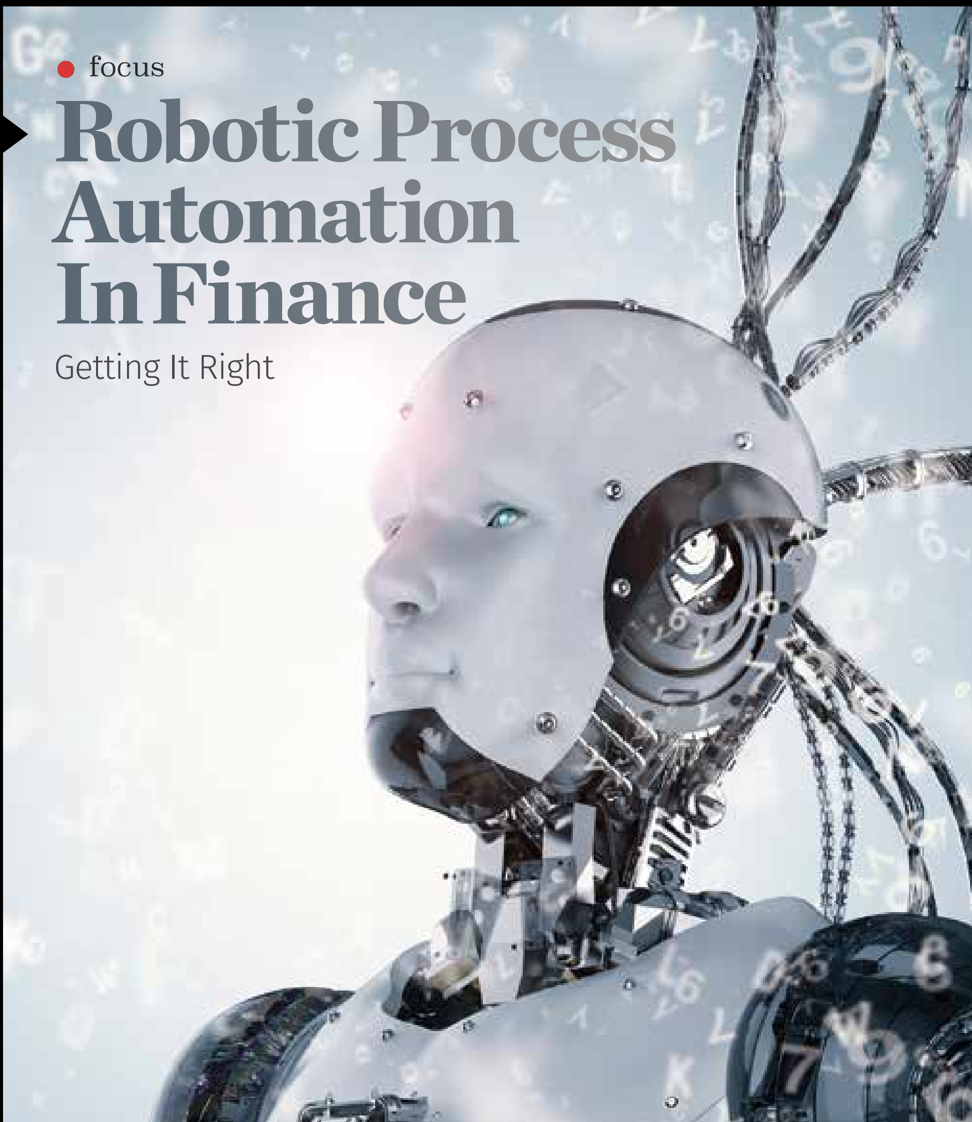
ISCA Chartered Accountant Journal
APRIL 2018



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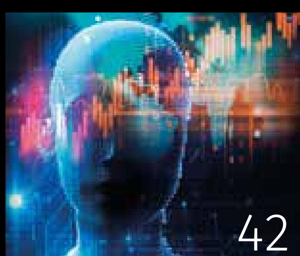
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Dear members,

THE BUSINESS LANDSCAPE HAS CHANGED OVER THE YEARS. Today, things are moving at a breakneck speed and it is important to adapt and keep up, or risk falling behind. With this in mind, five years ago in 2013, the Institute celebrated its 50th anniversary with a new name – Institute of Singapore Chartered Accountants (ISCA) - along with a new logo. This journal was also revamped as ***IS C**hartered **A**ccountant*, with a title that includes the ISCA acronym. The content was expanded to include varied accounting and business-related topics tailored to our membership base of audit and accountancy professionals. Since then, the journal has evolved to become one of the major sources of business and accounting information that our members rely on.

Just as how the Institute is committed to continually transform itself to better support our members, the journal is again being refreshed to appeal to new and existing readers. From this April issue, it will sport a new masthead, different fonts and design elements that definitively mark it as a journal. The contents of each issue are presented upfront, on the cover, in an organised, reader-friendly manner. The inside pages gravitate towards international trends in design, with a neater presentation that includes the use of modular and flexible design elements and two families of fonts. Looks aside, the journal continues to be filled with updates and resources that are directly relevant to members.

Increasingly, companies are adopting technological innovations to boost productivity. The cover story, "Robotic Process Automation in Finance", looks at how robotic process automation (RPA) is being used by businesses to perform a range of tasks from customer service to transactional activities and insights generation. With RPA's capability to offer improved business efficiency, data security and effectiveness by mimicking human actions and automating repetitive tasks across multiple business applications, it can be used in finance and accounting functions to optimise processes. Find out more about RPA. Be friends with technology, and discover how this rising trend can be leveraged to benefit your operations or your clients' businesses.

RPA is said to have the potential to disrupt entire business functions across all companies and sectors. Putting aside any negative connotations of the word "disrupt", we are faced with the exciting prospects offered by emerging technologies. In the article "The Future of Audit", a group of aspiring young accountants and auditors envisioned how the future of audit, and the profession, will become. Through an artificial intelligence perspective, they focused on how accounting processes can be simplified and streamlined, and how applied data-driven analytics and insights can deliver future solutions to current real-world challenges. This project – a collaboration between Deloitte and SMU School of Accountancy – and other similar projects are aimed at helping our future accounting professionals develop a rigorous understanding of the key emerging drivers of change, preparing them for the complexities of the business arena when they join the workforce.

In our regular Member Profile column featuring members who have worked in the ASEAN region outside Singapore, Eric Yeo talks about how best to embrace new experiences, as he did when he was based in Manila, Philippines.

I, too, will be embracing new experiences after I step down as ISCA President in April, after the ISCA Annual General Meeting. During my tenure, the Institute has made headway in embracing technology – the majority of our members have opted for the digital version of the journal; the ISCA library for e-learning has more than 400 courses for members, and resources for technical reports and standards are available online; the Institute also implemented a new CRM system which allows us to better understand members' needs, to name a few examples. Also during my tenure, the Institute took great strides in raising the profile of ISCA and the CA (Singapore) designation globally, expanding our members' access to other markets.

We are now on the cusp of our 2020 vision. I am confident that under the guidance of the Council and with our members' support, we will achieve our vision.

It has been my privilege to serve you these last four years, and I thank you for your support.

Gerard Ee
FCA (Singapore)
president@isca.org.sg

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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Record Profits for Big Companies; Less Sterling Results for SMEs

SINGAPORE'S TOP 1,000 COMPANIES (S1000) enjoyed their most successful year ever, with a double-digit increase taking their combined profits to a record high. The S1000 companies generated a combined profit of S$182.8 billion this year, compared to S$165.4 billion in 2017, an increase of 10.5%.

Between 2013 and 2018, the combined profits of the S1000 companies increased by S$36.0 billion. This equates to a five-year compounded annual growth rate of 4.5%, with the bulk of the increase coming in the last three years (Figure 1).

