A+

DRIVING BUSINESS SUCCESS

Issue 1 Volume 20 January 2024

PLUS:

ESG ASSURANCE
Challenges and opportunities for companies adopting assurance of their ESG reporting

BCG & ESG AWARDS
Why equal attention to ESG and corporate governance is needed

SECOND OPINIONS
How can accountants support transition finance and planning for businesses?

LEADING WITH PURPOSE

Roy Leung, the Institute's new President, on his plans for elevating the profession and members in the year ahead

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DEAR MEMBERS

It is a tremendous honour and privilege to address you as the newly elected President of our esteemed Institute. I would like to express my heartfelt gratitude to each and every one of you, as well as the Council, for placing your trust in me. Together, we embark on an exciting journey into the future, marking a new era for our Institute following the momentous 50th anniversary and significant changes of the past two years.

As we enter this new chapter, we are committed to charting a strategic path forward. In February, the Council and the Institute's management will convene for a Strategy Day, where we will collectively determine actionable goals for 2024 and beyond. Our aim is to drive meaningful progress and innovation, ensuring our Institute is in the best position to empower and elevate the profession.

To achieve these objectives, we have identified three essential focus areas: member support and engagement; nurturing the next generation of accountants; and branding and communication. I encourage each and every one of you to read my interview in this issue, where I share my thoughts on the Institute's value to our members and my expectations for the year ahead.

The Institute remains dedicated to serving the profession. Recently, we conducted two crucial surveys – one focused on talent shortage and the other on the adoption of technology by small- and medium-sized practices. These surveys provide invaluable insights to understand and address the evolving needs of the profession, enabling us to advocate for its betterment and the broader Hong Kong society.

"Together, we embark on an exciting journey into the future, marking a new era for our Institute following the momentous 50th anniversary and significant changes of the past two years."

In line with our thought leadership, I had the privilege of presenting the Institute's budget proposals for the 2024-25 fiscal year to the media in January. As President, it was an honour to represent the Institute and provide invaluable advice to decision-makers in shaping policy for growth, innovation, and sustainable development.

We also recognize the importance of serving our members' well-being beyond the professional realm. In January, our teams showcased their immense talents, achieving notable success in the badminton and table tennis competitions of the RSCP Tournaments 2024.

Additionally, I had the pleasure of attending the CPA Singing Contest, where our remarkable members left us in awe with their singing prowess. There are many more exciting moments like these to come, and I look forward to sharing them with you.

Lastly, I extend my warmest Chinese New Year blessings to all, wishing you a year filled with prosperity, good health, and joy. Together, let us seize the opportunities that lie before us and make 2024 a transformative year for our Institute and our profession.

Roy Leung, President

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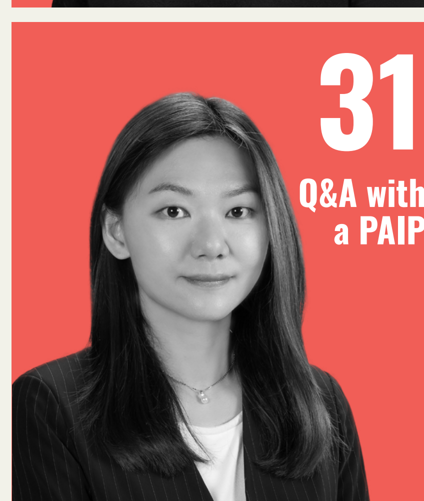

SOURCE

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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NEWS

Institute news   Business news

New Institute leadership and Council elected

(From left to right) Margaret Chan, Institute Chief Executive and Registrar; Edward Au, Vice-President; Roy Leung, President; and Stephen Law, Vice-President.

Leung Sze Kit, Roy was elected the Institute's President for the 2023/24 Council, following the 51st annual general meeting (AGM) held on 7 December 2023, and Au Chun Hing, Edward and Law Cheuk Kin, Stephen, JP as Vice-Presidents.

Leung, Partner and Head of Public Affairs, Hong Kong of KPMG, has served on the Council since 2018.

Vice-President Au served on the Council from 2019 to 2020 before returning and served as Vice-President in 2022, while Vice-President Law served on the Council from 2010 to 2017 before returning in 2022.

In the Council election, 14 Council members were elected and they will serve for a term of two years. The terms of office of the President and Vice-Presidents are one year respectively. The Immediate Past President will hold office as a member of the Council until the conclusion of the 52th AGM.

Elected members

- Leung Sze Kit, Roy (President)
- Au Chun Hing, Edward (Vice-President)
- Law Cheuk Kin, Stephen, JP (Vice-President)
- Chan Ting Bond, Michael
- Lam Siu Fung, Frank
- Lee Shun Yi, Jasmine
- Li Shun Fai, Michael
- Liu Kwok Tai, Teddy
- Lo Charbon
- Tong Piu, Barry
- Tse Hoi Fat, Calvin
- Wong Wai Kei, Vicky
- Wu Chun Sing, Parco
- Yeung Long Yan

Immediate Past President

- Fong Wan Huen, Loretta

Government-appointed lay members

- Au King Lun, MH, PhD
- Choi Heung Kwan, Agnes, MH
- Ho Shuk Ying, Sabrina
- Ng Choi Yuk, Theresa, JP

Ex-officio members

- Tang Helen, JP
- Cheung Sau Lan, Susanna, JP

Read the press release for details. The minutes from the Institute's 51st AGM are now available for members to read.

Institute announces tax policy and proposals for 2024-25 Budget

Under the theme "Reinvigorate and Reinvent Hong Kong," the Institute put forward proposals for the government's 2024-25 budget under four key themes covering stimulating investment; attracting and retaining talent and fostering innovation; supporting the wellbeing of the community and promoting sustainability; as well as reforming the tax system. These are aimed at retaining Hong Kong's vibrancy and attractiveness to investors and talents, as well as re-energizing its status as a leading international financial centre. A press briefing was held on 23 January to announce the proposals.

Best Corporate Governance and ESG Awards 2023

The results for the Best Corporate Governance and ESG Awards 2023 were announced last November. The event saw a record number of 34 awardees in the 24th edition of the awards. This includes 12 Most Sustainable Companies/Organizations Award winners, which remains the top accolades in the competition. Separate corporate governance (CG) and environmental, social and governance (ESG) awards were also awarded to companies and public sector organizations that achieved a high standard of performance in either CG or ESG.

The awards reflected that it is still unusual to find assurance of data in sustainability or ESG reports, which is consistent with the findings of the Institute's recent study, *ESG Assurance in Hong Kong 2023: An evolving landscape*. The study, which expands on the 2021 study of the same theme, reviews the state of play of ESG assurance in the local market and makes key recommendations based on the results.

Studies look at talent shortage, SMP tech adoption

The Institute conducted the Survey on shortage of accounting professionals in Hong Kong to gain insights from members into the current state of talent supply within the accounting profession in Hong Kong. The Institute proposes several recommendations based on the findings of the survey, including the inclusion of the accounting profession in the Talent List; expanding the scope of the Immigration Arrangements for Non-local Graduates to cover the Institute's accredited programmes in the Greater Bay Area; and subsidizing the study of the Institute's Qualification Programme (QP).

Meanwhile, with many small- and medium-sized practices (SMPs) yet to adopt technology, the Institute also launched a study to offer a roadmap for SMPs seeking to navigate digital transformation. The Institute conducted a series of interviews with SMPs and technology vendors as part of the study. The findings shed light on the inherent challenges in digital transformation that SMPs face, such as costs and the need for training and development. It also highlights the potential benefits, and offers strategic insights to gain a competitive edge while overcoming risks.

50th Anniversary Gala Dinner

Over 500 guests and members were in attendance at the 50th Anniversary Gala Dinner held on 4 December 2023. Under the theme "Accounting for Success Now and Beyond," the occasion was a joyous celebration of our achievements over the past half century, as well as the Institute's continued efforts to facilitate the profession's continued role as mainstays of Hong Kong's development. Hong Kong Chief Executive John Lee was the guest of honour. A special ceremony was also held to honour the Institute's first cohort of members.

The Institute's 50th Anniversary Gala Dinner, which took place in the Convention Hall of the Hong Kong Convention and Exhibition Centre on 4 December 2023.

Annual report 2023 published

Coinciding with the 50th anniversary of the Institute, the Annual Report 2023's theme, "Accounting for Success Now and Beyond," encapsulates the Institute's dedication to not only achieving success with the profession in the present, but also embracing the future with resilience and vision. The report includes a glimpse at some of the Institute's most significant milestones, charting our path so far and taking stock of the magnificent legacy left by those before us. Each chapter includes a photo collage that reflects the rich and dynamic history of the Institute and the profession in their interactions within and with the broader society.

Recap of 2023 student engagement activities and initiatives for 2024

To kickstart the new year, the Institute reflected on the remarkable student engagement activities organized in 2023, including QP talks; business case competition; career building workshops and seminars; employer engagement; and the digitalization of QP. Events planned for 2024 and beyond include: expanded outreach with secondary schools; strengthened collaborative partnerships with universities, professional organizations, and industry leaders; and exploring development of the Interim Qualification. More details can be found here.

For employers, this toolkit will help clarify misconceptions and emphasize the indispensability and impact of the profession, and the long-term value of the QP.

Council meeting minutes

The abridged minutes from the October, November and December 2023 Council meetings are now available.

Disciplinary findings

Chan Wai Ping CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants (Code); Hong Kong Standard on Quality Control (HKSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; Hong Kong Standard on Auditing (HKSA) 220 *Quality Control for an Audit of Financial Statements*; HKSA 230 *Audit Documentation*; HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through*

Understanding the Entity and Its Environment; HKSA 320 *Materiality in Planning and Performing an Audit*; HKSA 330 *The Auditor's Responses to Assessed Risks*; and HKSA 500 *Audit Evidence*; and being guilty of dishonourable misconduct.

As the sole practising director of a corporate practice, Chan Wai Ping & Co. Limited (practice), Chan was responsible for operating the practice, including its compliance with relevant laws and regulations, as well as for the practice's quality control system and the quality of its audit engagements. The practice was subject to a first-time practice review in March 2016 and a follow-up practice review which was concluded in June 2019 (review). During the review, the practice review team (reviewer) found that the practice had amended the audit working papers pertaining to a client's audit. The reviewer also noted that the practice did not adopt audit programmes in a number of audit engagements, and the practice did not have adequate policies and procedures to address potential threats to auditor's independence caused by its provision of accounting services to certain audit clients. Further, the reviewer identified specific deficiencies in two of the practice's clients' audits. The Practice Review Committee (PRC) decided to raise a complaint against Chan.

In communicating with Chan/the practice during the course of handling the complaint, the Institute found that the practice had failed to notify the Registrar of a change in the address of its registered office in accordance with the pre-amended Professional Accountants Ordinance (Cap. 50). Alternatively, Chan intentionally or recklessly failed to cooperate with the Institute pertaining to the handling of the subject PRC complaint. This indicates improper conduct on the part of Chan.

Decisions and reasons: The Disciplinary Committee found that Chan had been guilty of dishonourable conduct. The committee reprimanded Chan and ordered that the name of Chan be removed from the register of CPAs for two years and her practising certificate be cancelled and not to be issued to her for a period of 24 months with effect from 22 November 2023. Chan was ordered to pay the costs of the disciplinary proceedings of HK$101,446.

Cheung Chun Wing CPA

Complaint: Failure or neglected to observe, maintain or otherwise apply the fundamental principle of integrity in sections R111.1 and R111.2 under Chapter A of the Code; the fundamental principle of professional competence and due care in section R113.1 under Chapter A of the code; and HKSQC 1; and being guilty of professional misconduct.

Cheung is the sole proprietor of a firm (practice). He is responsible for the practice's quality control system and the quality of its audit and compliance engagements. The practice was subject to a second full scope practice review which was concluded in February 2022. At the time of the practice review, the practice reported that it had engaged subcontractors to perform its audit work.

In the practice review, the practice reviewer (reviewer) reviewed a number of audit engagements. Cheung was found to have provided false and/or misleading representations to the reviewer, and false answers in the 2020 practice review self-assessment questionnaire. Furthermore, the practice review site visit revealed that in response to the prospect of practice review, Cheung had created audit evidence and working papers of the engagements for two clients subsequent to the completion of those audits. In addition, Cheung had manipulated the client lists provided to the reviewer in an attempt to keep the engagements with no working papers from being selected for practice review. The reviewer further found that for most of the practice's engagements, little or no audit work had been done prior to issuing the audit reports such that there was not in existence any audit working paper or audit file. The reviewer also found a number of significant deficiencies in the practice's quality control system and performance of the reviewed engagements.

Decisions and reasons: The Disciplinary Committee found that Cheung had been guilty of professional misconduct. The committee reprimanded Cheung and ordered that the name of Cheung be removed from the register of CPAs for four years and his practising certificate be cancelled with effect from 19 December 2023. He was ordered to pay a penalty of HK$100,000 and the costs of the disciplinary proceedings of HK$62,678.

Tan Ziwei; Wong Ka Man; Poon Chun Wa; Choi Hiu Wa; and Leung Ho Lam

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under sections 110.1 A1(a) of the Code; and being guilty of misconduct.

Tan, Wong, Poon, Choi and Leung are students registered under the Professional Accountants By-laws (Cap. 50A). They were found to have committed plagiarism by submitting identical (or in one case, nearly identical) work for a written assignment of the Law module of the conversion programme run by their former employer, a CPA firm. The CPA firm reported the case to the Institute. After considering the information available, the Institute lodged complaints against them under by-law 34(1).

Decisions and reasons: The Student Disciplinary Committee was of the view that honesty and integrity are indeed the very pillars essential to upholding the standards of the accounting profession, and the very nature of an accountant's work must be arrived at independently. The committee found that Tan, Wong, Poon, Choi and Leung had been guilty of misconduct. The committee reprimanded them and ordered that they be declared not eligible to sit for any examination of the Institute for a period of two years with effect from 14 December 2023. They were ordered to pay costs of the disciplinary proceedings of HK$15,375 severally.

