

ACCA Member Survey

Business challenges and considerations for the Covid-19 outbreak

Mainland China and Hong Kong SAR

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How can finance professionals effectively lead the team and help enterprises navigate through these difficult times?

As the novel coronavirus outbreak impacts every aspect of people's lives, normal business activities of enterprises have been unprecedentedly impacted.

Financial professionals also face immense challenges. ACCA (the Association of Chartered Certified Accountants) recently conducted a survey for its members based in Mainland China and Hong Kong Special Administrative Region to understand the current challenges companies face and their corresponding measures.

The snapshot survey was opened for three days and 271 responses were received.

ACCA hopes that by sharing the key findings and analysis of this member survey, we can you and your company to ensure business continuity, improve response capabilities, and strengthen management / leadership capacities when facing major issues like the coronavirus outbreak.

We would also like to take this opportunity to pay tribute to all medical staff on the frontline of our fight against the virus.

Key Challenges

- The survey reveals that the main challenges faced by companies in Mainland China and Hong Kong SAR are largely the same.
- However, as the Mainland is more severely affected by the epidemic, Mainland enterprises are facing more serious challenges.
- The top three challenges faced by enterprises are:
(1) difficulties for employees to commute to work resulting in the inability to produce or serve customers (65%);
(2) sales decline (59%); and
(3) insufficient liquidity (43%).

- For the services sector, the fourth biggest challenge is the difficulty of recruiting new staff and rising labour costs (25%).
- For the manufacturing sector, the impact on stable supply (71%) and logistics problems (63%) are the major concerns.
- Logistics challenges are also the major concerns for medical, energy, and transportation enterprises.

Difficult to
commute to work
65%



Sales decline
59%



Insufficient
liquidity
43%



Corporate Responses

The main challenges faced by companies in Mainland China and Hong Kong SAR are largely the same. However, as the Mainland is more severely affected by the epidemic, mainland enterprises generally adopt more remedial measures than those in Hong Kong SAR.

In the face of the outbreak, about 60% of enterprises have taken the following **two major measures**:

1. providing employees with multi-faceted protection, caring for their health and development, and taking appropriate measures for the resumption of work (61%); and
2. comprehensively assessing the risks on businesses, employees and management processes affected by the outbreak (59%).

Other more common measures taken are:

1. the establishment of communication strategies within and outside the enterprise to increase confidence and understanding among employees, customers and partners (43%);
2. assessment of the extent of losses in the affected business units, formulation of relevant response measures to minimise losses (41%); and
3. establishing crisis management committees to implement contingency plans and make decisions on major issues (40%).

Corporate Responses

However, only 12% enterprises said they had incorporated "major crisis" into their corporate risk management mechanisms; and only 16% of respondents had included social responsibility and sustainability in their corporate strategies.

Measures taken by industries are:

- **For manufacturing sector:** 60% companies have established crisis management committees to develop contingency plans and oversee major issues; and 46% companies perform thorough supply chain risk review.
- **For services sector:** 41% enterprises readjust their business operational and budget plans; 31% refine their cash flow management and set up international trade warning mechanism; and 29% financial and securities companies transfer part or all of their business online.
- **For finance sector:** a higher percentage of respondents have taken necessary measures to transform business (fully or partially) online (29%); and to equip employees with tools and training for online work (40%).

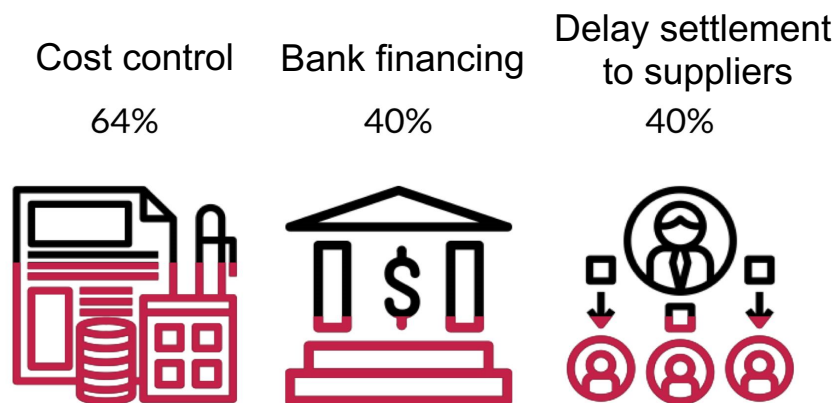
Financial Measures

The **top three remedial measures** currently taken by most of the finance departments in both Mainland China and Hong Kong SAR are:

1. cash flow and liquidity planning (51%);
2. reduction of unnecessary spending and cost control (46%); and
3. revision of operating plans and budgets (35%).

