. The outbreak in the finance community early in the month also showed that we are not immune as professionals. This month, the government expanded the COVID-19 Vaccination Programme and announced that all residents aged 30 and above are eligible to book vaccinations. I urge all members to consider getting vaccinated, and help to protect those in our community who are unable to be vaccinated.

Finally, congratulations to the over 650 new members who joined us after the December 2020 examination session of the Qualification Programme (QP). We were so happy to be able to successfully hold the examination session and I thank the Institute's Education and Training Department for their hard work organizing the session, and ensuring that it could go ahead with the social distancing measures in place. Preparations are well underway for the June 2021 examination session, which features the first sitting of the Professional Level modules of the new QP.

**Raymond Cheng**  
President



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The Institute's Taxation Faculty invited experts to discuss the benefits of digital tax filing amid the evolving tax landscape, and what professionals and stakeholders must keep in mind to drive this change



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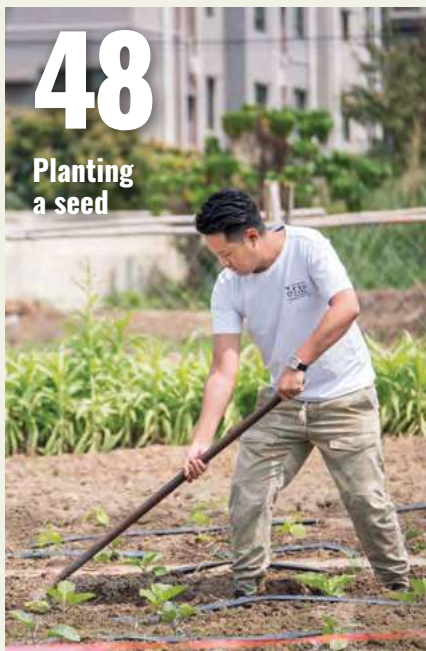
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## Planting a seed



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## Leisure Plus



### 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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# NEWS

Institute news

Business news



## One member one vote election of the President and Vice-Presidents consultation

The consultation on the proposed framework for the one member one vote election of the President and Vice-Presidents began on 1 March. Visit the dedicated webpage at [www.hkicpa.org.hk/consultation\\_PandVPelection](http://www.hkicpa.org.hk/consultation_PandVPelection) for the message from the Leadership Team, the Council covering letter, the consultation paper and recordings of the two briefing sessions. Comment via one of the channels detailed on the webpage, including a web questionnaire.

### CPA Virtual Run 2021 – Join now!

Start training for the Institute's first virtual running event, CPA Virtual Run 2021. 10 km races and a 3 km Fun Run are available for both record-breakers

or leisure runners, or those who enjoy running alone or part of a team. Run whenever, wherever and with whomever you want. Upload your best running result on or before 16 May to obtain the finisher pack and compete for special awards. Visit the Institute's website for details.

### Postponing the introduction of the four-attempt rule of the new QP

Having considered the impact of the COVID-19 pandemic on Qualification Programme (QP) students, the Institute decided to postpone the implementation of the four-attempt rule for both examinations and workshops until the June 2022 session. The number

of Associate and Professional Levels attempts by QP students will be counted from the June 2022 session onwards. For QP students who have commenced their Associate Level in December 2020 session, any failed attempt(s) will not be counted. Visit the new QP Information Portal for more information.

### Business Valuation Programme

The Institute is offering the brand new Business Valuation Programme from April to June in collaboration with Savills Valuation and Professional Services (S) Pte Ltd. The programme will cover business valuation essentials and techniques for transaction purposes, and the valuation of various classes of assets and liabilities. Case studies

will be used to strengthen the taught knowledge. Visit [www.hkicpa.org.hk/bvp](http://www.hkicpa.org.hk/bvp) for more details. Read more about the programme on page 39.

### HKICPA V-fair

The HKICPA V-fair returns for 2021. The interactive platform will be live on 17, 20 and 21 April, offering careers advice for aspiring accountants, including information on the QP, and advice on becoming CPAs. Visit the Institute's website for more details.

### In memory of Dudley Harding

The Institute mourns the passing of Dudley Harding, Past President of Council year 1993, who passed away on 6 March. May Dudley rest in peace and we express our condolences to his family.

### Taxation Faculty yearbook 2020, *Preparing for a complex future*

Members of the Institute's Taxation Faculty regularly contribute articles on taxation-related topics to *A Plus*. The

articles from 2020 have been collected together in this new yearbook. The articles cover the wide range of areas, ranging from international taxation agreements, Hong Kong taxation developments, to Mainland China taxation. The yearbook is available on the Institute's website.

### Minutes of Council meetings

The abridged minutes from the December 2020 (special), January and February 2021 (Strategy Day) Council meetings are now available for members to read. They can be found in the "Members' area" of the Institute's website.



## Disciplinary finding

### Chung Chi Hang, CPA

**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 230 *Audit Documentation*, HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, HKSA 330 *The Auditor's Responses to Assessed Risks*, HKSA 500 *Audit Evidence*, HKSA 505 *External Confirmations* and the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Chung was the managing director of a corporate practice. He conducted the audits of the financial statements of five private companies for the year/period ended 31 December 2017 and signed the relevant auditor's reports in the name of the practice. Chung expressed an unmodified auditor's opinion in each of those reports.

Deficiencies were found in the five audits. Chung failed to obtain sufficient appropriate audit evidence to support his conclusions that the companies' service revenue and costs were properly recognized. In addition, Chung inappropriately accepted certain bank confirmations as sufficient audit evidence when those confirmations were not sent to him directly but to a third party and thus their integrity might have been compromised. Further, Chung failed to apply sufficient professional scepticism when following up on the total lack of response to all confirmation requests sent to the companies' customers and suppliers.

**Decisions and reasons:** Chung was reprimanded. In addition, Chung having not held a practising certificate since August 2019, the Disciplinary Committee ordered that no practising certificate shall be issued to him again for 12 months from 17 March 2021. Further, Chung was ordered to pay costs of the Institute of HK\$107,443.

Details of the disciplinary finding are available at the Institute's website.



## HONG KONG TO HAVE FIRST SPAC LISTING BY THE END OF THE YEAR

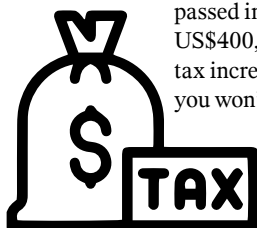
Hong Kong will soon have a framework for special purpose acquisition companies (SPACs) to list in the city. *Bloomberg* reported on 29 March that the city is putting together a SPAC listing framework by June for public feedback and is targeting the first such deal by the end of the year. SPACs are “blank check” companies that raise capital through initial public offerings (IPO) with the intention of merging or acquiring an existing private company in order to take it public. The rules for sponsors of SPAC listings and their buy-out targets are expected to be stricter than in the United States, to address concerns about the hundreds of publicly-traded shell companies that have raised money on U.S. stock exchanges, where most SPACs are listed. Once approved, Hong Kong will be the first market in Asia to approve such companies for listing.

## DELOITTE AGREES US\$80 MILLION SETTLEMENT IN 1MDB CASE

Deloitte in Malaysia has struck a US\$80 million settlement with the Malaysian government to resolve all claims related to its role as auditor to 1Malaysia Development Berhad (1MDB), the state investment fund caught in a multibillion-dollar fraud involving former Malaysian prime minister Najib Razak, and former subsidiary SRC International. The arrangement is the largest settlement by a firm in Southeast Asia related to the 1MDB scandal, the country's Ministry of Finance said in a statement on 3 March. The deal came as the government continues to recoup money stolen from 1MDB, which prosecutors estimate to total US\$4.5 billion. Deloitte was 1MDB's third auditor until 2016, following EY and KPMG.

## JOE BIDEN VOWS TO INCREASE TAXES ON ANNUAL INCOMES OVER US\$400,000

U.S. President Joe Biden has vowed to raise taxes for households whose annual incomes exceed US\$400,000 under his forthcoming economic programme, a decision that highlights his administration's plans to address the inequality gap. The move, which some observers says is the first major tax increase since 1993, will help pay towards the historic US\$1.9 trillion pandemic-relief bill that the U.S. Congress has passed into law. “Anybody making more than US\$400,000 will see a small-to-a-significant tax increase. You make less than US\$400,000, you won't see one single penny in additional federal tax,” Biden said during an interview on ABC's *Good Morning America* that aired on 17 March.



## BAIDU LISTS IN HONG KONG

Chinese search engine Baidu debuted its secondary listing on the Hong Kong Stock Exchange on 23 March, raising HK\$23.7 billion. The company's shares rose a modest 0.8 percent above its opening price of HK\$254 per share to HK\$256.60, before closing the first day at HK\$252 a share. Baidu's much-anticipated debut fell short of investor expectations amid an overall 22 percent decline in the Hang Seng TECH Index.

## GREECE SELLS FIRST 30-YEAR BOND IN MORE THAN A DECADE

Greece raised US\$3 billion in a 30-year government bond sale on 17 March that was met with high demand. It was the country's first sale of 30-year bonds since the financial crisis in 2008, marking its full return to international debt markets. The issue was more than 10 times oversubscribed and saw upwards of US\$31 billion of orders, signalling investors' long-term confidence. The new bond was priced at a yield of 1.965 percent. “This issue marks a full return of our country to international markets. It provides security to investors as it far exceeds the debt-settlement period agreed with [bailout] institutions,” said Christos Staikouras, Minister of Finance of Greece.



## KPMG U.K. SELLS RESTRUCTURING UNIT

KPMG in the United Kingdom has sold its restructuring business to private equity company H.I.G. Capital in a deal reportedly worth £400 million. The move, which the firm hopes will address conflict of interest concerns related to simultaneously servicing audit and non-audit clients, follows Deloitte U.K.'s sale of its restructuring arm to advisory company Teneo last month. KPMG's restructuring unit, which has 22 partners and more than 500 staff members, will be the U.K.'s largest independent restructuring team following the sale.



## INSURANCE CLAIMS

FROM SUEZ CANAL BLOCKAGE TO TOP HUNDREDS OF MILLIONS OF DOLLARS

Total insurance claims stemming from the blockage of the Suez Canal by a 220,000 tonne ship this month are expected to run into the hundreds of millions of dollars, according to Fitch Ratings. The 220,000-tonne Ever Given ship was refloated and freed on 29 March by salvage crews and tugboats. However, salvage costs, lost revenue by the canal authorities, and the impact felt by the hundreds of ships delayed by the blockage will rack up hefty fees for the reinsurance industry, which is still reeling from coronavirus-related losses and natural disasters such as storms in the U.S. and floods in Australia.

## HKEX SEES 822 PERCENT SURGE IN FUNDRAISING IN FIRST QUARTER

The Hong Kong Stock Exchange saw an 822 percent increase in funds raised via new listings in the first quarter of the year largely as a result of IPOs from Mainland Chinese tech giants. The increase places the city's bourse in second place behind the Nasdaq in global IPO rankings. Nasdaq raised a total of US\$24.49 billion during the first quarter through 81 companies, while 29 companies raised a total of US\$17.05 billion in Hong Kong. It is the best quarter first-quarter period since records began in the 1980s. The surge is likely to continue through the second quarter of the year, with as many as 70 companies having filled out their listing applications.

## EY DROPS APPEAL AGAINST DUBAI WHISTLEBLOWER

EY in the U.K. has dropped its appeal against a court order to pay Amjab Rihan, a former partner, US\$10.8 million in compensation after he sounded the alarm on an auditing scandal. The firm had been scheduled to launch an appeal this year against a court judgment in favour of Rihan, who claimed he was made redundant after he blew the whistle about a Dubai client suspected of laundering money and smuggling gold. He also claimed that EY had muffled his concerns involving large amounts of money being paid out by Kaloti Jewellery International, a Dubai-based precious metal dealer, and about gold bars that had been disguised as silver bars to avoid trade restrictions.



## DELIVEROO IPO DELIVERS DISAPPOINTING DEBUT

Shares of food delivery app Deliveroo plummeted by 26 percent in its highly anticipated IPO on the London Stock Exchange on 31 March. The IPO, which wiped £2 billion off the company's value, was already priced at the lower end of its intended range at £3.90 per share to cope with volatile market conditions and the poor performance of other IPOs seen during the last week of the month. One banker, quoted by the *Financial Times*, called it the "worst IPO in London's history."

## MORE THAN THREE QUARTERS OF CEOs FORESEE GROWTH THIS YEAR, ACCORDING TO PWC SURVEY

76 percent of chief executive officers expect to see economic growth this year, according to PwC's *24th Annual Global CEO Survey*. The study, which polled over 5,000 CEOs in 100 countries and territories in January and February, found that the COVID-19 vaccine rollout in many parts of the world, in particular, will be key to positive economic growth in 2021. 36 percent of CEOs are also confident about their company's prospects for revenue growth in the next 12 months, which is up from 27 percent last year. 49 percent expect to see increased spending on digital transformation projects by at least 10 percent. "At the pandemic's one year mark, we're at an inflection point as vaccination begins to ramp up around the world. Although the shape of the recovery remains unknown, it is clear that we cannot simply go back to the way things were before," said Bob Moritz, Chairman of the PwC International Network.

# REVOLUTIONIZING THE TAXATION EXPERIENCE



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會



**SPEAKERS:**  
**DORIS CHIK**

Tax Director,  
National Technical Centre,  
Deloitte

**EUGENE YEUNG**

Partner,  
Corporate Tax Advisory,  
KPMG China

**ALBERT LEE**

Global Co-Leader and Asia Pacific  
Leader - Tax Technology and  
Transformation, EY





**JESSE KAVANAGH**

Partner, Hong Kong Tax Reporting &  
Strategy Leader,  
PwC Hong Kong

The Hong Kong Institute of CPAs' Taxation Faculty hosts a roundtable discussion on tax technology and how it will transform the taxpaying experience. Eric Chiang and Paul Smith report.

Photography by Calvin Sit

**T**ax authorities around the world have been digitalizing their tax administration in recent years. Hong Kong's Inland Revenue Department (IRD) shared with the Hong Kong Institute of CPAs' Taxation Faculty in their annual meeting in 2020 that it planned to build three portals: one for individuals, one for corporates and one for tax representatives for e-filing by 2025. To discuss the technology transformation taking place in taxation, the Taxation Faculty invited seasoned tax professionals to share their insights on tax technology and transformation at a roundtable.

### The changing international tax environment

Doris Chik, Tax Director, National Technical Centre and an Institute member, Deloitte, points to the cross border exchanges of information, beginning with the United States' Foreign Account Tax Compliance Act in 2010, Country-by-Country Reporting introduced as part of the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative in 2016, and the OECD's automatic exchange of information and the Common Reporting Standard in 2017, as key drivers of change. "The tax system has become more complicated in recent years, and tax authorities need to automate the data collection process, while at the same time ensuring the integrity of the data in a cost efficient manner. Going digital is the way to go," she says.

Eugene Yeung, Partner, Corporate Tax Advisory, KPMG China, an Institute member and a member of the Taxation Faculty Executive Committee, says that these requirements may soon see all Hong Kong corporate taxpayers being required to file annual



tax returns. “Currently, inactive companies are not required to file tax returns annually. International pressure on tax systems to become more transparent means that these companies are likely to soon be required to file profits tax return annually. This will inevitably increase the workload of the IRD, and automation will be an efficient means of handling this,” he says.

Albert Lee, Global Co-Leader and Asia Pacific Leader - Tax Technology and Transformation, EY, sees tax authorities around the world adopting e-filing, with more and more collecting data through an internationally agreed format called XBRL. Standing for “eXtensible Business Reporting Language,” the global framework provides consistency and, hence, enables the exchange of business information between jurisdictions. “For taxpayers, the key will be to capture the source data correctly, so that generating XBRL files can be automated and cost efficient,” he says.

Lee also mentioned that there is a trend to make e-filing mandatory or virtually mandatory. Japan has made

e-filing for corporations compulsory and similar requirements are also found in the United Kingdom and Singapore. Hong Kong has begun to catch up with its digital transformation.

### Improving tax authority operations

Jesse Kavanagh, Partner, Hong Kong Tax Reporting & Strategy Leader, PwC Hong Kong, points to the benefits technology can provide. “With the wealth of data captured by electronic tax systems, tax authorities can use data analytics for tax audit case selection,” he says.

Yeung agrees, noting that by using robotic process automation technologies, work efficiency can improve, and humans can focus on the processes that require judgement.

For tax authorities, the drive to go digital can also mean some of the work of the department can be outsourced to data providers. Lee highlights some recent discussions he has had with another tax authority in the region. “I was told that their digital strategy was to leverage other stakeholders, by having the financial

institutions, the tax and accounting software companies, and tax agents representatives help execute their digital strategy,” he says.

