



DRIVING BUSINESS SUCCESS

Issue 2 Volume 17 February 2021

**PLUS:
PROFILE**

Barry Dempsey, Chief Executive of
Chartered Accountants Ireland

ACCOUNTANT PLUS

Eugene Liu, Managing Partner and
Head of Consulting at RSM Hong Kong

SECOND OPINIONS

What should the top priority be
for accountants in 2021?

Special report:
An in-depth look
at developments
in the valuation
industry and
how CPAs can
join it

VALUATIONS: RECOGNIZING TRUE VALUE



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“We are confident that we will end the year having made considerable progress in enhancing the Institute to better serve members.”



Dear members,

Happy year of the ox. I hope you were able to enjoy some festivities in a socially distanced manner. While it was a shame we couldn't celebrate as we typically do, the loosening of social distancing restrictions since is sorely welcomed. With the vaccination drive also beginning this month, we can but hope that this was the last wave of the virus, and there will be no more stringent social distancing restrictions in the future. However it is important to remember that the pandemic isn't over yet. It is up to all of us to maintain good personal hygiene, care for ourselves and others, remain vigilant and stay healthy.

While we celebrated a restricted Chinese New Year, our counterparts in the Greater Bay Area (GBA) were able to come together to enjoy the festivities. I would have liked to join the Guangzhou Institute of Certified Public Accountants' celebration event, unfortunately travel was not feasible. Instead I filmed a special video message for them. I look forward to the time when we can easily travel around the GBA again, and work closely with our counterparts there on further developing the area as one of the world's leading economic regions.

The GBA was mentioned in the Financial Secretary Paul Chan's

budget on 24 February. The GBA is a unique opportunity for Hong Kong to contribute our specialist experience and knowledge, including that of our members, to the continuing development and future prosperity of our country. The budget had to balance supporting the economy and relieving individuals' burdens during the pandemic against the strained government's finances. With the hope that we are now riding out the storm, the financial secretary focused on a number of areas the Institute had recommended in its own budget submission including job creation and career transition assistance, and maintaining Hong Kong's status as an international commercial centre. I took part in the Institute's budget commentary forum with the media afterwards, and shared our views about the budget. You can read more about them in this month's thought leadership article on page 29.

Early in February, I took part in a "meet the media" session organized by the Institute. I discussed a wide range of topics including: the role of Hong Kong accountants in the GBA; the upcoming consultation on the one member, one vote election of the President and Vice-Presidents, and our hope that members will contribute their views to the consultation; the new task forces to investigate

issues of concern in the profession around long working hours and digitalization; handling legal issues for accountants such as right to check vehicle registrations and anti-money laundering compliance issues; and implementing the new Qualification Programme examinations.

This month we set up the second of the new task forces investigating specific issues. The Task Force on the Financial Reporting Council (FRC) Assessment on HKICPA, which I chair, will review and address the findings made by the FRC from their oversight review of the HKICPA performance of specific functions of the Institute. The task force will oversee the implementations of new policies and procedures addressing the recommendations, and liaise with the FRC about future reviews.

Finally, the Council held its annual strategy day in February, discussing how we are going to work diligently for our members, and work across the 10 focus areas the Leadership Team set out in our "First Letter to Members." We are confident that we will end the year having made considerable progress in enhancing the Institute to better serve members. The Leadership Team will keep members informed throughout the year.

Raymond Cheng
President

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Special report: A high value career





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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stakeholders every month.



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NEWS

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Institute's response to 2021-22 Budget



The 2021-2022 Budget includes 10 suggestions made by the Institute in its budget submission. The Institute considers that the government is right to be prudent on budget measures amid global economic uncertainties. However, the Institute recommends the government to continue to explore broadening the tax base. Although the Institute appreciates the distribution of consumption vouchers, the administrative procedures should be simple to accommodate the needs of different citizens. Read the Institute's press releases and budget proposals on the Institute's website and our response to the budget on p. 29.

Task Force on the Financial Reporting Council Assessment on HKICPA

The Institute has set up the Task Force on the Financial Reporting Council Assessment on HKICPA to review and address the findings of the Financial Reporting Council from their oversight

review of the Institute's performance in specific functions. Learn more about the task force on the Institute's website.

Submission to HKEX on increasing the Main Board profit requirement

The Institute issued a submission to Hong Kong Exchanges and Clearing Limited in response to the Consultation Paper *The Main Board Profit Requirement*.

Sharing of BCGA winners

Representatives of some awardees of the Institute's Best Corporate Governance Awards have recorded brief videos sharing the value of the Institute's awards to their organizations, and how they are developing and enhancing their corporate governance and sustainability practices. View the video on the Institute's website.

Recently qualified members may join the ICAEW at a special rate
Members who qualified through the

Qualification Programme in or after 2012 can apply to join the Institute of Chartered Accountants in England and Wales (ICAEW) at a special rate. Find out more about the scheme on the Institute's website.

Teen Money Management Survey 2020

In celebration of the 15th anniversary of its flagship community project, "Rich Kid, Poor Kid," the Institute conducted the "Teen Money Management Survey 2020" of primary and secondary students between September and November 2020. Based on the survey results, the Institute has developed a set of teen money management indicators. For details, read the press release and the report on the Institute's website.

Subscription to China Taxation Yearbook 2020

The China Taxation Yearbook 2020 is now available for subscription until 17 March.

Settlement

Hong Kong Institute of Certified Public Accountants settles regulatory proceedings involving a corporate practice and two certified public accountants (practising)

The Hong Kong Institute of Certified Public Accountants has settled regulatory proceedings concerning alleged non-compliance of its professional standards involving Elite Partners CPA Limited and two certified public accountants (practising), namely Chan Wai Nam, William and Edmund Siu.

The complaint concerns Elite's audit of the consolidated financial statements of a Hong Kong listed entity, China Household Holdings Limited, and its subsidiaries (group) for the year ended 31 December 2013, on which Elite issued an unmodified opinion. Chan was the engagement director and Siu was the engagement quality control reviewer.

The Financial Reporting Council (FRC) had referred its findings on the audit to the Institute. The group's financial statements included a material amount of exploration and evaluation assets, which were a new line of business for the group. Those assets represented a mineral mining operation in China, for which the group had only obtained exploration right for the mine but the official approvals for exploitation were pending. Elite failed to obtain sufficient evidence and prepare adequate documentation in assessing management's valuation of the assets, including their assumptions and methodology used in the relevant profit forecasts, notwithstanding that the project had been delayed for many years and there was an indication of a declining market for the minerals to be mined.

In 2013, the listed entity acquired a group of companies that provided virtual design and online trading services. As consideration for the acquisition, the listed entity issued convertible bonds which would be adjusted in each of the next three years with regard to a profit guarantee. Elite adopted inappropriate or inconsistent approaches in assessing management's valuation of the convertible bonds and profit guarantee which adopted a different measurement date for the bonds and was materially different from an earlier independent valuation obtained by management. Elite also

failed to adequately document audit procedures carried out on an intangible asset, being an online trading platform, which was acquired in the acquisition.

As a result of the above:

- (a) Elite and Chan failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - 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 500 *Audit Evidence*; and
 - HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- (b) Siu failed or neglected to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.
- (c) Chan and Siu failed or neglected to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants (Code of Ethics)*.

Settlement agreement: The Council of the Institute has agreed with Elite, Chan and Siu that:

1. Elite, Chan and Siu acknowledge the facts of the case and areas of non-compliance with professional standards;
2. The Institute will cease regulatory proceedings against Elite, Chan and Siu;
3. Elite, Chan and Siu be reprimanded; and
4. Elite, Chan and Siu jointly pay a financial penalty to the Institute of HK\$250,000 and make a contribution to the costs of the Institute and the FRC in the amount of HK\$314,493.98.

The Council considers that dealing with the matter by way of this settlement will achieve an appropriate resolution without incurring additional expenses and tying up resources in disciplinary proceedings.

The Disciplinary Committee, to which the complaint had been referred, was advised of the terms of the settlement agreement and agreed to the complaint being withdrawn.



CPD e-learning courses

The Institute has almost 550 online courses and programmes available through the [CPD e-learning course webpage](#), visit it to explore courses from the Institute and other leading CPD producers on topics ranging from corporate finance to management accounting and leadership skills.



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Disciplinary findings

Zenith CPA Limited, Cheng Po Yuen, CPA (practising) and Keung Yee Man, CPA

Complaint: Failure or neglect by Zenith to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, HKSA 500 *Audit Evidence*, HKSA 510 *Initial Audit Engagements-Opening Balances*, HKSA 570 *Going Concern* and HKSA 710 *Comparative Information-Corresponding Figures and Comparative Financial Statements*. Failure or neglect by Cheng to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics in conducting his duties as engagement director. Failure by Keung to carry out an adequate engagement quality control review in accordance with HKSA 220 *Quality Control for an Audit of Financial Statements*, and as a result she neglected to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics.

Zenith expressed an unmodified auditor's opinion on the consolidated financial statements of China Healthcare Holdings Limited (now known as China Health Group Limited), a Hong Kong listed company, and its subsidiaries (collectively, group) for the year ended 31 March 2011. Cheng was the engagement director and Keung was the engagement quality control reviewer.

The Institute received referrals from the FRC about deficiencies in the audit. The audit team failed to perform sufficient audit procedures and prepare adequate documentation in relation to the classification, recognition and measurement of certain convertible bonds and notes, convertible cumulative preference shares and share options. There were also deficiencies in audit procedures and documentation regarding the accounting treatment of a subsidiary in which the company's equity interest was below 50 percent, the preferred shares issued by the subsidiary and the related cumulative dividends. In addition, the audit procedures and documentation on assessing the group's ability to continue as a going concern were inadequate.

Decisions and reasons: Zenith and Cheng were reprimanded. In addition, Zenith, Cheng and Keung were ordered to pay a penalty of HK\$150,000, HK\$150,000 and HK\$10,000, respectively, and to pay costs of the Institute and the FRC totalling HK\$225,000 to be shared equally among them. When making its decision, the Disciplinary Committee took

into consideration the particulars of the breaches committed in this case, the regulatory records of Zenith and Cheng and the respondents' personal circumstances.

Yu Ching Hoi, CPA (practising)

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

Yu is the sole proprietor of Yu Ching Hoi & Company (practice). He is responsible for the practice's quality control system and the quality of its audit engagements. In 2015, the practice was subject to an initial practice review which identified deficiencies in its quality control system and an audit engagement selected for review.

A follow-up practice review carried out in 2017 found a number of deficiencies, some of which were the same as or similar to those found at the initial review. The deficiencies concerned audit procedures performed on turnover, expenses and accounts receivable, and Yu's failure to evaluate the impact of a repeated audit scope limitation on the practice's acceptance of reappointment as auditor. In addition, Yu failed to establish and maintain an adequate system of quality control to address effective monitoring, independence threats arising from the practice's provision of accounting services to audit clients, client acceptance and continuance, and engagement performance. Further, in the self-assessment questionnaire that Yu submitted for the practice review, he provided false or misleading answers on the quality control policies and procedures of the practice.

Decisions and reasons: The Disciplinary Committee reprimanded Yu and ordered cancellation of Yu's practising certificate with no issuance of a practising certificate to him for 20 months with effect from 8 February 2021. In addition, Yu was ordered to pay a penalty of HK\$50,000 and costs of disciplinary proceedings of HK\$164,448. When making its decision, the committee took into consideration the particulars of the breaches committed in this case and the parties' submissions and Yu's conduct throughout the proceedings.

Details of the settlement and disciplinary findings are available at the Institute's website.

HKEX NAMES NEW CEO

Hong Kong Exchanges and Clearing Limited (HKEX) has named Nicolas Aguzin as its new incoming chief executive. Aguzin, who will succeed current CEO Charles Li, takes on the role on 24 May for a period of three years pending approval from the Securities and Futures Commission. Aguzin, an Argentinian and permanent resident of Hong Kong, is currently CEO of JP Morgan's International Private Bank, and will be the first non-ethnic Chinese person to lead HKEX.



Photo credit: HKEX

HONG KONG TO TIGHTEN MONEY LAUNDERING RULES

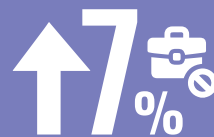
The Hong Kong government has proposed changes that would require financial institutions and advisors to conduct more stringent checks on the bank accounts and transactions of officials from Mainland China. The move, which will impose harsher sanctions on individuals found to be laundering money in the city, came as the Hong Kong Joint Financial Intelligence Unit suggested broadening the current regulatory regime to also apply to those outside of the territory. The plans will bring Hong Kong in line with recommendations made by the Financial Action Task Force. The Hong Kong Institute of CPAs responded to the consultation in January.



U.K. DIRECTORS FACE HARSHER PENALTIES AND BANS UNDER AUDIT REFORM PROPOSALS

Company directors in the United Kingdom could be held personally accountable for the accuracy of their company's financial statements under proposals to tighten corporate governance and audit oversight. The proposals, which are similar to Sarbanes-Oxley rules in the United States, include punishments such as fines and bans for company directors, and are currently being put through a consultation process. The reforms follow high profile corporate collapses including construction company Carillion in 2018 and café chain Patisserie Valerie in 2019. New rules to report environmental and social obligations such as climate risk are also expected to be introduced as part of the legislation, said sources familiar with the plans.

HONG KONG UNEMPLOYMENT RATE REACHES RECORD HIGH



Hong Kong's unemployment rate hit 7 percent in January, reaching the highest level seen in more than 16 years as the impact of the COVID-19 pandemic continues to batter the economy. The rate topped 6.6 percent, the previous record high recorded during the November-to-January period in 2004, according to a government report. Unemployment in the food and beverage sector also surged to 14.7 percent amid dining restrictions put in place due to a spike in COVID-19 infections beginning in November last year. The government, however, announced new relief measures during its 2021-2022 Budget on 24 February. Read about Institute's response to the budget on p. 29.

KPMG U.K. HEAD STEPS DOWN

FOLLOWING COMMENTS MADE DURING VIRTUAL MEETING

Bill Michael, KPMG's Chairman in the United Kingdom has resigned after sparking outrage for telling employees to stop complaining about the work conditions brought about by the COVID-19 pandemic. Michael, who has headed the firm since 2017, was speaking with members of the firm's financial services consulting team at a virtual town hall meeting on 8 February when he made the comments. The 52-year-old Australian announced that he would leave the firm at the end of the month, admitting that his position had become "untenable." Michael said in an emailed statement: "I love the firm and I am truly sorry that my words have caused hurt among my colleagues and for the impact the events of this week have had on them."

PWC U.S. TO OFFER FREE MASTERS DEGREE TO BLACK AND LATINO ACCOUNTANTS



PwC in the United States has partnered with Northeastern University in Massachusetts to create a master of accounting programme offered to black and latino accountants, in a move to drive better diversity and inclusion. The programme, which will be offered to 40 black and latino accountants from across the U.S. starting July, hopes to close the diversity gap in the accounting profession. Of the almost two million accountants in the country, less than 9 percent of them are black, according to the U.S. Bureau of Labour Statistics. "Our goal is to expand this programme so we can continue to open up opportunities in the accounting industry," said Leah Houde, Chief Learning Officer at PwC.