In terms of **cash flow protection**, the most common measures are:

1. cost control and deferring procurement plans (64%);
2. speeding up collection of receivables (37%); and
3. utilisation of credit facilities offered by commercial banks and financial institutions (23%).



Liquidity Protection

Enterprises in Mainland China have taken the following measures:

1. applying new financing arrangements, making full use of preferential/emergency credit lines (40%);
2. utilising deferred repayment schemes offered by commercial banks and various financial institutions (40%);
3. obtaining new borrowing (40%);
4. negotiating with suppliers to defer payment (40%); and
5. trying to get new subsidies (38%).

ACCA finds that Hong Kong SAR enterprises mainly rely on cost control (63%) and speeding up collection of accounts receivables (39%); and only 15% would apply for credit facilities offered by financial institutions.

This reflects that the Hong Kong Government and the financial sector can promote more favourable relief measures to better support the business sector amid the epidemic.

Other Key Findings

- 74% and 77% of the companies in Mainland China and Hong Kong SAR have adopted flexible working arrangements respectively.
- In addition, 56% of businesses said they have deployed small teams to handle urgent work at offices to avoid creating a crowded workplace.
- But only 18% of respondents would offer more humane arrangements such as vacation and compensation to employees in affected areas.

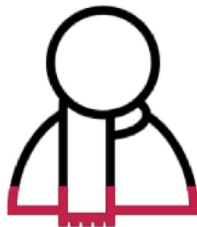
Flexible working
condition

76%



Humane arrangements
such as vacation & compensation
to employees in affected areas

18%



Recommendation from ACCA members

In our questionnaire, there was an open-ended question in which respondents were asked “what kind of support they would need?”. 223 responses were received, accounting for 82% of the total number of respondents.

The responses about this support question reveal:

1. **Government support:** government subsidies (financial support); intervention on rent relief from landlords; distributing anti-epidemic supplies (masks, disinfectants, etc) to help enterprises' resumption of operations; encouraging flexible working hours and remote work for employees; issuing consumption vouchers to stimulate spending and rebuild consumer confidence; ensuring smooth flow of raw materials, controlling prices and extending subsidies to small and medium-sized enterprises.
2. **Tax and social security support:** tax relief; tax deferral; 2019/20 profits tax exemption and business registration fees waiver; reducing and deferring social security payment.
3. **Bank support:** low-interest loans; speeding up the approval process; deferring repayment; interest relief, etc.
4. **Others:** Government should consider the best interests of the people of Hong Kong SAR as a primary consideration and to effectively minimise cross-infection through reducing cross-boundary flow of people..

ACCA Recommendations for enterprises

- 1 According to the survey, **only 40%** of the respondents have set up crises management committees (CMC). ACCA recommends that companies should set up CMC as soon as possible to oversee major issues, formulate contingency plans, coordinate and align implementation of different departments, and ensure speedy responses and decision-making.
- 2 According to the survey, **only 41%** of respondents have conducted comprehensive assessments of the business impact and implemented remedial measures. Enterprises should conduct comprehensive assessments of the impact brought about by the outbreak, including the impact on people, businesses, processes, resource allocation and supply chain, etc. At the same time, they also need to cater for the possible increased demand on inventory, logistics and production capacity when the market recovers from the epidemic and strong consumer power resumes.
- 3 Managing different stakeholders' expectations and priorities during an epidemic is particularly important. Enterprises should pay attention to public opinions, proactively engage with internal and external parties, issue useful communications, and provide professional guidance.
- 4 Enterprises, especially large ones, should fulfil their social responsibilities, through stabilising employment, supporting the supply chain, playing important roles during the difficult times, paying attention to the public image, and incorporating sustainable development into the long-term strategy.
- 5 When addressing top priorities for business continuity and resumption, enterprises should also re-examine their company policies and business models at a strategic level, exploring new products / channels, new approach to customer services, and opportunities of expanding to new markets with existing resources.
The epidemic further confirms the importance of digital transformation and exposes the weaknesses of the existing operation. Enterprises should use this opportunities to upgrade and improve the agility of their business models.