Details of the disciplinary findings are available on the Institute's website.

7.8%

The percentage decrease in the number of graduates earning an accounting bachelor's degree in the 2021 to 2022 academic year in the United States, according to the American Institute of CPAs. It marks another sharp drop after a decline of 2.8 percent a year before. The U.S., like many countries, is facing a shortage of young people joining the accounting profession.

HK$100 billion

What KPMG forecasts Hong Kong IPO proceeds to reach in 2024, from an estimated 90 new listings. This would mark a recovery from 2023, a year in which HK$46.3 billion was raised through 70 IPOs. The firm cited listing reforms that would pave the way for specialist technology companies and smaller companies from the Greater Bay Area to raise funds on Hong Kong's stock market.

7.5%

The percentage of Hong Kong-listed companies that have voluntarily sought external assurance on ESG reporting, according to the Institute's survey of 1,882 respondents. This is an increase from 4.5 percent when a similar survey was carried out two year earlier in 2021. Read more about the findings of the report and the evolving field of ESG assurance here.

China Evergrande Group, the Hong Kong-listed property company, was ordered by a Hong Kong court to liquidate this month. With more than US$300 billion in liabilities, it is the world's most indebted developer. Judge Linda Chan delivered the ruling after the company failed to convince the court it had a viable restructuring plan after a 18-month long hearing. Alvarez & Marsal were appointed by the court as the liquidator of the company.

20,000

The shortage of skilled accounting professionals in South Africa according to the South African Institute of Chartered Accountants (SAICA). According to the country's accounting body, from 2021 to 2022 there was a decline of 24 percent in the number of candidates taking the Initial Test of Competence, the first of two SAICA qualifying examinations.

US$20 million

The total amount in penalties issued by the U.S.'s PCAOB in 2023, almost doubling its record set in 2022. The regulator that oversees the audits of U.S.-listed companies has stepped up enforcement actions against the Big Four and other firms including ones based in Mainland China and Hong Kong.

HK$127.3 billion

What the Hong Kong Institute of CPAs estimates Hong Kong's fiscal deficit will be in 2023/24 financial year, due to falling land sales, weaker economic growth and lower stamp duty income from the stock and property markets. The Institute predicts the government will have reserves of about HK$707 billion by the end of March, the equivalent of 11 months' worth of expenditure.

US$7 million

The amount that PwC Hong Kong and PwC China agreed to pay the U.S.'s Public Company Accounting Oversight Board (PCAOB) in a settlement over claims that more than 1,000 of the firms' employees cheated in online exams on U.S. accounting standards between 2018 and 2020. The regulator said the firms "failed to detect or prevent extensive, improper answer sharing." The firms agreed to the settlement, without admitting or denying the claims.

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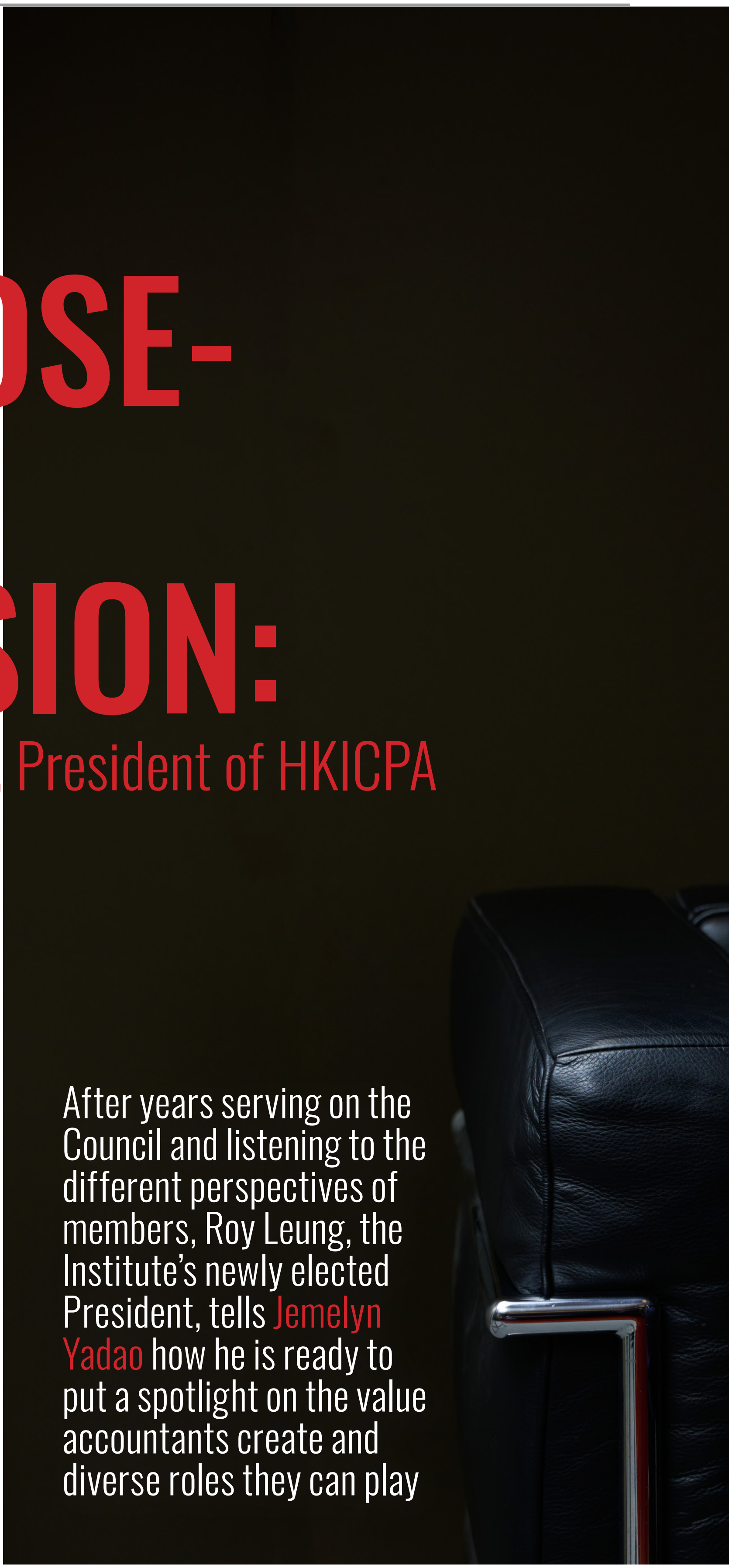
The number of FTSE 100 businesses that changed their chief financial officer in 2023, the most since at least 2013. Meanwhile, CFO turnover remained high at 17 percent across big European markets and the S&P 500, according to research by leadership advisory firm Russell Reynolds. The *Financial Times* reported that some of last year's turnover was due to a rising enthusiasm for promoting CFOs to chief executive or chief operating officer in preparation for the CEO role.



A PURPOSE-DRIVEN PROFESSION:

Interview with Roy Leung, President of HKICPA

After years serving on the Council and listening to the different perspectives of members, Roy Leung, the Institute's newly elected President, tells Jemelyn Yadao how he is ready to put a spotlight on the value accountants create and diverse roles they can play

Accountants regularly make a positive impact across different sectors. The benefits to society as a whole can be subtle to the casual observer, and to some members of the professions, the sense of purpose that comes with the work uncovers itself over time. But for Roy Leung, the new President of the Hong Kong Institute of CPAs, accounting as a pathway to a meaningful career was immediately clear.

"The purpose attracted me," says Leung. "It might not be very obvious, but the fact is the profession has contributed a lot to enhancing Hong Kong as an international financial centre. With high quality reporting, you help direct relevant resources to the best performing businesses. You help investors identify the best businesses to invest in, and for those businesses that have the potential, they have the opportunity to further their journey and succeed."

Bringing the accounting profession's deeper purpose and value to the wider public consciousness – as well as to CPAs themselves – is hugely important to Leung, and ties in with what he says are the Institute's current three focus areas: member support and engagement; nurturing the next generation of accountants; and branding and communication.

With the first year since the further regulatory reform of the profession, and the Institute's 50th anniversary celebrations having just concluded, Leung says it is now the perfect time to cement the Institute's redefined role and ramp up efforts around those three themes.

"In the past two years, we had great leadership by the

Immediate Past President, Loretta Fong, during a difficult period – the fight against COVID-19, the disruptions to both the Institute's activities and our members' day-to-day business. Significant time was also spent facilitating the transition of the Institute's regulatory functions. With all of that being history, it's a great opportunity for us to reinforce a mindset change towards focusing more on members," he says.

Leung, Partner and Head of Public Affairs, Hong Kong at KPMG, has served on the Institute's Council since 2018. He says he is keen to make use of the experience he gained from those six years to lead the Institute in continuing to develop the accounting profession of Hong Kong. Leung also stresses the point that it's not just about him. "It is the Institute management and the whole Council. I've been in this role for about a month, but I can already feel the very strong support of our Council members. They have a lot of drive to join in on the different activities, and that gives me a lot of encouragement and empowerment."

"I can already feel the very strong support of our Council members. They have a lot of drive to join in on the different activities, and that gives me a lot of encouragement and empowerment."

Talent first

A much-discussed issue troubling the Institute is the shortage of staff within the profession in Hong Kong. Leung brings up one statistic – that 62 percent of professional accountants in practice, or PAIPs, indicate junior level job positions as the most difficult to recruit, according to the Institute's recent survey. "It just tells you how important it is for us to, first of all, attract young talent to join the profession and, secondly, to retain them. This is obviously a very important role of the Institute," he says.

To take a closer look at the talent supply within the Hong Kong profession and explore potential solutions to attract talent, the Institute conducted a members' survey from late November to early December 2023. Based on the findings, the Institute came up with several proposals to address the talent shortage, which will be brought to the government, Leung says. "We'll also be sharing with our members the ways in which the Institute is trying to help them overcome this challenge," he adds.

The Institute is advocating for three measures: including the accounting profession in the government's "Talent List"; initiatives to attract more talents from the Greater Bay Area; and subsidies for Mainland China students pursuing the Institute's Qualification Programme.

Leung says that while these initiatives will help speed up the process of filling vacancies, other initiatives set up by the Institute are taking place which are more long-term and emphasize communication. An example is the Experiential Business Learning Programme, which Leung initiated as Vice President two years ago. The programme offers training as well as internships with small- and medium-sized practices (SMPs) to university students in Hong Kong. "It's really about enhancing communications with students and universities," he says. "I was pleased to receive very good feedback from both the students and the employers. We managed to recruit close to 100 people last year for our SMPs," Leung recalls.

Students are not just taught about audit and accounting but also hear directly from Institute members working in different areas of the profession about the value of what they do, Leung explains. "We'll be doing more of these. We have started similar activities with secondary school students because we would like to have high quality secondary school students who are thinking about their future careers to at least know what accounting is," he says. "It's still not very clear to the general public what accountants do in addition to accounting and auditing. All of these activities aim to showcase that it's not just about numbers. It's about businesses, technology, communication, and more."

While attracting talent is one aspect, retaining talent is another. To Leung, the "purpose" and meaning of the job is important to the younger generation, and this must be acknowledged by recruiters and the profession as a whole. "This reiterates the importance of showcasing our value, for example in the areas of environmental, social and governance (ESG) and sustainability, through the Institute's branding and communication," he says.

Leung thinks more focus should also go into bolstering the Institute's network of young members, with more enticing activities and services. "Cross-professional activities are most welcomed by our members. They treasure the opportunity to mingle and to expand their network outside the profession." Enhancing communication between younger members and more experienced members could also be beneficial, he notes. "We've always had our Mentorship Programme, but I think we could explore more opportunities and ideas. For example, would career planning activities be appealing for younger members?"

With the Institute having 18,776 young members, as of 15 January, accounting for 39 percent of the overall membership, Leung wants to see more work being done around engaging with this member segment. "Young members are a really important asset to the

Roy Leung, Partner and Head of Public Affairs, Hong Kong at KPMG, has extensive experience in providing assurance and advisory services to companies seeking initial public offerings. He is also the lead audit engagement partner for listed companies in sectors including transportation, real estate and consumer markets.

As part of his new role, Leung is focused on building activities around three areas: member support and engagement; nurturing the next generation of accountants; and branding and communication.

profession. One thing which I have always thought about is, 'How can we make sure we have our young members participate in most of our events?' Young members make up a big proportion of membership. We should be thinking about whether there is enough participation by young members in activities. If not, why not, and how we can enhance that going forward."

Sustainable outlook

While, naturally, accountants talk about ESG and sustainability predominantly in terms of reporting, audit and assurance, Leung emphasizes that there is much more to it than simply those things, and therefore many opportunities for accountants to play a key role.

"It's really about the long-term plan for an organization to achieve ESG goals and to remain sustainable. With that you have the ESG or sustainability strategy setting, and the company would have to monitor adherence to the plan, and identify and manage risks from an ESG perspective. So it's not just reporting, it's about the whole ESG journey, and if you look at the role of an accountant, we are already involved in every part of it – we have accountants acting as business advisors or involved in the strategic direction of a board," says Leung. "With that, there's a lot of opportunity for our members."

Helping members seize these opportunities for development is a priority for the Institute, especially as it is pressing on with its role as Hong Kong's statutory sustainability standard setter. It will not just be setting sustainability and climate disclosures for the city, says Leung. "Our role will also be about communicating with our members and the general public what those standards mean. And then as part of a standard setting protocol, we do have to engage with both the users and also the preparers of the information," he says.

Leung also points out that the Institute has been and will continue developing initiatives for building members' capacity, and part of that are the various continuing professional development programmes, which have covered the latest topics related to ESG and sustainability.