The experience of COVID-19 has also pushed tax authorities around the world to digitalize. In Hong Kong, civil servants from the IRD were working at home, which hindered their productivity, points out Yeung. Digitalizing the tax process, while also ensuring it remains secure, enables staff to work remotely. “COVID-19 has shown that systems have not been up to scratch,” agrees Kavanagh.

For taxpayers, an electronic filing system can improve the filing experience, but only if implemented well. “Tax authorities should ensure that the e-filing system collects only the absolutely necessary data,” says Lee. Kavanagh points out that an overcomplicated or demanding system can lead to a decrease in information collected. “The IRD’s recent request for transfer pricing information is a good example of this. The department asked for more information than is contained in the 3-tier documentation requirements,

**“With the wealth of data captured by electronic tax systems, tax authorities can use data analytics for tax audit case selection.”**

and some taxpayers, particularly those that are local subsidiaries, have real difficulty in gathering this information, leading to difficulties in complying with the requirements,” he says.

Tax authorities should try and minimize the work of taxpayers says Chik. “Pre-populated returns, where taxpayers filing returns are only required to check the pre-filled parts are correct and enter new information, improves the efficiency of the system and improves the user experience,” she says.

The simplicity of the rules is important for enabling a greater share of the work to be automated advises Yeung. “A possible strategy that some jurisdictions may take is to make use of the opportunity created by digital filing to review and simplify their tax codes. Simplification also decreases the number of elections, unusual items and other elements of tax that are outside the ability of pre-population systems.” This will improve the systems effectiveness and accuracy, he notes.

Lee gives the example of the U.K.’s Her Majesty’s Revenue and Customs experience as an early

adopter of XBRL and inline XBRL (iXBRL), a version of the framework focused on the electronic rendering of financial information encoded in an XBRL document. “They worked with the registrar of companies, Companies House, to do joint filings for both tax returns and annual filing of company accounts, which makes the system more efficient,” he says.

### Transforming the legal regime

The digital transformation of tax filings cannot be completed without the transformation of the tax authority, infrastructure, approach and laws. “Due to confidentiality requirements under the Inland Revenue Ordinance (IRO), the IRD has been very cautious about information exchanges with other government departments. If it is a policy intention to enhance information exchanges, corresponding changes to the IRO may be required,” Lee notes.

Changing the IRO is an important part of the technology transformation. “Without a proper legal basis for the requirements for data to be supplied in a given

format, such as filing electronically, taxpayers will lack the certainty they need to plan their compliance activities and may be unwilling to comply with the tax authorities requests,” says Chik. “A thorough mapping of all existing legislation is required so that all issues can be identified,” she continues.

### Increasing the responsibilities of tax representatives

Chik points out that the IRD is considering penalties for service providers including tax representatives who file electronic returns on behalf of their clients. “On the assumption that there is no change in the work nature and service scope of the tax representatives for e-filing, the potential introduction of penalties in the IRO would be unreasonable. E-filing should be seen just as a different mode of delivery of returns, comparable to the traditional paper-based filings,” she says.

While the taxpayer experience can be enhanced by the use of technologies, tax authorities should try to limit the burden on tax representatives. “If tax representatives

## WHAT ARE THE IMPACTS OF DIGITALIZING TURNOVER TAXES?

Brazil and China have digitalized their turnover tax collection. In Brazil, an extensive system of mandatory e-invoicing has helped to reduce undeclared sales and complex carousel frauds, where value-added tax (VAT) free goods are imported, sold with VAT paid, but not paying the VAT to the government. Sales and purchases are now submitted in real time to the tax authority, allowing for the detection of sales tax fraud.

In Mainland China, the State Taxation Administration has embarked on a series of tax digitalization projects since 1994, under the banner “Golden Tax Project.” The current stage, “Golden Tax Project Phase 3,” is focused on harmonizing tax compliance processes and unifying the processes used in each province, including a partial e-invoicing system.

For Jesse Kavanagh, Partner, Hong Kong Tax Reporting &

Strategy Leader, PwC Hong Kong, such a system is a game changer. “With real time data from the e-invoicing system, tax authorities can issue turnover tax assessments straight away,” he says.

Efficiency can be improved with digitalization, advises Albert Lee, Global Co-Leader and Asia Pacific Leader - Tax Technology and Transformation, EY. “However, not many jurisdictions have implemented e-invoicing and systems that are capable of automatic assessment systems for turnover taxes,” he says.

Digitalization can also reduce fraud according to Doris Chik, Tax Director, National Technical Centre, Deloitte. “With the introduction of the e-invoicing system and better VAT invoice authentication, the risk of fake invoice fraud and tax leakage is significantly lower,” she says.





are required to certify all information uploaded to e-filing systems, the cost of tax services will increase,” says Kavanagh. He notes that service providers have traditionally not been offering an assurance service on data.

Lee notes that challenges due to Hong Kong’s adversarial system needs to be overcome. “The IRD needs to collaborate with taxpayers and tax representatives. The IRD needs to introduce incentives to encourage e-filing,” he says.

### Involving stakeholders in the changes

Ahead of any new systems being introduced, the IRD will consult stakeholders, including taxpayers and tax representatives, to explain the changes and the new workflow, and ensure that when the systems are released there are no issues. The timely announcement of details also provides service providers with sufficient time to upgrade their proprietary software to cope with new filing requirements.

“Ongoing consultation is important,” says Chik. “Just like the recent soft consultation, we were glad to learn through a question and answer session with the IRD organized by the Taxation

Faculty that the IRD intends for the status quo to continue, allowing tax representatives to prepare tax computations by using their proprietary software. The tax representatives may only need to use free-of-charge software to be provided by the IRD to convert the files into iXBRL data files for filing.”

Though the Hong Kong tax system is simple, tax computations for certain companies can be complicated she notes. “For instance, apportionment for partial offshore claims. We need to find out means to deal with converting these more complex tax computations into the designated format going forward,” Chik continues.

For Yeung, the expectations of what’s possible need be managed. “It is unrealistic to expect that we can automate everything. Perhaps an 80:20 rule applies where 80 percent of taxpayers would go for the virtually mandatory e-filing. Whereas, 20 percent – the digitally excluded population – continue to file paper based returns.

Lee advises the IRD to collaborate more with stakeholders in its planning and implementation of the digital transformation programme. “In Singapore, the tax authority asked the Big Four firms, with

## BECOMING A TAX PROFESSIONAL

For those interested in advising businesses on their tax matters, the panellists have the following advice.

“You have to have a broad skill set rather than just focusing on the technical,” says Jesse Kavanagh, Partner, Hong Kong Tax Reporting & Strategy Leader, PwC Hong Kong. “You may be asked to do something unexpected, so you must be open-minded, and prepared to embrace change and new technologies.”

The ability to understand technology and problem solve is as important as an accounting background, says Albert Lee, Global Co-Leader and Asia Pacific Leader - Tax Technology and Transformation, EY. “With tax authorities going more digital, tax professionals need to adapt – the challenges are no longer just about the law or accounting,” he says.

Eugene Yeung, Partner, Corporate Tax Advisory, KPMG China and member of the Institute’s Taxation Faculty Executive Committee, says that mentality is the most important consideration for his firm when hiring. “Data is a key element of the process, but technology can be implanted in a ‘non-rocket science’ way,” he says. It is, in fact, important for professionals to be able to think through changes and make recommendations.

Tax is a continually transforming specialization, advises Doris Chik, Tax Director, National Technical Centre, Deloitte. “An openness to continuing training and development, and good communication skills are important for tax professionals,” she says.



relatively more resources, to pilot e-filing,” he says. By working with software vendors, he advises, the IRD can ensure that the essential features needed are incorporated into the off-the-shelf software used by taxpayers, increasing the efficiency of the rollout of the e-filing platform.

### Preparing taxpayers

The traditional methods used by corporate tax functions may not be capable of answering some of the questions raised by tax authorities’ systems. Taxpayers may therefore need to update their systems to enable their e-filing. Chik notes that many taxpayers have completed or are in the process of digitalizing their systems – including the tax functions – because of the long-term benefits it can bring to their operations through cost savings and other efficiencies.

Mirroring tax authorities, where e-filing is the beginning of the process, for corporates the filing is the final stage of their financial reporting processes. In order to enable e-filing, and the filing of the underlying data, corporates must ensure their entire data collection, analysis, and reporting processes are capable of the tasks, and should utilize systems to enable such data

transformations. Taxpayers may require support and guidance to change their systems.

“We are observing a shift away from standalone tax systems in favour of leveraging existing enterprise systems, such as enterprise resource planning (ERP) systems. The beauty of having just one single system that caters to both the financial accounting and tax needs is that we can have a single source of truth,” says Lee.

He notes that in the past year, enterprises have been less willing to invest heavily in updating their ERP systems because of COVID-19 disruptions. “Instead, they have been investing in enterprise performance management or corporate performance management systems typically used by finance departments for consolidations, performance management and analysis,” he says.

Kavanagh says that tax technology transformation is a workflow enabler for businesses, particularly multinational enterprises. “A capable tax technology system gives you the comfort that the tax processes are done properly in different geographical locations,” he advises.

For Yeung, the increasing demands from tax authorities are

an important driver to change. “Transfer pricing compliance is becoming more demanding. The ability to produce reasonable value attribution analysis based on the functions, assets and risks of local entities is helpful for avoiding audits,” he says. If a system can capture all the data, it can be easier to conduct transfer pricing modelling, and identify and fix problems speedily, he says. Lee agrees, seeing transfer pricing as a low hanging fruit ripe for improvement with tax technology.

The coming BEPS 2.0 initiative will further increase the importance for multinational corporations (MNCs) to model the allocation of profits to entities in different jurisdictions, advises Yeung. Kavanagh points out that this will require MNCs to manage their risks and opportunities between jurisdictions. Moreover, Lee thinks that the Pillar Two Global Anti-Base Erosion proposal of minimum tax rates could be integrated with tax reporting processes.

Change must be led from the top, Chik says. “Having a senior enough person within the organization as the sponsor of the technology transformation increases the chance of success.”

**“We are observing a shift away from standalone tax systems in favour of leveraging existing enterprise systems, such as enterprise resource planning systems.”**



# SECOND OPINIONS: HOW WILL THE RECENTLY ANNOUNCED CHANGES TO THE HANG SENG INDEX ENHANCE HONG KONG'S STATUS AS AN INTERNATIONAL FINANCIAL CENTRE?

**“This, in turn, will provide a welcome boost to Hong Kong capital market’s potential and liquidity, and appeal to the growing universe of index tracker funds.”**



EDWARD AU

SOUTHERN REGION MANAGING PARTNER,  
DELOITTE CHINA, CHAIRMAN OF THE  
INSTITUTE'S CORPORATE FINANCE ADVISORY  
PANEL, AND AN INSTITUTE MEMBER

The Stock Exchange of Hong Kong has become home to an increasingly diverse range of companies in recent years, thanks to the April 2018 listing regime expansion, which embraced the innovative and tech-driven companies of the new economy, weighted voting rights structures, and secondary listings.

The best is yet to come. The highly welcome changes to the Hang Seng Index (HSI) will not just see the index more fully reflect the diversity of Hong Kong's capital market, but also further cement our city's status as an investment gateway to the new economy, Mainland China, and as an international financial centre.

This transformation of the HSI – the biggest in its 52-year history – will see its number of constituents increase from 52 to 80 by mid-2022, with a possible expansion to 100 constituents at a later date.

As well as being a welcome expansion of index diversity, this transformation will result in the market capitalization of the HSI increasing to HK\$3.3 trillion, its coverage expanding from 56.5 percent to 71.2 percent of the Hong Kong stock market, and overall price-earnings multiples rising from 15.7 times to 19.1 times.

With the HSI already the most representative and important Hong Kong benchmark for local and international investors alike, this bold transformation can only enhance its status as an index of choice for portfolios across the world. This, in turn, will provide a welcome boost to Hong Kong capital market's potential and liquidity, and appeal to the growing universe of index tracker funds.

It will also facilitate the development of new investment products that will enable Hong Kong to attract a broader range of investors, and strengthen our city's status as an important channel for investment in the new economy – with the market having previously been dominated by financials and property – as well as emerging businesses not just in Hong Kong and the Greater Bay Area, but across the Mainland.

Hong Kong has already shown its ability to outshine many other markets during difficult times – especially during the COVID-19 pandemic – and the imminent transformation of the HSI can only enhance that lustre.





### WONG CHUN YEE

DIRECTOR, CORPORATE FINANCE, OCBC BANK, MEMBER OF THE CORPORATE FINANCE ADVISORY PANEL, AND AN INSTITUTE MEMBER

On 1 March, Hang Seng Indexes Company announced the consultation conclusion on reforming the HSI. Critics, however, say the reform is tailored to Mainland Chinese issuers, dwarfs Hong Kong local issuers and demotes Hong Kong to a regional financial centre. Sensation aside, the HSI is the de-facto index representing the Hong Kong stock market. Hong Kong has been a bridge between issuers and global investors for more than two decades, providing top Mainland companies with access to offshore capital markets. Therefore, the domination of HSI constituents by Mainland issuers, regardless of the reform, is simply a reflection of how the Hong Kong stock market is structured. On the bright side, this serves as a good reminder of Hong Kong's current position in the global financial market and where the city is heading.

The massive number of quality Mainland issuers listed in Hong Kong have, and continue to draw the attention of investors worldwide. The strong performance of these issuers, coupled with the low economic growth and low interest rate environment in developed economies, left investors from all parts of the world who were previously not interested in Asian markets with no choice but to take a closer look at these Mainland issuers and the Hong Kong market as a whole. Quality companies in countries with low appeal to investors such as those countries traditionally classified as “emerging markets” could leverage the increased attention from global investors on the Hong Kong market and increase their exposure to global investors through Hong Kong. Though bankers, lawyers and accountants in Hong Kong have largely ignored potential opportunities from companies outside China within the last decade, it is never too late for us to promote the city's capital market to other countries.

The HSI is one of the most closely-monitored indices in the world. The increase in the number of constituents of the HSI will provide more of an incentive for Chinese as well as top non-Chinese companies in Asia to list in Hong Kong. Therefore, Hong Kong should make use of this opportunity and step up its efforts in bringing more diversity to its capital market. Doing so will enhance and maintain its position as a leading international financial centre.

**“The increase in the number of constituents of the HSI will provide more of an incentive for Chinese as well as top non-Chinese companies in Asia to list in Hong Kong.”**



### TIMOTHY SHEN

CHAIRMAN, SAFARI ASIA LIMITED, MEMBER OF THE CORPORATE FINANCE ADVISORY PANEL, AND AN INSTITUTE MEMBER

The upcoming changes to the HSI have received wide support from Hong Kong's investment community and retail investors. In addition to improving the benchmark of the HSI's overall coverage and achieving a more reasonable representation for each industry, the changes also reflect market changes within the new economy, which are driven by technology and pre-revenue biotechnology companies in a more balanced manner. For example, the HSI will prevent leading companies such as Tencent from dominating, as it proposes to lower the upper limit of a single stock from the current 10 percent to 8 percent, similar to the Hang Seng TECH Index, which provides a better risk diversification.

The changes will attract more retail investors and institutional funds (especially pension funds) to view the HSI as a benchmark or passive fund tracking for stock allocation strategies. With this increased demand, the turnover rate and trading activities of the constituent stocks will be greatly enhanced, and the importance of the Hong Kong market will increase. With more trading activities and a higher market value of stocks, listed companies in Hong Kong may also enjoy advantages in areas such as capital operation, financing, equity pledge, and frequency of changing hands etc., which will further attract more companies to list on the Hong Kong Stock Exchange.

The HSI will also further strengthen the attractiveness of Hong Kong as an international financial centre in the long term, especially as a “gateway” for investing in China's new economy and connecting to overseas capital and investors. As it is already an established trend for Mainland companies to list both in the United States and in Hong Kong, a greater market capitalization in Hong Kong's pre-eminent index will ensure a better balanced portfolio of Mainland versus non-Mainland stocks to minimize an over-concentration of Mainland stocks in the HSI.

Lastly, the HSI will prevail over other major markets, with the exception of the U.S., by including a greater percentage of the market capitalization of the underlying stock exchange, which will improve Hong Kong's status as one of the top capital markets.

In conclusion, we should expect the HSI to reach higher, record levels in 2021 and the following years to come.

**“The HSI will also further strengthen the attractiveness of Hong Kong as an international financial centre in the long term.”**



# SETTING THE BAR

As Deputy Chair of the International Auditing and Assurance Standards Board, Len Jui brings decades of experience to the standard setting process and in helping to expand the organization's footprint in different countries. He tells **Nicky Burrridge** about the impact the new Quality Management Standards will have on the profession, his international upbringing, and career in standards and regulation

Photography by Stefen Chow

In 1992, Len Jui was standing at the back of the room in Beijing watching the signing ceremony for a 20-year joint venture agreement between the Chinese government and the then Big Six auditing firms. "I was a young auditor with just three years' experience, and I thought 20 years would be such a long time," he remembers.