Finance companies were the most profitable, with each company recording an average profit of S$811.5 million, followed by the Property sector, with an average profit per company of S$428.6 million. The Electricity/Gas/Water sector had the largest increase in average profits per company – a 30.2% improvement to an average of S$198.8 million per company this year. The next largest increase was in the Commerce/Wholesale sector whose profit per company increased by 29.4% to S$106.4 million.

According to James Gothard, General Manager, Credit Services & Strategy SEA, Experian, rising profits among Singapore's top companies will have a flow-on effect to the wider economy. "As large companies see their bottom line improve, they are more likely to pursue growth strategies. This means further expansion into international markets, increased spending on wages and employment, as well as opportunities for smaller firms to supply their goods and services," he says.

SME 1000 performance

While the S1000 companies enjoyed a record year, it was a different story for the SME 1000 companies, which include the largest mid-sized businesses in Singapore.

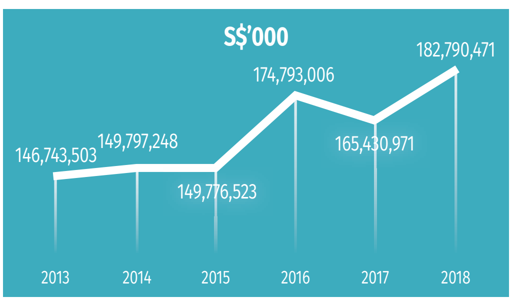
The combined turnover of the SME 1000 fell by 11.8% from S$30.2 billion in 2017 to S$26.7 billion in 2018. Profits also declined during the ranking period, from a combined S$3.5 billion in 2017 to S$2.9 billion in 2018, a drop of 17.1%.

Transport/Storage SMEs fared the worst with a 24.6% decrease in combined turnover, resulting in a 53.8% drop in combined profits. The Commerce/Wholesale sector recorded a 17.8% drop in combined turnover and a 22.7% decline in combined profits. The performance of both these sectors is linked to international trading conditions.

The Commerce/Retail, Construction and Manufacturing sectors achieved higher profits despite having lower turnover. These three sectors where among the most affected by changes to foreign labour policies. Their profitability gains are a sign they have lifted their efficiency either through cost savings or productivity improvements.

Profits
With a double-digit increase taking their combined profits to a record high, the S1000 companies generated a combined profit of S$182.8 billion this year, compared to S$165.4 billion in 2017, an increase of 10.5%.

Figure 1 Singapore 1000 combined profits 2013-2018



"SMEs are emerging from a difficult period which is reflected in the SME 1000 results this year," comments Mr Gothard. "Many SMEs struggled against factors beyond their control including slow GDP growth, weak global trade, and the need to invest in technology and productivity improvements in response to manpower restrictions."

"One positive sign is the increased profits of industries affected by foreign labour policies, such as retail, construction and manufacturing. Restricted access to foreign labour has likely forced these companies to focus on productivity. They have now emerged as more competitive, efficient and profitable."

"Hospitality and F&B SMEs are performing strongly, confirming Singapore's attractiveness as a holiday destination with a unique food culture," he adds.

The Singapore 1000, SME 1000 and Singapore International 100 are ranked and published by DP Information Group with EY as Co-Producer. It is supported by the Singapore Business Federation, IE Singapore, SPRING Singapore, ACRA and IMDA. To create the rankings, DP Info uses its unique databases of the financial returns of more than 70,000 companies, including thousands which are voluntarily submitted and are unavailable through public sources.

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BUSINESS EMINENCE AWARDS 2017 SINGAPORE

Singapore is World's Top "Smart City": Juniper Research

SINGAPORE'S SMART NATION VISION has made significant headway, given its top ranking in a smart cities study by Juniper Research. Sponsored by Intel, the study lists the top 20 cities in terms of how they employ the Internet of Things (IoT) technologies, such as connected sensors, meters and lights to collect and analyse data to improve public infrastructure and services. These technologies hold the promise to dramatically change the way citizens live, work and get around.

The study found that Chicago, London, New York, San Francisco and Singapore are the world's leading cities integrating IoT technologies and connected services. These cities stand out because of their cohesive efforts to connect city municipalities, businesses and their citizens to address a growing need to improve "liveability" – specifically around mobility (San Francisco and Singapore), healthcare (London and Singapore), public safety (Chicago, New York and Singapore), and productivity (Chicago, London and Singapore) – as they transition to a smarter, more connected environment. Significantly, Singapore topped all the four key areas measured in the study.

According to Windsor Holden, head of forecasting and consultancy, Juniper Research, "We can't overlook the importance of the real human benefits that smart cities have. Connected communities, municipal services and processes have a powerful impact on a citizen's quality of life." In Singapore, for example, the use of IoT-enabled infrastructure, such as applied smart, connected traffic solutions, has the potential to save drivers up to 60 hours a year. In healthcare, the city-state is on track to having one of the most IT-enabled healthcare systems in the world, which would make healthcare better, faster, cheaper and more convenient than it is today, with the completion of its Health IT Masterplan in 2021.

In the area of public safety, Singapore has trialled smart video surveillance to detect criminal activity, cited the Juniper Research study. Where productivity is concerned, top-ranked cities like Chicago, London and Singapore encourage digital innovation to address city challenges, and their citizens can easily access digital services and city information, which in turn enhance their productivity. Singapore also excels in having large, open-data stores and strategies to encourage private innovation either through funding, specialised testbed environments or city-wide initiatives to provide citizens with a variety of data.

In Singapore, the use of IoT-enabled infrastructure, such as applied smart, connected traffc solutions, has the potential to save drivers up to 60 hours a year.

Top 20 global city performance by index, 2017

	Mobility	Healthcare	Safety	Productivity
1	**Singapore**	**Singapore**	**Singapore**	**Singapore**
2	San Francisco	Seoul	New York	London
3	London	London	Chicago	Chicago
4	New York	Tokyo	Seoul	San Francisco
5	Barcelona	Berlin	Dubai	Berlin
6	Berlin	New York	Tokyo	New York
7	Chicago	San Francisco	London	Barcelona
8	Portland	Melbourne	San Francisco	Melbourne
9	Tokyo	Barcelona	Rio de Janeiro	Seoul
10	Melbourne	Chicago	Nice	Dubai
11	San Diego	Portland	San Diego	San Diego
12	Seoul	Dubai	Melbourne	Nice
13	Nice	Nice	Bhubaneswar	Portland
14	Dubai	San Diego	Barcelona	Tokyo
15	Mexico City	Wuxi	Berlin	Wuxi
16	Wuxi	Mexico City	Portland	Mexico City
17	Rio de Janeiro	Yinchuan	Mexico City	Rio de Janeiro
18	Yinchuan	Hangzhou	Wuxi	Yinchuan
19	Hangzhou	Rio de Janeiro	Yinchuan	Hangzhou
20	Bhubaneswar	Bhubaneswar	Hangzhou	Bhubaneswar

Source: "Smart Cities: What's in it for citizens?", Juniper Research

PHOTO SHUTTERSTOCK

Appointment of Women Directors in Singapore Grew 20% in 2017

THE APPOINTMENT OF WOMEN DIRECTORS IN SINGAPORE saw a 20% increase in 2017, moving up to 13.1% of all directorships for the top 100 primary-listed companies on the Singapore Exchange (SGX) by market capitalisation (Top 100 companies), according to Singapore's Diversity Action Committee (DAC). This marks the highest increase over the last three years, which registered 10.9% women on board (WOB) in 2016, 9.5% in 2015 and 8.6% in 2014.

