# MAKING NEW CONNECTIONS


The 1990s not only brought Hong Kong's reunification with China, it was also a decade marked by widespread use of the Internet and a global push for financial regulation. ***A Plus*** continues its series marking the Institute's first four decades

By 1990, the technological revolution was already quietly beginning in Hong Kong. An eight-year-old American company, Compaq Computers, launched a Hong Kong office that year. It had sold its products in the territory since 1984 and two years later won a contract to supply 100 of its Deskpro personal computers to the Hong Kong government for its accountants, among others, to use.

The following year, a reasonably well-known software maker called Microsoft opened a Hong Kong branch, both for sales and to provide technical advice directly to its growing roster of local clients, which included many accounting firms that used its then-revolutionary Excel spreadsheet software.

Meanwhile, the Hong Kong Society of Accountants, later to become the Hong Kong Institute of CPAs, was forming some revolutionary ideas of its own – and not just about technology.

The territory opened the decade still in the shadow of the Tiananmen Square crackdown of just seven months earlier that plunged Hong Kong into gloom and doubt. It prompted many professionals – especially accountants – to leave, at least temporarily. A Society poll of its members, released in January 1990, showed nearly 80 percent of respondents were considering leaving Hong Kong.

Although far fewer actually left, the survey was disheartening for a profession that was already experiencing staff shortages. A number of reasons had been put forward for fewer graduates choosing accounting, including low starting salaries, difficult examinations and the prospect of unlimited liability.

In addition, the Hong Kong economy had barely recovered from the 1987 Black Monday stock crash, as well as a lesser plunge in October 1989, known as the Friday 13th crash. Domestically, several bank and corporate failures – as well as several accounting

Financial Secretary Hamish Macleod addresses the Society's annual dinner in 1991. To his left, Selwyn Mar, Society president that year

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misstatements during the 1980s, culminating in 1989 with Ontrade International's overstatement of its interim profits – had shone a spotlight on accountants.

Marvin Cheung, president of the Society in 1990 and now chairman of the Hong Kong Airport Authority, recalled that as the 1990s dawned, he heard rumours that a number of local audit practitioners were effectively selling their signatures without doing any work.

"In order for a limited liability company to file a tax return they needed a set of accounts, so people would approach qualified accountants and say: 'You don't have to do anything, you just have to sign these accounts for a nominal consideration.' " True or not, says Cheung, "that became very damaging to the image of the profession."

In response to government pressure to tighten self-regulation, the Society submitted a package of proposed reforms to the government in early 1990 that required amendments to the Professional Accountants Ordinance. To increase public confidence in the accounting profession, the Institute's Council decided to introduce "practice review" to monitor members' compliance with professional standards in auditing.

## Mixed reaction

Under the proposed practice review system, all CPA practices in Hong Kong, including firms and sole practitioners, were eligible to be randomly chosen through a ballot system for a review by the Society. Audit procedures and the working papers of the chosen practices would be inspected on-site.

The plan's reception by members, to say the least, was mixed. While many thought practice review would enhance the profession's public reputation, others were outraged at the suggestion that their work required outside supervision. "If there was any controversy," Louis Wong says of his 20-year term as registrar, "practice review was it."

Selwyn Mar, managing partner of Charles Mar Fan & Co. and Society president in 1991, says the original name coined for the concept was "inspection." "The only way to go was either a peer review or a quality inspection," Mar says he concluded at the time. "Since Hong Kong is so small, a peer review might not have been appropriate from a confidentiality point of view, so the next best choice was an inspection system."

However, Mar says other senior accountants, such as Dudley Harding, who helped devise the basic framework of the system (and became Society president in 1993), urged the adoption of a friendlier name. Thus "practice review" was born, named after the system in Canada, one of the few major economies where it was in force.

The Society rallied around the new concept. "Around the world, the accounting profession at that time was regulated by self-regulation. Practice review tells the world that we take it seriously," says Winnie Cheung, who had been appointed the Society's technical director in 1990, and who would later become chief executive and registrar from 2004 to 2012.

Despite the new label, nothing prepared the Society for the backlash. Nine CPAs, who claimed they had the support of more than 100 of their fellows, petitioned a Legislative Council ad hoc group, opposing the bill to amend the Professional Accountants Ordinance.