Fast forward to 2012, and Jui was witnessing the dissolution of the joint venture. "I thought, 'oh my God, I witnessed the first day and the last one.' In between, I had moved around a lot and never thought I would be back there to witness the end. When I look back, it is part of history," he says.

Jui, who is currently Deputy Chair of the International Auditing and Assurance Standards Board (IAASB) and Head of Public Policy and Regulatory Affairs at KPMG China, started his career in 1989, working for Ernst & Young in Miami in the United States. He had been with the firm for three years, when he received a call from Arthur Andersen, asking if he would be interested in helping to set up its practice in Mainland China.

Jui jumped at the chance. "It was a wonderful experience because basically everything was starting from scratch – 1992 was a turning point for China's audit profession," he remembers. He worked for Arthur Andersen for three years, during which time he assisted with seven initial public offerings (IPOs) on the Shanghai Stock Exchange and helped a number of multinational corporations get a foothold in China through investments and partnerships.

In 1995, he received a call from a headhunter asking if he would be interested in joining a multinational telecoms company in the U.S. "In the late 1990s, telecoms and Internet infrastructure was a hot industry. There was deregulation of the global telecoms industry and I thought it would be interesting to enter it. I joined as a regional chief financial officer and later became CFO for the Asia Pacific region."

He stayed with the company for six years, during which time it did an IPO in the U.S., but by then, he had a young family and had been out of the U.S. for nearly



nine years and was ready to go back home. Though a number of different options were open to him, the one that most interested him was taking up a post at the U.S. Securities and Exchange Commission (SEC) in Washington, D.C. as associate chief accountant in the Office of the Chief Accountant. “After working as a public accountant and for a public company, regulation and standard setting intrigued me. But it seemed like a black hole and you didn’t know exactly what the regulators were thinking or how they set the rules and regulations.”

He adds that with two young children, the prospect of having a job that did not involve a lot of travel, enabling him to spend more time at home, also appealed. Looking back, he says it was the best career decision he ever made. Jui spent eight years at the SEC overseeing international accounting and auditing standards and international audit regulation.

He was only a few months into the job when Enron went bankrupt and the accounting scandal that was uncovered led to the dissolution of Arthur Andersen. “Following Enron and other corporate failures, the U.S. Congress passed a number of laws and regulations to promote greater corporate governance and more accountability for management, as well as the audit profession. I saw the timing as being good luck, rather than something bad, as it meant I was able to participate in a number of these regulatory and legislative changes,” Jui says.

He adds that once these changes had been made in the U.S., regulators in other jurisdictions, including in Europe, the United Kingdom and Japan, started to look at bringing in similar rules. “I was able to work with a number of regulators around the world, representing the SEC, changing the way audits are done and bringing more accountability to the audit profession,” he says.

In 2008, Jui was approached by KPMG to work in Beijing. “I decided it was a good move. I wanted to see how all the new rules and regulations had impacted the profession, so I joined KPMG and have been there ever since,” he says.

### Building consensus

Jui became a member of the IAASB, which sets quality international standards for auditing assurance and quality control, in 2017 and was appointed as Deputy Chairman at the beginning of this year. He was first attracted to joining the IAASB by the prospect of helping to promote audit quality, a key driver of which is having high quality auditing standards. “I took on the role of Deputy Chair to promote the use of IAASB standards globally and engage stakeholders to promote the role of the audit profession.” He sees his role as having two main functions, namely building consensus and conducting outreach work.

**“I took on the role of Deputy Chair to promote the use of IAASB standards globally and engage stakeholders to promote the role of the audit profession.”**

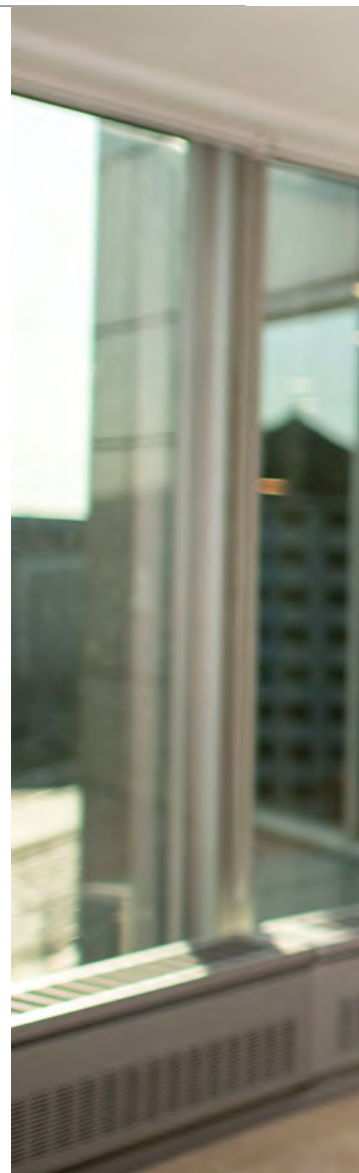
Jui credits his time at the SEC as being particularly helpful to him in his work for the IAASB.

“When I was at the SEC, I worked with a number of regulators around the world, as well as professional bodies, including the Hong Kong Institute of CPAs, to gain the views of the international community in promoting audit quality and building consensus.”

When setting standards, he points out that it is important not only to consider views from the profession, but to also think about the people and institutions that use audits and financial statements, particularly investors. “Having previously been a regulator, as well as having been in practice for the past 13 years – and as an investor myself – I bring a different view,” he says. “Most of the members of the IAASB have either been in the profession or been a regulator all of their lives, so they bring a specific perspective to the standard setting process. As Deputy Chair, I try to reconcile those different perspectives and understand where they are coming from. Being willing to listen to issues and understanding the perspectives of others are fundamental to the work to reconcile differences and find common ground to formulate high quality standards for global adoption.”

He adds that as the IAASB is an international organization, it is particularly important that he is sensitive to regional and cultural differences, pointing out that regions such as Europe and Asia Pacific should not be treated as if they are one entity, as the countries within them have very different perspectives, for example, Japan has a very different culture to China, even though they are both in North Asia.

Jui describes the second part of his role as being an ambassador for the IAASB and promoting international standards and their adoption, and conducting outreach work to encourage convergence. “I can’t travel due to COVID-19-related travel restrictions, but I still talk to a lot of different regulators. While I am promoting the standards, I listen to their needs and whether there are any challenges in implementing the standards in their country. The deputy chair has to be aware of what is going on around the world and make sure the standards are fit for purpose for different countries,” he says.





Len Jui was appointed as Deputy Chair of the International Auditing and Assurance Standards Board (IAASB) at the beginning of this year. He is responsible for pushing the IAASB's standards and engaging stakeholders to promote the role of the audit profession.

As Deputy Chairman, Jui appreciates the opportunity he has to continue learning on the job. He also enjoys meeting new people from different cultures and understanding their point of view and learning about how international standards are impacting local practices. "People are very passionate about their own perspective, but the challenge of building consensus also represents what I like about working at the IAASB," he says.

### New standards

The IAASB recently published three new Quality Management Standards on auditing, which come into effect in December 2022. Jui explains that the standards aim to make sure that

audits are performed to the highest standard, particularly as many firms now conduct them across a number of different countries.

They also aim to make sure firms have a culture of quality, and that leadership focuses on quality over financial results. In addition, they aim to safeguard the sustainability of the audit profession following corporate failures in which the role of the auditor has been questioned.

The new standards also move from a compliance-based approach, to a more proactive, risk-based one. Jui explains: "In the past, it was more of a checklist approach. Now, a firm's leadership must take a more proactive approach to manage quality through a series of

policies and processes to be able to demonstrate that it has an effective system of quality management to ensure all audit opinions signed are appropriate in the circumstances."

He is also chairing a task force looking at the audit of group financial statements, focusing on how audit engagements across multiple different jurisdictions are conducted. He explains that the task force is looking at how teams performing engagements in different parts of the world are impacted when local laws and regulations prevent them from sharing information with members in other jurisdictions, as is the case in Mainland China. The standard should be finalized by the end of 2021. Jui expects it to enhance

## LEADERSHIP PROFILE

Len Jui

Born in Taiwan, Jui attended boarding school in the United Kingdom and has also worked in the United States. He is now based in Beijing.



the quality of audits of group financial statements and promote greater consistency in practice. “I expect clearer guidance on what the group auditor needs to do to take responsibility for the audits and improve communications between members of engagements who perform audit work at the component level and the group auditor. We are also looking to clarify audit documentation requirements based on the input from the regulatory community.”

Jui is also involved in a project on fraud led by the IAASB in response a growing number of

corporate frauds taking place globally. “We are looking at the role of the profession in detecting fraud and working with regulators and other stakeholders to make sure the standards can be revised to reinforce some of the professional accountants and auditors’ responsibilities in detecting fraud. We are also trying to understand the responsibility of management and corporate governance as well,” he says. The project aims to determine whether, and to what extent, the IAASB should take further action, such as possible future standard setting, or the issuance of non-authoritative

guidance, to address the issues and challenges that have been identified relating to fraud in an audit of financial statements.

“This project is currently in the information gathering and research phase, which will be used to inform future IAASB decisions about its activities relating to fraud in an audit of financial statements,” Jui says.

### Adapting to the pandemic

Unsurprisingly, Jui says the COVID-19 pandemic has had a significant impact on the work of the IAASB and auditors more generally. He points out that with travel



## **“In the past, it was more of a checklist approach. Now, a firm’s leadership must take a more proactive approach to manage quality through a series of policies and processes.”**

restrictions in place, the board and various task forces can no longer meet in person, and instead have to hold virtual meetings. “One of the keys for us to perform effectively is in-person meetings with discussions and brainstorming sessions. We are scattered around 18 different time zones, so someone in New Zealand has to wake up at 1 a.m. or 2 a.m. for a meeting. Virtual meetings are condensed into three hours, compared with a full day for in-person ones, and they are less effective as we can’t draw diagrams. It is very challenging.”

But he adds that the pandemic has also had an impact on audit professionals, who are unable to travel, both overseas and within a country, and often have to conduct audits virtually. “They may not be able to travel to their client’s office to look at their books and records, and look for evidence of fraud. They can’t check inventories, such as through stocktaking or counting fixed assets,” he says. To support auditors in the important role they play in sustaining trust in financial reporting, the IAASB has published six Staff Audit Practice Alerts addressing topics such as “Areas of Focus in an Evolving Audit Environment Due to the Impact of COVID-19” and “Going Concern.”

But Jui points out that firms are responding to the situation, and the pandemic has provided an opportunity for them to develop the technology needed to conduct audits remotely, such as using robotic technology to do inventory observations. In response, the IAASB has set up a Technical Working Group (TWG) to explore emerging developments in the effective and appropriate use of technology, including data analytics, to enhance audit quality, and how it can most effectively respond to these developments through new or revised International Standards on Auditing or non-authoritative guidance, and in what timeframe. “On 18 March, the TWG released non-authoritative support material to help auditors address the risk of over-reliance on technology, whether

it arises from using automated tools and techniques or from using information produced by an entity’s systems,” Jui says.

### **An international life**

Jui was born in Taiwan. When he was 13, he was sent to a boarding school in the U.K., which he describes as being very progressive and in the middle of nowhere surrounded by farms in Devon. Many of his friends were the children of British expats working abroad, and he remembers spending holidays with them and listening to their parents talk about life in countries such as India and Australia. “It shaped my personality and views. It opened up my mind and made me want a career that enabled me to travel and see different parts of the world,” he says. By the time he had finished school, his parents had emigrated to the U.S., and he went to the University of Miami. He jokes that he did not have the brain to be a scientist or a lawyer, so he opted to become an accountant, studying business administration and accounting.

He looks back on the period as being a difficult one. “I had never been to the U.S. before. I was 19 and I found it difficult to adjust coming from the U.K. U.S. society is quite different to U.K. society and my family’s heritage of being East Asian. I am melting pot of different countries, cultures, educations and mindsets.”

Jui now has two children who are based in the U.S. His daughter, who is 25, works for EY, while his son, who is 21, is due to graduate from university in 18 months.

When he is not working, Jui is a keen photographer, a hobby he first took up when he was living in rural Devon. He also developed a passion for English football while he was in the U.K. “I have been supporting Manchester City since 1976, so no one can accuse me of just following a rich club,” he laughs, “I went through 35 years of watching them get beaten up by Manchester United, relegated to the third division and not winning a trophy for over three decades. To be a true fan, you really have to have been through that whole ride.”



The IAASB’s three new Quality Management Standards will come into effect in December 2022. They aim to make sure firms have a culture of quality, and that leadership focuses on quality over financial results. They also aim to safeguard the sustainability of the audit profession following corporate failures in which the role of the auditor has been questioned. Read more about the standards in this month’s accounting feature on page 24.



The Manager, Accounting & Finance, HR & Business Support at Randstad Hong Kong, on what professionals can do to maintain their relevance and ensure a smooth business recovery from the COVID-19 pandemic



## How to manage the recovery from COVID-19

**T**he transformation of the accounting function means that professionals now have the opportunity to work with new accounting software and systems that are designed to speed up processes and add value to the business.

In 2020, professionals – including accountants – were forced to shift their work home in response to the COVID-19 pandemic. Despite the availability of several vaccines this year, which has definitely come as a relief for many professionals and businesses, it begs the question: “How soon can we return to work and resume operations like pre-COVID times?”

The reality is that we probably have to accept that we might never return to pre-COVID times. As a result, the fundamentals of accounting and finance have also shifted, leading to new ways of working.

### The reinstatement of workforce participation

Given the global crisis, the HR services industry formed an alliance in 2020, spearheaded by Randstad NV, the Adecco Group and ManpowerGroup to bring people back to work and restore the economy. We worked with leading companies around the world to gather and develop best practices, protocols and industry-standard checklists to share with small- and medium-sized enterprises and large companies.

While it may seem like an extra step for companies with limited resources to prepare for a safe return to work, a planned and staggered return to work strategy will be key to economic recovery in the wake of the pandemic. A prosperous economy would also increase the opportunities for businesses of all sizes.

To limit the economic downturn and impact on people’s ability to secure jobs and achieve income stability, the labour market and all its stakeholders must quickly adjust to this new reality. Social distancing, strict community measures and successful vaccination roll-out programmes are necessary and imperative to restart the labour market. This will include carving a clear path for greater workforce flexibility, which includes remote working.

Getting that timing right is crucial for the economy. An estimation for the economy of Germany, for example, indicates that an extra week of lockdown roughly results in a 0.5 percent additional loss of annual gross domestic product (GDP), translating into further declines in employment and significant income losses for workers.

But what about the accounting and finance profession? How will the labour participation rate and acceleration of the digital economy impact your job and income stability?

### Finding a place in the digital economy

Accountants are believed to thrive on having a standard process or system, such as crunching numbers for fixed closing days and internal reporting deadlines, all within the parameters of the traditional office environment.

To emerge stronger from the pandemic and achieve more, accountants need to be influential, decisive and demonstrate assertion and confidence. Critical thinking, effective and tactful communication as well as the ability to develop future-proof plans will be the new in-demand skills.

Technologies such as robotic process automation and modelling tools are changing the accounting landscape. Data analytics is fast becoming the most sought-after skill, as employers who have integrated new technologies are actively looking for candidates who have the prerequisites and experience to manage and optimize these new systems.

The issue of widening skills gaps between professionals has also never been more important. Even with the surplus of candidates in the market, employers are unable to find their ideal employees. Prior to the global pandemic, many accounting and finance professionals never had the opportunity nor exposure to digital technologies that can help them be more productive and creative at work.

Those who persist in developing their skills will gain a competitive advantage in the workforce, while others who fail to take the initiative may fall back further in the race.

### Are you ready for the future?

While we may face many macro-challenges, Hong Kong remains an attractive market for many companies, particularly as we enter “the Asian century,” where Asian economies are expected to overtake Western markets in terms of GDP. A strong human capital is an asset to draw in more investments, which would ultimately create more highly-skilled jobs for the local workforce.

It requires an industry-wide effort to level the playing field for employees, which will require robust capital in upskilling and reskilling. Accountants in Hong Kong must also be willing to develop their skills to ensure long-term employability and income security. Beyond training and development, networking is equally critical as industry peers often gather to bounce ideas and share best practices, which could contribute towards elevating the appeal and value of the entire profession.

So the most important question is perhaps not “how fast can you recover” but rather, “how ready is your workforce?”

The Partner in China Tax and Business Advisory Services Group of PwC China, on the implications of the Regional Comprehensive Economic Partnership for Hong Kong businesses



## The “Great Expectations” for Hong Kong – the Regional Comprehensive Economic Partnership

In his budget speech, Financial Secretary, Paul Chan saw immense economic opportunities and benefits for Hong Kong to join the Regional Comprehensive Economic Partnership (RCEP) after its ratification and implementation in order to help local businesses and investors open up new markets and foster long-term economic development for Hong Kong. This is also supported by Chief Executive Carrie Lam who considers that Hong Kong is well placed for participation.