DELOITTE U.K. TO SELL RESTRUCTURING UNIT

Deloitte in the United Kingdom has announced plans to divest its restructuring services business to Teneo, a global CEO consulting and advisory company. The transaction, which is subject to regulatory approval, comes ahead of imminent legislation in the U.K. to force the Big Four to split off their audit arms to ensure independence. Deloitte U.K.'s restructuring service business is made up of more than 250 employees including 24 partners. "We are very excited to join Teneo and believe that this is the perfect home for our partners and people," said Daniel Butters, Head of Deloitte U.K.'s restructuring business, who will soon become head of restructuring for Teneo. "We have growth plans to scale our existing market leading business, clear support from our clients for our strategy and we believe that Teneo gives us the right platform to deliver this vision."



SHARES START TRADING ON NASDAQ

Shares of dating app Bumble began trading on the Nasdaq, following its initial public offering on 11 February, which saw the company trading up 77 percent at US\$76 a share under the ticker "BMBL." It priced its shares at US\$43 apiece, above its target range of US\$37 to US\$39, and sold 50 million shares, raising US\$2.15 billion. The company, which now has a market value of over US\$13 billion, was founded by Chief Executive Officer Whitney Wolfe Herd, who previously co-founded the dating app Tinder. At age 31, Wolfe Herd is the youngest woman to take a large company public in the United States.

EY AUDITORS TOLD TO TESTIFY OVER WIRECARD FAILINGS

A German court has ordered two EY auditors to testify before a parliamentary committee about their accounting work for now-insolvent payment processor Wirecard AG. EY were Wirecard's auditors when the company collapsed last year with US\$2.3 billion missing from its accounts. In a statement released by EY on 11 February, the ruling gives the firm more guidance about how much information it is allowed to disclose under professional rules. Previously, citing professional confidentiality rules, current and former EY partners involved in work for Wirecard had declined to fully answer questions regarding the matter. "We have always stressed that we're contributing to clear up the Wirecard case, but that we need a legally valid lifting of confidentiality rules," EY said in the statement.

CATHAY PACIFIC FLIGHT OPERATIONS DOWN 90 PERCENT FROM PRE-PANDEMIC LEVELS

Cathay Pacific has cautioned of "extremely challenging" months ahead as newly-proposed quarantine measures in Hong Kong hamper hopes of a recovery in the near future. The city's flagship carrier, which carried 981 passengers a day on average last month, revealed in its monthly business report that it started the year with the lowest rate of January passengers on record. The airline has been forced to eliminate 11 routes to Europe, North America and Asia. The quarantine measures, which came into effect on 20 February, could increase the carrier's monthly losses by HK\$400 million.

CITIBANK ACCIDENTALLY WIRES NEARLY US\$900 MILLION IN LANDMARK BLUNDER

Citibank in the United States will not be able to recover almost US\$900 million it sent to financial companies by mistake, a U.S. District Court judge has ruled. In August last year, the bank, which was acting as a loan agent for makeup brand Revlon, meant to send about US\$7.8 million in interest payments to the cosmetic company's lenders. Instead, Citibank accidentally wired almost 100 times that amount. Despite the court ruling the incident as "one of the biggest blunders in banking history," the judge ruled that the lenders will be able to keep the money because they could in good faith and with ample justification have understood the payment to be a full repayment on principal loan amounts. "We strongly disagree with this decision and intend to appeal. We believe we are entitled to the funds and will continue to pursue a complete recovery of them," Citibank said in a statement.



SPECIAL REPORT:

A HIGH VALUE CAREER



Valuations are playing an increasing role in business. Though the fundamental process – determining the current or projected worth of an asset of company – remains the same, new regulations have cast a spotlight on the specialism and the valuers working in the field. **Nicky Burridge** speaks to Institute members and valuation professionals about how the industry has evolved over the years, whether the new International Valuation Standards will have an impact on the profession, the skills and knowledge required to become an expert practitioner, and the pressing challenges that still lie ahead

Illustrations by Gianfranco Bonadies

Changes are taking place in the business valuations industry. A new framework has been developed by the Hong Kong Business Valuation Quality Initiative Task Force, of which the Hong Kong Institute of CPAs is a member, and aims to improve the competency and professionalism of valuers. At the same time, the International Valuation Standards Council (IVSC) has introduced a new set of standards in a bid to harmonize valuation practices worldwide.

Professionals who specialize in either the provision of valuations or the assurance of valuations play an important role in maintaining the quality of Hong Kong's capital market.

Spencer Tse, Valuation and Advisory Service Partner at PwC Hong Kong, points out that different capital market activities, such as initial public offerings (IPOs), fundraising and venture capital or private equity investments, all involve companies being valued. "The role of a valuer is not just to give a stamp, but to provide the capital market with an objective point of view," says Tse, who is a member of the Institute's Financial Reporting Valuation Advisory Panel.

Institute member Wiley Pun, Director at Savills Business and Financial Instrument Valuation, agrees: "Valuation practitioners help maintain the quality of Hong Kong's capital market by being credible and reliable, much like auditors and many other professionals." Eugene Liu, Managing Partner and Head of Consulting, RSM Hong Kong, adds that independent professional third-party valuation reports also play a key role in giving market confidence that a transaction is fair, particularly if it involves non-cash considerations, or has a complicated target, such as a technology company, or involves patents or mining rights. "Valuation makes an observable contribution to the fairness and efficiency of the capital market," says Liu, who is an Institute member (read more about Eugene Liu in Accountant Plus on p. 30). Rita Lau, Associate Director of Business Valuation, Valuation and Advisory Services at Colliers and an Institute member, concurs, noting that valuers also play an important role when there is a discrepancy in the expectations of price between the seller and the buyer, providing an objective valuation that serves as the guiding light for them and can help to narrow the gap.

THE NEED FOR VALUATIONS

Valuers play an important role in everything from mergers and acquisitions (M&A), to financial reporting, to capital raising, to restructuring and liquidations, to tax planning.

“Valuation analysts perform valuations for numerous purposes, such as for financial reporting to fulfil the fair value measurement, asset impairment, and expected credit loss required by accounting standards like the International Financial Reporting Standards,” Liu notes. “Listing rules require valuation reports or valuations to be provided or performed for IPOs, notifiable transactions, employee share options, convertible bond issuances, and transaction pricing for disclosures

and regulatory approval.”

He adds that tax authorities often require valuations for transfer pricing, gifts tax and estate tax purposes, while courts require valuations for a number of purposes, such as shareholder disputes, matrimonial disputes and estate disputes. “Sometimes, company management requires business valuations or project valuations for performance reviews or post-M&A management,” he says. Lau adds: “Management may also engage professional valuers to provide advisory work on their assets and business using financial modelling to understand how to maximize the potential of or get the best from their assets for their strategy, planning and corporate decision-making.”

Tse points out that while some valuations are carried out for internal reference, such as to be used as the basis for negotiations

for potential transactions, others are for external use and the report will be seen by other parties, such as in court cases, statutory valuations for Chinese state-owned enterprises, or disclosures for public circulars and prospectuses. He adds that for external use, valuers need to be careful to state the scope of work, as while clients may understand the limitations of conducting a valuation, external parties, including the general public, may not.

Pun explains that while business valuation work may be carried out for numerous purposes, the objective is often to meet compliance and governance requirements, such as financial reporting, listing rules, internal control, or court requirements. He adds that there is a misconception that valuation is only needed for big corporations or listing rules, when it actually can be required for companies of various sizes.

A BOOMING BUT FRAGMENTED INDUSTRY

The professional valuations industry is currently enjoying a boom in Hong Kong. Liu explains that a combination of increasing fair value requirements in financial reporting standards, regulatory tightening and concerns about the fairness of transactions, as well as growing capital market awareness of the important role of valuations, have all driven an increase in demand for the services of professional valuers. “Many audit firms have set up an internal division for valuation audit and consulting, and many independent valuation firms have

also been established in recent years to bridge the gap between booming market demand and limited supply in Hong Kong,” he says.

Lau adds that the rise in corporate transactions, such as M&As and divestments, as well as the growing importance of intellectual property to businesses, especially new economy companies, and adoption of fair value measurement in the financial reporting framework are driving demand. “The negative effects of COVID-19 on business activities and economies may result in indicators of impairment for many entities and may cause more entities to perform valuations relating to impairment testing for non-financial assets for financial reporting purposes.”

But the industry is not without

its issues, and Liu points out that there are no regulatory requirements for setting up a valuation firm in Hong Kong, meaning the barrier to entry is not comparable to licensed corporations, despite the important role valuation plays in the capital markets. Pun adds: “It does not have a central regulator, and quality diverges. There are also limited avenues for complaints due to the lack of a central regulator. There is no entry barrier for anyone to claim they are a ‘qualified’ valuer.” He points out that other parties that use valuations, such as directors, auditors and financial advisors, are all subject to regulation by their respective bodies, but business valuers are largely unregulated.

Tse describes the industry as being highly fragmented. He highlights the fact that in other

markets, such as the United States, companies have to follow strict guidelines in the way valuations are carried out. The situation means these companies are prepared to spend more when hiring valuers to do work for them, compared with Hong Kong, where companies may be more price sensitive. “The quality of the valuation depends on how much work the valuer does, and how many questions they ask the client about the information they need. Many firms try to do valuations in the most cost-efficient way, which makes it challenging for firms that are self-disciplined and impose a lot of policies and guidance to train people,” he explains. Tse adds that at PwC all valuations have to be approved by a senior partner before they are released to the client, while more partners are involved if the valuation is for a public disclosure for a listed company. But he points out that not all firms have the resources to conduct this type of quality control.



A COMPETENT FRAMEWORK

In a bid to address some of these issues, the Hong Kong Business Valuation Quality Initiative Task Force was set up, led by the IVSC, and including a number of industry bodies, such as the Institute, the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Chamber of Hong Kong Listed Companies. In July 2019, it published a consultation paper on a proposed framework to improve standards and professionalism

in the industry, covering ethics, competency and continuing professional development, as well as setting out technical standards and a performance framework.

Tse welcomes the initiative as a “good first step,” but says: “We would like the regulators, such as the Securities and Futures Commission and Hong Kong Exchanges and Clearing, to be more active and to play a key role to push the industry to follow guidelines and be responsible for the work it does.”

Although he adds that the valuations industry is relatively new in Hong Kong, compared with other developed markets, and it will take time for it to become a more

regulated environment.

Felix Wong, Principal at Ascent Partners and an Institute member, agrees that the work of the task force is helpful, but adds that there is still more to do. “Just setting up a task force is too simple. It is the next step in how the framework is launched and monitored that is important. Frequent communication with the market, and listening to and addressing the market’s needs should be considered,” he says. He suggests the task force should consider its next step, for example providing guidance on new issues such as how to value cryptocurrencies and other digital assets.

“The role of a valuer is not just to give a stamp, but to provide the capital market with an objective point of view.”

NO SINGLE APPROACH

While there is no single valuation methodology, generally accepted methodologies include an income approach, market approach and cost approach. Liu at RSM explains: “An income approach involves discounting streams of future economic benefits and costs to arrive at the present value of an asset or liability. The key factors are the reliability of the amount and timing of the economic benefits and costs, and the appropriate estimation of the discount rate. “A market approach involves benchmarking against comparable transactions or comparable companies and is based on valuation multiples, such as price-to-sales, price-to-earning, and price-to-books ratios for valuing the subject item.”

He points out that when using this method, the screening and selection of comparable transactions is crucial, while a detailed understanding of the subject and comparable companies is also important. “A cost approach is based on the concept that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. It provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical

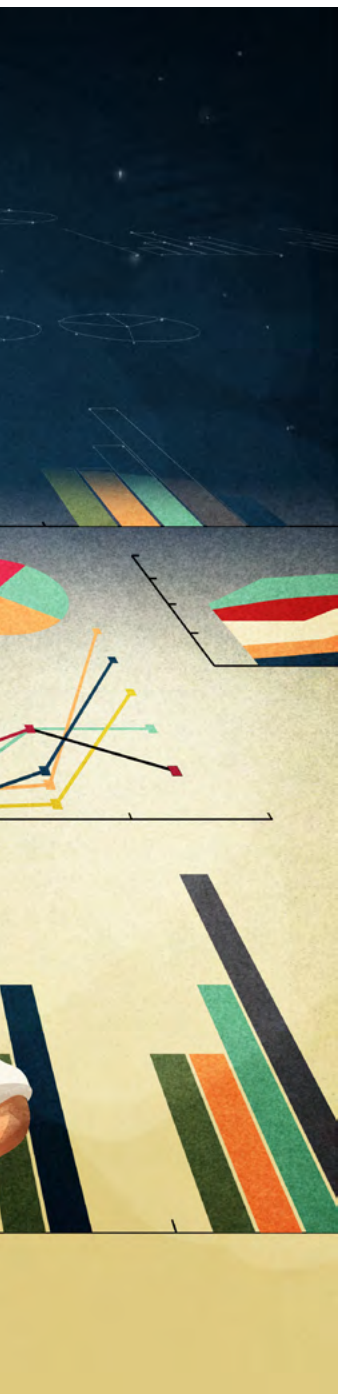
deterioration and all other forms of obsolescence,” he explains.

Pun at Savills adds that within these approaches, there are a range of other sub-methods that are used. “These are mainly the discounted cash flow method, guideline public company method, guideline transaction method and summation method,” he says. Wong points out that different methodologies will be appropriate in different circumstances to establish the fair value of an asset. But he adds that traditional methodologies are often difficult to apply to new economy companies that may not be generating a revenue yet. “In these cases, we discount by the risk associated with the company and reference other deals in the market. Valuers need a lot of market knowledge and access to services such as Bloomberg and listed company announcements. They need to be very commercialized to know what has happened out there,” he says. Lau at Colliers points out that as no one method is suitable in all circumstances, valuers need to consider the terms and purpose of the valuation, the strengths and weaknesses of the different approaches, their appropriateness in terms of the nature of the asset, and the availability of reliable information that is needed to apply the various methods when deciding which one to use.

While there is no single set of valuation standards that is recognized worldwide, the latest edition of the International Valuation Standards (IVS)



marks an important step towards harmonizing valuation practice worldwide. The set of standards includes five general standards, which apply to all valuations, and six asset-specific standards covering areas such as intangible assets, businesses and business interests, plant and equipment, and financial instruments. Lau considers it to be a significant milestone. “IVS are universally accepted standards for the valuation of assets, including



“The latest edition brings greater depth to the IVS, as recommended by member organizations, including the major accounting firms and valuation professional organizations.”

business and intangible assets, across the world in the public interest. The latest edition brings greater depth to the IVS, as recommended by member organizations, including the major accounting firms and valuation professional organizations. It will serve as the key guide for valuation professionals globally,” she says. Tse at PwC adds: “The efforts of the board of IVSC have been well recognized and now more and more countries recognize the IVS. The adoption of IVS is still uncommon in Hong Kong, but I do see some valuers refer to the basis of value per IVS for particular engagements. It is a step in the right direction, but it will take time before it is comparable to accounting standards and there is a globally accepted standard worldwide.”

