IS Chartered Accountant

July 2017

INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

DATA ANALYTICS
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Recent Developments And Future Trends

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Practical Considerations Around BEPS In A Multinational Group

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Considerations And Implications For Reinsurers And Insurers

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MAKING MEANING OF A MURKY MESS, AND A CALL FOR SHERLOCK HOLMES

Dear members,

Today's complex business environment of breakneck speed and voluminous data can be overwhelming. But instead of feeling threatened by the emerging challenges such as those posed by disruptive technologies, businesses can tap on the exciting new opportunities available, and bring their operations to the next level.

"Data analytics" and "big data" are terms that invariably crop up when we mention "new" technologies. Broadly, data analytics refers to techniques and processes used to inspect disparate and huge data sets (big data) to uncover insights such as patterns, correlations, market trends, anomalies, and more. Data mining contributes to a better understanding of customer profiles, needs and preferences. Such intelligence provides companies with a competitive edge, as it enables businesses and services to be tailored according to customers' needs and preferences.

The efficacy of data analytics calls to mind the legendary abilities of Sherlock Holmes – the famed fictitious detective known for his superior intellect, logical reasoning and ability to solve seemingly unsolvable whodunits. Like Holmes, technology can discern patterns, connect the dots and draw conclusions based on available data. But technology can do even more, and I urge our members to use it to add value to your clients and your own organisations.

For audit in particular, data analytics has the advantage of giving more persuasive audit evidence to enhance audit quality as it can be applied at different stages of the audit. And as analysis can now be done on the entire population of transactions, it minimises sampling risk in the audit engagement.

Data analytics need not involve heavy investments in sophisticated auditing systems. Low-cost analytics platforms can serve as a viable entry point for SMPs looking to implement data analytics in their work processes; they can also turn to third-party vendors to process and analyse the data. At a time when disruptive technologies are changing conventional business models, it is critical for our members to be equipped with the skills and resources to keep up, or risk losing out. Our cover story shows you how.

The current VUCA business environment has given rise to an emerging demand for forensic accounting. Like Holmes, forensic accountants call upon their professional experiences, skills and competencies to look beyond the obvious. In the case of fraud investigations, for instance, they follow the clues to uncover financial irregularities including "lost" or "misplaced" information, thus enabling lawyers to prosecute criminals, and insurance companies and other clients to resolve disputes. In addition to helping apprehend the bad guys, forensic accountants also help to clear the names of those who have been wrongly accused of criminal wrongdoing. ISCA member Lem Chin Kok, ASPAC Head of Forensic, KPMG in Singapore, sheds light on what it takes to be a real-life Sherlock Holmes.

With white-collar crime evolving in tandem with rapid advancements in technology amid a dynamic and globalised market, ISCA is organising the inaugural Financial Forensic Conference on September 28, to update participants on the latest developments in this area. Join the financial crime compliance specialists and forensic accountants to learn how to protect your organisation against financial crimes, and help uphold Singapore's integrity as a trusted financial hub.

With the looming deadline for SGX-listed companies to issue a sustainability report by 2018, we continue the discussion to help members comply with the requirements. The Institute has been adopting sustainable business practices, including the move to a digital journal. We invite you to join us in our social responsibility efforts to go green. Our latest "Think Green, Live Green" campaign seeks to raise awareness of the ISCA Journal app and encourage our readers to care for the environment. Check out how you, too, can do your part, and be rewarded.

Have a good read!

Gerard Ee
FCA (Singapore)
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ISCA Becomes First Accountancy Body in Asia Pacific to be Full Member of Chartered Accountants Worldwide

ISCA has been admitted as a full member of Chartered Accountants Worldwide, a global body of leading chartered accountancy bodies around the world. ISCA is the first professional accountancy body in Asia Pacific, and the only body other than the founding members of Chartered Accountants Worldwide, to be accorded full membership status.

Full membership status is only accorded to accountancy bodies which have reciprocal membership agreements (RMAs) in place with at least two founding members of Chartered Accountants Worldwide. ISCA signed RMAs with Institute of Chartered Accountants in England and Wales (ICAEW) and Institute of Chartered Accountants of Scotland (ICAS) respectively in April this year. The RMAs enable eligible ISCA members to pursue ICAEW's *Associate Chartered Accountant* designation or ICAS' *Chartered Accountant* designation without having to fulfil additional professional or educational requirements.

With ISCA now a full member of Chartered Accountants Worldwide, *Chartered Accountants of Singapore* will be connected to a global network, enhancing their professional stature and employability in a globalised business world.

Lee Fook Chiew, Chief Executive Officer of ISCA, said, "Our being conferred full membership status by this prestigious global body is an endorsement by Chartered Accountants Worldwide that ISCA fulfils the highest professional, technical and ethical standards required of a professional accountancy body, bringing us on par with other leading chartered accountancy bodies around the world. This accolade enhances our prominence in the global accountancy arena, thereby bringing more international opportunities for Chartered Accountants in Singapore."

"We are also delighted to be able to open more doors for ISCA members by providing greater career mobility and international recognition through collaboration with other leading institutes of Chartered Accountants. The recent signing of the RMAs with ICAEW and ICAS is one example. We look forward to working more closely with the other Chartered Accountants Worldwide members to support, develop and promote Chartered Accountants in Asia and the rest of the world," he added.

Pat Costello, Chairman of Chartered Accountants Worldwide, said, "We are delighted ISCA has become a full Member of Chartered Accountants Worldwide. This is an important development for ISCA and marks a significant milestone for the profession. ISCA has set a great example in promoting the prestige of Chartered Accountants and the value they can offer to their organisations, and is one which we hope other chartered accountancy institutes will follow in due course."

The five founding members of Chartered Accountants Worldwide are Chartered Accountants Australia and New Zealand, ICAEW, Chartered Accountants Ireland, ICAS, and the South African Institute of Chartered Accountants.

(From left) Lee Fook Chiew, Chief Executive Officer of ISCA, receiving the Chartered Accountants Worldwide certificate for full membership from Pat Costello, Chairman of Chartered Accountants Worldwide

▲ More than 140 participants attended the forum on digital disruptors

▲ (From left) Malcolm Norquoy, ASEAN Business Head, Cognizant; Fann Kor, Director, Audit Quality and Standards Development, CPE, and Industry Support, ISCA; Lee Wai Fai, Chairman of ISCA's CFO Committee and Group CFO of UOB; Mohit Mehrotra, Strategy Consulting Leader of Deloitte Southeast Asia; Chan Yew Kiang, Partner, Assurance Services, EY; Alan Lim, ASEAN Practice Lead, IBM Blockchain & IBM Bluemix Garage, and Prof Foong Sew Bun, ISCA's CFO Committee Member and Global Head of Retail Digital Transformation, Standard Chartered Bank

Forum on Digital Disruptors

ISCA organised a forum on digital disruptors with the theme "Movers and Shakers within the Finance and Accountancy Ecosystem". The May 16 forum, which attracted over 140 professionals, covered a range of topics including the current and future state of digital disruption, the impact of disruption on the economy, advanced analytics applications and blockchain. The panel discussion explored how people can be the force behind innovation.

The event started off with a welcome address from Lee Wai Fai, Chairman of ISCA's CFO Committee and Group CFO of UOB. He introduced the current issues, such as how technology disruptions can affect organisations, and set the tone for the event proceedings.

Mohit Mehrotra, Strategy Consulting Leader of Deloitte Southeast Asia, presented on the consequences of rising digital technologies and the impact they will bring to various industries, the magnitude of change an industry can expect to face, and the imminence of this change.

Kathleen Muller, Head of Analytics and Insight, SAP Southeast Asia, gave an engaging presentation on the emergence of advanced analytics, and addressed how collecting, validating and reporting information are no longer sufficient for finance professionals in today's digital economy. She highlighted that as part of the digital transformation journey, organisations need to reimagine and define new corporate strategies, as well as rethink efficiency and compliance to ensure business performance.

The last speaker of the day was Alan Lim, ASEAN Practice Lead, IBM Blockchain & IBM Bluemix Garage. He introduced the concept of blockchain and the disruption it could bring to industries such as finance, retail, insurance, public sector and manufacturing. He shared case studies of how organisations across these industries are adopting blockchain to drive time savings and cost improvements.

The last segment of the forum was a panel discussion where panellists Chan Yew Kiang, Partner, Assurance Services, EY; Malcolm Norquoy, ASEAN Business Head, Cognizant, and Mr Mehrotra discussed how finance professionals can embrace innovation, and even be the driver for innovation within their own organisations. The discussion was moderated by Prof Foong Sew Bun, ISCA's CFO Committee Member and Global Head of Retail Digital Transformation, Standard Chartered Bank.

The event helped participants gain more knowledge on digital disruptions and potentially, enhanced opportunities for organisations to reinvent their business models.

▶ The panel discussion centred on how people can drive digital innovation

ISCA President Gerard Ee and ACCA Chief Executive Helen Brand signed the ACCA-ISCA Partnership Agreement in May 2015

ACCA-ISCA Joint Pathway Programme: Your Pathway to Greater Heights

Singapore is on track to meet its 2020 vision to transform into a leading global accountancy hub. By the end of this decade, the local accountancy sector's GDP contribution is expected to grow at rates similar to those in Australia and the United Kingdom. The demand for qualified accountants to aid this burgeoning growth will also increase.

To support Singapore's 2020 vision, ISCA entered into a partnership with the Association of Chartered Certified Accountants (ACCA) in May 2015 with the objective of strengthening the talent pool of accountants in Singapore. The ACCA-ISCA Joint Pathway Programme (JPP) seeks to engage the youth and foster their interest in the accountancy profession. It also provides the means to enhance the skills and broaden the horizons of aspiring accountants and finance professionals through high-quality training and education for students and mid-career professionals.

The JPP caters to people who wish to increase their understanding of local accounting practices (example, F4: Singapore Corporate and Business Law; F6: Singapore Taxation) as well as equip themselves with the technical skills and expertise that would open doors for them around the world.

For members, the JPP adds value through its extensive initiatives including scholarships and awards, regional internship opportunities, practical work experience and career guidance to help *CA (Singapore)* members chart a pathway for a fulfilling career in this interconnected world.

WHAT STUDENTS SAY ...

"With ISCA's expertise and contributions to F4: Corporate and Business Law and F6: Taxation, I am kept abreast of the latest developments in Singapore's legal regime and current business practices."

TAN MINGZHEN, ACCA student

"I would recommend the ACCA-ISCA Joint Pathway Programme to others as ACCA is a valuable qualification that offers one so many opportunities. The JPP provides me with a headstart towards attaining a globally recognised professional qualification without leaving home."

DERRICK CHUA, ACCA student

ACCA-ISCA JPP award winners for the ACCA March and June 2016 exams, with Soh Suat Lay, ISCA Director (Pathways Development & Qualifications) and Steve Lee, ACCA Head of Learning (third and second from left respectively)

In addition, upon completing the JPP, members will earn the ACCA-ISCA Advanced Diploma in Accounting and Business, which is equivalent to a Bachelor's degree in the UK education framework.

All students registered under ACCA at the Fundamentals level (F1 to F9 or any part thereof), from 1 July 2015, automatically qualify for the programme. This includes first-timers registering with ACCA.

Since the launch of the JPP on 1 July 2015, over 10,000 students have gone through the programme. To date, 33 awards have been jointly given out by ACCA and ISCA to students who performed well in the examination sessions held between December 2015 and December 2016. The JPP is a collaboration where more individuals will have the opportunity to fulfil their aspirations to be professional accountants, and contribute their skills and talents to the accountancy sector.

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Think Green, Live Green: Grow A

A STEP-BY-STEP GUIDE TO START GROWING YOUR TREE

1 Get Your Apple Tree Seedling

Thank you for setting up an account. You are now ready to begin and start growing your tree.

2 Locating Your Apple Tree

You will receive an apple tree seedling with a plaque labelled 'My Tree' upon registration.

3 Download the *IS Chartered Accountant Journal App*

The more friends who sign up and download the ISCA Journal App, the fuller your tree grows. You can simply download it on both iPhone and Android devices!

IS Chartered Accountant

Download on the App Store

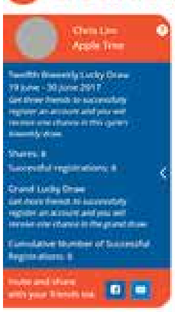
GET IT ON Google Play

4 Grow Your Apple Tree

Start sharing the site via Facebook or Email and you will be awarded a flower with the first successful share every two weeks.

To grow one apple on your tree, simply get three friends to register for an account on the Think Green, Live Green site and download the ISCA Journal App

5 Track Your Tree Planting and Win!



With every three successful registrations from your friends, you get a fuller looking tree and a higher chance of winning attractive prizes in our biweekly and grand lucky draws!

Using the statistics provided in the side bar, track your tree planting journey and lucky draw chances.

6 For more information, do check out the instructional video.

Tree and Win Attractive Prizes

Since 2015, the ***IS** Chartered **A**ccountant* journal has moved from print to digital as part of sustainable business practices. Readers can now stay updated on the latest accountancy and business news with the ISCA Journal app, available 24/7 on a myriad of digital platforms such as smartphones, tablets and laptops.

ISCA is proud to unveil its Think Green, Live Green campaign that encourages our readers to be part of ongoing efforts to care for the environment. While enjoying and sharing interesting articles from the digital journal, the Think Green, Live Green game platform lets readers participate in greening the world by growing their very own virtual tree. Keep sharing the ISCA Journal app to grow more flowers and fruits, and increase your chances to win attractive prizes in our fortnightly and grand lucky draws. The more friends you have, the fuller your tree looks!

Come and be part of the green community today! To start growing your tree, check out our Think Green, Live Green campaign site at https://thinkgreenlivegreen.isca.org.sg/.

For more information on the game rules, do check out an instructional video at https://thinkgreenlivegreen.isca.org.sg/game-rules.aspx.

For more information on the terms and conditions of the lucky draws, visit https://thinkgreenlivegreen.isca.org.sg/terms-and-conditions.aspx.

ISCA CALENDAR OF EVENTS 2017

JULY

Wednesday 12 — ISCA Breakfast Talk
An Introduction to Forensic Accounting

UPCOMING

August 16 — ISCA Breakfast Talk
Stay tuned for more details!

August 30 — ISCA Mingles
Celebrating ISCA Toastmasters 30th Anniversary

September 13 — ISCA Breakfast Talk
Stay tuned for more details!

Signature Events

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

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SIATP Diffuses Tax Complexities

▲ **Participants took the opportunity to network and expand their connections during the tea break**

▲ **The session on tax deductibility was well-received by tax professionals in commercial firms and law practices**

Amid a whirlwind of tax developments globally and locally, a series of programmes and collaborations was recently held to diffuse the confusion and aid clarity in understanding the tax implications to businesses.

One such session was the recent *Tax Excellence Decoded* (*TED*) session by a familiar name in the profession – Liu Hern Kuan, Consultant at Tan Peng Chin LLC. Covering the complexities of the deductibility of business expenses, the session was attended by both lawyers and tax professionals.

Other than tax deductibles, withholding tax is also another tax issue more and more companies face in light of the increase in global contracts, restructuring of supply chains and centralisation of corporate functions.

Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Executive Director at Crowe Horwath First Trust, was onhand at an SIATP *TED* session to share practical tips and insights on ensuring Singapore's withholding tax on relevant cross-border payments are properly accounted for. Summing up the positive feedback participants provided on the excellent coverage of the topic and how the session had heightened their existing knowledge of withholding tax, George Mathew, Accountant, Futurebooks Singapore Pte Ltd, said, "The session was well organised, very reasonably priced, the content substantial and the trainer brilliant."