What are the expectations and where are the opportunities for Hong Kong businesses?

The RCEP, being the largest trade pact in the world and signed by 15 Asia-Pacific nations, covers a market of 2.2 billion people (nearly 30 percent of the world's population) with a combined gross domestic product (GDP) of US\$26.2 trillion (almost 30 percent of global GDP), and accounts for about 28 percent of global trade. The agreement comprises Australia, China, Japan, South Korea and New Zealand plus the 10 ASEAN members – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. It aims to establish a modern, comprehensive, and mutually beneficial agreement by creating a liberal, inclusive and multilateral regional market for the free trade of goods and services and also targets eliminating tariffs on over 90 percent of products traded in the coming two decades.

Engaging developed, developing and least-developed nations with tailor-made provisions for flexible and differential treatments, the RCEP demonstrates its signatories' commitment to rule-based free trade and standardized customs practices and investment potentials with special emphasis on economic cooperation, intellectual property, market liberalization, dispute resolution, supply chain realignment, small- and medium-sized enterprises (SMEs), and financial and tertiary services. Given limitations on tariff reduction and other unsolved economic issues, not all countries will benefit equally by joining the RCEP. Nevertheless, it is estimated that the pact could boost global GDP by US\$186 billion annually.

### Opportunities for Hong Kong

Hong Kong already has free trade agreements with 13 signatories of the RCEP covering many aspects of trading in goods and services, investment opportunities, intellectual property, dispute settlement and economic cooperation. Joining the RCEP will therefore be one step closer to economic partnership with the Asia-Pacific markets, especially the new markets of Japan and South Korea.

With a deep pool of professional services, Hong Kong is also

well placed to participate in the RCEP, with its competitive edge of having seasoned financial and professional expertise, excellent geographical location and free flow of capital. Most importantly, the Ministry of Commerce in Mainland China has announced its support for Hong Kong to join the RCEP.

### Continuing to support the Mainland's development

With China as the largest economy in the RCEP, it is likely there will be rising demand for renminbi (RMB) usage and increasing cross-border RMB settlements and investments among member nations. Hong Kong, as a leading offshore RMB financial and foreign exchange market, could play a significant role in providing expedient monetary and financial services for RCEP members to meet their demands for currency exchange and risk management.

The internationalization of RMB will further be driven by China re-positioning itself as a high-value production country and progressively moving to being a consumption-driven economy. This will increase trade in goods and services and other value added activities, which will re-align supply chains, cargo logistics and infrastructure, market access, investment opportunities and growth potentials for SMEs in the RCEP economies.

### Unleashing opportunities

The RCEP will also set new rules of origin for goods and eligibility for preferential treatment. There could in the future be a need for sophisticated professional expertise and experience to help with matters including supply chain logistics, intellectual property protection and enforcement, insurance and reinsurance facilities, audit, taxation and legal consultancy, asset and data management, merger and acquisition, e-commerce, digital currency transactions, credit rating, agency services, privacy and consumer rights, electronic authentication, etc.

Nevertheless, Hong Kong enterprises should evaluate these opportunities and adjust their “expectations” to cater for the needs of individual members, which are developing at different speeds. It will likely take time for different members to make the necessary adjustments and adapt to new trade protocols before all the benefits are visible. While Hong Kong enterprises can get involved in the journey by helping with standard compliance, infrastructure development, and sharing professional skills, knowledge and experiences, they should be agile and with an open mindset to embrace individual differences so that all the economies can achieve sustainable growth, including Hong Kong itself.

Hong Kong's professionals should prepare for the challenges and opportunities offered by the RCEP.



# REACHING NEW STANDARDS

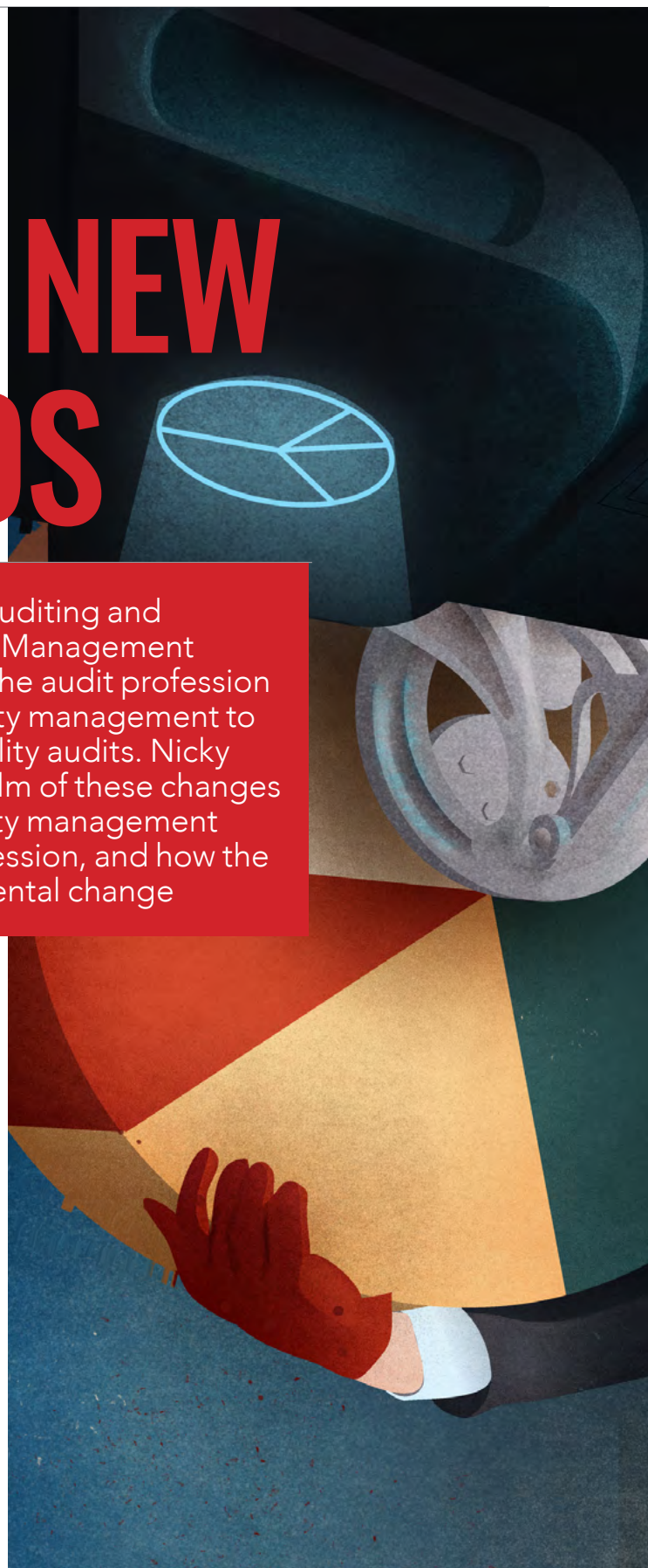
The implementation of the International Auditing and Assurance Standards Board's new Quality Management Standards at the end of next year will see the audit profession adopt a more proactive approach to quality management to enable the consistent performance of quality audits. Nicky Burridge speaks to professionals at the helm of these changes to find out what the new and revised quality management standards will mean for firms and the profession, and how the Institute can help prepare for this fundamental change

Illustrations by Gianfranco Bonadies

**G**erman payment processing firm Wirecard made the headlines last year when it announced it was filing for insolvency after it emerged that €1.9 billion of cash was “missing.” While the company’s management faced fraud charges and the German regulator was accused of oversight failures, questions were also raised about the quality of the audits conducted on Wirecard’s accounts.

From the collapse of Enron in 2001, to the more recent inflated sales revenue by Luckin Coffee in China, a number of corporate accounting scandals in the past two decades have highlighted the importance of having robust quality management standards for the audit profession. The level of corporate failures in recent years was one of three key drivers behind the International Auditing and Assurance Standards Board’s (IAASB) decision to issue a suite of international standards on quality management.

Len Jui, Deputy Chair of the IAASB and Head of Public Policy and Regulatory Affairs at KPMG China (see his profile on page 16), explains that the first driver was to ensure audits were being performed to the highest quality and to promote global consistency, particularly for large multinational networks of member firms that are undertaking thousands of audit engagements each year across a number of different jurisdictions.







## STANDARD SETTING

### Quality Management Standards



The second purpose was to ensure that firms were focusing on the quality of their audits over financial and operational priorities. “Audit reports are relied on by investors to make investment decisions. The leadership of firms must make sure that everything they do focuses on quality. In the past, a firm might have placed more focus on market share, revenue numbers and how much business a partner can bring to the firm. I think such culture within a firm has to change,” Jui says.

### Modernizing quality management

The three new and revised standards, International Standard on Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews*, and International Standard on Auditing (ISA) 220 *Quality Control for an Audit of Financial*

*Statements*, aim to strengthen and modernize audit firms’ approach to quality management and respond to the increasingly complex audit ecosystem.

ISQM 1 replaces International Standard on Quality Control (ISQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. The new standard encourages firms to adopt a robust and proactive approach to quality management, and strengthen their quality management system by tailoring it to the nature and circumstances of their own firm and the engagements they perform.

Loretta Fong, Partner at PwC Hong Kong, a Hong Kong Institute of CPAs Council member and Chairman of the Auditing and Assurance Standards Committee (AASC), explains: “ISQM 1 shifts from quality control to quality management by incorporating a risk-based approach. The quality management system

needs to comprehensively and actively manage risks to quality through greater accountability, an improved focus on leadership and culture, and continuous improvement through a required monitoring and remediation feedback loop.”

Many of the elements of ISQM 2 come from the extant ISQC 1 and ISA 220. ISQM 2 sets out clear guidelines regarding the eligibility for the engagement of a quality reviewer, as well as the performance and documentation of the engagement quality review. “Key enhancements include a two-year cooling-off period before an engagement partner can assume the role of engagement quality reviewer, the performance of the engagement quality review at appropriate points in time during the engagement, and a ‘stand-back’ requirement to determine whether the performance requirements in ISQM 2 have been fulfilled,” Fong says.

ISA 220 covers the responsibilities of the engagement partner and engagement team for quality



## “The quality management standards make sure firms introduce a quality management framework to help the leadership manage the business, not just in terms of bringing in new business, but ensuring staff are well-trained.”

management for an audit of financial statements. The revised standard modernizes the approach to quality management and requires the engagement partner and engagement team to be proactive in managing and achieving quality. Jui adds: “The quality management standards make sure firms introduce a quality management framework to help the leadership manage the business, not just in terms of bringing in new business, but ensuring staff are well-trained, that there is enough investment in technology and technical resources, and that there is effective internal communication and a continuous improvement process built into the firm’s quality management system.”

### The need for change

Chris Joy, Executive Director, Standards and Regulation, at the Institute and an Institute member, points out that the previous set of standards, which were first issued in 1995, had become outdated. “If you think about how business, auditing and accounting has developed in the last few years at a really quick pace, it really was time the standards were looked at, to check they were still fit for purpose,” Joy says. He adds that post implementation reviews in 2015 and 2016 for IAASB’s revised auditor reporting standards, and the inspection findings that were coming out of various regulators’ monitoring and inspection programmes also showed that a lack of general quality management was at the heart of a lot of issues.

Gary Stevenson, Partner,

Technical at RSM Hong Kong, a member of the AASC, and an Institute member, agrees: “In the past 12 to 14 years, the world of auditing and accounting has moved on and the standards have to catch up.” He adds that there is also a public interest aspect because audit reports are relied on by investors, bankers, creditors and other users of financial statements.

Fong points out that having quality management standards is also an important part of driving greater confidence and trust in the audit profession, pointing out that recent corporate failures have raised fundamental questions about the relevance and quality of audits. “In view of growing stakeholder expectations in an increasingly complex environment, we need quality management systems that are proactive and adaptable,” she says.

Joy says that the new standards have been developed after a long period of evidence gathering and discussions, and have been on the agenda of the AASC for the past two years. The Institute jointly held events with the IAASB in May 2019 to obtain the views of stakeholders in Hong Kong on the draft standards.

### A proactive approach

One of the biggest changes to the new standards is a move from a binary, compliance-based process to a more proactive, dynamic, risk-based quality management approach. Jui explains that in the past the standards had more of a “checklist” approach, but

the new standards call on the management of firms to be accountable to quality and more proactive in managing their risks. “Now, a firm’s leadership must take a more proactive approach to manage quality through a series of policies and processes to be able to demonstrate that it has an effective system of quality management to ensure all audit opinions signed are appropriate in the circumstances,” he says.

The risks firms need to consider include internal factors, such as whether they are able to recruit the right people and whether these recruits have the right ethical values, whether they provide proper training and continuing education. They also include external risks, including the integrity of clients and the potential negative impact of a poor quality client on the reputation of the firm if they fail, and whether the services the firm is providing risk impacting the market. Jui adds that firms will have to demonstrate to regulators how they perform their risk assessment, including the identification of risks, and coming up with responses to address those risks. “The audit partners’ number one job will be to ensure the quality of the audit engagement and the audit report, not going out and selling audit services,” Jui says.

Joy suggests this shift in emphasis was necessary, as the old system was not obtaining the desired result. “It is not a compliance approach; it is a much more hands-on management approach. It is more realistic in terms of how people go about doing audits and conducting



The three new and revised quality management standards come into effect in December 2022. International Standard on Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews*, and International Standard on Auditing 220 *Quality Control for an Audit of Financial Statements*, aim to strengthen and modernize audit firms’ approach to quality management and respond to the increasingly complex audit ecosystem.

their business and it is adaptive to real life scenarios,” he says. “There is more emphasis in the new standards on inquiry mindsets and culture and leadership. I think it is a more appropriate approach in the current environment.”

Fong points out that the shift should also enable the audit profession to stay one step ahead of the risks it faces, through establishing a new “baseline architecture” to foster change, noting that it enables firms to consistently manage and achieve quality and better align the needs of all participants in the financial reporting system. “A culture that facilitates proactive and regular self-scrutiny will help engagement teams to feel supported in their aims for quality engagements and enable continual improvements in quality,” she says. Stevenson agrees: “I think taking this risk-based approach should be very helpful to audit firms to actually force them to think about risks, and what solutions they should be looking for.”

### Impact on firms

When it comes to implementing the new standards, Joy says firms will need to spend time thinking about what they mean in the context of their own practice. “There are some key changes in the approach. It will require a different mindset; it puts a lot more emphasis on the leadership of firms, requires a culture of quality and it expects a lot more rigour about the views of engagements,” he says. Fong adds that the standards highlight the importance of having appropriate resources in place, including human resources, technical resources and intellectual resources, when conducting an

engagement, which is something firms will have to focus on.

Stevenson points out that one of the main impacts on firms will be a change to the way they oversee quality, and while many firms already take a risk-based approach, it is not always formalized in the way the new standards will require. “As a group of partners, we might understand the environment and what is going on, but it is all in our heads and there is not much committed to documented plans and policies and memorandums on paper,” he says. “We do think formalizing our thought process will be a good thing for us.” He adds that the biggest concern for his firm is the level of documentation that the regulator will require firms to produce in order to demonstrate how they identify and manage risks, as the requirement is not set out in the standard.

Stevenson also points out that although the standards are designed to be scalable, implementing them might be more challenging for small and medium practices. “We have many partners who can do the work, but if you are a one or two partner practice, you need to do everything, so it is a different level of stress,” he says.

### Support from the Institute

Supporting its members’ adoption of new standards is a key priority for the Institute. “The Institute appreciates that the introduction of the new standards is a significant step that will present challenges to many firms and practitioners,” says Joy. “We have endeavoured to engage members throughout the development stages of the standards

and fully intend to build on that to support members in their efforts to be able to properly apply the standards from December 2022.”

As well as a range of resources on its website and live and recorded seminars and workshops, the Institute will hold more continuing professional development (CPD) events on the topic in the future.

Practical assistance and training will be most valuable for practitioners, adds Joy. “We will utilize our network of other professional bodies to identify sources of support tools and learning materials that are relevant to and address our members’ needs. The Institute has already contracted for the development and provision of a new *Audit Practice Manual*, which will help practitioners in their implementation of the standards,” he says.

“There are lots of resources on our webpage with examples. They have been there all the way through the project. We have frequently asked questions (FAQs), webcasts and we are thinking of doing a video,” Joy says. The Institute is also planning to leverage the implementation guidance which is set to be issued by IAASB, which it plans to supplement with local CPD events for members to help them understand the standards. “We have also commenced a project to revamp the extant guide to provide a meaningful tool to help small- and medium-sized firms comply with the new requirements.”

The IAASB has also produced a number of resources to help firms adopt the new standards. These resources, which are available on its website, include videos, practical examples that show how

**“There is more emphasis in the new standards on inquiry mindsets and culture and leadership. I think it is a more appropriate approach in the current environment.”**

the requirements of ISQM 1 can be scaled according to the nature and circumstances of individual firms and their engagements, and a set of FAQs providing additional explanations and examples for some of the more complex aspects of ISQM 1.

