

ISCA Chartered Accountant

January 2017



2017

WHAT LIES ON THE HORIZON

"DRIVING VALUE: RISK TRANSPARENCY AND CULTURE"

A Comparative Study
By ISCA And KPMG
In Singapore

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PRESIDENT'S MESSAGE

BUILDING ON OUR STRENGTHS MAKING PROGRESS IN THE NEW YEAR

Dear members,

I hope you spent quality time with your loved ones during the festive season, and strengthened the bonds with the people who are dear to you. On behalf of the Institute and staff, I wish you a very happy New Year.

I like this time of the year as it is a time of hope and new beginnings. We can aspire to new heights, make exciting plans for the coming year and have a good head start on those plans. Let's not allow the challenges of the past year to put a dampener on embracing what this year may bring.

Certainly, we cannot ignore the global economic slowdown and its impact on the region. Adding to the fray is a combination of other factors such as the cyclical demands in certain industries, a more stringent regulatory regime, digital disruptions and geopolitical issues. For Singapore, the proposals of the Committee on the Future Economy, which is tasked with developing strategies for the country to become a vibrant and resilient economy with sustainable growth, will see results only in the medium term. For accounting professionals who are already facing an increasingly complex business environment, ISCA is playing our part as the national accountancy body to help develop a strong core of *CAs (Singapore)* capable of navigating and thriving in today's complicated business setting.

In the cover story, "2017: What Lies on the Horizon", I give an overview of the direction that ISCA is headed, as well as an update on what the Institute is doing to equip our members with

leading-edge capabilities. Our goal is to enhance the profession and help strengthen the infrastructure of the accountancy sector while supporting our members in various ways. We need to build skills so that the profession continues to remain relevant to the businesses of the future, and talent can be maximised. In this respect, the Institute will be rolling out a new range of talks and courses with certifications to enable members to keep pace with the latest developments. For Continuing Professional Education (CPE) to be effective, it must be relevant. I hope members will commit to CPE because the contents produce tangible results that can enhance your standing as accounting professionals who bring value to your clients and employers alike.

Globalisation is a reality and accountants must be well-informed about developments outside Singapore. Recognising early the opportunities for accounting professionals in emerging economies, the Institute's professional development agenda aims to entrench in our members a global mindset with Asian insights, building a nucleus of *CA (Singapore)* members who are highly regarded for their integrity, capability and intimate knowledge of the region. We will continue to profile our members via diverse platforms and open up opportunities in high-growth areas.

Recently, two ISCA trainers were in Laos to conduct a course on "Audit of Key Financial Statements Assets". This capacity-building opportunity to

co-develop the accountancy profession in Laos followed from a Memorandum of Understanding signed between ISCA and the Lao Chamber of Professional Accountants and Auditors – which was featured in the December issue. In this issue, the ISCA trainers speak about their experiences there.

With companies becoming globalised, more executives including accountants will be presented with overseas work prospects. Last August, Singapore's National Trades Union Congress and Economic Development Board had jointly launched a programme to provide promising young executives with international exposure, thereby giving our talent pool a head start in overseas experience and boosting their mobility. But long before globalisation became the norm, ISCA members were already making waves overseas. This issue's Member Profile features Lelaina Lim, who had moved to Shanghai to head the Greater China operations for International SOS and subsequently, Electronic Arts. Read how the overseas stint has made an impact on her career, how she balanced her work and family commitments, and why she chose to return to Singapore.

Increasingly, people are crossing borders for work, and just as there are new opportunities in emerging economies, there are also interesting discoveries awaiting intrepid travellers. Work hard – and play hard too. Look out for "the road less travelled" in our upcoming travel articles. In the meantime, we have some must-see destinations for your next holiday.

Have a meaningful year ahead.

Gerard Ee

FCA (Singapore)
president@isca.org.sg



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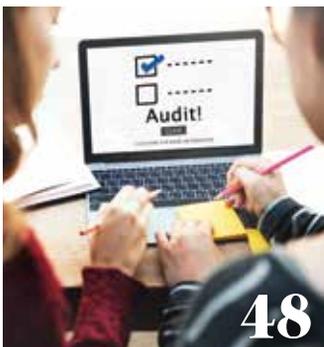
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IN TUNE

INDUSTRY NEWS



Digital Data Management Key to Advancing AEC: US-ASEAN Business Council and Deloitte

A new report, “The Digital Economy and the Free Flow of Data: Advancing the ASEAN Economic Community”, highlights how ASEAN member states can advance their digital economies and the ASEAN Economic Community (AEC) through pro-growth digital data management policies. Launched in December 2016, it was developed by the US-ASEAN Business Council and Deloitte, with support from Cisco, Citi, Google, MasterCard, Microsoft, and Seagate.

“The digital economy plays a strategic role as a critical enabler

for deepening ASEAN regional integration as well as helping drive next-generation domestic demand-led growth for start-ups and SMEs,” says Alexander Feldman, President and CEO of the US-ASEAN Business Council. “We encourage ASEAN governments to create policies on data management that allow member economies to benefit from greater efficiency, extended reach and lower costs.”

“Regional integration and the digital economy are both big opportunities in what is one of the world’s fastest-growing regions. All

manner of business, from the start-up to the regional champion as well as the multinational, will benefit if the AEC framework puts the digital economy front and centre. Now is the time to do so,” adds Jeff Pirie, AEC Leader, Deloitte Southeast Asia.

In Singapore and throughout ASEAN, these policies can support modern high-tech industries, enhance the development of e-commerce, help small and medium-sized enterprises (SMEs) reach customers and optimise their businesses, enable financial inclusion, and encourage foreign investment. However, governments need to consider regulatory, legal and policy issues stemming from technology, platforms and providers. Privacy, security, intellectual property and customer protection are some of the issues that need to be addressed if countries are to benefit from the digital economy. It is also essential to ensure that it is the risk - not the actor - that is regulated. Further, inter-agency cooperation is essential if ASEAN member states are to have effective digital laws and regulations as issues cut across many different sectors.

“Digitisation of financial services has a positive impact on ASEAN integration and the economies of Southeast Asia. To maximise the full potential of digitisation across the region, there is need for a supportive policy framework. Particularly crucial is the ability to move data quickly and seamlessly across borders which will benefit trade, increase innovation and support financial inclusion,” says Amol Gupte, Citi Country Officer for Singapore and Head of ASEAN.

“The Digital Economy and the Free Flow of Data: Advancing the ASEAN Economic Community” report is available at the Deloitte website at www.deloitte.com.sg.

Singapore SMEs Pessimistic about First Half of 2017: SBF-DP SME Index

Small and medium-sized enterprises (SMEs) are pessimistic about their prospects for the first half of 2017, and expect a reduction in both their turnover and profitability, according to the latest SBF-DP SME Index released in December 2016. The Index, which measures the business sentiment of SMEs in the first two quarters of 2017, shows that SMEs expect their businesses to be worse off in the first six months of 2017 than they were in the previous half year.

Overall, the Index score fell by 0.80% to a score of 49.8. This is the first time in the seven-year history of the Index that it has fallen below 50.0, indicating a pessimistic outlook.

Five of the six industries surveyed now have a negative outlook for the upcoming half year, while only the Business Services Sector recorded a neutral Index score of 50.5.

The Index is a joint initiative of the Singapore Business Federation (SBF) and DP Information Group (DP Info).

Over 3,600 SMEs were surveyed between October and November 2016 on their outlook and sentiment.

TURNOVER

The Index scores for Turnover and Profitability Expectations both registered record lows. SMEs engaged in Commerce/Trading, Construction/Engineering, Retail/F&B, Manufacturing and Transport/Storage expect their turnover to decline in the coming six months. Only the Business Services sector is slightly optimistic that their sales will be maintained.

PROFITS

For the second consecutive quarter, SMEs expect their profits to fall. The Profitability Expectations Index score fell from 4.76 to 4.71, indicating how reduced sales and high operational costs were compressing already lean profit margins and driving many SMEs into losses.

Construction/Engineering,

Manufacturing, Retail/F&B and Transport/Storage SMEs are all expecting lower profits in the first half of 2017. Construction/Engineering SMEs indicated the steepest decline in profit expectations - a fall of 4.82%. A relatively flat reading of 5.01 suggests that Business Services SMEs are not expecting any change in performance compared to the previous quarter.

"SMEs are facing challenging conditions in the current economic situation," says Ho Meng Kit, CEO, SBF. This is in line with the slowing overall economy, with the Ministry of Trade and Industry narrowing Singapore's GDP growth forecast for the year (2016) from 1 to 2% to 1 to 1.5%. The SBF-DP SME Index showed similar trends, with the latest Overall Index score recording a contractionary reading of 49.8."

Against this pessimistic backdrop, it is worthwhile to note that three out of the seven Index scores, namely, Business Expansion Expectations, Capital Investment Expectations and Hiring Expectations, signalled modest optimism. These reflect the resilience of our SMEs to look for growth in the medium term.

Slowing growth and global volatility amid the ongoing economic restructuring, coupled with rising business costs, continue to pose formidable headwinds for SMEs. As such, the upcoming SBF-led SME Committee's recommendations for Budget 2017 will be aimed at helping SMEs navigate the immediate challenges posed by high business costs. "The recommendations will also focus on helping SMEs sustain growth, particularly during this current economic climate, as well as support scalable, local-based enterprises to develop into globally-competitive companies," says Mr Ho.

The "SBF-DP SME Index" report is available at the DP Info website at www.dpgroup.com.sg.



IN TUNE

ISCA NEWS

Learning, Giving and Sharing: The Lao Experience



On 24 October 2016, a Memorandum of Understanding was signed between ISCA and the Lao Chamber of Professional Accountants and Auditors (LCPAA) to explore capability-building opportunities to help develop the accountancy profession in Lao PDR. Following the signing ceremony, ISCA commenced the inaugural training for the Lao accounting professionals with a five-day course on "Audit of Key Financial Statements Assets". Participants were taught essential accounting concepts and their related auditing procedures of key assets, the common pitfalls that may arise as well as best practices in Singapore. There were also interactive class discussions to stimulate networking and daily quizzes to assess the participants' level of understanding.



▲ The capability-development programme aims to train and develop accounting technicians to maintain financial accounting data for businesses

Zoey Xie, Manager, TAPS, ISCA, on her first overseas stint as a trainer

"Regardless of race, language or nationality, we speak the same debits and credits. When I was first asked to deliver ISCA's inaugural training in Laos, it was a whirlwind of emotions - fear and apprehension yet full of anticipation and excitement. Being a young accountant who is raring to go, I decided to embrace the challenge.

As I stood in front of the training room filled with participants speaking Laotian, the trepidation and anxiety caught up with me again. I was half wondering if I could effectively convey the topics we had prepared for in a concise yet interesting manner. To my relief, we had two very professional local translators who could simultaneously translate between Laotian and English succinctly and accurately.

Despite the language barrier, the participants were all ears and many displayed passion for the subject and eagerness to learn and improve. Over the course of the week, the participants engaged us in lively discussions, clarifying concepts, and exchanging knowledge and common practices in both countries. The group was very appreciative of the knowledge-sharing and technical discussions, especially relating to the Singapore or international financial reporting and auditing landscape.

I came back to Singapore with a bagful of enriching experiences. It was definitely an eye-opener and a rewarding and fulfilling five-day stint. Through this exposure, I learnt a great deal about honing my presentation skills and interacting with people of different cultures. I am thankful for this opportunity to share my knowledge, exchange experiences, forge new friendships and at the same time, serve the accounting community."



Ms Xie sharing her audit experience with the Lao participants



◀ The pioneer batch of Lao participants with Dr Phirany Phissamay, President, LCPAA (front row, 9th from left) and ISCA trainers Zoey Xie, Manager, Technical Advisory and Professional Standards (TAPS) (front row, 8th from left) and Titus Kuan, Director, TAPS and Learning & Development (front row, 10th from left)



▲ Lao participants clarifying accounting and auditing concepts with the ISCA trainers

Titus Kuan, Director, TAPS and Learning & Development, ISCA, on why this training was unique in its own ways

"I had conducted training previously in Brunei and Mongolia, with English as the medium of communication, so no translation was required. It was quite a different experience in Laos where we had two translators with no accounting backgrounds translate simultaneously as we spoke. We had to keep our headsets on at all times as participants may ask questions in Laotian; we also had to make a conscious effort to speak slowly. The participants were from diverse backgrounds including auditing and finance functions from both the public and private sectors, with varying years of experience. Hence, it was imperative to deliver the training with clarity, considering that some of them have no prior audit experience. Translation was also done for the materials to cater to those more comfortable with their national language.

The daily Q&A sessions prior to the end of the class were particularly encouraging. I did not expect so many questions from the participants! The active participation showed their desire to learn and clarify concepts. Compared to Singapore where learners are often spoiled for choice due to the multitude of courses available, such opportunities do not come often for the accounting industry there. Formal training is often not prioritised in companies and staff usually have to learn via on-the-job training. It was heartening to see the appreciation of the class as they took turns to thank us at the end of the week and took pictures with us as keepsakes.

My thoughts on returning from the trip were that it was definitely a rewarding experience and a week that I would not forget. We are grateful to LCPAA which played an instrumental role in the success of this training, from registration to logistics to co-ordination of the entire event."



Mr Kuan delivering a module on audit of key financial statements assets

The training contents were developed by Kevin Yong, Senior Manager, Technical Advisory and Professional Standards (TAPS). Two ISCA staff - Titus Kuan, Director, TAPS and Learning & Development, and Zoey Xie, Manager, TAPS - conducted the training for the class of over 20 participants. In this article, we hear from Ms Xie and Mr Kuan.

The training received very positive feedback. The course offered the participants the fundamentals in auditing techniques which serve as a foundation for future audit training programmes. ISCA is also in the process of developing courses in accounting and will gradually move towards more advanced topics to be executed in the next couple of years. It is heartening to know that the Lao government and LCPAA are taking action to build the competencies of the Lao accountants and that ISCA is contributing to this effort. This training marks the first step towards the journey of transforming the accountancy profession in Laos.

ISCA encourages and welcomes members to volunteer their professional expertise for the training programme in Laos. Interested members may contact isca@isca.org.sg.

IN TUNE

ISCA NEWS



Eric Tan, Director, SPT Advisory, gave an overview of the new manual



▲ (From left) Mr Tan and Fann Kor, Deputy Director, Quality Assurance and Industry Support, ISCA, at the Q&A session

▼ Lee Fook Chiew, CEO, ISCA, sharing a light-hearted moment during his welcome address



▼ Participants actively engaged the panellists using the Pigeonhole live software



Launch of ISCA Audit Manual for Standalone Entities

Developed to meet the needs of small and medium-sized practices (SMPs), the “ISCA Audit Manual for Standalone Entities” (ISCA AMSE) was officially launched by the Institute in October 2016.

As part of the launch, an introductory seminar was held on November 15; the session was well attended by 350 auditing professionals. Premised on risk-based audits, the new ISCA AMSE has been revised to facilitate the thinking process which is critical in the performance of an audit. The revision introduces a new audit methodology and enhanced audit programmes with the objective of improving the efficiency and effectiveness of audits.