It wasn't just the tax fraternity which gained a deeper understanding of tax complexities. In an ongoing partnership with the Singapore Human Resources Institute, SIATP jointly organised a session on expatriate tax. Accredited Tax Advisor (Income Tax & GST) Jack Wong presented to HR practitioners from a wide range of industries, on tax issues companies may face for inbound expatriates in areas such as compliance, fringe benefits and anti-avoidance. The fully-subscribed session heightened the awareness of tax issues pertaining to HR matters and equipped participants with valuable advice in setting their companies' international assignment policies.

For more information on how you, too, can benefit from SIATP's initiatives, email enquiry@siatp.org.sg.

▲ **Accredited Tax Advisor (Income Tax & GST) Jack Wong gave an update on the essentials of expatriate tax**

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IN TUNE

ISCA NEWS

▲ More than 80 participants attended the ISCA Economic Outlook Forum

▲ (From left) Song Seng Wun Director/ Economist, CIMB Private Banking, and Kay Van-Petersen, Global Macro Strategist, Saxo Capital Markets, at the Q&A segment

ISCA ECONOMIC OUTLOOK FORUM

Economic Recovery, Risk and Five Themes that Will Define the Future

On May 9, ISCA organised its first ISCA Economic Outlook Forum for this year. Aimed at bringing members up to speed with the economic and financial outlook for 2017, the session also shed light on new and emerging themes for the next five years. Over 80 participants heard the expert views of Song Seng Wun, Director/Economist, CIMB Private Banking, and Kay Van-Petersen, Global Macro Strategist, Saxo Capital Markets.

Mr Song presented a macro outlook for 2017, and answered a very important question – Is the global economic growth recovery still intact? While the WTO sees world trade growing by 2.4% in 2017, uncertainties still remain due to political and economic developments, especially in the US. He also touched on prominent issues such as the recent softening of commodity prices, growth trajectory of China, fragile recovery of the Eurozone, rise in US consumer spending, and finally, Singapore's external demand recovery. He rounded off his segment with the key event risks for the second half of this year.

Mr Van-Petersen took participants through the five major themes that are expected to emerge over the next five years. Covering a span of interesting and recent innovations, he imparted his knowledge on innovations including blockchain and crypto currencies, autonomous vehicles and the changes they bring to travel, the Internet of Things, and virtual and augmented reality, and demographic taxes. He used examples and illustrations to better explain these new and emerging trends, and the reasons why participants might want to consider investing in them. The examples included "50 Insane Facts about Bitcoin" and analogies for risk-reward investments versus pain-pleasure scenarios.

Rounding off the morning session was the Q&A segment where participants received answers to their burning questions. The event certainly helped participants gain insights on the economic outlook and provided them with a good sense of what to expect from the economy in the second half of the year.

ISCA BREAKFAST TALK

The Road Ahead: Market Outlook and Managing Risk in the Second Half-Year

▲ Simon Bishop, Director – Corporate Hedging (APAC), Western Union Business Solutions, touched on the various types of hedging products such as forward contracts, options and natural hedges

At the halfway mark of the year, the global economy looks more robust than it did at the start of 2017. In this dynamic and uncertain market environment, how can businesses better position themselves to manage risks and perform better than the competition?

More than 75 participants attended the June Breakfast Talk helmed by Simon Bishop, Director – Corporate Hedging (APAC), Western Union Business Solutions. He presented an overview of the current global economy, sharing several notable trends such as the falling unemployment rate in the US, and the rise in global inflation.

Mr Bishop also encouraged participants to pay considerable attention to hedging, as part of their company's risk strategy. With illustrative examples, he concluded the session by emphasising the advantages of hedging which include allowing companies to better focus on planning core business activities with minimum exposure to market fluctuations and currency volatility.

Charity Townhall Meeting V: Launch of *Accounting for Good* Publication

▲ **ISCA Vice President Kon Yin Tong sharing his thoughts on how accountants can help Charities do good better**

In conjunction with the *Accounting for Good* book launch, the Charity Townhall Meeting V, held on May 17, provided a platform for Charities to explore and identify challenges faced when engaging the services of the accountancy profession.

In his welcome address, ISCA President Gerard Ee, who is Chairman of the Charity Council, shared the importance of skills-based volunteerism in ensuring that both Charities and accountants can attain a successful partnership. For a start, Charities have to self-evaluate and identify the areas that require technical expertise. Thereafter, it is crucial to accurately match volunteers with the right skills and expertise to the most suitable project.

Mr Ee also highlighted that the volunteer accountants' skill sets and expertise, coupled with the refined Code of Governance for Charities, can contribute significantly to the governance structure of the organisation. He rounded off his address with, "It is my hope that in time to come, skills-based volunteerism will be a norm and the Charity sector will see even stronger corporate involvement."

In tandem with the Charity Council's ongoing efforts towards elevating governance standards in the Charity sector, ISCA Vice President Kon Yin Tong shared how ISCA and the accountancy profession can contribute towards making a difference. He highlighted Charities' limited resources and the increasing demand for skills-based volunteers, and encouraged more volunteer accountants to come forth and assist Charities in the adoption of good governance and financial controls.

Mr Kon said, "With their financial expertise and business acumen, together with deep-rooted values of integrity and professionalism, ISCA members who are accounting professionals possess the right skills and knowledge to make a difference to organisations in the Charity sector."

Established in 2015, ISCA Cares serves as an avenue for the accountancy profession to contribute to the community. By supporting two charitable causes, ISCA Cares provides needy youths access to education in accountancy and harnesses volunteer accountants' skill sets to give back to the community. "We hope that

▲ **(From left) Moderator Tay Woon Teck, Partner, RSM Singapore with panellists Gerard Ee, Chairman, Charity Council; Lilian Tay, Former CEO, Shared Services for Charities; Alfred Tan, CEO, Singapore Children's Society and Choo Shiu Ling, CEO, Assisi Hospice, giving their insights on the roles and challenges faced by Charities and volunteer accountants**

accountants can play a major role in helping Charities do good better; together, this will contribute towards raising the governance and management capabilities of Charities," said Mr Kon.

With a panel comprising Mr Ee; Lilian Tay, Former CEO, Shared Services for Charities; Choo Shiu Ling, CEO, Assisi Hospice, and Alfred Tan, CEO, Singapore Children's Society, the audience was treated to a robust and engaging panel discussion on the roles and challenges faced by Charities and volunteer accountants.

During the panel discussion, the audience actively participated in responding to polling questions focusing on areas such as the challenges faced when trying to engage in professional accounting services and the outreach avenues used to attract and retain volunteer accountants. The panellists broadly agreed that beyond their functional roles in accounting, accountants can contribute in other crucial fields such as strategic and financial planning. As such, it is essential for Charities to adopt an open mindset and identify areas that require improvements.

Speaking on the areas of improvement, Mr Ee urged Charities to start their data collection processes so as to allow for the provision of targeted services. Ms Choo and Mr Tan added that Charities need to be unflinchingly outcome-focused in order to stay relevant to the community. By doing so, Charities gain the trust of beneficiaries as well as volunteers who wish to give back.

Transcending the functional roles of accounting, Charities should bring to attention the vision and mission of the organisation, in addition to the areas that require support. This helps to build an amicable and sustainable relationship between Charities and accountants.

With their expertise and skill sets, accountants can play a significant role towards improving accountability and helping Charities to do good better. This will in turn contribute to the development of a strong and sustainable Charity sector.

◀ **The audience browsing through the *Accounting for Good* publication before the Charity Townhall session began**

ISCA and the Centre for Social Development (Asia), Department of Social Work, Faculty of Arts and Social Sciences, National University of Singapore (NUS), supported by the Charity Council and Chartered Institute of Management Accountants (CIMA), produced a series of articles which explored the areas where accountants can volunteer their expertise in the Charity sector in Singapore.

The seven articles, first published in the ***IS Chartered Accountant*** journal, have been compiled into an electronic book titled *Accounting for Good*. The book serves to help stakeholders understand the accountability framework of Charities and help Charities gain a better understanding of the intricacies of financial management. The chapters mainly focus on the challenges and issues faced by Charities in the areas of financial accountability, risk management, full-cost accounting and cash flow, reserves and investment management. To access the electronic title, please visit http://isca.org.sg/member-services/is-chartered-accountant-journal/accounting-for-good/.

▶ ISCA VP Kon Yin Tong addressing the participants before the start of the run

▲ The 10-kilometre category was flagged off by (from left) ISCA Advisor Teo Ser Luck, ISCA Treasurer Vincent Lim and ISCA VP Kon Yin Tong

ISCA Run 2017: A Race to the Finish

Excitement and enthusiasm filled the air as 1,300 runners gathered for the annual ISCA Run, which took place on May 27 at OCBC Square. Similar to previous years, this year's run attracted participants from all over the globe including Australia, China, Germany, Kenya, Morocco and New Zealand, and of all ages ranging from five-year-olds running in the Kids' Dash to an 81-year-old running the five-kilometre route.

The run also raised funds for charity under the auspices of ISCA Cares. Established in 2015 as an Institute of a Public Character to champion giving by the accountancy profession, ISCA Cares is focused on providing needy Singapore youths with access to a quality education in accountancy.

On the day of the run, some participants and their supporters arrived as early as 6am. By 7am, OCBC Square was packed with spirited runners. ISCA Vice President (VP) Kon Yin Tong thanked the participants for their support and said, "This is the fourth year that ISCA is organising this run, and we hope to continue doing so as it encourages healthy living and work-life balance." The run also marked the official opening of

▲ JAMES MAREGU, 1st, 10km (Men)

▲SURESH TIHJA, 1st, 5km (Men)

★

"It was a very well-organised run and a good breather away from work as we indulged in fun times with our old friends and colleagues. Definitely a wonderful end to the work week!"

BRANDON CHONG, KPMG

#ISCARun2017 Post, Like and Win Social Media Contest

Congratulations to the following three winners – Adithya Srinivasan (photo right), Lim Seukjia and Tan Kim Lee. They have won for themselves CapitaLand Mall vouchers by getting the highest number of Likes on their ISCA Run photos shared on Facebook. Check out https://www.facebook.com/ISCA.Official/ for the winning entries.

▲ NICOLE BAXTER, 1st, 10km (Ladies)

And off they went!

★

"To prepare for today's 5km race, I have been diligently going for runs and swims with my family. It's a great way to stay active and I will definitely participate in next year's ISCA Run."

LIAN THIAM KAH, 81, oldest participant

★

"As part of the EY Running Club, we usually go for weekly runs though not everyone can make it due to work commitments. I am participating in the ISCA Run for the second time. I think the event is a great opportunity for all of us to come together to keep fit and stay healthy."

JARIN TAN, 3rd, 10km (Ladies), EY

▲ Band with No Name entertained with their rendition of popular classics

Participants from Ardent, after the run

ISCA Games 2017, featuring about 16 companies competing in a wide variety of sports.

The air horn sounded again and again as ISCA Advisor Teo Ser Luck, ISCA VP Mr Kon and ISCA Treasurer Vincent Lim flagged off the 10-kilometre, five-kilometre and 500-metre Kids' Dash race categories. Thereafter, Mr Lim and his band – Band with No Name – entertained those at the race village with popular classics such as "Soldier of Fortune" and "光輝歲月".

After completing their events, the runners were treated to bananas and isotonic drinks, courtesy of our generous sponsors. While waiting to collect their finisher t-shirts, many participants took to the photo booths to commemorate the occasion. They were also snapping and uploading pictures onto their social media platforms as part of the #ISCARun Photo Contest.

At the end of the exciting and enjoyable morning, ISCA CEO Lee Fook Chiew presented the medals and prizes to the top three podium finishers for the different race categories.

ISCA would like to thank all participants for their support towards ISCA Cares, and their continuous participation which made ISCA Run 2017 a huge success.

★

"The ISCA Run serves as an excellent platform for our colleagues to bond and work out. During the run, it is the familiar faces and words of encouragement from one another that keep us going."

JOHN KAO and BRANDON TUNG, PwC

Navigating the Horizon PART 2

ISCA's Strategic Priorities towards 2020

By
LEE FOOK CHIEW

Since 2012, the Institute has been guided on its transformation journey with a strategic plan that has evolved with time. Today, we have a comprehensive strategy map built on seven strategic priorities (Figure 1) to help achieve the Institute's 2020 vision of becoming a globally recognised professional accountancy body. The seven strategic priorities also provide focus on delivering holistic and multi-faceted value to our members.

Following my article in May where I shared on two strategic priorities – "Inclusive Membership, Quality and Professional Development" and "Professional Development Pathways", I will be talking in this article about two other strategic priorities, namely, "Technical Excellence and Advocacy" and "Advance and Promote the Accountancy Profession". The remaining three strategic priorities will be covered in the November issue.

Strategic Priority 3 Technical Excellence and Advocacy

Upholding Technical Excellence

As the national accountancy body, ISCA members naturally look to the Institute for advice and support on technical matters relating to accountancy. As such, ISCA places great emphasis on building up and updating our members' technical expertise and knowledge, so as to help them gain a competitive edge in their work. In recent years, the Institute has increased the breadth and depth of its technical resources and also beefed up its technical enquiry services for our members. We strive to support our members in addressing challenges in every possible way.

ISCA's online knowledge centre and resources, such as the ***IS** Chartered Accountant* journal and the weekly newsletter entitled "Insights", keep members informed of the latest updates and developments on the technical front such as financial reporting, auditing and assurance and ethics.

ISCA also develops practical guidance and toolkits to assist members in the adoption and implementation of various standards. A recent example is the Technical Bite-Size (Tech Bites) guidance, which was developed with the support of the ISCA Financial Reporting Committee. Given that accounting standards are principles-based and not prescriptive in nature, professional judgement may be required under certain circumstances. In this respect, Tech Bites is intended to share the application of accounting principles on emerging topical issues and new standards in a more understandable and easy-to-read manner.

From time to time, ISCA also collaborates with relevant stakeholders to issue guidances and/or undertake outreach programmes on topical technical issues. For example, in partnership with the Accounting

Figure 1 ISCA's Strategic Priorities

PHOTO SHUTTERSTOCK

Standards Council (ASC), we issued the publication "IFRS Convergence – Are you on track?" dedicated to directors and CFOs of Singapore-incorporated companies listed on the Singapore Exchange (SGX) to acquaint themselves with IFRS Convergence, the key principles underpinning IFRS 1: First-time Adoption of International Financial Reporting Standards as well as its potential implications.

Similarly, ISCA seeks to play a leading role in raising awareness and enhancing the quality of sustainability reporting in Singapore. The ISCA Corporate Reporting Committee, comprising industry leaders on sustainability reporting, works closely with various stakeholders including SGX to raise awareness and the quality of sustainability reporting. Last year, we organised a Sustainability Reporting Forum, where CFOs and delegates from over 80 companies gathered to discuss the practical aspects of implementing sustainability reporting. To equip members and stakeholders with the necessary tools for implementing sustainability reporting, we organised technical sessions, and published a series of articles in the ***IS C****hartered* ***A****ccountant* journal. This year, the Committee will develop an implementation roadmap to help companies implement a robust process to support quality sustainability reporting and also organise a roundtable for CFOs.

