

Dinner date change

▶ The Institute's annual dinner has been rescheduled from 9 November to **Thursday 7 December** to fit the schedule of the guest of honour, HKSAR Chief Executive Donald Tsang. Members are encouraged to dress to the theme: the colour of success.



Meet the celebrities

▶ The Institute's Celebrity and CEO Series has received overwhelming response with October featuring the president of the Hong Kong Venture Capital and Private Equity Association, Vincent Chan. Legislative Council President Rita Fan is next up on 18 November.

GST reminder

▶ An Institute GST working group is canvassing members' views and coordinating the Institute's submission to the government. A website has been set up for members to add their views and comments, and learn more about the issues. The working group is also publishing e-letters to address specific issues relating to GST. Please make yourself heard so the Institute can accurately make its response to the government by mid-December 2006.

Open for booking

▶ The Institute's training and meeting facilities at Wu Chung House are open for booking. The auditorium can cater up to 300 people, while the nine function rooms are good for meetings and seminars. Members enjoy a 30 percent discount.

Audit update

▶ New audit report standards HKSA 700 and HKSA 701 have been released in the "Members' Handbook Update 33."

Lost contacts

▶ The Institute has lost contact with Chak Wai Keung (A15989), Fuh Tung Hai, Michael (A16080), Ho Hin Fai (A05711) and Nettleton-Quek Guan Lian, Michelle (A07068).

Call Daisy Yeung at 2287 7042 if you can help locate them.

Closer cooperation with mainland accountants

▶ The Institute opened its Beijing office on 30 October to provide better services to members working in the mainland and on the same day signed a memorandum of cooperation with the Chinese Institute of Certified Public Accountants (CICPA).

The agreement says that over the next 10 years the Hong Kong Institute will help 1,500 CICPA members obtain the Hong Kong CPA qualification.

The office opening and signing of the memorandum coincided with the visit to Beijing of a high-level delegation of the Hong Kong accounting profession led by Institute President Paul Chan. The delegation was met by National People's Congress Standing Committee Vice Chairman Cheng Siwei and Vice Minister of Finance Wang Jun.



The Institute and Mandy Tam

▶ The Institute recently announced its decision to stop distributing materials for Mandy Tam, Legislative Council representative for the accountancy functional constituency.

"It is with great regret that we have to arrive at this decision," says Winnie Cheung, chief executive and registrar of the Institute.

"It has taken more than 30 years for the Institute to get to where it is today, and it is our responsibility to safeguard the reputation and standing of the Institute and its members."

Members were advised to directly contact Tam via email or telephone for future communications with her: contactus@mandytam.com or 2810 5567.

The decision follows a series of disputes between Tam and the Institute, in which the LegCo representative criticized the Institute over its handling of the GST survey and made accusations that its qualification programme was too difficult.

Top marks for Tsang

▶ Following Hong Kong SAR government Chief Executive Donald Tsang's policy address in October, the Institute says it fully supports the government's focus on strengthening the territory's status as a financial centre, with world-class corporate governance and education policies.

"Hong Kong's status as an international financial market needs the new Financial Reporting Council, the new listing rules and an emphasis on good corporate governance," says Winnie Cheung, chief executive and registrar of the Institute.

"We're pleased the leader of Hong Kong mentioned these initiatives, especially the FRC, which is an important element of the accounting profession's regulation," she adds.

GST tussle continues

► Lawmakers from the Civic Party, the Democratic Party, the Liberal Party and the Democratic Alliance for the Betterment and Progress of Hong Kong showed their opposition to the GST in a 40-4 vote on 19 October to oppose the introduction of a goods and services tax, reported *The Standard*.

Among legislators giving their views on the tax in the four-hour Legislative Council session was the Civic Party's Alan Leong. "When the government says the tax base is narrow, it fails to mention the wealth gap index which is extremely wide," he said, according to the report.

Financial Secretary Henry Tang recently proposed a package of tax concession proposals that could sweeten the introduction of a GST. Tang said the introduction of the tax could be offset by a return of salaries tax to 15 percent, one percent lower than now, with the basic personal allowance at HK\$108,000 instead of the current HK\$100,000.

Tang said revenue from a GST would help introduce small-class teaching at primary and secondary schools, at 25 students per class, while doubling the city's first-year university intake from 18 percent to 35 percent. He would also consider an exemption for public transport, medical fees and school fees, costing a total of HK\$1.4 billion, in addition to a progressive tax on luxury goods, such as cars and perfume.