> **"It's not just reporting, it's about the whole ESG journey, and if you look at the role of an accountant, we are already involved in every part of it – we have accountants acting as business advisors or involved in the strategic direction of a board."**

Another way the Institute can help members capture the opportunities is by creating ways for members to connect with businesses, says Leung. "We could collaborate with other professional bodies or business chambers on an event or a professional development programme on sustainability or ESG reporting, to promote why accountants are most suited to help with a company's ESG journey."

Evolving skills

Having been chairman of the Institute's Professional Development Committee (PDC) in the last two years, Leung has a good idea of what it takes to be a good accountant today. "Compared to my time as a young accountant, the skill sets required of our members are now more diverse. To be a good accountant, you have to have good skills in technology, and in ESG and sustainability. So with my experience as chairman of the PDC and current role as President, I think a lot of focus has to be on these emerging themes when driving members' development," he says.

To provide better support for members when it comes to technology, the Institute recently conducted research on technology adoption among SMPs. Leung says it was important to understand the current state of play, and the challenges faced by the profession, in order to see the different roles the Institute can play.

One key role is as an advocator for the betterment of the profession, says Leung. "As set out in our report, we advocate for additional funding from government to support SMPs to further their journey in digital transformation."

On the training and member development side, Leung recognizes that the Institute has done a significant amount of work building up awareness, by organizing training and seminars on a range of key topics such as cryptocurrencies, blockchain and artificial intelligence. He now wants to move on to the next level. "Going forward, we'd like to focus on having more use-cases for members. What does a particular piece of technology development mean to our members? And how can they make use of technology in their own business to improve efficiency?"

Valuing feedback

Leung reminisces about the time he was first elected as a Council member in December 2017. While he had a clear understanding of the role and responsibilities, he never imagined he would gain so much. "Honestly speaking, if I look back at the past six years, I learned a lot more than I expected. As a Council member, and now as President, you get to see how the different segments of our membership think about a particular issue or a particular piece of communication from the Institute. You get to learn about the different needs and perspectives of the different areas of the profession. So it gives you a broader view of what something means to the society at large."

Members return to his mind when asked about his most fulfilling career moments. "Moments when members share good feedback, for example when they came up to me and said they really treasured the Experiential Business Learning Programme, are really fulfilling for me, knowing that I was able to help them."

Leung also values opportunities to speak to members, and has been a speaker at seminars for numerous years. "For me, it's not just about sharing accounting knowledge. It's also good hearing the questions raised by members as this allows you to understand what their challenges are. It could be the lack of staff or lack of technical knowledge. Then you can bring this to the Institute and Council and see how we can help support our members." Leung says the Institute will do more to enhance engagement with members and to encourage members' participation in Institute events and affairs.

With Leung's schedule often packed with both Institute and firm-related meetings, he is often thinking about how to strike a balance between work and being a present parent. Leung, dad to an 11-year-old boy, prioritizes spending any free time he has with family. He particularly loves playing badminton with his son. "I like to really plan out my time, even if it means reorganizing my schedule and spreading things out. Having your Monday or Friday lunches full of appointments isn't too difficult, and this allows me to reserve some time for family," he says.

Leung admits that he hasn't yet pushed the idea of an accounting career to his son, believing it to be pointless. "What a CPA would look like 10 years from now is probably something I can't imagine right now. But I do try to make sure that he's well equipped with the skill sets needed to play a significant role in the future environment. And then it will be up to him. But obviously, out of my self-interest, I would very much like him to be an accountant."

61%

According to findings from the Institute's recent survey on talent supply in the accounting profession, 61 percent of the respondents ranked the extent of talent shortage impact at 7 or above (where 1 represents no impact and 10 indicates severe adverse effects), with 25 percent of them indicating a rating of 9 or above.

GOOD CG,

"ARE TWO
THE SAME COIN,
IS WHY'
THEM BOTH

– Quote by Loretta Fong, Institute Immediate Past President and Chairman of the Judging Panel of the Best Corporate Governance and ESG Awards, following the announcement of the winners of the 24th edition of the Institute's business awards.

GOOD ESG

“SIDES OF WHICH WE STRESS”

The 24th edition of the Institute’s prestigious business awards highlighted that corporate governance standards seemed to have plateaued, and clear improvements in the ESG reporting of Mainland enterprises. Winners share the factors of their success with Jolene Otremba.

In a momentous celebration of its 50th anniversary last year, the Hong Kong Institute of Certified Public Accountants concluded the Best Corporate Governance and ESG Awards 2023 in November 2023 with a record-breaking number of winners. Thirty-four organizations were recognized for their outstanding corporate governance (CG) and environmental, social and governance (ESG) performance.

Supported by the Hong Kong government, financial market regulators, investor groups and the business community, the awards set benchmarks for best practices in CG and ESG, fostering transparency, accountability and stakeholder engagement.

According to Salina Yan, Permanent Secretary for Financial Services and the Treasury (Financial Services), who was guest of honour at the 2023 awards presentation ceremony, the awards are significant and in an address to the winners and other guests, she said: “You have demonstrated clearly that doing good to society and the environment also means doing good for your businesses. From a big picture point of view, concerted efforts by individual organizations to attain a high level of governance can also help foster the credibility and resilience of our financial markets to weather changes and challenges.”

The awards are focused on the voluntary adoption of practices and disclosures that surpass the minimum legal requirement. While the evaluation centres on information disclosed in annual and sustainability reports, the judging panel also takes into consideration other public information that provides insights into how companies and organizations are managed in practice.

"We are pleased to see more very strong performances in 2023 and a number of new winners emerging, particularly in the separate ESG section of the awards," says Loretta Fong, the Institute's Immediate Past President, who was President at the time of the 2023 awards and Chairman of the Judging Panel.

The rise of ESG reporting on the Mainland

The Institute noted that there is clear improvement in the ESG reporting of Mainland enterprises listed in Hong Kong and more companies that are establishing connections between their ESG vision, strategies and action plans. Most notably was an increase in the disclosure of quantitative environmental key performance indicators (KPIs), as well as a growing integration of ESG-related risks into risk management frameworks.

The Institute also noted that a driving force could be the Hong Kong government's emphasis on achieving carbon neutrality by 2050, and the Mainland government's 2060 target which is putting mounting pressure on institutional investors to prioritize sustainable developments.

And many agree. CK Poon, Head of ESG at Geely Automobile Holdings Limited, which received a special mention in the 2023 Awards' H-share Companies and Other Mainland Enterprises Category of the ESG Awards, believes that government initiatives and public awareness around ESG issues have been firing up companies in the Mainland to improve ESG reporting practices.

"The Chinese government's double carbon targets improved the public awareness on ESG issues such as climate change," he explains. "The stock exchanges in the Mainland have also been actively promoting and will introduce guidelines/ regulations in ESG reporting."

And many see this as a welcoming move. According to Cerin Yip, ESG Director at Alibaba Group Holding Limited, which also received a special mention for the ESG Awards in the same category, says: "Alibaba's mission is 'To Make it Easy to Do Business Anywhere'. The design of our ESG foundation is critical to the realization of mission and strategy. "

To fulfil this mission, since April 2021, the e-commerce company has organized its ESG material issues into seven long-term strategic directions based on its capabilities and priorities. These align with the United Nations' 17 Sustainable Development Goals and China's key development policy initiatives.

And this is something that Poon has observed among Mainland companies today. "I started to observe some ESG reports of Mainland enterprises that mention more ESG reporting standards such as Task Force on Climate-related Financial Disclosures or Sustainability Accounting Standards Board standards besides the typical Global Reporting Initiative, with more emphasis on environmental issues rather than social issues," he says.

This gives comfort to investors, stakeholders and the wider business community, and shows how well enterprises are prepared for managing their ESG-related risks and opportunities. According to JD Logistics, which also received a special mention in the ESG Awards in the same category, an increased focus on ESG reporting has multiple positive effects, including boosting a company's public image, ensuring compliance, access to capital, investor attraction and retention, competitive advantage and even risk mitigation.

"ESG reporting is not just a compliance requirement, it has become a strategic imperative for Mainland enterprises to thrive in a global business environment that values sustainability and responsible business practices," says Dong Wang, Vice President and Director of Public Affairs Department of JD Logistics.

While many Mainland enterprises have jumped on the ESG

"The tone from the top helped us greatly in the further implementation of ESG improvements."

CK Poon, Head of ESG at Geely Automobile Holdings Limited bandwagon, some confess that they are still at a relatively young stage compared to their global peers. However, some have also adopted a clear vision and mission, adopting a top-down approach and a strong governance structure to help them pave the way forward.

"A strong and effective ESG governance structure is key to ensuring that the ESG issues Alibaba faces are incorporated into the corporate agenda," says Yip at Alibaba Group. "And the tone from the top helped us greatly in the further implementation of ESG improvements," adds Geely's Poon. And they aren't just speaking on their organizations' approaches, but also on the entire industry.

To bolster this point, Eddie Yue, Chief Executive of the Hong Kong Monetary Authority (HKMA), says that institutions, governments and regulators also need to take the lead. "Within our organization, we have actively incorporated sustainability considerations into our internal operations with our aspirations structuring around the three pillars of environment, people and social responsibility," he explains. HKMA won an ESG Award for the Public Sector/Not-for-profit Organizations (Large) Category.

With the introduction of multiple ESG initiatives and the oversight of its Green and Sustainability Steering Committee, the HKMA has made a number of achievements. A notable one being a double-digit reduction on a per-capita basis across greenhouse gas emissions, total energy consumption and total paper consumption in 2022, compared to 2015 when it first started tracking carbon footprint.

"A strong and effective ESG governance structure is key to ensuring that the ESG issues Alibaba faces are incorporated into the corporate agenda."

Cerin Yip, ESG Director at Alibaba Group Holding Limited

"As the central banking institution of Hong Kong, we recognize the need to lead by example, and our responsibility to guide the banking industry to strengthen their climate-resilience, power them for the transition, as well as promote the healthy growth of a sustainable finance ecosystem," Yue says. But he also admits that there may be challenges for companies to adopt effective ESG practices along the way.

Both the HKMA and many of Mainland companies cite similar challenges faced by the industry in general. These include a lack of data and common standards for sustainability reporting, insufficient talent to handle the technical work, or businesses that are spread across many regions which makes ESG reporting particularly difficult.

Yet despite these challenges, the awardees agree that enterprises now are more motivated than ever to monitor, measure, assess and manage ESG performance by identifying areas for improvement, benchmarking global best practices, setting metrics and targets, and tracking and managing the process.

JD Logistics believes that moving forward, Mainland enterprises can take several steps to advance their ESG reporting practices. These include integrating ESG considerations into the overall business strategy, advanced technology adoption, supply chain transparency, education and training, and innovating for sustainable solutions. But Wang also advises these companies to aim high.

Dong Wang, Vice President and Director of Public Affairs Department of JD Logistics

"ESG reporting... has become a strategic imperative for Mainland enterprises to thrive in a global business environment that values sustainability and responsible business practices."

Johnson Kong,
Vice President and member of BlackRock's Investment Stewardship team

"Mainland enterprises can not only meet current ESG reporting expectations, but also position themselves as leaders in sustainability, contributing positively to environmental and social goals," he says.

For the HKMA, for example, they, together with fellow regulators, have launched a data repository, which contains various government data sources relevant to the assessment of physical risks in Hong Kong. They are also planning to launch a cloud-based platform for physical risk assessment to facilitate banks' assessment of the impact of physical risk on residential and commercial buildings in Hong Kong under different climate scenarios. Meanwhile, the Hong Kong Exchanges and Clearing (HKEX) which received a special mention under the Most Sustainable Companies/Organizations (MSCO) Awards (Hang Seng Index Category), has set itself new targets including achieving group carbon neutrality by 2024 and net zero by 2040.

"As a frontline market regulator, we are committed to promoting high CG standards among our issuers, helping to elevate the Hong Kong securities market's quality and attractiveness. We will be implementing enhanced climate-related disclosure requirements following the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards," says a HKEX spokesperson.

But for now, as companies forge ahead in this space and tackle their challenges, they agree on one thing: internal buy-in and collaboration will be key. These could include international and regional discussions, stakeholder engagement and company-wide support and coordination. "We need less PR content talking about the good side and more on illustrating how the company handles ESG risks and opportunities," Geely's Poon says.

"Investors would benefit from boards and management focusing on achieving meaningful approaches that align with the interests of all shareholders and key stakeholders, even if it may take extra efforts to move the needle."

Keeping sight of CG

While the awards celebrated the countless achievements and progress that has been made in ESG reporting, ominously, Hong Kong's progress and development in CG has been lagging, reflecting Asian Corporate Governance Association's latest CG rankings in Asia Pacific.

Its research showed that Japan shot to second place overtaking Hong Kong, which fell from its second-place position to sixth place. This finding was also apparent in the 2023 Awards. While Fong attributed this trend to the additional time and resources directed toward developing sustainability practices and reporting, nonetheless, she emphasized the inseparable relationship between CG and ESG performance, urging companies to continue prioritizing things like board diversity, independence and other CG best practices.

"Good CG underpins everything that a business does, so it is important to have the right governance structures in place, as well as high standards of ESG to ensure long-term sustainability of the business," she explains.

Johnson Kong, a panel judge of the 2023 Awards and Vice President and member of BlackRock's Investment Stewardship team, concurred. "While improvements were noticed, such as board refreshment and climate target-setting becoming more common, some potential key enhancements remain yet to be realized over the years," he says.

These issues range from independent board leadership and nomination processes to

Eddie Yue,
Chief Executive of the Hong Kong Monetary Authority

"We recognize the need to lead by example, and our responsibility to guide the banking industry to strengthen their climate-resilience."