A DAY IN THE LIFE OF A VALUATION PROFESSIONAL

Valuation professionals have busy but varied days. Unsurprisingly, the typical day of a valuer differs significantly according to their role. Spencer Tse, Valuation and Advisory Service Partner at PwC Hong Kong, points out that an analyst will typically spend their day doing research, financial analysis and financial modelling, while a manager will be engaged with project planning, meeting and calling clients, reviewing work done by analysts and writing reports. Directors and partners are more involved in business development, as well as coaching their team and reviewing the work done by subordinates. Tse says: “I do a lot of marketing and meeting with clients, particularly those in acquisition mode. The role of a valuer is now transforming from being a pure valuer to a deal advisor.”

Like auditors, the work of valuation professionals has a peak season, typically from January to March, and from July to August. Rita Lau, Associate Director of Business Valuation, Valuation and Advisory Services at Colliers, says: “The schedule is packed every working day during the peak seasons when the team is working hard to meet the agreed deadline for business valuations used for listed companies’ financial reporting purposes.” Lau typically begins her day by reviewing her emails and checking her meeting schedule. Next, she has discussions with her team about the status of their various engagements, as well as any market updates or valuation issues, before preparing material for meetings with different clients. Most of her day is taken up with meetings. At the end of the day, she holds another discussion with her team to review their work. She pays particular attention to their replies to questions raised by second valuers, who are engaged by clients’ audit teams for financial reporting purposes. “If the business valuation is used for a public transaction, there are frequent conference calls with other professional parties, including auditors, lawyers, financial advisors, and the management team, so that we can work closely to meet the tight schedule,” she says.

Wiley Pun, Director at Savills Business and Financial Instrument Valuation, also starts his day by checking to see if there are any updates from clients and colleagues on existing projects and ensuring that engagements are progressing well. He then typically reviews the work and reports of his colleagues, and holds discussions with clients, auditors and their specialist review teams for more complicated projects. “As valuation is a highly judgemental subject, we keep the dialogue open to exchange our views to ensure consistent understanding between all three parties,” he says. When a new project comes in, he reviews the valuation subject and identifies the key areas of risk, as well as commenting on the scope of the engagement and the fee. Pun also makes time to read business news, as well as various valuation and accounting newsletters he subscribes to, ensuring he remains up to date with market developments. “Since we cover a wide spectrum of industries and given the interconnectedness of the economy nowadays, we need to read broadly to ensure our valuation opinion remains relevant in today’s fast changing world, and to spot business opportunities,” he says.

INSTITUTE OFFERS NEW COURSE ON VALUATIONS

This year, the Institute is offering a brand new course on valuations, the Business Valuation Programme, in collaboration with Savills Valuation and Professional Services (S) Pte Ltd., a global real estate services provider actively involved in setting valuation standards. The programme will guide participants through performing valuations, including the relevant International Valuation Standards and their interactions with financial reporting standards.

The programme includes a mix of live and e-learning sessions. There are 11 compulsory modules covering the fundamentals of valuations, valuing transactions, financial reporting valuations, and the application of valuations. There are also four elective modules covering valuing financial instruments, property, plant and equipment, and biological assets. Participants are required to take two elective modules as part of the programme.

The pilot intake of the programme will be held in April to June 2021, and will then be run twice-yearly. For the pilot, all live modules will be conducted via Zoom. Look out for more details on the programme on the Institute's website and *CPD Highlights* weekly email.



A RANGE OF CHALLENGES

Professional valuers face a number of challenges in their day-to-day work, ranging from keeping up to date with best practices to the increasing need to value new economy companies. Liu points out that as a lot of fair value measurements evolved from financial reporting standards, and as a result, in addition to their day jobs, valuers also need to attend seminars, workshops and forums after office hours to keep up to date with those standards, as well as of what is happening in the wider market.

Valuation professionals also need to make assumptions behind the figures they use in calculations. “We need to make sure they are reasonable so as to make the output reasonable, meaningful and useful. For us to be able to assess the reasonableness of the assumptions and inputs, we are required to be familiar with not only the relevant accounting and financial knowledge, but also some industry knowledge, such as the value of a patent, or a new drug,” Liu explains.

Another challenge is the need to value intangible assets and new economy companies.

Wong thinks the main challenge in valuing intangible assets relates to the transparency of the data and information that is available on them. He adds that valuing new economy companies, such as biotech firms or other technology companies that are pre-revenue generating can also be difficult, as valuers have to look at company’s technology and how much revenue it could generate in future, as well as referencing market transactions of similar companies. “A lot of start-ups can be overpriced and investors still need a guideline,” he says.

Tse says one of the biggest challenges involved in valuing new economy companies is understanding their business model and how they will make money in the future. He explains that valuers have to consider factors such as the company’s potential future market share and the competition it will face, as this will affect the sustainability of its growth and profitability. “We don’t have a historical track record as these may be start-ups, so deciding whether their performance can be sustained in the longer term is a challenge,” he says. Tse adds that in order to overcome these issues, valuers tend not to rely on just one valuation method, but rather use different methods and different scenarios to test which factors are most important in terms of their impact on the company. He points out that while for traditional companies, practitioners will normally come up with a valuation range of 10 percent to 30 percent, while for new economy ones, the range is typically wider at 40 percent to 50 percent.

For Pun, the biggest challenge business valuers face is uncertainty. “Business valuations often make use of financial projections, especially those using an income approach and sometimes a market approach. How to factor in the uncertainty embedded in these financial projections is the most difficult part of our work,” he says. He adds that another significant challenge is benchmarking when using the market approach. Pun explains: “Even if good, comparable public companies exist, they often have some differences from the subject company being valued. Assessing and explaining the differences in valuation levels among the companies requires lots of analysis and judgement.”

Wong agrees, pointing out that each transaction is different. “For

certain types of assets, such as bonds or listed stocks or instruments issued by banks, valuations can be done in a straightforward way using a standardized methodology, but valuations can be complicated for other assets. The valuation of a bank will be very different to the valuation of a pharmaceutical company, for example,” he says. “With a bank you would look at cash flow, financial information, whereas with a pharmaceutical company you would look at the potential drugs or other research and development in the pipeline with respect to the forecasted timeline to launch. You cannot just use a straightforward international standard; you need to go into the details of each company, such as its management, its revenue stream, how diversified it is, whether it is the market leader, and the downside risks it faces.”

He adds that while the IVS guidelines issued by the IVSC give valuers rules to consider in general, they cannot always be adopted, and some judgement is still necessary. Wong points out that the COVID-19 pandemic had also affected the approach professionals need to take when valuing certain businesses. He gives the example of the impact successfully developing an effective COVID-19 vaccine can have on the valuation of a pharmaceutical company. Lau agrees that the pandemic has created new challenges. “During COVID-19, companies in the same industries may be impacted differently because of decisions made by their management. When performing a business valuation, it is crucial for professional valuers to understand the management’s strategy and business plan, the industry development in which the subject company has business operations and the financial performance of comparable companies,” she says.

“Valuation practitioners need to have financial and accounting knowledge, a fair understanding of the business being valued, a little bit of tax knowledge, some modelling skills, and some understanding of valuation techniques for different types of assets.”

MAINTAINING SCEPTICISM

Unsurprisingly, given the varied nature of their work, valuation practitioners need a wide variety of skills and attributes. Pun points out that valuers need to be strong in numbers, interested in business and valuations in general, and have good communication skills. He adds that valuations professionals also need to keep up with new trends, such as the emergence of new economy businesses, or the impact environmental, social and governance factors can have on valuations, as well as maintaining a good awareness of the interaction between the micro and macro economy. Strong ethical standards are also important. Pun explains: “Similar to auditors who are often pushed by clients to issue a clean audit opinion, valuers often face pressure from clients to reach a certain level of value.” Finally, he suggests valuers should be curious, have professional scepticism and be good multitaskers.

Wong at Ascent Partners agrees that accountants have the skills and personality attributes needed to be successful valuation professionals. “On the technical side, they need to be good at doing research and crunching numbers, and they must be very detail-orientated and have a high level of technical knowledge.

“They also need good social skills to be able to communicate with clients. A lot of transactions require discussions with clients, such as on the background to the transaction and what they hope to achieve,” he says. Wong adds that valuers must also be good at working under pressure, as sometimes clients require valuations to be turned around quickly, often in as little as 10 days in the case of M&As. Finally, he points out that for some transactions, the client may not be able to supply the valuer with all of the information they require, so the valuer must be able to find what they need themselves. “You must be versatile to come up with more information and find the optimum approach to valuing a particular transaction,” Wong says.

Tse says: “While some people will say valuation is an art rather than a science, to do a proper valuation, valuation practitioners need to have financial and accounting knowledge, a fair understanding of the business being valued, a little bit of tax knowledge, some modelling skills, and some understanding of valuation techniques for different types of assets. “They must be open minded, interested in continuous learning, have an analytical mindset and good communication skills. They should also be interested in understanding the investment world and capital markets.”



On top of the technical skills they require, Liu says valuation practitioners need to maintain a cautious and sceptical mind throughout. “You always need to be cautious in terms of the accuracy of the inputs you are using and the appropriateness of the valuation methodology you are adopting. In addition, you need to have a sceptical mind about the financial forecasts and operating performance of a business that the business owner or manager might give you.”

For CPAs interested in becoming a valuer, particularly those who currently work in audit, Lau says:



“More and more employers consider candidates with auditing experience that can help them to communicate with the client’s audit team more effectively. The knowledge and experience gained from auditing can be an invaluable asset, however, they should open their mind to new ideas.” She adds that with the valuation of financial instruments becoming more common, they should also be prepared to study finance, even becoming a Chartered Financial Analyst, to improve their career prospects, particularly if they are considering moving to a private equity firm in the future.

Wong adds that a sound accounting and financial knowledge will also enable valuers to read and understand financial statements. As a career, Tse thinks the continued growth of the financial and capital markets in Hong Kong, along with the development of the Greater Bay Area provides great opportunities for valuations professionals.

Lau adds that people interested in becoming valuers should also familiarize themselves with some of the tools used. “During the valuation process, we will collect market and financial data depending on the nature of

the valuation subject from data providers such as Bloomberg, Capital IQ or Thomson Reuters Refinitiv Eikon for analysis, which is the key part of the valuation workflow. New joiners can learn more about different platforms and terminals through on-the-job training or training courses provided by representatives of data providers. Since it is common for us to analyse data in Excel with Excel formulas and tools and to build complex financial models, proficiency in Excel will greatly speed up the workflow.”



SECOND OPINIONS: WHAT SHOULD THE TOP PRIORITY BE FOR ACCOUNTANTS IN 2021?

“Accountants need to be vigilant and forward-thinking in order to come up with appropriate strategies and plans to deal with expected difficulties and problems.”



CLEMENT CHAN

MANAGING DIRECTOR OF ASSURANCE, BDO
AND PAST INSTITUTE PRESIDENT

2020 was an unprecedented and challenging year for all of us, regardless of our background and profession, brought on by the disruption caused by COVID-19 pandemic.

The most notable disruption caused by COVID-19 was the implementation of various travel restrictions and social distancing rules worldwide to stem the spread of disease. This lockdown and disruption of normal lives and economic activities have caused a tremendous impact on everyone. With this in mind, accountants – who are not immune to change – can consider the following points below to help businesses navigate disruption.

Financial reporting timelines. Because we live in a highly integrated and globalized world, we see a lot of multinational corporations with global business presence and listing status. With various reporting timelines required by different exchanges and regulators, both accountants in practice and business can face a tough job in meeting different reporting deadlines, especially amid COVID-19-related work from home measures. Accountants have to take these differences into account and prioritize their time well to still meet deadlines amid disruption.

Business impact. Almost every industry has been impacted by COVID-19 in one way or another. Accountants need to be vigilant and forward-thinking in order to come up with appropriate strategies and plans to deal with expected difficulties and problems. Some common examples include using their skills to help businesses manage cash flow, arrange temporary bank credit lines, and handle short-term breaches of loan covenants.

Financial reporting standards. Accountants need to make the right judgement on accounting issues concerning financial reporting standards when preparing financial statements or auditing them. This includes different accounting issues based on the new and changing areas such as impairments to do with existing businesses or investments, going concern assessments and the consequential accounting policies and treatment, appropriateness of accounting policies and estimates so on.

Forward planning. Last but not the least, the pandemic has also forced people to rely more on virtual communication. Accountants need to be aware of the relevant technologies and software available and use them effectively in order to maximize their workflow and help clients with their IT transformation journey.



FRANKIE LEUNG
MANAGING DIRECTOR,
ALVAREZ & MARSAL
AND AN INSTITUTE MEMBER

No longer are accountants solely focused on pure accounting matters. Their roles have expanded into advising on non-accounting issues such as regulatory requirements, internal controls and compliance culture. This trend looks set to continue well into 2021 and beyond.

As accountants play the key role of gatekeeper for businesses, they can ensure internal controls are strong enough to detect and prevent misconduct. By working together with compliance personnel, accountants can identify potential gaps and come up with risk-mitigating strategies to help an organization's financial and auditing systems. This, however, is not an easy task in current times, as the COVID-19 pandemic has led to more related fraud and cybercrime risks across all businesses.

This can stem from employees working remotely or organizations branching into e-commerce, for example, as this may expose businesses to digital fraud risks. The adoption of virtual methods for approval processes such as expense reimbursements and third-party payments may also pose additional risks due to a lack of proper supporting documentation. Therefore, accountants must stay up-to-date with the latest threats and mitigating strategies in order to direct their organizations in responding effectively and swiftly.

Accountants must also keep abreast of technological developments such as remote investigative tools and improved data monitoring systems, as this will help them solve compliance challenges and strengthen internal controls. This is particularly important as regulators are implementing stricter measures with larger fines and an increasing focus on individual accountability. I believe more financial institutions and organizations will be fined by regulators for non-compliance breaches, particularly in failing to put in place adequate internal controls for risk management transgressions in the COVID-19 era.

Accountants should set a good compliance culture tone, as culture and ethical standards are critical to achieving risk reduction across all businesses. Regulators are increasingly putting culture on their radar as they can see that culture directly influences conduct within companies. Accountants must also bear in mind that merely having a compliance framework is not sufficient. An organization with a weak culture that engenders unethical behaviour is likely to fail, despite having a documented compliance framework. Accountants can help align commercial goals with those of compliance, as they play a key role in ensuring challenging financial targets do not erode a strong risk management culture.

“Accountants must also bear in mind that merely having a compliance framework is not sufficient.”



KEVIN FITZGERALD
MANAGING DIRECTOR - ASIA,
XERO

Over the past 12 months, accountants and their clients have faced unprecedented challenges and uncertainty with significant financial pressures and impact. This uncertainty is likely to continue through 2021, despite the roll-out of vaccines. To help their clients weather these challenges and emerge stronger, accountants should prioritize two areas for success in 2021 and beyond.