Of these Top 100 companies, 27 have at least 20% women on their boards, which is the first level of the triple-tier target of 20% that DAC aims to achieve by 2020. All-male boards are reduced to 32%, compared to 38% in 2016, 41% in 2015 and 46% in 2014. This year, at end-February, 12 companies have added women to their boards, further reducing the number of all-male boards.

DAC Chairman Loh Boon Chye says, "The numbers are encouraging. Boards of leading companies are paying attention to the benefits that diversity brings. With our large companies leading the way, DAC is ambitious for the other companies too, to make appointments that will strengthen their boards and the resilience of their strategies."

The proposed revisions to the Singapore Code of Corporate Governance (CG Code) pay specific attention to board diversity, and gender is one of its important aspects. Disclosure of how companies achieve their diversity policy will add to investor appreciation and reinforce interest in following a company's progress in governance, in addition to its business strategy. "Companies acting decisively now will stand us in good stead to achieve DAC's triple-tier target of increasing women's participation on boards to 20% by 2020, 25% by 2025 and 30% by 2030," adds Mr Loh.

The proposed revisions on board independence in the CG Code provide an opportunity for boards to review their composition in line with their strategic gaps. DAC believes that there is considerable room to introduce diversity in these board renewals. Currently, 41% of the Top 100 companies have at least one independent director who has served nine years or more. There are 101 of such directorships that need to be renewed should the nine-year rule become mandatory, if it is moved to become an SGX Listing Rule.

DAC's analysis of director data found that over the last three years, first-time directors (directors who have not previously sat on listed company boards) made up 40% of all appointments; of these, men made up more than 80%. With the CG Code calling for more focus on diversity, DAC believes that there is room for more women in these first-time appointments too.

Other notable statistics from DAC, as at 31 December 2017

1) As a whole, SGX-listed companies showed some improvement
   - SGX-listed companies achieved 10.8% WOB in 2017, an increase from 9.9% in 2016, 9.5% in 2015 and 8.8% in 2014.
   - The proportion of all-male boards has reduced slightly from 55% three years ago to 50% in 2017.

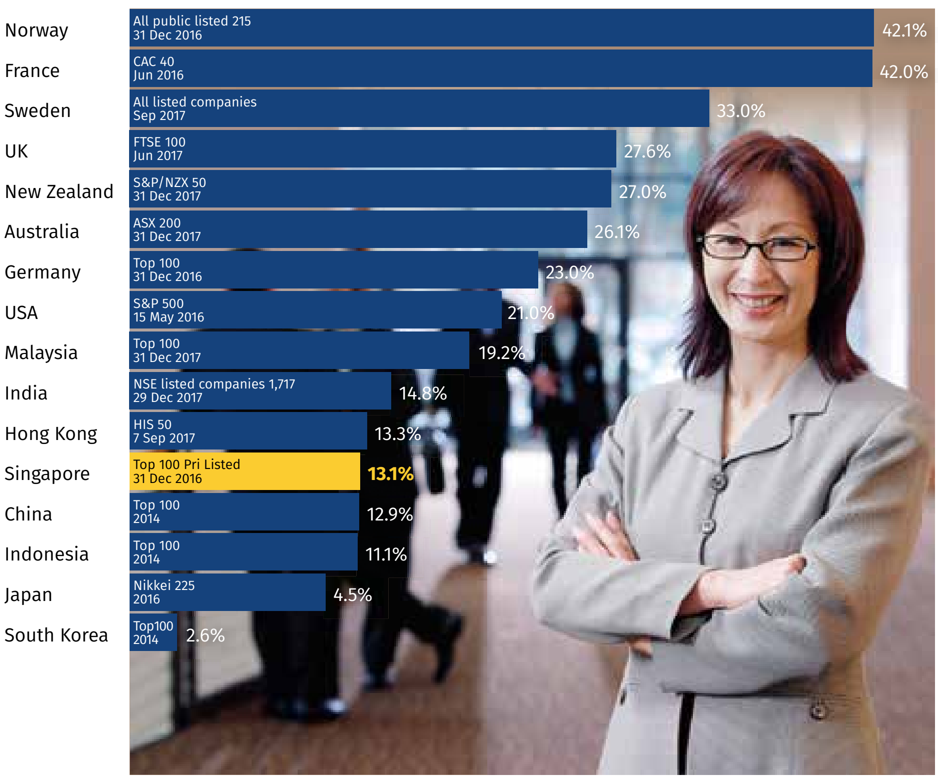
2) The number of women board appointments is small but encouraging
   - The Top 100 primary-listed companies continued to maintain about 18% of board appointments being women, compared to 13% for all SGX-listed companies.
   - It is encouraging that this group of companies has continued to show leadership in the proportion of appointments being women.

3) New board seats still mostly filled by men
   - About 40% of directors appointed to boards of Top 100 primary-listed companies as well as all SGX-listed companies over the past three years were first-time directors, debunking the notion that boards prefer experienced directors. However, most were men (almost 70% for Top 100 primary-listed companies, and more than 80% for all SGX-listed companies).

THE TOP 100 COMPANIES WILL EXCEED 20% COLLECTIVELY WHEN EVERY BOARD HAS AT LEAST TWO WOMEN MEMBERS. THIS WOULD ADD ABOUT 100 WOMEN APPOINTMENTS.

PHOTOS SHUTTERSTOCK

Figure 1 Women on boards



Source: Diversity Action Committee (statistics as at 31 December 2017)

4) Singapore trails behind other centres on international comparison (Figure 1).

5) Board renewal opportunity for companies that have independent directors with tenures of nine years or more
   - The proposed revision to the CG Code offers greater clarity on the definition of independent directors and presents the opportunity for board renewal for companies that need to search for new independent directors.
   - 41% of Top 100 primary-listed companies have at least one independent director serving nine years or more. There are 101 of such directorships; the longest tenure was 40 years.
   - Similarly, 45% of SGX-listed companies have at least one independent director serving nine years or more. There are 648 of such directorships; the longest tenure was 46 years.

Beyond Singapore

Regionally, women are making their way into boards. In Hong Kong, for example, women accounted for almost 19% of appointments to the boards of Hang Seng Index companies last year, up 7% from the previous 12 months, according to a report by non-profit organisation Community Business. The number of companies with an all-male board fell to 10, from 11 a year before.

Elsewhere, in 2017, among the top 50-listed G-20 companies, women accounted for 17% of corporate-board members and 12% of executive-committee members on average, according to a McKinsey survey. The survey also reported that companies with better gender balance are 21% more likely to outperform on profitability.

ISCA-Temasek Foundation International Specialist Training in Lao PDR

TTHE ISCA-TEMASEK FOUNDATION International Public Administration Programme in Accountancy will train over 50 government officials across Lao PDR, in partnership with the Lao Ministry of Finance. Supported by Temasek Foundation International (TF Intl), the three-year programme is part of a Memorandum of Understanding signed between ISCA and the Lao Chamber of Professional Accountants and Auditors (LCPAA) in October 2016 to co-develop the accountancy sector in Lao PDR.

Since becoming a member of ASEAN in 1997, the economy of Lao PDR has continued to grow at a rapid pace. According to the 8th Five-Year National Socio-economic Development Plan (2016-2020), economic growth over the past five years has continued at an average rate of 7.9% per year, and the Lao government aims to achieve GDP growth of not less than 7.5% per annum. To achieve this rapid growth target, a qualified accountancy profession is necessary to instil investor confidence. Currently, there is a shortage of accountancy-trained professionals to support the growing Lao economy. The Programme will therefore help to develop and strengthen the capabilities of accounting professionals in Lao PDR.