Gill Meller, Legal and Governance Director of MTR Corporation

> “Good corporate governance not only serves as a foundation for building long-term growth; it also helps enhance brand building, foster trust from stakeholders and attract quality investors – a win-win situation for all parties.”

transparency of remunerations, including how companies might decide to consider the use of additional metrics like ESG. “Investors would benefit from boards and management focusing on achieving meaningful approaches that align with the interests of all shareholders and key stakeholders, even if it may take extra efforts to move the needle,” Kong says.

Indeed, Kong commented that one shouldn’t see consideration of material sustainability issues as a trade-off for CG. In fact, both constitute a core component of having an effective governance framework. “Well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities, just as they do for other business-relevant risks and opportunities. We consider sound CG a cornerstone of a company’s long-term value creation and economic success,” he says.

There are companies out there that are setting the bar in this space. One such being Hong Kong’s very own MTR Corporation Limited, which received a special mention under the Hang Seng Index Category of the MSCO Awards.

Not only has the company set clear goals and KPIs for its climate-related initiatives, it has also maintained a supermajority of Independent Non-Executive Directors (INEDs), conducted a board evaluation exercise with external consultants, and ensures that the remuneration is clear and transparent, while working on other achievements such as increasing the number of female directors.

According to Gill Meller, Legal and Governance Director of MTR Corporation, the company’s commitment towards balancing CG and ESG is what contributes so much towards its success. “For a company to be sustainable in the long term, it needs to take a holistic approach to its operations and growth which allows it to be financially sustainable, while addressing the needs of the communities in which it operates, and managing its impact on the environment,” she says. “Good CG not only serves as a foundation for building long-term growth; it also helps enhance brand building, foster trust from stakeholders and attract quality investors – a win-win situation for all parties.”

The road ahead

The awards have highlighted several growing trends and offered companies some suggestions for key areas that need improving. But as a priority, the judges stressed that companies need to make effort in paying equal attention to CG and ESG.

In terms of CG, some observations include transparency around long-serving INEDs and board diversity, as well as “over-boarding”. Both issues limit opportunities and restrict new perspectives. Directors sitting on a number of listed company boards may also not be able to devote sufficient time to the work of each board.

“We believe that introducing fresh INEDs onto a board and expanding its diversity offers opportunities for new perspectives to be considered, which can be a competitive advantage in a dynamic business environment with markets that continue to develop often in new and unexpected directions,” advises Patrick Rozario, Chairman of the 2023 awards Review Panel.

Turning to ESG, the Institute noted that a number of targets remain qualitative, especially regarding the “social” aspect, the “S” in ESG, which often leaves stakeholders without a complete understanding of the actual situation. Adopting external ESG assurance to go through performance data and information will remain a key challenge and opportunity for most companies.

Overall, the companies say the awards motivated them to think out-of-the-box and to raise the bar in CG and ESG standards. “We are thankful for the acknowledgement of our ongoing efforts in strengthening our ESG practices,” says Alibaba’s Yip. “The award has motivated us to do more to build a green and sustainable new business ecosystem and create value beyond commercial outcomes.”

Since its inception in 2000, the Best Corporate Governance and ESG Awards have evolved over the years to become one of Hong Kong’s most prestigious business competition. The awards set benchmarks for best practices in corporate governance and environmental, social and governance fostering transparency, accountability and stakeholder engagement.

From extraneous to essential: Charting the rise of ESG assurance in Hong Kong

ESG reporting that is reliable, transparent and without bias is increasingly important in business and investment, and moves taking place to elevate sustainability assurance reflect this. Elizabeth Utley looks at the status of ESG assurance in Hong Kong, and how this nascent field brings benefits

Illustrations by Adrià Fruitos

Over the last 30 years, environmental, social and governance (ESG) reporting has transformed from a niche practice followed by less than 20 public companies worldwide to a bellwether of company health scrutinized by investors, consumers and regulators.

The growth of ESG awareness has spurred the development of entirely new career paths, business practices and university curricula, and has sent ripples through various professional services.

Accounting is no exception. As demands for ESG reporting among companies rise, so too does the need for accurate and clear data gathering and management systems, complemented by some form of independent assurance to validate the reliability and integrity of this information.

In contrast to the audit of financial information, ESG assurance is not mandatory in most jurisdictions, including Hong Kong. However, new protocols in this area are rapidly developing.

In the European Union, these efforts have taken shape in the Corporate Sustainability Reporting Directive (CSRD), which will require assurance on companies' sustainability reporting from 2024.

Meanwhile, across the Atlantic, the New York-headquartered International Auditing and Assurance Standards Board (IAASB) recently closed the consultation period on its proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. The proposed ISSA 5000 sets a global baseline for those who provide sustainability assurance services and introduces elements that strengthen the assurance process. Once approved, this standard will guide assurers, both professional accountants and non-accountant practitioners, around the world as they review sustainability data.

Larger companies in Hong Kong are responding more rapidly to the fast-moving ESG environment, and have obtained ESG assurance, according to *ESG Assurance in Hong Kong 2023: An evolving landscape*, a study published in November 2023 by the Hong Kong Institute of CPAs.

The study drew on assurance research covering the sustainability or ESG reports (or, where applicable, the sustainability or ESG sections in annual reports) of 1,882 Hong Kong-listed companies with 31 December 2022 as their financial year-end, including 69 companies listed on the Hang Seng Index (HSI).

"We wanted to hear from providers about the importance of ESG assurance and see the market trend," says Loretta Fong, Sustainability Deputy Leader, Mainland China and Hong Kong at PwC, and the Institute's President at the time of the publication of the report and current Immediate Past President. The

report updated and expanded the Institute's 2021 study on this theme to also illustrate the development of the market over the past two years.

The State of play in Hong Kong

In Hong Kong, ESG assurance is a budding field at an earlier stage of development, with many businesses adhering to a mix of standards from across jurisdictions.

The city's listed companies abide by the ESG Reporting Guide issued by Hong Kong Exchanges and Clearing Limited (HKEX). The guide notes that listed companies may seek independent assurance to strengthen the credibility of the ESG information disclosed.

In addition, over 60 percent of Hong Kong listed companies benchmarked their ESG reports against the Global Reporting Initiative (GRI), and approximately a quarter against the international Task Force on Climate-Related Financial Disclosures (TCFD), according to the Institute's study.

While assurance on ESG reports is not mandatory in Hong Kong, change is on the horizon, according to Eddie Ng, Partner of ESG Advisory and a member of the Institute's Sustainability Assurance Advisory Panel. "For Hong Kong as an international financial centre, I would say this is the direction of travel," she notes.

"For public companies, whether it is made mandatory is almost a non-issue, because investors and stakeholders increasingly expect ESG assurance to be done."

That said, when the city arrives at this destination is another issue. "In the current situation, I don't see it becoming mandatory immediately," says Gigi Lee, Regional ESG Manager at HSBC, and an Institute member. "Instead, it would be more realistic, as in other countries, to adopt a phased approach."

This would provide breathing room for companies grappling with the task at hand. "75 percent of the businesses feel that they don't have the policy skills or systems in place or are not confident enough to meet ESG assurance requirements," says Ng, citing a recent report by KPMG, which surveyed 750 companies globally on this matter. The Institute's own study echoes these findings and reveals slow uptake of ESG assurance particularly among smaller companies.

The percentage of small companies, defined in the report as those with a market capitalization under HK$6 billion, that sought assurance on their ESG disclosures rose 1.1 percent between 2021 and 2023. In comparison, the rate of ESG assurance among large companies with over HK$38 billion in market capitalization more than doubled over this period, the Institute's study found.

Smaller businesses, faced with different pressures than larger listed ones, cannot always justify the additional costs or value ESG assurance in the same way, observers note. "In Hong Kong, we are still at a relatively early stage when compared with overseas, where companies may have dedicated resources," says Ng.

Data gleaned from the study *The State of Play: Sustainability Disclosure & Assurance 2019-2021, Trends & Analysis* by the International Federation of Accountants (IFAC) positions Hong Kong as a regional leader in ESG assurance among public companies. In 2021, approximately 52 percent of Hong Kong's 50 largest listed companies had ESG assurance, 30 percent lower than their counterparts in the United States, but 14 percent higher than the same group of companies in Singapore, according to IFAC's study.

Good business

An increasing number of companies in Hong Kong are voluntarily seeking assurance on their ESG reporting, pushed by stakeholders' demands and pulled by a powerful range of incentives. Between 2021 and 2023, the number of listed companies that sought external assurance on their ESG reporting rose from 4.5 percent to 7.5 percent, the Institute's study found.

Their motivations include establishing credibility, building stakeholder trust, improving risk management practices, accessing investment opportunities, and more. "For public companies, whether it is made mandatory is almost a non-issue, because investors and stakeholders increasingly expect ESG assurance to be done," notes Mark Lam, Head of Investor Relations and Corporate Sustainability at Hongkong Land, and an Institute member.

Engaging a third-party to assure its ESG report can strengthen a company's credibility over its ESG performance and provide it with standing. "It is better corporate governance to ensure that what a company has reported is appropriate, accurate and reliable," says PwC's Fong.

Investors generally look upon this favourably: "Public companies which wish to maintain their access to both debt and equity capital markets will look to deliver credible sustainability reports given the rising concern of sustainability," says Thomas Mak, Group Supply Chain and Sustainability Director at Jardine Restaurant Group, and an Institute member.

Fong notes that ensuring the accuracy of ESG-related data will also better equip businesses to navigate more sustainability-minded regulatory frameworks, which are rapidly evolving. For instance, as jurisdictions roll out carbon taxes, precision in ESG reporting can be financially beneficial as well. "These numbers have a lot of value and we need to treat them as importantly as financial records," she explains.

The benefits of ESG assurance are also felt within companies as the assurance process forces stakeholders to challenge their current systems, according to Lee at HSBC. "Internally, assurance examines your own recording system, and at the same time, raises internal awareness on the importance of the quality of the ESG data," she explains.

Hong Kong businesses are taking note. By sector, banks were by far the most likely to seek third-party assurance on their ESG reporting, according to the Institute's findings, followed by property development companies and property investment firms.

But the push factors outlined above aren't swaying as many privately held businesses, which, like smaller companies, weigh the time and expense of ESG assurance against their value. "The adoption by private companies remains quite uneven and in most cases is entirely voluntary," says Lam at Hongkong Land.

"Internally, assurance examines your own recording system, and at the same time, raises internal awareness on the importance of the quality of the ESG data."

There are exceptions, though they may one day become the rule. Outliers include Jardine Restaurant Group, which plans to conduct professional assurance on its next ESG report. "Although we are not obligated to do an ESG report as a private company, we want to embrace sustainability and share our effort made to our staff, customers and communities," Mak explains.

A mountain of data

ESG assurers are scrabbling up a steep learning curve and must contend with a morass of information as companies report on criteria selected from a range of impact-related issues that are relevant to the company and its shareholders.

Indeed, materiality is an important criterion when determining the nature and scope of any assurance, notes the Institute's study. The Sustainability Accounting Standards Board defines materiality as matters that "are reasonably likely to significantly impact the financial condition, operating performance or risk profile of a typical company."

Viewed through the lens of sustainability, this broadly translates into the ESG reporting standards we see today where companies focus primarily on water consumption and greenhouse gases of their own operations, Ng at KPMG explains, so are increasingly looking at Scope 3 emissions – which relate to greenhouse gases – and also estimated impact across value chains.

Technology can be a valuable ally to parse through this data and maintain a clear ESG audit trail, she notes, while Lee highlights the importance of preparation at the business end. "For companies who haven't gone through this before, familiarize your internal stakeholders with the process so when it's time for the actual assurance, it will not be as painful," she advises.

There will still be hurdles to clear, says Lee, who has experience with the ESG assurance process in past roles, including working with an external party to audit companies' reports. "It can be quite time-consuming, tedious and takes a lot of effort for a company depending on the scale," she adds.

Finding directions on questions of materiality and data collection can be in low supply, and despite a wealth of literature on ESG reporting, "guidance is well short of the level of granularity at which they exist for financial reporting," says Lam.

And as more companies and auditing firms enter the domain of ESG reporting and assurance, regulations are constantly updating. "The subject matter is getting more complex, the requirements more challenging," says Ng.

In the midst of these challenges, auditors should look to their past experiences for guidance, the interviewees agree. Swap the emission tons and kilowatt hours of energy for dollar signs, and the auditing process is not so different after all, says Fong at PwC. Ng agrees: "At its core, ESG assurance is similar to financial statement auditing – they are looking for the same thing."

While the IAASB's ESG assurance standard, ISSA 5000, is being finalized, Lam at Hongkong Land believes that ultimately, having the right sector and technical expertise is key for assurers. "Using the real estate sector and carbon emissions as examples, the single most important issue is how to disclose and reduce the embodied carbon footprint (i.e. carbon emissions from manufacturing of building materials and the construction process) of new buildings. In order to properly measure this, it's very important to ensure the expertise are there in the auditors," he says.

Leading change

According to the Institute's study, the assurers were CPA firms in 43 percent of cases for all the companies with ESG assurance, while 56 percent were conducted by non-CPA firms. CPA firms are well-placed to guide development of ESG assurance in the city because of their proven track record and experience in financial reporting and auditing.

"ESG reporting standards increasingly emphasize connectivity with financial reporting and ask for financial impacts. CPAs are experienced in this field," says Ng.

Companies in Hong Kong must have a plan in place as ESG reporting and assurance requirements tighten, and according to the interviewees, CPAs are in a position to guide businesses. "CPA firms will give ESG, which is generally seen as a vague term in the public's eyes, a baseline or common language for better understanding," says Mak at Jardine Restaurant Group.

Not all assurance is created equal, with reasonable assurance representing the most robust assessment, limited assurance being the second highest, and moderate assurance the least comprehensive level of assurance for companies to choose.