The financial secretary said the first 1,300 submissions to the government's GST consultation showed more than half of the respondents agreed Hong Kong's tax base was too narrow. He used this to challenge political parties to come up with viable alternatives to the tax.

"I am not trying to threaten them, but as political parties they have got to be more responsible and mature. They should answer the question of where the money comes from. One should not turn a blind eye to the narrow tax base problem and keep opposing the tax reform without making constructive suggestions," Tang said in the *South China Morning Post*.

Tang may also consider other options such as increases in salary tax and profit tax and the introduction of a green tax. The GST proposal calls for a five percent levy on goods and services, from which the government estimates it could earn HK\$20 billion.



news digest »» hong kong

Crowds flock for ICBC

► The Industrial and Commercial Bank's IPO was listed simultaneously on the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 27 October. It raised at least US\$14 billion in Hong Kong and an additional US\$5.1 billion in Shanghai, overtaking the previous record US\$18.4 billion raised by Japanese mobile phone operator NTT DoCoMo in 1998 to become the world's largest IPO. The listing attracted more than HK\$420 billion worth of orders, being subscribed an extraordinary 77 times, thus beating the mark of HK\$280 billion set by the Bank of China, *The Standard* reported. It was the world's first simultaneous dual listing in the two cities.

The ICBC, which has about US\$800 billion in assets, issued three million application forms for the IPO, offering 1.77 billion shares in Hong Kong, five percent of the total.

Mainland banks going to the market in the past year include China Construction Bank, China Merchants Bank and the Bank of China.

Merrill Lynch, Deutsche Bank, Credit Suisse, ICEA and China International Capital Corp arranged the Hong Kong sale, while Citic Securities, Guotai Junan Securities, Shenyin & Wanguo Securities and CICC put together the mainland offering.

Fong for SFC

► Accountant Eddy Fong Ching is the new non-executive chairman of the Securities and Futures Commission, appointed by Chief Executive Donald Tsang. "We are confident that Fong's appointment as the commission chairman will enhance the commission's role in maintaining Hong Kong's position as an international financial centre," Financial Secretary Henry Tang said.

NPC delegate in Friedman fight

► Veteran delegate to the National People's Congress Victor Sit has hit back at an editorial by laissez-faire champion Milton Friedman, calling the American economist's opinions on Hong Kong's policy unwelcome and misguided, reports *The Standard*. The NPC delegate says economic success hinges on Singapore-style government intervention. The debate was sparked when Friedman wrote a "Hong Kong Wrong," editorial in the *Wall Street Journal*, in response to comments by Chief Executive Donald Tsang's remark last month that Hong Kong had abandoned its policy of "positive non-intervention."

news digest china

Chief auditor warns against graft

▶ To combat corruption among China's graft busters, the country's chief auditor has warned that his provincial subordinates will be punished if malfeasance is discovered at audited institutions, *Xinhua* reports. Auditor-General Li Jinhua stated that the performance of local audit officers would be scrutinized if glaring disciplinary violations or economic crimes were discovered after the initial audit of enterprises or government units.

In 2005, auditors found 290 billion yuan in misspent public monies, the National Audit Office reported earlier. During the first eight months of 2006, auditors unearthed 129.4 billion yuan of public funds misappropriated at 54,000 government units and state-owned enterprises.

China's audit watchdog to be audited

▶ The National Audit Office, which has exposed corruption, malfeasance and misspent public funds, will undergo an audit of its own internal practices by other governmental units to combat corruption within the organization, *Xinhua* reported. A joint team from the agencies of supervision and finance will perform the examinations annually. Deputy Auditor-General Liu Jiayi announced the plan at an inner meeting on "enhancing the construction of the audit institutions."

Champions honoured

▶ Southwestern University of Finance and Economics was awarded top honours at the Deloitte Tax Championship on 16 October, 2006, the accountancy firm reported recently. Xiamen University and Central University of Finance and Economics were the first and second runners-up, respectively. Thirty-nine institutions from the mainland, Hong Kong, Macau and Taiwan attended.

Apart from the awards to the universities, the judges also awarded the three winners of the associated essay contest: Wang Kai of Shanghai University of Finance & Economics, Li Yunhan of Dongbei University of Finance & Economics, and Dai Chen of Peking University. The essay contest is a new feature to the Championship and aims to promote thorough tax research and analysis among graduate students.

China to foster world-class accountancy firms

▶ Three major mainland accounting firms (Shanghai Shulun Pan CPAs Ltd., Zhongtianhuazheng Group and Guangzhou Yangzheng CPAs Co. Ltd.) merged in late October to form Shanghai Shulun Pan CPAs Group. It is expected to have 2,000 employees and 500 million yuan in total annual operating income.