Voice of the Profession

As the national accountancy body, ISCA represents the Singapore accountancy profession and therefore has the important role of being the voice of the profession. ISCA sees value in soliciting, consolidating and contributing our thoughts, views and insights on issues that have an impact on the profession. Having a voice helps ISCA to play a leadership role – as the national accountancy body in Singapore and as a leading professional accountancy organisation in ASEAN. It also helps bring the accountancy profession's interests to the attention of relevant national and international stakeholders and partners. Examples on how ISCA represents the profession's views include the annual ISCA Pre-Budget Roundtable, attended by a distinguished panel of accountancy and business leaders, after which the inputs and feedback received are submitted for the government's consideration in the formulation of the Singapore Budget.

We shape the formulation of accounting, auditing and assurance, and ethical standards via comment letters on exposure drafts to the International Accounting Standards Board (IASB), International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) for deliberation in their standards-setting process.

Strategic Priority 4
Advance and promote the Accountancy Profession

The accountancy profession exists to serve businesses. Businesses are now facing changes which are happening more frequently and at a much faster pace. To continue staying relevant to ever-changing business models, the accountancy profession needs to regularly upgrade and build new skills. As the national accountancy body, the profession looks to the Institute for support and development to further their career aspirations. The Institute is also responsible for regulating our members to ensure they uphold the highest professional standards. Thus, it is essential and important for the Institute to advance and promote the accountancy profession such that it is future-ready, productive and value-adding to the economy.

Build competent, future-ready profession

In her note released in May 2017 – titled "Raising the Bar, Accounting for the Future" – Indranee Rajah, Senior Minister of State for Law and Finance, emphasised the need to transform our legal and accounting sectors and to equip our legal and accounting professionals to be future-ready. This was borne out of the Working Group on Legal and Accounting Services under the Committee on the Future Economy (CFE).

With the release of the CFE's report that focuses on preparing Singapore for the future economy, ISCA sees a greater impetus to keep the profession and members informed of the changes to be anticipated in the new economy and the need to be agile and prepared for the future. ISCA launched the "Our Future Together" series in 2016. The first publication was a joint effort by ISCA and ICAEW which gathered business leaders,

including ICAEW members and accountancy students, to share their thoughts on what lies ahead for the Singapore accountancy profession. This is part of the Institute's advocacy efforts to facilitate dialogue among members and policymakers on emerging and key issues.

In early April 2017, the Institute jointly launched the second publication, "Industry Perspectives: Future of Professional Learning & Entrepreneurship" with ICAEW, which aimed to shape the discussion on how education, training and professional learning should be redefined to develop professional accountants who are future-ready. The publication highlighted that accountants of the future would have to go beyond acquiring technical competencies to develop multidisciplinary skills. This is because business issues are now getting more complex, and many require diverse perspectives and methods to solve.

With the need for multidisciplinary knowledge and skills in today's volatile, uncertain, complex and ambiguous (VUCA) environment, ISCA regularly organises events to update members on emerging industry and business trends and developments. With white-collar crime evolving in tandem with rapid advancements in technology amid a dynamic and globalised market, ISCA is organising an inaugural Financial Forensic Conference on 28 September 2017. Do join the financial crime compliance specialists and investigators, and forensic accountants to find out how to protect organisations against financial crimes and uphold the integrity of Singapore as a financial hub.

Improve productivity; move up the value chain

With rising costs, a shrinking population and the tightening of foreign labour, the government has been pushing for productivity in every industry. With this in mind, the CFE has recommended all sectors to build up strong digital capabilities, especially small and medium-sized enterprises (SMEs) which stand to benefit most in their productivity drive.

This is especially true for small and medium-sized accounting practices (SMPs), which are facing stiff competition on fees and shrinking business due to the raising of the audit exemption threshold. Furthermore, SMPs face a manpower crunch which makes it more compelling for them to automate routine job functions. This also allows them to move on to higher-value work.

SMEs, which make up over 90% of all businesses in Singapore and have been identified as a growth engine for the economy, often look to SMPs as trusted business advisors. This places SMPs in an important position of providing significant, valuable resources to support SMEs in achieving their business goals. The CFE's digital agenda for SMEs makes it incumbent now for SMPs to raise their own digital capabilities in tandem.

To help local SMPs build capabilities and improve productivity, ISCA is partnering SPRING Singapore to drive industry transformation under the Local Enterprise Association Development (LEAD) programme. SPRING has provided over $2 million in funding to ISCA, which will benefit at least 150 SMPs.

One of the key focus areas here is to encourage the mass adoption of audit software to automate internal processes, as part of the digitalisation and productivity drive. ISCA is working with a vendor to roll out the ISCA audit manual in a workflow system that can be adopted by SMPs, to raise audit quality and automate the audit processes, based on a risk-based approach. Over time, ISCA hopes that SMPs will find it useful to deploy technology to stay competitive and build sustainable practices.

As economies become more technology-driven, gone are the days of pen-and-paper bookkeeping. The role of accountants has morphed into that of a business partner and business advisor. Hence, you will have noticed that the Institute has, in recent years, been providing more business-related information and knowledge to help members carry out their role as business advisors.

One of the key topics that such advisors would increasingly need to master is technology. In May, ISCA and IBM jointly published "Blockchain: Re-imagining Multi-Party Transactions for Businesses"[1] – a publication which focuses on how blockchain can be applied to businesses, especially in highly-regulated industries like financial services, as well as key concepts in blockchain for businesses, potential use cases, and considerations for adopting the technology.

CONCLUSION

With the 2020 vision in mind, I am heartened to be part of a growing profession that strives for excellence through dynamic and innovative means. Together, let us look forward to witnessing ISCA scaling newer and greater heights as we work towards ISCA's 2020 vision of becoming a globally recognised accountancy body.

The Institute will continue to strive to be relevant to our members, the profession and the wider community. I look forward to receiving your feedback and continued support as we work towards achieving our 2020 vision. ISCA

Lee Fook Chiew is Chief Executive Officer, ISCA.

[1] www.isca.org.sg/tkc/our-future-together/publications/publications/2017/may/blockchain-re-imagining-multi-party-transactions-for-businesses/

PHOTO SHUTTERSTOCK

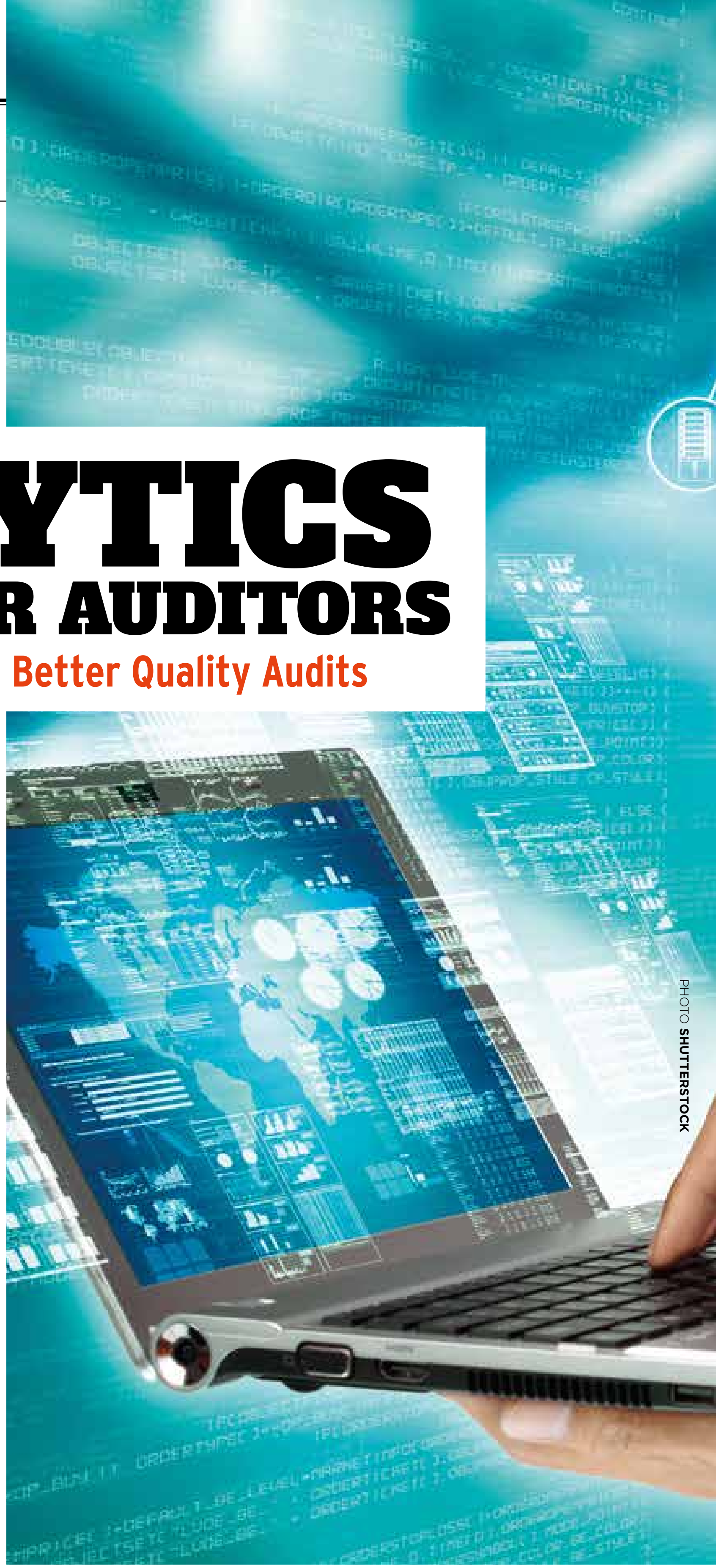
Disciplinary Findings

UPON FINDING that **Mr Lim Yeow Eng**, *CA (Singapore)*, had breached Rule 64.6 of the Institute (Membership and Fees) Rules, in that he self-petitioned as a bankrupt on 26 September 2016 and is still an undischarged bankrupt, the Disciplinary Committee ordered that his name be removed from the register and that he shall cease to be a Member of the Institute with effect from 3 May 2017.

UPON FINDING that **Mr Lim Fan**, *CA (Singapore)*, had breached Rule 64.6 of the Institute (Membership and Fees) Rules, in that he was adjudged a bankrupt on 3 November 2016 and is still an undischarged bankrupt, the Disciplinary Committee ordered that his name be removed from the register and that he shall cease to be a Member of the Institute with effect from 3 May 2017.

UPON FINDING **Ms Leow Kwee Huay**, *CA (Singapore)*, is liable for contravening Rule 64.1 read with Rule 65.2, and Rule 64.4 read with Paragraph 150.1 of the Third Schedule of the Institute (Membership & Fees) Rules, in that she had been convicted by the State Courts of the Republic of Singapore on 30 September 2013 of seven charges of forgery under Section 465 of the Penal Code (Cap. 224) and sentenced to five days imprisonment, the Disciplinary Committee ordered:

1. That pursuant to Rule 137.1.2 of the Institute (Membership and Fees) Rules, she be suspended for a period of 12 months with effect from 3 May 2017.
2. That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, she shall pay to the Institute the sum of S$4,685.42 (inclusive of 7% GST), being the costs and expenses incurred by the Institute in connection with the investigation and disciplinary proceedings undertaken against her, within 30 days of the date of this order.



DATA ANALYTICS A BOON FOR AUDITORS

Big Data, Deeper Insights, Better Quality Audits

BY
KANG WAI GEAT AND
ZOEY XIE

After returning from a fulfilling family holiday the previous night, Mr Lye was back in his office the next morning, reviewing one audit file after another to clear his logjam of work. As he paused to catch his breath after finishing another file, the forward-looking partner of a small and-medium-sized practice (SMP) saw a brochure on his desk with the words "The Power of Data Analytics" across its cover. Staring at the mountains of hardcopy audit files still waiting for him, he pondered, "What can help me to reduce the inefficiencies in traditional paper audits? How can present-day audits be made more effective?" Having attended several technology conferences and seminars, Mr Lye knew data

PHOTO SHUTTERSTOCK

analytics is the way to go for the future. However, at the back of his mind, he was conscious of the potential capital outlay and the bigger barrier – convincing his managing partner.

Most of us may have heard of "data analytics" but what exactly is it? In a nutshell, it refers to techniques and processes which mine data to discover and analyse patterns, identify outliers, extract useful information and reveal relationships from voluminously large data sets. Contrary to some beliefs, data analytics can actually be used in almost any industry, spanning retail, banking and healthcare to manufacturing and transportation. There is also a widespread misconception that data analytics can only be applied in large multinational companies with sophisticated operating systems. Nothing can be further from the truth. In fact, data analytics can be applied in any entity of any size, starting with the use of a basic analytics software. The audit industry is no different from any other industry. Although the application of data analytics in audit, sometimes also known as audit analytics, is still at its nascent stage, especially for SMPs, the growing clamour for improvements in audit quality from stakeholders, such as audit regulators and investors, has amplified the pressing need for auditors to innovate.

WHY, WHEN AND HOW OF AUDIT ANALYTICS

With the advent of data analytics, opportunities abound for the audit industry to raise its game and show that it espouses technology for the betterment of audit – both as a profession and as a service to clients. While manual audit procedures are still relevant today, there are compelling benefits to strengthen current audit procedures by investing in technology-based analytics tools – data analytics raise the quality of audits performed, boost the efficiencies of audit engagements and offer tremendous value to clients.

One important advantage is the ability of data analytics to provide more persuasive audit evidence to enhance audit quality. It can be applied at different stages of an audit, beginning with risk assessment procedures followed by test of controls, journal entry testing and even substantive testing. By employing data analytics techniques, audit teams are able to perform analyses on an entire population of transactions, rather than physically just vouch a limited number of samples. This minimises the sampling risk in an audit engagement. Moreover, data analytics can help to process voluminous data and generate analyses in the form of graphs and charts to display trends and identify anomalies. These visualisations facilitate the audit team to successfully identify dubious transactions or areas in a timelier manner. This can then be supplemented by additional procedures performed based on the results of the analyses to gather more robust audit evidence. Data analytics can also play a significant role in tailoring the audit approach to contribute to an effective audit. By analysing an extensive amount of data at the audit planning stage, warning signs on critical risk areas can be detected. These can be highlighted upfront to the auditors for necessary actions to be taken, such as to devise bespoke work steps.

… compelling benefits to strengthen current audit procedures by investing in technology-based analytics tools – data analytics raise the quality of audits performed, boost the efficiencies of audit engagements and offer tremendous value to clients.

Next, data analytics can help to substantially reduce the time and effort expended on tedious menial vouching work which can be mundane and uninspiring. Although it may not completely replace vouching work, data analytics reduces the sample size considerably and directs the audit team towards transactions with greater audit interests. Comprehensive analyses will be much more meaningful, especially for industries with a high volume of daily transactions such as in a retail business with many outlets and

extensive merchandise. Sifting through such a huge volume of data within a short period using traditional audit techniques is all but impossible.

In substantive testing, audit analytics techniques can help automate certain procedures, identify anomalies or outliers, and even quantify the exact amount of potential misstatements on 100% of the population. For example, analytics techniques can be applied to recompute monthly depreciation charges on individual asset level covering the entire population using an imported fixed asset register to assist the auditor to form an expectation and correspondingly capture the variances between the amounts posted in the general ledger by the client and the ones recomputed by the audit team. In the event of any significant differences between the depreciation expenses recorded by the entity and amount expected by the auditor, the audit team is able to investigate the reasons behind the variances on an individual asset basis. This automation will improve the quality of substantive procedures compared to the past, when high-level reasonableness tests on selected assets were performed manually. Given what audit analytics can achieve, audit work which previously took a few days to complete can now be done in a matter of hours. Audit teams can then spend quality time investigating outliers, studying trends and ultimately, identifying red flags.