Mar says the introduction of practice review was his first experience as a Society officeholder to face sustained vocal opposition by rank-and-file members. "I wonder why my kneecaps weren't broken," he muses.

## Important ally

Proponents of practice review had the colonial government on their side, especially the then financial secretary, Hamish Macleod, and the secretary for monetary affairs, David Nendick. "The government told us: 'You're heading in the right direction with practice review,' " Mar says.

Although legislation mandating practice review was inevitable, the Society called an extraordinary general meeting to debate and vote on the issue. When a vote was taken, those in favour outweighed those against by 930 votes to 759.

Practice review was officially introduced in April 1992 with the amendments to the accountants' ordinance. The first reviews began in April 1992 and 14 practices were assessed in the first six months.

Tommy Fung, now a partner with Ernst & Young in Hong Kong, joined the Society in the early 1990s to help with the introduction of practice review. (Two decades later he would become deputy chairman of the Practice Review Committee.) "It was certainly

## MAINLAND PUTS ITS NUMBERS IN ORDER

The 1990s saw a sharply rising awareness in China of the importance of up-to-date – and internationally recognized – accounting standards and regulations.

In 1992, China promulgated the first Chinese accounting standard to be based on concepts and characteristics adopted by the International Accounting Standards Committee, the predecessor of today's International Accounting Standards Board, as well as foreign standard setters.

As if to underscore China's emerging appeal, Cathay Pacific Airways announced in late 1992 that it would set up a subsidiary in Guangzhou to perform revenue accounting work.

In early 1993, China's Ministry of Finance launched a World Bank-funded project to formulate 30 detailed accounting standards. On 1 July 1993, a main set of accounting standards – national Accounting Standard No. 1 "Accounting Standards for Enterprises" – were put into effect and were applicable to all Mainland enterprises.

Such developments quickly attracted the attention of Hong Kong Society of Accountants members. "That time was when I started to join international consortiums and networks and work more or less like a middleman to explore China opportunities," recalls Eric Li, senior partner of Li, Tang, Chen & Co. and president of the Society in 1994.

The Society and the Chinese Institute of CPAs began to work together more closely. The two bodies had met with their Taiwan counterparts in 1990 and jointly organized an educational symposium in Shanghai in August 1992.

Later, Mainland accountants were brought to Hong Kong for training. In one case, 40 accountants attended a four-week intensive course on modern financial management at the Chinese University of Hong Kong in July 1993. "The systematic learning of Western finance management has consolidated my knowledge in accounting," Wang Yong, one of the attendees, told the *South China Morning Post*.

Such activities served to bring the two jurisdictions together. "For the first time I recognized that China was very much part of the Hong Kong profession," Li says of his time as president. "I set up a number of panels like a China taxation committee and organized technical exchanges between our professional body and that of China."

Meanwhile, the opening of Mainland offices of international accounting firms helped transfer know-how. In 1990, KPMG Peat Marwick set up the first Chinese-foreign joint venture accounting firm. Others soon followed. In 1993, Coopers & Lybrand and BDO Binder announced they would launch joint ventures in China, joining Arthur Andersen, Ernst & Young, Deloitte Touche Tohmatsu and Price Waterhouse.

Selwyn Mar, president of the Society in 1991, watched the multinational firms enter China with some bemusement. "The big firms spent millions of dollars, billions of dollars, developing the China market," he says. "In the initial period, I believe they lost a great deal of money. But it had to be done – the market had to be established."

However, the Mainland soon became a major avenue of advancement for Hong Kong accountants, says Paul Chan, who formed his own firm, Paul Chan & Partners, in 1998, later became president of the Institute, and is now serving as Hong Kong's secretary for development.

"In the 1990s, if you were in one of the big firms and you were young and up-and-coming, your senior partner would tell you, 'Go to China, be stationed there for three to five years and then come back and I will make you a partner,' " Chan says.

### Capital ideas

In 1993, the first H-share, a stock in a Mainland company that trades on the Hong Kong stock exchange, was issued. Winnie Cheung, who was technical director at the time, was brought in by HKEx and SFC to help create the framework for the H-share listing in Hong Kong. "The H-share scheme brought tremendous opportunities for Hong Kong accountants. Our international expertise and reputations were put to good use. The H-share market attracted global funding that helped restructure and expand China's state enterprises and contributed to the phenomenal economic growth of the country that we have seen today. It was a fantastic opportunity to be involved in such a historic project," she says, looking back at the Hong Kong profession's contribution with great pride.