ACCA Recommendations for finance professionals

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|---|---|
| 6 | Finance professionals should monitor the relief measures and policies introduced by the government and get the enterprises prepared to fully utilise the benefits. |
| 7 | <p>Finance departments should estimate the needs of working capital based on the assumptions of the best, most likely and worst case scenarios, plan ahead and prepare for cash flow requirements, including but not limited to:</p> <ul style="list-style-type: none">• Consider utilising new loan offerings, extension of repayment, refinancing with preferential terms introduced by the banks;• Cooperate with other departments, proactively communicate with customers on the collection of accounts receivable and accelerate the return of funds;• Strictly control procurement and payment requests, actively communicate with suppliers and explore possibility of deferring payments;• Reduce unnecessary traveling and minimise losses resulting from cancellation of business trips;• Arrange short-term intercompany borrowings for multi-national companies and shareholders' loans for start-ups. |
| 8 | While satisfying internal control requirements, enterprises should take advantage of flexible working arrangements by deploying technologies to serve as many internal and external customers as possible. |

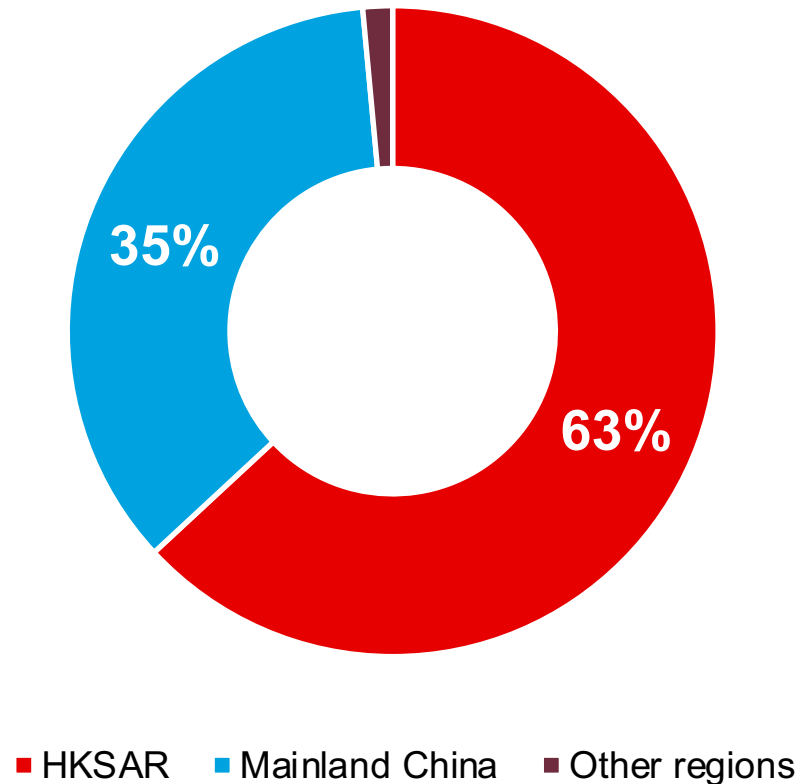
ACCA Recommendations for enterprises & finance professionals

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| 9 | <p>Enterprises should pay attention to the physical and mental health of employees and develop appropriate plans for the resumption of work.</p> <ul style="list-style-type: none">• Arrange home-based office through utilising technologies;• Provide a clean and safe working environment;• Deploy multi-shift work schedules in the work resumption plans to minimise human contacts and avoid cross-infection;• Provide employees with online training opportunities. |
| 10 | <p>Enterprises should actively communicate and work closely with auditors to ensure that audit quality is not compromised, given the circumstances and explore the possibility of conducting audit through online or non-contact models.</p> <p>Both auditors and management should evaluate the impact of the epidemic on production, investment, operation, potential disputes and litigation, and make proper disclosures of information that allow users of financial statements to have full understanding of the financial impact.</p> |
| 11 | <p>Auditors need reasonable assurance to form an audit opinion. Such 'comfort level' does not change. When face-to-face audits become difficult or impossible, auditors will have to seek alternative ways to achieve this comfort level. With the advent of new technology tools, remote audits are becoming more and more likely, although many companies are still in the early stages of using technology in audits. The epidemic is likely to accelerate the adoption of some of these new technologies.</p> |