Take advantage of digital tools. During the pandemic, digital tools played an important role for businesses facilitating communication and collaboration in the midst of lockdowns and significant interruptions to life and work. Accountants who embraced digital transformation for both themselves and their clients were able to continue to operate, advise and add value through digitization of accounts, records and processes and prevent significant disruption to their day-to-day businesses throughout 2020. Accountants should prepare by making sure they have the right technology in place for future change.

While we are seeing life begin to return to a semblance of normality, it is likely that the way we work has changed permanently. Digitalization will be a key advantage for organizations to improve accuracy, productivity and visibility, enabling them to plan their resources and make more informed decisions impacting the future of their business and future proof it.

Provide additional value through advisory. Professional accountants in practice can offer greater value to their clients by providing insight and analysis to help their clients plan for the future. Today, business owners need more than a top level view on their business performance and a tick of approval on compliance. Accountants can help their clients capitalize on opportunities where they exist and minimize the impact of speed bumps in the road ahead through more accurate business planning. Accountants have a unique ability to translate raw financial figures into qualitative or even predictive insights that aid with decision-making.

None of us can predict exactly what 2021 will hold, but what is abundantly clear is that this year will be a defining moment for accountants who make the decision to digitalize, and diversify their offering. These accountants will be better equipped to see out and succeed through these turbulent times.

“Accountants have a unique ability to translate raw financial figures into qualitative or even predictive insights that aid with decision-making.”



DEVELOPING FUTURE LEADERS

Since 1 January, businesses on the island of Ireland and the accounting professionals working for them have been confronted with a starkly different trading landscape brought by Brexit. This is just one of several issues that Barry Dempsey, Chief Executive of Chartered Accountants Ireland, is focused on. He talks to [Nicky Burridge](#) from his Dublin office about his plans and vision for the organization – a fellow member of the Global Accounting Alliance – and its diverse membership

Photography by Mark Duggan

A background in managing a fashion business, a hairdressing chain and two health charities, may not seem like obvious preparation for taking the helm at Ireland's largest accounting body. But Barry Dempsey, Chief Executive of Chartered Accountants Ireland (CAI), points out that these organizations actually have a lot in common.

From having an education mandate, to a need to deliver continually high-quality services across Ireland, Dempsey considers his experience in the private and non-governmental organization (NGO) sector to have set him up well for his current role.

Dempsey's first management post was as managing director of Traffic Group, a fashion manufacturing and retail business in Ireland and the United Kingdom. He then spent five years as chief executive of the Irish Cancer Society, an NGO providing patient care, information and support, and conducting research into cancer. His next move was to become managing director of Peter Mark, the largest high street hairdressing chain in Ireland and one of the largest privately-owned hairdressing businesses in Europe.

After 10 years at Peter Mark, he took up the post of chief executive at the Irish Heart Foundation, which offers support to patients with heart problems and conducts research into heart conditions and strokes, before moving to CAI four years ago. “We are an all-Ireland entity, so our member services, our education, our support for members has to work in a town in Northern Ireland, as well as [rural locations like] Dingle in [the Republic of Ireland county] Kerry,” he says.

“The trends that are common to all of the organizations I have managed is that there were numerous different stakeholders to be aligned. For three out of the four, there was also the need to deliver services of a consistently high quality with consistent volumes in remote locations around the country.”

Another common thread has been providing education. Dempsey explains that Peter Mark was the largest educator of professional hairdressers on the island of Ireland with its own training schools and academy, but when he took over as managing director, it did not offer any ongoing professional development. “Once people were qualified, it was down to them to develop their customer skills, marketing skills, and fundamental fashion and hairdressing skills on their own, which left a lot of variability in quality.

“Continuing professional development (CPD) is a way of not only elevating standards, learning and understanding, but also of retaining consistency throughout your profession and not leaving a vacuum for variability to arise, which is the same reason we have it in CAI and also the Irish Heart Foundation and Irish Cancer Society, which both have education dimensions to them.”

Dempsey’s time at Peter Mark taught him about managing people. “It had 23,000 to 24,000

individual customers going through it every week, all very vocal and all with opinions.” He adds that he encountered more stoic resilience from people suffering physical illness while he was at the Irish Cancer Society than he did among those who had been given a bad haircut.

Alongside his work in the commercial and NGO sector, Dempsey also serves as a council member of the Irish Management Institute, which is where he first came into contact with CAI. Despite not being from an accounting background himself, the role of chief executive strongly appealed to him. “I was intrigued by chartered accountants’ involvement in almost every aspect of business and in most investment decisions. The different dimensions of the role, including education and the regulatory responsibilities – the operation of which were new to me – made it an exciting challenge. It is also an extraordinarily enjoyable profession to work with,” he says.

A new strategic plan

CAI is more than 130 years old and has around 29,000 members in both Ireland and Northern Ireland, as well as overseas, including in Hong Kong. Its membership grows by around 900 people every year. Its work ranges from providing pre-qualification education to people entering the profession, to offering support and assistance to members, to providing opportunities for CPD.


Dempsey is currently overseeing the introduction of a new strategic plan, dubbed “Strategy24,” which aims to ensure the organization remains relevant to its members. He explains that a key challenge is keeping members close to CAI as their careers evolve, particularly as some members are no longer working as practising accountants, with many going on to become entrepreneurs,

work in the not-for-profit sector, or in other walks of life. “These roles mostly have a leadership aspect. The CAI can support them with CPD and lifelong learning covering approaches to leadership, organizational management and other broader areas. Also, they have the exceptional member network to leverage,” he says.

At its core, the new strategy focuses on how to enhance the sense of belonging to the CAI among its members rather than products and services. Before creating the strategic plan, Dempsey led an extensive consultation among members and stakeholders, ensuring the views of different groups, including young members, women, members in business, and members in practice were heard. CAI also incorporated design thinking into its approach, with staff, members, stakeholders and external experts taking part in workshops together, leading to some highly collaborative suggestions and solutions.

At the same time, it set out to define what the future it was planning for might look like over the next five to eight years, identifying four key focus areas. The first area is technology change, which it believes presents both threats and opportunities for chartered accountants. Dempsey explains: “One of the big drivers for the profession is technology change, such as artificial intelligence, automation, cryptocurrencies and big data analytics. Accountants

“We are an all-Ireland entity, so our member services, our education, our support for members has to work in a town in Northern Ireland.”



As Chief Executive of Chartered Accountants Ireland, Barry Dempsey oversees the growth of its membership. He has been focused on the introduction of its new "Strategy24" strategic plan, which aims to ensure the CAI remains relevant to its members throughout their careers.

are at the forefront in the adoption of technological innovations in organizations, with tools like advanced analytics and machine learning already driving efficiency and operational effectiveness. Our members also play a vital trusted role in making accurate, useful and reliable sense of the large volumes of data available – which makes strategic business decision-making possible." CAI helps its members keep up to date with technology change through its structured education programme, which offer certificates or diplomas. "Each

year we also convene a Technology Conference. Last month, over 1,200 participants gathered virtually to learn about the latest trends relevant to the profession," Dempsey says.

The second area focuses on changes to the way education is delivered, shifting away from the traditional model of face-to-face lectures offered over three terms with an exam at the end, to embracing online delivery and continuous learning and reskilling. "Because of how jobs are changing, and the nature of work is changing, members need to be open to doing

microlearning as they go through their careers, so we need to prepare people for that, as well as offering pre-qualification education," Dempsey says.

The third area focuses on mobility and diversity in the workplace, looking at the fact that today's graduates have more options, as well as the emphasis on having diversity and inclusion. The fourth area looks at the key trends impacting the profession, both in Ireland and other countries, namely increasing regulation and growing demand for audit and accounting

LEADERSHIP PROFILE

Barry Dempsey

quality, including in non-financial areas of reporting.

Within these four areas, CAI has an overall vision to be a network of vibrant, diverse, digitally connected members worldwide. To help it achieve this aim, it has identified six strategic priorities, namely redesigning the member experience, amplifying its voice, educating members throughout their careers, building trust, elevating its brand and being a high-performance organization. “The vision is about how we can grow together and what we can do to support members and encourage a really activated network with a strong sense of belonging,” Dempsey says.

As part of this aim, CAI is encouraging more peer-to-peer communication between members, rather than members always having to go through the organization. It is also harnessing technology to understand members’ areas of interest better, monitoring how members use its website, and engage with it through email and its social media platforms, as well as using tools such as Google Analytics and PowerBI to gain insights enabling it to offer them more specific information and support tailored to their individual needs. It plans to implement Strategy24 in four phases, beginning with creating a new member experience.

Responding to COVID-19

Dempsey has also been restructuring and renewing the skill profile of the senior directors at CAI, going from having a large, highly specialized team, to a smaller one with skills in different areas, such as digital first.

He says around half of his week is spent working with his colleagues on the leadership team, with the

Before joining CAI, Dempsey served at Traffic Group, an Irish fashion manufacturing and retail business, the Irish Cancer Society, Peter Mark, one of Europe’s largest privately-owned hairdressing businesses and the Irish Heart Foundation.



rest divided between working with stakeholders, such as the 300 members who serve on its councils, committees and societies, and liaising with external stakeholders, such as government departments and other professional bodies. “We have good relationships with other accounting bodies, but also with other professional bodies involved in business, so we exist as part of that stakeholder ecosystem. It is busy but incredibly enjoyable,” he says.

Dempsey says the tempo of his work has changed as a result of COVID-19, as he is no longer travelling to attend meetings. But he adds that the time he has saved

through not travelling has been filled up with adapting to the pandemic. “It is like being the pilot of an aircraft. You are always adjusting to what is going to happen next and how you will deal with it. I think we are advantaged in CAI in that we were already in the strategic planning process before COVID-19 even had a name.”

He says the organization spent the time between March and June last year reviewing its internal costs and reducing spending. It also successfully advocated to the government for chartered accountants to be classed as essential workers, enabling them to continue to

“It is like being the pilot of an aircraft. You are always adjusting to what is going to happen next and how you will deal with it.”

go to work during lockdowns.

Dempsey points out that many of the changes that were needed to cope with the pandemic were already underway at CAI as part of its Strategy24 plan, such as the shift to delivering its education services online. “We have been delivering our entire education programme online since last October for the first time. We were very fortunate that we were already 12 months into a pilot programme for e-assessment and online examinations.”

But he adds that the original plan had been to do just one exam in one subject for one year of students online during the first year. Instead, CAI has done all exams for all three years by e-assessment, including the final admitting exam. “For a small team, we couldn’t have been prouder,” Dempsey says.

He points out that if they had not been able to hold the exams, it would have caused a blockage in the career progression of all the trainees, as well as in the recruitment and training of new trainees. Instead, CAI has recruited as many new trainees for the 2020/21 academic year as it did in the 2019/20 one, despite the challenging economic backdrop.

Dempsey adds that CAI has received a lot of support from the Global Accounting Alliance (GAA), an international coalition of accounting organizations of which the Hong Kong Institute of CPAs is also a member, in responding to the pandemic. “It represents an important avenue for us to share information and learnings with our international partners. The challenge of COVID-19 is unique in that it is global and global networks like GAA really come into their own in such circumstances. We

have never talked more and listened more to each other than we have since March last year, supporting each other and reinforcing whether we are doing the right thing, whether we are exaggerating the risks or underestimating them. It has been fantastic support,” he says.

Preparing for Brexit

While COVID-19 has created significant challenges globally, CAI has also had the added pressure of having to prepare for Brexit. The U.K. and the European Union only reached a Trade and Cooperation Agreement in late December, just days before the transition period for the U.K.’s exit from the E.U. ended. Dempsey says CAI has been engaging closely with its members since the referendum in 2016, supporting their Brexit preparations with the launch of a new fortnightly e-newsletter, and a dedicated working group to provide tax technical support to local and national governments. It also liaised with the Irish regulators and the Financial Reporting Council in the U.K. over the need for mutual recognition of qualifications.

Under the Trade and Cooperation Agreement, the Irish Associate Chartered Accountant (ACA) qualification will continue to be recognized by the U.K., and CAI members will have the right to practice on both sides of the border, while students gaining an Irish qualification in Northern Ireland or the U.K. after Brexit will receive a European qualification awarded in a third country.

But members who are U.K. citizens who qualified in Northern Ireland or the U.K. before the transition period will no longer be able to access their rights under the

E.U. qualifications directive, under which professional qualifications are recognized if they move from one E.U. state to another. However, only a small number of members are expected to be impacted by this change.

U.K.-based auditors can also remain on the Irish audit register, as long as they continue to meet the previous eligibility criteria, while auditors registered by CAI will also continue to be able to be registered in the U.K.

Another challenge caused by Brexit relates to customs issues, with borders being reimposed between the U.K. and E.U. countries, leading to concerns among members about the cost of customs administration post-Brexit. “Our biggest selling new product, which was made and launched entirely in 2020, is our Certificate in Customs and Trade,” he says.

The certificate equips members working in business and practice with the information and tools they need to navigate the new customs regime following the end of the transition period. “In addition, supply chain disruption and new tax rules also continue to be problems for members and businesses. This is something that we work closely with members to address, and it is also the subject of much of our advocacy activity,” Dempsey says.

When he is not working, Dempsey, who lives in Dublin, likes to spend time with his wife, Aileen, and their three children, two boys and a girl, aged between nine and 15. “They are involved in football and in sailing. I am the honorary secretary of The Optimist Dinghy Sailing Association of Ireland, so I have my dinghy sailing work to do as well.”



Chartered Accountants Ireland is more than 130 years old and has around 29,000 members in both Ireland and Northern Ireland, as well as overseas, including in Hong Kong. Its membership grows by around 900 people every year. Its work ranges from providing pre-qualification education to people entering the profession, to offering support and assistance to members, to providing opportunities for continuing professional development.



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The Convenor of the Institute's Budget Proposals 2021/22 Subcommittee and Partner of KPMG, on this year's newly-announced Budget measures



Government Budget 2021-22: Providing prudent support to weather the storm

On 24 February, Financial Secretary Paul Chan delivered the 2021-2022 Budget. Across four headings, “riding out the storm,” “stimulating the economy,” “building a liveable city,” and “public finance” he set out how the government would offer prudent support necessary to ensure that Hong Kong comes out of the COVID-19 pandemic ready to seize the opportunities of the future.

Riding out the storm

Under the heading riding out the storm, the financial secretary laid out how the government would prudently support the economy in the short term and relieve some immediate impacts through a continuation of a number of tax and fee reductions including profits and salaries tax, government rates, and registration fees.

While the government will not hand out cash to the public as it did last year, it would distribute consumption vouchers in order to stimulate local economic growth, which was one of the Institute's recommendations. Implementing this measure in a quick and simple manner should be a key priority of the government to ensure the scheme's effectiveness. The government is also preparing a special loan guarantee scheme for individuals, which could be an alternative means for supporting the unemployed.

Stimulating the economy

Maintaining Hong Kong's status as an international financial centre, while leveraging on the national development plan is vital for our continued prosperity. As the economic gravity of the world continues to shift from West to East, Hong Kong can continue to play an important role in bridging the two.