It was a complex process. "The financial statements would be prepared for the domestic market using the China standard, then Hong Kong accountants would prepare statements in compliance with Hong Kong or international standards for international investors," Cheung explains. "And for any differences, the Hong Kong accountants would create a reconciliation statement that will also be presented in the annual report. There was nothing like it in any parts of the world."

Then there were B-shares, stocks in the Shanghai and Shenzhen B-share markets set aside for foreign investors. The Society warned that successful expansion of these markets would depend largely on China's adoption of international accounting standards. "International investors want to see much more detailed reports," Meocre Li, a Society member and B-share expert, told *The Wall Street Journal* in April 1993.

In 1995, Tommy Fung, now a partner at Ernst & Young but then working in the Society's technical department, was seconded to the Mainland to work on revised accounting standards. "I served as a secretary to the PRC accounting standards technical committee," Fung remembers. "It took a while for them to get into the complete body of standards, but they were moving in the right direction."

By 1998, China's accounting market was worth US$220 million, of which the Big Five had established a 10 percent market share. "China is going to potentially be the biggest market in the whole world for audit, tax and consulting services," Philip Laskawy, then chairman of Ernst & Young, told *The New York Times*.

But barriers remained. U.S. business executives pressured the World Trade Organization to convince China to open its market. They argued to Beijing that better disclosures would help China strengthen its banking system by making it easier to gauge the creditworthiness of borrowers.

The Mainland had considered allowing foreign accountants to work in China (after obtaining Chinese qualifications) since the early 1990s, and in 1994, about 100 Hong Kong CPAs registered through the Society to sit the first CICPA examination open to non-Mainland accountants.

However, as China felt the grip of the Asian financial crisis in 1998, the CICPA's then secretary-general Ding Pingzhun backtracked on the idea, telling *The WSJ* that China's door was "already open wide enough."

The backtrack would not last very long and in the new millennium, China continues to open its market.


A Society delegation visits China's Ministry of Finance in 1996

controversial," Fung agrees. "Some practitioners took the idea very well, but others had a bit of resistance. By the time I came on board, it had been passed as legislation so they had no choice but to accept it."

Fung says that in the early stages, the emphasis was on encouragement, not punishment. "It was practice review in a more educational sense," he says. "The educational emphasis let the practitioner know what practice review was about and how it could help them improve their own quality."

Mar says that approach dampened the opposition to practice review. "We said that in the first round, it's all about education. You get advice and the Society will structure a review by people who are capable of telling you, 'Look, you shouldn't do it this way, do it that way.'

"Only in the second round, or if you refuse to cooperate, or if you refuse to take the advice, or if we go back to do a second review and you haven't done a goddamned thing, then you'll be hauled before the Disciplinary Committee," he adds.

During the 1990s, about 10 percent of all practice units in Hong Kong were selected for practice review each year. In the first three years, more than 400 practices were reviewed, from which just seven cases were referred to the Disciplinary Committee.

Even those unaffected by practice review approved of the new system. Sanford Yung retired as senior partner of Coopers & Lybrand in 1992, just before its introduction. "Although I did not actually experience the introduction of practice review, I believe it helped change perceptions of ethics and the profession was much improved," he says.

In 1993, the Society celebrated its 20th anniversary. In his message to the Society, marking the milestone, Macleod said the government believed practice review to be one of the Society's most significant achievements.

"Now that the system has been in place, it has won increasing acceptance both within the profession and the community as an effective means of reassuring both the public and the government that professional standards are being maintained," he said at the time.

## Leaving town

Another important change in the 1992 package of reforms to the accountant's ordinance included the establishment of an Investigation Committee with its own statutory authority to seek evidence from members until a case is referred to the Disciplinary Committee (which already was a statutory committee).

Other elements included the expansion of the Council and permission for members not holding a practising certificate to become CPA firm partners.

In 1995, a further step was taken with permission for CPAs to incorporate. "Now with incorporation as an option, there exists a mode of practice which affords protection for an auditor's personal assets against negligent acts of his other partners," T. Brian Stevenson, Society president in 1996, said at the time.