The seminar opened with a welcome address by Lee Fook Chiew, CEO, ISCA, who highlighted ISCA’s initiatives to serve the

SMP community. These initiatives include the ISCA Quality Assurance Review Programme, customised training for individual audit firms on the implementation of SSQC 1 and other publications such as the “Illustrative Quality Control Manual” and “Illustrative Financial Statements for Private Entities”. He also shared that ISCA has embarked on the development of an audit software to improve audit efficiency by bringing about more automation in the audit process.

The seminar was followed by a presentation by Eric Tan, Director, SPT Advisory, which covered the key changes, new methodologies and enhanced forms of the new ISCA AMSE. Mr Tan also enlightened the participants on how these changes should be applied in the audit of standalone entities. He reiterated the importance of risk

assessment and how auditors ought to get the planning of an audit right, especially in areas which are more complex and require significant judgement. The revised programmes in the new ISCA AMSE will encourage engagement teams to design customised audit procedures based on identified audit risks, and adopt a more targeted approach as opposed to using a sledgehammer to crack a nut for fear of omitting key procedures. He also promoted the use of the new ISCA AMSE to facilitate audit documentation.

Rounding off the seminar with a lively question-and-answer session, Fann Kor, Deputy Director, Quality Assurance and Industry Support, ISCA, joined Mr Tan to address queries raised by the participants. The session saw participants actively engaging the panel with their queries and concerns through the Pigeonhole live software. Questions such as whether audit teams can partially adopt the new ISCA AMSE and reasons for removing the maximum sample size for substantive testing were among the more commonly-raised topics.

The seminar received good feedback from the participants and many welcomed the revised audit programmes which aim to direct engagement teams to pay adequate attention to key areas of concern and focus on performing critical audit procedures which address significant risk areas.

ISCA is committed to providing ongoing enhancements to the new ISCA AMSE and welcomes comments and feedback from all users. Please submit your feedback and comments to amse@isca.org.sg.

In a year dotted with surprising political results and an uncertain global economy, ISCA organised the third in a series of regular economic updates. The 18 November 2016 session provided insights into the latest trends in the global economic and commodities environment, as well as a preview of what lay ahead in 2017.

Following the UK's vote to leave the European Union in June last year, the world was watching closely as Donald Trump pulled off a second political shock of 2016 with an unexpected victory in the US presidential election. According to a recent annual report by global risk consultancy, Control Risks, businesses are set to face heightened strategic uncertainty in 2017 as a result of these two events.

Kick-starting the half-day session for over 60 ISCA members was Tommy Xie, Economist, OCBC Treasury Research, who provided an overview of the current global economy. Mr Xie noted that unlike the economic conditions post-Brexit, market reaction to Mr Trump's election win

▼ **OCBC Economist Barnabas Gan shared his projections on how various commodities would fare in 2017**

ISCA-OCBC Economic Updates



▲ **More than 60 participants attended the ISCA-OCBC Economic Updates session**

was short-lived. For example, the 10-year US Treasury yields rebounded after the election and rose sharply at 2.25% from a previous low of 1.71%. Global financial companies and banks have also benefited from the steepening yield curve as well as

Mr Trump's plan to loosen regulations on financial markets. Despite the positivity mentioned earlier, Mr Xie urged businesses and investors to be cautious and guard against potentially disruptive events such as the French presidential election and German federal election in 2017. Ending his segment, Mr Xie then touched on the outlook for the China economy and predicted that China will allow its currency to depreciate against the US Dollar at a gradual and controlled pace.

The second speaker, Barnabas Gan, also an Economist with OCBC Bank, shared his projections on various crucial commodities - crude oil, gold, base metals and crude palm oil (CPO). Mr Gan foresees that productions of CPO in Asia will likely remain slow in the first quarter of 2017 due to the lingering effects of the El Nino in 2016.

At the end of the presentations, participants engaged in active discussion with the speakers. One of the participants, Ching Mia Kuang, CEO, Le Yu Corporate Advisory Pte Ltd, shared with ISCA, "I found the event useful as the speakers were able to use examples to relate to their analyses. The economic projections and analyses were in-depth and well-explained. I would certainly like to attend this again."



IN TUNE

ISCA NEWS

SIATP's Partnerships Boost Shots of Tax Value to Businesses

Highlighting the value of tax to business leaders, the Singapore Institute of Accredited Tax Professionals (SIATP) has continually featured the strategic role played by accredited tax advisors. It continues to promote tax excellence amid an evolving and challenging economic landscape.

In 2016, SIATP continued to build on existing partnerships and established new ones. Working with government agencies and partners such as the Maritime and Port Authority, IE Singapore and publishers, it heightened the awareness of how tax impacts businesses, and provided members with exclusive arrangements, special deals and a wide range of programmes to enhance their tax knowledge.

Covering general topics such as tax implications arising from international



mobility and specialised topics such as maritime incentives and tax issues pertaining to the insurance sector, SIATP's programmes provided various platforms for businesses to better understand the value of tax.

To know more about tax issues

▲ Working with the Maritime and Port Authority for the first time, SIATP shone the spotlight on pertinent tax issues in the maritime industry

and be kept in the loop of upcoming tax programmes, please drop us an email at enquiry@siatp.org.sg.

Disciplinary Findings

Upon finding **Mr Teh Teong Lay**, Associate, had contravened Rule 64.4 read with Section 110.2 of the Code of Professional Conduct and Ethics (the version effective from 1 August 2009) under the Third Schedule of the Institute (Membership & Fees) Rules, in that he, at the material time, being the sole shareholder and director of Setinggi Holdings Ltd (Setinggi) and the Group Financial Controller of Hoe Leong Corporation Ltd (Hoe Leong), had (i) knowingly allowed; or (ii) omitted to correct; or (iii) failed to publicly clarify the statement that Setinggi "is held by

individuals Malaysian" to be made in a media release issued by Hoe Leong concerning the sale and purchase agreement (SPA) referred to therein, and the said statement is misleading or likely to mislead readers that Setinggi was owned by individual persons not related to the parties to the SPA, the Disciplinary Committee ordered:

1) That pursuant to Rule 137.1.5 of the Institute (Membership and Fees) Rules, Teh Teong Lay shall be required to attend and complete the following courses at his own expense:

- a) Ethical Stewardship for Controllers and Finance Managers: Steering Ethically Throughout Your Accounting Career;
 - b) Understanding the Regulatory Environment in Singapore.
- 2) That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, Teh Teong Lay shall pay to the Institute the sum of S\$12,888.15 (inclusive of GST), being the costs and expenses incurred by the Institute in connection with the investigation and disciplinary proceedings undertaken against him within 30 days of the date of this order.

ISCA BREAKFAST TALK

The Impact of Internet of Things on Finance as a Function

About 60 participants attended the Breakfast Talk titled "The Impact of Internet of Things on Finance as a Function" on 14 December 2016. Sharing his expertise was Siah Weng Yew, Risk Advisory Executive Director, Deloitte Singapore, who provided comprehensive insights into what IoT is. In general, IoT refers to a network of Internet-connected devices powered by sensors that have the ability to collect and exchange data.

Mr Siah also touched on the main differences between the traditional Internet and IoT, and shared case studies of IoT adoption and application. At its



core, IoT enables companies to add value by streamlining and tailoring products and services at a faster rate, thus resulting in greater efficiencies.

Mr Siah then introduced Deloitte's Information Value Loop framework for

▲ Siah Weng Yew, Risk Advisory Executive Director, Deloitte Singapore, introduced the concept of Internet of Things

IoT, which captures how information generated by IoT technologies can be used to generate value.

ISCA CALENDAR OF EVENTS 2017

JANUARY

Wednesday	ISCA Breakfast Talk
11	<i>How confident are you in managing your income tax and GST compliance and tax?</i>

UPCOMING

February	ISCA Breakfast Talk
08	

February	ISCA Mingles
15	

March	ISCA Budget 2017 Update & its Tax Implications
07	<i>Impact on Corporate Firms & Individuals</i> <small>*date to be confirmed</small>

March	ISCA Breakfast Talk
08	

Dates and events are subjected to change without prior notice.
For more details, visit www.isca.org.sg

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2017

What Lies on the Horizon



By
GERARD EE

W

hat makes life interesting is different from what makes life meaningful and having one does not necessarily equate the other.

Life is interesting because it is filled with unexpected twists and turns – be they pleasant

or otherwise – and we never know how each day will unfold. Pleasant events are always received with a big smile while unpleasant ones are dealt with cautiously. We try to anticipate the significant events in our lives and prepare for them so as to better manage our actions and emotions when they happen.

Life is meaningful when we live each day with a sense of purpose. Knowing what keeps us going daily enhances the meaning of life, and also gives us a heightened consciousness to fully embrace and enjoy that meaning. Put simply, whether our lives are meaningful or not depends on what we make out of it.

Interestingly, you will see these concepts in different aspects of our lives, from personal to professional and even national.

A CHALLENGING FUTURE FOR SINGAPORE

During the National Day Rally 2016, Prime Minister Lee Hsien Loong said that Singapore's biggest challenge was the constant disruption it faced and finding strategies to deal with it. We have disruptors like technology, globalisation and terrorism, etc. More recently, the widespread discontent with globalisation and the disillusionment that jobs for locals have been taken away by immigrants have led to a wave of protectionist and nativist behaviour in several countries. This has given rise to political disruption in the form of Brexit and the unexpected Trump presidential victory in the US. The thought of having our lives "disrupted" is unpleasant in every sense of the word. It can also be unnerving as the consequences are unknown – but this is what makes life interesting as well.

Every industry is getting disrupted in its own way and it is important to be able to anticipate the disruptions and to prepare workers to do different and new jobs. PM Lee highlighted that the Committee on



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... it should not come as a surprise for businesses to find that their accountants make good strategic advisors who are adept at making critical connections between financial and non-financial information.

FOCUS

2017: WHAT LIES ON THE HORIZON

the Future Economy (CFE) is tasked to manage this so as to keep the Singapore economy competitive for the future, as well as identify areas of growth with regard to regional and global developments. The CFE will build new capabilities, promote entrepreneurship and develop skills.¹

ACCOUNTANTS IN A "RUNWAY ECONOMY"

In October 2016, then-Acting Minister for Education (Higher Education and Skills) Ong Ye Kung used an interesting analogy of an airport to describe what he envisioned for Singapore. He said that Singapore had to be more than a "control tower" where corporate headquarters are sited and where strategic planning is done. Singapore should also become a "runway" where ideas are conceived, business plans are developed and products and services eventually launched.²

Let's pause here. Did you misread the subtitle for this section as a "runaway" instead of "runway" economy? Though "runway" and "runaway" look similar, they have completely different implications for the Singapore economy. The former



We can achieve meaning at work in addition to living meaningful personal lives. This would require us to continuously re-skill and upgrade our skills to be ready for the new economy of tomorrow.

depicts a future where Singapore is flying high. The latter paints a disastrous picture of our country and economy spiralling out of control, spelling disaster for all of us. We definitely want to avoid such a nasty scenario for Singapore.

Going back to where we were, I see the business community as an important stakeholder of

¹ <http://news.asiaone.com/news/singapore/7-things-you-need-know-pm-lees-national-day-rally-2016-speech>

² <https://www.gov.sg/news/content/today-online---singapore-needs-an-economy-driven-by-new-ideas-ong-ye-kung>

the accountancy profession. The accountancy profession can play a pivotal role in ensuring the "runway" is smooth and help to orchestrate the "plane" or business to take off safely.

Chartered accountants are highly-trained professionals equipped with strong critical thinking skills and financial finesse. Complemented by a working knowledge of other business functions such as marketing and operations, it makes our members very versatile and therefore, capable of managing today's volatile, uncertain, complex and ambiguous (VUCA)



environment. Hence, it should not come as a surprise for businesses to find that their accountants make good strategic advisors who are adept at making critical connections between financial and non-financial information.

Given that disruptions are increasing in frequency and speed, it is imperative that the Institute keeps members informed of the latest trends and developments on the horizon. Do keep a lookout for the half-yearly update by ISCA Chief Executive Officer Lee Fook Chiew, who will be sharing with you how the Institute is supporting

members' professional needs and what the Institute has in store for members to continuously enhance and build new skills for the business world of the future. Through his lens, you will also understand how the Institute's initiatives go towards its 2020 vision of becoming a globally recognised professional accountancy body.

ACCOUNTANTS CAN BE ENTERPRISING TOO

PM Lee highlighted in the National Day Rally 2016 that beyond building corporate capabilities, a strong

economy also needs entrepreneurs. Entrepreneurship is one of the vital signs of a vibrant and thriving economy. Without it, countries will suffer from a lacklustre economy and growth. This is particularly true for a small country like Singapore. Hence, one of the CFE's key areas of focus is to promote entrepreneurship.

Entrepreneurship is about a mindset – daring to try something new, being resourceful and being optimistic. The rigorous professional training that accountants undergo makes us enterprising individuals.

FOCUS

2017: WHAT LIES ON THE HORIZON

There are different ways in which accountants can be enterprising. For example, the more adventurous ones will use their financial knowledge to start their own businesses. Those who choose to work as professional accountants can help their organisations be more enterprising. Practical knowledge of risk management complements and even strengthens the enterprising spirit in us. An understanding of risk management goes hand-in-hand with balancing risks and rewards.

The “Our Future Together” report, jointly produced by ISCA and Institute of Chartered Accountants in England and Wales, suggests that enterprising accountants



... I see the business community as an important stakeholder of the accountancy profession. The accountancy profession can play a pivotal role in ensuring the “runway” is smooth and help to orchestrate the “plane” or business to take off safely.

need to look beyond conventional accounting services and build future specialisations such as business valuation, risk management, strategic planning and performance management. The Institute is currently collaborating with the relevant subject matter experts to develop a forensic accounting specialisation certification, scheduled for launch later this year.

³ <https://www.mindflash.com/elearning/what-is-blended-learning/>

We will also be producing e-learning modules on areas like internal audit, information technology (IT) and IT risks, among others.

LEARN, UNLEARN AND RELEARN

Every stage of your life can be made interesting and meaningful if you learn, unlearn and relearn continuously to stay relevant amid a rapidly-changing environment.

Take me for example. Though I have retired as a public accountant for

almost a decade, my mind is far from retirement. I am actively involved in charity and volunteer work of various nature. In doing so, I am learning every day, gaining new knowledge and skills. This lifelong learning has given meaning and added colour to my life.

I call on our members – especially those in the prime of their career – to seek new knowledge and skills in sync with the evolving opportunities and demands of the workplace. Those who have retired or are going to retire soon, you can keep yourself and your mind alert by learning something new every year.

As Singapore moves towards a skills-based economy, ISCA, as the national accountancy body, has a role to play in evaluating how Singapore accountants are trained and educated. The Institute will be expanding on the “Our Future Together” work and discussing about the future of learning for accountants. We hope that this



thought leadership piece would inspire you to keep learning, and foster a culture of lifelong learning.