The International Federation of Accountants is producing a series of guides to help firms understand how to implement the three standards, including highlighting the significant changes, setting out how firms should go about conducting risk assessments, and the framework they will need for identifying and evaluating deficiencies. It is also creating a series of fact sheets, FAQs and videos and assist firms with the change.

As well as promoting information from others, future *A Plus* articles will focus on specific aspects of the standards. “Over the next 18 months we will focus on helping members understand the principles, purpose and objectives of the new standards,” says Joy.

### Getting ready

The new standards come into force in December 2022. Joy urges firms to start preparing for the change now. He suggests firms should first read the standards and ensure they understand their contents. “It is going to take time to understand them properly. This isn’t just a routine update of an auditing standard – this is actually the creation of two very new standards and one fundamentally changed one,” he says.

Stevenson advises: “The first thing is to get educated – take advantage of the Institute’s CPD



events. The second thing is don’t leave it until December 2022 – start early, and once you get an understanding, start looking at what needs to be done in your firm.” Fong points out that, in many cases, firms will have to exercise a great deal of change management to enable the new standards to be effectively absorbed and implemented. “Firms should start thinking about developing an implementation plan to consider the fundamental concepts of the system of quality management at as early a stage as

possible,” she says. “They should also assess and evaluate whether their current resources are adequate and appropriate to meet the requirements of the new standards.”

Stevenson adds that firms should not view the change just as a compliance exercise, but rather as an opportunity to enhance what they already do. “By examining everything we do to ensure we comply with the quality standards, we can make ourselves more efficient and do things better,” he says.







Hong Kong's  
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## QP Graduates – December 2020 Session

The Institute is pleased to announce that 670 QP candidates successfully completed the Qualification Programme in the December 2020 Session. The list of graduates is as below.

ALI, Sufyan	CHAN, Uen Yee	CHIM, Tsz Ching	FU, Hoi Lun	KAN, Long Yin	LAM, Sheung Ka
ALVAREZ, Juan Yiu-chang	CHAN, Wai Ka	CHIN, Kwok Ho	FUNG, Chun Man	KAUR, Navdeep	LAM, Sin Ying
AU, Chun Ho Jason	CHAN, Wai Kwan, Michelle	CHIU, Chi Ki	FUNG, Hok Him	KEUNG, Hei Man	LAM, Sze Yee
AU, Chun Kit	CHAN, Wai Ying	CHIU, Chi Long	FUNG, Kam Yan	KEUNG, Hoi Hei Hayley	LAM, Wai Him
AU, Ling Kei	CHAN, Wan Yin	CHIU, Hoi Ying	FUNG, Ki Yuen	KEUNG, Tsz Sum	LAM, Yan Yi
AU, Wai Kit	CHAN, Wing Hong	CHIU, Tsz Shun Kevin Jeffrey	FUNG, Yam Fau	KO, Sin Ying	LAM, Yat Long
AU-YEUNG, Ka Ming Bryan	CHAN, Wing Kiu Vicky	CHIU, Wan Yuk	GAO, Mingqi	KOK, King Man	LAM, Ying Yau Andrew
BI, Jia Shan Laura	CHAN, Wing Tung	CHIU, Yuen Ki	GAO, Xinye	KONG, Ka Wing	LAM, Yuen Ki
BUTT, Hoi Ching	CHAN, Wing Yee	CHO, Chi Ching	GILL, Chaman Kaur	KONG, Ka Yee	LAN, Tin Long
CAI, Qiaochu	CHAN, Yan Lok Brian	CHO, Ching Nga	GOH, Suet King Windy	KOO, So Ting	LANG, Yi
CAO, Xin	CHAN, Yee Chun	CHOI, Chun Lai	GU, Yuyu	KU, Ka Chun, Benson	LAU, Cheuk Ling
CAO, Yueying	CHAN, Yik Yin Tiffany	CHOI, Jeffrey Kai Hei	GUAN, Shuqi	KUNG, Ngai Ping	LAU, Chun Wai Jason
CAO, Zhuhu	CHANG, Sin Yan	CHOI, Ka Ki Pinky	HE, Diwen	KWAN, Chi Wing	LAU, Hun To
CHAN, Cham Chung	CHANG, Tsz Kiu	CHOI, Kin Yi, Carmen	HE, Xin	KWAN, Ka Ho Jaime Kendrick	LAU, Ka Hong
CHAN, Cheuk Hong	CHAU, Cheuk Hei Leo	CHOI, Ying Ying	HE, Xuanying	KWAN, Man Wai	LAU, Ngo Yung
CHAN, Ching Man	CHAU, Kit Ying	CHONG, Ming	HE, Yang	KWAN, Ming Kin	LAU, Siu Fung
CHAN, Ching To	CHAU, Lai Kwan	CHOW, Ka Lok	HEUNG, Kin Wing	KWAN, Po Yi	LAU, Yan Ki
CHAN, Hang	CHAU, Pui Man	CHOW, Kin Cheung	HO, Ching Yi	KWAN, Shuk Mei	LAU, Yan-wen
CHAN, Hau Yan	CHEN, Hanxiao	CHOW, Lok Yin	HO, Chun Kiu	KWAN, Wing Tung	LAU, Yin Tung Emily
CHAN, Hiu Nam	CHEN, Li Li	CHOW, Man Fung	HO, Gavin	KWOK, Adrian Kin Chun	LAU, Yip Hong
CHAN, Ho Yi Ivy	CHEN, Wenping	CHOW, Tak Kan Duncan	HO, Hei Ching	KWOK, Fong Pui	LAW, Ho Yee
CHAN, Hoi Lam	CHENG, Chi Tim	CHOW, Tsz Ching	HO, Ka Ki	KWOK, Mei Ying	LAW, Kwun Fung
CHAN, Hon Yin	CHENG, Chun Ting Aaron	CHOW, Tsz Yan	HO, Ka Yi	KWOK, Pui Yee	LAW, Ngai Kan
CHAN, Ka Hei	CHENG, Junxia	CHOW, Wai Lam	HO, Kevin	KWOK, Shu Kwan	LAW, Oi Shan
CHAN, Kai Him	CHENG, Ka Wai	CHOW, Yin Kwan Yvonne	HO, Sau Hang	KWOK, Tak Chun	LAW, Shu Ting
CHAN, Kam Fai	CHENG, Miu Yee	CHOY, Hin Sum	HO, Shuk Kuen	KWOK, Wing Ki	LAW, Yan In
CHAN, Kam To	CHENG, Sheung Kwan	CHU, Cho Ting	HO, Sze Nok	KWONG, Tung Wing	LAW, Yuen Yu
CHAN, Kar Chung	CHENG, Sze Wing	CHU, Ho Man	HO, Ting Hin	LAI, Hang Ming	LEE, Cheuk Fung Mick
CHAN, Kin Wah	CHENG, Sze Wing, Dorothy	CHU, Hoi Yuen	HO, Tsz Man Matthew	LAI, Hiu Ki	LEE, Chon Fai
CHAN, King Chi Cyan	CHENG, Tsz Mei	CHU, Ka To	HO, Wing Chung Simon	LAI, Hiu Yi	LEE, Chun Pong
CHAN, Kiu Hop Kimberly	CHENG, Tsz Yik	CHU, Nga Sze	HO, Wing Shuen	LAI, Ka Yee	LEE, Erica
CHAN, Kwun Yin	CHENG, Wing Hin	CHU, Wai Yip	HO, Yentl	LAI, Kam Ling	LEE, Ho Nga Deborah
CHAN, Lok Yi	CHENG, Yuen Man	CHU, Wai Yiu	HOMEMING, Andrew	LAI, Mei Ki Maggie	LEE, Ho Wai
CHAN, Man Huen Mona	CHENG, Yuen Ting	CHUI, Pak Yeung Cyrus	HUANG, Yating	LAI, Pui Man	LEE, Ho Yan
CHAN, Melissa Ching Yin	CHENG, Chi Ho	CHUK, Hiu Wai	HUANG, Yihan	LAI, Sze Man	LEE, Ka Yue
CHAN, Meng	CHEUNG, Ching Man	CHUNG, Doris Ho Ching	HUANG, Yongsheng	LAI, Wing Hang	LEE, Kui Ho
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CHAN, On Tsz	CHEUNG, Chung Hin	CHUNG, Ka Pak	HUI, Siu Long, Mark	LAI, Yan Ting	LEE, Nam San Nelson
CHAN, Pak Ho Ambrose	CHEUNG, Hei Men	CHUNG, Kin Wai	HUI, Tsun Wah	LAI, Yat Ting	LEE, Pui Han
CHAN, Pak Lun Brian	CHEUNG, Hei Nga Isabella	CHUNG, Kwun Ho Matthew	HUI, Wai Hung	LAM, Ching Yan	LEE, Ting Ho Kavin
CHAN, Pik Man	CHEUNG, Joey	CHUNG, Lai Tai	HUI, Wing Yee Natalie	LAM, Chuen Lai	LEE, Tsz Yu
CHAN, Sau Hang Henry	CHEUNG, Ka Chun	CHUNG, Man Hei	HUI, Yau Lee	LAM, Chun Ho	LEE, Wing Shan
CHAN, Shuk Fan	CHEUNG, Ka Yu	CHUNG, Ming Ho	HUNG, Chak Ping	LAM, Chun Tung	LEE, Wing Shan
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CHAN, Sui Yung	CHEUNG, Lai Heung	DUAN, Jisong	HUNG, Ka Wai	LAM, Hang On	LEE, Yuen Chi
CHAN, Sum Ming	CHEUNG, Man Lok	FAN, Chun Yin	HUNG, Tsz Yan	LAM, Hiu Ying	LEE, Yuk Kwong Jason
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CHAN, Tsz Wing	CHEUNG, Wing Yip	FONG, Yat Him	KAM, Ho Yin Trevor	LAM, Pui Man	LEUNG, Chui Shan



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LING, Yin Man  
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LIU, Qi  
LIU, Siru  
LIU, Yi Ching  
LIU, Yunling  
LO, Brian  
LO, Cheuk Hin  
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LO, Chun Him  
LO, Hiu Kei  
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LUK, Kai Yin  
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MA, Cheuk Yan  
MA, Ho Ming  
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MA, Ka Pui  
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MAK, Ka Wai  
MAK, Ka Yee  
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NG, Ka Chun  
NG, Ka Ho  
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NG, Pui Ting  
NG, Tik Ngo  
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PANG, Shuk Wai  
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SHUM, Tsz Yan  
SIN, Hei Yu  
SIN, Shui Wan  
SIU, Chung In  
SIU, Ling Hon  
SIU, Man Ho  
SIU, Shing Hin  
SIU, Wing Hei Isaac  
SIU, Yuk Ming  
SO, Cheuk Yiu  
SO, Kam Fai  
SO, Po Yan  
SO, Wai Man  
SO, Wing Kin  
SO, Wui Pok  
SONG, Xinying  
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TING, Wai Ying  
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TONG, Hei Lam

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TSANG, Chiu Hiu  
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TSANG, Hoi Ying  
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TSANG, Sin Man  
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TSANG, Sze Ki  
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TSE, Hok Kan  
TSE, Hong Shing  
TSE, Nga Man  
TSE, Shing Hei  
TSE, Sui Ki  
TSE, Yau Cheung  
TSE, Yee Kei Felicia  
TSOI, John Aaron Tan  
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WANDRI  
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WANG, Peiyi  
WANG, Tiantian  
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WANG, Zijie  
WEI, Jianing  
WONG, Chak Man  
WONG, Cheuk Hin  
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WONG, Ching Ip  
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WONG, Chui Mei  
WONG, Chun Ming  
WONG, Hiu To  
WONG, Hiu Yan  
WONG, Ho Kan  
WONG, Ho King Tsan  
WONG, Ka Wai  
WONG, Ka Wing  
WONG, Kei Yin  
WONG, Kin Tai  
WONG, King Ting  
WONG, King Yuk  
WONG, Kwok Chun  
WONG, Lok Yin

WONG, Man Hin  
WONG, Mei Yan  
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WONG, On Ki  
WONG, Po Lim  
WONG, Pui Shan  
WONG, Pui Ying, Paine  
WONG, Sha Quen  
WONG, Sin Yee  
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WONG, Siu Mui  
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WONG, Sze Man  
WONG, Sze Nga, Michelle  
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WONG, Wing Man  
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WONG, Wing Shing  
WONG, Wing Sze  
WONG, Wing Yin  
WONG, Yan Kei  
WONG, Yan Kit  
WONG, Yee Leung Joachim  
WONG, Yin Pok  
WONG, Yin Sum  
WONG, Ying Ying  
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YEUNG, Wing Ting  
YEUNG, Wing Yan  
YEUNG, Wong Ho  
YIM, Kai Ho  
YIM, Wing Ki  
YIP, Chi Yung  
YIP, Cho Yan  
YIP, Ka Wai  
YIP, Kwai Ying  
YIP, Pui Shan  
YIP, Yan Kay Janice  
YU, Ching Man  
YU, Ho Ming  
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## ACCOUNTANT PLUS

Kitty Mok



# STEERING TOWARDS SUCCESS

Good governance comes from the top. As Group Company Secretary and Director of Risk at Pacific Basin Shipping Limited, Kitty Mok has spent the last 25 years helping the company to navigate immensely challenging times such as the COVID-19 pandemic and emerge even stronger. She tells [Kate Whitehead](#) how she oversees the mitigation of the various risks that comes with operating within the shipping industry, and how her CPA skills keep her and the organization afloat

Photography by Calvin Sit

**K**itty Mok, Group Company Secretary and Director of Risk at Pacific Basin Shipping Limited, frequently takes a moment to look out her office window at the super yachts and sailboats in Deep Water Bay. The company, headquartered on the top floor of a swanky office block in Hong Kong Island's Southern District, is one of the world's leading owners and operators of modern dry bulk large cargo ships that carry unpackaged bulk commodities such as grains, logs, metal ores, cement, and other construction and agriculture-related bulk cargo.

Mok has two roles – as Group Company Secretary, she ensures both the board and company comply with all necessary rules and regulations, and as Director of Risk, she continually assesses risks and makes sure that the right internal control systems are in place by working closely with all business leaders in the company charged with managing risks. The two roles, Mok explains, are highly interrelated. “In order to do a proper advisory job in these roles, I need to have a reasonably high level of knowledge and understanding of the group's and our competitors' business, the market and industry, outlook, the group's strategy, the people and, last but not least, the relevant laws and regulations related to the industry and the corporation,” she says, adding how this knowledge helps her to perform an effective advisory role on risk management and internal controls on both existing risks as well as emerging risks. “This, in turn, allows me to advise the board on key risks and best governance practices when making decisions or when discharging their duties. This advisory role goes beyond the board, and extends to all the employees as well as the interest of the group as a whole. The knowledge on the risk side also ensures our group's legal structure is appropriate, sustainable, and serves its purpose effectively.”



## Managing risks

Advising the board is an important part of both her roles, says Mok, a Hong Kong Institute of CPAs member. It involves finding a good balance between knowing how far to push into the board's agenda and, in doing so, only pushing what is relevant and significant. "One of the key tasks is the compliance with the Hong Kong Stock Exchange's Listing Rules," says Mok. "Keeping abreast of the latest changes in the rules and market precedents are essential when it comes to advising the board on the appropriateness of the risk management and internal controls systems and avoiding breaches that could negatively impact the reputation of the group or hinder the smooth management of the group's business."

"In terms of risks, no two companies' risk profiles are the same. How you mitigate or accept a common risk can also be different," adds Mok. "This is one of the most interesting things about the risk management role; you have the freedom to formulate the appropriate measures and advice for the company."

The company also takes steps to ensure the safety of its seafarers, ships and onboard cargo, and also manage environmental risks. "We have to ensure that we operate in a way that complies with relevant regulations regarding the environment, and we also constantly look at ways to improve the effectiveness of our sustainability programmes," Mok says. "We are increasingly focused on initiatives to reduce our carbon intensity consistent with the long term ambition of decarbonizing our shipping operations altogether."

To achieve this, Mok needs to communicate closely with the board on a regular basis to ensure they are kept up to date with the key risks the company faces and how to mitigate each one. "The solutions have to be commercially acceptable, practical and relevant to them rather

**"The solutions have to be commercially acceptable, practical and relevant to them rather than just textbook ones."**

than just textbook ones," says Mok, adding that solutions also have to be meaningful to each of the company's business departments. Working with a small team of two, Mok also builds close relationships with relevant colleagues and all business departments to better understand their challenges and offer advice when relevant.

The most effective way to manage risks, adds Mok, involves preparing for unexpected future events. This is also achieved by creating a culture within the workplace that is open and willing to innovate in order to respond quickly and flexibly in any situation, especially crises. "The tone has to come from the top," she says. "The board first has to support it, then senior management has to understand why we are doing it, and that message has to flow down so that people understand what it is and buy into it."

