40th ANNIVERSARY 計 往開來四十年 Accounting for Hong Kong since 1973

THE NEXT FOUR DECADES

In the final part of the series commemorating the 40th anniversary of the Institute, ***A Plus*** looks at recent events and developments in Hong Kong and China, and shares members' forecasts for the profession's future

Throughout the developments and achievements of the past 40 years, the Council, management and membership of the Hong Kong Institute of CPAs have always looked to the future with the goals of constant improvement, refinement and better ways of doing business.

The reasons are manifold: they include converging standards and altered perspectives towards regulation; ever-changing business environments in Hong Kong, China, and throughout the Asia-Pacific region and the world; the emergence of new technology; rapidly evolving social interaction; and different expectations among business and industry stakeholders and the general public.

The second decade of the 21st century is already posing its own challenges, including financial, regulatory and technological issues. For its part, the Institute has sought to confront these and build new strategies to improve the fortunes of its members.

As 2010 dawned, the worldwide financial downturn that had begun nearly two years earlier showed few signs of abating, with many key world markets – particularly in the euro currency zone – lurching from crisis to crisis. Hong Kong was less affected but the Institute was moved to address some of the global and regional issues that confronted members, particularly those working across borders.

In 2011, for example, the Institute debuted the first edition of a series of high-level annual conferences aiming to identify and monitor major factors influencing the business community and accounting profession in Hong Kong. The theme at that conference was "Hong Kong as a world capital market: what the future holds for Hong Kong's CPAs," while the October 2012 conference focused on "Hong Kong as a world capital market: opportunities and challenges."

Internally, the Institute entered a new era in 2012 with the appointment of Raphael Ding as its second chief executive and registrar, following the retirement of Winnie Cheung, who had held the post for eight years. A number of important director-level appointments have also been made over the past year, strengthening the Institute's leadership and focusing on its strategies.

The Institute continues to be guided by the concepts outlined in detail in the Sixth Long-Range Plan, currently under development, which lays down the Institute's strategic aims and tactical action plans for the next five years. The seven pillars are (1) standards, ethics and regulation; (2) constitution and governance; (3) member support and development; (4) qualification and education; (5) Mainland and international; (6) making a difference to society and thought leadership; and (7) communication and branding.

Within the context of those pillars are a number of strategies that have been identified as of particular concern to the Institute's Council and management. "When I took office, I highlighted three particular areas," says Ding. "One is audit reform, another is how we can move forward in the post-reform period, and the third is how we can better connect with our non-practising members."

Standard procedures

As the Council's foreword to the Fifth Long-Range Plan (2007-2011) noted, "Hong Kong remains one of the few jurisdictions where the [accounting] profession continues to regulate itself. However, if the profession is to continue self-regulating, it must be seen to be discharging its fundamentally important responsibilities regarding standard-setting, quality assurance and enforcement in an effective, efficient and robust manner."

There is no doubt that the regulatory environment in Hong Kong is in transition, with the planned transfer of more of the Institute's regulatory functions over listed-company auditors and listed-company audits to the Financial Reporting Council or other designated independent body.

"One thing that is important for the Institute is maintaining public trust because there have been issues with some of the listed companies in Hong Kong and, to a certain extent, the first profession that

people point fingers at is the auditors," says Daniel Lin, managing partner of Grant Thornton and convener of the *A Plus* editorial advisory group. "It's a fact of life and we need to deal with this."

However, the Institute's responsibilities and obligations will continue. "Even after the transfer of some of the regulatory functions, the Institute will still have a meaningful role to play," says Ding. "We will still have to regulate all our members on what they do, including private company audits and as preparers of financial statements, and on how they conduct themselves generally."

It is also likely that the FRC or an independent body will require the Institute's assistance in terms of general advice. "We cannot directly participate in any specific cases but even now we have an arrangement with the FRC through which they can raise technical questions with us on a no-name basis and we can give our view," says Ding.

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Disciplinary proceedings would also require expert input from CPAs. "If they want to send somebody to the Disciplinary Committee, they'll need accountants to be there to participate in the process," Ding says, "otherwise people who are not very knowledgeable about accounting methods will be judging the quality."

And as far as standards are concerned, Ding observes that the Institute is still regarded as the leading authority in terms of their interpretation and application. "We have all the experience and I do not see this discontinued after the reform."