REFRESHED CPE OFFERINGS

Our people are Singapore's best asset and the training sector has to be responsive to the changing needs of the economy, and foster the art of learning. As such, a five-year transformation plan, known as the Training and Adult Education Sector Transformation Plan, was unveiled in November last year to refresh and possibly raise the continuing education and training system in Singapore.

Similarly, ISCA will be refreshing its offerings for Continuing Professional Education (CPE) and also introducing more sophisticated learning methods. For example, blended learning is a new hybrid teaching methodology combining both e-learning with traditional classroom

methods and independent study.³ Members will first learn theoretical knowledge from digital platforms before moving into a classroom for applied learning in the form of case studies discussion.

We have been producing webinars to make it convenient for ISCA members to meet their professional development needs while on the go. For instance, ISCA developed five new proprietary webinars in 2016 covering areas like accounting, auditing and ethics. We will further invest in this area and expand the topics to include specialised fields like internal audit, risk management, IT and IT risks, among others.

I firmly believe that CPE should be centred on relevance to be effective. If you undergo CPE for the sake of it, it will backfire. If you attend CPE because the contents are relevant to you, the training will produce tangible desired results for you and

also your employer. To this end, we will be introducing new certification programmes in various areas of training. The key feature in these programmes is the certificate of competence, which attests to the trainees' understanding and ability to apply the knowledge/skill learnt. The certification will give both employers and trainees greater assurance that the time spent away from work at training is fruitful.

Last year, we launched the Certificate in SME Accounting: Fundamental Skills & Judgement in Applying FRSS, and Advanced Certificate in Business Analytics and Reporting (BAR). This year, we will be working on a certificate in risk management. ISCA's certificates will be a shining addition to your resume and will be useful in helping you to advance your career.

I hope this makes attending CPE more meaningful than before.



Entrepreneurship is about a mindset – daring to try something new, being resourceful and being optimistic. The rigorous professional training that accountants undergo makes us enterprising individuals.

SUSTAINABILITY REPORTING MAKES MORE MEANINGFUL CORPORATE REPORTING

Environmental, social and governance issues are on the radar of investors who are concerned with the long-term sustainability of companies instead of only short-term profit gains. Hence, it is timely that the Singapore Exchange (SGX) had announced that sustainability reporting (SR) will be on a “comply or explain” basis for all listed companies come 2018. Market watchers have welcomed this move. SR is a means to achieving more holistic and comprehensive corporate reporting in the longer term. The addition of SR to corporate reporting provides a more comprehensive picture of the company and when taken together, SR makes corporate reporting more meaningful for investors, stakeholders and even companies themselves.

In the absence of experts in this field, this is a valuable opportunity for accountants to step up to fill the gap in companies. To help members implement SR, the Institute had

launched a series of initiatives in 2016 including a dedicated ISCA-SGX seminar, “Embarking on a sustainability reporting journey for CFOs”, CPE courses and reading materials in this journal. We will build on these and continue to develop more useful SR-related resources. Do look out for the SR Implementation Roadmap – a practical guide to help companies implement a robust process to support SR.

ISCA'S REGIONAL FOOTPRINT

I am happy to share that ISCA is successfully intensifying its presence in the ASEAN region. In October, the Institute signed a Memorandum of Understanding (MOU) with the Lao Chamber of Professional Accountants and Auditors (LCPAA) to co-develop the accountancy profession in

Laos through capability-building programmes. LCPAA is the national accountancy body of Laos.

There is an urgent need to build up the necessary capabilities in the accountancy profession of Laos. A directive from the Lao Ministry of Finance in 2013 had mandated that all public interest entities adopt the International Financial Reporting Standards (IFRS). Yet Laos has just under 100 qualified accountants serving a fast-growing economy with a population of seven million.

In particular, LCPAA and ISCA jointly ran a capability-development programme to train and develop accounting technicians to maintain financial accounting data for businesses. ISCA's Technical staff volunteered their time to deliver a five-day course. Additionally, Laos





and Singapore can look forward to more new business opportunities as efforts are made to help small and medium-sized practices (SMPs) from both sides interact and build professional networks.

In the spirit of ASEAN cooperation, ISCA seeks to help developing ASEAN member states narrow the development gap in the profession, in view of the ASEAN Economic Community's impact on the accounting industry.

The success of the MOU has attracted the attention of other developing ASEAN neighbours and we intend to follow up on their interest in working with us. This will be a win-win situation for all parties, especially SMPs who are ISCA members, and who seek to penetrate the increasingly lucrative regional market.

CLOSING REMARKS

I know that the recent bleak economic news is causing many of us some unease, especially those in their mid-careers. The tough global economic conditions and the disruptors, etc, have made the future highly unpredictable and challenging. The road ahead may be bumpy and unpleasant but we should not be disheartened. I am confident that Singapore can grow stronger if we all set our hearts and minds to the task.

Life should not be plain sailing; that is why life is interesting. Challenges and obstacles add colour to our lives and at the same time, test our perseverance, bring out the best in us and make us more resilient. Tough experiences shape us for success and at the end of trying times, we will emerge stronger. This is true for individuals

and also for economies and countries. When Singapore became independent in 1965, we faced many challenges; but we overcame them and emerged as a strong nation 50 years on.

We are living in interesting times today and we should live life in a meaningful manner. We can achieve meaning at work in addition to living meaningful personal lives. This would require us to continuously re-skill and upgrade our skills to be ready for the new economy of tomorrow. We will then be able to hold better jobs and enjoy higher remuneration.

Come what may, let's face each day with confidence, enthusiasm and commitment.

I wish all ISCA members Happy New Year and good health! ISCA

Gerard Ee is President, ISCA.



MEMBER PROFILE

A SINGAPOREAN ABROAD

Lelaina Lim, FCA (Singapore), Group Finance Director, Al-Futtaim Retail Asia LLC

BY
WANDA TAN

Being an accountant was the last thing on Lelaina Lim's mind when she was young, despite watching her two older sisters go into accounting.

"My ambition then was to be a TV news anchor or a lawyer specialising in women's rights," says Ms Lim, 55. But when it came time to enter university, she decided on accountancy on the advice of her late father, who believed she would make a good accountant due to her high math grades and proficiency with numbers.

He would again give wise counsel in 2003, when Ms Lim was mulling over a job offer from International SOS, a global leader in medical and travel security assistance, to head up its operations in the Greater China region. The role was based in Shanghai, and the thought of uprooting her family – including two children, then aged 11 and 15 – seemed too daunting.

"My dad told me that I was well-placed to fill the role, given my fluency in the Chinese language, and that the opportunity was too good to pass up," she says. Of course, he was right: the six years Ms Lim spent in China were a huge boost for her career and also brought her family closer together.

ROAD TO CHINA

Ms Lim moved to China quite late in her career – 20 years after it began, to be exact. In 1983, straight after graduating from the National University of Singapore, she landed a job as an auditor at EY (then known as Ernst & Whinney). She qualified as a Certified Public Accountant and obtained membership of ISCA (formerly the Institute of Certified Public Accountants of Singapore or ICPAS) in 1985.

Later that year, she left EY to enter the field of commercial accounting. A succession of accounting positions in several companies followed, including at Trans-Island Bus Services, a family-run investment firm, as well as a sports retailer. Her career really took off in 1989 when she joined Oakwell Engineering, a provider of engineering and procurement solutions for energy-related industries.

"The oil and gas industry was booming then, so I grew along with (Oakwell Engineering)," says Ms Lim. Over the course of 11 years, she rose through the ranks from Senior Accountant to Finance Manager and then Group Financial Controller. She was instrumental in taking the company public on the Singapore Exchange in 1994, and in securing a "white knight" when it was badly hit by the 1997–1998 Asian financial crisis.

"As an ISCA member, the Continuing Professional Education (CPE) obligations imposed on me and the wealth of CPE resources available were useful in the workplace. For example, courses on the listing requirements in Singapore taught me how to maintain proper accounting records in preparation for an IPO," says Ms Lim.

Having managed to get Oakwell Engineering back on its feet post-crisis, she was headhunted in 2000 by GRP Limited, another oil and gas company, to resolve its non-performing loan (NPL) status and generate positive cash flow. Ms Lim also frequently travelled to Suzhou, China, as GRP Limited's Chinese subsidiary had set up a plastics manufacturing plant there. This marked her first foray into the Chinese market.

“Through first-hand experience, I came to understand the intricacies of doing business in China. I was exposed to the local culture and learned what makes businesses in China tick.”

THE BIG MOVE

By pure coincidence, Ms Lim and her husband both received job offers in China just two days apart in 2003 — hers in Shanghai, his in Suzhou. This was a major factor influencing their decision to relocate, though their children were initially resistant to the idea.

“Both our sons were adamant about staying in Singapore at first because they didn’t want to leave their friends. But after moving to China and making friends at their new school, they grew to like it,” she says. The children lived with her husband and studied at Suzhou Singapore International School, while Ms Lim commuted between Shanghai and Suzhou – a 1.5- to three-hour drive each way – on weekends.

While at International SOS, Ms Lim was involved in many cross-border assignments such as emergency medical evacuations for foreign tourists visiting mainland China or Taiwan. These cases deepened her knowledge of foreign exchange controls, country risk, tax exposure and other facets of international finance.

In 2006, she was headhunted to join Electronic Arts (EA), an American video game company which was then looking to crack the China market. “Working in a multinational organisation, comprising overseas staff as well as those from various provinces in China, heightened my sensibilities in dealing with people. I learned to employ different tactics when speaking to them.”

Because she was based in Shanghai throughout her stint in China, weekends became extremely precious for the family as those were the only times they were all

together in one place. “We made the most of our weekends with fun family activities like organising barbecues, exploring museums, and hiking or cycling around the countryside.”

They also initiated “family conferences” to discuss important decisions together, such as Ms Lim’s job change to EA and her children’s choice of extra-curricular activities in school. It is a practice that has stuck with them to this day.

COMING HOME

The family felt happy and settled in China when, in 2008, Ms Lim was presented with an opportunity to return to Singapore and serve as CFO of RSH Limited, an international retailer with an extensive portfolio of sports and fashion brands including Royal Sporting House, Golf House, Massimo Dutti and Zara. Wanting to be close to her father who was ill at the time, she accepted the job offer and came back alone.

“My elder son had already gone to university in the UK, but my husband and younger son – then in his final year of high school – remained in Suzhou,” she says. “I flew to China quite often to see them, and they also visited me whenever they could.” Her husband moved back home a few years later, when his overseas posting ended. Their elder son, a lawyer, also lives in Singapore; the other is training to be a doctor in Australia.

On whether her sons found it difficult readjusting to life in

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“Singapore accountants are viewed favourably (around the world) because of our reputation for being upright and practising integrity and accountability. There are a lot of job opportunities abroad, especially in developing countries where local expertise may be lacking.”

Singapore when they returned to fulfill their National Service obligations, Ms Lim says she made sure they returned at least three or four times a year while in China. That way, they could maintain contact with their relatives and friends. “They were familiar with the family support systems and they had friends to assist them once home. That is important for returnees.”

Since joining RSH Limited, Ms Lim has journeyed with the company through its transition from a listed company to a privately-held one. Now fully owned by Dubai-based conglomerate Al-Futtaim Group (which also owns Robinsons department stores), it has a presence in nine countries. She regularly travels around Asia for work and

Career Milestones

1983	Auditor, Ernst & Whinney
1985	Assistant Accountant, Trans-Island Bus Services
1989	Senior Accountant, Oakwell Engineering Limited
2000	Group Financial Controller, GRP Limited
2003	Regional Financial Controller, International SOS (China)
2006	Finance Director, Electronic Arts (China)
2008	Chief Financial Officer, RSH Limited (acquired by Al-Futtaim Group in 2012)



goes to Dubai every quarter to attend meetings, so her prior regional exposure stands her in good stead.

Returning to Singapore also allows her to guide the current crop of accounting professionals. “Some people are happy to stay put in their comfortable expat lifestyles, and that’s understandable. But for me, it was important to come home and impart what I had learnt about cross-cultural sensitivity, transfer pricing and other issues to the team of managers that I have,” she explains.

Indeed, helping people is second nature to her. In 2016, she signed up as a mentor in ISCA’s Mentoring Programme, launched jointly with the Singapore CFO Institute. She also volunteers in her estate’s Neighbourhood Committee and serves as Honorary Treasurer of the Singapore Retailers Association. Other interests outside of work include practising taekwondo, running, and cooking for family and friends.

TIMING IS EVERYTHING

Based on her experience, Ms Lim recommends that younger accountants work overseas first before starting a family. “Singapore accountants are viewed favourably (around the world) because of our reputation for being upright and practising integrity and accountability. There are a lot of job opportunities abroad, especially in developing countries where local expertise may be lacking.”

However, they should not rush headlong into it either, but rather wait five to eight years into their career. “The early years of an accountant should be spent on gaining local experience and accumulating CPE hours,” she advises. “Singapore has strict rules and regulations that govern accounting standards and financial reporting guidelines. After knowing what is required locally, it will be easier to adapt to policies in other countries.” ISCA

Wanda Tan is a contributing writer.

“DRIVING VALUE: RISK TRANSPARENCY AND CULTURE”

A Comparative Study by ISCA
and KPMG in Singapore



BY
PERRINE OH AND YEO SHU WEN

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he ISCA-KPMG “Driving Value: Risk Transparency and Culture” 2016 Report, jointly produced by ISCA and KPMG in Singapore, was launched on 1 November 2016 at Four Seasons Hotel. The event was well attended by approximately 150 participants

comprising mainly company directors, audit partners and senior management.

The report, which was supported by the Singapore Exchange (SGX), provides a trend analysis of the risk governance disclosures of over 200 SGX-listed companies, and is based on data from the 2016 and 2013 studies. The new study analyses disclosures found in annual reports relating to board risk governance, risk management capabilities and structures, risk management practices, internal audit (IA) and fraud risk management. It also looks at the extent



PHOTO SHUTTERSTOCK



to which companies have adopted the requirements of the Singapore Code of Corporate Governance (CG Code) relating to risk governance and SGX Listing Rule 1207(10).

Ho Tuck Chuen, Chairman of ISCA's Corporate Governance Committee, said, "It is encouraging to see an increased level of disclosures related to risk management and governance across all companies. Risk management is integral to all companies as they grow. Proper risk management and internal controls help companies understand their risk exposure with mitigating controls in place to effectively pursue their objectives. We hope this report will enable companies to better understand the key risk governance practices, as well as encourage them to be more forthcoming in disclosures beyond the guidelines to enhance their standards of risk governance."

This article highlights some of the key findings from the study and the topics discussed during its official launch.

IMPROVEMENT IN RISK MANAGEMENT DISCLOSURES

There have been significant improvements in corporate governance disclosures since the 2013 study. Companies with large market capitalisation (\$1 billion and above) were found to have more forthcoming disclosures compared to other companies. Government-linked corporations (GLCs) also continue to be more forthcoming in their disclosures.



"Risk management is integral to all companies as they grow. Proper risk management and internal controls help companies understand their risk exposure with mitigating controls in place to effectively pursue their objectives."