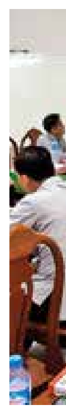
(2nd row, from left) Gerald Yeo, Senior Director, Programmes & Partnerships, TF Intl; Dr Gerard Ee, President, ISCA; Dominic Goh, Singapore Ambassador to Laos; Dr Athsaphangthong Siphandone, Vice Minister of Finance, Lao PDR, together with participants of the specialist workshop

Lao participants presenting their projects

The Programme had commenced with a five-day leadership workshop conducted in Singapore in July 2017, for 10 senior Lao government officials. This workshop covered a broad overview of topics such as principles of accounting, tax mechanism and public sector financial management.

From January 22 to February 2 this year, another 32 Lao government officials completed a two-week specialist workshop covering the same topics, albeit in more depth. The training was held in Vientiane, Lao PDR. Facilitated by ISCA members, the workshop equipped the officials with skills and knowledge that can be readily applied in their daily course of work.

Using the Train-the-Trainer model, the Lao officials who have completed the Programme will share their knowledge with their colleagues to build a core team of skilled accounting officials. The Programme is aligned with the Lao Ministry of Finance's aim to move from rules-



ISCA members facilitating discussions at the workshop

based accounting to a principles-based accounting system and help build the foundation for Lao PDR to adopt international accounting standards.

A media event was organised by LCPAA on February 2 to mark the successful completion of the first workshop conducted in Vientiane. It was officiated by His Excellency Dr Athsaphangthong Siphandone, Vice Minister of the Ministry of Finance, Lao PDR, and witnessed by Dominic Goh, Singapore Ambassador to Laos and ISCA President Dr Gerard Ee.

WHAT ATTENDEES SAID

"The Public Administration in Accountancy Programme, developed with the support of ISCA and TF Intl, with the cooperation of LCPAA, is very beneficial for Lao finance officials. The strong accountancy knowledge gained in the Programme will help prepare them to implement and enforce bookkeeping in line with the International Financial Reporting Standards."

DR ATHSAPHANGTHONG SIPHANDONE, Vice Minister of Finance, Lao PDR

"We are delighted to be part of the journey to co-develop the accountancy sector of Lao PDR. Establishing a robust accountancy sector is vital to a country's national development. As an emerging economy and an ASEAN member state, Lao PDR has tremendous growth potential. We are honoured to be able to contribute towards creating a strong foundation for Lao PDR's economic development."

DR GERARD EE, President, ISCA

"Public sector leadership and effective policymaking are important elements of development and growth. This Programme in Lao PDR is our first in building capabilities in financial accounting for the public sector. The learning and exchange will enhance accounting standards and public sector effectiveness in all the partner organisations."

MR BENEDICT CHEONG, Chief Executive, TF Intl

"This is my first overseas trainer stint. I had the impression that Laos is an emerging country and was pleasantly surprised by the vibrancy of the country. The exposure was great and it was interesting to train in a different culture. I am fortunate to co-train with Dr Robin Chia, who is also an experienced trainer."

MS LOO MENG GEE, ISCA member and volunteer trainer in Laos

"I felt that though Laos may not be an advanced nation, it was exciting to visit it. After staying there for a week, I learnt more about the Lao culture and its people. The participants at the workshop were friendly, knowledgeable and can speak fluent English. I enjoyed my stay there."

DR ROBIN CHIA, ISCA member and volunteer trainer in Laos

"The Lao participants were keen learners. They participated actively in the training by asking many questions and always clarifying concepts. They found the group activities an effective platform for the sharing of ideas, recalling of important concepts and applying their learning. With these competencies, I'm confident that they'll be able to bring their new skills and tools learnt to their workplace."

MR CHEN SHIAN JAN, ISCA member and trainer in Laos

MARK YOUR CALENDAR

11 APR

ISCA Breakfast Talk - Building Financial Models for Decision Making

Join us to examine what financial models are, the concept of modeling and how an effective financial model can be quickly built to meet business needs.

12 APR

Global Trend Leading to Artificial Intelligence and China Big Data Report

Have a better understanding of what drives business performance and some practical approaches that can be implemented back in the office.

In collaboration with ICAEW

17 APR

Business Mandarin - Basic English-Chinese Financial Translation

Focuses on the translation approaches and techniques in order to enhance the use of the languages and meeting the translation requirements.

19 APR

Transfer Pricing Risk Management

new

This seminar discusses how companies can best manage their transfer pricing life cycle. The life cycle consists of four phases, which include planning, implementation, documentation and monitoring.

22 & 23 MAY

Internal Auditing Fundamentals - Risk Assessment

Appreciate the key process that will allow participants to properly prepare for and conduct a successful audit, using preliminary surveys and evidence-gathering techniques.

20, 21, 22, 25 & 26 APR

Practical Accounting Essentials

Explains the fundamental requirements of the Singapore Financial Reporting Standards ("SFRS"), sufficient to enable the participant to appreciate the thought processes and accounting judgments applied in the preparation of financial statements.

26 MAY

The ISCA Run is back for the 5th year.

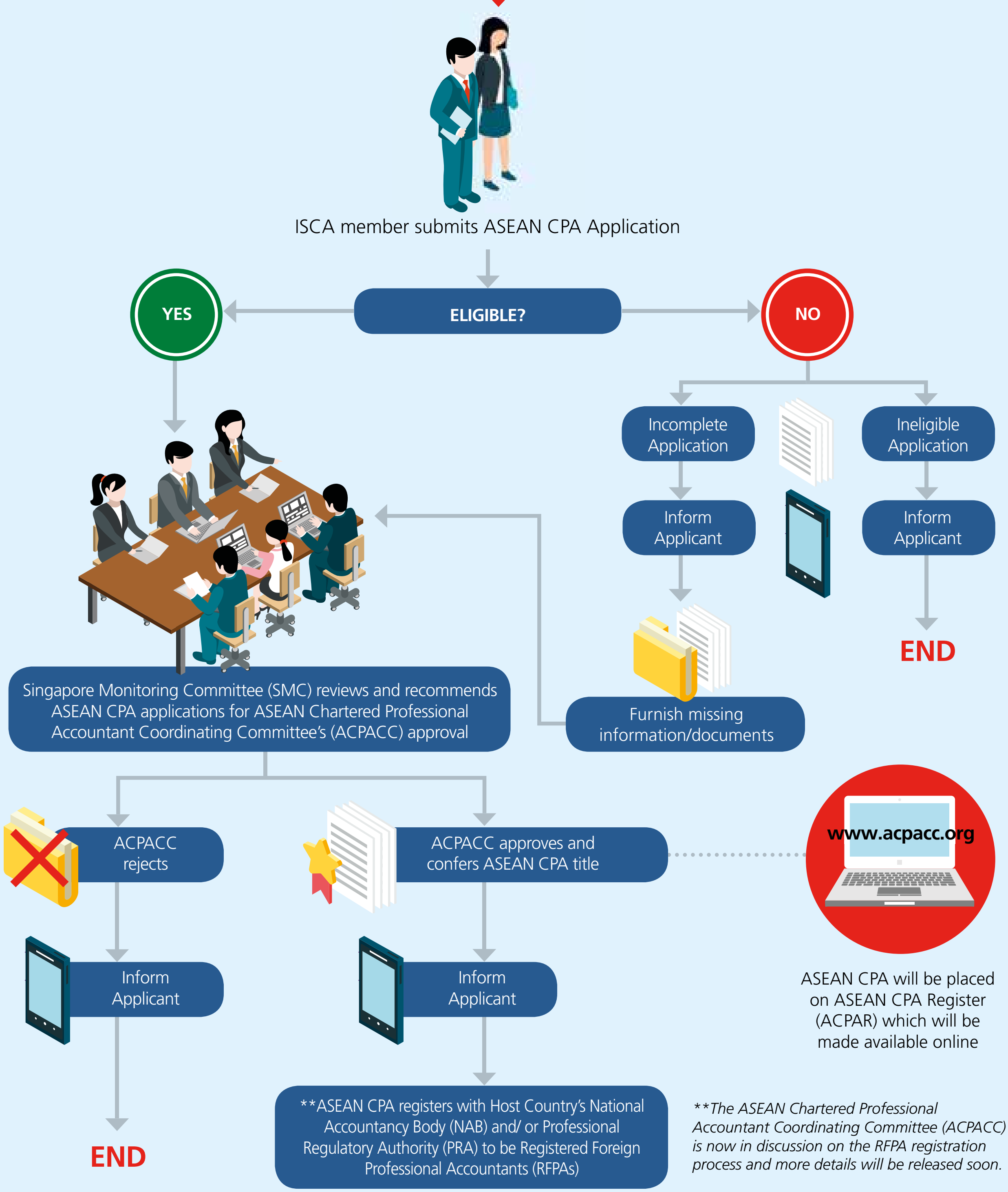
Organised by the national accountancy body, the Institute of Singapore Chartered Accountants (ISCA), the sporting event promotes camaraderie among members of the accountancy profession, as well as healthy living and family bonding. ISCA Run also aims to give back to the accountancy profession via the event's chosen beneficiary, ISCA Cares.