The Institute's study found that the majority (59 percent) of Hong Kong-listed companies opted for limited ESG assurance, with this figure rising 10 percent among HSI listed companies.

A quarter of HSI companies sought out a reasonable level of ESG assurance and 6 percent obtained a moderate level, compared with an average of 24 percent and 11 percent, respectively, among Hong Kong listed companies as a whole.

Some companies may not have sufficient confidence in their own data gathering and analysis systems to be subjected to detailed scrutiny, the study authors noted, while others may simply be unaware of the benefits of seeking higher levels of assurance. "The first step right now is more engagement to raise the awareness and interest because otherwise, a lot of the companies may not see the urgency," notes Lee.

And CPA firms, with their wealth of knowledge and existing relations with Hong Kong companies, are uniquely situated to do just that.

Loretta Fong, the Institute's President at the time of the publication of the report and current Immediate Past President (middle); Loren Tang, Chairman of Best Corporate Governance (CG) & ESG Awards 2023 Organizing Committee (left); and Patrick Rozario, Chairman of Review Panel of Best CG & ESG Awards 2023 (right) when the ESG assurance research study was released in November 2023.

Between 2021 and 2023, the number of listed companies that sought external assurance on their ESG reporting rose from 4.5 percent to 7.5 percent, according to *ESG Assurance in Hong Kong 2023: An evolving landscape*, a study published by the Institute.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Andrew Harding

The Chief Executive, Management Accounting, at AICPA & CIMA, together as the Association of International Certified Professional Accountants, on the profession's key role in embedding sustainability into business strategy

Why ESG reporting matters

With up to 90 percent of a company's value now resting in intangible assets, according to *Intangible Asset Market Value Study*, released by intellectual property merchant bank Ocean Tomo, it seems clear that we can no longer manage businesses the ways we managed them in the past. In an ever-changing and complex business environment, we can no longer solely focus on financial data to assess business performance, drive long-term strategies, and generate sustainable value.

As a consequence, corporate reporting itself is changing. We are seeing companies move towards a more integrated approach to corporate reporting, in which financial and sustainability-related financial information is more closely connected. A study from AICPA & CIMA, in partnership with the International Federation of Accountants, found that globally 95 percent of companies reviewed report some level of sustainability information.

ESG reporting requirements in Hong Kong

In Hong Kong, the Hong Kong Stock Exchange (HKEX) is continuously enhancing its environmental, social and governance (ESG) and sustainability reporting requirements. HKEX has been requiring that listed companies report on their ESG and sustainability information, alongside their annual reports, since 2013. In 2019, it amended the timeline of the report submission, shortening it to no later than five months after the financial year-end, and introduced new mandatory disclosures on ESG factors and climate-related risks. In 2021, HKEX revised its reporting guidelines to include even more ESG factors and mandatory "comply or explain" disclosure requirements. More recently, HKEX announced that the proposed implementation date for the climate-related disclosures proposed in its April 2023 Consultation Paper will be postponed to 1 January 2025 so that it can take in account the recommended approaches for scaling and phasing-in of requirements, as provided in the International Sustainability Standards Board Adoption Guide, which was set to be published before the end of 2023.

The importance of ESG reporting

Groups, such as customers, workforce, society, governments, and investors, all demand greater organizational transparency beyond the traditional financial metrics. ESG is fast becoming one of the primary lenses through which an organization's performance and prospects are judged in Hong Kong and beyond. Therefore, being able to clearly and effectively communicate material ESG information will help organizations grow their resilience and strengthen their reputation by demonstrating to investors and other stakeholders their commitment to ESG priorities:

Enhancing trust

As with everything in business, if something is to be managed it must be measured and businesses can't build trust with their stakeholders unless they provide consistent, comparable information on a variety of metrics, including ESG metrics. A willingness to engage with ESG matters in corporate reporting improves stakeholder engagement and shows investors that the company is forward-thinking and aligned with strong, unified, and global reporting standards supporting consistent and transparent reporting, such as the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related Disclosures* standards, which came into force in January.

Long-term sustainability

While many still believe that sustainable growth requires financial trade-offs, research shows that this is not always the case. A recent analysis from McKinsey indicates that financially successful businesses that integrate ESG priorities into their business strategy to drive long-term value creation outperform their peers, provided they also outperform on the fundamentals when it comes to profit and growth. Investors are also showing greater interests in ESG and sustainable business practices for evaluating businesses as it correlates with higher returns, lower risks, and long-term business success.

Employee retention and attracting the next wave of talent

By increasing their focus on ESG, businesses can also attract and retain a diverse pool of talent. This is especially true for the younger generations who want to work for organizations that share their vision, values, and purpose and that have a positive impact on society as a whole. In fact, more than 40 percent of Gen Z and millennials would switch jobs over climate concerns, according to a survey by Deloitte, highlighting the growing importance of having a clear ESG strategy with measurable actions in place. In addition, data shows that a greater focus on diversity and inclusion helps businesses perform better.

Accounting and finance professionals play a crucial role

The accounting and finance profession has long focused on assessing and managing financial risks. However, the global risks we are seeing today are pushing our profession to expand its remit. As core members of almost every business and non-governmental organization, accounting and finance professionals have a pivotal role in providing sustainability-related financial and financial management information to drive business performance, develop strategies, and influence decision-making. They own the processes, systems, data, management information, reporting, and assurance that will support their organizations' transitions to sustainable businesses.

They bring a unique set of skills and knowledge to the table and can work with stakeholders to integrate responsible and sustainable practices into their business and operating models. Without the rigour and business acumen of accounting and finance professionals, it may prove impossible to truly embed sustainability into "business as usual." The profession's very nature makes it a powerful force for supporting and implementing strategies and programmes aligned to organizational goals and assuring this information and the systems.

SECOND OPINIONS: HOW CAN ACCOUNTANTS SUPPORT TRANSITION FINANCE AND PLANNING FOR BUSINESSES?

PAT WOO
PARTNER, HEAD OF ESG, HONG KONG AT KPMG CHINA AND A MEMBER OF THE INSTITUTE'S SUSTAINABILITY COMMITTEE

The United Nations Climate Change Conference (COP28) concluded in December 2023. The result of which was an agreement by the nation representatives to phase out fossil fuels and aim at reducing carbon emissions to limit global warming to the target of 1.5°C, in accordance with the Paris Agreement.

As part of the discussions, it was agreed that climate finance, and transition finance in particular, will play a critical role, with an aim of directing at least US$100 billion per year towards achieving the emission reduction goals. This will lead to increasing reporting and assurance requirements to ensure that the financing is well spent, and any risk of greenwashing is minimized. The accounting profession will therefore play a critical role to give the capital markets confidence in these transition finance transactions.

With the introduction of the International Sustainability Standards Board (ISSB) IFRS S1 and S2 standards in mid-2023, these standards will be the benchmark upon which many organizations will be doing their reporting. ISSB is, of course, also the sister organization of the International Accounting Standards Board (IASB), and it has been made very clear that the two organizations will collaborate to ensure that the financial and non-financial reporting are developing in tandem. As such, the accounting profession is best placed to connect the developments of IASB and ISSB going forward, and there are already expectations in the market that accountants will play a major role in the implementation and the development of ISSB standards.

Accountants, and internal and external auditors are gatekeepers making sure that sufficient systems and controls are in place with regards to data integrity. Many organizations are still using manual excel-based methods to collect ESG data, which includes climate-related data. With so much money changing hands for transition finance, there will be limited margin for error in the climate data that supports these transactions. As such, accountants and auditors will have an integral role to play in collaborating with sustainability professionals to begin the process of improving the non-financial data quality to the level of financial data.

> "Accountants and auditors will have an integral role to play in collaborating with sustainability professionals to begin the process of improving the non-financial data quality to the level of financial data."

The area of ESG data assurance is a fast-changing space. With the expected increase in climate and transition finance in the market, the level of assurance required on the climate-related data will need to increase. With the International Standard on Sustainability Assurance 5000 being finalized, accountants and auditors will need to prepare for the issuance of this new standard, which is expected to be the go-to standard for ESG assurance going forward. The accounting profession will have a critical role to play as the world grapples with the climate issues we are facing. Let's all embrace this challenge and do our part to help solve one of the major issues of our time.

ANTHONY LIN

FINANCIAL CONTROLLER AT THE HONG KONG JOCKEY CLUB AND DEPUTY CHAIRMAN OF THE INSTITUTE'S PAIB COMMITTEE

At COP28, it was confirmed that the planet is still struggling to limit global warming. With ESG increasingly gaining more traction worldwide, companies – particularly high-emitting ones – are taking action to fight climate change challenges and related systemic risks. One of the essential elements that facilitates companies in doing so is transition finance, which is defined by the Glasgow Financial Alliance for Net Zero as "investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero."

"With the right level of support by finance professionals, I have no doubt that companies will be able to strive for a balance on the path to net zero."

Accountants in business, usually seen as one of the key strategic partners for senior stakeholders, can play a vital role in the company to support the transition journey. One role accountants can play is in formulating strategies and establishing corporate governance. Many corporates have yet to disclose their transition plans with transparency and sufficient details. Accountants can step up to help these companies define and establish a transition strategy on how it can achieve decarbonization. In addition, we commonly act as an advisor to senior management and can help to embed appropriate mechanisms, including reporting requirements, regularly reviewing processes in the company's operating model and activities.

Another role is as a data custodian. As a custodian of external and internal financial data, accountants can help the company to ensure relevant data is transparent for decision making. This also requires allocation of company resources to invest in internal processes and technologies that enable automated collection, tracking, modelling, and presentation of information. Analytics is also crucial. A critical success factor in identifying the most beneficial financial arrangement that supports transition of a company is the capability to understand the risks and quantify the cost and benefits of different finance options.

Accountants can also support businesses through budgeting and forecasting, which is seen by some as their bread-and-butter. But let's not forget to incorporate sustainability priorities into the company's business plan. An appropriate budget and projection can facilitate the company not only to estimate expenses caused by sustainability risks, but also potential opportunities that may arise. Accountants can also help to set up relevant financial and non-financial targets and key performance indicators that align with the company's sustainability goals.

The demand for transition finance is ever-increasing. With the right level of support by finance professionals, I have no doubt that companies will be able to strive for a balance on the path to net zero.

CHRISTINE LOH

CHIEF DEVELOPMENT STRATEGIST, INSTITUTE FOR THE ENVIRONMENT, HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY

To decarbonize the global economy requires not only an industrial and technological revolution but also a policy and management revolution, which necessarily involve professionals of many fields, including accountants.

Currently, more than 80 percent of the world's energy still comes from fossil fuels – coal, oil, and natural gas. These fuels have served us well to provide the energy that has powered our lives through the 19th century till today. Yet, we need to change because the combustion of these fuels to generate energy also produces greenhouse gases (most of which is carbon) that warm the atmosphere, causing global warming.

Professional training helps to make things work in economies. The accountants' role is to provide accurate and reliable financial information for the proper functioning of organizations that make up economic activities.

Just as accountants have helped to create the financial reporting system of today, they are needed to help with the transition away from fossil fuels by around mid-century. Through the Paris Agreement, the multilateral treaty, governments have signed up to the goal of achieving carbon neutrality by 2050-2070.

Accountants are developing "carbon accounting" skills to enable the disclosure of an organization's carbon emissions so that stakeholders, such as managers, investors and financiers, could discern how the organization is doing to decarbonize its activities.

"Accountants play an important role in the establishing of a new accounting system that fits the revolutionary era of climate change and decarbonization."

Carbon accounting is by no means easy because there is a lot of new data to collect and make sense of. Measuring carbon and other greenhouse gas emissions requires accurate data to be collected and compiled for all sorts of activities. Moreover, an organization's efforts to decarbonize also needs to be estimated so that stakeholders can assess whether the efforts are sufficient.

Yet, there is a lack of a universally accepted standard for the methodologies involved, although a lot of work is being done by a variety of professional bodies cooperating with each other to develop a robust system. Another major challenge is how to conduct the valuation of the relevant activities and outcomes.

One day, carbon accounting will be standardized. Accountants play an important role in the establishing of a new accounting system that fits the revolutionary era of climate change and decarbonization. Indeed, not only that but systems are being created to reflect the increasing importance of environmental sustainability for the 21st century.

FIVE QUESTIONS FOR PAIB

Dexter Lee

Senior Manager, Financial Planning and Analysis at Hong Kong-based luxury watch platform Wristcheck, on how he transferred invaluable lessons learnt to the growing start-up's finance department

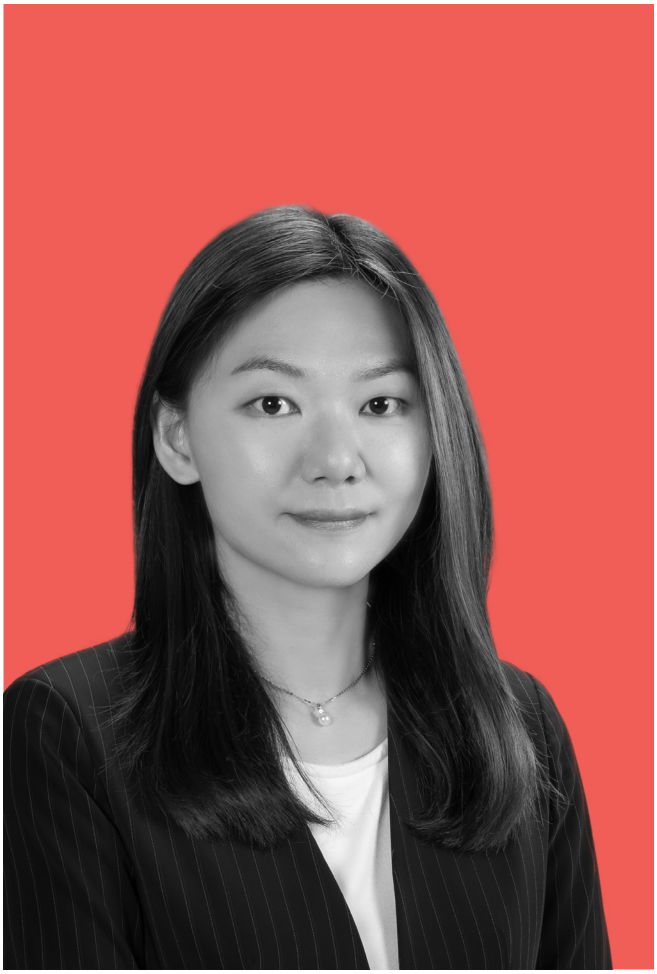
What are the biggest lessons in your career so far? The biggest lessons I've learnt revolve around the importance of adaptability, curiosity, and being personable. Over the past nine years, I've had three jobs at two different companies, which has taught me the need to adapt to new environments, personalities, and responsibilities. I've made a conscious effort to connect with a wide range of people, both within and outside my industry, which has provided me with valuable insights into how different functions contribute to a business, and helped me realize how much there is to learn about the world. It's also crucial to differentiate between networking and being personable. To me, being personable means genuinely wanting to get to know the person you're talking to, with no agenda. Building a foundation for long-term relationships requires authenticity.