Throughout the 1990s, the Society provided input and assistance with numerous pieces of legislation, including ordinances related to companies, banking, tax, salaries and pensions, insurance and securities – even the Drug Trafficking (Recovery of Proceeds) (Amendment) Bill 1995.

The Society was also called upon to help with legislation not related to accounting or finance, but to its experience and expertise as a model for qualification or self-regulation, such as legislation refining the duties of the Hong Kong Council for Academic Accreditation, passed in 1995.

However, one dark cloud that hung over the decade was whether there would be enough accountants remaining in Hong Kong after 1997 to ensure any new rules took affect.

After all, the end of the 1980s had seen something of an exodus from Hong Kong accountants. Many had gone to Canada and Australia, anxious about the negotiations over Hong Kong between China and the United Kingdom through the 1980s and then spooked by Tiananmen Square in June 1989.

Peter Wong, the profession's first functional constituency representative in the Legislative Council, had noted a Vocational Training Council survey showed that Hong Kong had lost 900 accountants due to emigration in 1989 (compared with 400 in 1988).

Meanwhile, he told LegCo in March 1991, "the actual demand for accountants has risen due to business expansion and more sophisticated compliance and accountability requirements. We are estimated to be short of 1,000 professional accountants."

But through a combination of factors – partly the greater political clarity and economic stability that emerged in Hong Kong, and partly the security of holding a foreign passport or residence visa if a future need arose – many CPAs who had departed Hong Kong decided to return.

"They left but they all came back later on," Aloysius Tse, the Society's president in 1998 – the Society's 25th anniversary year – recalls with a smile. Tse suspects they were definitely bored and probably envious. "You have a very stable life with no excitement," is how he describes the expats' lives. "When they left, Hong Kong was weak, and when they were thinking of coming back, the Hong Kong economy was booming. In Hong Kong, your ex-colleagues were riding another boom while you were in the doldrums."

However, the returnees were much prized by Hong Kong accounting firms, Tse points out. "When they came back, they brought back all this international experience and the kids, who were educated outside Hong Kong, all came back too. You saw the new generation come in with very good English, foreign education, foreign ideas," he adds.

Tse says the return of such high-powered international professionals, and their families, galvanized the multinational corporations into opening outposts in Hong Kong. "Because of that, a lot more international firms like Goldman Sachs and the big investment banks came into Hong Kong," he explains. "They saw the place as a goldmine."

## Changing of the guard

The accounting profession did take some steps to "localize" its senior figures in anticipation of the handover. In 1996, Patrick Cheng was elected senior partner of Deloitte Touche Tohmatsu, replacing Dermott Agnew, an expatriate patriarch of the local profession, while Marvin Cheung took over from Iain Bruce as senior partner of KPMG Peat Marwick.

Many members paid little heed to whether or not the Society president was Chinese. Three expatriates were among the 10 presidents of the Society elected for the 1990s. Any attempt by the media to inflame tensions before the handover was viewed negatively. Patrick Wong, then as now managing partner of Patrick Wong & Co. CPA in Wanchai, said he was reading *Sing Pao Daily News* one morning when he saw something that incensed him.

An editorial had criticized the Society for electing a non-Chinese as president for 1995 – Nicholas Etches – saying it was out of step with the times and would create mistrust of the Society in Beijing. "I thought this was very wrong," Wong says. "I wrote to *Sing Pao* and told them Society members were all working together for Hong Kong, whether Chinese or non-Chinese, and had a united heart. And they published it."

A few days later, Louis Wong, then a registrar, contacted Patrick Wong and suggested he become more active. "So I joined a committee of the Society, as Louis suggested." However, that experience was addictive, he admits. "At one point I joined 13 committees in one year. I was going to the Institute every day and the receptionist said I was there more often than the full-time staff."