For more information, please visit **www.iscarun.sg** or contact **iscarun@isca.org.sg**

ISCA RUN

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

Register to be an ASEAN CPA now!



You can now apply to be an ASEAN Chartered Professional Accountant (ASEAN CPA) if you are a CA (Singapore) or Associate member of ISCA.

As an ASEAN CPA, you will get market access to ASEAN, one of the highest growth economic regions in the world.

ASEAN CPAs are legally allowed to provide accountancy services (except audit and other domestic regulated accountancy services) in ASEAN markets. Registration fee is waived from May 2018 – May 2019.

Download ASEAN CPA application form from ISCA's website: http://isca.org.sg/media/2238091/asean-cpa-application-form.pdf, and submit to **aseanmra@isca.org.sg** now.

smp dialogue

Trade Secrets to Successful SMP Consolidation

THE 7TH SMP DIALOGUE seeks to provide practical tips to practitioners who are keen to explore merging or acquiring other firms. The Dialogue, titled "The Know-Hows of SMP Consolidation", was held on January 23 at Novotel Singapore Clark Quay hotel.

ISCA Council member Michael Chin, who is also Chairman of the ISCA Public Accounting Practice Committee (PAPC) and Managing Partner, PKF-CAP LLP, set the tone for the Dialogue by accentuating the importance of expansion for SMPs, as he delivered his welcome address.

Mr Chin then spoke on the art of consolidating practices and shared some lessons which he had learnt from his own consolidation journey. He urged all fellow practitioners to question their purpose for M&A as the journey would be tough and one would only stay on and persevere if there were a purpose. If one viewed M&A purely for money, it would be difficult to keep the merged practice going.

Despite being the quickest way to grow, merging and acquiring another firm might not be the easiest option.

ISCA Council member Michael Chin, PAPC Chairman and Managing Partner, PKF-CAP LLP, sharing his personal journey on consolidation

As professional firms mostly do not own any tangible assets, the key personnel and intellectual property are the main intangible assets. Hence, valuation of a firm can be contentious. Two common methods of valuing a firm are to use a multiple of annual recurring fee income and collection basis on future billing, covering non-recurring items. Don Ho, CEO, DHA+ PAC, further elaborated on market benchmarks ranging between 0.6 to 1.2 times of annual recurring fee.

Ian Teo, Head of Business Banking Singapore, Standard Chartered Bank, presented a brief overview of the different financing schemes SMPs can tap on to finance their growth plans.

To facilitate professional development in public accounting firms, Kang Wai Geat, Deputy

Panel discussion on “Building the Right Mindset for Successful Consolidation”; (from left) Moderator Mak Keat Meng, Partner, Assurance Services, Ernst & Young LLP, with panellists Frankie Chia, ISCA Council member and Managing Partner, BDO LLP; John Lim, Partner, PKF Singapore; Wayne Soo, Managing Partner, Fiducia LLP, and Tim Underwood, Managing Director Singapore, Foulger Underwood

The ISCA Practitioner’s Package is now available to practitioners to fulfil continuing professional education requirements; it also provides concessionary rates for a suite of courses to enhance their staff’s professional training.

Director, Audit Quality & Standards Development, ISCA, announced the launch of two new ISCA initiatives, namely, the ISCA SMP Learning Roadmap (SMP LRM) and the Practitioner’s Package during the Dialogue. Developed with reference to the Assurance track under the Skills Framework for Accountancy sector, the SMP LRM provides a series of competencies which prescribes the skill sets, and hence the related learning needs, required by the various levels of audit professionals in SMPs, based on their experiences. To augment the necessary training required for the various proficiency levels, the ISCA Practitioner’s Package is now available to practitioners to fulfil continuing professional education requirements; it also provides concessionary rates for a suite of courses to enhance their staff’s professional training. In addition, through the Package, firms will receive technical support for ISCA’s quality assurance initiatives.

The Dialogue culminated in a panel discussion titled “Building the Right Mindset for Successful Consolidation”, which was moderated by Mak Keat Meng, Partner, Assurance Services, Ernst & Young LLP. Given a complex accountancy landscape of increasing regulation, coupled with a need to expand non-compliance service offerings to cope with the shrinking audit pie, the panellists felt that consolidation is a compelling journey for firms which are aspiring to grow. The consolidation process is by no means easy and is laden with challenges. Putting your resolve to overcome every problem with a solution and embracing a mindset to give and take are essential ingredients to enhance the success of consolidation. For firms which are planning for organic growth, the business owners need to be mindful of the longer runway needed. In closing, practitioners should put in more thought to their growth strategy and lay out an action plan for the future.

To support our members in consolidation, ISCA facilitates matching between prospective buyers and sellers. If you are keen to find out more, please email to smp@isca.org.sg.

Kang Wai Geat, Deputy Director, Audit Quality and Standards Development, ISCA, spoke about the Institute's new 2018 SMP initiatives, SMP Learning Roadmap and Practitioner's Package

Don Ho, CEO, DHA+ PAC, presenting on “Key Steps in the Acquisitions and Disposals of SMPs”

Membership Privileges

ISCA Members' Privileges Programme (MPP) is a platform where various merchants of different industries offer their respective services and products as a form of privilege to our esteemed members. Membership benefits now extend beyond signing up for CPE courses at members' rates and accessing the Technical Knowledge Centre as ISCA members can ride on and take advantage of the various discounts or deals that are offered throughout the year.

Our newly-revamped ISCA MPP allows our members to enjoy special deals and discounts from various merchant partners, enhancing our value to you as an esteemed member of the Institute.

You may also access your privileges online at http://bit.ly/memberssignup.
*Terms and conditions apply.

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isca breakfast talk

SS ISO 37001 Anti-Bribery Management Systems: Keeping your House in Order

DURING THE ISCA BREAKFAST TALK ON MARCH 7, Belinda Tan, Singapore Leader and Partner of Fraud Investigation & Dispute Services, EY, spoke about the latest trends surrounding anti-bribery and corruption legislative and enforcement developments. She touched on the converging compliance standards, new mechanisms to encourage cooperation, mediation and settlement, and various updates to bribery and corruption regulations, including a new certification programme in Singapore – SS ISO 37001 Anti-Bribery Management Systems.

Ms Tan said that SS ISO 37001 is identical to ISO 37001, and its launch in April 2017 was a strong signal of Singapore's zero tolerance approach towards corruption. The adoption of the standard helps to safeguard foreign investments, build global confidence, and strengthen existing anti-corruption efforts in Singapore.