Survey details

1. Geographic distribution



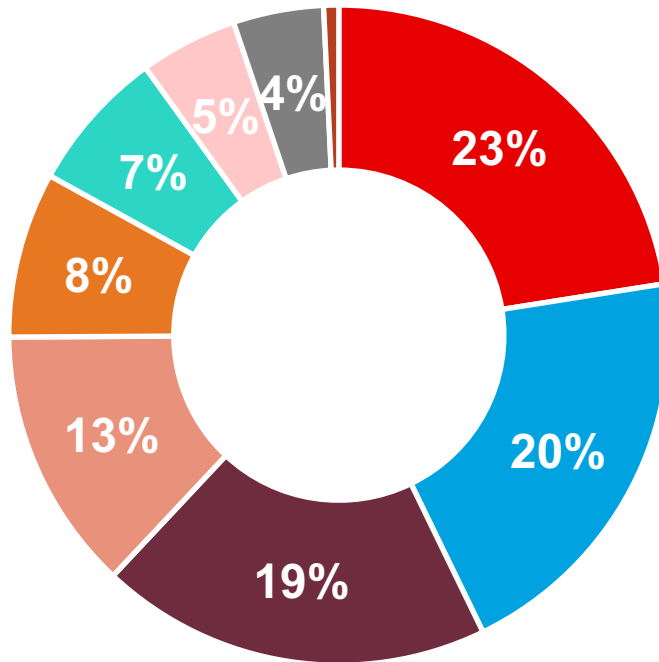
Over a three-day period, 271 valid questionnaires were collected, of which 96 of the respondents were based in the Mainland of China and 171 in Hong Kong SAR, accounting for 35% and 63% of the total respondents respectively.

Of the respondents in Mainland China, 35%, 33%, 19%, and 7% came from foreign-invested enterprises, private enterprises and state-owned enterprises / central enterprises and partnerships respectively.

Of the respondents in Hong Kong SAR, 43% came from small and medium-sized enterprises with fewer than 100 employees, followed by 16% from multinationals, 16% from listed companies, 16% from local non-listed companies with more than 100 employees, and 8% from non-profit organisations.

The survey covers a wide range of industries and regions affected by the epidemic. It is a well represented sample.

2. Industries distribution



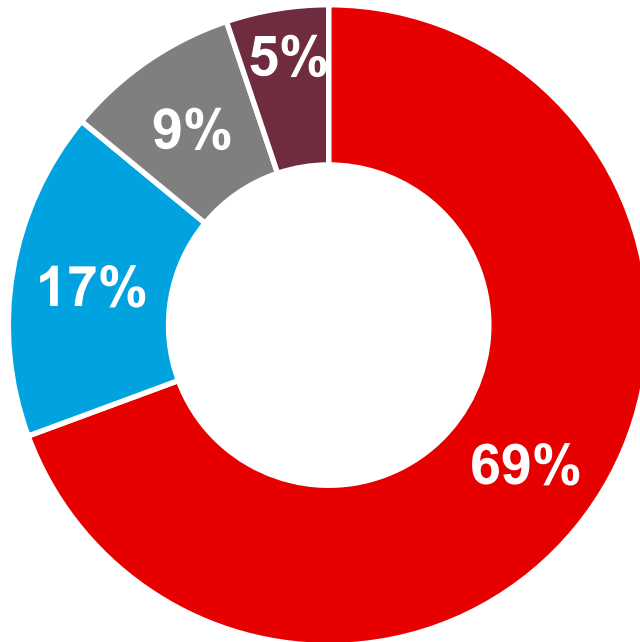
The top three sectors of the respondents were services (23%), financial services (20%) and manufacturing (13%).

Apart from that, many respondents come from the retail, foreign trade and education sectors.

These industries are also mostly affected by the epidemic.

- Services
- Financial services
- Others
- Manufacturing
- Medical and IT
- Construction & Real Estate
- Energy (electricity, heat, gas, water)
- Transportation, warehousing and logistics
- Agriculture, forestry, animal husbandry and fishery

3. Positions



- Head of Finance / Finance Professional
- Other management staff
- Others
- Chief Executive Officer

Of the 271 respondents, 69% were finance chiefs or finance professionals with financial qualifications, 17% were other corporate managers, and 5% were corporate chairman or chief executive. In the other category, there are more auditors and corporate consultants.

The respondents are mostly senior personnel who can fully and accurately recognise the challenges faced by enterprises. They also understand the measures taken by the companies and are well aware of the government policies.

4. Challenges companies faced

Difficulties for employees to commute to work resulting in the inability to produce or serve customers



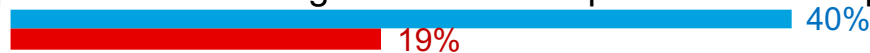
Sales decline



Insufficient liquidity



Suppliers issues leading onto abnormal production and operation



Logistics issues leading onto abnormal production and operation



Difficulty in recruiting new employees and rising labour costs



Rising costs of raw material



Stock price decline and subsequent financing impact



Damages for breach of contract



Impact on reputation



■ Mainland China ■ Hong Kong

5. Remedial measures implemented

Providing employees with multi-faceted protection, caring for their health and development, and taking appropriate measures for the resumption of work