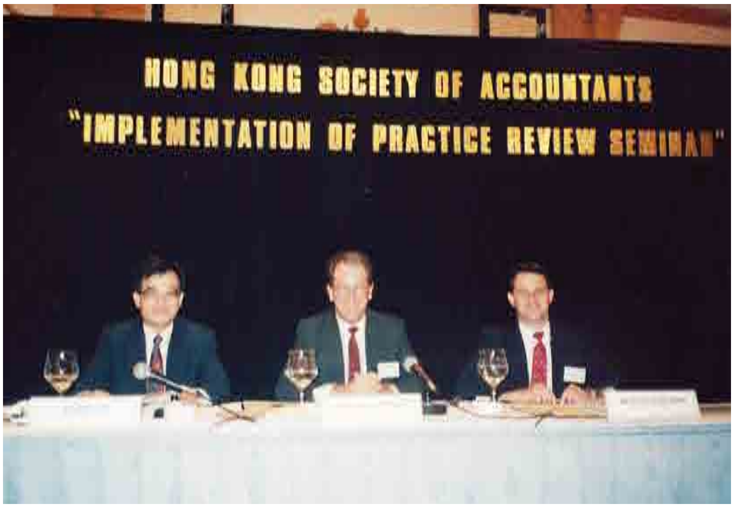
The Society was also busy clarifying its post-handover role. Chinese authorities assured the Society that it would retain its autonomy after the June 1997 handover during a visit from a Society delegation to Beijing.

"The Hong Kong and Macau Affairs Office, the Ministry of Finance and the Chinese Institute of Certified Public Accountants have given us a clear message that the Society should fully retain its present status," Stevenson told the December 1996 Society annual general meeting, the last held under British sovereignty.

At the end of 1996, the Society saw the positions of president and both vice-presidents filled by Hong Kong Chinese candidates for the first time in its history. Tim Lui, a partner at Coopers & Lybrand was elected president for 1997 – the handover year – while Aloysius Tse, a managing partner at KPMG Peat Marwick, and P.M. Kam, group financial controller at Jardine Matheson, were chosen as vice-presidents.

Lui was pleased to take on the challenge in such a year. "It was a very interesting time to be the president," recalls Lui. "It was a historic year, and I was very privileged to be elected president for 1997."

For their part, expatriates were positive about the evolution. "Following the transition in 1997, the Society, and later the Insti-




The Society launched practice review in 1992, despite a mixed reception from members tute, came happily under the management and guidance of indigenous accountants," says Denys Connolly, who had been president in 1980.

Lui spent a great deal of his year as president enhancing ties with the Mainland profession. "I took the opportunity to do a lot of bonding with our counterparts in China," he says. (See "Mainland puts its numbers in order" on page 24)

## Evolving standards

Eric Li, senior partner at Li, Tang, Chen & Co. and president of the Society in 1994 as well as the accounting sector's Legislative Council functional constituency member from 1995, looks back on the decade as one of remarkable evolution for the profession. "We had a lot of major changes, such as to our qualifications and accounting standards, during the 1990s," he recalls.

From 1993, the Society moved towards adopting International Accounting Standards and International Standards on Auditing. "The change from British standards to international standards was to bring Hong Kong in line with international markets," Lui told the *South China Morning Post* soon after the handover, when the change had been completed.

The project caused "a little bit of pain," according to Li. "Each standard caused a lot of debate as to its suitability to be adapted for Hong Kong. It was really for the large multinational corporations, and for smaller enterprises it was often a big nuisance," he concedes. "And audit standards also created a lot of stress whether we needed one audit standard for large and small. There were a lot of very valid debates and it was no walk in the park."

In 1997, there were 19 mandatory auditing standards issued. This overhaul of the auditing standards and guidelines was in line with international precedents, with countries such as Canada, Australia and New Zealand instituting similar moves.

The following year saw a new guide jointly produced by the Society and the Hong Kong Ethics Development Centre to promote ethics within the profession.

Internationalization would also finally change the perception of Hong Kong as dependent on British qualifications and standards and mark an important stage of self-determination. "We were moving from a UK-based set of standards to an international-based set," Tommy Fung recalls. "The whole thing speeded up significantly, I think, because of the bigger impact of globalization."

As an international financial centre, Hong Kong had always been interested in events across the globe and a large delegation had been sent to the World Congress of Accountants in 1997, held in Paris. As if to underscore Hong Kong's changing role, the International Federation of Accountants announced in May 1997 that the city would host the 16th World Congress of Accountants in 2002.

"This congress strengthens Hong Kong's position within the international accountancy arena and reaffirms our reputation as one of the world's top business and financial centres," Stevenson, chairman of the bidding committee, said at the time.