At the corporate level, SS ISO 37001 helps Singapore companies strengthen their anti-bribery compliance systems; fosters a strong culture of integrity and transparency; demonstrates competitive advantage during international bidding processes; provides greater assurance to customers and business partners, and sends out a message to enforcement agencies that the organisation seeks to align with the latest standards.

Ⓐ Belinda Tan, Singapore Leader and Partner of Fraud Investigation & Dispute Services, EY, going through the core elements of ISO 37001 with a full class of participants

Shining the Spotlight on Tax Cases for Tax Professionals

Ⓐ Covering a total of 10 cases in the half-day session, the speakers clued participants in on the intricacies of various tax cases

THE YEAR 2017 saw a number of tax cases covering a wide range of issues from stamp duty to the taxation of employment income, at both the High Court and Board of Review. For example, Singapore saw its first case involving S10(1)(g) of the Income Tax Act that was not property-related but concerned the gains derived from the disposal of shares. Some cases have also set new precedents for Singapore tax laws.

Tax professionals from the accounting and legal fraternities, who attended the recent *Tax Excellence Decoded* (TED) session, heard from established lawyers from Baker & McKenzie.Wong & Leow as they shared insights on the intricacies of tax laws. The TED session was organised by the Singapore Institute of Accredited Tax Professionals.

Accredited in both income tax and GST, Allen Tan, Principal, as well as Senior Associate Ng Chun Ying, dissected the various tax disputes and explained the application of the tax laws for taxpayers so they may better understand the implications of these case laws on subsequent similar tax controversies.

Look out for the technical article on this session in the next issue. Readers seeking greater clarity in tax can also email enquiry@siatp.org.sg for more information.

Disciplinary Findings

UPON FINDING that Mr Lim Wee Pao, CA (Singapore), is liable for contravening Rule 64.1 read with Section 65.2 of the Institute (Membership & Fees) Rules, in that he, at the material time, was guilty of misconduct in that he had been convicted by the State Courts of the Republic of Singapore on 8 February 2017 of one (1) charge of carrying on a remittance business when he was not in possession of a valid remittance licence from the Monetary Authority of Singapore as required under Section 6(1) of the Money-changing and Remittance Businesses Act (Cap.187, 2008 Revised Edition) and ordered to pay a fine of S$15,000 in default of six (6) weeks' imprisonment.

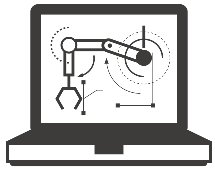
The Disciplinary Committee ordered:

1) That pursuant to Rule 137.1.2 of the Institute (Membership and Fees) Rules, he be suspended for a period of six (6) months with immediate effect from 20 December 2017.
2) That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, he shall pay to the Institute the sum of S$2,421.09 (inclusive of 7% GST), being the costs and expenses incurred by the Institute in connection with the investigation and disciplinary proceedings undertaken against him within 30 days of the date of this order.

BY CHEANG WAI KEAT

Centre of Excellence

promote, govern, infuse RPA into the company



ROBOTIC PROCESS AUTOMATION IN FINANCE

Getting It Right

IN RECENT TIMES, there has been surging interest in the application of robotic process automation (RPA) to business. Globally, the growth and adoption of RPA looks to expand exponentially across the globe. Transparency Market Research estimates that the IT robotic automation market will expand at a CAGR of 47.1% between 2016 and 2024.

These are certainly attention-grabbing statistics, but RPA is seizing the attention of businesses for another reason – its potential ability to disrupt entire business functions across all companies and sectors.

Where humans were once the sole resource to perform functions such as customer service, transactional activities and generating insights, RPA technology has advanced to a level where robots can perform these same tasks, with even greater efficiency and accuracy. Today's RPA technology uses software robots to offer improved business efficiency, data security and effectiveness by mimicking human actions and automating repetitive tasks across multiple business applications without altering existing infrastructure and systems.

This means there is a huge opportunity for existing finance and accounting functions which generate a lot of transactional, repetitive activities to optimise their processes through RPA. In fact, according to an EY survey of 769 CFOs and finance leaders, 65% of respondents worldwide said that "standardising and automating processes and building agility and quality into processes" is a significant priority for the finance function.

While there is certainly interest in RPA, implementing RPA projects isn't always challenge-free. Companies that get the following right will have a higher chance of success with their RPA projects.

Once management is convinced of the project's value, the roll-out of RPA should be positioned as a business-led programme, championed by the CFO, with strong partnership from IT, cyber, security, risk, HR and other enterprise functions. It is fundamental to set up a business-led Centre of Excellence.

SET CLEAR GOALS AND OBJECTIVES

A successful RPA is firstly grounded in a strong business case for change. The business case should clearly state the objectives and expectations of the RPA project, and include both the qualitative and quantitative benefits that are aligned with overall business and management strategy.

Improving cost efficiency is the most common business objective for implementing RPA in the finance function. Faced with the task of processing high volumes of data under pressing timelines, these processes are manpower-intensive and highly susceptible to human error. Automating manual-intensive finance and accounting processes can help save costs and reduce the number of errors to produce higher quality outcomes for the many consumers and users of financial reports.

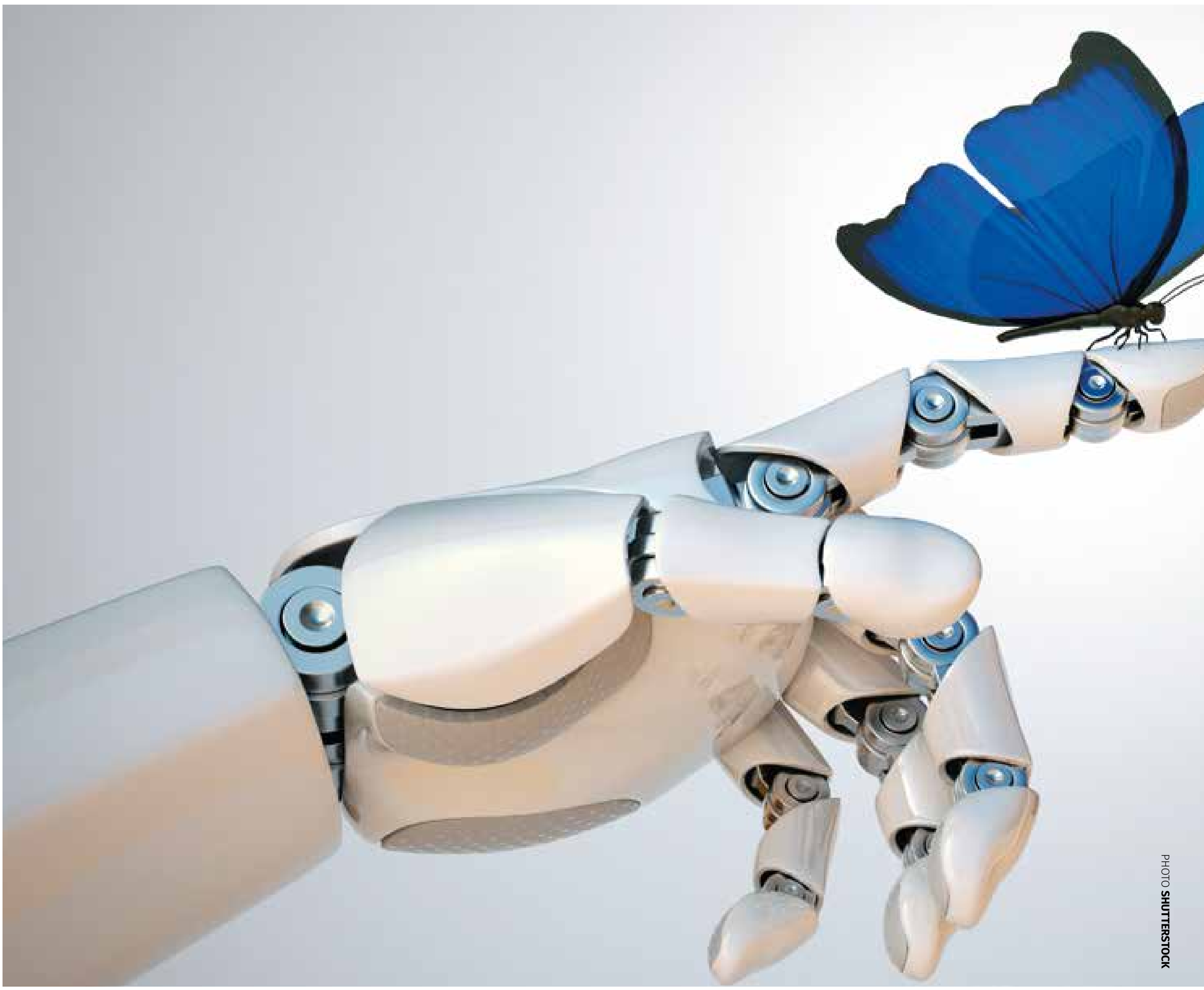
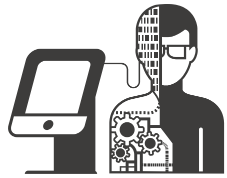