The continuing digital transformation and the increasing demands for a green and sustainable future creates new opportunities for Hong Kong to explore. The budget includes plans to issue green bonds on a regular basis and expand the scale of the government's green bond programme. We believe that this will help ease the government's financial pressure, while also being in line with the global environmental, social and corporate governance trend and supports sustainable development.

The budget also refers to rule changes and support that encourage the relocation of open-ended funds domiciled overseas to Hong Kong, including subsidies for the professional service fees they need to relocate. We believe that this will provide an incentive for overseas-domiciled open-ended funds to move to Hong Kong, and will further develop Hong Kong into a major asset and wealth management centre in Asia.

Building a liveable city

The pandemic has demonstrated the fragility of our world, and our lives. Improving the local environment and creating a more liveable city is therefore instrumental for Hong Kong's continued prosperity. We are pleased to see that the financial secretary included measures we had proposed in this regard, promoting the wider use of electric vehicles and extending the incentives for replacing aged, commercial vehicles.

Public finance

Government finances have been stressed by the pandemic. Recurrent income is no longer enough to meet the increasing expenditure, and this will not be the case anytime soon. Broadening the tax base is therefore something the government must consider. Despite a simple and low tax system – a key element of Hong Kong's success – the government is overly dependent on salaries tax, profits tax, stamp duty, land sales and investment income, thereby putting pressure on Hong Kong's fiscal reserves; which are less resilient to economic downturn.

The Organization for Economic Co-operation and Development made remarkable progress in 2020 on international tax reform with the Base Erosion and Profit Shifting 2.0 project. As a low tax jurisdiction, Hong Kong must ensure that it collects the “top-up tax” proposed to be levied under these rules. Otherwise, supplementary taxes will be levied by other tax jurisdictions in what is a zero-sum game. The development of international taxation has steered towards relying more on indirect taxes, thus reducing the dependence on direct taxes as the main source of government revenue. This is also another reason why it is now a good timing to revisit reforming Hong Kong's tax system.

Increasing the stock stamp duty (from a total of 0.2 percent to 0.26 percent of the value of the transaction) is a quick way of raising government revenue as the laws and the collection mechanism are in place. This alone will, however, not provide the government with a sustained and stable of recurrent revenue. We believe that while the government could flexibly adjust the stamp duty tax rates upwards or downwards according to prevailing economic and market conditions, it should continue to explore other solutions that can broaden the tax base as the long-term solution, and be mindful of the market reactions to such changes in order to not kill the golden goose.

Into the future

The government's budget has given us hope for the future. Securing jobs and helping graduates find jobs are vital, preparing Hong Kong for the future is the best way to ensure our continued prosperity.

ACCOUNTANT PLUS

Eugene Liu





CREATING LIFELONG VALUE

There is more to a successful career than simply rising to the top. It's a combination of helping others, thriving outside of one's comfort zone and a hunger for knowledge and progress. Eugene Liu, Managing Partner and Head of Consulting at RSM Hong Kong, tells **Jeremy Chan** how his life experiences led him to expand the firm's service lines and why the key to adding value is staying flexible

Photography by Calvin Sit

To Eugene Liu, the key to success is the ability to help not just yourself, but anybody you meet in life. Be it colleagues, clients, business partners or friends new and old, having the right knowledge, skill set and interpersonal skills – often accumulated over decades of experience – to come up with practical solutions and to help somebody is, in many ways, a gift. “What I have learned over the last 30 years, is that you have to be a trusted business advisor,” says Liu, Managing Partner and Head of Consulting at RSM Hong Kong, and a member of the Hong Kong Institute of CPAs. At work, he says that this means being versatile. “You have to serve clients not only within the discipline you specialize in, but also have the ability to help with a whole spectrum of tasks.”

Since joining RSM as a partner in 2000, Liu has worked hard to ensure the steady growth of the firm. Over more than two decades, he has assisted in numerous initial public offerings (IPOs), served as a bridge between the firm’s offices in Hong Kong and Mainland China, and expanded its services beyond audit. During this time, he has overseen the formation of in-house teams to deliver specialized service offerings in Mainland China tax, internal audit, risk advisory, and valuation and transaction services.

Staying relevant

As Managing Partner, Liu currently oversees the firm’s operations, corporate strategy, marketing and branding, business development and its client relationships. A large section of this role, he adds, consists of dedicating time to coaching both junior and senior staff members. This, Liu says, is both the most difficult yet rewarding aspect of his everyday duties. “What’s most challenging is helping people – from fresh graduates, to those who have been with the firm for more than a decade – to grow,” notes Liu. “For

those less experienced, I focus on helping them understand how they can do their jobs right, how to work as a team and to also understand certain technical aspects of their field, be it in audit, tax or consulting.”

Senior staff members, meanwhile, benefit from his advice in how to communicate effectively. “By the time they become more senior, there is a need to improve their soft skills,” he explains. This requires him to coach them on the importance of being a better team player and understanding how to speak with those within and also outside the profession. “They have to know how to communicate with the board and also those within the business community,” he adds. Liu explains to senior employees that their roles are, in ways, akin to those of an entrepreneur. “I advise them to start thinking about getting new business, growing the team and developing the firm. This isn’t easy for junior executives to grasp.” But he enjoys mentoring employees and seeing them progress over time. “I enjoy sharing my experiences with them and providing them with direction, especially when it comes to building trust and relationships with clients.”

As Head of Consulting, Liu leads a variety of teams including the firm’s internal audit, transaction and valuation advisory services. “We have a broad client base, which includes both listed and private companies, non-governmental organizations and government divisions,” he says. Many of these teams weren’t around when Liu joined RSM, and were set up to help the mid-tier firm stay competitive by branching out from traditional service offerings. To start, he knew that businesses locally and globally needed more rigid internal controls. “This was around 2004 or 2005, so right after the Enron and WorldCom scandals. Without the right internal controls, a company’s financial statements have a high chance of being cooked.” With this in mind, he conveyed his idea to

leaders at the firm to recruit a partner who specializes in internal audit, establishing the firm’s first internal audit team. “Currently, we have around 50 listed companies who use our internal audit services,” he says.

The success of the new service line prompted Liu to explore the potential in having other specialized services. By identifying talent within the firm and recruiting talent externally, he put together the firm’s advisory services in mergers and acquisitions (M&A), transaction support and valuations. The valuation team, which Liu established in 2007, was set up not as its own specialized service offering but to equip its firm’s auditors with skills in the area. “A lot of auditors might have some knowledge in valuations, but they’re not experts,” says Liu. “We saw a need for a valuation team to help these auditors read and understand valuation reports. An in-house team could provide valuable input and help auditors to conduct audit properly. If auditors don’t understand how to interpret those reports, how can they express a proper audit opinion?”

The valuation team grew in size and moved on to providing valuation services to external parties. The skills and knowledge the team acquired also helped them to provide advisory in M&As, adds Liu. “When listed companies have acquisition targets and want to perform financial due diligence, this is another area they are able to help with.”

Diversifying RSM’s service offerings has also aided Liu in his role as Head of China Practice, he sees himself act as a bridge between RSM Hong Kong and its fellow RSM firm in Mainland China. “It’s two-way traffic,” says Liu. “We have clients in Hong Kong who want to invest in Mainland China, and clients there who want to start and develop their business, or list in Hong Kong. Beyond audit, we provide clients with services such as valuation, transfer pricing advisory and pre-IPO advisory.” He also

“You have to serve clients not only within the discipline you specialize in, but also have the ability to help with a whole spectrum of tasks.”

As Managing Partner and Head of Consulting at RSM Hong Kong, Eugene Liu oversees the firm's overall operations, business development and dedicates his time to coaching both junior and senior staff members.



recruited a China tax partner to join the firm. The firm's China Practice, Liu adds, is also key to maintaining strong relations with partners across the border. "It's important to have a good relationship with our partners of RSM China. I try to understand their needs and issues, their clients' issues and find ways to help them. This also helps to ensure business opportunities."

Liu is also in charge of the firm's marketing and corporate branding. "This is always an indispensable element of the development of a business," he adds. "As an medium-sized practice, we stand out from peers by investing in digital marketing, making good use of social media platforms, and aligning firm's identity with our Global Executive Office in London."

The power to recognize value

Liu, who is also a Certified Valuation Analyst under the United States' National Association of Certified Valuators and Analysts,

and Hong Kong Chapter Chairman of the International Association of Certified Valuation Specialists, would like to see increased regulation for valuations in Hong Kong. Despite the introduction of the latest edition of the International Valuation Standards (IVS) effective 31 January 2020, Liu says the standards are not enough to hold substandard valuers accountable. "Unlike auditors, valuers aren't registered or regulated by a professional body," he says. Though companies may look into the background and experience of a valuer before engaging them, adds Liu, the lack of regulation has created a melting pot of valuers of differing standards.

Indeed, while property valuations in Hong Kong have to be conducted by certified surveyors under the law, qualifications aren't required for non-property or intangible valuations, such as brand names, enterprise values or intellectual property. "Some valuers claim to be performing

a valuation following a certain standard, but some wouldn't even say anything before issuing a report. There are some valuers working independently, part-time without the backing of a firm. They might even take on jobs with listed companies."

One way companies or firms can consider adding credibility to its valuation services is by having the right data to back up a valuation report. Liu says the firm made a decision more than a decade ago on to subscribe to leading database services that provide the team with accurate, real-time information on listed companies. "Databases, such as ones by Bloomberg or Moody's, provide us information on a company's beta or volatility, risk-free rate and risk premium," Liu elaborates. "As valuers, we have to properly quote the source of data we use in our valuation reports. So this data is key to put on a valuation model to make it convincing – without this subscription, our reports wouldn't be credible at all." The subscription, which Liu says



Liu has a degree in Commerce and Accounting at the University of Manitoba in Canada and an MBA in Finance and Marketing at the University of Oregon in the United States. He worked at Arthur Andersen & Co. and PwC before joining RSM.

comes at a hefty annual fee, is a valuable investment. “It isn’t cheap, but we’re committed to having this data to work with when doing valuations. If you want to do things right, you have to do so at the very beginning.” The tool so far has aided the audit and valuation team. “We now have the right data to cross-check rates and percentages with for discount rates, incremental borrowing rates, expected credit losses in both equity and credit valuations, and for purposes such as financial reporting, transaction pricing, legal disputes and tax related valuations, which puts us all at ease,” says Liu.

While the new valuation standards are a step in the right direction, Liu believes the high price of such data services, coupled with the city’s current regulations, will likely continue to pose challenges for valuers in the industry. “These international standards still aren’t mandatory, so valuers can choose whether to use them or not. Valuation reports often don’t indicate which standards they

have used,” he says, adding that, ultimately, more stringent measures are needed to address this gap. “A valuer should one day be required to fulfil continuing professional development hours, the same way a CPA has to.”

Come full circle

Born and raised in Hong Kong, Liu attained his Bachelor’s degree in Commerce and Accounting at the University of Manitoba in Canada. He then went on to pursue a Master of Business Administration degree in Finance and Marketing at the University of Oregon in the United States before starting his career at Arthur Andersen & Co. in 1988, where he stayed for close to a decade. There, Liu built his skills as a budding accountant through each audit engagement and IPO. But what Liu considers to be most memorable was the chance to hone his skills across the border. Shortly before being promoted to audit manager, Liu, along with a few of his colleagues, was presented with the option to be seconded to Beijing

following the opening of the firm’s audit practice in Mainland China. Young and curious, he immediately jumped at the opportunity. “I think this was around 1993. They were one of the few firms licensed to perform audits in Mainland China back in the day,” recalls Liu, who spent roughly two years there.

Though days and nights were busy, whenever it was time to eat, he took the time to explore the city and fell in love with the diversity of cuisine, particularly spicy food from regions such as Sichuan and Hunan.

Even after being reposted back in Hong Kong, Liu continued to take on as many assignments as possible across the border. “China was developing quickly during the early 1990s. The country was keen to see how the capital markets would grow and how foreign investors could help the economy,” he adds. Through each engagement and his experience travelling around the country, Liu was inspired by the sheer size of the nation and the opportunities that were available. In retrospect, he notes the establishment of RSM’s

“A valuer should one day be required to fulfil continuing professional development hours, the same way a CPA has to.”

China Practice was inspired by his time spent living and working in Mainland.

Liu then joined PwC, then Coopers & Lybrand, in late 1997, where he worked for two years. “I joined right before they merged in 1998,” he says. Though it was a solid experience, Liu, who made audit partner after the merger, found himself wanting to help with more company listings.

Liu brought his skills to join RSM at the turn of the millennium. He was intent on helping the firm – also relatively new to taking companies public – with his IPO experience from his Arthur Andersen and PwC days. “They were still new to dealing with the capital market, so their services were mainly consisted of audit at the time,” he says. Liu, who has since helped the firm with over 20 listings since joining, regards one particularly memorable IPO as a personal milestone. “I helped with the firm’s first Japanese IPO in Hong Kong,” he adds. In 2012, Liu and his team helped to take Dynam Japan Holdings Co., Ltd., an operator of Japan’s *Pachinko* or mechanical pinball-based arcade game halls, public. The IPO raised HK\$1.57 billion following its debut on the Hong Kong Stock Exchange and made the organization the first ever Japanese private company to list in the city.

As Liu reflects on how the firm has grown and diversified its service offerings, particularly in the last two decades since he joined, he feels a great deal of satisfaction and is determined to continue driving its growth in Hong Kong and in Mainland China. “I feel like everything has come full circle,” he says, hinting at how his experiences over the years laid the groundwork for the development both at the firm, and for him as an accountant and a trusted business advisor.

While he says attaining the CPA qualification is an important stepping stone in any accountant’s career, he urges young CPAs to further pick up skills and knowledge in specialisms both within and

beyond the profession, with the aim of becoming truly all-rounded professionals. “It’s a natural tendency for people to only focus on their expertise,” adds Liu. “An accounting student might only touch upon the subject in general, but when he or she enters the profession, they become exposed to different aspects of the accounting world such as audit, tax, M&A, IPOs, valuation and internal controls.” Indeed, Liu spent much of his career carefully observing how professionals across different disciplines carry themselves and add value to both projects and meetings, and learning as much as he could through communicating with them. “Over the last 30 years of my career, I’ve been trying to transform myself from a specialist to become somewhat of a generalist or an all-rounder – it’s good practice to keep learning from other people, as learning is a lifelong process.”

A zest for life

Liu’s dedication to helping others extends outside work as he devotes his free time to volunteer work. He is currently a Council Member of the Hong Kong Federation of Youth Groups, one of the largest non-governmental youth service organizations in Hong Kong tasked with helping young people in their development in different areas. Using his accounting expertise, Liu also serves on its Audit Committee and Investment Task Group. “With my interest and business consulting background, we hold training sessions, clinics and seminars in subjects such as entrepreneurship and starting one’s business,” he says. “These organizations always tell us how appreciative they are of accountants using their expertise to help.”