## New qualifications

The rising internationalism would fundamentally alter the relationship between Hong Kong accountants and those in the United Kingdom, ties that had existed since the earliest days of the colony. The Society had long sought a measure of independence – since as early as the eighties, it had tried to wean itself off its reliance on the examinations of other accounting bodies.

"The Society had actually run its own examinations for three years in the beginning of its formation," Winnie Cheung points out, adding that they were not successful. "At the time, the Association of Chartered Certified Accountants in London had been established in Hong Kong for some time and offered an examination that gave you a British qualification, which was what people chose over the Society's local exam."

So the Society at the time thought, if you can't beat them, join them. "In 1984, the Society signed a 10-year agreement with ACCA to offer their exam here as a joint programme," says Cheung. "And people who qualified would be able to become a Hong Kong accountant as well as an ACCA qualified accountant, so that was very attractive. The Society just had to administer the programme, which was developed and controlled by ACCA in London. In 1993 when the renewal came up, the Society signed it again for another 10 years."

However, the Society later decided to bite the bullet and decided to give ACCA notice that it was going to end the joint examination and qualification scheme and develop its own programme." In June 1997, the Society announced details of its new accreditation system.

Under the new system, introduced in 1999, candidates must have a degree, under-


The Society launched a free advisory service on accounting for individuals and small businesses in 1996. Here, a bus is advertising the scheme

## PROFESSION IN PURSUIT OF GOOD GOVERNANCE

A string of company failures in the United Kingdom in the 1980s prompted the British government to commission a report into corporate governance standards.

In 1992, a commission chaired by Sir Adrian Cadbury (of the confectionery company) delivered its report. As a result, a code was developed to, among other objectives, define the relationship between executive and non-executive directors, to spell out the responsibilities of board members and to set out the relationship with external auditors.

This code was on a voluntary basis but the London Stock Exchange brought pressure on all listed companies to comply. The Cadbury Report was received with great interest around the world and the Hong Kong Society of Accountants' then technical director, Winnie Cheung, recalls reading it with enthusiasm.

In 1995, the Society's corporate governance working group submitted a comprehensive report with 15 recommendations to the Council in April. The report was adopted by the Council and later published. The proposals, although influenced by the Cadbury Report, were tailored for Hong Kong, such as one requiring mandatory appointment of a chief financial officer, with the Society's membership qualification, at board level.

"The Cadbury Report created a significant world interest in the subject but little discussion took place in Hong Kong," Cheung, who later became chief executive and registrar of the Hong Kong Institute of CPAs until 2012, recalls. "I read the Cadbury Report and at the time Edward Chow, who joined the Council as a new member representing the professional accountants in business sector, took a significant interest in the subject as well, and together we set up the corporate governance working group to look at how Hong Kong companies fared.

"The working group reported that only 2 percent of companies had audit committees and very few had qualified accountants responsible for financial statements," Cheung who conducted the research remembers. Chow became the Institute's president in 2005.

The Hong Kong stock exchange took great interest in the Society's report and pushed to mandate the formation of an audit committee comprised of majority independent directors as an "adopt or disclose" recommended practice for listed companies. Donald Tsang had become financial secretary and announced in 1996 that the government would promote corporate governance.

Over the years following its first publication, the Institute published a series of reports and practical guides covering directors' remuneration, directors' business review, formation of audit committee, internal control and risk management, public bodies operation and other corporate governance issues. These reports were all well-received by the government, regulators and the business community.

Corporate governance was in the forefront again in the late 1990s as the Asian financial crisis hit. Hong Kong companies faced increasing pressure to take corporate governance more seriously as competition for international capital intensified. In November 2000, the Society helped the city host one of its largest corporate governance conferences to date.

Concern expressed by multilateral institutions, such as the World Bank, the International Monetary Fund and the Organization for Economic Co-operation and Development following the Asian financial crisis, led to the launch of the first OECD Asian Roundtable for Corporate Governance in Seoul in 1999.

"Edward Chow and I attended this first Asian roundtable and we were very interested in what we had to say and keen to get Hong Kong involved in a leading position," says Cheung. "We won the hosting right of the second OECD/World Bank/IMF roundtable in Hong Kong in 2000. At the same time we created our Best Corporate Governance Disclosure Awards," she adds, and explained how she helped create the first benchmarks for judging, under the scrutiny of local and also international experts, including the World Bank and Standard & Poor's who were represented on the panel.