Mok ensures good corporate governance at Pacific Basin, which is a repeat winner of the Institute's Best Corporate Governance Awards. "The awards show our efforts are recognized and we are grateful for that as it gives us encouragement. It's not an easy area – some people don't realize the value of it, so we bring it up," she says, adding that she readily informs new recruits at the company about the importance of corporate governance and their role.

## Prepared for disruption

One risk that was not fully foreseen, Mok says, was the COVID-19 pandemic, which she considers to be one of the biggest challenges she has faced in her career so far. Luckily, she says the company had been preparing

for an incident of this magnitude for some time. Pacific Basin began preparing for a possible disaster – one that might knock out their communications systems and make travel difficult – several years ago. This was in response to increased cyber risks including the 2017 attack caused by the NotPetya malware that hit many companies – including shipping companies – resulting in significant financial losses and interruptions to operations. "Our IT department had already been working on improving our systems' security to reduce the chance of such an event from happening, as well as a manual system to help us continue our business even after a cyber attack," explains Mok. "We planned how we would communicate with the crews, our colleagues and our customers around the world if our systems were not working properly." Regular reminders, she adds, were also circulated to staff members to raise their awareness with the goal of preventing and coping with any form of system compromise or network security risk.

Having those plans and systems in place meant the company was well-positioned when the pandemic eventually hit. In 2019, the company was already using specially designed software for online meetings. So when international travel ground to a halt, Pacific Basin's employees were able to continue communicating with customers and each other in their 12 offices around the world. Their preparations also meant having to implement quick and necessary changes so that staff were able to easily switch to working from home to ensure business continuity. "Providing appropriate support to staff during lockdown situations or quarantines is one of the key tasks of the human resources team. We implemented flexible working hours and work-from-home arrangements as well as invested in additional equipment to make working from home more effective and to enable business as usual."



Pacific Basin was founded in 1987, listed on the Hong Kong Stock Exchange in 2004, has 12 offices around the world in Auckland, Dalian, Durban, Hong Kong, London, Manila, Melbourne, Santiago, Stamford, Rio de Janeiro, Tokyo, and Vancouver. It has a fleet of approximately 250 ships, and employs more than 330 shore-based employees and over 4,000 seafarers.

A professional portrait of Kitty Mok, a woman with long dark hair, wearing a dark blazer over a ribbed top and high-waisted trousers. She is standing in front of a blue and red background with white text and graphics. The text includes '4', '2', '11M', '8', 'LF', 'LT', 'LS', 'WNA', and '1'.

Kitty Mok, Group Company Secretary and Director of Risk at Pacific Basin Shipping Limited, has been with the company for over 25 years. Her role involves overseeing risks, training staff members, and ensuring internal controls are in place.

## ACCOUNTANT PLUS

Kitty Mok

A portrait of Kitty Mok, a woman with long dark hair, wearing a black blazer over a dark ribbed top and a necklace. She is looking slightly to the right. The background is a blurred image of a harbor with ships and cranes.

Mok graduated from the London School of Economics in 1987 and began her career in KPMG Hong Kong in 1994 before joining Pacific Basin in 1996.

One challenge brought on by work-from-home arrangements was the need to properly induct new employees, including trainees who joined the company's graduate trainee programme. "It is extremely important for us to be able to familiarize our trainees in a face-to-face office environment surrounded by seniors, peers and mentors," she says. The company's recruitment is focused in Hong Kong, so trainees are brought into the Hong Kong office first. "They can be properly introduced to the company's culture and systems, so that some of them could be seamlessly transferred to other office locations at a later date," she says. The induction programme, Mok adds, covers all areas of the business, such as its business, operations, structure and governance. "I am one of the contributors in the induction programme ensuring an

adequate but balanced coverage on corporate structure, governance and risk awareness, and management."

The pandemic also meant having to manage their more than 4,000 crew members, many of whom were unable to disembark from their ships for many months due to various governments' COVID-19-related immigration and travel restrictions. This led the company, she adds, to lobby governments and authorities to provide seafarers with the special status normally afforded to airline pilots and other essential workers in order for them to board a plane and return home. To help raise the morale of the crew – some of whom had been at sea much longer than their normal contracted periods – the company sent support messages through video and ensured they were able to communicate via video calls with their families back home as often as

possible. "The pandemic has shown the importance of communication and forward thinking – something that we have always promoted," adds Mok. Despite the crew-change restrictions, the ships continued to run on schedule, and business for the most part was not affected.

### Always at the helm

Mok recently celebrated 25 years with the company. Born and raised in Hong Kong, she attended secondary school and university in the United Kingdom and returned in 1992. Two years later, she joined KPMG, and one of her main clients was Pacific Basin. She learned more about the company through each audit engagement and also through helping them to list on the Nasdaq in 1994. "So by the time they decided to introduce a new role in their finance department – a financial controller

**"Because of my long period of service, I understand the history and rationale behind the company's structure, policies, and why the business is run the way it is."**



role reporting to the chief financial officer – I was already prepared,” she says.

Shortly after joining in 1996, the company was privatized, which also saw Mok closely involved in handling the transaction. The new owners did not take over the people nor the company name, enabling the founders to re-establish the company from scratch in 1998, which was the foundation of today's Pacific Basin. The company then went public in 2004 on the Hong Kong Stock Exchange.

Mok's understanding of the company's operations has given her the confidence and foresight to lead and make the right decisions in her role.

“Because of my long period of service, I understand the history and rationale behind the company's structure, policies, and why the business is run the way it is,” she adds.

To succeed in life, Mok advises young aspiring professionals to take on all tasks with heart. “Always treat each task you are given as if it is the most important one in the world, regardless of the level of complication,” she says. “Always understand the purpose of what you are doing so that you can deliver well – and never pass a problem onto your supervisor.” Following the tumultuous year of the pandemic, she stresses the importance of human interaction and connection, and advises young executives to make the most of all opportunities available for interaction within their firm. “You can spend hours drafting emails and sending them back and

forth, but most problems can be solved by face-to-face discussions,” she adds. “I always advise everyone to try to talk to colleagues face-to-face or at least on the phone, rather than just through emails, where expression and thoughts can be more directly and effectively conveyed and understood through voice and body language.”

Accountants also need to know how to adapt to change. Since Mok graduated from the London School of Economics with an economics degree in 1987, she has witnessed how the profession has undergone rapid changes. In the early days of her career, she says an audit team looked after everything, whereas now an audit team is one of many that serves a client. “Life isn't as easy, and we cannot advise on everything,” she says. “Now we have technical teams, valuation teams, tax teams – things are very specialized. Today's accountants have a much tougher time than those many years ago.”

She sees young accountants coming into a specialized industry that demands them to stay on top of evolving accounting standards, but to also understand complicated business transactions. An accounting qualification, Mok adds, is therefore a ticket into many different industries and, once one finds themselves inside a company, there are precious opportunities to get involved in different operations and move around the organization.

Mok also credits her CPA skills and knowledge with providing her with the right technical and soft skills, which continue to help in her role today. “The wide range of exposure I gained from the CPA training is priceless,” she says. “The exposure to numerous industries, many different cultures, nationalities and work styles during my CPA training enabled me to maintain healthy and successful relationships with colleagues at all levels, opening doors for me to advance in the company taking up additional roles, increased authority or more senior

positions.” Understanding how to convey the meaning behind numbers has also been an indispensable skill throughout her career. “This skill has been essential in my successful contribution to the company in all my roles, as many situations and debates can be expressed in numerical form, which is a powerful and convincing tool to convey opinions and recommendations. Because risks come in many different forms, such as in financial accounting and taxation, this has also enabled me and my team to identify risks analytically.”

Mok says that as she progresses through her career, providing career training, professional training and governance-related training has become one of her many responsibilities. “And I am keen to pass on my knowledge and skills to the younger generation,” she says.

### Shaking things up

In her free time, Mok enjoys spending time with her family, exercising, and playing the piano. She was introduced to the instrument as a child and says the creative outlet always gave her a sense of peace. She has also been able to practice more regularly now that her two daughters are studying abroad.

When work is intense, she does yoga and stretching to help destress, and for the last 10 years, has been learning Egyptian belly-dancing with a private tutor. “It's good exercise – you train your mind as well because you have to remember all the movements. You don't need a partner, so you can do it anywhere and anytime.” adds Mok.

The desire to keep learning and thirst for innovation is what keeps things fresh for Mok at Pacific Basin. “I've been here 25 years and I'm still learning new things such as new risks and new technologies and I still get to interact with different people – especially the new generation,” she says. “I enjoy my job and being trusted by other people.”



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# Valuation in the spotlight

What to expect from the Institute's new Business Valuation Programme offered in collaboration with Savills



**Eric Teo**, Senior Consultant, Business Valuation & Advisory, Savills Valuation and Professional Services (S) Pte Ltd., has over 25 years of professional experience working with companies in various industries including government agencies, regulatory agencies, professional bodies, small and medium enterprises, multinational companies and other listed groups. He has also served at various universities as an adjunct associate professor/faculty and visiting fellow, including Nanyang Technological University (Singapore) and Murdoch University (Australia). He is the Chairman of the International Valuation Standards Council Membership and Standards Recognition Board, and the Founding Chairman of the Council of the Institute of Valuers and Appraisers of Singapore.

**V**aluation is often regarded as the process of ascertaining the value of a business, its ownership interest or a particular asset or liability. It is a key component of investor and corporate activities. In recent times, it has gained prominence due to the following reasons.

**Mergers, acquisitions, investments, and divestments activities:** Throughout a company's corporate life cycle, it engages in mergers, acquisitions, investments, and divestments activities with the objective of creating or protecting value for their stakeholders. From its incubation period, to the growth journey it undertakes – and right through to the twilight years – the need for a valuation is evident at all stages of its development.

**Fair value measurement in financial reporting:** As fair value measurements are anchored within the accounting practice, financial reporting standards relating to business combinations, intangible assets, impairment testing, property, financial instruments etc. are published. These standards provide clarity and lend guidance to the measurement of fair value in the financial reporting process. Valuers' expertise is sought in this process to either help to conduct valuations for the company or assist the auditor in reviewing valuations performed by the company.

**Valuation in legal proceedings:** This subject also arises frequently in the legal space, particularly in situations related to shareholders' disputes or the assessment of damages where valuation principles are called upon. Many issues relating to the valuation process, bases, approaches, methodologies, parameters, and assumptions have been challenged. Increasingly, legal practitioners and parties involved in disputes are engaging valuers to provide expert testimonies in arbitration tribunals and the courts.

**Importance of intellectual property in business:** With the rise of the knowledge-based economy globally, intellectual property (IP) has evolved as a key driver of many businesses. There is a growing recognition in corporate boardrooms that IP is a strategic asset that has tremendous potential to be unlocked and monetized. This growing significance and importance of IP has led to a need for an objective and unbiased approach with regards to the assessment of its value.

## Developments in global valuations

Valuations play a vital role in creating transparent and sustainable markets. There is significant public interest in the work that valuers do especially in relation to financial reporting and capital markets. Valuers need to possess specialized knowledge and skills, and adhere to high standards of ethics and professionalism.

In this regard, the International Valuation Standards Council (IVSC) plays a key role as the global body responsible in developing and setting the International Valuation Standards (IVS), which is being applied by valuers in more than 100 countries currently. The IVS covers the fundamentals of valuation, common valuation principles, application of valuation process and specific standards relating to various classes of assets. At present, the IVSC has a membership base of more than 160 organizations, comprising of valuation professional organizations (VPOs), associate VPOs, institutional, corporate, and academic members, and works to promote and grow the valuation profession worldwide. It engages with partners such as the International Federation of Accountants, the accounting standard setting boards including the International Accounting Standards Board and the International Auditing and Assurance Standards Board, international bodies including the World Bank and United Nations, and regulators globally, including the International Organization of Securities Commissions, to build trust in valuation and help develop the global financial system in the public interest.

## The Business Valuation Programme

The Business Valuation Programme will take place from April to June, and aims to provide participants with insights into the valuation of various assets, including an understanding of valuation techniques commonly used for transaction purposes and fair value measurement requirements for financial reporting purposes, and the IVSs. The programme features 11 compulsory and four elective modules (from which participants must choose two) for a total of 24 continuing professional development hours. The programme is designed for users of business valuation reports, including audit professionals, directors of boards, preparers of financial statements, fund managers, and individuals who are keen to gain knowledge in business valuations. Visit the Institute's website for more information at [www.hkicpa.org.hk/bvp](http://www.hkicpa.org.hk/bvp)



# Hong Kong's carried interest tax concessions bill

Examining the bill introducing concessionary tax treatment for eligible carried interest

On 29 January 2021, the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021 was gazetted to amend the Inland Revenue Ordinance (IRO) and introduce concessionary tax treatment on eligible carried interest received by, or accrued to, qualifying recipients. In particular, the bill includes a 0 percent profits tax rate on eligible carried interest and excludes 100 percent of eligible carried interest from employment income for calculation of salaries tax. This is a long-awaited development, and key to the development of the Hong Kong asset and wealth management industry.

The bill will be subject to the scrutiny and approval of the Legislative Council before it is enacted. Once enacted, the tax concession treatment will apply to eligible carried interest received by or accrued to a qualifying person or a qualifying employee on or after 1 April 2020, from year of assessment 2020/21 onwards. While carried interest received or accrued from 1 January to 31 March 2020 may fall within the 2020/21 basis period, it would not be eligible for the carried interest tax concession.

This article provides an introduction to the key definitions in the bill, together with our observations and insights.

## Qualifying carried interest payer

Qualifying carried interest payer is defined to be:

1. a "fund" as defined under the unified

- tax exemption regime for funds (UTE) of the IRO and certified by the Hong Kong Monetary Authority (HKMA);
2. an associated corporation, or an associated partnership, of a certified investment fund that is a corporation or a partnership; or
3. a specified entity defined to mean "The Innovation and Technology Venture Fund Corporation" (ITVFC) incorporated under the Companies Ordinance.

In the case of a non-resident fund, an authorized local representative must be appointed who will be responsible for providing the necessary particulars and information to the Inland Revenue Department (IRD) and HKMA.

Carried interest eligible for the tax concession would only apply to sums paid by a certified investment fund or ITVFC. The carried interest tax concession would therefore not include any carried interest paid out from a non-certified fund where a carried interest recipient has not provided any investment management services.

## Eligible carried interest

Eligible carried interest is defined to mean a sum received by, or accrued to, a person by way of profit-related return (subject to a hurdle rate as stipulated in governing agreement) from the provision of investment management services by the person for a certified investment fund or ITVFC.

The bill defines "hurdle rate" to mean a preferred rate of return on investments in a certified investment fund (or a specific entity) that is stipulated in the agreement governing the operation of the fund or entity. In practice, however, some funds may not have hurdle rates, and thus there may not be specific disclosures in their limited partnership agreements. Where relevant, this requirement would need to be reflected or updated accordingly in the fund documentation.

"Profit-related return" requires the following conditions to be met:

1. the sum is to be, or may be, received or accrued only if (a) there are profits for a period on the investments, or on particular investments, made for the fund or entity; or (b) there are profits arising from a disposal of investment made for the fund or entity;
2. the sum that is to be, or may be, received or accrued is variable by reference to those profits;
3. the returns to external investors of the fund or entity are also determined by reference to those profits; and
4. significant risk test on anti-avoidance measure to exclude management fees disguised as eligible carried interest.

The detailed rules of condition 4 above are extensive. Such anti-avoidance provision is to exclude management fees potentially disguised as eligible carried interest for tax avoidance purposes. Carried interest arrangements should therefore be clearly articulated and documented as appropriate.



## Qualifying carried interest recipients

Qualifying carried interest recipients are defined to mean the following persons providing investment management services to a certified investment fund or a specified entity in Hong Kong, or arranging such services to be carried out in Hong Kong:

1. a corporation licensed under Part V of the Securities and Futures Ordinance to carry on, or an authorized financial institution registered under that part for carrying on, a business in any regulated activity as defined by Part 1 of Schedule 5 of that ordinance;
2. a person (meaning natural person, corporation, partnership, trustee, whether incorporated or unincorporated, or body of persons), who does not fall within (1) above, providing investment management services in Hong Kong to a certified investment fund that is a "qualified investment fund" defined in the IRO or a specified entity, or arranging such services to be carried out in Hong Kong; and
3. an individual deriving assessable income from the employment with the qualifying persons referred to in paragraphs (1) and (2) above or their associated corporation or associated partnership by providing investment management services in Hong Kong to the certified investment funds or the specified entity on behalf of the qualifying persons.

The term "investment management services" include:

1. seeking funds for the fund or entity from external investors or potential external investors;
2. researching and advising on potential investments to be made for the fund or entity;
3. acquiring, managing or disposing of property or investments for the fund or entity; and
4. acting for the fund or entity with a view to assisting an entity in which the fund or entity has made an investment to raise funds.