INSIGHTS ABOUT RISKS AND CONTROLS

Another crucial strength of data analytics is that it can shed light on key aspects of the clients which they themselves may not be aware of. Auditors can make use of data analytics to offer valuable and unique insights into a client's risk and control environment by zooming in on transactional details which may otherwise be overlooked in traditional audits performed using manual sampling techniques. For example, journal entries entered by unauthorised users, split purchase requisitions to circumvent approval limits and customer orders which exceed credit limits are just some areas in which data analytics can be put to good use. Trend analyses which encapsulate data from various sources into a dashboard view may be especially useful for small and medium-sized enterprises (SMEs). With limited inhouse resources and expertise, SMEs may gradually have to rely more on their external auditors to provide greater insights into their companies' operational and compliance risks. Sharing such information with the clients and suggesting ways to improve their existing business processes and operations add immense value to the audit service provided.

With audit often regarded as a regulatory burden or a necessary evil, the use of data analytics presents an excellent platform for the audit industry to show that it can also be a useful partner to its clients.

By analysing an extensive amount of data at the audit planning stage, warning signs on critical risk areas can be detected. These can be highlighted upfront to the auditors for necessary actions to be taken, such as to devise bespoke work steps.

ADDRESSING ROAD BLOCKS AND MINDSETS

The road to adopting data analytics in audit is anything but a bed of roses. Beset by frequent tight reporting deadlines, coupled with financial and human resource constraints, the inertia to explore this new idea is strong. These hindrances delay the takeoff of data analytics in the audit industry. Furthermore, the lack of a proper framework to guide auditors in the application of data analytics is another major stumbling block. There is a dearth of guidance to point auditors in the right direction when they encounter practical difficulties, such as how to deal with thousands of false positives. This hardly promotes the ubiquitous use of data analytics.

Moreover, the risk of cyber attacks on enterprises cannot be underestimated. The recent high-profile, unprecedented worldwide WannaCry ransomware attack which crippled computer systems in more than 100 countries in several industries, including banks, hospitals and government agencies, is a timely wake-up call for a concerted effort to combat cyber security threats globally. Such assaults by hackers are becoming more prevalent in light of the inexorable development of exponential technologies such as blockchain, robotics and artificial intelligence. Even the information technology systems of well-established global conglomerates have been compromised, resulting in loss of confidential information.

For the auditors, cyber attacks have a profound effect on the reliability of the source data used in data analytics procedures. Corrupted or manipulated data could cause the auditors to arrive at the wrong conclusion when employing data analytics procedures. Clients may perceive the release of data to the auditors as a risk exposure; hence, they may be unwilling to do so to support the application of data analytics. However, the risk of cyber attacks can be curtailed if certain measures are taken. These include raising employee awareness of cyber security, encrypting all data and applying software updates regularly, just to name a few.

UPDATING STANDARDS

Technology is advancing by leaps and bounds. But international auditing standards still have some catching up to do. Presently, the standards have not been updated to accommodate the use of data analytics. As such, there seems to be some resistance from audit teams to incorporate data analytics as part of their audit procedures until the auditing standards are revised to provide some guidance on its use. The International Auditing and Assurance Standards Board (IAASB) has recognised the prominence of data analytics and embarked on a project to assess its impact on audits. It has set up a Data Analytics Working Group in mid-2015 to monitor developments and advise the IAASB on standard-setting impact. The Working Group has also reached out to numerous stakeholders internationally,

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including the International Federation of Accountants (IFAC) SMP Committee. The Working Group is now actively involved in multiple ongoing IAASB projects to engage in early discussions on how data analytics can be incorporated into key auditing areas such as professional scepticism, audit evidence and materiality.

While the international auditing standards do not prohibit the use of data analytics techniques in audits, the IAASB recognises that the lack of reference to data analytics in the current standards could be a barrier to more widespread adoption. Critical questions, such as what constitutes sufficient appropriate audit evidence when employing data analytics techniques and what is an appropriate level of work effort to address exceptions identified, continue to be on IAASB's agenda and these will need to be adequately dealt with before data analytics can stand any chance of being more widely adopted.

The IAASB is actively gathering information to analyse how best current auditing standards can be changed to accommodate data analytics. The following are potential areas which could be considered:

- How data analytics can be applied to different audit procedures such as risk assessment, analytical review or substantive testing, in different phases of an audit;
- Extent to which substantive audit procedures may be reduced by leveraging on data analytics;
- Documentation required on the auditor's professional judgement whether to apply data analytics in an audit engagement or not;
- Documentation required on what constitutes sufficient appropriate evidence when applying data analytics;
- Amount of work to be performed on false positives, outliers, the remaining non-outlier population and the exceptions noted;
- Procedures to test the accuracy and completeness of source data extracted from IT systems (including third-party servers) before it can be subject to data analytics procedures;
- Data retention policies, and
- Measures to be implemented by auditors to safeguard the data confidentiality so as to give clients greater assurance over data protection.

It is high time auditors acknowledge the role of technology in today's business setting and a change in mindset is pivotal to the successful implementation of data analytics in audit. The audit industry, especially the SMPs, has to start embracing the use of technology in the audit process. Employing data analytics techniques does not equate to investing in expensive, complex auditing systems. There are several emerging low-cost analytics platforms in the market which can serve as a viable entry point for the SMPs in the near future. Other than investing in a tool, there are also other practical alternatives SMPs can consider which include using third-party vendors to process and analyse data. It is therefore vital to start now – upgrading skills, rethinking processes and investing in tools. It pays to gear up early.

A few months later, Mr Lye was back in his room with a broad grin, fully vindicated of his decision to pursue data analytics. Not only did he manage to convince his managing partner to invest in an affordable data analytics tool, productivity in his firm has increased and all his clients are hugely impressed by the additional insights from the use of data analytics. ISCA

Kang Wai Geat is Deputy Director and Zoey Xie is Manager, Audit Quality and Standards Development, ISCA. **The writers express their gratitude to Sanjay Panjabi, Chairman of ISCA Auditing and Assurance Standards Committee Data Analytics Sub-Committee and SEA Audit Analytics Leader & Partner, and Tee Chong Yu, Audit Analytics Senior Manager, Deloitte Southeast Asia, for their guidance and assistance with this article.**

MEMBER PROFILE

FOLLOWING THE MONEY

Lem Chin Kok, *CA (Singapore)*, ASPAC Head of Forensic, KPMG in Singapore

BY
WANDA TAN

When the National Kidney Foundation (NKF) scandal broke in July 2005, it attracted significant public attention, caused a public outcry and led to the resignation of the then-Chief Executive Officer and its board of directors. KPMG was commissioned to perform an independent forensic audit. A comprehensive report was released in December 2005, which revealed the full scope of the malpractices that had been committed. In the ensuing aftermath, criminal and civil sentences were imposed on certain individuals, while the Charity sector was revamped to enhance accountability and transparency.

Lem Chin Kok, then the project manager of the KPMG team behind the report, believes this episode was a watershed moment for the field of forensic accountancy in Singapore. "It was big news at the time," he says of the incident. "After our investigation, public awareness of forensic accountancy grew." As did the firm's Forensic practice. "When I first joined the firm in early 2002, the Forensic team was less than a year old and consisted of only four people, including me," says the 43-year-old. Today he leads a team of about 80 people comprising accountants, lawyers, statisticians, data scientists, programmers and former police officers. "Our main objective is to find evidence from clients' accounting books and records, which may be in physical or electronic form, to substantiate whether wrongdoing exists or not," explains Mr Lem. It is a role that requires the use of logic to arrive at conclusions – and this deference to logic was what attracted him to accountancy in the first place.

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"(A forensic accountant) should be able to look at the big picture and see things from a bird's-eye view, while dealing with the nitty-gritty details at the same time."

TO CRIME-FIGHTING AND BACK AGAIN

Mr Lem knew he wanted to be an accountant back in secondary school and, given his humble family background, was intent on funding his own tertiary education. Armed with a Diploma in Accountancy from a local polytechnic, he became a police officer in 1994 and paid his own way through the Association of Chartered Certified Accountants Qualification course while working at the same time.

He was subsequently posted to the Commercial Crime Squad, specialising in white-collar crime investigation on matters such as criminal breach of trust, forgery and cheating. As a Senior Investigation Officer, the role suited him to a tee as it merged his accounting and investigative skill sets, and in fact served as his initial foray into forensic accountancy.

In 1999, Mr Lem entered the private sector and took up the role of Regional Finance Manager at a Singapore Exchange-listed communications services company. Managing the finance function of the company's overseas subsidiaries, spanning seven countries in the Asia Pacific, naturally involved a great deal of travel. While the jetsetting lifestyle was interesting at first, the would-be family man eventually grew weary of the constant flying and began looking for a new career challenge.

The answer to that came at KPMG, where he has been since 2002. Now ASPAC Head of Forensic, Mr Lem oversees the firm's Forensic practices in Asia Pacific, with Singapore and Indonesia being his direct areas of responsibility. "I still have to travel quite often but not as much as before," he happily notes. "I try to leave my weekends free to be with my wife and children, aged nine and 13, but they understand that there are times when I have to work or go out of town."

With clients ranging from government agencies to local listed companies and MNCs, Mr Lem and his team mainly investigate cases of suspected fraud, bribery and corruption, money laundering and other white-collar crimes. In particular, tightly-regulated industries – including financial services, oil and gas, and pharmaceuticals – are the ones most in need of assistance.

Besides these "bread-and-butter" activities, they also provide litigation support to help plaintiffs and defendants in court, while their colleagues strengthen their clients' control framework to improve regulatory compliance and reduce misconduct risk. "Demand for anti-money laundering

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"Being an ISCA member does provide an extra level of comfort to the market that you are of a certain calibre and that your work is up to standard."

services has increased in recent years, so knowledge about anti-money laundering and sanctions is important," adds Mr Lem.

GOING DIGITAL

Another big issue facing forensic accountants is the rise in cyberattacks. Fortunately, their Forensic practice's "early investment in technology" means that Mr Lem and his team are on the front foot in combating this problem. "During my first few years at the firm, the bulk of my work involved conducting interviews, getting confessions and obtaining source documents," he recalls. "Then, about 13 years ago, we started building our capabilities in computer forensic imaging and analysis, and about 10 years ago, in forensic data analytics." This move towards digitisation occurred just as accounting books and records were shifting from physical to electronic form, sparking a change in the way investigations would be performed in order to do them well.

Today, the majority of KPMG Forensic's investigations employ forensic technology and data analytics, and the benefits are inestimable. For example, when scrutinising the millions of transactions carried out by an MNC, forensic accountants no longer need to peruse or print out all the supporting documents. They can simply download the data, run it through advanced data analytic models, and use data visualisation tools to observe interesting patterns and correlations.

"One can get so much visibility from data analytics that otherwise would not be seen by looking only at the raw data," explains Mr Lem. In a sign of the firm's deepening embrace of technology, the Forensic team ventured into artificial intelligence – the capacity of machines to perform tasks normally done by humans – four years ago.

GETTING TO THE TRUTH

The fact that the NKF controversy occurred in Singapore – a country which enjoys a reputation for transparent financial reporting – highlights a central axiom in forensic accountancy – "Fraud is perpetrated by people," says Mr Lem. "Once people become part of the equation, anything can happen, no matter how many controls are put in place, because controls are operated by people after all."

To further prove his point, Mr Lem mentions a recent case in which they were asked to look into the accounting records of a local company that had engaged in a sale-and-leaseback arrangement for one of its properties. The company's audit committee suspected that something was amiss about the transaction, and the hunch turned out to be correct – Mr Lem and his team discovered that the firm's CEO and CFO had secretly pocketed the proceeds from the sale of the property. This is despite the fact that the sale-and-leaseback transaction and the subsequent use of the proceeds are fully supported contractually.

But it is not just the people being investigated who might be guilty of wrongdoing; sometimes the investigators themselves may not be as qualified as what they claimed to be in this niche sector. Some forensic accountants, for instance, may claim to have hard-drive forensic imaging capabilities but in reality, all they do is capture a copy of the data stored in the computer without capturing the deleted data, and the procedure is not performed in a manner that can withstand challenges in court.

"Being an ISCA member does provide an extra level of comfort to the market that you are of a certain calibre and that your work is up to standard," says Mr Lem, an invited speaker at ISCA's inaugural Financial Forensic Conference coming up this September 28. "This is especially true for auditors and bookkeepers. For forensic accountants, perhaps an additional professional qualification is needed so that clients feel confident about the quality of our work."

What makes a good forensic accountant? "He or she must be able to think a few steps ahead to foretell or anticipate the perpetrator's moves. If a perpetrator commits a fraud and he tends to also tick off all the internal controls that have been put in place, then the investigator can't detect the fraud if all he does is look out for control breaches. The investigator has to look beyond internal controls to detect fraud," explains Mr Lem. He or she should also be able to look at the big picture and see things from a bird's-eye view, while dealing with the nitty-gritty details at the same time.

"There is one more axiom that all forensic accountants would do well to remember – Every case is different. The same fraud does not happen twice, so you have to tailor each investigation in the most effective way," says Mr Lem. ISCA

Wanda Tan is a contributing writer.

Career Milestones

1994	Police Officer, Singapore Police Force
1999	Regional Finance Manager, SGX-listed company
2002	Assistant Manager, Forensic, KPMG in Singapore
2010	Partner and Head of Forensic, KPMG in Singapore
2017	ASPAC Head of Forensic, KPMG in Singapore

THE COMPLEX FUTURE TAX LANDSCAPE FOR MNCS PART 2

Practical Considerations around BEPS in a Multinational Group

BY
MIKKEL LARSEN AND AARON LEE

In Part 1 of this three-part series, published in ***IS** Chartered Accountant*, June 2017, we discussed the seriousness and impact of the changes arising from the Base Erosion and Profit Shifting (BEPS) initiative. We will now delve into the significant BEPS actions which may have a wide-ranging impact on MNC entities, and the key considerations for tax professionals.

SIGNIFICANT BEPS ACTIONS

BEPS ACTION 1: DIGITAL ECONOMY

BEPS Action 1 deals with the tax challenges brought about by the Digital Economy, an area of increasing concern as a consequence of shifts in

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Many of the recent complex tax cases arose from the splitting of profit between tax jurisdictions where the service was delivered online or through "cloud services". In addition, the issues are often amplified when charges for use of trademarks and brands are involved.

the traditional economy brought about by information and communication technology (ICT). Ring-fencing the Digital Economy by tax jurisdiction is virtually impossible. For example, online advertising, cloud computing, online payment services, e-commerce and app stores are increasingly integral parts of business models across all sectors of the economy. Some examples of the BEPS changes proposed are set out in Table 1.

Many of the complex cases recently seen arose exactly from the splitting of profit between tax jurisdictions where the service was delivered online or through "cloud services". The issues are often amplified when charges for use of trademarks and brands are involved. Tax authorities have become increasingly creative in their consideration around the placement of the servers and where the services are delivered.

Table 1 Examples of changes proposed by BEPS Action 1

Change Proposed	Example of Risk Addressed
Clarifying the definition of a Permanent Establishment (PE) to tackle artificial Digital Economy arrangements	Local subsidiary sales force of an online seller of products/services habitually playing the principal role in the conclusion of contracts (without material modification by the parent company) would result in a PE of the parent company.
Modifying the list of "preparatory or auxiliary" PE exceptions and introducing anti-fragmentation	Maintenance of a large local warehouse to store and deliver goods sold by an online seller of physical products would constitute a PE under the new standard.
Revising Transfer Pricing (TP) guidance to focus on functions/value versus pure legal ownership of intangibles	Artificial intangible property (IP) structuring, where an entity in low-tax jurisdictions own intangibles without any substantial role in developing/managing these.
Amending the definition of Controlled Foreign Company (CFC) income to capture Digital Economy income in the jurisdiction of the ultimate parent company	Limit the risk of artificial deferral of tax by utilising offshore entities in low-tax jurisdictions which do not distribute profits back to the parent company.