The Institute will continue to set standards, which are applicable to both listed-company and private-company audits. "The Institute is always going to need to have a very solid grounding in standards and indeed practice management, irrespective of who carries out practice review or the disciplinary side," says Stephen Weatherseed, managing director of the Mazars Hong Kong office and a member of the Mazars Greater China board.

The Institute will also continue to oversee, revise and enforce the *Code of Ethics for Professional Accountants*. "We already had very clear ethics rules such as professionalism, independence and objectivity," says Cheung, the former chief executive. "That will carry on."

Streamlining within

The Institute's constitution has a clearly defined scope that ensures its affairs are conducted effectively, while the president and the chief executive have separate but complementary roles.

Henry Yuen, the first registrar, says the members of the Institute – and the Hong Kong Society of Accountants before the name change in 2004 – have shown wisdom in their choice of presidents over the decade. "I look at the Institute becoming 40 years old and I think it's been through having so many good presidents," he says.

He adds that the election of Li & Fung Development (China) director Susanna Chiu as president this year was a milestone to be celebrated. "We should be proud to have a lady president. It's something to be congratulated," he says.

The Council, which is the Institute's principal policy-formulating body is devoted to policy development and strategic thinking, and responds to emerging trends. Paul Winkelmann, a partner at PricewaterhouseCoopers and Institute president in 2009, says the Council was often bogged down with "too many day-to-day issues" rather than the strategic planning that was its mandate. That led to the Institute's present-day executive-led management structure, he adds.

Winkelmann also points out that there has been greater involvement by lay members of the Council, as presidents and chief executives have become more proactive in seeking out their opinions. "They are able to contribute knowledge because they come with a business attitude about what makes sense from outside the accounting profes-

sion," he says. "They contribute enormously."

The Institute intends that it should be a role model for best corporate governance practice in the public and not-for-profit sector. "I think it has a very good governance structure," says Albert Au, chairman of BDO Hong Kong and president of the Institute in 2008.

The Institute's corporate governance guidelines are important elements of its missions and core values. "The Institute has to maintain a high standard, not only in technical competency but also in conduct," says Chiu, the current president.

The test of the Institute's operations, ultimately, is whether members approve of the way their subscriptions are being utilized. "Members say: 'We want to make sure they're spending our money wisely'," says Chiu.

Better brains

The frameworks that enable members to develop their services are the Institute's comprehensive qualification and education programmes. The core of the Institute's educational services remains the Qualification Programme, which provides the knowledge and skills necessary to become a CPA.

The QP builds on an accounting degree and progresses to workshops, coursework and examinations. It was intended to produce accountants who can think, who can analyse and who can apply their skills in real-life situations, not just to doing an exam.

The QP, which became available in Beijing in 2005, was expanded to three of the leading universities in Shanghai in 2011. "Their graduates can enrol in our QP directly after graduation," explains Philip Tsai, an audit partner at Deloitte Touche Tohmatsu in Hong Kong and the former Institute president who signed the accreditation agreements with Fudan University, Shanghai Jiao Tong University and Shanghai University of Finance and Economics.

Continuous professional development is another important part in the Institute's education philosophy. "We need to continue learning because we are a knowledge profession," says Ding. "Given the pace of technological and regulatory change, we need to update ourselves that much more."

The more youthful membership base also presents challenges in education. "I think the implications raised by Generation Y are excellent for the Institute," says Winkelmann, referring to the Millennial Generation born in the 1980s and 1990s. "These people want to learn quicker and they want to have greater levels of authority and seniority quicker."

The Institute has created faculties such as insolvency and taxation in an attempt to foster specialization among its members and more career development services are planned. "We will [introduce] a financial controller programme to prepare our members," says Chiu. "It's a programme of training with specific modules to provide hands-on support for their skill sets and competence."

The programme is aimed particularly at accountants in or entering business. "How do you go about raising finance, which is key to all businesses; how do you manage your staff; how do you develop and make full use of databases; and also treasury management – when you find yourself with surplus cash you need to know what banking products are available out there for you to maximize your return on working capital," explains Ding.

Mainland dilemmas

The Mainland is expected to hold the key to the future of the Hong Kong profession. "These days you can't imagine a single Hong Kong company that doesn't have a stake in China," says Eric Li, president of the Institute in 1994 and a Legislative Council member from 1991 to 2004 (representing the accounting profession during 1995-1997 and 1998-2004).

