

Research Assessment Exercise 2020

Impact Case Study

University: City University of Hong Kong |
Unit of Assessment (UoA): 20-Accountancy

Title of case study: Sustainability and Social Mobility in Professional Services: A Case Study of Accounting Profession in Hong Kong |

(1) Summary of the impact

Given the pivotal role of the accounting professional services in Hong Kong's economy, particularly the cross-border interaction between the Mainland and Hong Kong, this study provides insights from a systematic analysis of the diverse views of various stakeholders including industry leaders, early and mid-career accounting professionals and government to identify the major gaps in policy and practices affecting the development of the accounting profession. This study has contributed to the sustainable development of and mobility within the accounting profession by facilitating the process whereby the diverse views can be translated into potent forces for positive change and action.

(2) Underpinning research

Audit, along with financial reporting, corporate governance and regulation, supports confidence in capital markets. Following the collapse of Enron and other high profile corporate scandals, the responsibility and quality of audit came under intense scrutiny on an international scale. The longstanding challenge that ensued on the role and quality of audit brought the auditing profession center stage.

In the past two decades, CityU has focused on studying factors affecting the quality of audit services and proper oversights of the auditing profession. Chan, Lin and Mo (2003, reference 3.1) draws on Hofstede's cultural model to examine the impact of cultural dimensions on accounting errors detected by auditors. Chan, Lin and Mo (2006, reference 3.2) find that audit quality is affected by political and economic influences from local governments in China. From the regulatory perspective, Firth, Mo and Wong (2012, reference 3.3) provide evidence that a limited liability regime induces lower audit quality while Firth, Mo and Wong (2014, reference 3.4) find that regulatory sanctions have a disciplinary effect on auditors. Specifically, auditors who are sanctioned for failure to detect and report financial statement fraud report more conservatively after the sanction. Recently, Chang, Guo and Mo (2019, reference 3.5) examine how changes in audit market competition in China affect audit fees and audit quality.

To enhance the competitiveness of the professional services for further global development, the Chief Executive of HKSAR emphasized in the 2014 and 2015 Policy Addresses that the government would examine ways to strengthen the competitiveness of the sector *via* enhanced research and development, manpower development and business restructuring, promotion of the 'Hong Kong brand', as well as to facilitate the upward mobility of young people through education, training and employment.

In response to the call, Li et al. (2016, reference 3.6), through in-depth interviews and surveys of various stakeholders, examine the factors affecting the sustainability and social mobility of the accounting profession in Hong Kong. In a nutshell, the study finds that the sector's self-assessment of prospects (both personal and sector-wide) is, on the average, moderate and pessimistic for some. Young and prospective accountants have positive aspirations for their

personal careers but the sector at large faces entrenched issues of governance and equity (e.g. excessively long working hours and stagnant entry-level pay), increasingly cut-throat competition and rising business risks and costs. There is a felt need for more broad-based and creative training and education programs to meet the need for new talent to provide non-core services and the needs of a new generation of quality professionals and business leaders. Investment in research and development on exploring new markets, new services and new technology, both in the sector or in academia, is considered to be insufficient. To meet these gaps, more proactive leadership and stepped-up assistance from industry leaders, sectoral professional bodies, the Government and the academia is called for. This study has laid down recommendations to facilitate the process whereby the diverse views can be translated into potent forces for positive change and action. |

(3) References to the research

- 3.1 Chan, K. H., K. Z. Lin, and P. L.L. Mo (2003). An empirical study on the impact of culture on audit-detected accounting errors. *Auditing: A Journal of Practice and Theory* 22(2): 281-295.
- 3.2 Chan, K. H., K. Z. Lin, and P. L. L. (2006). A political-economic analysis of auditor reporting and auditor switches. *Review of Accounting Studies* 11(1): 21-48.
- 3.3 Firth, M. A., P. L. L. Mo, and R. M. K. Wong. (2012). Auditors' organizational form, legal liability and reporting conservatism: Evidence from China. *Contemporary Accounting Research* 29(1): 57-93.
- 3.4 Firth, M. A., P. L. L. Mo, and R. M. K. Wong. (2014). Auditors' reporting conservatism after regulatory sanctions: Evidence from China. *Journal of International Accounting Research* 13 (2): 1-24.
- 3.5 Chang, H., Y. Guo, and P. L. L. Mo. (2019). Market competition, audit fee stickiness, and audit quality: Evidence from China. *Auditing: A Journal of Practice & Theory* 36(2):79-99.
- 3.6 Li, L.C., P. L. L. Mo, H. M. Chan, and I. Kam. 2016. *Sustainability and Social Mobility in Professional Services: A Case Study of Accounting Profession in Hong Kong*, Final Report. Public Policy Research (PPR) Funding Scheme, Central Policy Unit, HKSARG, 2015-16. [The highlights of the Report findings have been developed in a book in Chinese language to enhance dissemination and impact: *Transcending the Bottlenecks: The Hong Kong Accountancy Profession*, eds, with Linda Li, P. L. L. Mo, Ho Mun Chan, Iris Kam, City University of Hong Kong Press, 2017] |

(4) Details of the impact

Li et al. (2016) aim to examine the sustainability and social mobility in Hong Kong accounting profession. This research combined academic analysis with action research methods to maximise impact on agency reflection and behavioural change of stakeholders. The diverse views of sector stakeholders were set against the backdrop of the changing operating environments of the profession: technology, business opportunities and socio-political considerations [Source 5.1]. The research report has been widely disseminated to professional bodies (e.g., HKICPA, ACCA, CPA Australia, the Society of Chinese Accountants and Auditors (SCAA), government officials (including the Chief Executive, Financial Secretary), professional CPA firms and leaders in the business sector. This line of research has been further developed by a survey of global accounting professionals' view on the opportunities and challenges related to the Belt & Road Initiative (BRI).