BEPS ACTION 7: PERMANENT ESTABLISHMENT

A Permanent Establishment (PE) may arise in a country irrespective of whether a multinational company (MNC) has a legal entity in that country, insofar as the activities carried out in the country are significant. Article 5 of the OECD Model Tax Treaty defines three types of PEs:

1. **Fixed Place of Business**
   "means a fixed place of business through which the business of an enterprise is wholly or partly carried out."

Figure 1 PE framework to support an MNC's tax position

- An **early warning system** that warns employees and managers when they are close to breaching a defined number of days that could create a PE.
- Single **vendor** for travel arrangements (example, Amex) combined with a register for travelling employees; this ensures completeness.
- Clear **policy** for travelling employees combined with training for all relevant employees.

2. **Agency PE** "where a person – other than an agent of an independent status to whom paragraph 6 applies – is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts in the name of the enterprise…"

3. **Service PE** This is where the duration of services rendered by a non-resident results in a PE since it exceeds a specified period of time.

PE has become an area of enhanced focus for tax authorities and the onus can fall on the taxpayer to document/evidence why a PE does not exist. Perhaps the best support for the MNC's tax position is to operate a strictly-enforced PE framework involving three critical elements – having an early warning system, using a single vendor and having clear policy guidance for staff (Figure 1).

The MNC must establish a "risk-tolerance level" in terms of when it believes a PE may arise. Such assessment should factor in the cost to the MNC in the event a PE does arise.

An area of concern is the widely divergent views taken by tax authorities in implementing new PE rules. Some countries provide onerous rules around "connected projects", making a PE much more likely, while others have suggested that a PE exists even when near ceremonial actions are performed by local representatives. Most difficult though is perhaps deciding on the treatment of online transactions (see section on BEPS Action 1 earlier).

BEPS ACTIONS 8-10: TRANSFER PRICING

To ensure the correct application of such Transfer Pricing (TP), OECD member countries have adopted the arm's length principle, a widely-accepted mechanism for determining an appropriate amount of profits subject to tax in each jurisdiction.

Within the Singapore TP Guidelines, the Inland Revenue Authority of Singapore (IRAS) indicates that the transfer price between related parties should be an arm's length price as if they were unrelated parties negotiating in a normal market to reduce the risk of audits and double taxation. Taxpayers should also maintain proper TP documentation to demonstrate that the pricing is at arm's length.[1]

The Singapore TP Guidelines give additional guidance to Singaporean taxpayers on applying the arm's length principle and on related documentation requirements. The IRAS also provides supplementary guidance in respect of TP for related-party loans and related-party services.

What is subject to TP?

The OECD TP Guidelines apply when:

1. Transactions take place between related parties across tax jurisdictions;
2. Two related parties within the same tax jurisdictions transact (the tax payable may not be the same where the parties are subject to a different taxation basis or one is in a tax loss position), and
3. One related party offers value to another even if this value is not being charged. For example, if subsidiaries benefit from the use of a patent or central functions.

In practice, there is some overlap among these elements and care should be taken when deciding on the proper TP methodology. For example, if professionals in the "head office" are involved in closing a revenue-generating transaction on behalf of a subsidiary, depending on an appropriate assessment, that cost can either be charged to the subsidiary or the revenue earned by the subsidiary can be shared with the head office.

The definition of a related party deviates from that used for IFRS mainly as a result of PEs being in scope for tax, and Joint Ventures and Associates being in scope for IFRS.

Establishing basic TP principles

At the core of any good TP policy are a number of basic principles for application across all transactions and all tax jurisdictions. The principles aim to articulate how the MNC intends

Table 2 Issues addressed by TP principles

Issue for consideration	Implication
What type of transactions should be subject to TP?	Will the MNC aim to develop methodologies for all commonly-shared assets including intangible ones (example, brand, innovation, etc) or take a "wait-and-see" approach?
When will the MNC use different types of methods?	Different methods exist for allocating cost and income, and although the chosen method will depend on the item and market considerations, the MNC may have a fundamental view of what type of method it would generally favour.
How often will the MNC look to update its analysis?	The frequency of updating a TP analysis and supporting documentation has implications for the implementation of a policy.

Table 3 Model template for a CbCR report

Overview of allocation of income, taxes and business activities by tax jurisdiction

Name of the MNE group: Financial year concerned: Currency used:											
Tax Jurisdiction	Revenues			Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued: Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash Equivalents
	Unrelated Party	Related Party	Total							

to meet its tax requirements. The principles ought to address issues such as those in Table 2.

The answers to these questions clearly have implication on both the risk the MNC is willing to take on but also the resources required to implement the MNC's TP framework.

The IRAS Transfer Pricing Guidelines and 2010 OECD Transfer Pricing Guidelines[2] both recognise that there are multiple methodologies that may be applicable or possible to use for a TP arrangement and mandate companies to determine the method(s) that best reflect an "arm's length transaction".

Intangible assets

The charging for use of intangible assets such as trademarks, patents, brands and conceivably even "goodwill" is perhaps the most complex and therefore acrimonious dispute with tax authorities. A prime example is the Google tax case mentioned in Part 1 of this series. The issue is more obvious where the "brand owner" is an entity placed in a country with low tax rates, where the MNC has little or no business activities and where the entity owning the brand carries out few actual activities than merely owning the brand.

It is beyond the scope of this article to discuss relevant models for the charging for use of intangible assets, but the issue is very likely to remain a centrepiece of the BEPS discussions.

BEPS ACTION 13: COUNTRY-BY-COUNTRY REPORTING

With BEPS Action 13, the OECD has recommended the introduction of Country-by-Country Reporting (CbCR) of income, taxes paid and certain measures of economic activity. CbCR requires MNCs to include detailed financial and tax information relating to the global allocation of their income and taxes, among other indicators of economic activity.

Roughly 50 countries are moving forward with BEPS reporting legislation, with many more expected to follow suit. Additionally, about 40 countries have signed the OECD's Multilateral Competent Authority Agreement on CbCR (MCAA), which calls for the automatic exchange of CbCR information among signatories.

Singapore-based MNCs meeting certain conditions[3] are required to file the relevant reports to IRAS for financial years beginning on or after 1 January 2017. This means the first required filing will be for the financial year 2017 and will be filled no later than 12 months after from the end of the parent company's financial year. Table 3 is an extract of the model template for the CbRC Report.

As can be seen in Table 3, the data provided is reasonably detailed. However, without the accompanying commentary, the information could lead to the wrong conclusions. For example, simple analysis such as tax per employee, RoE or profit before tax may vary widely between jurisdictions for multiple reasons.[4] Thus, even if BEPS states that the CbCR report should not be used by tax administrations to propose TP adjustments based on a global formulary apportionment of income, it is important that the tax functions analyse carefully what could be perceived as indications of "under payment" of tax in a jurisdiction, and look to foresee the possible questions that the delivery of the CbCR reports may cause tax authorities to ask.

CONCLUDING REMARKS

With the increasing amount of disclosure and the focus on the value chain, MNCs are well advised to develop strong documented TP pricing policies in order to tackle these action areas. At the same time, MNCs must accept that flexibility and frequent updates may be required as both the tax regulations and public sentiment may change.

In Part 3 of this series, we look at the increasing interest of senior management (and Boards), and how tax professionals can provide assurance on these BEPS matters. ISCA

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[1] IRAS e-Tax Guide – Transfer Pricing Guidelines dated 12 January 2017, 2.4

[2] OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2010; http://www.oecd.org/publications/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-20769717.htm

[3] https://www.iras.gov.sg/IRASHome/Quick-Links/International-Tax/Country-by-Country-Reporting--CbCR-/

[4] It should be noted that Section C.3, Paragraph 25 of the BEPS Action 13 final report reads, "…the information in the Country-by-Country Report should not be used as a substitute for a detailed transfer pricing analysis of individual transactions and prices based on a full functional analysis and a full comparability analysis".

INTERNATIONALISING CHINA'S CAPITAL MARKETS PART 1

Recent Developments and Future Trends

BY
REN-EN LIM

Shanghai, China

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Since its formal establishment in 1990, China's capital markets have grown in size and sophistication, with the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) now ranked as the world's fourth (amounting to US$3.87 trillion) and seventh (amounting to US$3.15 trillion) largest stock market by market capitalisation respectively.

The Chinese capital markets are moving towards greater internationalisation and liberalisation, with recent developments focusing primarily on cross-border secondary market investment schemes. Such developments will be discussed in the next issue of ***IS Chartered Accountant***.

Going forward, it is likely that China will pursue primary market connect schemes with other international stock exchanges (i.e., by allowing Chinese investors to subscribe to overseas IPOs and foreign investors to subscribe to SSE and SZSE IPOs). In addition, it has become increasingly likely that China will allow foreign companies to list on China's A-share market. These developments are discussed below.

RECENT GEO-POLITICAL AND GEO-ECONOMIC TRENDS

China has recently clamped down on capital outflows, which are motivated by concerns over (i) the decline in China's foreign reserves (which fell by approximately US$320 billion in 2016); (ii) the downward pressure exerted by the capital exodus on the RMB, and (iii) Chinese nationals ostensibly using the cover of overseas acquisitions to shift assets overseas. Reportedly, any purchases of more than US$1 billion outside an investor's core business will now be scrutinised, especially for deals involving entertainment or sports assets. According to the *Financial Times*, the tightening of capital controls led to the cancellation of overseas Chinese acquisitions of approximately US$75 billion in 2016.

Despite the tightening of capital controls, the PRC government still officially supports the "going out" policy (even if it has warned Chinese businesses to exercise prudence when acquiring foreign assets). This is further evidenced by Chinese President Xi Jinping's landmark speech at the 2017 World Economic Forum in Davos, Switzerland, where he specifically mentioned that in the coming five years, China is expected to make US$750 billion of outbound investment. In addition, China is currently in the process of negotiating bilateral investment treaties (BITs) with the US and the EU, and the successful conclusion of such BITs will

According to the *Financial Times*, the tightening of capital controls led to the cancellation of overseas Chinese acquisitions of approximately US$75 billion in 2016.

lead to more overseas investment and acquisitions by Chinese businesses. Moreover, China is pushing ahead with its One Belt, One Road (OBOR) Strategy (which aims to connect China with countries along the ancient Silk Road and a new Maritime Silk Road via infrastructure investment) and it is expected that this would lead to further overseas investment in the OBOR countries by Chinese firms.

As such, PRC policymakers are now facing a difficult balancing act – on the one hand, capital controls have to be maintained in order to maintain its foreign reserves and the value of the RMB at prescribed levels; on the other hand, such capital controls should not unnecessarily impede Chinese outbound investment. In this regard, it appears that the PRC government is currently in the process of publishing rules on outbound investment by Chinese firms which would spell out the sectors in which investment is encouraged and those which are prohibited.

At the same time, there have been increasing calls for the PRC government to ensure reciprocity in openness to foreign investment and to expand access to the Chinese market for foreign firms. There are encouraging signs that the PRC government recognises the need for reciprocity and is prepared to be more forthcoming on foreign investment and market access; for example, Chinese President Xi Jinping's 2017 Davos speech specifically stated, as follows:

"We will expand market access for foreign investors ... China will keep its door wide open and not close it. An open door allows both other countries to access the Chinese market and China itself to integrate with the world. And we hope that other countries will also keep their door open to Chinese investors and keep the playing field level for us."

[1] See, for example, President Xi's speech at the 2017 Belt and Road Forum, where he proposed the creation of new models of investment and financing, encouraged greater cooperation between government and private capital and called for the building of a regional multi-tiered capital market.

Shenzhen, China

TIME TO INITIATE PRIMARY MARKET CONNECTIONS AND ALLOW FOREIGN FIRMS TO LIST IN CHINA?

Given the current difficulties with transferring capital out of China, it is necessary to explore additional pathways for Chinese firms to raise funds in overseas markets. In addition, it is also apt for policymakers to identify ways to allow foreign firms to raise funds in China, on the basis of reciprocity and to facilitate greater investments into the Chinese market.[1]

Recent developments in this area include (i) the Proposed IPO Connect between Hong Kong and Shanghai, (ii) the proposed launching of D-shares on the China Europe International Exchange and (iii) the possible listing of foreign companies on the A-share market. Each will be explored in turn.

(a) The proposed IPO Connect between Hong Kong and Mainland China

IPO Connect (first proposed by the Hong Kong Stock Exchange (HKSE) in 2016) is a proposed scheme allowing investors in HK and Mainland China respectively to subscribe to IPOs and additional issuance of new shares in the other's stock markets. Details of IPO Connect are currently scant; however, it is expected that key issues concerning prospectus registration and cross-border regulatory approval would have to be resolved between HKSE, the China Securities Regulatory Commission (CSRC) and the Shanghai/Shenzhen Stock Exchanges.

In particular, shares offered via IPO Connect may constitute a Mainland public offering under the PRC Securities Law. As such, any IPO Connect applicant would need to have its prospectus cleared and registered with PRC regulators, in addition to going through the HKSE application and approval process (or vice versa). This will in turn make the IPO process more costly and lengthy. As such, it is likely that the prospectus approval process would be streamlined; alternatively, it has been speculated that Hong Kong-based IPO Connect applicants could initially offer their shares only to Mainland professional investors and thus be exempted from public offering and

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As such, PRC policymakers are now facing a difficult balancing act – on the one hand, capital controls have to be maintained in order to maintain its foreign reserves and the value of the RMB at prescribed levels; on the other hand, such capital controls should not necessarily impede Chinese outbound investment.

prospectus requirements under the PRC Securities Law.

Nonetheless, IPO Connect could lead to more Chinese firms listing in Hong Kong. Listing in Hong Kong will allow them to raise capital from Mainland Chinese investors, but with the added benefit that such capital raised can be easily deployed for their overseas acquisitions/investments; as there is no transfer of capital, the exchange control approvals of the PRC State Administration of Foreign Exchange will not be required.

(b) The proposed launch of D-shares on the China Europe International Exchange (CEINEX)

Based in Frankfurt, CEINEX is a joint venture between Deutsche Börse, the SSE and the SZSE. CEINEX plans to launch a market in German-listed shares of Chinese companies (which will be denominated in RMB) sometime in 2017, and such shares will fall into the category of D-shares (this refers to shares issued in Frankfurt by Chinese-registered companies). Chinese companies will have the option of either pursuing IPOs in Frankfurt alone or launch dual-class simultaneous issuance of A-shares and D-shares. Both Chinese and German regulators will have to approve listings, although the companies will continue to be governed by Chinese law.

It has been reported that a small number of companies will initially be allowed to list on CEINEX, which will probably comprise China's publicly-traded blue-chip manufacturers with a global development strategy. Any further expansion of the CEINEX scheme will likely be targeted at Chinese mid-sized firms which (unlike the largest Chinese firms) do not have ready access to large volumes of foreign exchange.

CEINEX is therefore expected to grow in importance in the future as a key platform for Chinese firms to directly raise funds and expand their acquisitions and/or investment in Europe.

(c) Possible listing of foreign companies on China's A-share market

It appears that the Chinese government is keen to re-explore ways to allow foreign companies to list in China. Such renewed enthusiasm may be driven by political considerations to demonstrate that China is assuming the mantle of globalisation at a time when Europe and the US appear to be retreating from it and to challenge the perception that China is also looking inwards with her recent tightening of capital controls.