Tell us about the transition from KPMG to a start-up. I began my career at KPMG in the financial services audit group, and later transferred internally to transaction services for financial due diligence. Typically, individuals in my position would move on to the buy/sell side afterwards. However, a different opportunity presented itself when a good friend introduced me to the role of finance lead at Wristcheck. Unlike my previous analytical focus on specific companies at KPMG, Wristcheck required someone to improve systems and processes, monitor budgets, create forecasts, and manage daily operational tasks – anything involving numbers needed to be reviewed before execution. Despite the steep learning curve and challenges, it was precisely this opportunity for growth that prompted me to join Wristcheck. Coming from an institution like KPMG, I had taken many processes for granted. However, upon joining Wristcheck, I quickly realized the importance of building a solid foundation that enables the smooth functioning of the entire company.

In what ways has your CPA qualification been valuable at a high-growth start-up? My CPA qualification and training have proven valuable at a high-growth start-up, particularly one that emphasizes transparency. It provided me with clear guidelines on structuring processes and systems, as well as a strong foundation in establishing reliable governance structures. Many high-growth start-ups tend to overlook these processes as they prioritize growth, but neglecting regulatory reporting requirements can be detrimental to their success.

Since joining the company, how has your perspective of watches changed? Previously, my knowledge was limited to brands like Rolex and Patek Philippe. However, after joining Wristcheck, I've been introduced to a wide range of popular brands and models and more recently to the independent brands. Each day presents an opportunity to learn more about watches because there are countless brands and references out there. It's an ongoing process of discovery.

What is your favourite watch from your collection? While I consider myself an entry-level watch collector, my favourite watch from my collection is the Atelier Wen x Wristcheck collaboration. It holds a special place because it commemorates Wristcheck's first-ever collaboration with another brand. The collaboration represents Atelier Wen's first titanium watch. Each watch is unique, with its guilloché dial undergoing an intense eight-hour hand-making process by China's only master guilloché craftsman, Master Cheng.



FIVE QUESTIONS FOR PAIP

Joann Chan

Partner, Audit and Assurance at Crowe (HK) CPA Limited, on the challenges auditors face and the Institute's role in her personal journey of improvement

What are the biggest lessons in your career so far? One is that embracing and overcoming challenges and difficulties is highly important in a person's growth journey. At the start of my career, there was this firm idea that as a professional, even the smallest margins of error were not allowed. However, the truth is that the skills I have gained after learning from mistakes and overcoming an obstacle are invaluable. I also believe in the importance of developing your trustworthiness and reliability as a person in this profession, as demonstrated by your interactions with others. Having a profound sense of responsibility is essential for fostering professional and trusting relationships with clients and colleagues, and should be practiced starting from the early stage of your career.

What do you like most about specializing in audit and assurance? When I was studying for the professional exam, I came to realize that accounting is an art, and have been passionate about this profession since then. I see auditing as a way for entities to complete their "annual body check". It allows the management to understand their weaknesses, providing a chance for them to see if they can pass through every test in accordance with the financial reporting standards, and ultimately receive a true and fair opinion. Because of this, as audit and assurance professionals, we always need to sharpen our skill sets to deliver our services.

What is one of the biggest challenges auditors and assurers currently face? The decrease in the supply of talent in the profession in Hong Kong is one challenge. Also, the perceived value towards auditing from the clients' viewpoint is low, resulting in a trend of stagnant or even declining professional fees over the years. To fix the root cause, I think public education is key and should be focused on two key groups: students and company owners. By educating students on our profession, a positive impression among the youth can be cultivated. Also, presenting the value of auditors to our clients could bring on a greater level of respect towards our profession.

In what ways has the Institute helped you in your career? In this profession, the enhancement of technical knowledge is a lifelong journey. The Institute has always been the biggest hub of resources. For example, the Professional Diploma in Insolvency, which I attained earlier on in my career, equipped me with essential knowledge in this field. As a CPA, I particularly treasure the significance of ethical standards and what they have taught me. These core principles of integrity, ethical and moral standards are essential attributes for everyone in senior roles, and should be involved in every thought procedure.

You have significant experience in IPOs. What are your predictions for the Hong Kong IPO market this year? Hong Kong's IPO market was relatively restrained in 2023. Geopolitical uncertainties along with approaching elections this year across several countries may cause fluctuations in the equity market. Despite this, we can see that the government remains proactive in advocating the Hong Kong market to investors globally. New measures, including the Listing Rules Chapter 18C to allow specialist technology companies to seek listing here, and reforms to enhance the overall attractiveness of Hong Kong's listing framework, like FINI (Fast Interface for New Issuance) introduced in late 2023, will hopefully result in a true recovery of the IPO market this year.

What's next for the ISSB work plan?

An overview of the Institute's response to the ISSB Request for Information on *Consultation on Agenda Priorities*

In August 2023, the Institute's Standard Setting Department responded to the International Sustainability Standards Board's (ISSB) Request for Information (RFI) on its *Consultation on Agenda Priorities*. The RFI sought views on the strategic direction and balance of the ISSB's activities; the suitability of criteria for assessing which sustainability-related matters to prioritize and add to the ISSB's work plan; and a proposed list of new research and standard-setting projects that could be added to the ISSB's work plan. This article highlights our response to the RFI. The full response is available on our website.

Strategic direction and balance of the ISSB's activities

We emphasized the importance of the successful implementation of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* for the credibility and effectiveness of the ISSB and its future work. We noted that companies, particularly small- and medium-sized enterprises (SMEs), may face challenges in adopting the new standards. Examples of potential application challenges include conducting climate scenario analyses, data collection and calculation for scope 3 emission, determination of materiality, as well as the assessment of current and anticipated financial effects.

To address these challenges, we recommended that the ISSB prioritize providing practical guidance and capacity building support to help companies, in particular SMEs, implement the standards. This could be done through the sharing of best practices and adoption status in each jurisdiction to promote consistent application of the standards. In addition, the ISSB should work closely with regulators and national standard setters to solicit feedback on implementation challenges.

Criteria for assessing the priority of sustainability-related matters

We noted that the criteria should focus not only on matters that are currently important but also on emerging issues that may become relevant to investors in the foreseeable future, considering the time needed to develop a sustainability disclosure standard. In addition, we suggested expanding one of the criteria to include matters that are not currently being disclosed (i.e. non-disclosure as opposed to deficiency in disclosure).

New research and standard-setting projects that could be added to the ISSB's work plan

We considered that the ISSB should prioritize the "biodiversity, ecosystems and ecosystem services" project. This is due to the relative maturity of the relevant concepts, growing investor interest in the topic, the risks stemming from biodiversity loss and its connection to climate change. However, we emphasized that biodiversity-related disclosures should not be pursued until solid foundations are in place to support them, such as capacity building.

There were mixed views among our respondents regarding the next highest priority item. On the one hand, investors considered human capital topics such as fair labour practices, workplace safety and employee engagement important. Furthermore, given human capital and human rights matters are interconnected with each other and overlap to a certain extent, some respondents considered human capital and/or human rights should be the next highest priority item.

On the other hand, there is a strong demand for integration in reporting as it provides a more transparent and holistic view of a company's performance and value creation. By combining financial and non-financial information, integration in reporting gives a more complete picture of a company's sustainability and financial performance. Therefore, some respondents considered this topic to be more important than human capital and/or human rights. In addition, some respondents considered it difficult for the ISSB to proceed with the project on human rights, as there are differing definitions and views of human rights-related topics across jurisdictions. This could be resource-intensive for the ISSB and so some respondents suggested that integration in reporting should be the next highest priority item.

In this regard, we noted that IFRS S1 and IFRS S2 already requires entities to report on "connected information" which could ease the urgent demand for integration in reporting to a certain extent. This would in turn allow more flexibility for the ISSB to work on other topics such as human capital and human rights.

This article was contributed by **Anthony Wong**, *Associate Director of the Institute's Standard Setting Department. Visit our "What's new" webpage for our latest publications, and follow us on LinkedIn for upcoming activities.*

A review of the revenue recognition requirements

A summary of the Institute's response to the IASB Request for Information on IFRS 15 *Revenue from Contracts with Customers*

International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* introduces a comprehensive and robust framework for the recognition, measurement and disclosure of revenue that applies to a wide range of transactions and industries. The standard was developed jointly by the International Accounting Standards Board (IASB) and United States Financial Accounting Standards Board and became effective for annual reporting periods beginning on or after 1 January 2018.

The IASB is currently undertaking a Post-implementation Review of IFRS 15. As part of this review, the IASB has issued a Request for Information (RFI) to seek feedback from stakeholders on specific areas of the standard. In October 2023, the Institute's Standard Setting Department responded to the RFI. This article summarizes our primary comments and recommendations. The full response is available on our website.

Overall, we consider that IFRS 15 has achieved its objectives. It provides a logical model for applying accounting principles to transactions and assists entities in determining accounting treatments in a comprehensive and systematic manner. Nevertheless, we have identified application issues relating to certain aspects of the requirements that warrant the IASB's further consideration.

Principal versus agent assessment

Our respondents noted that entities often assess whether they are a principal or an agent solely based on the indicators in IFRS 15.B37 and overlook the concept of control. Additionally, assessing whether an entity controls the specified good or service before it is transferred to the customer can be judgmental and challenging, particularly for transactions involving intangible or non-physical items and provision of services, which are widespread in Hong Kong. Furthermore, new forms of operation, such as digital platforms, have introduced additional challenges.

In light of the above, we recommend the IASB incorporate the key messages from IFRS 15.BC385H into the body of the standard to emphasize that the indicators were included to support the assessment of control and should not override it. In addition, we recommend the IASB add indicators in IFRS 15.B37 to assist entities in performing control assessment for intangible and service-based transactions, accompanied by illustrative examples.

Non-cash consideration

The prevalence of non-cash considerations (including in some cases consideration payable to a customer), such as shares and warrants, has risen significantly and their impact on financial reporting can be substantial under the current volatile market. However, there is a lack of guidance on the following areas:

Measurement date

Entities currently adopt different approaches regarding the measurement date of non-cash consideration. They measure it either at contract inception, when the non-cash consideration is received, or when the related performance obligation is satisfied. The timing difference between these dates may have a significant impact on the measurement of non-cash consideration. We consider that requiring entities to measure non-cash consideration at contract inception is consistent with other requirements in IFRS 15 for determining the transaction price and for allocating the transaction price to performance obligations, and is less complex to apply in practice. Furthermore, it aligns with the requirements of Topic 606 in the U.S. Generally Accepted Accounting Principles. Accordingly, we recommend the IASB reference Topic 606 to address this matter.

Subsequent changes in measurement of non-cash consideration

There is diversity in practice in the accounting for subsequent changes in measurement of non-cash consideration. In particular, it is unclear whether it should be accounted for as variable consideration under IFRS 15 or under other applicable IFRS Accounting Standards, such as IFRS 9 *Financial Instruments*. Questions arise regarding the application of the variable consideration requirements in IFRS 15 in situations where the changes in the fair value of non-cash consideration relate to both the form of consideration and other reasons. We acknowledge the challenges associated with determining the appropriate allocation of fair value changes between those attributable to the form of consideration and those arising from other reasons. In this regard, we recommend the IASB provide guidance on the accounting for changes in the fair value of non-cash consideration that relate to **both** the form of consideration and other reasons, and expand the existing Example 31 on non-cash consideration to illustrate the relevant requirements.

Determining the transaction price

We have identified several application issues regarding the determination of transaction price and recommend the IASB clarify how the relevant requirements in IFRS 15 should be applied. These issues include:

- How should an agent account for marketing incentives paid to end customers in three-way arrangements?
- How should consideration payable to a customer be accounted for if it exceeds the amount of consideration expected to be received from the customer? and
- How would an entity that is a principal estimate the amount of revenue to recognize if it were not aware of the amounts being charged to end customers by the agent?

This article was contributed by ***Katherine Leung****, Associate Director and* ***Sam Chan****, Manager of the Institute's Standard Setting Department.*

Goodbye IAS 1; Hello IFRS 18

A new standard on presentation and disclosure in financial statements

The International Accounting Standards Board (IASB) initiated the Primary Financial Statements (PFS) project in response to investors' concerns about the comparability and transparency of companies' performance reporting. The IASB has recently completed its technical work on the PFS project and expects to publish a new International Financial Reporting Standard (IFRS) Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, in Q2 2024. IFRS 18 will set out the requirements for the presentation and disclosure of information in financial statements and will replace International Accounting Standard (IAS) 1 *Presentation of Financial Statements*. IFRS 18 will be effective for annual reporting periods beginning on or after 1 January 2027, with restatement of the comparative period being required.