But much about its vast potential market remains in doubt. Under the terms of the Mainland and Hong Kong Closer Economic Partnership Arrangement, Institute members are exempt from four of the seven examination papers needed to become a member of the Chinese Institute of CPAs, but only 150 or so have passed the tests so far.

Hong Kong citizens who obtain the CICPA qualification and the necessary practical experience are still not qualified to work as signing partners unless they have worked in a Chinese firm for three years out of the past five years. "This is not what we thought when we obtained CEPA mutual recognition," Ding acknowledges. "We are working on that but it's going to take at least another year."

Ding notes that there are two separate markets for accountants in the Mainland. "One is for the practising sector, which is very re-

stricted," he says. "Either you join the Big Four or the big national firms. But to be a partner of the big national firms you have to be a Chinese national."

The non-practising sector is a separate and less restrictive market, he adds. "We are one of the many accounting institutes targeting this non-practising sector but we are closest to the China market. We have helped China in developing their professionals and we have a very good relationship and they understand our abilities in cross-border fund-raising and initial public offerings."

The relationship between Hong Kong and the rest of China is likely to grow closer. "It will be one economic power," Winkelmann forecasts. "It is better that [the Mainland comes] into our environment and learns from us now while we can still teach them rather than when we're the elderly parent they won't listen to."

Going forward, Hong Kong accountants will benefit from the Mainland's continuing privatization process. "China will grow its private sector and not just state-owned enterprises but also private Mainland companies will have to go abroad," says Paul Chan, president of the Institute in 2006 and now Hong Kong's secretary for development. "We can be their risk managers," he adds. "We can be their guides."

Many members credit the opening up of China for the rapid development of the Hong Kong profession. "I spent a number of years working in Beijing and had great experiences as we rushed to attract clients and then assist those clients on their journey to enormous IPOs," recalls Keith Pogson, a partner at EY and Institute president in 2012.

Members say the growing internationalization of the Chinese currency will also bring opportunities. "Hong Kong has a unique position as Asia's pre-eminent capital market serving China's needs," says Frank Lyn, PwC's China, Hong Kong, Singapore and Taiwan markets leader, "particularly as the renminbi becomes a more recognized currency for global business."

The Institute is respected internationally thanks to initiatives developed over the decades and connections forged since the earliest days of the Society. "As international issues develop, Hong Kong's role continues to be crucial and quite pivotal," Weatherseed adds.

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Tsai notes that from 2011, members could be granted reciprocal membership in all five continents, citing the mutual recognition agreement signed with the Institute's American counterparts in October that year after six years of negotiations. "Winnie [Cheung] and I flew all the way to Nashville and [the U.S.] was the only outstanding international professional accounting body," says Tsai.

Meeting members' needs

The sheer growth of the Institute – it passed the 35,000-member mark this year – has also resulted in greater heterogeneity among its members. "We have grown to such a size and diversity – many more younger members and many more professional accountants in business – and we see more of that coming," says Chiu.

Many members have noticed the declining average age of the membership. Now half of the members are below the age of 40. More than a quarter are below 35 and that proportion is increasing. Every year the Institute has around 2,000 new members. It won't be long before it sees a majority of members aged in their 30s.

Tsai hails the establishment of the 25.35 Group within the Institute as a key milestone of his presidency. Younger members, he adds, are increasingly hired as specialists rather than the traditional entry roles of audit or tax junior. "Just to take our firm as an example, we have taken on graduates in financial advisory services, restructuring, consulting and enterprise risk services as well as audit and tax."

The other major demographic change is the increase in non-practising members. Ding says this segment of the membership is demanding more attention. "With or without regulatory function over listed company audits, one thing that definitely has room for improvement is to better serve the non-practising members," he says.

The Institute is attempting to address this issue by identifying common needs within the diversified group to better include them in the Institute's services. "I think the commonalities identified so far are in

the financial reporting function, the management accounting function, corporate finance, treasury, information technology and also corporate governance," says Ding.

Addressing the needs of small- and medium-sized practitioners remains another hot-button issue. "The future for SMPs is for pooling their resources," says Ding. "If they don't do that, their advancement will be limited. That is not difficult to understand."

Ding says, however, that he has observed very little consolidation. "We see a lot of the firms with a long history in Hong Kong remaining small firms," he points out, adding that Hong Kong can learn from other major markets in transforming SMPs. "SMPs are able to move into specialist areas," he says. "They can become IT consultants, restructuring specialists, or provide training, forensic accounting and other non-assurance services."