In this regard, it was reported in March 2017 that China's State Council may soon allow foreign firms in the China (Shanghai) Pilot Free Trade Zone (Shanghai FTZ) to list on the SSE via their local Shanghai FTZ entities. Few details are currently available, and it also remains to be seen how PRC regulators will handle key differences between Chinese and foreign disclosure requirements and corporate governance policies.

Foreign companies with significant investments in China (for example, Boeing, which is building a 737 airplane completion plant in Zhoushan) will likely be preferred listing candidates (given that such companies will be more likely to utilise the IPO proceeds to fund their Chinese investments). Nonetheless, it is possible that the CSRC may limit the amount of capital which can be raised by such foreign companies, in order to (i) allay concerns that foreign listings will drain capital away from Chinese firms and (ii) prevent foreign firms from raising excessive capital and transferring it overseas (which will further exacerbate China's capital outflows).

CONCLUSION

As the new vanguard of globalisation, China's inbound and outbound direct investment will continue to rise. In turn, China's capital markets will inevitably have to be further liberalised and internationalised to support such trends. This is especially significant, given that (i) China has become the world's second-largest economy and is expected to overtake the US in size by no later than 2030 and (ii) the SSE is already ranked as the world's fourth largest stock market by market capitalisation and fifth largest by turnover, even though the Chinese capital markets have yet to be fully liberalised (the commercial opportunities resulting therefrom should certainly not be ignored). ISCA

Ren-En Lim is a lawyer who has written on developments relating to China's capital markets.

VIEWPOINT
SUSTAINABILITY REPORTING

SUSTAINABILITY REPORTING PART 5

Responsible Business Practices for SMEs

BY
CHIN CHEE CHOON AND DAVID LAI

As defined by Global Reporting Initiative (GRI), sustainability reporting (SR) is the process of understanding, communicating and monitoring of your organisation's most significant impacts on sustainability issues such as climate change, human rights, corruption and many others. In view of the current expectations in creating value for the stakeholders, SR brings clarity to both investors, stakeholders and companies alike.

Such an importance is echoed in the June 2016 announcement by the Singapore Exchange (SGX) to make it mandatory for all companies listed on SGX to issue a sustainability report by 2018.

IMPORTANCE OF SR TO SMES

Small and medium-sized enterprises (SMEs) are important to national economies and the global supply chains of large companies. In Singapore, SMEs account for approximately 99% of the workforce and contribute mostly to the Gross Domestic Product of Singapore[1].

The SR process enables companies, including SMEs, to understand how sustainability may affect their

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Sustainability reporting is the process of understanding, communicating and monitoring of your organisation's most significant impacts on sustainability issues such as climate change, human rights, corruption and many others.

businesses and helps to align strategic goals to help sustain businesses in the long run.

In an article published by GRI and International Organisation of Employers (IOE)[2], SR could assist SMEs to grow both internally and externally. Internally, it helps companies to develop its vision and strategy to promote sustainability in business operations, be it in its products or services. By developing a vision and strategy, it enhances the monitoring of progress which helps companies to not only identify its key strengths but also highlight areas for improvement to make the necessary changes. By preparing to report, it indicates that companies are also ready to discuss with the public, particularly employees, on how to tackle each issue and readily resolve them. This promotes trust between employee and employer which may improve employee retention and motivation, and attract talent.

Externally, developing vision and strategy would help align organisational objectives in the long term which would enhance reputation of the companies and hence, promote trust from stakeholders. Reputation would help companies stand out from one another, providing a competitive edge, which would attract funding vital to the longevity of a company. Public

[1] https://www.spring.gov.sg/Resources/Documents/Corp_Marketing_Brochure_Eng.pdf

[2] GRI "Small Business, Big Impact: SME sustainability reporting from vision to action"; https://www.globalreporting.org/resourcelibrary/Small%20Business%20Big%20Impact%20Booklet%20Online.pdf

SMEs have a very important part to play in building a sustainable future through responsible business practices and there is a clear business case for SMEs to be part of this great SR initiative.

discussions would help companies to receive feedback from stakeholders which may enable companies to review their processes and identify business opportunities.

THE PROCESS TO SUSTAINABILITY REPORTING FOR SMES

Given the restrictions for SMEs in terms of resources and capacity in coming up with a full-blown sustainability report, GRI has provided a guide to help SMEs draft their sustainability report. The GRI reporting process is divided into five phases:

1. Prepare

A company would first select the SR team that is familiar with the GRI Standards. Next, organise and conduct meetings with those directly involved in the reporting process to ensure that commitment is present within top management to report and act on sustainability issues identified that are relevant to the organisation and may impact business goals from environmental and social aspects. The plan should also include manpower resources, budget estimates and reporting milestones. In addition, decide whether the report would be issued as a standalone sustainability report, or be included within other reports, example, Annual Report, and will it address other standards, frameworks and regulations which the company is required to follow.

Meetings should be held with employees to communicate and help them understand the expectations set out for them while ensuring that commitment is also present across the company throughout the reporting process.

2. Connect

Identify key stakeholders to collect feedback on sustainability issues identified previously. Decide on how the collection of information should be performed while observing the objective and format of the process. The information to be collected should comprise sustainability issues that are identified as being relevant and crucial for the company to attend to. These, together with recommendations, should be reviewed before presenting to senior management who will decide on the topics to present in the sustainability report.

3. Define

It is important to define what the reporting content of the company is. A company should assess the materiality aspects of the issues that would allow it to achieve its goals in a sustainable manner, respond to the information needs of key stakeholders and manage the impacts on the economy, environment and society.

For each sustainability issue identified as relevant, assess the impacts on where they may occur, that is, internally within the company or externally with a third party that the company has a relationship with. It is crucial to prioritise each sustainability topic identified by assessing the

importance of the stakeholder's assessment and decisions, and the company's economic, environmental and social impacts. These should be supported, with reasons, about why they are perceived as "material". Materiality includes:

i) Items or issues that are or will affect the company and represent significant risks for the company's area of operation;
ii) The company's sustainability interests, topics and indicators as pointed out by stakeholders;
iii) Current discussion and areas of concern in the company's business environment, future challenges for the sector/region that are reported by peers, competitors or expert bodies with recognised credentials in the field, and
iv) Relevant laws, regulations, international agreements or voluntary agreements with strategic significance to the company and its stakeholders.

4. Monitor

The SR team members should begin to collect and analyse the information needed in order to build the context of the report. They should check whether internal systems are in place to gather the information; especially if information is not readily available, can it be gathered in time to properly monitor and report? For material aspects identified that do not have a monitoring system or policy, decide which information cannot be disclosed and provide the explanation in the report.

The SR team should establish monitoring systems to periodically check on the progress of both the sustainability performance of the material aspects and how effective the monitoring systems are.

5. Report

The last step is to complete the sustainability report, which is then publicly launched. The company should decide whether information compiled is necessary and needed to address the GRI Standards Disclosures. Information presented should be clear, concise and give a complete picture.

In conclusion, SMEs have a very important part to play in building a sustainable future through responsible business practices and there is a clear business case for SMEs to be part of this great SR initiative.

In order for this to be successful, companies cannot be indifferent to the society and environment in which they operate, and this is no different for SMEs. Peaceful conditions, a healthy environment, legal certainty and good human relations within the company are key elements of business success. SMEs can start by ensuring that their vision, mission, strategy and business model embrace responsible business practices and consider these practices as critical factors in the SME's future viability. Responsible business practices are about continuous improvement, and combined with SR, they reinforce each other, helping SMEs integrate sustainability thinking into the organisation and capture new value[3]. ISCA

This is the fifth article in the ISCA Corporate Reporting Committee's series of articles on sustainability reporting to raise awareness and quality of sustainability reporting in Singapore. The first four articles were published in the October 2016, November 2016, December 2016 and June 2017 issues of this journal.

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[3] GRI "Ready to report? Introducing sustainability reporting for SMEs"; https://www.globalreporting.org/resourcelibrary/Ready-to-Report-SME-booklet-online.pdf

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ACCOUNTANTS OPTIMISTIC: IFAC GLOBAL SMP SURVEY

Talent and Technology are Top Challenges

BY
MONICA FOERSTER AND
JOHNNY YONG

The year 2016 was a roller coaster year. Brexit, the US presidential elections, increasing nationalistic sentiments globally, and a continuing drop in trust in institutions, governments, media and communication in general and even non-governmental organisations appear to be the current in-trend. Despite external volatility and unpredictability, the IFAC Global Small and Medium Practices (SMP) Survey demonstrates some consistency and predictions for the future.

Given that more than 71% of the 5,060 respondents from 164 countries are either sole proprietors or practitioners in small firms (two to five partners and staff), the results are representative of the practice landscape in many countries (see the full report and summary for more details[1]). In addition, more than three-quarters of the respondents are a partner, owner, sole proprietor or director, and are thus highly

[1] http://www.ifac.org/publications-resources/2016-ifac-global-smp-survey-report-summary

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Reflecting an optimistic outlook, 45% of the respondents anticipate revenue to increase for advisory and consulting services (up from 44% in 2015); 44% for accounting, compilation, and other non-assurance/related services (41% in 2015), and 38% for audit and assurance services (35% in 2015).

knowledgeable about the inside workings and reality of a public practice.

MAJOR CHALLENGES FACING SMPS

The survey asked respondents the extent to which their small and medium-sized practices (SMPs) are facing 11 specific challenges. Unsurprisingly, each of these challenges was rated "moderate", "high" or "very high" – the same as in 2015 and 2014.

Consistent with 2015, attracting new clients was the number one challenge – rated high or very high by over 46% of respondents. It was among the top two challenges for Europe, Africa, Asia and the Middle East.

Keeping up with new regulations and standards and experiencing pressure to lower fees are both tied at number two, with 41% rating them as high or very high challenges. The Central and South America/ Caribbean, North America, Europe, and Australasia/Oceania regions all had keeping up with new regulations and standards in their top two challenges.

Personnel and staffing issues continue to be a perennial challenge, although for 2016, it was on a moderate scale. Some 45% of respondents stated that finding qualified staff at all levels is a high or very high challenge; 41% said retaining qualified staff at all levels is a high or very high challenge, and 35% said providing technical training is a high or very high challenge.

TECHNOLOGY CHALLENGES

For the first time, the 2016 Survey asked respondents to rate the challenge presented by seven specific technology issues.

The top four issues are investing in and staying current with software (38%); achieving a digital, paperless environment (37%); determining what technology is best for the practice (36%), and managing privacy and security risks (36%). For SMPs in Africa, these four challenges were rated higher when compared to other regions, with investing in software and going paperless at the very top of their challenges.

ENVIRONMENTAL FACTORS IMPACTING SMPS OVER THE NEXT FIVE YEARS

The survey also asked respondents for their thoughts on the practice landscape they operate in. They were asked the degree to which they believe eight specific external factors may impact their practice over the next five years. The three major factors keeping SMPs awake at night are changes in the regulatory environment (56% said high or very high impact); technological development (52%), and competition from other practices or professions (48%).

The pace of both regulatory and technological change does not seem to be slowing down. With countries like India, Malaysia and Brazil introducing new tax and corporate laws, and the US considering imposing new import taxes, small and medium-sized entities – and by default their SMP advisors – will have to navigate new legislative and/or regulatory changes. To remain trusted advisors, professional accountants must first be able to understand all the legislative and regulatory changes prior to advising their clients.

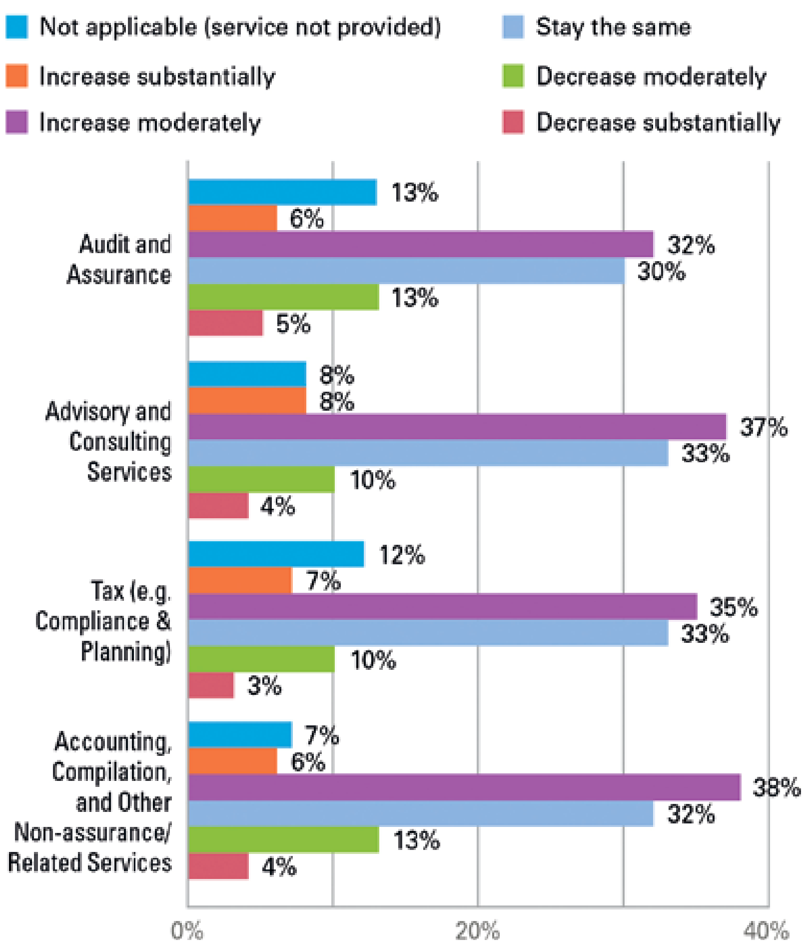
SMPS IN 2016

The survey asked how revenue had changed in 2016 compared to 2015. A slight majority (52%) reported an overall increase in practice fees, 31% indicated a decline, and 17% reported that revenue remained the same. Out of the 52% that reported an increase, about 40% reported an increase of at least 10%. Some 62% of respondents from the largest practice group (21 or more partners and staff) indicated that their firm experienced an overall increase in total fee revenues during 2016 compared to only 47% of sole practitioners. These revenue increases are even more of a significant achievement considering the backdrop of uncertainty in the global arena.

EXPECTATION FOR 2017

Reflecting an optimistic outlook, 45% of the respondents anticipate revenue to increase for advisory and consulting services (up from 44% in 2015); 44% for accounting, compilation, and other non-assurance/related services (41% in 2015), and 38% for audit and assurance services (35% in 2015). Only tax services, which includes forecast tax compliance and planning, is forecast to decrease slightly (from 44% in 2015 to 42%). With the exception of tax services, projected changes for 2017 fee revenues are slightly more upbeat when compared to the prior years' anticipation (Figure 1).

Figure 1 Expectations for 2017 Revenues



Going forward, practitioners will need to ensure that they maintain relevance by equipping themselves properly, while simultaneously helping their clients cope with an uncertain economic environment and rapid technological advances. SMPs need to consider how they can best leverage technology to reduce costs and offer value-added services to meet clients' changing demands and expectations.

For all four of the services in the survey, respondents representing the largest practice group (21 or more partners and staff) are more optimistic regarding fee increases in 2017 than those in smaller practices.