He is also a member of the Hang Seng University of Hong Kong’s Fundraising and Donation Committee. Using his network, he recently connected the university and a listed company to arrange scholarships for first-generation university students. “These are students who are the first people

in their families to ever attend university,” explains Liu, adding that he is also a first-generation university student himself. “I decided to meet with the chief executive of the company for breakfast, and afterwards, he was more than willing to consider my proposal.” Liu feels humbled and wants to continue helping people in any way possible. “I find volunteer work to be extremely worthwhile. It’s a great way to give back, especially to the young people of Hong Kong.”

Liu’s other passion is food – in particular, spicy food. Bent on revisiting all the savoury dishes he tried during his younger years in China, Liu set up an informal group of spicy food enthusiasts comprised of colleagues, friends, business partners, clients and just about anybody he knew who shared his zeal for all things numbingly hot. “Back in 2014, I came up with this crazy idea. I thought to myself, why not gather everyone I know who loves spicy food for regular dinners? I always found it hard to enjoy a spicy meal at a table with those who couldn’t stand it,” laughs Liu. “So every time I meet someone new at work or outside work, I ask if they like spicy food. If they do, I ask if they want to join our WhatsApp group.” Some of Liu’s must-haves include *kou shui ji* (口水雞) or Sichuan-style poached chicken in red chili oil, *shui zhu yu* (水煮魚) or Sichuan boiled fish in chilies and *la jiao yu tou* (辣椒魚頭), a Hunan-style dish made of steamed fish head with chilies. Liu unwinds by eating his favourite food at different Chinese restaurants around the city, and also appreciates getting to know those he would normally see in a professional setting enjoy food that he isn’t even allowed to have at home. “My wife and son don’t eat spicy food at all – but I always have a small plate of chili sauce by my side,” he says. “That’s what I love – getting out of routine, eating with friends and talking about anything from life to work. There is just so much to learn from different people.”



Since joining RSM as a partner in 2000, Liu has worked hard to ensure the steady growth of the firm. Over more than two decades, he has assisted in several initial public offerings, served as a bridge between the firm’s offices in Hong Kong and Mainland China, and expanded its services beyond audit. During this time, he has overseen the formation of in-house teams to deliver specialized service offerings in Mainland China tax, internal audit, risk advisory, and valuation and transaction services.



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The Director of Page Personnel Hong Kong on the best ways to manage a team from anywhere in the world



How to manage a team remotely

No matter how high-tech your setup is, managing a remote team is no easy feat. As companies worldwide continue to provide work from home (WFH) measures due to COVID-19-related lockdowns and quarantines, they should bear in mind that there are practical ways to minimize these issues. Ultimately, being aware of them and implementing solid processes will allow you to get the best out of your team – wherever they may be.

Here are the key considerations when managing a remote team:

Set clear expectations from the start

Don't assume that you are all on the same page. No matter how well your team works – both in the physical workplace, offsite or at home – it's incredibly important to set out expectations clearly from the start so that everyone is working towards the same objective. It's equally important to revisit these expectations on a regular basis to address any doubts around what each member needs to be focusing on. If anything, over-communicating (without overdoing it) is necessary.

Your expectations should also include how often your team should be meeting. This could include a daily morning virtual call, for example, to planning and afternoons to discuss goals. Without having this in place, your team will get sidetracked and lose accountability with no day-to-day structure.

Be transparent

Some of your team members might not like working offsite or from home. Reach out or check in on them a bit more regularly to help them settle in better and offer some tips that have helped you. These small gestures can make the biggest difference.

On the other hand, team members who don't mind working from home may find that they are struggling due to not knowing when the lockdown period will end, or they aren't used to such a long WFH scenario. Again, provide reassurance by sharing that even as their manager, you are in the same boat. Be honest and communicate that no one expects the WFH environment to work perfectly. Tech issues, family priorities and other factors are bound to impact their usual work structure.

Don't hesitate to check on progress

In a physical work setting, it's easy to get a sense of how your team is performing, as they have the opportunity to provide you with updates at any given time during the day. But

even with virtual calls, some updates can be missed and the frequency of your meetings may not be enough to give you a real idea of everyone's performance. Remember that this is not about micro-managing, but ensuring the dialogue is open and that you have a transparent view of your team's activities and outcomes.

Drive inclusion

Don't underestimate the power of inclusion in times like these, and its role when maintaining an efficient team. While it may be hard to pinpoint what exactly contributes to inclusion, everyone knows what it's like when it's missing.

Whether or not your team has a great dynamic, feeling like you're part of a team will have its challenges while we're all separated and communicating virtually. Find opportunities to be more inclusive in your team calls, emails and chats by including all team members in your communications. Be a good moderator by considering each personality in your team and paying attention to when someone needs to feel more included. It is important to maintain team morale and present the team with values and expectations articulately. By providing team members with a sense of belonging, people identify with the purpose of their role better even when they are working remotely.

Celebrate wins and team updates

Telling your team members they've done a good job virtually may be more difficult versus when we do it in passing at the office. Use regular virtual video calls to celebrate each team member's efforts and achievements, and collate these acknowledgements in an email so everyone has a record of it. Sending out email updates to call out any significant calendar dates such as birthdays or work anniversaries for example, is a great way to acknowledge events that you would have otherwise celebrated together, face-to-face as a team.

Respect your team's time

Just because we're all working from home doesn't mean managers get 24/7 access to team members. If there's an urgent request, inform your team in the most effective way (usually a text message that they'll see immediately) rather than assuming that your email will be read at 9 p.m.

Some of your team may even need to adjust their WFH hours or finish at a certain time due to other commitments, just as they did when working from the office. Be considerate of this. Ensure you've communicated this from the start and check which team members are on board should additional hours be required. If they do step up and go above and beyond, ensure they are adequately praised and recognized.



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The Hong Kong Institute of CPAs' Taxation Faculty brings together the tax activities and programmes run by the Institute: primarily the technical, advocacy and liaison work as well as member services such as seminars, networking events, and an e-newsletter.

The Taxation Faculty helps raise the profile of the taxation profession in Hong Kong and provides a stronger voice for members working in this field. It also offers a platform for the further development of high-quality tax services under the Institute. The faculty also lends support to other Institute initiatives, such as the advanced diploma in specialist taxation. Members and non-members are welcome to join the Taxation Faculty. More information can be found on the Institute's website.

On 12 October 2020, the G20/Organization for Economic Cooperation and Development Inclusive Framework on Base Erosion and Profit Shifting (BEPS) released two detailed "blueprints" in relation to its ongoing work to address the tax challenges arising from the digitalization of the economy. New tax rules have been proposed in respect of two key aspects:

Pillar 1: Amending the rules for allocating taxing rights over the profits from multinational consumer-facing businesses and automated digital services, giving greater taxing rights to market jurisdictions. In addition, the blueprint introduces a three-part profit allocation mechanism that partially departs from the arm's length principle, while also creating a new taxing right that is not based on physical presence but on having a significant economic presence in a jurisdiction.

Pillar 2: The blueprint proposes giving parent and source jurisdictions a right to tax untaxed/undertaxed income where an entity's income is taxed at an effective rate below a certain minimum rate, known as the Global Anti-Base Erosion (GloBE) rules. The rules seek to ensure that multinational enterprises (MNEs) pay a minimum level of tax on a global basis and dissuade them from shifting profits to low tax jurisdictions by allowing for the ultimate parent entity jurisdiction to collect "top-up tax" if income in another jurisdiction is not taxed at an effective tax rate equal to or higher than a certain agreed minimum rate.

While the minimum rate has yet to be determined, it is expected to be at least 10 percent, which could have a significant impact on the attractiveness of Hong Kong's territorial tax regime, various existing concessionary tax regimes and the capital gains exemption.

About the series

The Hong Kong Institute of CPAs' Taxation Faculty held three e-seminars on the blueprints and what impact the BEPS 2.0 initiatives may bring to Hong Kong. The seminars are available as e-learning on the Institute's website.

Pillar 1 Blueprint: Peter Brewin, Transfer Pricing Partner, PwC Hong Kong with 18 years'

experience, discusses the key elements in the Pillar 1 Blueprint. He provides context on the factors driving the introduction of the new taxing rights, summarizes the groups and types of business in the scope of the new taxing right, discusses the building blocks and how taxing rights are expected to be calculated, before offering suggestions on actions that in-scope groups make wish to take to be prepared for the changes.

Pillar 2 Blueprint: Jonathan Culver, International Tax Partner, Deloitte, with significant regional experience, covers the key elements in the Pillar 2 Blueprint and important points of reference. These include the interlocking rules and order of application of these rules, treaty compatibility and dispute prevention; carve-outs and exclusions; interaction between the GloBE rules and the United States global intangible low-taxed income (GILTI) rules; and the implications to MNE groups headquartered in Hong Kong and foreign MNE groups that have investments in Hong Kong.

Roundtable on BEPS 2.0 Blueprints – What do they mean for Hong Kong?: The panellists, all members of the Taxation Faculty, discuss what the blueprints mean for Hong Kong, how the source rule under Pillar 1 interacts with the source rules for profits tax, the rationale for carving out certain industries, the question of introducing a domestic minimum tax rate; the interaction between GloBE and the U.S. GILTI rules, and how MNEs should prepare for BEPS 2.0.

The moderator of the discussion was Jo-An Yee, Tax Partner, EY, specializing in technology and telecommunication has over 20 years of practical experience in providing tax advisory and compliance services clients. The panellists were: Patrick Cheung, Transfer Pricing Partner, KPMG, with more than 25 years of international tax experience including over 20 years as a transfer pricing specialist; Cecilia Lee, Transfer Pricing Partner, PwC, a specialist with over 25 years of transfer pricing and cross-border taxation experience; Deloitte's Jonathan Culver; and Eric Chiang, Deputy Director, Advocacy and Practice Development of the Institute, who is responsible for managing the Taxation Faculty, and reviewing proposed tax legislations in Hong Kong and preparing submissions on legislation.

Institute's response to the IAASB discussion paper on fraud and going concern

A look at the Institute's feedback and recommendations on an IAASB discussion paper on fraud and going concern

The issues of fraud and going concern in an audit of financial statements are an important topic in standard setting. This article covers the Institute's response to a discussion paper on the topics and potentially enhancing the auditing standards.

In February, the Hong Kong Institute of CPAs responded to the International Auditing and Assurance Standards Board's (IAASB) Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements*. Through the paper, the IAASB is investigating whether the International Standards on Auditing (ISAs) related to fraud and going concern need to be updated and explored possible actions to help narrow the expectation gap by seeking comments from stakeholders. The submission is available on the Institute's website.

The expectation gap

The expectation gap between what the public expects that auditors do, and what auditors actually do, has long been an issue for the profession. A 2019 paper from the Association of Chartered Certified Accountants proposed three components of the expectation gap: knowledge, performance, and evolution. The Institute's outreach to stakeholders helped to inform its view that the gap is mainly a combination of the knowledge gap and the evolution gap.

The knowledge gap

The knowledge gap comes from the observation that the general public and audit report users may not have a thorough understanding or knowledge of the role of auditors, and the approaches used and procedures they carry out under the auditing standards. Hence, the public may over-expect what auditors actually do

during an audit engagement.

The evolution gap

The business world is constantly changing, and though we believe the extant auditing standards remain robust and fit for purpose, stakeholders who are preparers of financial statements expressed observations that the current auditing standards may not have kept up with the rapid changes in financial markets and technological advancements. This lag in the development of new standards is identified as the evolution gap.

Recommendation

Based on the feedback from stakeholders, the Institute recommend that the IAASB work with accountancy bodies and standard setters to educate the general public, and is willing to help organize forums or develop publications in Hong Kong. A full understanding of the work performed by auditors and its limitations and the responsibility of those charged with governance (TCWG) related to fraud and going concern would be helpful to narrow the expectation gap.

Current requirements in relation to fraud in an audit of financial statements

The ISAs prescribe specific procedures targeted at identifying and assessing risks of material misstatement, including procedures targeted at identifying risks of material misstatement arising from fraud, and procedures to respond to those risks. The standards also require the auditor to evaluate the implications when a possible misstatement may be indicative of fraud.

The paper notes however, that due to the inherent limitations of an audit, where most of the audit evidence obtained is persuasive rather than conclusive, there is always

the unavoidable risk that some material misstatements may not be identified.

The paper asks whether enhanced audit procedures, including the use of specialists, are needed to account for the risks of missing fraud.

The Institute's views

The Institute agrees that there may be certain entities or circumstances when it is appropriate to enhance procedures, but does not agree that engaging forensic specialists should be mandatory for every audit. As audit is not a forensic investigation process, and the mandatory use of forensic specialists would involve significant costs and may cause inefficiencies.

Engaging forensic specialists for certain regulated entities (e.g. banks, insurance companies with high-risk-financial instruments) may be reasonable since fraud activities arising in these entities are usually sophisticated and concealed, and may be difficult to be discovered by standard audit procedures. For other entities, including listed entities, unless red-flags or risk factors are identified during the audit, the audit team should not be mandated to engage forensic specialists. The Institute suggests that the IAASB develops guidance for circumstances in which audit teams should engage or consult with forensic specialists.

Auditors need to assess cautiously, both qualitative and quantitative indicators, to determine whether an identified non-material fraud is truly inconsequential and thus requires no further audit procedures. It is also important for auditors to communicate with appropriate stakeholders, such as TCWG, when non-material fraud is identified. The Institute also agrees that the audit should focus on the fraud related



to financial statement audit as it would be extremely challenging for the auditor if fraud related to a third party is also included in the scope of an audit.

The IAASB should carefully consider incorporating the concept of “suspicious mindset” in its auditing pronouncements. The term “suspicious mindset” appears to extend far beyond the current professional scepticism concept, and some stakeholders have questioned whether this would mean the auditor needs to presume the client to be incorrect until proven otherwise. Some stakeholders commented to the Institute that being overly suspicious may lead to low audit efficiency and put relationships with audit clients in jeopardy.

The IAASB would also need to provide guidance under what circumstances auditors should have a suspicious mindset, instead of applying professional scepticism.

Current requirements in relation to going concern in an audit of financial statements

The “going concern” basis of accounting prepares financial statements on the assumption that an entity will continue its operations for the foreseeable future. An entity’s management must make an assessment of its ability to continue as a going concern when preparing the financial statements, which provides the foundation for the auditor’s procedures.

The Institute’s views

Our stakeholders generally consider the extant audit requirements for the assessment of the appropriateness of the management’s use of the going concern basis of accounting sufficient.

Some stakeholders commented that the auditor should consider and evaluate management’s assessment of the entity’s ability to continue as a going concern

over a period of at least 12 months from the date of approval of the financial statements. Different jurisdictions and regulations have divergent requirements for the period subject to the going concern assessment – whether it should be from the date of the balance sheet or the date of the audit report. Alignment of the going concern assessment period across jurisdictions could enhance the comparability of financial statements and help to reduce the expectation gap. The same stakeholders also indicated the going concern assessment period for a period of at least 12 months from the date of approval of the financial statements could provide a longer period. The Institute would encourage the IAASB to communicate with international accounting standard setters to explore whether the disclosure and basis for going concern assessment should be re-considered and updated to meet stakeholders’ expectations.