## Qualifying transactions

The concessionary tax treatment would be ring-fenced to eligible carried interest arising from qualifying transactions in private companies only. These are transactions in:

1. shares, stocks, debentures, loan stocks, funds, bonds, or notes of, or issued by, a private company specified under Schedule 16C to the IRO;
2. shares or comparable interests of a special purpose entity (SPE) or interposed SPE solely holding and administering one or more investee private companies;
3. shares, stocks, debentures, loan stocks, funds, bonds, or notes of, or issued by an investee private company held by an SPE or interposed SPE from (2); and
4. incidental to the carrying out of the

qualifying transactions from (1) to (3), subject to a 5 percent threshold.

The bill provides that the carried interest tax concession would only apply on profits arising from investments earned from transactions in private companies, where those profits are exempt from profits tax in accordance with the UTE. It is unclear whether funds need to rely on the UTE in order to qualify for the carried interest tax concession on those transactions, notwithstanding that they may still be exempt from profits tax by other means such as deriving non-Hong Kong sourced income or not carrying on business in Hong Kong.

Carried interest from hedging transactions may also be eligible for the tax concession, subject to conditions.

## Substantial activities requirements

Qualifying carried interest recipient has to meet the substantial activities requirements for each year of assessment for the period from the date when the qualifying carried interest recipient begins to perform investment management services directly or indirectly to the certified investment fund or a specified entity, to the date when the carried interest is received or accrued to the qualifying recipient:

1. average of two or more full-time employees in Hong Kong who carry out the investment management services; and



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2. HK\$2 million or more operating expenditure incurred in Hong Kong for the provision of investment management services.

### HKMA's certification and ongoing monitoring mechanism

Funds need to go through an application and certification process with HKMA before it is eligible for the carried interest tax concession regime. In the year of carried interest distribution, an external auditor needs to verify the satisfaction of relevant substantial activities requirements and the requirements of eligible carried interest.

The IRD may seek advice from HKMA to ascertain:

1. whether a service constitutes an investment management service;
2. whether a sum has been received by, or accrued to, a person by way of profit-related return so that it may be eligible carried interest;
3. whether an entity is, and has remained, a certified investment fund; and
4. any other matter that the IRD commissioner considers appropriate in relation to the claim.

Further, it is pertinent to note that qualifying carried interest recipients and payers (e.g. certified investment fund and its associated corporation or partnership) of eligible carried interest are required to retain records for up to seven years from the date of payment or accrual of eligible

carried interest. While this is in line with the general record keeping requirements under the Limited Partnership Fund Ordinance and the IRO, this may not necessarily be the case for record keeping of funds incorporated in other jurisdictions (in particular for post dissolution period), and care should therefore be taken into consideration on this requirement.

We understand that the HKMA is expected to hold wider industry consultation for the carried interest certification and on-going monitoring mechanism. We encourage industry participants to actively participate in the consultation to ensure the implementation of the carried interest tax concession is practical.

### Definition of SPE under the UTE

We would also like to highlight a notable change to the current UTE rules. Under the current UTE regime, SPEs of an investment fund are restricted to invest in private companies only, and not in public securities and other asset classes that the investment fund is allowed to directly invest in.

To address the industry's concerns on the above restriction, the bill also provides that a SPE can invest in the full range of asset classes as the investment fund under Schedule 16C of the UTE, and tax exemption can equally apply to the gain derived by the SPE. As such, investment funds (including hedge funds) should be able to use SPEs to hold listed and

marketable securities going forward, without jeopardizing the tax exemption status under the UTE.

Over the past few years, the industry has lobbied for clarity and certainty on the tax treatment of carried interest. This carried interest tax concessions bill is a big step towards alleviating the industry's concerns on the taxation of carried interest, and ensures Hong Kong remains an attractive and competitive location for fund managers. The carried interest tax concession follows the various measures the government has already implemented to bolster Hong Kong's position as a leading international asset and wealth management center, including the UTE, the open-ended fund company regime, and the limited partnership fund regime. We expect the industry would be eager to see the fruition of a practical carried interest tax concession.



*This article is contributed by **Rex Ho**, Partner - Hong Kong Asset and Wealth Management Tax Leader, and **Eric Gong**, Senior Manager, Tax Services, PwC Hong Kong*

# TECHNICAL NEWS

## The latest standards and technical developments

### Members' handbook

Update no. 256 contains amendments to Statement 1.500 *Continuing Professional Development (Revised March 2021)* to include the requirements of International Education Standard 8 *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*.

### Financial reporting

#### **Institute roundtable on the IASB's Business Combinations under Common Control Discussion Paper**

On 11 May, the Institute will hold a roundtable on the International Accounting Standards Board's (IASB) Discussion Paper DP/2020/2 *Business Combinations under Common Control* (BCUCC), which explains the IASB's preliminary views on how to reduce the diversity in practice and improve the transparency and comparability in reporting BCUCC. Representatives from the IASB will participate in the roundtable, and this will be an excellent opportunity to communicate directly with local and international standards setters. Members can also submit comments by 5 July.

Members may also be interested in the following two recordings of the discussions on the paper:

- IASB webinar providing an overview of the paper.
- IASB, European Accounting Association, and European Financial Reporting Advisory Group virtual research workshop, providing an overview of the paper and discussing academic evidence.

#### **Amendments to IAS 1, IAS 8 and IFRS Practice Statement 2**

The IASB has issued narrow-scope amendments to the following standards:

- International Accounting Standard (IAS) 1 *Presentation of Financial Statements*. The amendments require companies to disclose their "material" accounting policy information rather than their "significant" accounting policies.
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.
- International Financial Reporting Standard (IFRS) Practice Statement 2 *Making Materiality Judgements*. The amendments provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 1 and IAS 8 will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

#### **COVID-19-related rent concessions beyond 30 June 2021**

The IASB held a supplementary meeting on 10 March to consider feedback on Exposure Draft ED/2021/2 *COVID-19-Related Rent Concessions beyond 30 June 2021*, which proposes to extend the time period over which the practical expedient in paragraph 46A of IFRS 16 *Leases* is available for use. The IASB decided to finalize the proposal with an additional explanatory transition paragraph and plans to publish the final amendment to IFRS 16 on 31 March 2021 (please refer to Supplementary IASB Update March 2021). The Institute plans to publish an equivalent amendment to Hong Kong Financial Reporting Standard 16 in early April.

The Institute submitted its comment letter on the exposure draft.

#### **Joint call for research papers on key standards**

In conjunction with the Financial Accounting Standards Board and *The Accounting Review*, the IASB has published a joint call for research papers on the following standards:

- Revenue recognition (Accounting Standards Codification (ASC) Topic 606 and IFRS 15)
- Leases (ASC Topic 842 and IFRS 16)
- Financial instruments (ASC Topic 326 and IFRS 9)

The deadline for submissions is 15 May 2022.

#### **Recording of the IASB's webinar on Exposure Draft Regulatory Assets and Regulatory Liabilities**

A recording is now available of the webinar held by the staff of the IASB that provided an overview of the proposals of the Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*. The Institute is also seeking comments on the exposure draft by 31 May.

#### **Recordings of the IASB's webinars on three standards**

Recordings are now available for the webinars held by the IASB to stimulate research into three standards and to inform the post-implementation reviews of them.

- IFRS 9 *Financial Instruments*.
- IFRS 15 *Revenue from Contracts with Customers*.
- IFRS 16 *Leases*.

#### **Speech by the IASB Chair**

Hans Hoogervorst, Chair of the IASB, delivered a speech at a meeting of the International Forum of Accounting Standard Setters reflecting how IFRSs have evolved during his 10-year tenure and the importance of independent standard setting.

### IASB February podcast

The February podcast, focusing on the IASB discussions at its monthly meeting, is now available.

### February IFRS Interpretations Committee update

The February IFRS Interpretations Committee Update newsletter, summarizing the decisions reached by the Interpretations Committee at its February meeting, is now available.

## Auditing and assurance

### Invitation to comment

The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft *Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards* by 23 April. The proposed revisions align the IAASB's standards related to review, assurance and related services, as well as its framework, with the new Quality Management Standards through conforming amendments.

### Institute submission

The Institute has submitted comments on the IAASB Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*.

### Getting started with the new Quality Management Standards

The International Federation of Accountants' (IFAC) article provides an overview of the new Quality Management Standards effective from 15 December 2022.

### Recent developments in extended external reporting assurance

The IFAC article reviews two companion academic articles recently published in the Institutional Perspectives section of the *Journal of International Financial Management and Accounting* that together provide a contemporaneous and comprehensive assessment of the extended external reporting assurance landscape.

### Vision for accelerating integrated reporting assurance

The IFAC is partnering with the International Integrated Reporting Council on a joint initiative to help more businesses implement integrated reporting. The first instalment sets out what integrated reporting assurance involves for organizations, auditors, and others. It also addresses the difference between the two types of assurance – limited and reasonable – and what is required of auditors and organizations to strive for reasonable integrated reporting assurance.

### IAASB February board meeting

The audio recording of the IAASB February board meeting is now available.

### ESG reporting and attestation roadmap

The Association of International Certified Professional Accountants and the Centre for Audit Quality's publication includes a new roadmap to provide audit practitioners with a blueprint to support companies in achieving their environmental, social, and governance (ESG) reporting goals and provide ESG-related tools for auditors.

### Professional scepticism in a remote working environment

A blog and podcast by CPA Canada shares

perspectives and practical examples on applying professional scepticism in a remote working environment during uncertain times.

### COVID-19 year-end reminders for auditors

A CPA Canada's blog summarizes the organization's discussion with Canada's audit regulators on issues that are causing audits to be more challenging this year given the effects of the COVID-19 pandemic.

### A new approach to risk assessment

In an article in *International Standards*, the Institute of Chartered Accountants in England and Wales (ICAEW) shares some of the practical challenges and areas of focus for auditors in the implementation of International Standard on Auditing 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment*. Institute members can subscribe to ICAEW's International Standards for free.

## Ethics

### Proposed revisions to the definitions of listed entity and PIE

The Institute is seeking comments on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* by 3 April. The proposed revisions broaden the definition of a public interest entity (PIE) in the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (IESBA code) to include more categories of entities.

The IESBA recently released a new staff



publication providing additional context to the proposals, supplementing the guidance material in the explanatory memorandum of the exposure draft.

Members are invited to join the Institute's roundtable on 7 April to share their views with Deputy Chair of the IESBA, members of the Institute Ethics Committee and other participants. Members attending the roundtable will be entitled up to 1 continuing professional development hour.

### **IFAC Exploring the IESBA Code: The Building Blocks Instalment**

This final instalment of Exploring the IESBA Code explains the "building blocks" structure of the IESBA code and its interconnected nature to help readers better understand how to use and navigate the IESBA code so that they can quickly identify and access the ethics and independence standards and guidance relevant to them.

### **Latest edition of The IESBA eNews**

The March edition of The IESBA eNews highlights various activities going on in and around the IESBA, such as the search for the board's next chair, the upcoming virtual board meetings, and much more.

## **Sustainability**

### **Feedback on IFRS Foundation's consultation on sustainability reporting**

The IFRS Foundation Trustees met in February and March to discuss feedback received on their *Consultation Paper on Sustainability Reporting*, which indicated an urgent need for the IFRS Foundation to play a role in developing global sustainability reporting standards. The Trustees are continuing their work on the establishment of an international

sustainability reporting standards board within the existing governance structure of the IFRS Foundation, and plan to publish a feedback statement that summarizes the consultation feedback and how that feedback informed their decisions. The Trustees remain on track to make a final determination about a new board in advance of the United Nations COP26 conference in November.

## **Corporate finance**

### **Invitation for comment**

On 9 February, the Securities and Futures Commission (SFC) issued a Consultation Paper on conduct requirements for capital market transactions in Hong Kong. The SFC considered that proposed requirements may help clarify the roles played by intermediaries in equity and debt capital raisings and set out the standards of conduct expected of them in book-building, pricing, allocation and placing activities. A separate "sponsor coupling" proposal is also suggested for requiring at least one head of the underwriting syndicate to act as a sponsor for an initial public offering of shares. Please refer to the press release for details.

The deadline for responding to the consultation paper is 7 May.

### **HSIC's consultation conclusions on Hang Seng Index size and composition**

On 1 March, the Hang Seng Indexes Company Limited (HSIC) released the consultation conclusions on its proposals to enlarge the Hang Seng Index (HSI) and change its composition, in order to provide a more balanced representation of the market and ensure that the HSI remains "the most representative and important benchmark of the Hong Kong stock market."

The specific changes include:

- Increasing the number of HSI constituents to 80 by mid-2022 and to 100 ultimately.
- Selecting constituents by seven industry groups and reviewing the combination of the industry groups every two years.
- Shortening the listing history requirement of constituents to three months.
- Maintaining a minimum number of 20 to 25 Hong Kong companies in the HSI.
- Applying 8 percent weighting cap on all constituents for both HSI and Hang Seng China Enterprises Index.

The Institute's Corporate Finance Advisory Panel (CFAP) issued a submission in response to the consultation. A number of the CFAP's views appear to have been taken on board in the conclusions. Read more about some panel members' views in Second Opinions on page 14.

## **Taxation**

### **Institute's response to 2021-22 budget**

The government's 2021-2022 budget included various suggestions made by the Institute in its budget submission. The Institute considers that the government is right to be prudent on budget measures since the global economic outlook is surrounded by considerable uncertainty. However, the Institute recommends that the government continues to study broadening the tax base. While the Institute is generally supportive of the proposed distribution of consumption vouchers, it is important for the administrative procedures to be straightforward to accommodate the needs of different citizens. See the Institute's press release.

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- IRD will resume normal public services.
- Gazettal of Rating (Exemption) Order 2021 and Revenue (Reduction of Business Registration Fees and Branch Registration Fees) Order 2021.
- Gazettal of Revenue (Tax Concessions) Bill 2021.
- Tax measures proposed in 2021-22 budget and the further information 2021-22 Budget – Tax Measures.
- Legislative Council question on stamp duty on stock transactions.
- Legislative question on charitable foundations and charities.
- Legislative question on alleviating burden of tax.
- Profits Tax - What you need to know as a ship operator.
- Profits Tax Return - Fair Value Accounting.
- List of Qualifying Debt Instruments (as at 31 December 2020).
- Revenue (Stamp Duty) Bill 2021 gazetted.
- Stamp Duty statistics (January and February).

### Legislation and other initiatives

#### Announcements by the government

Members may wish to be aware of the following matter:

- Government to gradually loosen social distancing measures under Prevention and Control of Disease Ordinance.
- Government to resume normal public services.
- Government extends social distancing measures under Prevention and Control of Disease Ordinance.

- Government tightens infection control measures for fitness centres.

#### AML news

##### *FATF publication on high risk and other monitored jurisdictions*

The Financial Action Task Force (FATF) published a statement on 25 February regarding High Risk Jurisdictions Subject to a Call for Action, calling on its members and all jurisdictions to apply specific measures and actions on the Democratic People's Republic of Korea and Iran.

The FATF also issued a notice on Jurisdictions under Increased Monitoring, stating that 19 other jurisdictions have been identified to have strategic anti-money laundering/counter-terrorist financing deficiencies, and are working with the FATF to address these deficiencies.

##### *AML notices*

Updated list of terrorists and terrorist associates under section 31 of the United Nations Sanctions (Sudan) Regulation 2013 (Cap. 537 sub. leg. BF) was gazetted on 9 March. See the relevant United Nations Security Council (UNSC) press release.

The List of individuals and entities published under section 30 of the United Nations Sanctions (Yemen) Regulation 2019 (Cap. 537CI) and List of individuals and entities published under section 31 of the United Nations Sanctions (Yemen) Regulation 2019 (Cap. 537CI) was updated on 4 March. See the UNSC Resolution 2564 (2021).

The list of individuals and entities published under section 29 of the United Nations Sanctions (Somalia) Regulation 2019 (Cap. 537CG) was updated on 27 February. See the related UNSC press release.

The updated list of terrorists and terrorist

associates designated by the UNSC was gazetted on 24 February, pursuant to the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575). See the related UNSC press release.

The list of individuals, groups, undertakings and entities published under section 33 of the United Nations Sanctions (Central African Republic) Regulation 2020 (Cap. 537CM) was updated on 23 February. See the related UNSC press release.

The list of individuals, groups, undertakings and entities published under section 25 of the United Nations Sanctions (ISIL and Al-Qaida) Regulation (Cap. 537CB) was updated on 20 February. See the related UNSC press release.

The United Nations Sanctions (Somalia) Regulation 2019 (Amendment) Regulation 2021 was gazetted on 11 February.

For the current lists of terrorists, terrorist associates and relevant persons/entities under UN 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.hkicpa.org.hk](http://www.hkicpa.org.hk)

# PLANTING A SEED



Photography by Anthony Tung

Kaz Suen, Partner  
at Ben P W Hui & Co  
(CPA) Limited, helps  
out at his farm in Kam  
Sheung Road on most  
weekends.