CHALLENGES FACING SME CLIENTS

An important component of the survey are the questions posed about challenges faced by small businesses – that is, SMPs' clients. Consistent with the 2015 Survey, a majority of the respondents view economic uncertainty as the topmost challenges confronting SMEs (61%), followed by rising costs (59%) and competition (53%). The strongest economic concerns are in the Central and South America/Caribbean and Africa regions, followed by Europe. This may not be surprising given that the Central and South America/Caribbean zone has faced several political and economic uncertainties and the Eurozone has struggled with economic growth for the last two years.

BUSINESS ADVISORY AND CONSULTING SERVICES

Advisory and consulting services continue to be a hot area for SMPs – only 17% of respondents do not provide any business advisory and consulting services (16% in 2015).

The most frequently-provided services this year (Figure 2) included corporate advisory (48%, up from 45% in 2015) and management accounting (46%, up from 41%). The next most-frequently provided services included human resources and employment regulatory services (30%, up from 29%), and business development (29%, up from 27%). Impressively, all these services registered an increase between 2015 and 2016.

Figure 2 Firms Offering Consulting Services

CONCLUDING REMARKS

While our results are broadly representative of the global outlook for SMPs, caution is necessary before generalising the results to specific countries, regions, or SMPs of all sizes.

However, the survey results indicate a fairly positive year for SMPs overall in 2016 given revenue increases. But, despite this, SMP and SME challenges are ever present. Going forward, practitioners will need to ensure that they maintain relevance by equipping themselves properly, while simultaneously helping their clients cope with an uncertain economic environment and rapid technological advances. SMPs need to consider how they can best leverage technology to reduce costs and offer value-added services to meet clients' changing demands and expectations.

IFAC and its member organisations, with strategic insights and advice from the IFAC SMP Committee, will continue to support the critical SMP sector, which provides the services that ensure small businesses survive and thrive around the world. But it is SMPs that will have to take the first step and ask the question, "Are we ready to embrace all these changes?"

We believe the choice has never been clearer. ISCA

Monica Foerster is Chair, Small and Medium Practices Committee, and Johnny Yong is Technical Manager, Global Accountancy Profession Support, International Federation of Accountants (IFAC). **This article originally appeared on the IFAC Global Knowledge Gateway at www.ifac.org/Gateway.**

CULTURE MATTERS

Advantages of a Strong Ethical Culture

BY ERICA SALMON BYRNE

"Culture, more than rule books, determines how an organization behaves." – Warren Buffett, from Memorandum from Warren Buffett to Berkshire Hathaway Managers (26 July 2010).

This is a lesson we have learned, relearned and will likely learn again. Regulators around the globe are increasingly calling on organisations to examine their cultures. From Enron to Volkswagen, the Challenger to WorldCom, there are multiple examples of organisations with formal systems that say one thing and cultures that promote another. When those kinds of alignment gaps are allowed to persist, you eventually have a failure of one variety or another – ethics, quality, safety or a combination of all three.

The advantages of a strong ethical culture are manifold. Studies repeatedly show that businesses with strong ethical cultures outperform those without; there are a variety of reasons underlying that performance data. Companies with stronger cultures tend to have employees who are more engaged and committed. Turnover tends to be lower and productivity higher. Customers and investors increasingly seek companies whom they believe behave ethically, as the 2015 Aflac Corporate Social Responsibility Survey showed.

PHOTO SHUTTERSTOCK

Employees at organisations with strong cultures feel less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it, allowing an organisation to address issues early, saving the organisation time (from the distraction of a substantial issue) and money (in the form of legal fees, fines and penalties). The bottom line – a company is better protected from the risks of misconduct when its culture is ethically strong.

Yet, what is culture? As Scott Killingsworth noted in "Modeling the Message: Communicating Compliance through Organizational Values and Culture", it can be easy to identify but "hard to define in a way that actually helps us change or reinforce a given culture". One good "soft" definition tells us that culture is the "set of enduring and underlying assumptions and norms that determine how things are actually done in the organisation". In other words, what levers are being pushed or pulled to accomplish the goals of the organisation? And how can an organisation best get a handle on that? *By measuring it.*

WHY MEASURE?

Measures work for several reasons. First, they focus attention on what is being measured. Provide employees with metrics that tell them whether they are succeeding, and they will try to move those metrics, especially when those metrics are included in performance evaluations and compensation settings.

Second, they signal the firm's priorities. What matters to the organisation? Most companies do

★

Ethics is the measurable differentiator.

Employees at organisations with strong cultures feel less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it.

not lack for objectives, but not every objective gets a metric. Metrics (or lack thereof) tell employees – especially newer employees – what the company really cares about. One way or another, they send a signal.

That is more important now than ever. Take 2015 as an example. It was the biggest year ever for mergers and acquisitions in the US, with just under US$5 trillion in mergers. Consider that figure from a culture perspective. How do the acquiring organisations know what kinds of culture they have brought into the fold and where to focus their time and attention?

WHAT TO MEASURE

Many organisations regularly survey employees to get a sense of their engagement. While engagement surveys are a good tool, including a handful of questions on ethics and compliance issues does not provide a complete picture.

For one thing, the answers can be biased depending on which section of the engagement survey they are placed near. Place them near compensation and benefits, or near questions about the executive leadership team, and chances are strong that the responses will be influenced one way or the other by how an employee feels about those topics.

A good culture survey focuses on eight "pillars" of culture:

1 Awareness of Programme and Resources

Measures employees' reported level of familiarity with the assets and efforts of the compliance and ethics function.

Do your employees understand all of the resources available to them? Can they identify multiple avenues to raise a concern? Do they know where to find the code and applicable policies?

2 Perceptions of the Function

Measures how employees perceive the quality and effectiveness of the ethics function's efforts in providing communications, training and support.

In other words, are your efforts reaching the intended audience? Do they see any of the assets you have deployed or are they languishing somewhere on the SharePoint site with no viewers?

3 Observing and Reporting Misconduct

Evaluates employees' level of comfort in reporting perceived misconduct, the reasons for doing so, potential reporting barriers and the preferred method for reporting.

This pillar is critical, particularly the last point. Without a good understanding of the channels being utilised by employees, how does an organisation know whether issues are surfacing? In other words, do not assume that 30 calls a year on your hotline mean all is well; over 80% of employees usually say their manager is their preferred reporting channel. Does your case management system allow for easy intake of those questions? If not, you likely have no idea what is really happening inside your organisation.

This category also measures employees' fear of retaliation, which is the number one reason traditionally provided for not raising a concern (along with, "I didn't think the company would do anything about it.")

PHOTO SHUTTERSTOCK

learn from failure, can help employees feel less psychological pressure to avoid internal attribution". Have your managers actually created an open-door environment? A well-constructed culture survey is the best way to find out.

7 Perceptions of Leadership

Also known as the "tone at the top", this category evaluates employees' perceptions of the conduct, values and communications of senior leaders.

Do employees see a gap between what is in the code of conduct and the conduct of the CFO?

8 Perceptions of Peers and Environment

This measures how employees perceive the ethical priorities of their co-workers, the values of their organisation and willingness to share opinions.

The data gathered through a good culture survey is an excellent first step towards understanding your issues and "hot spots". An effective culture assessment affords the opportunity to dive deeper. Organisations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions.

Triangulate this information with your sister control functions in audit; environment, health and safety (EH&S)/quality; finance and HR, and a strong picture of your organisation will emerge. Now you are off to fix it!

After all, what gets measured gets done. It is also important to recognise that even the best has room for improvement, so cast your fears aside and welcome the opportunity to thrive! ISCA

4 Pressure

Measures the extent and source of pressure employees may be experiencing to compromise standards in order to achieve business goals.

This is that "misalignment" mentioned above, between stated values and company goals. Measuring this metric by business unit and region is the best way to fully understand how your goals are being communicated to the field, and where to focus your audit team to check for early signs of wrongdoing.

5 Organisational Justice

Assesses employees' perceptions of whether the company holds wrongdoers accountable and the awareness of disciplinary actions taken.

It is critically important to assess what your employees believe happens when people violate ethical standards. Is there one standard for the average employee and a different one for the "golden child"? You can readily measure your ethical culture by asking people questions such as what they believe it takes to get ahead in your company.

6 Manager Perceptions

Gauges employees' perceptions of their supervisor's conduct, communication effectiveness and comfort in approaching with concerns.

As noted, upwards of 80% of employees, on average, say their manager's behaviour is what matters most in terms of ethical leadership. How are your managers making employees comfortable with "near misses" or outright failures?

As the associate editor of Harvard Business Review, Gretchen Gavett, notes, "creating a culture of psychological safety, where individuals are encouraged to acknowledge and

Erica Salmon Byrne is Executive Vice President, Governance and Compliance, The Ethisphere Institute, and Executive Director, Business Ethics Leadership Alliance. This article was first published in "Insights", the blogsite of The Ethisphere Institute on 12 March 2017. Reproduced with permission.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ANNUAL IMPROVEMENTS TO IFRS

ISCA has reservations on proposed amendments to IAS 23: Borrowing Costs and IAS 28: Investments in Associates and Joint Ventures. On IAS 23, ISCA proposes for IASB to relook the definition of a qualifying asset and provide clarity on its application in the context of IFRS 15: Revenue from Contracts with Customers. On IAS 28, ISCA does not agree with the proposed amendment whereby any long-term interests are subjected to both impairment requirements under IFRS 9 and the allocation of losses under IAS 28. ISCA proposes for long-term interest to be scoped out of IFRS 9 and only subjected to allocation of losses under IAS 28 as this would better reflect the substance of such interests being part of the equity investment.

For more information, please visit
http://isca.org.sg/media/2237960/comment-letter-on-ai-2015-2017.pdf

IASB OUTLINES STEPS TO IMPROVE DISCLOSURES IN FINANCIAL STATEMENTS

IASB published a Discussion Paper (DP) that suggests principles to make disclosures in financial statements more effective.

The DP seeks public feedback on disclosure issues the Board has identified through outreach as well as its preliminary proposals to resolve these issues. Comments are due to IASB on 2 October 2017.

For more information, please visit
http://www.ifrs.org/news-and-events/2017/03/iasb-outlines-steps-to-improve-disclosures-in-financial-statements/

IASB FINALISES FUNDAMENTAL OVERHAUL OF INSURANCE ACCOUNTING

IASB issued IFRS 17: Insurance Contracts that will help investors and others better understand insurers' risk exposure, profitability and financial position.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. It solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.

IFRS 17 has an effective date of 1 January 2021 but early application is permitted.

For more information, please visit
www.ifrs.org/Alerts/PressRelease/Pages/iasb-finalises-fundamental-overhaul-of-insurance-accounting.aspx

AUDITING AND ASSURANCE

IMPLEMENTING SSA 720 (REVISED): ANNUAL REPORT OF A STATUTORY BOARD

Annual reports of statutory boards are "other information" within the scope of SSA 720 (Revised). Auditor's responsibilities under the standard apply regardless of whether the annual report is obtained by the auditor prior to, or after, the date of the auditor's report.

For more information, please visit
http://isca.org.sg/tkc/aa/resources/practical-guidances/other-guidances/2017/june/implementing-ssa-720-revised-annual-report-of-a-statutory-board/

REGULATORY

IESBA ENHANCES CODE OF ETHICS WITH PROPOSED NEW GUIDANCE

The proposed guidance links key concepts in the IESBA's Code of Ethics for Professional Accountants (the Code) and clarifies their application, namely:

- how compliance with the fundamental principles in the Code supports professional scepticism by auditors and assurance practitioners for audit, review, and other assurance engagements, and
- the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances known to them when exercising professional judgement in applying the conceptual framework underpinning the Code.

Comments are due to IESBA on 25 July 2017.

For more information, please visit
https://www.ifac.org/news-events/2017-05/iesba-enhances-international-code-ethics-proposes-new-guidance-professional

PHOTO SHUTTERSTOCK

Stone Forest IT

Globally Connected
RSM

Scalable CRM Solution Enhances Non-profit Organisation's Productivity

CHALLENGE

The client is a non-profit organisation that provides subsidised medical treatment and actively supports medical research. As the organisation's patient and donor base grew, its existing customised applications and IT vendor were unable to keep up with operational demands. It consequently required frequent stopgap updates to its cumbersome legacy Patient Billing System (PBS) and Charity Management System (CHARMS) and identified a need to centrally manage all member and donor data. To address these issues, it turned to Stone Forest IT (SFIT) for a solution.

SOLUTION

After assessing the client's needs, organisational processes and workflows, SFIT proposed a leading user-friendly CRM solution that can be easily customised. SFIT's CRM consultants provided the client with professional advice and extended the solution's functionalities to meet its unique PBS and CHARMS requirements. The scalable solution allows:

- Huge volumes of patient and donor contact information to be easily managed as well as integration with existing and future applications
- Real-time updates of medical and donation records for sharing and archival purposes
- Integration with ERP to automate billing and track payments
- Integration with bank processes to support GIRO and credit card payment
- Integration with online systems of external organisations such as the Ministry of Health and Central Provident Fund for claims, grants and subsidies
- Robust reporting to meet strict regulatory compliance standards
- A snapshot of organisational performance at any time through a dashboard

RESULTS

Following successful implementation, the client enjoyed several benefits, including:

- Improved efficiency and productivity
- Smart, informed decision-making with quick access to all critical information
- Ease of compliance with audit trails of donations, grants and subsidies

SFIT taps into its extensive experience in delivering practical IT solutions to help organisations achieve greater efficiency and productivity through an intimate understanding of their short- and long-term needs.

HIGHLIGHTS

Industry:
NPO

Location:
Singapore

Solution:
Customer Relationship Management (CRM)

Results:

- Improved efficiency and productivity
- Smart, informed decision-making
- Ease of compliance

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REINSURANCE ACCOUNTING UNDER IFRS 17

Considerations and Implications for Reinsurers and Insurers

BY
CHEN VOON HOE AND
ANG SOCK SUN

PHOTO SHUTTERSTOCK

On 18 May 2017, the International Accounting Standards Board (IASB) finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17: Insurance Contracts. IFRS 17 continues to apply to insurance and reinsurance contracts and establishes the requirements that an entity must apply in reporting information about both insurance (or reinsurance) contracts it issues and "reinsurance contracts held". Under IFRS 17, "reinsurance contracts held" refers to a reinsurance contract where an entity is ceding risks to a reinsurer and is said to have placed an outward reinsurance. In this article, we will explore the key implications for reinsurance accounting under IFRS 17.

MEASUREMENT MODEL FOR REINSURANCE CONTRACTS ISSUED

For Reinsurers, the default measurement model of reinsurance contracts it issues (or reinsurance inwards) follow the general model applicable for direct insurance

contracts comprising the present value of fulfilment cash flows, risk adjustment and contractual service margin (CSM).

There is also the availability of the optional simplified premium allocation approach (PAA) for a reinsurance contract whose coverage period is one year or less. For reinsurance contracts with a longer coverage period, the entity can also justify the use of the PAA if the measurement results under the PAA do not differ materially from the general model.

KEY IMPLICATIONS

Eligibility of the PAA

The measurement model under the PAA is largely similar to current accounting practices for general reinsurance contracts. However, eligibility will be an issue as it is only automatically applicable for contracts which are one year or less.

Eligibility for reinsurance contracts will depend on whether the contract is loss occurring or risk attaching. For single-year loss-occurring reinsurance contracts, the coverage period can be easily defined as one year as the contract covers losses for a single-year period. For risk-attaching reinsurance however, the entity will have to look through to the underlying contracts to determine its coverage period. If the underlying pool of insurance contracts contains multi-year contracts, then the risk-attaching reinsurance contract will not be automatically eligible for the PAA.