While we acknowledge that disclosure on an entity’s going concern by way of emphasis of matter paragraph, key audit matter paragraph etc in auditor’s reports would be an alert to users of financial statements and helps to narrow the gap, it would not fully eliminate the expectation gap due to an unpredictable material uncertainty that is beyond the control of management – for example, the current outbreak of COVID-19. A stakeholder also indicated that the auditor’s approach and evidence obtained to assess an entity’s going concern should be included in the audit report.

Other matters

The IAASB was also interested in perspectives about whether more information is needed in the auditor’s report regarding fraud or going concern and about the auditor’s communication with TCWG.

The Institute’s views

Good corporate culture and integrity of the management team lay the foundations of corporate governance and internal controls system of the entity, which is important to detect and prevent fraudulent activities in an entity. The importance of setting the “tone at the top” by senior management should be periodically reiterated. The Institute recommends that the IAASB together with professional accountancy bodies continuously educate stakeholders that not all misstatements in the financial statements will be detected, even though the audit is properly planned and performed in accordance with ISAs.

While the current auditing standards do not require auditors to express an opinion on an entity’s internal controls over financial reporting, the Institute suggests that the IAASB and professional accountancy bodies highlight the value an audit brings (e.g. identification of weak internal controls) to management and TCWG. Given that all parties in the financial ecosystem have a role to play, the Institute also recommends that the IAASB to communicate with relevant regulators to consider if additional provisions (such as disclosures by entities on internal controls over financial reporting or an assurance report on the effectiveness of internal controls) may be useful.



This article was contributed by the Institute’s Standard Setting Department

TECHNICAL NEWS

The latest standards and technical developments

Members' handbook

Update no. 255 includes revisions to various auditing and assurance pronouncements in Volume III to conform to Hong Kong Standard on Auditing 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* that became effective for audits of financial statements for periods beginning on or after 15 December 2019.

Financial reporting

Invitation to comment

The Institute is seeking comments on the International Accounting Standards Board (IASB) Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* by 31 May.

Joint call for research papers on corporate disclosure

In conjunction with *Accounting in Europe* and *The British Accounting Review*, the IASB has published a joint call for research papers on the following topics:

- Compliance with mandatory disclosure requirements.
- Specific areas of interest to the IASB.
- Alternative research approaches.

The deadline for submissions is 31 January 2022.

January IASB podcast

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

IASB's webinar on Discussion Paper Business Combinations under Common Control

A recording of a webinar by the staff of IASB on Discussion Paper DP/2020/2 *Business Combinations under Common*

Control held on 27 January is now available. It provided an overview of the paper, explained the IASB's preliminary views, and gave viewers an opportunity to ask questions. Members can submit their comments on the paper by 5 July.

December 2020 IFRS Interpretations Committee podcast

The December 2020 International Financial Reporting Standards (IFRS) Interpretations Committee podcast, highlighting key activities undertaken by the Interpretations Committee to support the consistent application of IFRSs, is now available.

IFRS Foundation education material on going concern

The IFRS Foundation has published educational guidance to highlight relevant requirements in IFRSs for companies to assess their ability to continue as a going concern. The education material aims to support the consistent application of IFRSs, and does not add to or change any existing requirements.

IFRS Foundation webinars on IFRS 9, IFRS 15, and IFRS 16

The IFRS Foundation has organized six webinars in January and February aimed at academics to stimulate research into IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, and IFRS 16 *Leases*, and to inform the post-implementation reviews of these standards. Each webinar consists of an overview of the standard's objectives and related research opportunities, followed by questions and answers. The recordings are now available.

Auditing and assurance

IAASB January board meeting

The audio recording of the International

Auditing and Assurance Standards Board (IAASB) January board meeting is now available.

IAASB webpage for the new and approved Quality Management standards

Visit the IAASB's dedicated webpage for the new and approved Quality Management standards as well as other resources and implementation support.

Fraud, NOCLAR and government support

The Institute of Chartered Accountants in England and Wales (ICAEW) Know-How Guide provides some considerations for auditors when assessing the risks of fraud in relation to COVID-19 government support schemes.

Ethics

Invitation to comment

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 in the *International Code of Ethics for Professional Accountants (Including International Standards)* (IESBA Code) to include more categories of entities, given the level of public interest in their financial condition, for the purposes of additional independence requirements to enhance confidence in their audits.

Implications arising from government-backed COVID-19 business support schemes

The staff of the United Kingdom Financial Reporting Council and the IESBA jointly

released a publication on ethical and auditing implications arising from government-backed business support programmes, which have been utilized at unprecedented levels during the COVID-19 pandemic.

A focus on ethics and independence standards

An article from the International Federation of Accountants (IFAC) highlights the importance and continuance relevance of the IESBA Code. It also recaps revisions and restructured changes to the IESBA Code in 2018 and various recent and upcoming revisions.

Revision to the IESBA Code on objectivity for engagement quality reviewers

The IESBA released revisions to the IESBA Code addressing the objectivity of an engagement quality reviewer and other appropriate reviewers. This project dovetailed with the IAASB's is development of International Standard on Quality Management 2 *Engagement Quality Reviews*.

Extended external reporting

Revisions to the International Integrated Reporting Framework

The International Integrated Reporting Council recently published revisions to the International Integrated Reporting Framework to enable more decision-useful reporting. The revisions focus on a simplification of the required statement of responsibility for the integrated report; improved insight into the quality and integrity of the underlying reporting process; a clearer distinction between outputs and outcomes; and a greater emphasis on the balanced reporting of

outcomes and value preservation and erosion scenarios.

Corporate finance

Institute responds to HKEX Consultation Paper: The Main Board Profit Requirement

The Institute issued a submission in response to the Consultation Paper issued by Hong Kong Exchanges and Clearing Ltd. (HKEX), which proposes to increase the Main Board aggregate profit requirement from HK\$50 million to HK\$125 million or HK\$150 million.

The Institute does not support the proposal for a number of reasons. We are aware that the proposal has raised concerns among some sectors of the Institute's membership, given the impact that it may have on the ability of smaller companies, including local small- and medium-sized enterprises with growth potential, to raise funds, on diversity in the capital market, and on the business of numerous professionals engaged in work on initial public offerings. While we acknowledge the importance of an effective gatekeeping role to facilitate the listing of high-quality companies and those with good potential for growth, we do not agree with the approach proposed in the consultation paper for the reasons explained in the submission. Please also refer to the Institute's email issued on 28 January for further information.

Response to HKEX's Concept Paper on Modernizing Hong Kong's IPO Settlement Process

The Institute issued a submission in response to the concept paper, issued by the HKEX, which proposes to introduce a new purpose-built software platform, known as the Fast Interface for New Issuance or "FINI". The platform will

coordinate, streamline and improve workflows between the various parties involved in the settlement process for initial public offerings (IPOs), and so be able to shorten the IPO settlement timetable from the existing "T+5" to "T+1", in line with other major capital markets.

The Institute's Corporate Finance Advisory Panel (CFAP), in principle, supports the overall proposal outlined in this concept paper and makes certain additional suggestions and observations to HKEX.

Institute responds to consultation paper on proposals to enhance the Hang Seng Index

The Institute issued a submission in response to Hang Seng Indexes Company Ltd. Consultation Paper *Proposal to enhance the "Hang Seng Index" as regards continuing to serve as the most representative and important benchmark of the Hong Kong stock market*.

The Institute's CFAP, in principle, agrees that the Hang Seng Index should be further developed to strengthen its representativeness and diversity, as the principal benchmark of the Hong Kong stock market. In the submission, the CFAP also provides some comments and observations on specific proposals.

Response to SFC Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

The Institute issued a submission in response to the consultation paper issued by the Securities and Futures Commission (SFC) on the management and disclosure of climate-related risks by fund managers.

The CFAP, in principle, supports the thrust of the proposals, which is to require fund managers of collective investment schemes to be able to assess



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the potential impact of environmental, social and governance (ESG)-related issues on their business, and to disclose more ESG information, in particular about the management of climate-related risks, to investors. Under the proposals, there will be enhanced standards for "large fund managers," i.e. those with assets under management of HK\$4 billion or more. The CFAP also considers that additional practical guidance should be issued by the SFC to help fund managers to comply with the proposed new requirements.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Suspension of Service for Filing of Tax Return - Individuals through eTAX.
- Gazettal of Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021.
- Automatic Exchange of Financial Account Information:
 - Inland Revenue Ordinance (Amendment of Section 50A) Notice 2020.
 - Inland Revenue Ordinance (Amendment of Schedule 17D) Notice 2020.
 - the relevant new FAQ34.
- Profits tax concessions for insurance-related businesses to commence operation on 19 March.
- Legislative Council question on relief measures.
- Legislative Council question on property conveyancing procedures and related irregularities.
- Legislative Council question on alleviating the financial burdens of members of the public.
- IRD responds to media enquiries on property stamp duty matters arising from intervention into Messrs Wong, Fung & Co.

- Business Registration Notice.
- Change of Postal Address of Employer.
- IRD to resume basic public services.
- Stamp Duty statistics.

Legislation and other initiatives

Announcements by the government

Members may wish to be aware of the following matters:

- Government extends social distancing measures under Prevention and Control of Disease Ordinance.
- More public services to resume in a safe and orderly manner.

AML news and notices

Institute responds to FSTB Public Consultation on Legislative Proposals to Enhance Anti-Money Laundering and Counter-Terrorist Financing Regulation in Hong Kong

The Institute issued a submission in response to the *Public Consultation on Legislative Proposals to Enhance Anti-Money Laundering and Counter-Terrorist Financing Regulation in Hong Kong*, issued by the Financial Services and the Treasury Bureau (FSTB).

Broadly, the Institute supports the need to introduce regulation for virtual asset service providers and for dealers in precious metals and stones, under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO), in order to demonstrate Hong Kong's compliance with Financial Action Task Force's Recommendations. Meanwhile, the Institute offers comments on some of the specific questions in the consultation paper.

In respect of the proposed miscellaneous technical amendments under AMLO, also covered in the consultation paper, while, in general, the Institute is supportive of the changes, we suggest that the opportunity also be taken to make other amendments to set

out, or clarify, in law or guidance certain other relevant matters. Please refer to the Institute's submission for details.

IFAC and ICAEW release 4th instalment of six-part anti-money laundering educational series

On 25 January, IFAC and ICAEW, released the fourth instalment in its Anti-Money Laundering: The Basics educational series covering asset transfers, one of the primary ways in which criminals layer or integrate the proceeds of crime into the legitimate economy.

The publication is part of a six-month short series helping accountants to enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest.

COVID-19 and evolving risks for money laundering, terrorist financing and cybercrime

A publication by staff of CPA Canada and the IESBA highlights the heightened risks of money laundering, terrorist financing and cybercrime in the COVID-19 environment.

Members may be interested in the United Kingdom government's recently published updated risk assessment of money laundering and terrorist financing in the U.K. Chapter 9 covers accountancy services.

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



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

FOLLOWING THE RECIPE

Baking has seen a cultural resurgence as people spend more time at home. Three CPAs tell **Erin Hale** how they started baking and how they have found more inspiration and enjoyment baking with friends and trying out new recipes

Opening her own bakery was a huge project for Sindy Li. The former auditor had always enjoyed baking as a way to relax from her busy work life and bring a little joy to the office in the form of freshly baked snacks, but this would be the next step. “I always used baking as a way to relax myself. Every time I brought baked snacks to the office, my colleagues would say ‘wow’ and were very encouraging, so I kept baking and improved,” says Li, a member of the Hong Kong Institute of CPAs. “I started six years ago making mainly cakes, for example chiffon or Swiss roll cakes because they are easier to carry to the office. You can bring many roll cakes at once and then serve the whole office.”

At the start, Li remembers wanting to learn how to bake bagels and baguettes, leading her to enrol herself at Le Cordon Bleu, a global French culinary academy, where she studied the art of baking and received a diploma in

French baking. She took a second class at Le Cordon Bleu in January 2018 prior to opening her bakery Homing People the following month in a bid to take her baking skills to the professional level. “I took an intensive class at Le Cordon Bleu in Japan in January 2018. They have two diploma programmes – one focused on baking and one on making pastries. I wanted to make sure I knew how to make and bake pastries before opening my bakery,” Li says.

Li credits her accounting background, noting that it helped her prepare for the competitive business environment of Hong Kong, where even famous chefs and bakers may struggle despite their culinary skills. High rent, taxes, overhead expenses, Li notes, are some factors that can dampen most people’s enthusiasm to turn their hobby into a profession. “Because of my accounting background, I’m not afraid of figures. I’m always thinking about costs, profits, quantity and ingredients, so for me it’s easier,” Li says.



Sindy Li, Founder of Homing People, opened up the bakery in 2018. She is pictured here with a freshly-baked batch of bagels.



Photography by Anthony Tung

“I always used baking as a way to relax myself. Every time I brought baked snacks to the office, my colleagues would say ‘wow’ and were very encouraging, so I kept baking and improved.”



WORK AND LIFE

CPA bakers



Esther Cho, Engagement Manager leading the Skills Guild Programme, Amazon Web Services Korea, enjoys baking cookies. Now based in South Korea, she is seen here with oatmeal cookies she just made.



“In the U.K., where it’s slightly colder, the icing on a cake wouldn’t melt as quickly. But that isn’t the same in Hong Kong, where it can be quite humid.”

But starting and running a bakery presented other challenges that could not be learned in the classroom or the office. “Because setting up a business has many different aspects, I had no idea about how to source suppliers, or which country had the best equipment. I had no idea in the beginning, so that was a challenge,” she says.

Ensuring smooth operations of a bakery also requires knowing how to handle everyday hiccups. One particular challenge, Li remembers, was having their coffee machine suddenly stop functioning during peak business hour only a month after opening. “A lot of our customers come to our bakery for coffee but we couldn’t serve any. But luckily, they were understanding and happy with changing to Earl Grey tea just for a day,” she says.

These days, Li gets her inspiration from the culinary traditions found in major Asian cities like Hong Kong, Tokyo and Taipei by taking one recipe and making it her own by adding a little something extra. “Recently, I’ve been making bagels. I prefer them Japanese and Taiwanese style as they always have some filling inside,” she says. “Sometimes, I’ll put Chinese barbecued pork in a bagel or I’ll fill a Hong Kong pineapple bun with custard.”

Li adds that first time bakers may also try making roll cakes, which are based on a simple sponge cake filled with cream, while others may experiment with making cookies.

“Get some satisfaction first as a beginner,” she says. “Baking really makes people relax and food always makes people happy – it’s also a great way to connect to people. When you’re baking, you can enjoy the process and taste the finished product.”

Finding inspiration

Esther Cho attributes her love for baking to a famous bakery she’d often visit during her years working in London. She was a frequent customer at Crumbs & Doilies, a bakery located in the heart of Soho opened by Jemma Wilson, a one time graphic design student known for her colourful cupcakes on Instagram and baking tutorials on YouTube.