**“We grow what is suitable for the time of year. In winter, we can grow a lot of green vegetables. During the summertime, we don’t grow as many but grow other produce such as watermelon or fruits.”**




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Farming can be a great way to get in touch with nature and unwind on the weekend. Two CPAs tell **Erin Hale** how they found their passion for farming and a way to give back to the community

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**K**az Suen started farming in 2014 as a way to relax and also supplement his diet. He was inspired by community farms he had visited while studying in the United Kingdom several years before and decided to try it out with friends, but he quickly found that his project became about more than fruits and vegetables.

“I’ve always liked to farm. It’s not only a hobby, but I would also say it is also a lifestyle to grow what you eat. I used to farm on a small piece of land with my friends back in 2014. We were farming for fun, but since we could not consume all the vegetables we grew, we decided to donate to members of elderly who lived nearby,” says Suen, Partner at Ben P W Hui & Co (CPA) Limited and a member of the Hong Kong Institute of CPAs.

“We thought of recruiting more recreational farmers like us – who farm for fun – scale up the volume of produce, and donate it to the elderly. We had a very good response and lots of people were keen to join us. Eventually, I set up Senior Buddy Charity Farm in 2017 and started running the farm.”

Suen then worked with eight local landlords and donors to compile a large landholding for the farm, which occupies around 100,000 square feet near Kam Sheung Road. Suen said the New Territories is the most convenient location as the area has lots of underused or unused agricultural land lying dormant.

“Most of the land in the New Territories belongs to local people. They are not farming at the moment

because they cannot maintain their living as full-time farmers, so there’s a lot of land for agriculture purposes not being used,” he adds.

The farm is currently operated by 500 volunteers who are divided into 50 separate groups to manage individual plots of land on the weekend and in their free time. Volunteers are entitled to half their produce while the other half goes to the farm for donations and to sell at its small store.

“We grow what is suitable for the time of year. In winter, we can grow a lot of green vegetables. During the summertime, we don’t grow as many but grow other produce such as watermelon or fruits,” he says. “We also follow traditional farming methods but practice organic farming, so we do not use chemicals. We want to grow naturally.”

### Green donations

After nearly five years of work, the farm now collaborates with 20 other non-governmental organizations and helps around 10,000 elderly people through food donations.

Suen says the farm is always welcoming new volunteers but it comes with some conditions. Volunteers need to sign on in groups of 10 with an elected leader, who communicates with Suen, and agree to work their plot of land for at least a year. Due to the time and social commitments, he said many of the volunteers are between the ages of 40 to 60.

For aspiring farmers who may not be able to make that kind of time commitment, Suen said they can also

attend classes at the farm to learn how to grow vegetables and fruits at home on a balcony or in a window and take a little bit of nature back home. “If you have a chance to visit the farm, you will understand it’s not hard to grow crops in Hong Kong, even if you have knowledge in farming and time to grow,” he says. “Our volunteers have picked up their skills very quickly because we have a lot of professional and experienced farmers in the field. All you need to do is get your hands dirty and ask.”

Additional classes include a course on the mental health benefits from gardening, another that teaches students how to make their own soups and brews from vegetables and herbs, and additional plant-specific classes every season.

Farming and gardening has brought Suen and his friends enormous mental and physical benefits such as having a healthy source of food to consume and a place to clear their minds. “I think that all human beings enjoy nature – even if

you do live in an urban city, you feel the need to be around greenery such as trees and plants. It’s in our blood and it makes us feel happy,” he says.

### Wealth in health

When Timothy Cheung began to struggle with asthma almost five years ago, he decided to try a form of traditional remedy that called for lingzhi mushrooms.

The brown fan-shaped fungi can be boiled into a tea or soup, or taken via capsule with other herbs to treat several different health conditions according to Chinese medicine, including asthma and cardiovascular related diseases.

Cheung was deeply impressed with lingzhi and wanted to share his experience with other people. However, he also observed during his research that almost all commercially available lingzhi came from either Mainland China or Taiwan. Aiming to provide Hongkongers with a safe, local and certified organic source, he decided to start his own business,

Mytianran, to grow lingzhi locally in the New Territories.

“Lingzhi supplements helped me with my recovery. I’m getting old, and to me, the most important thing is my health. If there is a business opportunity that can improve the health of other people and do something for them and for myself, I think it’s fantastic,” says Cheung, an Institute member. “In Chinese medicine, we believe our heart, liver, and lungs are all interrelated. Lingzhi balances the three and improves your immunity while providing anti-ageing benefits. It has been used as a supplement in traditional Chinese medicine for about 3,000 years.”

### Starting from scratch

Cheung was no stranger to a business challenge. Besides running his own CPA firm for 32 years, he also started a separate immigration consultancy 10 years ago. Cheung calculated that he could use some of his profits and professional experience to start up Hong Kong’s only lingzhi farm.



**“I’m getting old, and to me, the most important thing is my health. If there is a business opportunity that can improve the health of other people and do something for them and for myself, I think it’s fantastic.”**





Timothy Cheung founded his own lingzhi company Mytianran. He is pictured here at one of his farms in Sheung Shui.



Before he began, however, Cheung first had to learn more about the industry before he set up his project. “Once I decided to commit to this lingzhi project, I studied a lot online, read a lot of books and also talked with a lot of experts from lingzhi farms in China and also Taiwan to gain enough knowledge and experience. But there were a lot of challenges setting up my own farm because there is no other lingzhi farm in Hong Kong and no example here. We had to source everything from Mainland China or outside. It was very difficult,” he says.

Then he had to find a location, settling with land in Shatin that was not in use, and slowly built up his team. After five years of hard work, Cheung’s farm now grows five varieties of lingzhi and sells products online and at a shop in Wanchai. But Cheung said he’s not content to end there, having set his

sights on exporting to Japan and South Korea and developing a batch of new lingzhi-related products.

“We are not just looking to make supplements, but we hope we can apply lingzhi to daily food. For example lingzhi soup and also lingzhi tea. Right now, we are working on new products. We are testing out lingzhi mooncakes and also applying lingzhi to soft drinks and also noodles,” he said. “The point is that lingzhi is no longer just a ‘medicine.’ It’s a food and Chinese medicine and we hope we can apply it to all daily food.”

Cheung enjoys helping out with the day-to-day operations of Mytianran as much as he can, despite having to juggle his different businesses. “I’m heavily involved in every part of the company because I have to formulate my policies and solve problems together with all the staff. I oversee every division because

I know what I’m looking for and that’s important,” he says.

To improve public understanding of lingzhi, Mytianran has worked with the University of Hong Kong and Hong Kong Baptist University to engage in research on the medical benefits of lingzhi, with the aim of publishing research in academic journals. Prior to the COVID-19 pandemic, the company also regularly welcomed visitors to its farms and hopes to continue doing so in the near future, Cheung adds.

“We hope we can teach people more about lingzhi and how to use it in their daily life or to improve their health. When we opened the farm one year ago, a lot of school students and retirees visited my farm to learn about lingzhi and also visit its museum. There’s a lot of history and cultures to learn about as well as samples to try, so if they are interested in my farm, we are happy to host them.”





## YOUNG MEMBER OF THE MONTH

Gigi Pun

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# GIGI PUN

Financial Planning and  
Analysis Manager at  
Clarins Hong Kong





As a Financial Planning and Analysis (FP&A) Manager at Clarins Hong Kong, Gigi Pun is tasked with understanding the meaning behind the numbers, and then conveying this information to key members of management for them to make strategic decisions that will ultimately shape the business. She tells *A Plus* is most fulfilling about a career in FP&A and the skills CPAs need to drive change within the commercial sector

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

As a FP&A Manager at Clarins, I'm mainly responsible for preparing forecasts and the annual planning of profit and loss (P&L) statements. I'm also in charge of the company's financial reporting, budgeting, and provide monthly and quarterly analysis on the performance of different areas and operations within the company. At Clarins, we sell our products through our own shops, department store concessions and e-commerce channels. We have a variety of products including skincare and make up products. My role is to monitor how well these products sell through our channels, as well as the profit ratios and the productivity of each channel. I also need to research our brand ranking and how it competes with our competitors. I joined in June 2019, and I'd say the role is going well so far – I feel it has taken on more importance since I joined, as my analyses help our management with their investments and to formulate effective strategies. I also have to provide our stakeholders with financial insight.

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

The most challenging aspect is the need to react quickly to the market and business. I need to provide P&L simulations quickly and accurately in order to help management to make decisions. Another challenge is learning how to be a trusted business partner. As an FP&A Manager, being a business partner is important as we have to work on budgets and simulations with different departments. You also have to learn how to understand the challenges faced by other departments. This is done through listening to feedback. But what's most rewarding is driving changes. It's also satisfying to strengthen the company's internal controls – I was also involved in the implementation of the company's travel and expenses system.

**What inspired you to become an accountant?**

I've always liked dealing with numbers. This led me to attain my bachelor's degree in accountancy at university. When I began working, I found out that accounting is more than crunching numbers. It involves analysis, reporting and internal controls – all of which are important aspects to a business or a company. As accountants, we need to give meaning to numbers, as our findings help management to make decisions and formulate strategies. All of this has inspired me to pursue a career in accounting and strive to become a key business partner in the industry. I began my career in the commercial sector and have stayed since. I started as a financial graduate intern at The Walt Disney Company, then worked at L'Oréal – also in FP&A – before joining Clarins. By working in the commercial sector, you can really understand and witness the speed in which the market changes, especially within the retail industry. You'll also get really close to customers.

**What are the biggest lessons you have learned so far from work experience or managers?**

It would be learning how to be a problem solver and critical thinker. Finance professionals work in very fast-changing environments, so we need to be flexible and proactive when faced with different challenges. It's important for us to identify problems and react quickly. We also have to know how to think outside the box, work well with stakeholders and find the best approach to solving problems. As for critical thinking, we need the ability to analyse information objectively in order to make reasonable judgements and decisions.

**How do you think the Qualification Programme (QP) has helped you in your career so far, or prepared you for your current role?**

The QP is very important and a course that has greatly helped me in my career. All modules are useful – they taught me how to review and perform analyses on a company's performance from different angles. In addition to the technical knowledge gained, I've also benefitted from the QP workshops, which provide students with an opportunity to apply technical knowledge. We're also able to learn from the experiences of our peers and facilitators. I encourage other young members to be passionate about their job – you can really make a change through the accounting profession.



# SPOTLIGHT ON FAVOURITE MUSEUMS

Institute members recommend the best museums to visit on a weekend afternoon

## Hong Kong Heritage Museum

“If you want to explore the diverse cultures of Hong Kong, I recommend the Hong Kong Heritage Museum. You’ll be able to learn about Hong Kong’s ‘living heritage’ such as its cultural traditions through recordings and videos of everyday life. Don’t forget to spend extra time enjoying the scenery on the banks of Shing Mun River afterwards,” says So.

- Frenda So, a semi-retired accounting tutor



*The Hong Kong Heritage Museum*

## Madame Tussauds Hong Kong

“I recommend going to Madame Tussauds Hong Kong at The Peak. A fun wax museum for all ages, you get to see and take photos with music icons as well as famous movie and sport stars. If you’re feeling tired, grab a coffee and Hokkaido ice cream while taking photos at the Selfie Gallery,” says Wu.

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



*Madame Tussauds Hong Kong*

## Hong Kong Science Museum

“Hong Kong Science Museum has been my all-time favourite museum. It is a magical place that illustrates many scientific theories with simple everyday life examples and is also suitable for all ages. This is the kind of museum that stimulate people’s curiosity and creativity,” says Siu.

- Kinki Siu, Vice President, Sales Management and Strategic Planning at DBS Bank (Hong Kong) Limited



*Hong Kong Science Museum*



# EYES & EARS

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



Yiruma

## What I'm listening to

- Lawrence Leung,  
Director of Corporate  
Internal Audit at adidas AG

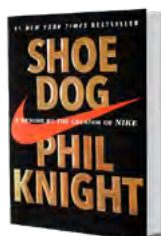
"I recommend Yiruma's music. Lee Ru-ma (stage name Yiruma) is a South Korean contemporary pianist and composer. One of his most popular songs *River Flows In You*, and my favourite *Kiss the Rain* exemplifies the minimalistic yet beautiful melodies that pull on one's heart strings. The music Yiruma writes helps me to overcome everyday challenges."

## What I'm reading



I enjoyed reading *兩城相信：致不甘絕望的你* by Edgar and Gabriel (張浩嘉、丘敬峰) a lot. It's an interesting book and I found comfort through the words of the authors and the exchange of letters between two friends. It really gives readers a glimpse of what a good companionship or fellowship is like.

- Sindy Li,  
Founder of Homing People



I recommend the book *Shoe Dog*, by Nike founder Phil Knight. You get a glimpse into Knight's life story, how he built a small business based on his passion for shoes and then grew it into a global company. Knight, who was actually a CPA himself before, writes about tapping into both his accountant and businessman side and how the two personas would sometimes conflict. Mark my words, this is not a boring memoir about someone's life from A to Z – it is a story about friendship, family and one's passion for shoes. Enjoy!

- Esther Cho, Engagement Manager  
leading the Skills Guild Programme,  
Amazon Web Services Korea



There is no doubt that Michael Jordan is the greatest of all time in basketball history. Roland Lazenby's *Michael Jordan: The Life* not only tells you the greatest moments of Jordan's NBA career, it also gives you a better sense of what drove his competitive mindset and why he was so obsessed with winning. What impressed me most is how he dealt with adversity – the constant losing and getting beaten up by the Detroit Pistons in playoffs, paying attention to all the little details, and working out the things he needed to do to take his skills to the next level.

- Sean Cheng, Senior Manager, Group  
Audit and Management Services of a  
global lifestyle brand operator

## Why royals can live like kings

Hong Kong's humorist on why it pays – rent, that is – to be royalty



**Nury Vittachi**

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A musician who achieved sudden success and was advised to get an accountant responded: “We’re not royalty!”

Innes Scott, a member of Scotland’s punk-folk band Peat and Diesel, assumed that the only individuals who need money specialists are monarchs.

In truth, many people need accountants – but Scott is right in believing that monarchs need them more than most. For historical reasons, royal finances tend to be as straightforward as overcooked spaghetti.

During Oprah Winfrey’s recent world-shaking interview and revelation about Prince Harry and Meghan (young people grumble about older ones!), readers asked this columnist to find out whether it was true that the poor old taxpayer was exploited to enable members of royal families to, er, live like kings.

Financial professionals who have looked at this say it’s not a simple question. The British royal family’s property portfolio was won through numerous battles by their ancestors: not boardroom battles, but the other sort, involving much axing of workforces (and not metaphorically).

This hard-won property bank earns a fortune, but it all goes to the public, with just 15 to 25 percent being returned to the Queen and her family, who earn it by doing public relations work for the United Kingdom. This appears to include the Queen waving from motorcades, Prince Philip going to public functions to make inappropriate comments, and their offspring fighting each other in television specials.

And talking of property banks, the whole of Hong Kong was originally presented to Queen Victoria and the Duke of Connaught as a land asset, of course, which is why you see their names everywhere and is the origin of Hong Kong’s government rent. Not all land is leased, and not all leases are for the same length of time.

The 1950 lease to the United States

Consulate included an option to convert it into freehold. The Americans ignored it. In 1999, they were given a 999-year lease.

Today, there are a few hundred buildings on plots with 999-year leases in Hong Kong, but the length of leases matters less than one might expect. Properties on lots with 999-year leases cost just 5.74 percent more than similar properties on lots with the more common 99-year leases, researchers say. So that’s basically 800 years of rent-free land right there.

And if you buy a property today? Your lease is tiny – just 26 years, until 2047, which is when the world ends (according to excitable people) or it doesn’t (according to Hong Kong’s business community, who now have vast numbers of deals rolling over past that date).

Meanwhile, the way Hong Kong is constantly rebuilt means there are lots of anomalies around. For example, The Mercer, a building in Jervois Street, is sitting partly on land which expires on 26 June 2842 and partly on land which expires on 15 January 2851.

So when those dates roll around, the owners may find themselves owning their kitchen and bedroom nine years longer than their toilet and living room. That could be awkward when you need to wash plates after dinner.

Of course, in 800 years, the world will surely have been devastated by war and climate change, so that may be the last of people’s worries. Humanity may have gone back to acquiring land in the old way, with (non-boardroom) battles in which corporate axemen downsize people’s workforces with real axes.

But accountants can take comfort that in one of the most ancient stories of great kings, the legend of the most famous Pharaoh of Egypt, it was his financial advisor, a man named Joseph, who organized tax collection in the land and became the most powerful person in the kingdom. He had a happy ending.

The Pharaoh, not so much. If British royals feel their lives are difficult, at least they didn’t have to deal with the Ten Plagues of Egypt.

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