The measurement model under the PAA is largely similar to current accounting practices for general reinsurance contracts. However, eligibility will be an issue as it is only automatically applicable for contracts which are one year or less.

For a cedant, the standard sees reinsurance contracts held and its underlying contacts as two components in their books that need to be accounted for separately. As such, the assessment of profitable and onerous contracts for the purposes of defining the level of aggregation under IFRS 17 have to be done separately.

Entities will have to make an assessment of their existing portfolio of reinsurance contracts and determine if their contracts are applicable under the PAA or the general model. If the latter is true, further justification will be required if the entity wishes to account for the reinsurance contracts under PAA. Operationally, it might be worthwhile to consider adopting the general approach for the entire portfolio of reinsurance contracts to avoid having to maintain separate models to calculate the liabilities for a portfolio of contracts.

Level of aggregation for reinsurance inwards

The standard requires the entity to determine level of aggregation for its reinsurance contract by first segregating it into portfolios of similar risks which are managed together as a pool at inception of the contract. Within that portfolio, entities will have to divide it into groups which are (i) onerous (loss making), (ii) profitable with significant risk of becoming onerous, and (iii) other profitable contracts. The objective of the standard is to separate onerous contracts from profitable ones to avoid offset within the CSM. The losses on onerous contracts have to be recognised in the profit or loss immediately.

This will introduce a new layer of complexity as entities will now have to track separately the three groups described above as part of its liabilities calculation. Whether or not there is sufficiently granular data to calculate the liabilities will be a key concern. Entities will need to start thinking about collecting the right level of data in order to meet the reporting requirements on adoption date.

MEASUREMENT MODEL FOR REINSURANCE CONTRACTS HELD

To account for reinsurance contract held, IFRS 17 requires several modifications to the general model as summarised below:

- The assumptions used to measure the fulfilment cash flows must be consistent with those used in measuring the fulfilment cash flows of the underlying insurance contracts;
- Onerous contracts guidance is not applicable for reinsurance contracts held, losses on reinsurance contracts held are deferred through the CSM and released over the period where the reinsurance service is received;
- In a case where there are gains on initial recognition of the reinsurance contract held, it is also deferred in the CSM and released over the period where the reinsurance service is received;
- Risk adjustment represents the

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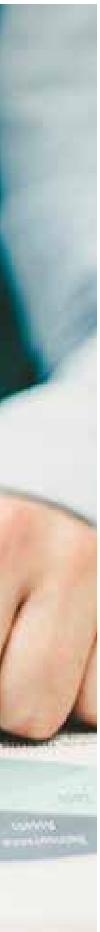

amount of risk being transferred from cedant to reinsurer;

- An allowance for expected defaults on reinsurance assets is required to be factored into the fulfilment cash flow calculations.

The optional simplified PAA is also available to reinsurance contracts held if the coverage period of the contract is one year or less. The differences between the accounting for the underlying insurance contracts and reinsurance contracts held is summarised in Figure 1.

KEY IMPLICATIONS

Level of aggregation for reinsurance contracts held

For a cedant, the standard sees reinsurance contracts held and its underlying contacts as two components in their books that need to be accounted for separately. As such, the assessment of profitable and onerous contracts for the purposes of defining the level of aggregation under IFRS 17 have to be done separately.

Similar challenges for level of aggregation as described in the previous section for reinsurance inward accounting will apply to reinsurance contracts held.

Potential mismatches in measurement between the underlying insurance contracts and reinsurance contracts held

For the underlying insurance contracts, losses on initial recognition are recognised immediately through the profit and loss as negative CSM is disallowed under the general model. Contrast this with reinsurance contracts held where gains on initial recognition are deferred through the CSM; there will be a mismatch in the timing of the gains and losses recognised in the profit and loss between the underlying insurance contracts and reinsurance contracts held especially when the underlying contracts are onerous.

Fulfilment cash flows have to incorporate expected credit losses for reinsurance assets

Cedants have to factor in the expected recovery (using probability weighted cash flow scenarios) on their reinsurance assets as a result of credit risks they are exposed to in their reinsurance contracts held.

This will be different from the current accounting practices for impairment of reinsurance assets which are generally calculated on an incurred loss basis, where provisions are only made where there is evidence of default.

Eligibility of the PAA for reinsurance contracts held

The considerations for PAA eligibility for reinsurance contracts held will be similar to reinsurance contracts inwards.

However, as the assessment of PAA eligibility for reinsurance contracts held is separate from the underlying insurance contracts, there may be instances where the reinsurance contract held will be accounted for under a different accounting model than the underlying insurance contracts. For example, this might be true when the underlying contracts are all single-year general insurance, while the reinsurance contract is a risk-attaching contract. The single-year general insurance contracts will be automatically eligible for the PAA. But because the coverage period of the risk-attaching reinsurance is determined by when the underlying contracts are added to the reinsurance arrangement, the coverage period will be more than one year and may have to be accounted for under the general model.

Figure 1 **Differences in the accounting for underlying insurance contracts and reinsurance contracts**

Underlying insurance contracts / Reinsurance inwards		Reinsurance contracts held
Cannot be negative; losses on onerous contracts are recognised immediately in profit or loss Unearned profits recognised over coverage period	**Contractual service margin (CSM)**	Gains and losses on initial recognition are deferred through the CSM Deferred gains and losses are recognised over the period reinsurance services are received
Reflect compensation entity requires for uncertainty. Quantifies the value difference between certain and uncertain liability	**Risk adjustment**	Reflects the amount of risk being transferred from the cedant to reinsurer
Present value of fulfilment cash flows – explicit, unbiased and probability weighted estimate of fulfilment cash flows	**Present value of fulfilment cash flows**	Assumptions used must be consistent with that of its underlying insurance contracts Cash flows must include expectation of credit default losses from reinsurer

CONCLUSION

In closing, this article seeks to address some of the considerations and implications that reinsurers and insurers have to think about when accounting for reinsurance contracts. We have not touched on the complexities of CSM accounting which will be more applicable for longer-term reinsurance contract and the operational, system and data challenges for the new standard as that will be a separate topic for discussion.

Reinsurers and insurers alike should start to think about the implications of IFRS 17 to their existing portfolio of contracts. An initial impact assessment will help entities chart the next steps towards final adoption in 1 January 2021. ISCA

Chen Voon Hoe is Accounting Advisory Leader, and Ang Sock Sun is Insurance Accounting and Regulatory Advisory Leader, PwC Singapore.

THE TRANSFER PRICING TRAIL

Get Clarity on TP Documentation and Dispute Resolution

BY
FELIX WONG

The Organisation for Economic Co-operation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS) project has taken the tax world by storm in recent years. Transfer pricing (TP) and dispute resolution are two key areas dealt with by the BEPS project. Specifically, Actions 8 to 10 of the BEPS project deal with aligning TP outcomes with value creation; Action 13 deals with new documentation and reporting requirements, and Action 14 seeks to make dispute resolution mechanisms more effective.

Following the finalisation of the 15 BEPS Action Plans in 2016, the BEPS project has now moved into the implementation stage. As tax authorities around the world scramble to implement the BEPS actions in their respective countries, Luis Coronado,

Since 1 January 2017, TP documentation is not required for related party loans below S$15 million where the indicative margin is used.

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Luis Coronado, Partner and ASEAN International Tax and TP Leader, Ernst & Young Solutions LLP, shared his insights on recent TP developments and dispute resolution alternatives

Partner and ASEAN International Tax and TP Leader, Ernst & Young Solutions LLP, provided a timely update on recent TP developments and dispute resolution alternatives at a *Tax Excellence Decoded* session by the Singapore Institute of Accredited Tax Professionals.

RECENT TP DEVELOPMENTS IN SINGAPORE

Functional analysis

In the latest edition of the TP guidelines published in January 2017 by the Inland Revenue Authority of Singapore (IRAS), IRAS emphasised the distinction between the assumption of risk and the capacity to bear and manage risk.

IRAS clarified that a taxpayer who assumes and mitigates risks will be expected to be entitled to greater returns compared to another taxpayer who either only assumes or mitigates risks. Accordingly, taxpayers who have Singapore-based headquarters may want to revisit and possibly re-calibrate the functional profiles of the relevant entities within the Group, taking into account the level of risks borne or managed by each entity.

In managing tax controversies, businesses need to proactively analyse their global tax footprint and spot the red flags.

Additional information requirements for TP documentation

The list of information and documents prescribed to be included in TP documentation has been expanded. Companies are now required to include in their TP documentation the Group's existing unilateral Advance Pricing Agreements (APA) and other tax rulings relating to the allocation of income among countries, existing APAs and other tax rulings to which IRAS is not a party to, as well as documents relating to the justification of the pricing and comparability adjustments performed by the taxpayer.

Enhancements to APA and MAP programmes

Changes have been made to the unilateral APA and Mutual Agreement Procedure (MAP) programmes.

The most notable change under the unilateral APA programme is the compulsory spontaneous exchange of information (EOI) between IRAS and other tax jurisdictions, subject to conditions in the relevant tax treaties or applicable EOI instrument. Given that foreign tax jurisdictions will now have access to unilateral APAs agreed with IRAS (and vice versa), businesses should evaluate how this change may impact them and manage the corresponding risks early.

For MAP, taxpayers are informed that accepting the outcome of a TP audit with a foreign tax authority will make it difficult for IRAS to have an unprejudiced negotiation with the foreign tax authority to eliminate double taxation arising from the said audit. Taxpayers should consider carefully the implications of their decisions and actions at each stage of the dispute resolution process, as each course of action may have an implication on the future availability and usefulness of other dispute resolution alternatives.

Safe harbour for related party loans

Since 1 January 2017, TP documentation is not required for related party loans below S$15 million where the indicative margin is used. Such loans can be excluded from the aggregation of other related party transactions for which preparation of TP documentation is required. The indicative margin is published on the IRAS website and will be updated at the beginning of each year.

New reporting requirement for related party transactions

With effect from Year of Assessment (YA) 2018, IRAS introduced a new form for the reporting of related party transactions (RPT Form). A company will need to submit the completed RPT Form together with its income tax return if the value of related party transactions in the company's audited accounts for the financial year exceeds S$15 million.

Companies with significant related party transactions are encouraged to prepare a sample RPT Form to ensure that their accounting systems are able to generate the figures for disclosure in the subsequent formal submission of the RPT Form, if required. There should be consistency

[1] Under a secondary mechanism, if the ultimate parent entity of a MNE group is in a jurisdiction that does not require CbC reporting, the responsibility of preparing the CbC report could automatically rest with the next-tier parent company in the group or with an appointed group company located in a jurisdiction that requires CbC reporting.

PHOTO SHUTTERSTOCK

between the related party disclosures in the company's audited accounts and RPT Form/contemporaneous TP documentation. Where there are differences in the disclosures (for example, due to different definition of related party from an audit perspective and a TP perspective), companies must be able to reconcile and explain such differences.

CbC Reporting

In keeping with Singapore's commitment to implement certain measures under the BEPS project, Singapore-headquartered tax resident multinational enterprises (MNEs) with consolidated group revenue in the preceding financial year (FY) of at least S$1,125 million are required to prepare and file country-by-country (CbC) reports to IRAS for FY beginning on or after 1 January 2017.

As some jurisdictions have implemented CbC reporting for FY2016, to avoid the need for Singapore-headquartered MNEs to file their CbC reports with foreign tax authorities during the transitional period under the secondary mechanism[1], IRAS has clarified that Singapore-headquartered MNEs may voluntarily file their CbC reports for FY2016 to IRAS.

It is worth noting that certain jurisdictions have specific filing notification requirements which require the group companies of an MNE to inform them the location where the MNE will be filing its CbC report. As such, Singapore-headquartered MNEs need to monitor the notification requirements in their countries of operation and ensure that the relevant tax authorities are notified before the specific due dates, to avoid non-compliance issues or penalties.

MNEs which are required to file CbC reports should consider conducting readiness assessments to identify and resolve any information-gathering (and consistency thereof) issues early. One way is to prepare a mock-up of the CbC report based on existing data and evaluate the robustness of the tax and TP policies. In evaluating their existing policies, MNEs should ensure that the policies reflect the actual conduct of their group companies.

DISPUTE RESOLUTION ALTERNATIVES AND TRENDS

In a globalised economy, international double taxation may result where two jurisdictions seek to tax the same transaction or activities.

One of the most common mechanisms to resolve cross-border tax disputes is the MAP. While there are obvious benefits to the MAPs, taxpayers often have to devote significant resources as they are often long-drawn affairs that may stretch over a number of years. MAPs also do not appear to be widely used within the Asia-Pacific region, unlike in countries such as the United States and Germany.

As part of its vision to improve dispute resolution mechanisms, OECD has set minimum standards and best practices for tax authorities under its BEPS project. The minimum standards commit BEPS associate countries (including Singapore) to give access to MAP and to ensure a timely and principled resolution of MAP cases. In addition, OECD also provided for a peer review and monitoring system where tax authorities are rated by their foreign counterparts (as well as taxpayers) to ensure compliance to the minimum standards.

To tackle cases where the relevant tax authorities are unable to reach an agreement within a reasonable timeframe (say, two years), OECD has proposed for a mandatory binding arbitration regime for such situations. It remains to be seen whether arbitration will be widely adopted by countries as some may consider it as an impingement on sovereignty.

A surge in tax controversies is expected as tax authorities gain access to new sources of information through mechanisms such as the automatic EOI and CbC reporting. In managing tax controversies, businesses need to proactively analyse their global tax footprint and spot the red flags. It is also important that they are familiar with the various dispute resolution mechanisms available for different circumstances. As the stake gets higher and the challenge gets tougher, it is imperative for the tax function to continually evolve. It is also important to engage the relevant competent authorities at the onset of any cross-border enquiry and thereafter, proactively support the enquiry process with high-quality information. ISCA

Felix Wong is Head of Tax, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Luis Coronado, Partner and ASEAN International Tax and TP Leader, Ernst & Young Solutions LLP. For more tax insights, please visit www.siatp.org.sg.

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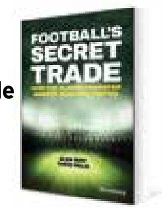
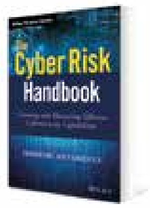


Football's Secret Trade

Alex Duff, Tariq Panja
ISBN: 978-1-119-14542-4
S$41.68 including GST

Player transfers that began in 1893 to compensate smaller clubs are now treated as investment opportunities, especially in deals involving star players. Millions of dollars spent by loyal fans are not supporting the sport but accumulating in offshore bank accounts. This book exposes how investors have taken control of the transfer market away from clubs. It reveals how clubs are speculating on the transfer market instead of spending money on academies to develop their own players – ultimately benefiting the investors.



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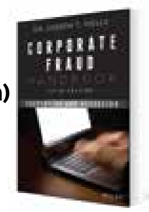

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CONGRATULATIONS

JUNE QUIZ WINNERS:

Loo Chee Fong Sxxxx271H	**Liang Hui** Sxxxx241B	**Foo Feng Ying Amelin** Sxxxx771D

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

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QUIZ

1 In "Data Analytics a Boon for Auditors", by analysing an extensive amount of data at the audit planning stage, warning signs on critical risk areas can be detected.

A True
B False

2 In "The Transfer Pricing Trail", since 1 January 2017, TP documentation is not required for related party loans below S$15 million where the indicative margin is used.

A True
B False

3 In "Internationalising China's Capital Markets", there are encouraging signs that the China government recognises the need for reciprocity and is prepared to be more forthcoming on foreign investment and market access.

A True
B False