Chiu adds that many sectors in Hong Kong dominated by small companies are ideal clients for SMPs.

Ding says that another opportunity is the internal audit market. "A lot of big corporates need to have a good internal audit function," he says. "But they can engage an external firm to do it. And accounting firms, medium-sized firms especially, can pick up expertise in internal audit with different clients."

Members are in the best position to make use of the advantage of being Institute members and see it as the place for career development and networking, says Chiu. "It's a huge professional body and you can't just pay to get in," she points out. "You go through that complex examination and qualification process."

Backing the brand

In recent years there has been a growing recognition that the Institute needs to enhance its communication, to forge stronger ties with its membership, other groups and the community at large.

The desire for better communications with members has spurred developments such as the series of members' forums established this year (one is scheduled for 30 September), designed to improve connections between members and the Institute's management and Council.

The Institute is not just an organization – it has also been the guardian of the CPA brand in Hong Kong since 2004 – and Chiu hopes the 40th anniversary will promote that brand to a much wider audience. "You have people talking about being a Certified Financial Analyst or Master of Business Administration but they understate the fact that they are a CPA," Chiu laments. "We want to leverage off the anniversary to make the brand much more prominent."

Brand development will also boost the profession's standing in the Mainland, says Ding. "There's no reason why Hong Kong accountants can't go to work in China, which is where the economic growth is," he points out. "That's why we need to build brand awareness in China so that employers there will be confident in engaging Hong Kong accountants," he adds. "To build brand awareness we need more members in China."

But will there be an issue about increased competition? "We're not concerned that by developing the China market we are growing the membership unnecessarily and creating unnecessary competition," Ding responds. "China is a vast market."

Indeed, Winkelmann believes there is still a lack of accountants in Hong Kong, illustrating his hypothesis with the continued hiring of non-Chinese accountants in the city. "Experience that comes from anywhere is very, very welcome. If you look at the Big Four firms, they are still admitting expatriates as partners," he adds, citing the elevation in July of a Scotsman transferred from PwC Australia.

The Institute will continue to use a range of channels – such as *A Plus* – to connect with its membership, but will also broaden its appeal to society at large through the expanded use of community outreach programmes.

Making a difference

As Chiu points out, the Institute aspires to be an integral part of the Hong Kong community through programmes such as Rich Kid, Poor Kid – a project to educate children about money management that has operated since 2005.

"Accountants have always had a pretty high profile in Hong Kong in community matters," says T. Brian Stevenson, a retired senior partner at Ernst & Young (now EY) and Institute president in 1996 who is now chairman of the Hong Kong Jockey Club board of stewards.

Chiu says the Institute plans to enhance its community projects through the deployment of volunteer accountant ambassadors in non-

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governmental organizations. "Corporate governance and financial management are really an accountant's core competence," she says.

"We are looking at the NGOs because there are now more of them," says Chiu. "They can't survive on donations – they have to be sustained using a proper business model." The Institute hopes to kick off the programme this year. "We are planning to enlist the accountant ambassadors to go into these NGOs and help them to improve their governance."

The next 40 years

When Gordon Macwhinnie and Peter Poon and the other 500 or so original Society members gathered for its inauguration in 1973, none could have foreseen how their community would grow into the Institute with its many obligations and responsibilities.

One of the original driving aims was to build on the profession's competence and integrity and regulate standards and conduct. "The statutory functions are the reasons we came into being 40 years ago," says Ding. "We have to maintain a high standard for all the things we do under statute and be the voice of the profession."

Some members remain concerned about the Institute's future – especially with the prospect of imminent audit regulatory reform. "I feel that the Institute has come to a critical moment," says Au.

Winkelmann believes that if public sentiment has turned towards independent oversight, all parties are going to have to sit down and think how to put it in place to make it work.

Another 35 years from now, Hong Kong's guarantee to maintain its current systems will have expired. Whether it continues as a special administrative region remains to be seen, but Ding believes it is in the common interest for Hong Kong to maintain its status.

"We remain the international city – if not the only one, then one of the international cities – in China," he says. "We have very different systems and our regulatory system is firmly embedded in our legal system."

Chiu agrees and adds that Hong Kong must keep its ability to serve the whole country. "We must remain an added value to China, not a burden, and I think Hong Kong still has value in being a window to the west."