Comprehensive risk assessment on businesses, employees and management processes affected by the outbreak



Establishing communication mechanisms to increase confidence and understanding among employees, customers & partners



Assessing extent of losses in the affected business units, formulating relevant response measures to minimise losses



Establishing crisis management committee to formulate contingency plans and make decisions on major issues



Re-evaluation of budget plans and actively adjust business plans



Equipping employees with online tools for training and work



Taking necessary measures to transform business (fully or partially) online



Performing thorough supply chain risk review



Refining cash flow management and set up international trade warning mechanism



Exploring new products / channels, new approach to customer services,



Including social responsibility and sustainability in corporate strategies



Incorporating "major crisis" into corporate risk management mechanisms



■ Mainland China
■ Hong Kong

5. Remedial measures implemented (by industries)

Providing employees with multi-faceted protection, caring for their health and development, and taking appropriate measures for the resumption of work



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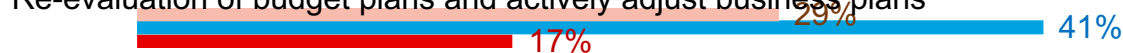
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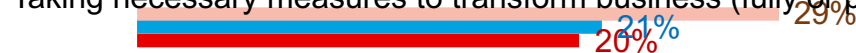
Re-evaluation of budget plans and actively adjust business plans



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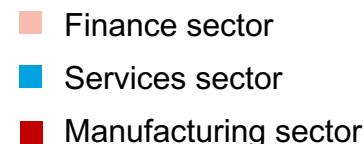
Exploring new products / channels, new approach to customer services,



Including social responsibility and sustainability in corporate strategies



Incorporating "major crisis" into corporate risk management mechanisms



6. Financial measures implemented

Assess impact on cash flow and identify liquidity issue



Reduce unnecessary spending and introduce cost control



Other measures



Modify business and budget plans (establishing contingency financial forecast model)



Communicate with management and business departments to initiate fund monitoring plan during the epidemic



Report and provide timely advice on delays in accounting and financial disclosure



Work with other departments to develop contingency plans, assess business impact, and adjust financial payment plans



Gather latest updates on laws and regulations, special tax incentives, and assess the impact



Assess status of existing contracts and assess losses



Utilise credit facilities offered by financial institutions



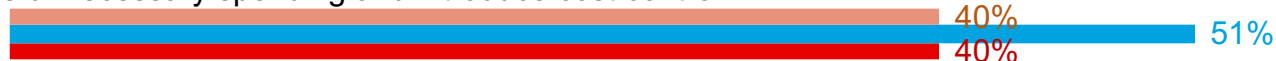
■ Mainland China ■ Hong Kong

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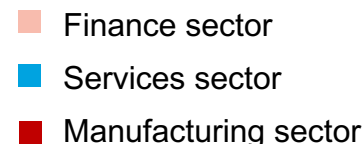
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Utilise credit facilities offered by financial institutions



7. Protection of liquidity

Cost control and deferring procurement plans



Speeding up collection of receivables



Utilisation of credit facilities offered by commercial banks and financial institutions



Applying new financing arrangements, making full use of preferential/emergency credit offers



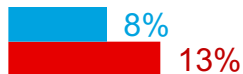
Utilising deferred repayment schemes offered by commercial banks and various financial institutions



Applying for government support in financing, tax relief, etc



Other measures



■ Mainland China ■ Hong Kong

About 4% of the respondents said that their companies have not taken any measures to protect the flow of funds.

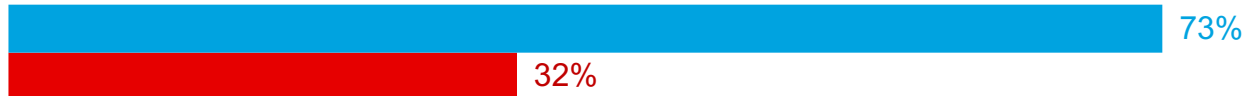
Other enterprises have extended assistance to their supply chain and business partners in the difficult time to ensure a smooth workflow in the industries.

8. Plans for resumption of work

Adopt flexible work arrangement, remote work, etc



Implement work resumption plans as required by local government



Deploy small teams to handle urgent work at office to avoid creating crowded workplace



Offer more humane arrangements such as vacation and compensation to employees in affected areas



■ Mainland China ■ Hong Kong

9. What kind of assistance is expected?



10. Impact on the 2019 audit

Communicate with auditors, consider remote audits instead of face-to-face audits



Postpone issuance of audit report



Work plan remains unchanged



Audit quality might fluctuate