Who will be impacted by the new standard?

All stakeholders in all industries that apply IFRS Accounting Standards will be impacted. The changes introduced by IFRS 18 will affect how entities present and disclose information in the financial statements, the information available to investors, and the extent of information subject to assurance by auditors.

What will be changed?

IFRS 18 introduces significant changes to the presentation of financial statements, with a focus on the statement of profit or loss. Nonetheless, certain requirements of IAS 1 will be included in IFRS 18 with minimal changes. As the final version of IFRS 18 has not yet been released, the following overview of key changes from IAS 1 to IFRS 18 is based on the IASB's tentative decisions and may differ from the final requirements of IFRS 18.

Categories and subtotals

IAS 1 does not require income and expenses to be classified into particular "classes" or "categories" nor does it mandate the presentation of any subtotals between "revenue" and "profit or loss" in the statements of profit or loss. To enhance consistency and comparability of companies' financial performance, IFRS 18 will require income and expenses to be classified into five categories in the statement of profit or loss. See table 1.

Furthermore, all entities will be required to present two new subtotals:

- *Operating profit or loss*, which comprises all income and expenses classified in the operating category; and
- *Profit or loss before financing and income tax*, which comprises all income and expenses classified in the operating and investing categories.

Management-defined performance measures (MPM)

IFRS 18 will include specific disclosure requirements for MPM to improve the transparency of measures entities provide and the discipline with which they are prepared. MPM are subtotals of income and expenses, other than subtotals specified by

Table 1: Income and expenses that is required to be classified into five categories in the statement of profit or loss

Categories	Definitions
Operating*	Income and expenses that are not classified in other categories.
Investing*	Income and expenses from: • Assets that generate a return individually and largely independently of other resources held by an entity; • Subsidiaries, associates, and joint ventures; and • Cash and cash equivalents.
Financing*	• Income and expenses from liabilities from transactions that involve only the raising of finance; and • Interest expenses and effects of changes in interest rates from other liabilities.
Income tax	• Income tax expense or income arising from the application of IAS 12 *Income Taxes*.
Discontinued operations	• Income and expenses from discontinued operations arising from the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

** The classification of income and expenses may differ in some cases for entities with specified main business activities, i.e. entities that provide financing to customers (e.g. banks) or invest in assets as their main business activities (e.g. insurance and investment entities).*

Table 2: Classification of interest and dividend cash flows according to the new requirements

<table>
<tr><th>Cash flows</th><th>Entities without specified main business activities</th><th>Entities with specified main business activities</th></tr>
<tr><td>Interest received</td><td>Investing activities</td><td rowspan="3">Single category (either operating, investing or financing activities)</td></tr>
<tr><td>Interest paid</td><td>Financing activities</td></tr>
<tr><td>Dividends received</td><td>Investing activities</td></tr>
<tr><td>Dividends paid</td><td>Financing activities</td><td>Financing activities</td></tr>
</table>

IFRS Accounting Standards, that an entity (a) uses in public communications outside financial statements; and (b) uses to communicate to users of financial statements management's view of an aspect of the entity's financial performance. Examples of MPM include adjusted profit and adjusted earnings before interest, taxes, depreciation, and amortization.

IFRS 18 will require entities to disclose the following information about their MPM in a single note:

- A statement that the MPM provides management's view;
- An explanation of the MPM calculation and why it provides useful information;
- A reconciliation to the most directly comparable specified subtotal or total; and
- An explanation of any changes to the MPM.

Labelling, aggregation and disaggregation

IFRS 18 will enhance the requirements for labelling, aggregation and disaggregation with the following key changes:

- Items must be disaggregated if the resulting disaggregated information is material;
- Use the label "other" only if an entity is unable to find a more informative label; and
- Entities that classify expenses by function will be required to disclose the amounts included in each line item for depreciation, amortization, employee benefits, impairment losses and write-down of inventories.

Statement of cash flows

There will be consequential amendments to IAS 7 *Statement of Cash Flows* to improve comparability. The amendments will include:

- The newly introduced mandatory subtotal, operating profit or loss, will be the starting point for the indirect method of reporting cash flows from operating activities; and
- The elimination of accounting policy choice to classify interest and dividend cash flows. Entities will be required to classify their interest and dividend cash flows according to the new requirements. See table 2.

What should entities do now?

Given the potential implications of the new standard, the following are some suggested steps that entities should take now.

- Understand what the forthcoming accounting requirements are. The IASB project webpage provides a preliminary overview of what the tentative standard will look like.
- Conduct an initial assessment of how the new requirements will impact your entity's financial reporting systems, processes and controls.
- Review the policy to aggregate, disaggregate and label information based on the new requirements.
- Consider the potential impact of the new requirements about MPM on your entity's external communication strategy.
- Stay tuned for the forthcoming publication of IFRS 18 and keep an eye on our Presentation and Disclosure in Financial Statements webpage, which will provide you with access to useful technical support and updates from both the IASB and the Institute.

A tribute to IAS 1

IAS 1 must have been one of the first standards taught to us in university. Back then I couldn't quite make out what belonged in IAS 1 and what belonged in the Conceptual Framework – hardly any first-year student thought it necessary to "waste" money on a set of accounting standards. Besides, all that mattered was the need to memorize the definitions and recognition criteria of an asset and liability as well as knowing when to classify an asset or liability as current or non-current as there was bound to be a question on it in all accounting tests and exams. And they were easy marks.

Time has flown by since then and it's hard to say goodbye to something that has been with us for almost 30 years. There's no escaping it – the world has changed and our standards must change with it.

Go well IAS 1. IFRS 18, show us what you've got!

– Cecilia Kwei,
Director of Standard Setting,
HKICPA

*This article was contributed by **Katherine Leung**, Associate Director and **Sam Chan**, Manager of the Institute's Standard Setting Department.*

ISSB standards: How SMEs can get ready for the upcoming requirements

Key considerations for smaller enterprises amid the growing number of companies gearing up for the International Sustainability Standards Board requirements

Although small- and medium-sized enterprises (SMEs) may not be directly subject to the standards issued by the International Sustainability Standards Board (ISSB), they play a crucial role in the overall value chain. SMEs, as business partners, will encounter touchpoints where their customers, often listed companies subject to the ISSB, expect them to get on board as well. In order to prepare for the demands and expectations ahead of the road, it is advisable that SMEs familiarize themselves with this market development, as well as the context on why their customers increasingly have certain requirements, including specific data.

Context

Early preparation is key and should not be overlooked. With the November 2023 announcement from the Hong Kong Stock Exchange (HKEX) that the implementation of the Listing Rule amendments (informed by the IFRS S2 *Climate-related Disclosures* from the ISSB) will be postponed to 1 January 2025, it is advisable for issuers to take advantage of this additional time to ensure they are ready when the implementation date arrives. It is important that companies, including SMEs, do not underestimate the time required to understand the expectations and implications of the standards, onboard and enhance the skills of relevant internal stakeholders, as well as implement necessary actions to achieve readiness for mandatory reporting in line with the ISSB.

How to get prepared

How SMEs can get ready for the upcoming ISSB requirements is similar to how a listed company would prepare themselves.

A key data point SMEs can expect to be asked on will be related to Scope 3 emissions, which refer to indirect greenhouse gas emissions that occur in an entity's value chain. For listed companies, this includes their suppliers, such as the direct emissions of SMEs. Therefore, it is advantageous for SMEs to acquire an understanding of their own emissions. This includes factors such as, how are emissions currently calculated; what are the data gaps and challenges to obtaining more complete data; and what are the opportunities to enhance data accuracy.

As Scope 3 data often involves multiple stakeholders and departments, SMEs can engage in discussion to align with corporate partners and customers on the specific data they are seeking, as well as consult and work together with internal departments to develop more robust data measurement and management practices. During this process, SME data owners will start to encounter terms such as "spend-based" and "Category 15" – they can begin familiarizing themselves with these terms in order to speak the same language as their corporate partners who will be often using this kind of terminology to communicate their data needs in relation to Scope 3.

In addition to Scope 3, SMEs should be mindful that more and more companies are aligning their strategy to net zero. Net zero entails decarbonizing operations through the value chain, where SMEs play a significant role, in order to achieve zero emissions. A company's plan towards net zero come in a range of forms such as roadmaps, transition plans, and targets. Under targets, many companies are now setting science-based targets, where they undertake operational changes to actively reduce emissions. These science-based targets

are relevant to SMEs, as large corporates are increasingly committing to Scope 3 targets, whether that is a direct target requiring suppliers to also get on board and take action to lower emissions, or having the supplier set their own science-based target.

Putting both Scope 3 and this science-based target together, aside from data collection, SMEs will need to consider what practical actions in the short, mid, and long-term they can take to decrease their own emissions. This is not simply for the sake of decreasing emissions, but also to give the SME an edge. SMEs that have a plan for collecting relevant data, decreasing emissions, and an understanding of the ISSB requirements may be more attractive business partners to large corporates that are advancing in their own environmental, social and governance (ESG) journey, and seeking out partners who can work alongside them in their strategy.

SMEs that wish to take it a step further could gain an understanding of the overall requirements a listed company has to comply with by taking a look through the latest ISSB requirements and HKEX Consultation Paper. From one angle, this allows the SME to put itself in the shoes of its customer and gain insight on what is driving the customer's needs. This understanding can be further enhanced by looking through the sustainability reports issued by the SME's customers to take note of their ESG focus areas, as well as ongoing and future actions towards Scope 3.

Expanding on this angle, an SME could begin anticipating the demands from its customers and positioning itself ahead of fellow SMEs in catering to those needs. Finally, by having an understanding of what listed companies are required to act on and disclose, the SME is equipping itself on any future requirements targeted at SMEs.

Our observation

Through our interactions with clients spanning various industries, we have observed a growing trend towards more stringent supplier requirements. Responsible supply chain management is often a material topic for these companies, and they are increasingly holding higher expectations on their suppliers' ESG performance and policies.

Overall, it is important to recognize that this goes beyond a mere reporting exercise or keeping in step with market trends. It is also a proactive measure that helps future-proof a SME and better positions it to win future opportunities. As the number of companies gearing up for the ISSB requirements in Hong Kong and beyond continues to rise, SMEs stand to benefit by following suit.

*This article was contributed by **Cyrus Cheung**, Partner, ESG Disclosure and Consulting at PwC and Chairman of the Institute's Sustainability Committee. **Natalyn Pow**, Senior Associate, ESG Services, also contributed to this response.*

TECHNICAL NEWS

The latest standards and technical development highlights

Financial reporting

List of new and amended HKFRS
The Institute has published the list of new and amended Hong Kong Financial Reporting Standards (HKFRS) that are applicable to December 2023 year-end.

IASB summarizes its completed project on extractive activities
The International Accounting Standards Board (IASB) published a summary of its project on extractive activities. The summary explains the reasons for the IASB taking on the project, the work done and the key decisions made, including the reasons for deciding to retain International Financial Reporting Standards (IFRS) 6 *Exploration for and Evaluation of Mineral Resources*.

Based on evidence collected between 2018 and 2023, the IASB decided not to develop new or amended recognition, measurement or disclosure requirements for exploration and evaluation expenditure or other aspects of accounting for extractive activities. The IASB did not find compelling evidence that standard-setting would be necessary.

Webcast series: the forthcoming IFRS Accounting Standard for subsidiaries
In this webcast, William Biese, member of the Mexican Financial Reporting Standard Setting Board, joined the IASB technical staff member to discuss the possible effects of the forthcoming reduced-disclosure IFRS Accounting Standard for subsidiaries of parent companies that apply IFRS Accounting Standards.

They discussed how this new standard may simplify and reduce the cost of preparing subsidiaries' financial statements while maintaining their usefulness to their users.

Auditing and assurance

Invitation to comment
The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft on *Proposed Narrow Scope Amendments to International Standards on Quality Management*; *International Standards on Auditing (ISAs); and International Standard on Review Engagements 2400 (Revised) Engagements to Review Historical Financial Statement, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the International Ethics Standards Board for Accountants (IESBA) Code* by 8 March.

These proposed revisions have two key objectives. First, they would align definitions and requirements in the IAASB standards with new definitions for publicly traded and PIEs in the IESBA Code. Second, the amendments would extend the applicability of existing differential requirements for listed entities to meet heightened stakeholder expectations regarding audits of PIE.

Considerations for 2023 year-end audits
With the 2023 year-end audits approaching, the Institute has published an alert with some points for consideration when performing audits and other forms of reporting. They include additional procedures when receiving responses to confirmation requests by electronic mail, and impact to auditor's reports as a result of the narrow-scope amendments made to Hong Kong Accounting Standard 1 *Presentation of Financial Statements*.

2023 Financial year-end audit reminder
The Accounting and Financial Reporting Council highlighted the areas that could significantly impact financial reporting and audit quality in the current economic and business circumstances in its publication Audit Focus – Effective Planning: The Key to High-Quality Audits. Auditors are reminded of the requirement to identify and address all relevant audit risks that may arise during the audit process.

A standard for audits of less complex entities
The IAASB has published the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, known as the ISA for LCE. It is a standalone global auditing standard designed specifically for smaller and less complex businesses and organizations. Built on the foundation of the ISAs, audits performed using this standard provide the same level of assurance for eligible audits: reasonable assurance. The standard is effective for audits beginning on or after 15 December 2025 for jurisdictions that adopt or permit its use.

The Institute's Auditing and Assurance Standards Committee will consider the applicability of the standard in a local context and will follow the due process for adoption in Hong Kong. This article developed by the International Federation of Accountants (IFAC) discusses the key attributes of the ISA for LCE.