HO TUCK CHUEN

Chairman, ISCA's Corporate Governance Committee

The biggest gaps between GLCs and non-GLCs were the establishment of a Board Risk Committee (BRC) to oversee risk, risk culture, Management Risk Committee, risk management framework and the appointment of a Chief Risk Officer.

Compared to three years ago, companies in Singapore have been making steady progress in improving their risk governance disclosures. More companies have been adhering to the requirements laid out in the CG Code. However, there are still concerns over boilerplate disclosures.

Irving Low, Partner and Head of Risk Consulting at KPMG in Singapore, said, “The study highlights the disparity between disclosures of a structural versus behavioural nature. The focus of the CG Code is primarily on structural elements, such as having a committee or policy in place, and we have seen a robust improvement in these disclosures since the CG Code

was introduced. However, disclosures relating to behavioural factors such as risk culture were not as forthcoming and are not currently featured in the CG Code. With the impending review of the CG Code, this provides an opportunity to consider incorporating more of the behavioural elements influencing risk. Risk culture is arguably the most critical aspect of risk management

because even if you have the best policy and process in place, if it is bypassed due to people not respecting it, the company is exposed to adverse outcomes.”

DISCLOSURE OF RISK CULTURE; RISK BEHAVIOURAL PRACTICES LACKING

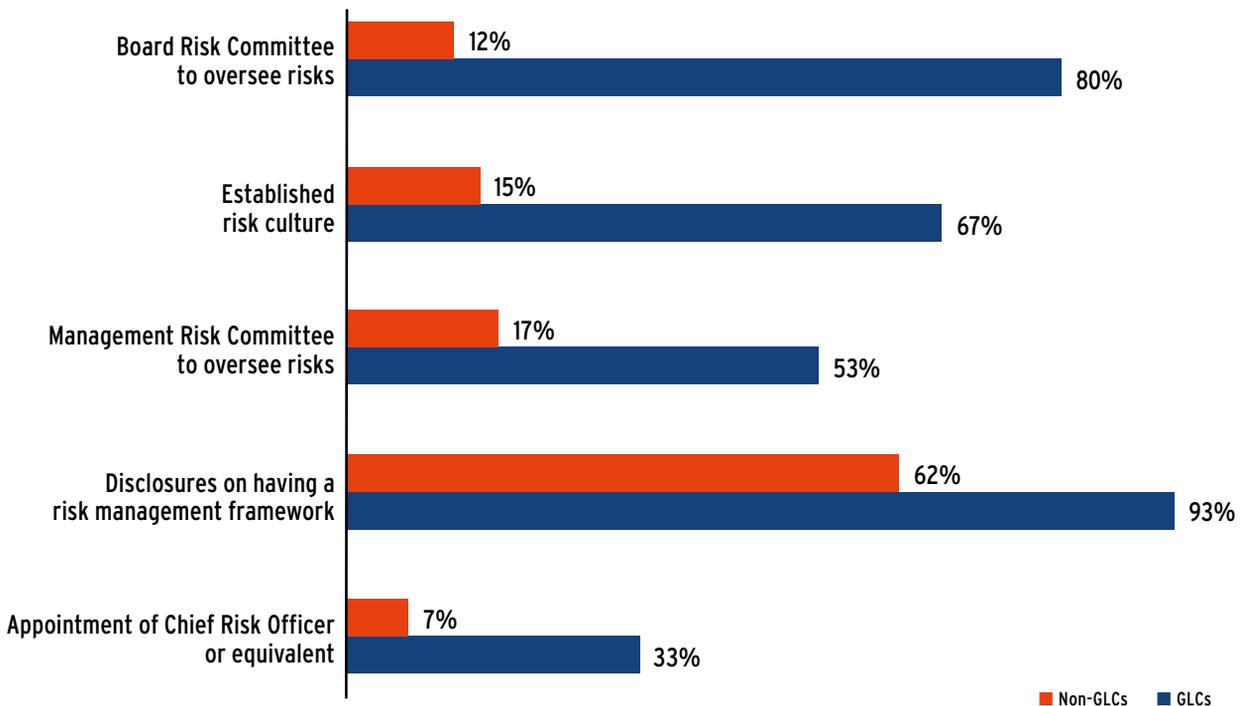
While 64% of companies disclosed having established a risk management

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“The Board also needs to inculcate and embed a risk governance culture and values, including respect for the company’s control environment. Risk management performance indicators should be set in a way that creates awareness and accountability, and incentivises performance in risk governance.”

TAN BOON GIN
Chief Regulatory Officer, SGX

Figure 1 Comparison of GLC and non-GLC risk management practices




“Risk culture is arguably the most critical aspect of risk management because even if you have the best policy and process in place, if it is bypassed due to people not respecting it, the company is exposed to adverse outcomes.”

IRVING LOW
Partner and Head of Risk Consulting, KPMG in Singapore

framework (including a risk assessment and monitoring process) and 68% of companies disclosed having a risk management policy in place, disclosures relating to risk culture are lacking as only 19% of companies made some mention of it. Forty-one percent (41%) of companies mentioned setting risk tolerance limits while only 19% disclosed aligning remuneration and risk policies – both of which are key elements in establishing an effective risk culture. Only 4% of companies disclosed having a formal process in place to assess and measure the organisational risk culture.

Tan Boon Gin, Chief Regulatory Officer at SGX, shared, “This study is a timely reminder that effective risk governance is not just structural but also cultural. It is more than developing a risk appetite statement, establishing risk committees or charting risk heat maps. The Board also needs to inculcate and embed a risk governance culture and values, including respect for the company’s control environment. Risk management performance indicators should be set in a way that creates awareness and accountability, and incentivises performance in risk governance.”

More companies should establish a formal risk culture framework. This includes setting the tone at the top, formalising the expected values and behaviours across the company. A strong risk culture supports effective risk management; a weak risk culture is a risk in itself.

STRONGER RECOGNITION ON BOARDS’ RESPONSIBILITY FOR MANAGING RISKS

All companies disclosed that the Board is responsible for risk. This is a significant improvement from the 2013 study where only 34% indicated this was the case. This highlights that there is a much stronger recognition that the Board retains ultimate accountability for managing risks in the business.

Over the past three years, given the increase in the complexity of the risk landscape, the percentage of companies that have restructured their Boards to either have a formally-constituted Audit and Risk Committee (ARC) or a separate BRC has increased from 2% to 16% for ARC, and 12% to 16% for BRC.

INCREASING IMPORTANCE OF INTERNAL AUDIT

Principle 13 of the CG Code states that the company should establish an effective IA function that is adequately resourced and independent of the activities it audits. The study showed that an IA function was established for all large-cap and mid-cap companies, with only a small percentage of small-cap companies (6%) not having an IA function.

At the launch event, the panellists had described the IA function as the “eyes and the ears of the Audit Committee”. During the panel discussion, an audience member asked if IA should be included in the SGX Listing Rules to make it mandatory due to its important role or should it remain in the CG Code on a “comply or explain”

basis. This was a debatable point with no clear answers.

LACK OF DISCLOSURE OF EMERGING RISKS AND DESCRIPTION OF RISKS

The 2016 study found that while a majority of the companies have disclosed their financial, operational, compliance and information technology (IT) risks as specified by the CG Code, there was a significant lack of disclosure for strategic and cyber risks (31% and 5% respectively).

It was noted that companies merely grouped the risk into broad categories (for example, financial, operational, compliance, IT) and there was a lack of description of the risks. About 61% of the companies did not mention any specific risk type, while only 39% provided a short description.

With the introduction of the new Key Audit Matters disclosure requirements in the enhanced auditor’s report mandated by the Accounting and Corporate Regulatory Authority, companies can also strive to improve in their specificity in the disclosure of risk types.

The panel discussion also highlighted the increasing importance of cyber risk in the fast-changing business landscape. Given the recent rise in the number of companies falling victim to malicious cyber attacks, companies could be more forthcoming in disclosing such risks and the controls they have put in place to manage the risks. This enhanced transparency and disclosure may boost trust and investors’ confidence in the company.

Just as companies continue to evolve, enhancing an organisation’s risk governance should similarly be an ongoing process. **ISCA**

The ISCA-KPMG “Driving Value: Risk Transparency and Culture” 2016 Report was jointly conducted by ISCA and KPMG, and supported by SGX. The report can be downloaded at <http://isca.org.sg/tkc/cogov/risk-governance/risk-governance/2016/november/isca-kpmg-driving-value-risk-transparency-and-culture/>.

Perrine Oh is Manager, Research, ISCA, and Yeo Shu Wen is Executive, Research, ISCA.

TAKING FLIGHT

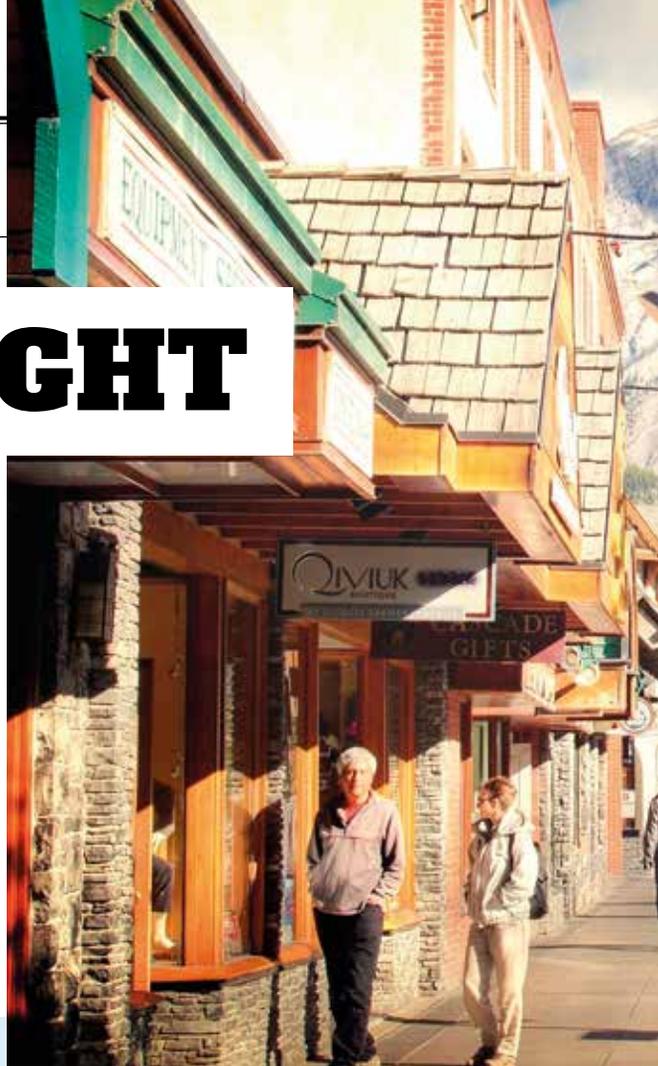
2017's Most Happening Destinations

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ow's that special time of the year when you haul out your calendar, cross-refer it against Singapore's 2017 public holidays, and plan your next vacation.

While geopolitical events haven't been all that rosy, they have come with happy side effects for travellers. Take Brexit for instance. With the exchange rate for the British pound in our favour

over the past year, Singaporeans get to savour the sights while paying about 15% less. With the Malaysian ringgit and Canadian dollar also hovering at all-time lows, there's never been a better time to head overseas for some R&R.



Kathmandu, Nepal

PHOTOS SHUTTERSTOCK



Banff National Park, Canada

Vacation rental sites such as Airbnb and Flipkey have also made travelling more interesting and affordable, and travellers have embraced this trend in droves. According to market research company Euromonitor, Airbnb had generated almost US\$10 billion in worldwide sales in 2015. While vacation rentals don't offer the same perks as staying at a five-star hotel, they enable you to immerse yourself in local culture

as they are often located in residential neighbourhoods. This has totally changed the experience of travelling to wildly-popular (but expensive) destinations such as Venice, New York and London.

So where do we go? Here are some perennial favourites that are set to deliver exceptional value this year:

COME FOR THE CULTURE, STAY FOR THE CHARM Everywhere in Canada

The date 1 July 2017 marks Canada's sesquicentennial – its 150th birthday – since its Confederation, and the country has planned year-long celebrations spanning coast to coast. These culminate in the nation's biggest ever birthday bash on July 1 in the capital city of Ottawa, with stunning aerial displays by the Snowbird air squadron.

Parks Canada has made admission to all national parks, national historic sites and national marine conservation areas free for the entire year to commemorate the anniversary. This makes it a fantastic

year to check out the country's 46 national parks and reserves – from the endless vistas and pounding surf along the Pacific Rim National Park in British Columbia to the tranquil glacial fjords of the historic Terra Nova National Park in Newfoundland.

Best of all, the Canadian dollar is hovering at historical lows against the Singapore dollar, so there isn't a better year to pay a visit to Lonely Planet's top pick for 2017!

Visit www.ottawa2017.ca and www.pc.gc.ca for details.

HEAD TO THE TOP OF THE WORLD Nepal

This Himalayan kingdom is back on its feet after 2015's devastating series of earthquakes, and a fuel strike that had made transportation difficult. So now's the time to sign up for that mountain adventure you have always wanted. Trekking in Nepal remains top value, with a wide variety of hiking tours available for less than S\$50 a day,


With seven long weekends coming up in 2017, it's wise to get your leave application in early and enjoy some time off with your family and friends.

including guide, lodge accommodation and hot meals.

If trekking isn't your thing, there're also rafting, bungee-jumping, canyoning, climbing, mountain biking and even yoga. And for those who prefer to travel at a more sedate and comfortable pace, there are medieval city squares, sublime stupas, ancient monasteries and more... tucked away between impressive snowy mountain peaks.

The best time to head there is during October and November, when autumn brings clear skies and warm days – right conditions for that perfect photograph. Spring is also a good time to visit as it is the quiet season, and the trails and bazaars won't be as crowded.

Visit www.welcomenepal.com for details.

ALL THE CULTURE AND FOOD YOU'D EVER WANT London, England

An astounding 17.3 million visitors a year can't be wrong. London now tops Singapore, Paris and Bangkok in Euromonitor's annual study, trailing only Hong Kong. While it's been a while since the Cool Britannia trend of the 1990s, London is definitely swinging again as a cultural and foodie destination.

Don't miss the newly-opened pyramid wing of Tate Modern and the recently-rehomed Design Museum. Late in 2017, the British Library will launch a thrilling new Harry Potter display in partnership with publishing house Bloomsbury, featuring wizarding books, manuscripts and "magical" objects, alongside original material from author J.K. Rowling's own archives.

On the food front, check out new Michelin-star winners (and long-time favourites) The Ritz and Veeraswamy – London's oldest Indian restaurant. Six other restaurants gained stars this year (2017) and 15 more gained Bib Gourmands, including the Asian-influenced Bao and Hoppers.

For better travel value as you hop from one attraction or restaurant to another, pick up a prepaid Visitor Oyster Card for just £3 that lets you enjoy



London, England



Cape Town, South Africa

discounted travel. You won't be charged more than £6.50 for a day of travel in Zones 1 and 2 (compared to a Day Travelcard which costs £12.10).