The awards are highly regarded in the region and the Society did its part to not only throw the spotlight on corporate governance but also make it a coveted achievement.

take a professional training programme and pass examinations and workshops to qualify as a Hong Kong certified accountant.

At the time of the announcement, Lui said the decision to terminate the link with ACCA was in no way related to the handover. Instead, it was designed to offer accountants training to cater to the business environment in Hong Kong. He also said the Society was sufficiently mature enough to justify setting its own qualification criteria.

The Society's Qualification Programme was introduced in 1999 (and, in 2001, would replace the then 20-year-old Joint Examination Scheme). The QP consisted of four modules, each requiring 14 weeks of self-study, attendance of workshops and followed by a three-hour open-book exam. The final examination, covering all four modules, was a six-hour open-book test. "The QP was developed with the help of many local and global experts after extensive consultation with all stakeholders, most of all employers and users of services of accountants. Our aim was to provide a programme that would train and produce accountants with the skills capable of meeting the change and demand of the 21st century. Through the QP we wanted to produce accountants who can apply their knowledge independently in real life situations, not just [to] doing exams," says Cheung.

The QP introduced elements such as workshops and an open-book exam. "We didn't need candidates to memorize all the information," says Cheung. "The test is in that if you have this issue or problem in front of you, how are you going to deal with it with the knowledge you have in your head and at your fingertips? You open the book and choose relevant information to come up with an integrated solution. You can't know everything so you learn to know where to look."

Another skill that students learned was presentation. "Candidates can have excellent technical ability, but the ability to communicate effectively is equally if not more important in this day and age. The Society also learned this feedback from its survey with potential employers of CPAs. To enhance future accountants' skills to explain things, the QP workshop involves candidates working in teams to solve a case or problem and present their solutions," says Cheung.

Cheung was pleased to note the success of QP in achieving mutual recognition with major accounting institutes all over the world and its emergence as a preeminent globally recognized qualification.

## External pressures

By the end of the 1990s, the Society faced a number of pressures from the outside. While Hong Kong celebrated the handover, crises were unfolding in neighbouring countries that would overshadow local events. By July 1997, the Thai baht was under attack from currency speculators and the government there declined to defend it.

Faced with mounting foreign-currency debts, many Thai companies collapsed. The crisis soon spread to Indonesia, Malaysia, Korea, the Philippines and Hong Kong. China, Singapore, Taiwan and Vietnam were also affected but less dramatically.

In Hong Kong, part of the fallout was reflected in the corporate failures of several Hong Kong companies, most notably Peregrine Investment. In 1998 and 1999, regulators referred 11 cases to the Society concerning audits of listed companies.

Accountants were disheartened about the economy and many worried about their businesses, a 1998 survey commissioned by Edward Chow (who would become president in 2005) found. The survey showed that 42 percent of respondents thought the Hong Kong economy was worsening, while another 15 percent believed it was not doing well.

Despite such gloom, there was an industry emerging in the 1990s that would have far-reaching effects on the profession, and even the whole world. While technology had been evolving since the earliest days of the profession, the 1990s saw – through innovations in hardware and software and the development of the World Wide Web – computers move from the commercial back office to the consumer desktop.

"Technology changed a lot of things," says Winnie Cheung. "If people buy things from the client through e-commerce, there may not be papers to support the transactions. You need new methodologies to audit the systems. There emerged new kinds of assurance services such as WebTrust and SysTrust created by the United States profession."

By the late 1990s, a darker side of technology had emerged: the so-called Millennium Bug that threatened to disable the world's computer systems on 1 January 2000. "Of course, Y2K turned out to be a nonevent," says Cheung.

Nevertheless, technology – and the globalization that it helped enable – became an overarching theme as the 1990s closed and as the global dotcom bubble grew. "We went through revolutionary changes brought by technology advancements and globalization. Changes in the risk environment brought new challenges to auditing, and cross border business transactions and innovative financial instruments brought new challenges to traditional accounting methodologies," says Cheung.

That would be one challenge facing the Society as the 2000s began. It would meet these challenges head-on, and gather strength, but not without fundamental changes that would affect its very identity. A


The Society's Best Corporate Governance Disclosure Awards in 2003