The research findings help to ring an alarm bell in the profession and call for a more proactive strategy and vision for sustainable socio-economic development. The impacts on different stakeholders of the profession are highlighted in the following:

- An *Industry Sharing Forum on Sustainability and Mobility of Hong Kong Accounting Profession* was organized on 17 May 2016 at CityU to share the preliminary findings and to reconcile the divergent views among and within the sub-sectors of Professional-Accountants-in-Practice (PAIP) and Professional-Accountants-in-Business (PAIB) for synergies. It was well attended by over 50 industry leaders, including senior partners of major CPA firms, leaders of major professional bodies and the incumbent Legislative Councillor, as well as academics and students. Most Forum participants agreed to the findings of the PAIP survey and offered further substantive observations from their experience and suggestions for the sector. Specifically, they noted the importance of differentiating and lifting the quality and standard of accounting services in Hong Kong from that in the Mainland, and the need to follow closely the frequent changes of accounting standards and regulation, so as to uphold the competitive edge of the Hong Kong accounting profession. They also emphasized the necessity of cooperation among firms in Hong Kong and of cross-border collaboration. Regarding the further development of the sector, participants demanded the government to take a more proactive role in attracting business opportunities to Hong Kong and exploring opportunities in overseas markets. Participants also stressed the importance of improving soft skills, such as communication skills, IT applications, leadership and management skills, international exposure etc. of the practitioners in the industry [Source 5.3]. The sharing forum and research findings were widely reported in newspapers [Source 5.4].
- Chinese-language papers in reader-friendly language were published in Master-Insight.com (<http://master-insight.com>) during May-October 2016, attracting instant attention and enquiries from Financial Reporting Council and Trade Development Council [Source 5.5]. These timely publications of initial analysis in professional media facilitated public dissemination of the project findings and enhanced visibility and impact of the research.
- Invited as speakers by the elected Legislative Councillor, Mr. Kenneth Leung for a *CPD Seminar on the Sustainability and Upward Mobility of the Accountancy Industry* on 13 June 2016 to report our initial findings on the career prospects of the Hong Kong accounting profession. Together with Mr. Kenneth Leung, we answered questions raised by the audience and discussed the challenges faced by the accounting profession in Hong Kong. The seminar attracted an audience of more than 300 accountants [Source 5.6].
- Invited as speakers by Hong Kong General Chamber of Commerce (HKGCC) to share our views on how professional services, particularly the accounting and legal sector in Hong Kong can seize each opportunity to participate in the Belt and Road Initiative with members of the HKGCC during a roundtable luncheon on 23 January 2017 [Source 5.7].
- Training programs jointly organized with professional firms and bodies to deepen the understanding amongst the accounting professionals through experience sharing and reflection and thereby raise capacity to take advantage of the development opportunities [Source 5.8].
- Invited by the Society of Chinese Accountants and Auditors (SCAA) to collaborate and conduct a survey of global accounting professionals' views on BRI in 2018 [Source 5.9]. The findings were presented in the first World Chinese Accountants Conference 2018 – Opportunities of Belt Road Initiative in Hong Kong and Beijing in May 2018. The report of the survey findings reached participants of the World Conference, Hong Kong senior government officials of HKSAR, and Beijing, professional organizations in the sector [Source 5.10]. |

(5) Sources to corroborate the impact

- 5.1 Li, L.C., P. L. L. Mo, H. M. Chan, and I. Kam. 2016. *Sustainability and Social Mobility in Professional Services: A Case Study of Accounting Profession in Hong Kong*, Final Report. Public Policy Research (PPR) Funding Scheme, Central Policy Unit, HKSARG, 2015-16. [The highlights of the Report findings have been developed in a book in Chinese language to enhance dissemination and impact: *Transcending the Bottlenecks: The Hong Kong Accountancy Profession*, eds, with Linda Li, P. L. L. Mo, Ho Mun Chan, Iris Kam, City University of Hong Kong Press, 2017].
- 5.2 Letter from BDO Limited.
- 5.3 Industry Sharing Forum on *Sustainability and Mobility of Hong Kong Accounting Profession*
- 5.4 Reporting the findings of the research and industry sharing forum by Ta Kung Pao and Hong Kong Economic Times.
- 5.5 Chinese-language papers in reader-friendly language were published in Master-Insight.com (<http://master-insight.com>)
- 5.6 CPD Seminar on the Sustainability and Upward Mobility of the Accountancy Industry on 13 June 2016.
- 5.7 Sharing at the Hong Kong General Chamber of Commerce (HKGCC) roundtable luncheon on 23 January 2017.
- 5.8 Training programs jointly organized with professional firms and professional bodies.
- 5.9 Invitation letter from the Society of Chinese Accountants and Auditors (SCAA) to collaborate on a survey of global accountants
- 5.10 Thank you letter from SCAA and Survey report on “Hong Kong Accountancy Profession’s Opportunities and Challenges in the Belt Road Initiative |