Visit www.londontourism.com for details.

COMING SOON TO A DIRECT FLIGHT NEAR YOU Cape Town, South Africa

This city made it to the top for *Traveller magazine's* 2017 list and it's easy to see why. White sandy beaches, top-notch wines and an unrivalled climate make South Africa a popular alternative to destinations such as Australia or New Zealand. What's more, Singapore Airlines

restarted direct flights to the capital of Johannesburg in 2016, with four weekly flights that continue on to Cape Town.

This year, visitors can look forward to the opening of Africa's first-ever major museum of contemporary art – Zeitz Museum of Contemporary Art Africa. Adrenalin-seekers shouldn't miss another world's best – Abseil Africa now runs a 112-metre record-setting zipline down the face of Table Mountain.

Cape Town is also a destination that delivers incredible bang for your buck. Where else can you enjoy world-class golfing, fine dining and more – at a fraction of European prices?

Visit www.capetown.travel for details.



Venice, Italy



Hokkaido, Japan

Attractive exchange rates, spectacular celebrations and the allure of unique experiences – these destinations are all the rage again.

**WAITING TO BE RE-DISCOVERED
Hakodate, Hokkaido, Japan**

Niseko's perfect powder might be the siren song that lures travellers to Japan's northernmost large island but there is so much more to Hokkaido than an

international ski village packed with tourists. Outside the Niseko bubble, there are *onsens* and quaint villages galore as well as all the gorgeous seafood you can eat.

Now that there is a bullet train linking Hakodate to Tokyo, exploring Hokkaido has never been easier. This route is part of the ever popular (and good value) Japan Rail pass, which lets you hop on and off trains to your heart's desire. Don't miss the views from the top of Mount Hakodate and the picturesque islands of Onuma Quasi National Park. Foodies will want to sample the region's succulent seafood, especially at the Asaichi morning market – famous for its many little restaurants serving local

seafood rice bowls.

There's no bad time to visit. The region might be most famous for its incredible snow and winter festivals but in summer, the island boasts postcard-perfect fields of wildflowers and some truly delectable produce.

Visit www.hakodate.travel/en for details.

**VALUE IN VENICE
Venice, Italy**

If you had asked a seasoned traveller a few years ago, their advice would be to stay outside of Venice – for example, in Mestre or Treviso – and take the train in for the day. But convention has been turned on its head with the emergence of vacation-rental sites. Now, you can stay right within the Lagoon City itself (without having to pay an arm and a leg) and save on transport costs.

A crash pad right in the heart of the action means you can beat the crowds to famous spots such as the Piazza San Marco, the Bridge of Sighs and the top of Campanile di San Marco. Just pick up a day pass for the *vaporetti* (water buses) to get around cheaply and quickly; it will also take you straight to one of Venice's biggest highlights, the Ponte di Rialto.

Spring and fall are the best times to visit Venice as you will enjoy mild weather and lots of sunshine. Don't miss the 57th Venice Biennale that runs from May to November 2017. Just avoid the winter months, when high tides can bring the *acqua alta* (high water) and many parts of the city can be flooded.

Visit www.visit-venice-italy.com for details. **ISCA**

PHOTOS SHUTTERSTOCK

HELPING CHARITIES DO GOOD BETTER

Full-Cost Accounting in the Charity Sector



BY
ISABEL SIM, ALFRED LOH AND TEO CHEE KHIANG

Charities rely largely on donations and grants from individuals, government entities and other organisations to carry out their charitable activities. In return, Charities are expected to be accountable to their stakeholders. The first four articles in the “Accounting for Good” series have looked at regulatory frameworks and organisational governance for Charities to help them ensure accountability and transparency. This article explores how accountants can assist Charities in developing full-cost accounting systems so they can meet numerous social demands despite their limited resources.

As explained by Gerard Ee, Chairman of the Charity Council, Singapore, “knowing the full cost of programmes will help strategic decisions to be made as to which ones to focus on and the actions required to make them sustainable”. Mr Ee is also President, ISCA.

¹ Colby & Rubin (2003) “Costs Are Cool: The Strategic Value of Economic Clarity”; <https://www.bridgespan.org/insights/library/funding-strategy/costs-are-cool-the-strategic-value-of-economic-cla>





Indeed, given that Charities operate in a rapidly-changing and competitive environment, the need for Charities to gain economic clarity around costs has become even more critical.

WHAT IS FULL-COST ACCOUNTING?

Charities incur various types of costs when delivering their charitable programmes to advance their missions. A full-cost accounting system provides economic clarity by allocating indirect costs, in addition to direct costs, across programmes to provide a realistic picture of their full costs. This concept is elaborated in Box Story 1.

Box Story 1 What are “full costs”?¹

The full costs of programmes and services include both the typical direct costs as well as indirect costs incurred.

What constitutes direct costs?

Direct costs of programmes are incurred directly in the provision of services. As the word “direct” suggests, connecting these costs to the specific activities where they incur is straightforward.

What constitutes indirect costs?

Indirect costs are incurred outside the production of a particular programme or service and, as the name suggests, cannot be directly assigned to any one programme in particular.

Consider an organisation that runs an after-school centre which offers art classes and a youth soccer programme.

Direct costs for art class Materials and supplies used in the classes, the salaries of the teachers, and the snacks provided during class.

Direct costs for soccer programme Equipment, the salaries of the coaches and referees, and the fees for renting practice fields.

Indirect costs Salary and benefits of the Executive Director and other administrative staff who coordinate the centre, the rent and utilities for the centre’s facility, and the printing and postage expenses for the organisation’s monthly newsletter all fall into this second group of expenses.

Why should Charities compute full costs?

Accounting for indirect and/or overhead costs of programmes will make the cost of providing these programmes more transparent. After apportioning administrative, facility and mailing expenses for the art and soccer programmes, the organisation can gain a clearer understanding of the true costs of operating these programmes.

VIEWPOINT

FULL-COST ACCOUNTING IN THE CHARITY SECTOR

Charities would have a clearer understanding of how resources are currently being used when the full costs of programmes are computed. With this full-cost information, Charities can make, in the words of Mr Ee, better “strategic decisions... as to which ones (programmes) to focus on” and “make them (programmes) sustainable” by recovering their full costs. We will examine these benefits in the following two sections.

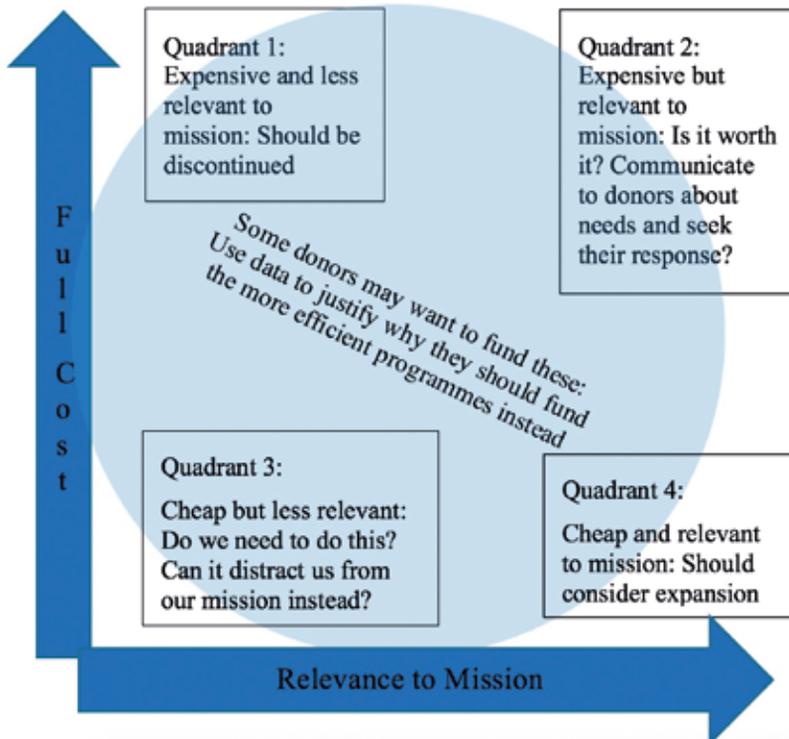
FULL-COST ACCOUNTING AND RESOURCE ALLOCATION

Full-cost data allows a Charity to review each programme based on its affordability vis-à-vis its intended outcomes, and decide if scarce resources are being utilised in the most efficient manner to advance its mission. Figure 1 provides a framework that could assist

Charities in identifying cost-effective programmes to make better strategic decisions in the allocation of their scarce resources. Following that, the Charity can better make decisions as to whether it should terminate (Quadrant 1), continue or perhaps even expand these programmes (Quadrant 4). In other cases, the Charity, with the knowledge of full costs, would be in a better position to consider the trade-offs between a programme that is expensive but relevant to its mission (Quadrant 2), with one that may be cheaper but less relevant (Quadrant 3).

To illustrate this, a Charity was called upon by many to expand its programme to another region, including one region that was willing to provide short-term funding. However, the Charity declined after a full-cost analysis of the programme as the analysis revealed it to be more

Figure 1 A framework for allocating resources to programmes based on relevance to mission and full costs²





expensive than originally believed (Quadrant 2 instead of Quadrant 4). Higher indirect costs would be incurred for the expansion as most of such costs will have to be borne by the programme alone, rather than shared across many. Expansion would have been a drain on the programme's resources over time and therefore, an unwise strategic decision.

FULL-COST ACCOUNTING AND SUSTAINABLE FUNDING

Charities that can communicate their full-cost information would be more transparent and accountable to stakeholders. Such information will also enable Charities to have more meaningful discussions with donors about their funding needs. With clearer information on funding needs, Charities and donors can then work towards developing a more sustainable funding model.

For a programme to be sustainable, its full cost should be fully recovered. Having economic clarity not only helps Charities to make better strategic decisions in the allocation of their scarce resources, it also allows them to have a defensible basis to justify their level of spending as well as obtain funding for their programmes based on full costs. Donors are more likely to agree if they are able to fully understand the operations and expenses (both direct and indirect) associated with these programmes.³

Additionally, knowledge of full costs would also assist Charities in setting the appropriate level of fees to charge beneficiaries for their various programmes. Programme fees constitute another important source of funding for Charities. Such fees allow the level of income received to be proportional to the delivery costs, creating a sustainable model that, at the very least, ensures partial cost recovery. Charging the appropriate

² Colby & Rubin (2003) "Costs Are Cool: The Strategic Value of Economic Clarity"; <https://www.bridgespan.org/insights/library/funding-strategy/costs-are-cool-the-strategic-value-of-economic-cla>

³ Gregory & Howard (2009) "The Nonprofit Starvation Cycle"; https://ssir.org/articles/entry/the_nonprofit_starvation_cycle

VIEWPOINT

FULL-COST ACCOUNTING IN THE CHARITY SECTOR

programme fees, through a better understanding of their full cost (as opposed to charging only direct cost), will improve financial sustainability. Charities will be better equipped with the ability to provide services of greater quality.

In fact, in the United Kingdom (UK), the government is strongly promoting full-cost recovery, enabling organisations to recover the legitimate portion of overhead costs for the work they do. Otherwise, there is a danger of a Charity running into deficit and becoming unsustainable. The importance of full-cost recovery as a sustainable funding model is encapsulated in the following quote by the UK Minister for the Voluntary Sector, Fiona Mactaggart, "To build a strong, thriving voluntary sector, it cannot be living from hand to mouth."⁴

AN APPROACH TO FULL-COST ACCOUNTING

Some US and UK Charity networks have proposed strategies to guide accountants and professionals on full-cost accounting practices for the



non-profit sector. One widely-adopted approach, developed by ACEVO, the UK's leading network for Charities and social enterprise leaders, is illustrated in Figure 2.

The full-cost accounting approach has been lauded as a good way for Charities to make better decisions and obtain sufficient funding. Box Story 2 features a UK Charity that has benefited from the implementation of full-cost accounting.

Figure 2 Six-step process of the full-cost recovery template⁵

1	Calculate the direct costs of the service or project.
2	Compute the overhead costs incurred by the entire organisation.
3	Allocate premises and office costs to the project, to the central functions (HR, finance, etc), and to general fundraising.
4	Allocate central function costs (now including a portion of premises and office costs) to the project, to governance and strategic development, and to general fundraising.
5	Allocate governance and strategic development costs (now including a portion of premises and office costs, and central functions costs) to the project, and to general fundraising.
6	Allocate general fundraising costs to the project if it needs to draw on fundraised income.

CHALLENGES OF IMPLEMENTING FULL-COST ACCOUNTING

Despite the benefits of adopting full-cost accounting, some Charities may be reluctant to present the full-cost data to donors as they are afraid that donors will refuse to fund the programme if

⁴ Big Lottery Fund (2006) "Mind the Gap: A Funder's guide to Full Cost Recovery"

⁵ ACEVO (2004) "Full Cost Recovery: A guide and toolkit on cost allocation"; <http://www.thinknpc.org/publications/full-cost-recovery-2/>

⁶ ACEVO (2004) "Full Cost Recovery: A guide and toolkit on cost allocation"; <http://www.thinknpc.org/publications/full-cost-recovery-2/>

⁷ Locke (2014) "This simple strategy tripled charity donations"; <http://www.vox.com/2014/10/30/7131345/overhead-free-donations-charity-fundraising-seed-matching-gneazy>

⁸ Song (2014) "A Funder's Message to Other Funders about Overhead"; <http://blueavocado.org/content/funders-message-other-funders-about-overhead>

⁹ Charity Council (2015) "Inaugural Townhall Meeting"; www.CharityCouncil.org.sg/en/Our%20Work/Events/2015/Inaugural%20Townhall%20Meeting.aspx



indirect costs, which do not directly translate to outcomes for beneficiaries, are too high.⁷ This is in line with studies showing that some Charities understate indirect costs to obtain donations as donors may erroneously view it as a metric for efficiency.⁸

Other Charities, however, may be keen to adopt such a system but unfortunately lack the requisite skills and resources to implement it (Box Story 3). Indeed, a survey conducted in 2015 by the Charity Council identified cost accounting as one of the top three skill sets Charities in Singapore would like to improve on.⁹ Hence, this presents another avenue for accountants to contribute toward building a strong and thriving Charity sector.

CONCLUSION

Charities rely largely on donations and grants from individuals, government entities and other organisations to carry out their charitable activities. They are, however, finding themselves having to compete, increasingly, for funding to pursue their mission. As donors seek more information to make informed giving decisions, Charities could provide greater economic clarity on the full costs of their programmes, to help them better articulate their strategies and secure sustainable funding. Additionally, to cope with the uncertainty associated with their income, Charities would also need to put in place other financial policies

Box Story 2 Charities benefiting from Full-Cost Accounting⁶

Action on Hearing Loss (formerly known as the Royal National Institute for Deaf People) is one of the largest Charities representing the deaf and people who are hard-of-hearing in the UK. In recent years, Action on Hearing Loss has adopted ACEVO's full-cost accounting template. This has brought about the following benefits for the organisation:

- 1) Greater rigour and accuracy in costing programmes;
- 2) Improved cost-effectiveness analysis of each programme, hence enabling meaningful comparison, and
- 3) Using the analysis to encourage greater recognition and subsequently, acceptance, by donors to fund programmes based on their full costs so it can focus on its core mission.