PHOTO SHUTTERSTOCK

Robots + Humans =
Valuable customer experience



Relieving employees of highly-repetitive tasks can also increase employee satisfaction, by giving them the opportunity to acquire knowledge and move on to higher value-adding tasks. For example, EY has deployed “digital employees” to help its auditors go through large volumes of audit-relevant data more efficiently. The EY auditors, in turn, are being trained and provided with tools to enable them to provide the insights that its clients value.

In recent years, high-profile investigations into fraud and ethical behaviors have also increased the pressure on companies to improve their governance of financial transactions and respond to tighter regulatory scrutiny in this area. As RPA systems can provide fully-maintained logs, this can help improve the audit trail and risk monitoring.

Clearly, RPA can create value for the customers and stakeholders, which are still perennial challenges for businesses, even in a digital world.

BE BUSINESS-LED

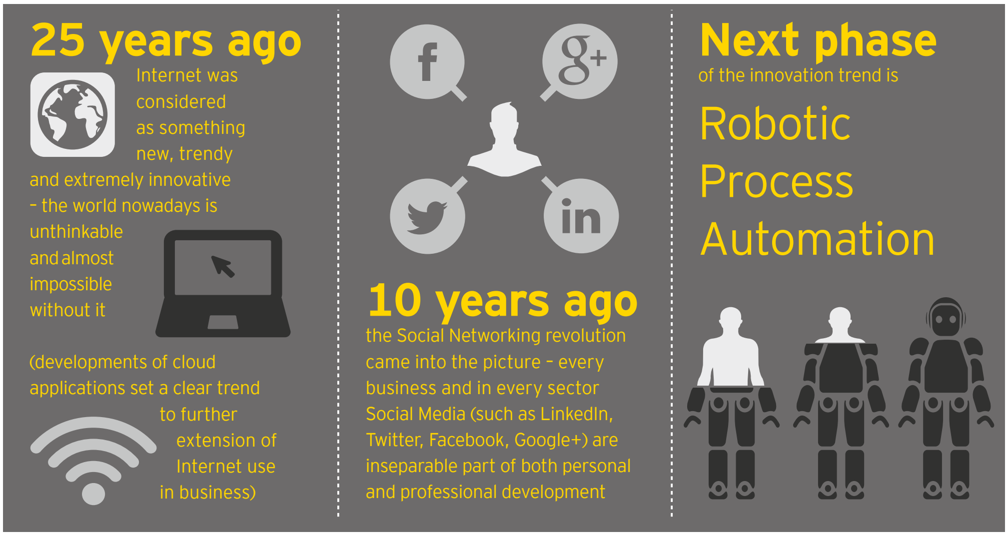
It is easy to assume RPA is an IT project. This is a misconception. As companies think about the initial automation project, they need to remember that ultimately, RPA will deliver a virtual workforce to join the finance team. Just as how IT would not be in charge of managing the current agent workforce, it would not manage a virtual one.

Once management is convinced of the project’s value, the roll-out of RPA should be positioned as a business-led programme, championed by the CFO, with strong partnership from IT, cyber, security, risk, HR and other enterprise functions. It is fundamental to set up a business-led Centre of Excellence (CoE).

A business-led CoE allows the business to prioritise the processes to automate and determine what the virtual workforce does. IT still has a crucial role in delivering infrastructure and software support, and providing robots with user access rights to legacy systems.

Yet, a business-led CoE does not simply spring into existence. It is all too easy to underestimate what happens after automation, so it is highly critical for companies to agree on the CoE processes and IT governance, and have staff trained to not only operate the robots but also continue to enhance the processes.

Automating manual-intensive finance and accounting processes can help save costs and reduce the number of errors to produce higher quality outcomes for the many consumers and users of financial reports.



Source: "Robotic process automation in the Finance function of the future", Ernst & Young Accountants LLP

NOT JUST A SERIES OF AUTOMATIONS

Companies should see RPA beyond just a series of automation exercises to an end-to-end programme. By performing an opportunity assessment, companies can then develop a portfolio of savings, service improvements and transformation processes – each of which needs to be measured and the benefits delivered so that ongoing investment continues.

Companies should also be mindful that RPA is a journey, not a destination. The strategic dimension of the business transformation should prevail. It needs to be part of a broader journey towards digital operations. A silo approach to RPA implementation could allow new risks to go undetected. While RPA can reduce human error, it can raise digital risk. Stronger IT governance is needed to manage the limitations and associated risks of this new technology. Hence, it is important to create a digital CoE whose role is to promote, govern and infuse RPA and other digital initiatives into the company.

GET THE LEVELS OF AUTOMATION RIGHT

Businesses should also be mindful of the importance of a proper opportunity assessment to find the optimum portfolio of processes for automation. Low- or medium-complexity processes or sub-processes are the best initial target for RPA.

Ultimately, companies should look for processes with the largest benefits, and simplest delivery. Targeting RPA at a highly-complex process can result in significant automation costs, when that effort could have been better spent automating multiple other simpler processes.