China aims to develop a core of top-notch accountancy firms capable of comprehensive, world-class standards of service through a "bigger, stronger" policy intended to lessen reliance on foreign firms.

The aim of reforming the sector was delineated by the Chinese Institute of CPAs in a draft document that has the finance ministry's support, the *Financial Times* reported. The newspaper said policymakers were concerned doubts about corporate accounts could impair capital flows. Only 70 of China's 5,600 accountancy firms are currently permitted to audit listed companies.

The draft policy says that in the next five to 10 years China should cultivate 10 accountancy firms able to operate internationally in support of domestic companies that go global and another 100 firms to serve large domestic enterprises.

"Audit storm" discovers misappropriated funds

▶ The National Audit Office found 124.9 billion yuan in misappropriated state funds during the first eight months of this year, according to *AFP*, citing official media. The *21st Century Business Herald* reported that the names of 38

leaders and 92 additional officials had been submitted for prosecution in what has been termed an "audit storm" against corruption.

Chinese media have criticized the lack of judicial powers by state auditors.

China pledges stricter banking audits

▶ CCTV reported that new guidelines have been issued for tightening bank auditing practices as Beijing permits major lenders to list overseas while further opening up the financial services realm. On 23 September, the National Audit Office stated that it would target state-owned or state-controlled banks and other financial entities. The office said that auditing would help meet the demand of financial reforms.



Long arm of the PCAOB

► Inspectors from the U.S. Public Company Accounting Oversight Board examined the London offices of Ernst & Young in early August and early September, the *Financial Times* reported.

The PCAOB is mandated by U.S. legislation to review audit documentation and interview accountants. However, the inspections are controversial because of the extraterritorial interpretation of U.S. federal law and the perceived diminishment of British national sovereignty. U.K. accountants worry their professional reputations will be impugned if their work is publicly criticized and are concerned that the U.S. investigations might replicate domestic ones.

The Sarbanes-Oxley Act of 2002 spawned the PCAOB after U.S. corporate scandals in the United States and mandates the body to report on foreign auditors every year if they have more than 100 U.S. listed issues or every three years if they have fewer than 100 U.S. clients.



Singapore gives green light to Indian accountants

► A recognition agreement between Institute of Chartered Accountants of India (ICAI) and the Institute of Certified Public Accountants of Singapore (ICPAS) will authorize audits of Singaporean companies by ICAI accountants, *The Tribune* reported.



According to ICAI President T.N. Manoharan, the talks are near completion with an accord expected by November 2006. Manoharan stated that Chartered Indian auditors would be eligible to work in Singapore on a reciprocal basis.

India to consider adoption of IFRS

► The Accounting Standards Board of the Institute of Chartered Accountants of India has formed a task force to investigate convergence of Indian accounting standards with international standards, *NetIndia 123* reports.



Honour for sale?

► The British Labour Party is concerned that several of its senior members could potentially face seven years imprisonment if convicted of false accounting relating to the “cash for honours” scandal, the *Daily Telegraph* reported.

Currently, the Labour Party is approximately £22 million in debt – with weekly interest payments on the loans close to £16,500. Party members have left themselves vulnerable to probes because they admitted to concealing the specifics of £14 million in loans from party treasurer Jack Dromey. Dromey was not aware of the loans, made by 12 wealthy supporters to help the party finance its 2005 election campaign, but the Prime Minister apparently was. However, the treasurer has primary responsibility for overseeing and compiling the party’s accounts and reporting at its yearly conference.

Antipodean businesses vulnerable to fraud

► A survey of 465 respondents by KPMG has found that in Australia and New Zealand 47 percent of entities – both public and private – say they were victims of fraud between April 2004 and January 2006. In New Zealand alone, 53 percent of business respondents suffered fraud, with 42 percent of cases involving major fraud that led to neither the property nor funds being recovered, the *Marlborough Express* reported.

To Mark Leishman, a director with KPMG, the notion that “New Zealand is immune from fraud should be displaced.” He stated that greed followed by personal financial pressures were the primary motivators of fraud.

The survey also questioned Australian and New Zealand companies with Asian offices (31 percent of total respondents, representing 144 organizations) of which 61 percent experienced fraud. The most typical forms of fraud were monetary and identity theft and false billing. Fortunately, the average response time for fraud detection has declined from 456 days in 2004 to 362 days in 2006.