According to the ACEVO report, "from such a base, negotiations over fees and funding can focus on service levels, outcomes and efficiency without being distorted by the voluntary sector subsidising statutory services".



Box Story 3 Challenges in adopting full-cost accounting in Singapore

Locally, there are some Charities that have tried to implement full-cost accounting. Ang Chee Wee, Director of Corporate Services and Operations at the National Kidney Foundation (NKF), shares some of the challenges that the Foundation faces. NKF is a non-profit health organisation that provides medical care and support for kidney patients as well as public education for the prevention of kidney disease.

In terms of implementation costs, "I would like to think that most Charities will not have fully-computerised systems in place to help them cope with the increasing complexities of service needs. NKF faces similar challenges in getting our systems up to speed to meet with such demands," says Mr Ang. In terms of technical expertise to conduct proper allocation of indirect costs, "allocation of indirect service costings may not be able to be so specific to reflect true (or full) costings".

and strategies to enhance their financial health, and better manage their cash flow on a day-to-day basis.

We will look at the area of cash flow, investment and reserves management in the next article. ISCA

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THE ROLE OF SMPS IN PROVIDING BUSINESS SUPPORT SERVICES

New Opportunities for SMPS and Professional Accountancy Organisations



BY
CHRISTOPHER
ARNOLD

In a recently-published literature review, "The Role of SMPS in Providing Business Support to SMEs – New Evidence", the International Federation of Accountants (IFAC) commissioned academics to update a 2010 IFAC Information Paper and examine the results of more than 90 academic research papers on the role of small and medium-sized practices (SMPS) in the provision of business support to small and medium-sized entities (SMEs). Here is a summary.

SMEs represent a very significant part of the world's economy. These entities represent 85% to 99.9% of the business population, account for more than half of the private sector value-added and two-thirds of employment. SMEs are heterogeneous in size, growth intentions, and business goals. A significant proportion of SMEs are family enterprises, characterised by family involvement in ownership, governance and management, and by family values.

Only a subset of SMEs is interested in growing or in seeking maximum returns, while many choose to remain small or not to grow – this group may

attach considerable importance to non-financial objectives and pursue a range of other goals in addition to, or alternative to, growth.

Factors driving SMEs' demand for business advice from SMPS, among others, include company-related factors (that is, size, debt, age, growth, and available resources) and environment-related factors (that is, economic conditions, including regulations and competition).

Personal characteristics of the SME owner-manager also impact the decision whether to purchase accounting advice. Some owner-managers are more open than others to seeking and utilising external advice. Furthermore, personal factors, including the relationship, trust, and perceived value of services, moderate the impact of company-related and environment-related factors on SMEs' demand for business advice.

In general, recent literature indicates that the SMEs most likely to purchase business advice are larger, younger, carry higher levels of debt or have greater aspirations to obtain new funding and exhibit higher growth rates or intentions to grow. Market segmentations (example, start-ups, SMEs with an ambition to grow, SMEs with lifestyle expectations, and steady-state SMEs) facilitate an understanding of the demand for business advice from SMPS by these types of SMEs.

In summary, SMEs face economic, regulatory, social, and cultural pressures that may



★
In general, recent literature indicates that the SMEs most likely to purchase business advice are larger, younger, carry higher levels of debt or have greater aspirations to obtain new funding, and exhibit higher growth rates or intentions to grow.



impact their utilisation of accounting information and advice.

SMPS AND BUSINESS ADVISORY SERVICES

In general, the majority of SMPS' revenue is generated by traditional services including compliance, audit and taxation. However, recent literature identifies an increase and diversification in the provision of business advisory services and highlights the associated potential for future revenue growth. Recent research furthermore reveals that differences

exist in SMPS' offering of business advisory services by geographic region, size, and strategy. Larger and more proactive SMPS offer more business advisory services.

The evolution of SMPS, coupled with the growing demand for business advice, suggests that SMPS currently, and more so going forward, may play the roles of advisor, confidant, analyst, facilitator, and educator to their clients.

The literature indicates that networks play a growing role in the expansion of SMP expertise, especially in attracting new clients

and providing new services. SMP networks and networks of SMPS with other professionals (example, bankers, lawyers, human resource and environmental specialists) facilitate the broadening of expertise and visibility to clients.

Recent literature also shows that SMPS have differing expansion strategies. Some SMPS are reluctant, while others proactively seek, to expand their service offerings. The desire to expand is influenced by factors including size, level or availability of competencies (example, networks

and training), clients' demands and geographic location. SMPs' expansion choices are also influenced by level of diversification, appetite for risk, and growth aspirations.

IFAC GLOBAL SMP SURVEY 2015

According to the "IFAC Global SMP Survey 2015", the vast majority of SMP respondents (84%) provide some form of business advisory and consulting service (Figure 1). The top three most commonly-provided services were:

- + Tax planning (52%);
- + Corporate advisory (advice on financing, mergers, due diligence, valuations, legal issues) (45%), and
- + Management accounting (planning, performance, risk management) (41%).

SME-SMP RELATIONSHIP

Research indicates that irrespective of jurisdiction, accountants – and

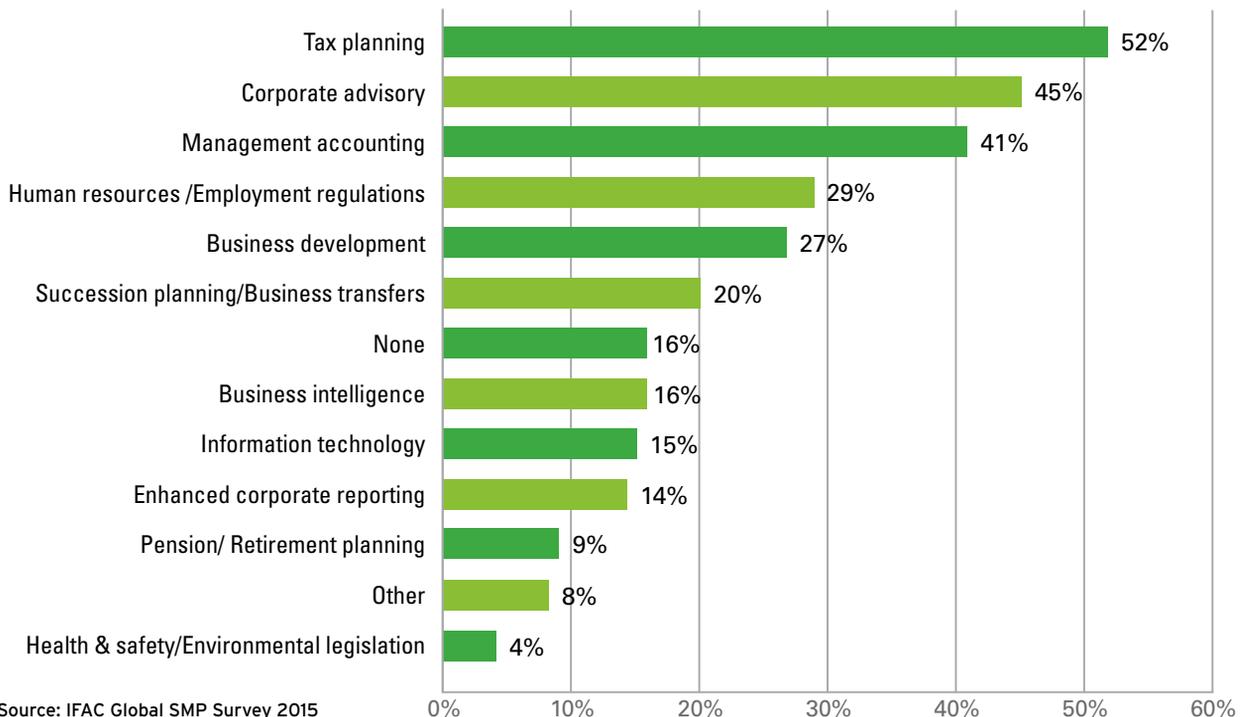
especially SMPs – continue to be the preferred advisors of SMEs. The main factors SMEs consider when determining whether to purchase SMP services include any prior relationship with the accountant, the image of the accountant, and the SME's perception of the roles and competencies of accountants. Industry, type of advice, and personality of the SME owner-manager may also impact the selection of an advisor.

Due to the multitude of factors involved, interactions between SMEs and SMPs are complex. In general, the desired interaction embodies a long-term, personal relationship based on trust and communication. A successful SME-SMP relationship requires a thorough knowledge of the client's business, as well as mutual understanding. However, the literature reveals complexities – trust is not easy for SMPs to obtain and is linked with other factors such as integrity, competence, and empathy.

Research also indicates that communicating with the SME owner-manager is challenging for SMPs, because of perceptions associated with the low level of readability of traditional accounting documents (that is, financial statements). While the development of digital communication channels has created new ways for accountants to communicate with their clients, research suggests that the preferred form of communication between SMEs and SMPs remains face-to-face.

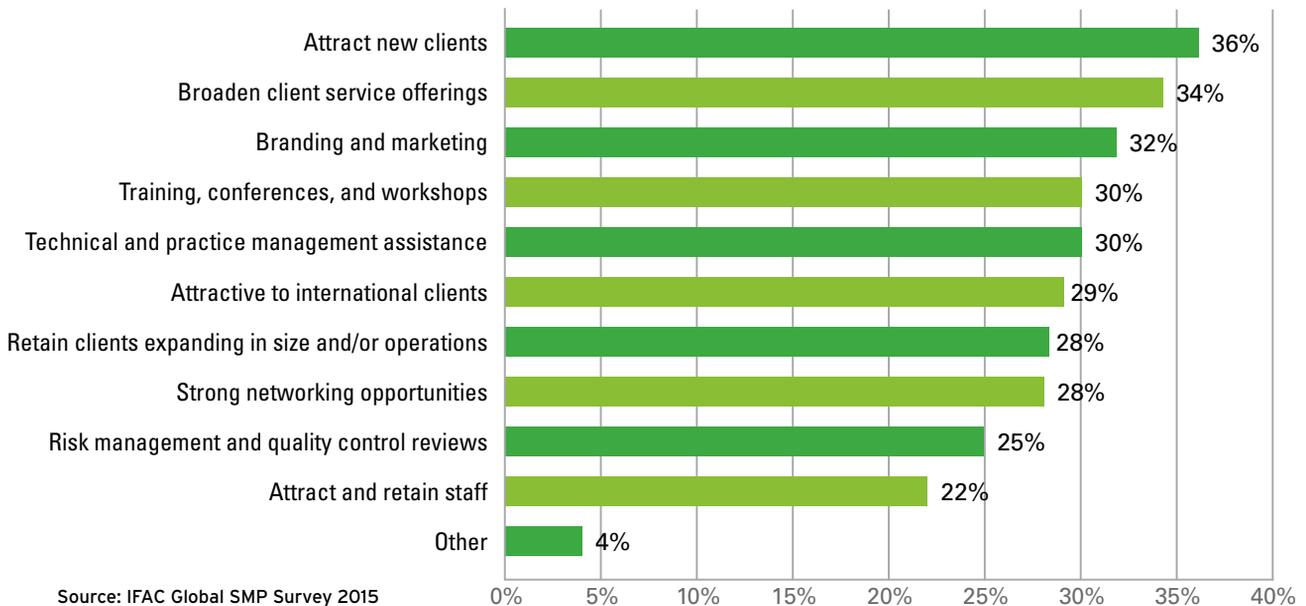
Recent literature additionally suggests that traditionally, SMPs have been passive, as opposed to active, marketers. Conventionally, formal promotion such as media advertising has rarely been employed. Indeed, some accountants view marketing and promotion as incompatible with the profession or as not worthwhile as the hours spent on it are not billable. Others, especially the younger

Figure 1 Types of services provided by SMPs



Source: IFAC Global SMP Survey 2015

Figure 2 Benefits of joining a network, association or alliance



Source: IFAC Global SMP Survey 2015

generation, embrace marketing and promotion to counter competition. Researchers have recently emphasised the need for greater proactivity from SMPs in gaining new business.

IMPLICATIONS FOR SMPs

Practices should identify ways to address increased competition and market challenges. Coping mechanisms include expanding expertise through networks and partnerships, providing staff training and hiring experts. More proactive SMPs seek market niches, employ marketing techniques, and diversify the services they offer. Communication with SMEs and their owner-managers is important to achieve an understanding of their needs, enhance trust, and help with introducing new services.

One recommended strategy to gain new business is to provide opportunities that encourage more frequent interaction with clients. For example, a significant opportunity for differentiation in the market is available to SMPs that market themselves as experts in technology and capable

of meeting SMEs' expectations as providers of strategic advice.

OTHER SIGNIFICANT FINDINGS

According to the "IFAC Global SMP Survey 2015", only 28% of the SMPs surveyed indicated they belong to a network, association or alliance. The benefits associated with membership in a network, association or alliance are (also in Figure 2):

- + Attracting new clients (36%);
- + Broadening client service offerings (34%);
- + Branding and marketing (32%);
- + Training, conferences and workshops (30%);
- + Technical and practice management assistance (30%);
- + Attractive to international clients (29%);
- + Retaining clients expanding in size or operations (28%);
- + Strong networking opportunities (28%);
- + Risk management and quality control reviews (25%), and

- + Attracting and retaining staff (22%).