IFAC Technology Matrix
The IFAC has created a Technology Matrix as a quick guide to help stakeholders understand and access the breadth of technology resources available from the IFAC.

Featuring content from April 2021-2023, the matrix categorized resources using technology ABCs:

- A: Artificial Intelligence (AI)
- B: Blockchain
- C: Cyber-security
- D: Data governance (an valuing data)
- E: Ethics
- Other tech content (i.e. content not falling within A, B, C, D or E)

The Matrix will be updated periodically throughout the year; all IFAC technology-related materials are also available using the Technology content tag.

The use of AI for SMPs
A presentation given by a member of the IFAC Small- and Medium-Sized Practices Advisory Group on the use of AI for small- and medium-sized practices (SMPs) has been introduced on the IFAC website as a useful resource. The presentation covers:
- An overview of the different types of AI
- Ethical challenges in the use of AI
- Practical use of ChatGPT
- Supervision responsibilities for AI use

Additional resources for SMPs on technology and other important topics are available at the IFAC's Practice Transformation Hub.

Ethics

HKICPA Ethics Survey 2024
Take part in the Institute's Ethics Survey 2024 on the ethical attitudes of professional accountants in Hong Kong regarding their use of technology when carrying out professional activities, and the potential implications on their compliance with the fundamental principles of the Institute's *Code of Ethics for Professional Accountants*. The survey takes less than 10 minutes to complete and will close on 9 February.

IESBA update
The IESBA made an announcement for its successful completion and approvals of various exposure drafts and standards:
- *Commitment to sustainability reporting and assurance* – The exposure draft approved by the IESBA will contain proposed independence standards for use by all sustainability assurance practitioners regardless of whether they are professional accountants, and specific ethics provisions relevant to sustainability reporting and assurance. The IESBA intends to release the exposure draft in late January.
- *Using the work of external experts* – The IESBA approved proposed ethics provisions addressing the use of external experts by organizations as well as in the context of audit and assurance engagements, including sustainability assurance engagements. Professional accountants and sustainability assurance practitioners will be guided by an ethical framework to evaluate the competence, capabilities, and objectivity of external experts.
- *Strengthening ethical behaviour in tax planning* – The IESBA approved the final revisions to the *Code of Ethics for Professional Accountants (including International Independence Standards)* to address tax planning and related services. These revisions establish an ethical framework in the public interest to guide professional accountants in making judgements and decisions when providing relevant services.
- *Strategy and Work Plan 2024-2027* – The IESBA approved its Strategy and Work Plan (SWP) for 2024-2027. Among other matters, the IESBA will tackle two new ambitious strategic areas of focus: accounting firm culture and governance, and extending the impact of the Code beyond the accounting profession, where it believes the SWP can significantly expand reach and business impact.

ICAS updated ethics case studies
The Institute of Chartered Accountants of Scotland (ICAS) has updated its Shades of Grey – Ethical Dilemma case studies. Initially published in 2009, the 19 ethical dilemmas in the updated publication are intended to cover a wide range of situations that might be faced by chartered accountants in business or in practice.

Sustainability

ISSB at COP28
Chair of the IFRS Foundation Trustees, Erkki Liikanen addressed COP28 in December 2023 to reflect on progress since the IFRS Foundation announced its decision to establish the International Sustainability Standards Board (ISSB) in 2021. Liikanen confirmed three further commitments in the IFRS Foundation's efforts to support efficient and resilient capital markets through robust sustainability-related financial disclosures. Furthermore, he announced the re-appointment of ISSB Chair, Emmanuel Faber, for a second term.

The declaration of support, announced during the Finance Day at COP28, was signed up by close to 400 organizations, including companies, investors, stock exchanges, professional accounting organizations, audit firms, regulators and standard setters from around the world, committed to advance the ISSB climate global baseline.

IFRS Sustainability knowledge hub
The IFRS Sustainability knowledge hub set up by the IFRS Foundation serves as a useful repository of different resources related to the IFRS Sustainability Disclosure Standards. Members can refer to the quick start guide on how to use the hub and to find relevant information.

Corporate finance

Consultation on Legislative Proposal to Implement Regulatory Regime for Stablecoin Issuers and Announcement on Introduction of Sandbox Arrangement
On 27 December 2023, the Financial Services and the Treasury Bureau and the Hong Kong Monetary Authority (HKMA) jointly issued a public consultation paper to seek views on the legislative proposal to regulate issuers of stablecoins. The HKMA will also introduce a sandbox arrangement for communicating supervisory expectations and guidance on compliance to entities having a genuine interest in and a reasonable plan on issuing fiat-referenced stablecoin in Hong Kong. The deadline for responding to the consultation paper is 29 February.

HKEX publishes Consultation Conclusions on GEM Listing Reforms
On 15 December 2023, the Stock Exchange of Hong Kong Limited (HKEX) released Consultation Conclusions on GEM Listing Reforms. The Institute issued a submission in response to this consultation on 6 November 2023. Refer to the press release for details.

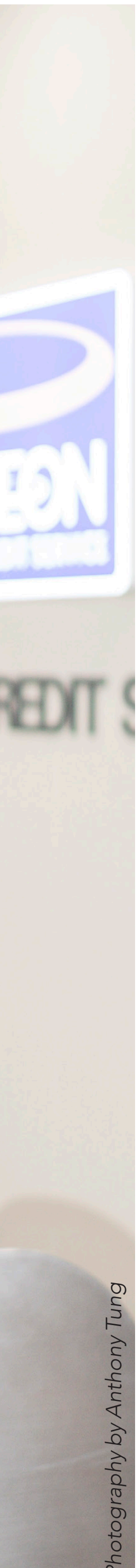
Legislation and other initiatives

Anti-money laundering (AML) notices
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

EDDIE CHAN

Senior Manager at AEON Credit Service (Asia) Company Limited



Photography by Anthony Tung

Eddie Chan, Senior Manager at AEON Credit Service (Asia) Company Limited, on the rewards and challenges of guiding junior staff, and how he sees ESG playing a bigger part of his future

What are your current role and responsibilities? How is the work going so far?

As a Senior Manager of AEON Credit Service (Asia) Company Limited, I act as the department head for the accounts department. I prepare the month-end closing, the relevant result announcements and ensure all operations comply with the laws and regulations and with good internal controls. I am also the assigned counsellor of my company as an Authorized Employer of Hong Kong Institute of CPAs. This role involves communicating and presenting extensively to different stakeholders, including junior staff, management, internal and external auditors, lawyers, investors and other operations colleagues and vendors, for them to understand the current accounting standards, and for me to provide advice on how to enhance operational efficiency and internal controls.

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

As a manager for more than 10 years, I have worked with many junior staff, who range from summer trainees and fresh graduates, to colleague transfers from other industries. Training them, whether on soft skills or accounting knowledge, can be a very challenging process. However, it is rewarding and always a proud moment seeing them grow in their careers, and be promoted to a senior role or move on to a good company. Developing human capital for markets to thrive is not only the role of universities or professional bodies. Managers also play an important role in this and for the accounting industry as a whole.

What inspired you to become an accountant?

I knew that accounting is one of the few professions with voting rights as a functional constituency of the Legislative Council of Hong Kong, and so during the summer break after taking Hong Kong Certificate of Education Examination, I took the course and examination of the London Chamber of Commerce and Industry. Through this opportunity, I gained a good understanding of accounting, and the important role of accountants in Hong Kong's stock market, one of the largest stock exchanges in the world. I considered how important it is to ensure shareholders fully understand a target company through the full and accurate disclosure of both financial and non-financial information, so that they can make well-informed investment decisions. Because of this, even though I was in the science stream in secondary school, I chose to study accounting at the University of Hong Kong.

Where do you see yourself in the next five to 10 years in your career?

These days, there is a lot of focus on environmental, social and governance (ESG) matters. In order for Hong Kong to achieve the goal of carbon neutrality, the disclosure of greenhouse gas (GHG) emissions will be one of the most important steps to control carbon emissions. As GHG emissions are becoming one of the factors influencing lending or investment, as well as another major currency of a company's financial statement, engaging with stakeholders to gather accurate scope 3 emissions data will be important. Therefore, as a person responsible for the financial reporting of a listed company, I plan to also specialize in the field of ESG. Besides being knowledgeable on the disclosure of GHG emissions, I would also like to act as an advisor for management on how the company can improve on social and corporate governance areas, provide the relevant disclosures for our annual report, and suggest how to balance the financials and the branding of the company through ESG topics.

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

My first job after graduating was at a CPA firm, which specialized in insolvency. My main duties were to realize assets from a bankrupt or company being wound-up, report to the court or creditor the latest progress and distribute the assets to the creditors. As we received an average 10 bankruptcy cases and one winding-up case from the Official Receiver a week, I encountered many different kinds of cases and people. There is no standard formula or procedure for realizing assets. In one case, a company declared insolvency and couldn't settle the outstanding rent. Therefore, they applied for winding-up. After I received this winding-up case, I discovered that the real reason for insolvency was that the company used surplus cash for dividend distribution (just before the winding-up application) instead of rental payment. In the end, after discovering this voidable unfair preference transaction (i.e. dividend payment), the shareholders of the winding-up company agreed to settle the outstanding rent. If I had used a traditional investigation approach of realizing assets, based on the asset breakdowns provided by the auditors, instead of studying the financial statements and understanding the operations of the company, this detail might not have been discovered. Creativity and logical thinking is very important in our daily work.

Empowering SMPs in their digital transformation journey

The Institute's new report focuses on the types of technologies being used by SMPs, the benefits and obstacles of technology adoption, and guidance for SMPs to effectively integrate technology into their operations

Technology plays a vital role in empowering small- and medium-sized practices (SMPs) in the accounting sector to thrive. To provide insights into the current state of technology adoption by SMPs in Hong Kong's accounting sector, the Institute published a study titled *Navigating the Tech Wave: A Study of Technology Adoption by Small and Medium Accounting Practices in Hong Kong*.

Methodology

This study utilized qualitative research to gain a comprehensive understanding of technology adoption among Hong Kong's SMPs. Interviews were conducted with SMP representatives and technology vendors to capture diverse perspectives and identify common themes. The study also incorporated literature reviews and industry reports for broader context and validation. This multifaceted approach ensures a balanced and robust understanding of technology adoption trends, forming the basis for the insights shared in the study.

The report categorizes SMPs in Hong Kong into three tiers based on their technology adoption. At the foundational level, SMPs have implemented basic operational software like Microsoft Office and virtual meeting platforms. Moving up the spectrum, more SMPs are using specialized accounting software to automate processes and generate reports.

Larger SMPs leverage practice management software for business management, improving efficiency and collaboration. At an advanced level, a few SMPs have implemented audit management software, digitizing the audit process and providing tools for task management and progress monitoring. The report specifically focuses on the adoption of audit management software.

Opportunities

Respondents found that the use of technology can enhance efficiency by automating audit processes, such as planning, execution, and report generation, saving time and reducing errors. It also improves risk management and compliance by providing templates, checklists, and centralized storage for easy access and review.

Respondents reflected that technology adoption can enhance the brand image of SMPs, attracting tech-savvy professionals and demonstrating a commitment to efficient and modern practices. The use of technology in audit benefits clients as well, including more accurate and faster results. Collaboration and oversight are improved through real-time access to audit files, facilitating seamless information sharing and centralized monitoring.

Technology adoption also allows SMPs to transform their operations and streamline processes, leading to cost savings and organizational change. Being early adopters of technology can provide a competitive edge, while also enabling SMPs to offer value-added services beyond auditing.

Challenges and hurdles

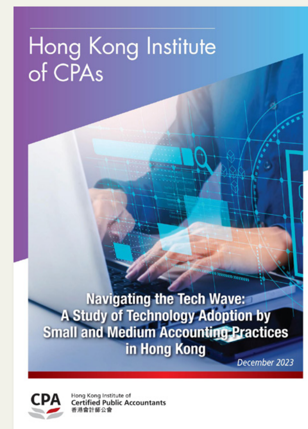
One major hurdle in the adoption of technology for SMPs is the cost associated with implementing new technology. For smaller firms with limited financial resources, the initial investment and recurring costs of technology can strain their budgets. Additionally, setting up new systems often requires extra manpower, which adds to the overall cost.

Another challenge is the time commitment required for technology adoption. Converting existing working files into a compatible format and ensuring the smooth functioning of the software demand significant time and effort, not to mention time lost to technical issues that can also arise.

Staff training and development pose additional challenges. Beyond adding to the time and resource commitment for training, especially during periods of talent shortage, high turnover rates increase training costs and create a continuous need for training new hires.

Implementing new technology also requires a cultural shift within the organization. Resistance to change, particularly among senior staff, can disrupt established routines and workflows. Change management initiatives and sustained efforts are necessary to support the cultural shift.

Lastly, the complex and rapidly



evolving technology landscape can make it challenging for SMPs to identify the right solutions for their specific needs. The knowledge gap between technology vendors and SMPs can hinder the development of systems that effectively meet SMPs' needs.

Recommendations for SMPs

The report's key recommendations include starting with basic operational software to establish a foundation, developing a technology roadmap aligned with business goals, investing in comprehensive training programmes for employees, seeking support from professional bodies like the Institute, fostering a culture of innovation, and continuously evaluating and adapting technology adoption efforts.

The report also outlines a wish list of support SMPs hope to receive to help them navigate this complex situation, such as financial support, educational opportunities, and favourable government policies and incentives, among others. The Institute's initiatives to support SMPs in their technology adoption journey are included in the report for SMPs' reference. It provides a framework for SMPs to understand the types of technologies available and offers guidance on how to overcome challenges and leverage technology for their competitive advantage.

The Institute believes that technology is the key to the future of accounting, and is committed to supporting its members who work in SMPs in their digital transformation journey, providing them with the resources, support, and guidance they need to successfully navigate the tech wave.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