“I attended almost 20 classes at Le Cordon Bleu and London bakeries like Jemma’s to really learn diverse baking techniques. I started from learning how to bake bread, cookies and little baked goods. What really helped me, though, was baking together with my friends,” says Cho, who worked for two years at KPMG as a management consultant before returning to Asia. She is now an Engagement Manager leading a Skills Guild Programme at Amazon Web Services Korea and an Institute member. “When you bake with friends, you learn all these little tricks like how to clean up fast, how to deal with leftovers and how long you can leave ingredients in the freezer.”

Cho would hone her skills by

baking at a friend’s house that offered enough space for multiple people to work together. Since returning to Asia, she kept up her passion in Hong Kong and now South Korea, where she relocated for work last year, although it has required a few adjustments.

One thing to note, Cho adds, is knowing how to compensate for temperature differences when baking at home, for example. “In the U.K., where it’s slightly colder, the icing on a cake wouldn’t melt as quickly. But that isn’t the same in Hong Kong, where it can be quite humid,” she explains. “So the recipe I use in Hong Kong compared to the U.K. or South Korea will always be different.”

Cho recommends novice bakers with prior experience to consider taking a few beginner classes before baking at home. Courses, she says, will help newcomers learn from more experienced bakers and provide an opportunity for them to experience baking with a full range of appliances. For example, she says learning to bake with a full size oven was easier and more intuitive, as this allowed her to eventually modify her recipes to be cooked in smaller batches or in a smaller oven in Hong Kong and South Korea. As for food, she suggests starting with a simple yet delicious option like scones. “Start with a recipe where you don’t need to buy too many ingredients or equipment. Jamie Oliver’s scone recipe, for example,



The COVID-19 pandemic has pushed more people worldwide to bake at home. In the United States, for example, 46 percent of adults reported that they bake at home more, while 75 percent said they have become more confident in the kitchen, according to a report by media company Hunter Public Relations released in April 2020. It polled over a thousand Americans between the ages of 18 to 73.

can be made by hand. Oatmeal cookies don't need a mixer," she says. Avoid anything technical at first, such as madeleines, as you will struggle to mix them without a mixer," advises Cho.

But to really improve, one needs to learn alongside someone more experienced. "A teacher is always there to give feedback," Cho says, adding that as little as five lessons can provide a firm foundation. "By learning off YouTube, a teacher can't stop and tell you that you are overmixing or if your bread is overbaked, for example. There is no one to tell if you have messed up."

Making time to bake

Fiona Wu has managed to compensate for Hong Kong's lack of space and still bake with the help of space- and time-saving gadgets. Wu, who mainly enjoys making bread in her spare time and on weekends, swears by her multifunctional Bosch MUM 5 kitchen machine, which functions as a scale and multifunctional mixer capable of handling the large quantities of dough needed to make certain kinds of cakes and bread.

"There are different kinds of machines – like bread makers – where you put all the ingredients in, press the button, and the machine makes the bread for you. However, this machine helps you slice and make dough with the ingredients you put inside," says

Wu, Assurance Principal at Moore and an Institute member.

Like many Hong Kong students, Wu first learned how to bake in secondary school through home economics classes, but it wasn't until several years later that it became a pastime that she could share with her friends and family. After taking a few cooking classes, Wu now mainly draws her inspiration from Facebook groups and YouTube tutorials to try out different baked goods, from red bean buns to buns baked with cheese.

Being a good baker requires patience and the ability to closely follow recipes and instructions, which Wu says is somewhat similar to being an auditor. "During the baking process, you have to be patient," says Wu. "You also need to follow a lot of steps and maybe wait for the bread to leaven or rise, which may take a few hours," she says.

Wu is also aware that for novices, baking may still seem intimidating, but says that there are many easy recipes that can be made with a simple toaster oven to test the waters. She suggests first time bakers to try their hand at easy snacks such as cheese sticks. "It's so easy because you don't need to prepare any dough. You can simply buy frozen puff pastry, drizzle oil over it, season it with salt and pepper and put some cheese on it. And you only need an oven so you

don't need to buy any kitchenware," she says.

Baking classes, Wu adds, are indeed a great way to learn, make a few friends and bake in an environment free of stress. "I joined different cooking classes with my friends. We learned how to make cakes, sweet rolls, macaroons, puddings and bread. Taking part in baking classes with friends is a lot more fun than simply meeting up for dinner after work. Baking brought us closer and gave us more to talk about," she notes.

For her next project, Wu plans to make a pizza with oatmeal – one of her favourite ingredients – baked deep into the crust. She has recently been making oatmeal cookies to share with her friends and family. Wu usually bakes on the weekends, but has been baking more than usual amid work from home arrangements. "During COVID-19 lockdowns, people want something fun to do at home, and baking is one thing that can be done alone or with your friends or family. It's also a great way to get kids involved," she says. But busy or not, Wu says that as long as one enjoys getting their hands messy and enjoying delicious treats, there will always be time to put on an apron and bake. "Never give up any of your hobbies, no matter how hard or busy life gets," she adds. "Keep doing what you like."





Fiona Wu, Assurance Principal at Moore, enjoys baking on weekends. Below, she is taking out a fresh assortment of ribbon-shaped buns made with flour, eggs, butter and topped with cheese.

“Taking part in baking classes with friends is a lot more fun than simply meeting up for dinner after work.”



YOUNG MEMBER OF THE MONTH

Sean Cheng

SEAN CHENG

Senior Manager of Group Audit
and Management Services
at a high-end lifestyle brand operator



As Senior Manager of Group Audit and Management Services at a high-end lifestyle brand operator, Sean Cheng oversees risk and governance, and finds ways to enhance existing control processes – all on a daily basis. He tells *A Plus* what he enjoys most about working at the company, and why he made the switch from working in practice to the commercial sector

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

I'm mainly responsible for leading the internal audit team to ensure the right corporate governance and internal controls are in place. This includes designing risk-based internal audit plans, performing control and advisory review projects, and communicating areas of improvement to management. I've recently been busy leading the transformation of our risk management practices and developing the data analytics capabilities of the team. I'd say things are going very well so far. Apart from traditional internal audit engagements, there have been new initiatives within the company to enhance our environmental, social and governance (ESG) practices, for example. ESG risk management has grown in importance, especially after the revision of Hong Kong's listing rules on ESG reporting. By looking at our current ESG risk management practices, I find ways of integrating better practices within our company's business strategies with ESG in mind. As we have a sustainability team leading the group to achieve our ESG targets, there has been regular communications between them, my team and the business strategy team. It is necessary to make sure that we aren't working in silos, but rather working together to look at risk management and ESG issues within our business strategies and the impact they have on the company's objectives.

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

What's most rewarding is having the opportunity to learn, pick up new skills and help the company evolve. The company is growing quickly and undergoing digital transformation, so I've had to be a quick learner. For example, our team is developing its data analytics capabilities. With more data, it's crucial to know what is available, how to analyse it – and more importantly – how to present it in a way that's easy for management to understand. This is the most challenging aspect of the job, but I can say that it's a role where I learn something new every day. I also like how the company values art and nature, and integrates these two elements into all aspects of what we do.

What inspired you to become an accountant?

I've always liked numbers, even as a primary school student. This led me to attain my bachelor's degree in Business Administration, majoring in Finance and Marketing from the Chinese University of Hong Kong. I wanted to work in a numbers-related field after graduating. I then received an offer from KPMG and accepted it, knowing a career accounting would be a very stable one. I am also pursuing my master's degree in Construction Project Management from the University of Hong Kong.

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

It would have to be learning how to build trust with business partners. The key is to listen. By putting yourself in their shoes, you can really understand the root causes of their problems. We have to come up with solutions that won't compromise best practices yet also meet their concerns. Another challenge was switching to the commercial sector. I started my career at KPMG, where I worked for two and a half years, then went to PwC. At KPMG, I focused more on corporate audit, whereas at PwC, I was involved in more external audit for financial institutions. After leaving the Big Four, I worked at Swire as an internal auditor. I returned to KPMG advisory three years after Swire and joined their risk consulting practice, where I stayed for almost five years as I wanted to expand my exposure to the corporate governance space and enterprise risk management. I joined my current company in November 2020. Working in practice is very different from working in the commercial sector. In an external audit, you mainly deal with numbers and determine whether financial statements give a true and fair view. But in the commercial world, you also have to communicate with management to understand their pain points and how the company intends on achieving its objectives. It's a field I enjoy working in and plan on staying.

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

I found all modules of the QP are useful. The programme itself provides us with the fundamental knowledge in key areas such as accounting standards, financial reporting, taxation and business assurance. It also informs us of the code of ethics we have to comply with. I found the workshops to be especially useful, as they simulate real-world situations very well. They coach young professionals on how to communicate with team members, leading a team and how to work with others to solve problems. These are all essential skills for a CPA.

SPOTLIGHT ON TAKEAWAY MEALS

Institute members recommend restaurants to grab your next takeaway meal

Fûhn

“Fûhn in Causeway Bay serves tasty North American-Vietnamese fusion cuisine. Their crispy shrimp cake burger with sriracha-mayo cannot be found anywhere else in Hong Kong, and their signature beef pho served with angus beef is just as fabulous – be sure to try get it with bone marrow too.” says Lui.

- Arthur Lui, Finance Manager at Charles Taylor Mutual Management (Asia) Pte. Limited



Fûhn

Dough Kitchen

“I recommend doing takeaway from Dough Kitchen. They serve delicious handmade pasta, risotto, pizza and have an interesting cocktail selection. It’s also a great place for a date or family brunch. I suggest trying their sea urchin pasta. They are also located in Tai Hang, which is a hidden gem in the city worth exploring during weekends,” says Chung.

- Emil Chung, Vice President at Cassia Investments



Dough Kitchen

Canton's Kitchen Dim Sum Expert

“I recommend getting takeaway from Canton’s Kitchen Dim Sum Expert in Tsim Sha Tsui. They have a very wide selection of dim sum to choose from at a fair price. Their signature dish is dumplings in chili oil (紅油炒手) which is a bit spicy but delicious,” says Law.

- Leanne Law, Accounting Manager at Ednovators



EYES & EARS

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



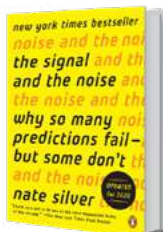
Richard and Karen Carpenter

What I'm listening to

- Susanna Chiu, Director,
Li & Fung Development
(China) Ltd

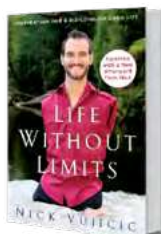
"I still love listening to The Carpenters. Whenever I have the Monday blues, The Carpenters' *Rainy Days and Mondays* starts playing in my head. Songs like this one truly last forever," says Chiu.

What I'm reading



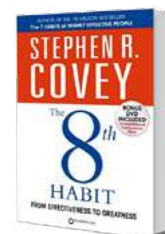
When "Big Data" becomes a buzz word and every corporate is trying to implement their "next gen" data strategy, Nate Silver's *The Signal and the Noise: Why So Many Predictions Fail – but Some Don't* revisits basic probability and statistics, and how the correct application of simple model by people with domain knowledge can help make better real life predictions, and appreciate that predictions is usually probabilistic instead of deterministic.

- Ronald Tsang, Senior Director at an American Express joint venture



I recommend *Life Without Limits: Inspiration for a Ridiculously Good Life* by Nick Vujicic. Vujicic was born without arms and legs yet was able to live an independent life and even become an influential life coach. Due to the pandemic, it may feel like we have lost our senses and mobility, and maybe even more importantly, our purpose. In this book, Vujicic shares his journey; how he learned to accept what he could not control in life and focus on what he could, which led him to eventually emerge as a person of confidence and strength.

- Kingston Ho, Non-Executive Director at Connect Academy Trust



The 8th Habit: From Effectiveness to Greatness by Stephen Covey talks a lot about leadership. Beyond helping others to finish tasks, good leadership can help others find their voice and discover their fully potential. It is a process of identifying talent through quality communication and stimulating their interest at work. This book helped me to realize other people's potential and taught me that open-mindedness is a key qualities for a team leader to have.

- Ron Pau, Senior Manager, Advisory, Grant Thornton

This account is crystal clear

Hong Kong's humorist on why accountants should consider tapping into their spiritual side more



Nury Vittachi

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

Is accounting an art or a science? This has been debated passionately around the world since the beginning of time – okay, in my head since a social media conversation earlier this month.

But on the morning of writing this, I find in my inbox an alternative view: perhaps true accounting is actually a spiritual experience.

A reader forwarded me a piece from *Forbes India*, a business magazine, about a lady named Anamika Rana. A highly qualified accountant, she did audits for the Big Four during the day, but during the evenings, she dealt with clients' spiritual needs.

Clients flocked so enthusiastically to the second of her offerings that Ms Rana had to start a side business supplying crystals, which her clients used to align their personal and corporate invisible energy fields.

It's an interesting new area for financial professionals, although I'm not sure how they would build this into standard "company doctor" conversations: "We'll need a drastic cost-cutting restructure of your corporation's international arm, perhaps reshaping it around pretty pink crystals on the chief executive officer's desk."

Now I am fully aware that some people consider all that stuff to be a wacky waste of time, but let me point out that academics regularly write papers on the spiritual side of accounting.

"There may be a need for new forms of accounting and accountability practice – what I call, *awakening accounts* and *awakened accounting*, that are based on the realization of enlightenment and on *awakened doing*," wrote New Zealand lecturer Dr Pala Molisa in an article in the journal *Critical Perspectives on Accounting*. After all, our shared ultimate, he wrote, was to "help to realize heaven on earth." (And you thought you were just counting stuff).

Writers for the *Journal of Accounting, Auditing and Finance* took the idea further, calling for spirituality to be incorporated into accounting teaching courses. The old mantra, "maximizing shareholder value," needed

revising, they said. Today, people valued "making the world a better place for everyone."

I guess a better world isn't a bad thing. These academics and Ms Rana have correctly divined that humans set themselves up for disappointment by forgetting the teachings of humanity's wisest gurus, John Lennon and Paul McCartney, whose timeless utterances include: "Money can't buy me love," and "c'mon, c'mon, c'mon, c'mon baby now."

A friend reviewing this text points out that the association of spirituality and accounting goes back to the roots of the profession. The man who won the title "father of accounting" by writing a book 500 years ago, was Luca Pacioli. His day job? He was a monk, so he and his colleagues probably spent most of their time rising at dawn, chanting, trimming each other's hair into circles and talking to birds.

I asked an accountant friend to comment about this idea in a bid to fill more column centimetres, and he took a practical view. "It's a great idea," he said. "Religious organizations don't have to pay tax. But you'd have to change the name of your firm." He suggested something like: "Chan, Chan and Chan, auditors, saints and miracle workers."

The Americans, meanwhile, are well ahead. Entrepreneurial advisor Mark Silver has launched an eight-week programme to help businesspeople find their spiritual centres. The "Heart of Money Transformational Journey" will give participants "a feeling of peace, love, beauty, clarity and strength in facing financial tasks," he says.

Even more startlingly, he claims: "We have found that every act of business can be an act of love."

Every act of business? Like asset-stripping, for example?

But I don't want to be a cynic here. If your business does become insolvent, at least you can hum "money can't buy me love" with the assets that the creditors won't want: a nice set of pretty pink crystals.





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