IMPLICATIONS FOR PAOS

SMPs expect professional accountancy organisations (PAOs) to help them promote the value of their services to clients and identify new market opportunities. This translates into the need for PAOs to provide advice and guidance on how to market existing services and offer new client services. In addition to training sessions and educational materials, SMPs seek opportunities to network and share information, insights and ideas with one another. Finally, there are benefits from PAOs' campaigns to promote the role of the accountant and to consolidate institutional trust in the profession. ISCA

Christopher Arnold is Head of SME/SMP and Research, International Federation of Accountants (IFAC). Copyright © September 2016 by IFAC. All rights reserved. Used with permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store, or transmit this document. "The Role of SMPs in Providing Business Support to SMEs-New Evidence" report is available at www.ifac.org/publications-resources/role-smps-providing-business-support-smes-new-evidence-0

THE WORLD'S MOST INNOVATIVE COUNTRIES 2016

R&D and Innovation are Central to Economic Growth

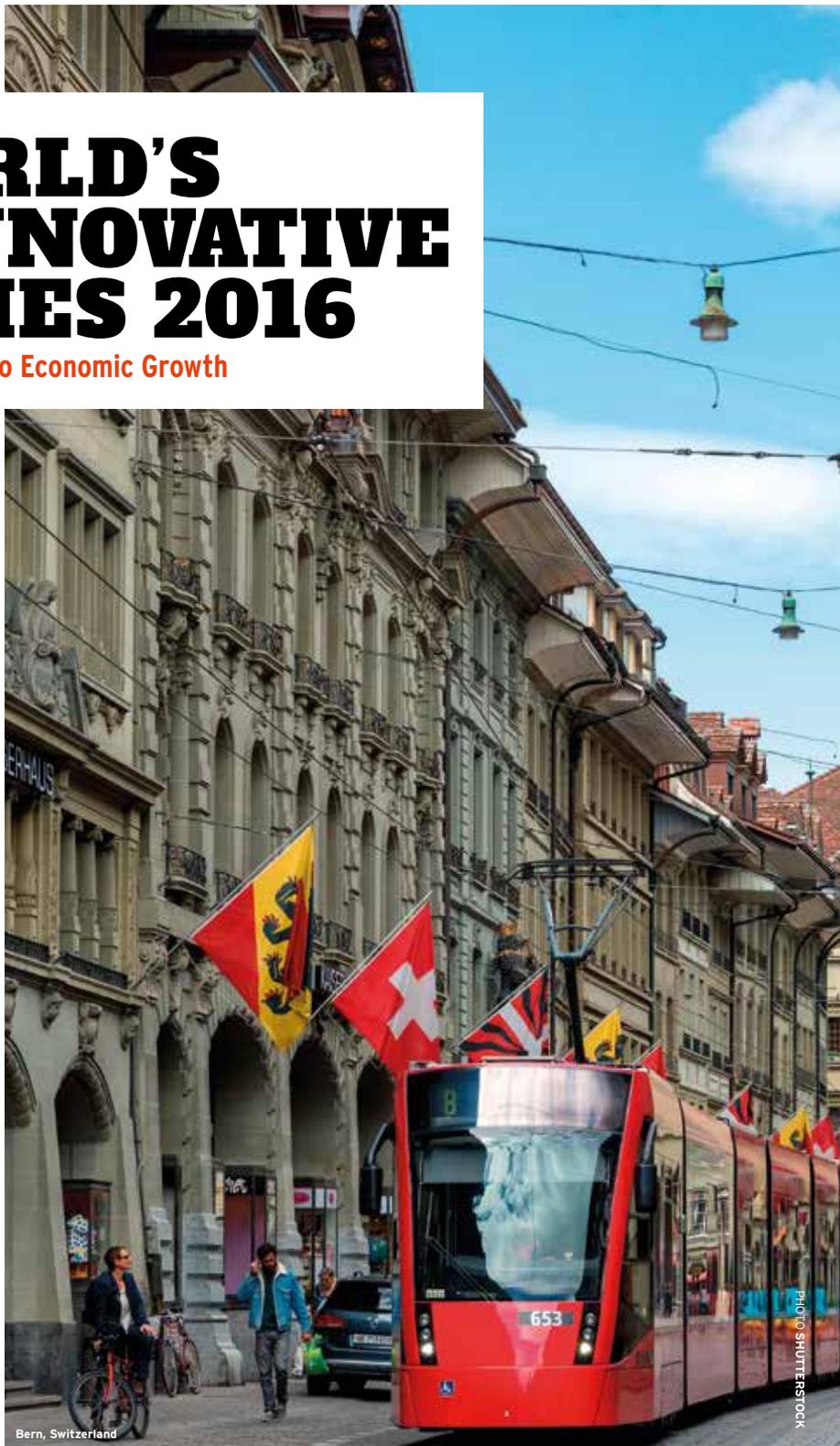


BY
BRUNO LANVIN

The Human Brain Project (HBP), a global, 10-year scientific research project aimed at advancing the understanding of neuroscience, brain-inspired computing and brain-related medicine, got underway in 2013. This European Commission initiative, born from the seminal work of Professor Henry Markram, from École Polytechnique Fédérale de Lausanne (EPFL) in Switzerland, provides the scientific community with the infrastructure to collaborate and make new inroads into the study of neuroscience, and a total funding of one billion Euros.

Such cooperation isn't unusual in Europe. The EUREKA programme, a publicly-funded, intergovernmental network involving over 40 countries, was created in 1985 to enhance European competitiveness by "promoting innovation across borders".

Government policy, strong R&D spending and coordination characterise groupings such as HBP and EUREKA. These factors also make countries more innovative. Switzerland again topped the 2016 Global Innovation Index (GII), coming ahead of seven other European



Bern, Switzerland

PHOTO SHUTTERSTOCK



countries in the top 10. Singapore ranked sixth and the US, fourth. Switzerland and its peers got top marks across major pillars of GII, such as the strength of institutions, infrastructure, human capital and research and market sophistication.

World's Most Innovative Countries 2016: Top 10	
1	Switzerland
2	Sweden
3	United Kingdom
4	United States
5	Finland
6	Singapore
7	Ireland
8	Denmark
9	Netherlands
10	Germany

LEVERAGING GLOBAL INNOVATION

The index, a collaboration in itself between INSEAD, Cornell University and the World Intellectual Property Organisation (WIPO), finds that investments in R&D and innovation are central to economic growth – helping developed countries reinvent themselves in times of economic decline and emerging countries answer their societies’ growing needs.

★
Switzerland and its peers got top marks across major pillars of the 2016 Global Innovation Index, such as the strength of institutions, infrastructure, human capital and research and market sophistication.

★
... countries sometimes tend to perceive each other as contenders rather than collaborators. Countries can overcome this by approaching innovation as a global positive effort instead of a zero-sum game.

While science and innovation are more internationalised and collaborative than ever before, countries sometimes tend to perceive each other as contenders rather than collaborators. Countries can overcome this by approaching innovation as a global positive effort instead of a zero-sum game.

We also find that sustained investment is critical. It may be tempting to scale back investment during times of low growth or economic uncertainty, but it pays to keep it up as “stop-and-go” approaches quickly erase the progress made in previous years.

BIG ACHIEVERS

China still only spends a small share of its research budget on basic R&D in comparison to the leaders, but its expenditures are getting closer to those of rich countries'. It makes a symbolic entry into the GII top 25 this year, the first middle-income country to do so. The top 25 are typically comprised of high-income countries. China's progress has been remarkable in innovation quality, output and efficiency. Similar improvements have also helped other middle-income countries such as Bulgaria (38 on the list), Costa Rica (45) and Romania (48).

Among the lower-income countries, Moldova (46), Ukraine (56) and Vietnam (59) all outperform their peers in the same income group by



Shanghai, China

at least 10%. Thus, China's progress can be seen as a harbinger for future advancements, bridging the divide between rich and poor countries – an ongoing and defining feature of the GII.

GO, GO, GOVERNMENTS AND GOVERNANCE

Governments will be crucial in this endeavour, not just in facilitating an environment conducive to research and development of innovations, but in facilitating international collaboration, and actively supporting a global innovation governance framework. Such a framework would have to be flexible enough to accommodate the dynamic nature of innovation and facilitate the mobility of scientists, funding and co-

financing schemes.

Britain's recent decision to leave the European Union (EU) is a case in point. Some “Brexiters” and other anti-EU activists have claimed that small, nimble economies are more open and better able to weather crises and therefore require less international collaboration. Indeed, the GII's research does show that small, open trading nations like Switzerland and Singapore are world leaders in innovation. But the notion that they do it while not being part of a major grouping such as the EU is to miss the bigger picture. Both are truly integrated, global markets that collaborate heavily with bigger neighbouring economies and indeed global ones. Switzerland may not be



part of the EU, but it is playing a central role in projects such as the Human Brain Project with its European partners, and builds pan-European infrastructure such as the new Gotthard tunnel.

QUALITY MATTERS

Quality is just as important as quantity of innovation. Since 2013, GII has been tracking innovation quality by looking at the level of local universities, internationalisation of local inventions and citations of research. In this regard, not only is China at the top of the middle-income group, it outscores some high-income countries in the quality of universities and research citations. A number of other top-scoring middle-income countries are helping to close

the gap between rich and poor countries, including South Africa (54), India (66) and Brazil (69); all have scores to rival China's in terms of universities and citations.

CLOSING REMARKS

Policymakers should bear in mind that policies matter, and have a key role to play in developing an innovation mindset while reducing sentiments of nationalism and fragmentation. This starts with education, where creating excitement about science and encouraging risk-taking will spark a curiosity students will carry into their working lives. This is especially crucial as innovation increasingly takes the form of management

practices and business or organisational models, beyond technical creation. Global innovation is crucial for countries to avoid low growth or mitigation scenarios but it won't come about without coordination and good policy. [isca](http://www.isca.org)

The GII is created by INSEAD, the World Intellectual Property Organisation (WIPO) and Cornell University. It covers 128 economies around the world and uses 82 indicators across a range of themes. The full report can be downloaded for free at <http://global-indices.insead.edu/gii/documents/GII-2016-brochure.pdf>.

Bruno Lanvin is the Executive Director for Global Indices at INSEAD. This article was first published by INSEAD Knowledge (<http://knowledge.insead.edu>). Reproduced with permission.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA COMMENTS ON IASB ED PROPOSED AMENDMENTS TO IFRS 3 AND IFRS 11

ISCA welcomes and supports IASB's initiative to clarify the guidance on the definition of a business and the accounting for previously-held interests. Under the existing guidance, it is challenging for preparers to distinguish between an asset acquisition and a business acquisition. ISCA believes that there are certain areas which could be enhanced and these areas are shared in more detail in the comment letter.

For more information, please visit

<http://isca.org.sg/media/779927/comment-letter-on-definition-of-a-business-and-accounting.pdf>

ASC ISSUES AMENDMENTS TO FRS 102

ASC has issued Amendments to FRS 102: Classification and Measurement of Share-based Payment Transactions, effective for annual periods beginning on or after 1 January 2018. The amendments to FRS 102: Share-based Payment clarify how to account for certain types of share-based payment transactions. Earlier application is permitted.

For more information on the Amendments to FRS 102, please visit www.asc.gov.sg/CEPafter1Jan2016



IASB REVEALS "TO-DO" LIST FOR NEXT FIVE YEARS

IASB has published the conclusions from its recent Agenda Consultation and its five-year workplan. Listening to feedback from stakeholders, IASB has confirmed that a central theme for its activities until 2021 will be "better communication" in financial statements. It aims to improve the communication effectiveness of financial statements by taking a fresh look at how financial information is presented and grouped. It will also continue to enhance disclosures and support the use of electronic reporting.

For more information, please visit

www.ifrs.org/Alerts/PressRelease/Pages/iasb-reveals-its-to-do-list-for-the-next-five-years.aspx

AUDITING AND ASSURANCE

UPDATED SAMPLE AUDITOR'S REPORTS

Auditors can refer to the sample auditor's reports in Appendices 1 and 4 of Audit Guidance Statement (AGS) 1, which have been updated to reflect the changes arising from the new and revised auditor reporting standards. These include reports for entities such as charities and societies as well as supplementary reports for banks.

For more information, please visit

<http://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2016/november/amendments-to-appendices-1-and-4-of-ags-1/>

ETHICS

ACCOUNTANCY PROFESSION CRITICAL IN FIGHT AGAINST FRAUD AND CORRUPTION

Some two years ago, following the 2014 World Congress of Accountants in Rome, Pope Francis invited thousands of professional accountants to a private audience at the Vatican and challenged the global profession's leaders to do more in the global fight against fraud and corruption. As IFAC President Olivia F. Kirtley prepares to hand her office over to President-Elect Rachel Grimes, IFAC releases her open letter to His Holiness outlining all that the profession has done to support his call to action.

For more information, please visit

www.ifac.org/news-events/2016-11/accountancy-profession-critical-fight-against-fraud-and-corruption

TECHNICAL EXCELLENCE

TECHNICAL HIGHLIGHTS

Healthcare Giant Consolidates Financial Data with Ease



CHALLENGE

A leading healthcare service provider faced a huge challenge of consolidating voluminous financial data from all its clinics across Singapore every month. Working under pressure to meet financial reporting deadlines, its finance team spent many man-hours manually extracting data from every clinic's database, tabulating it in Excel format and translating it into consolidated reports. As its existing service provider, Stone Forest IT (SFIT) was approached by the client to find a solution that would overcome this time-consuming process.

SOLUTION

After assessing the client's needs, SFIT introduced a GL consolidation module and a utility that it developed called "Consolidation Utility" into its Sage 300 accounting system. These provided the following capabilities:

- The GL consolidation module automates the process of extracting each clinic's general ledger data and importing it into a single consolidated database in Sage 300.
- The Consolidation Utility further facilitates the process by allowing general ledger data from multiple clinics' databases to be imported into Sage 300 simultaneously with just a few clicks.

RESULTS

After implementing the solution, the client enjoyed several benefits:

- Greater productivity due to time saved in the automated financial data extraction and consolidation process
- Eliminate risk of human errors that previously arose from the manual process

We tap into our intimate understanding of clients' needs and extensive experience in providing customised solutions for Sage 300 to help businesses achieve greater efficiency and productivity.

HIGHLIGHTS

Industry:
Healthcare

Location:
Singapore

Solution:
GL consolidation module
& Consolidation Utility

Results:

- Greater productivity
- Eliminate risk of human errors

STRONG AUDIT QUALITY CONTROL STRENGTHENS FIRM'S FOUNDATION

Embracing the Spirit of SSQC 1



BY
SHERYL HON

Owen had recently completed his accounting degree and was looking forward to entering the workforce. As he was getting ready for his gym session one morning, the phone rang. It was June, the Human Resource (HR) and Administrative Executive of Assurance LLP. Voila – he had secured the job!

“NORMAL” PRACTICES AT WORK

On the first day of work, June ran through with Owen the firm's office and personnel policies and procedures. He was introduced to the two audit partners of the firm as well as other colleagues. Thereafter, he was assigned a laptop and asked to familiarise himself with the firm's audit manual.

Later that day, an audit senior informed him that he was “booked” on an engagement under her charge and that they would be leaving for “fieldwork”. She instructed Owen to retrieve the past year's audit working files. His senior told him they had a pressing deadline to meet and that he was to “follow closely last year's working papers” as “there was not



PHOTO SHUTTERSTOCK



much change". Needless to say, he had minimal supervision from his senior as she was also busy with another engagement. They "pulled out" from the fieldwork a week later.

Owen's next engagement was more challenging. Not only was the engagement for Big Rock Construction Pte Ltd more complex, the client's management was difficult to handle. Compounding the problem, only the engagement partner has the relevant knowledge of the client's business and industry; the engagement team members were also not properly briefed prior to the commencement of the fieldwork.

Assurance LLP had an open culture where staff felt comfortable approaching the partners whenever they felt the need to meet, ask questions or discuss suggestions and issues. However, the partners were too swarmed with work and meetings. As such, there was a lack of proper planning discussions involving the partners and engagement team which resulted in certain issues being overlooked and not identified.

When Owen discovered missing bank statements for certain months while performing audit procedures on the cash and bank balances section, he was informed by his senior to select a replacement sample. There were many times when Owen wondered what he should be doing next; he was new but he was often left to his own devices.

Time passed quickly. In Owen's ninth month, the firm sent him for the Practical Audit Workshop 1. From the workshop, he learnt the importance


Effective implementation of SSQC 1 would provide firms with the assurance of consistency in quality across all outputs and services provided by the firm.

TECHNICAL EXCELLENCE

STRENGTHENING AUDIT QUALITY CONTROL

of developing an audit plan, and that an engagement partner's involvement is crucial at all stages of an audit. His firm had not done things this way.

Big Rock Construction was selected for regulatory inspection and the outcome was not favourable. The partner's practising licence was suspended due to repeated instances of non-compliance.

Shortly after, Owen left the firm.

This could be a common scenario at some audit firms. The harsh reality is that some practices are built on shaky foundations. What are lacking are strong audit quality control systems within the practices.

STRONG FOUNDATION, STRONG HOUSE

Let's liken a firm built on a solid foundation to a "House of SSQC 1". In the latter, there is a control system governing every aspect of the business activity from the hiring of staff and formation of an engagement team to issuance of an auditor's report.

Effective implementation of SSQC 1 would provide firms with the assurance of consistency in quality across all outputs and services provided by the firm. Here are some ways to strengthen the foundation of your firm.

1 Leadership: Tone at the top

Owen's audit partners lack a strong tone that emphasises quality in key aspects of the firm's operations and processes. For example, due to the vicious cycle of the partners' heavy workload, lack of proper staff training, and staff's seemingly weak ethical behavior, ultimately, the quality of audit engagements would suffer.

The tone from the people in leadership positions – emphasising quality – is of paramount importance in creating a culture of quality. They can be the partners, managers or any other persons to whom employees look or model after, in daily communications and actions.

It is essential to monitor each

partner's capacity to ensure that he/she can dedicate sufficient time to all their engagements, taking into consideration the risk levels and complexity of the engagements, as well as the available staff support.

2 Ethics: Workplace culture

Adequate training and a strong leadership tone promoting good ethics will help to minimise unethical behaviour in firms.

When things go wrong, an ethically strong employee will know when to make a report and will work towards a resolution while remaining professional at all times. For example, the senior and Owen will know that it is necessary to report to the engagement partner on the missing bank statements, and that the issue would warrant further investigation.

As chartered accountants, it is our responsibility to abide by the relevant professional ethics. Firms also play a part in ensuring that

every professional staff undergoes a comprehensive training session on professional independence and ethics requirements. An annual refresher course is necessary to provide a timely reminder of the importance of being independent and behaving ethically.

A culture where misconduct is tolerated could result in higher business risks and a tarnished reputation. On the other hand, firms that work hard to build and maintain ethical workplace cultures are more financially sustainable and have more motivated and productive employees.

3 Acceptance & Continuance

With a strong audit quality culture, Assurance LLP would have a more robust client/engagement acceptance and continuance process, and Big Rock Construction might not be retained by the firm.

The firm's client/engagement acceptance and continuance process is probably the most neglected

HOUSE OF SSQC 1





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One should never view SSQC 1's six elements in isolation as they are only effective when they come together as one.

area within SSQC 1. Independence requirements aside, firms should formally consider the integrity of the client and whether they have the necessary competencies within the existing staff resources to perform the engagement. No doubt fee generation is important, but accepting the right clients is even more important for the betterment and sustainability of the firm.

4 HR: Employees are the backbone of the firm

Assurance LLP does not have a proper training schedule or professional development for its staff. Upon joining the firm, Owen should have been given adequate training on the firm's audit manual and methodology before being deployed for audit assignments.

The success of a firm is linked to the

management of its staff. Adequate training (including regular and timely updates on technical and quality-related matters) and rewarding an individual's contribution to quality are two key aspects of HR.

All staff should keep abreast of changes in the relevant standards and regulations in order to deliver high-quality work. Beyond formal training programmes, this can be done through the compilation of relevant and useful resources (such as audit and accounting-related articles and publications from professional accounting bodies) for reading and knowledge-sharing among staff within the firm.

Rewarding compliance with quality through an effective and fair performance evaluation system will improve staff motivation, reinforce good behaviour and performance, and encourage staff to continue their professional development. This will improve overall morale and productivity.

5 Engagement Performance: Quality of audit engagements

All engagements that the firm

undertakes must be adequately planned, supervised and reviewed to ensure that the audit opinion issued is correct in light of the circumstances surrounding the case. The engagement partner should take responsibility for the overall quality of the engagement, despite delegating certain tasks to the engagement team members.

6 Monitoring: Quality control checks

The quality control (QC) policies and procedures are a key part of the firm's internal control system. All partners and professional staff should continually strive to meet quality and professional standards as well as the firm's guidelines. Over and above that, there must be regular QC checks to ensure that the firm and its staff meet a consistent set of standards, and that any gaps in quality are identified and promptly rectified.

Firms may appoint a partner from within a firm or a suitably-qualified external professional such as peers or professional accounting bodies to conduct the monitoring review.

SUMMARY

One should never view SSQC 1's six elements in isolation as they are only effective when they come together as one. Every firm, regardless of size, should have a QC system in place. The difference lies in the nature and extent of the firm's quality control policies and procedures. Embracing SSQC 1 creates a foundation for a sustainable future as it fosters a culture that encourages quality and ethical behaviour, attracts and retains talents, helps firms better meet the expectations of their clients and provides the leading edge necessary to succeed in a competitive marketplace.

To find out how ISCA can support your SSQC 1 implementation journey, please email qualityassurance@isca.org.sg.

Sheryl Hon is Manager and QA Reviewer, Quality Assurance, ISCA.

MUCH ADO ABOUT INSURANCE TAX PART 2

Significant Updates and Essentials



BY
FELIX WONG

Insurance is a unique business, and the tax treatment of a typical transaction for insurance companies may often be unique to the industry. To enhance clarity in this specialised industry, the Singapore Institute of Accredited Tax Professionals recently organised a *Tax Excellence Decoded* session in collaboration with tax advisors from KPMG in Singapore to provide a holistic view on the various tax considerations of insurance companies.

In the first of our two-part series focusing on the insurance sector, published in the December issue of the *IS Chartered Accountant* journal, we covered global and Singapore tax changes as well as their impact on the insurance industry. In this sequel, we will be focusing on specific Singapore tax areas including goods and services tax (GST), incentives for innovation and transfer pricing (TP).

GOODS AND SERVICES TAX

The unique nature of the insurance sector means that GST rules are sometimes different from other businesses and thus administratively cumbersome to apply in insurance





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With Singapore becoming a global leader for fintech and insurtech, the insurance industry is stepping up efforts to innovate to better serve its customers, but many in the industry may not be aware that their innovations could potentially qualify for incentives in Singapore.

business arrangements. This may be further complicated by special GST treatments designed for specific insurance types or transactions.

To help participants navigate the GST landscape, Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, highlighted common GST blind spots and errors for the insurance sector and provided valuable insights.

Life Insurance

The life insurance premium received from a policyholder belonging in Singapore is an exempt supply, while the life insurance premium received from a policyholder belonging outside Singapore is a zero-rated supply.

For GST purposes, an investment-linked policy is regarded as a single supply of life policy and exempt from GST (assuming the policyholder belongs in Singapore) if the following conditions are satisfied:

- (a) The main purpose of the policyholder is to purchase a life insurance policy and not merely an investment product;
- (b) The investment element is always provided together as a package with the life insurance contract, and
- (c) The investment-linked policy falls within the definition of “life policy”



Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, highlighted common GST blind spots and errors for the insurance sector



Accredited Tax Advisor (Income Tax) Harvey Koenig, Partner, Enterprise Incentive Advisory, KPMG in Singapore, shared his vast experience on incentives for innovations

in the Insurance Act. Any accompanying fees and charges in relation with an investment-linked policy will be treated as additional consideration for an exempt supply (assuming it is a local policyholder) arising from the provision of a life insurance contract.

Co-insurance

For co-insurance, it is a common industry practice for the lead insurer to issue invoices to policyholders

TECHNICAL EXCELLENCE

INSURANCE TAXATION

and account for the full insurance premium (including both the lead insurer and the co-insurer's share of the insurance premium) in its GST F5 returns. From a GST perspective, this is incorrect. The correct approach is for each co-insurer to account for its own share of insurance premium in its GST F5 returns.

Reinsurance Premiums

In Singapore, the GST treatment for reinsurance premiums is dependent on the belonging status of the cedant or retrocessionaire (from which the reinsurance premiums are received). Reinsurance premiums received from local cedants are exempt from GST, while those received from overseas cedants are zero-rated.

If the reinsurance contract is a worldwide contract covering several of the cedant's related companies located both in and outside Singapore, the GST treatment for the reinsurance premiums would be dependent on the belonging status of each of the cedant's related companies, notwithstanding that the contract may be signed with a local cedant. If there is a GST compliance concern, approval from the Inland Revenue Authority of Singapore (IRAS) may be sought on alternative methods of determining the GST classification of the reinsurance premiums received.

Time of Supply

It is not uncommon for insurers to report insurance premiums in their GST returns based on the time the payments are recognised as premiums in their financial statements; this is not in compliance with the time of supply rule. Insurance companies may seek IRAS' approval to deviate from the time of supply rule.

INCENTIVES FOR INNOVATION

Moving from an overview of GST to tax incentives, there are opportunities aplenty for insurance companies. With

Singapore becoming a global leader for fintech and insurtech, the insurance industry is stepping up efforts to innovate to better serve its customers, but many in the industry may not be aware that their innovations could potentially qualify for incentives in Singapore. Accredited Tax Advisor (Income Tax) Harvey Koenig, Partner, Enterprise Incentive Advisory, KPMG in Singapore, addressed this area as he shared his vast experience on incentives for innovation, particularly those applicable to the insurance sector.

Financial Sector Technology & Innovation Scheme

The Financial Sector Technology & Innovation (FSTI) scheme is generally used for three purposes:

- (i) Setting up of innovation centres in Singapore;
- (ii) Institution-level projects to catalyse the development of innovation solutions that have the potential to promote growth efficiency or competitiveness, and
- (iii) Industry-wide projects to support the building of industry-wide technology infrastructure or utility that is required for the delivery of new, integrated services.

The Monetary Authority of Singapore (MAS) has committed S\$225 million to the programme for approved projects. Insurance companies interested to tap on the FSTI scheme must apply to the MAS prior to the start of their innovation projects.

Research and Development Tax Incentive

The Research and Development (R&D) tax incentive essentially incentivises qualifying R&D projects that have an objective to acquire new knowledge or use the results of a study for production or improvement, involve novelty or technical risks and are carried out through a systematic,



“When preparing TP documentation, companies should not only focus on entity-level information; group-level information, industry analysis, functional analysis and economic analysis are equally crucial in TP documentation.”

Accredited Tax Practitioner (Income Tax)
Felicia Chia
Partner, Transfer Pricing,
KPMG in Singapore

investigative and experimental study.

To illustrate, an insurance company seeks to develop a new, cutting-edge, end-to-end on-demand technological solution for robust underwriting and policy processing in the global health insurance industry. If the solution is the first of its kind and would outperform existing disparate solutions currently available in the market, this novel R&D project could possibly qualify for the R&D tax incentive.

TRANSFER PRICING

TP is one of the key areas in the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting (BEPS) Project. As a BEPS associate, Singapore is committed to support



the key principle underlying the BEPS Project whereby profits should be commensurate with the underlying economic substance and value creation.

Transfer Pricing Documentation

Singapore currently does not have any industry-specific TP rules. All companies in Singapore are required to adhere to the arm's length principle, which is the internationally-accepted standard to guide TP. If the value of related-party transactions exceeds the minimum threshold or does not fall under any of IRAS' administrative exemptions, companies are also expected to prepare and maintain contemporaneous TP documentation. Accredited Tax Advisor (Income Tax) Geoffrey Soh, Head of Transfer Pricing, KPMG in Singapore, shared on the topic and underscored the growing emphasis by the tax authorities to make clear the entire value chain.

"When preparing TP documentation, companies should not only focus on entity-level information; group-level information, industry analysis, functional analysis and economic analysis are equally crucial in TP documentation," added Accredited Tax Practitioner (Income Tax) Felicia Chia, Partner, Transfer Pricing, KPMG in Singapore.

Common Related-Party Transactions for Insurance Companies in Singapore

Intra-group reinsurance, intra-group financing and intra-group services (such as claims and underwriting management, actuarial and legal services, and back-office administration) and investment and asset management services are some of the common related-party transactions for insurance companies in Singapore.

Singapore insurance companies receiving intra-group services from related parties, especially overseas related parties, may be asked to demonstrate the application of the "benefits test" whereby IRAS tries to ascertain that the benefits obtained by the Singapore insurance company is not too remote or incidental to its business. On the other hand, a Singapore insurance company providing intra-group services for related parties would be expected to include all relevant costs (including the oft-overlooked indirect costs) when computing service fees for the intra-group services, as well as to ensure that an arm's length mark-up has been earned.

If the intra-group services fall within the list of routine support

services in Annex C of the Transfer Pricing Guidelines, the Singapore insurance company could rely on the safe harbour rule and apply a 5% mark-up on the costs (without the need to justify the mark-up). However, if the intra-group services fall outside the safe harbour rule, the Singapore insurance company would be required to substantiate that the mark-up is at arm's length.

One key TP challenge for investment and asset management services is to decide on the appropriate TP methodology as different TP methodologies (such as cost plus method versus a fee based on a percentage of assets under management) are likely to yield very different results for such services.

As the tax world adjusts to the new world order of BEPS, it is crucial for insurance companies to stay vigilant in this time of uncertainty and to maintain ample documentation to justify their tax positions – it may just come in handy one day. **ISCA**

Felix Wong is Head of Tax, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by accredited tax professionals from KPMG in Singapore. For more tax insights, please visit www.siatp.org.sg.

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With its in-depth examination of crucial issues facing the investment management industry, this book highlights the importance of culture, with suggestions on how to lead firms through times of both adversity and prosperity. There are also detailed discussions on active portfolio management for equities as well as the ongoing debate over active versus passive management. It closes with an inquiry into the growing role of technology in the finance sector.

3

Prizes Up for Grabs

Stand to win the book of your choice! Simply email your answers to the quiz questions to comms@isca.org.sg by 24 January 2017. Please provide your full name, NRIC number, mailing address, contact number and the book you're interested in.

QUIZ

1 In "Strong Audit Quality Control Strengthens Firm's Foundation", effective implementation of SSQC 1 would provide firms with the assurance of consistency in quality across all outputs and services provided by the firm.

A True
B False

2 In "The Role of SMPs in Providing Business Support Services", research indicates that irrespective of jurisdiction, accountants - and especially SMPs - continue to be the preferred advisors of SMEs.

A True
B False

3 In "Driving Value: Risk Transparency and Culture", proper risk management and internal controls help companies understand their risk exposure with mitigating controls in place to effectively pursue their objectives.

A True
B False

CONGRATULATIONS

DECEMBER QUIZ WINNERS:

Loh Kah Poh | Yan Ko Yuen | Ong Yeow Hua
Sxxxx550-Z | Sxxxx683-A | Sxxxx801-E

Answers for December quiz: (1) B, (2) B, (3) A



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