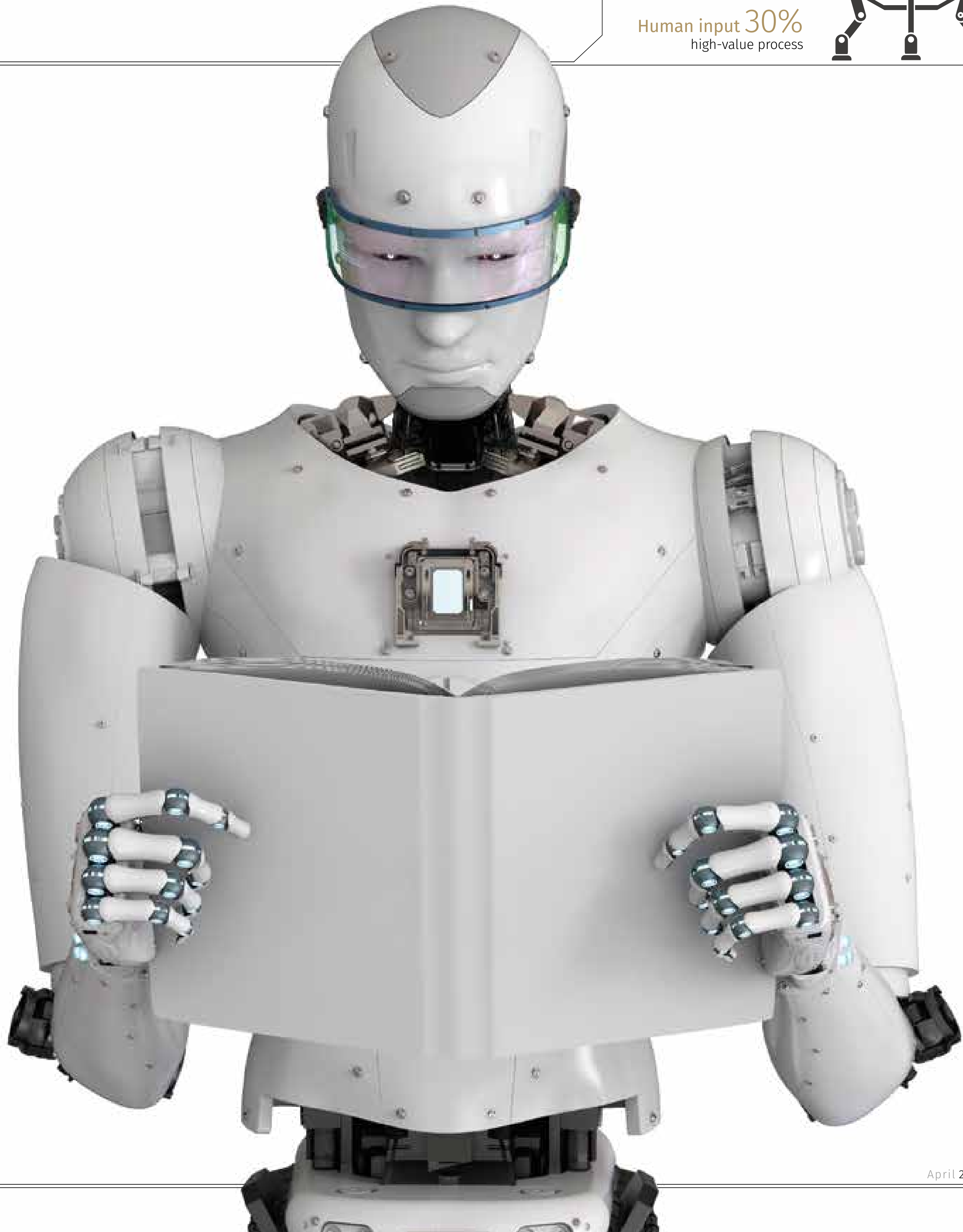
Some examples of critical finance operations where RPA could be effectively utilised include operational accounting (that is, billing and collections, accounts receivable); general accounting (that is, allocations and adjustments, journal entry processing, reconciliations, intercompany transactions and financial close); financial and external reporting; planning, budgeting and forecasting, and treasury processes.

The best way to view RPA initially is as the ultimate "helper", carrying out the basic work in a process and enabling humans to do more. Automating 70% of a process that is of the lowest value, and leaving the high-value 30% to humans is a relevant initial target.

PHOTO SHUTTERSTOCK

Automate 70%
lowest-value process

Human input 30%
high-value process

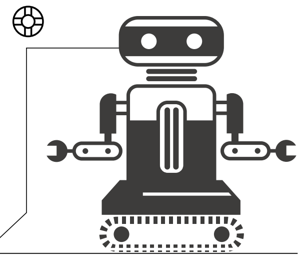


REVIEW EXISTING PROCESSES

We often see no effort to change existing processes to allow RPA to work across as much of a process as possible. This raises the risk that all existing inefficiencies, inconsistencies and duplications in the process will be repeated by RPA, limiting the potential benefits of its application.

That is why we work with clients to make sure that their internal operating model, governance and capabilities are able to take advantage of this new technology. For finance processes in particular, the critical paths may need to be reassessed. Automation of some tasks with RPA can result in a “bottleneck” on tasks, which were not on the critical path before.

Reviewing processes for the implementation of an unfamiliar technology is no easy task. Finance teams often struggle to find solutions that are able to deliver timely and



In order to gain buy-in from senior stakeholders, companies should develop an RPA portfolio that balances cost reduction with other value drivers such as service improvement, transformative services, improved regulatory response and growth.

accurate financial information without the costly maintenance of on-premises solutions. Rather than try to puzzle things out on their own, companies could work with partners/vendors which have the expertise and resources, such as RPA tools, traditional enterprise resource planning systems and cloud platform capabilities, to help them in their finance transformation.

Another common mistake is to totally eliminate the human input in a process, which ends up in a significant automation effort, additional cost and little additional benefit. The best way to view RPA initially is as the ultimate "helper", carrying out the basic work in a process and enabling humans to do more. Automating 70% of a process that is of the lowest value, and leaving the high-value 30% to humans is a relevant initial target. It is always possible to go back and optimise the process later.

Furthermore, while a robot can handle transactional, rules-based decisions, any issues that fall outside this boundary will need to be managed by a human employee. Robots are also not able to emotionally relate to the customer, and would therefore need to work hand-in-hand with humans to create a valuable customer experience.

ACHIEVING A GREAT ROI

While current RPA tools can automate large parts of a process, they often cannot do it all – frequently because the process starts with a call or on paper, or requires a number of customer interactions. Hence, companies often end up automating many sub-processes, but miss the opportunities to augment RPA with digital capabilities, and automate the whole process.

The cost arbitrage of RPA is significant. In countries with high labour costs such as Singapore or Hong Kong, a robot can be 10% to 20% of the cost of a human agent. But more often than not, a robot only works on sub-processes and therefore limits the savings achievable. But if we extend RPA into digital self-service for example, we will see that the benefits can be up to two to three times that of RPA alone.

In order to gain buy-in from senior stakeholders, companies should develop an RPA portfolio that balances cost reduction with other value drivers such as service improvement, transformative services, improved regulatory response and growth.

While delivering cost savings is important, service improvements or showing entirely new and innovative digital services or products will make the senior stakeholders even more interested in making RPA happen. And to deliver RPA projects with success, proper planning will make all the difference. ISCA

Cheang Wai Keat is Singapore Head of Advisory, Ernst & Young Advisory Pte Ltd.

PHOTO SHUTTERSTOCK

BEYOND SINGAPORE

A HUNGER TO EXPAND HORIZONS

Eric Yeo, CA (Singapore), Senior Manager, Financial Services Assurance, PwC Singapore

EVEN AS A TEENAGER, Eric Yeo showed a passion for accounting. "As a teenager, I was obsessed with maintaining spreadsheets on almost anything." He charted prices of trading cards, analysed the week-to-week fluctuations and predicted trends – and at times made a buck or two out of his work. This interest propelled him to join PwC – first as an intern in 2007, and formally as an Associate Auditor in 2008, upon graduation.

Yet his passion for accounting goes beyond looking at figures on spreadsheets. "This is a profession that allows me to have business knowledge of a vast spectrum of clients across industries," shares Mr Yeo, who is currently a Senior Manager within the Financial Services Assurance practice in Singapore, specialising in the asset and wealth management industry. "The majority of my time is spent servicing traditional and alternative asset managers in Singapore, Hong Kong and Malaysia on a broad range of assurance and advisory services. Other times, I frequently work on 'Performance Reporting' projects including the implementation and verification of Global Investment Performance Standards (GIPS) for asset managers across the Asia-Pacific region. My time spent in this area of performance reporting has also afforded me the opportunity to conduct seminars for the industry in collaboration with the Investment Management Association of Singapore (IMAS)."

Despite the broad spectrum of his job scope, he yearned for even more – in the form of an immersive overseas work experience. "PwC has always been a great advocate of having people on overseas stints, so it was not a difficult topic to bring up for discussion with my partners... Several discussions with my partners ensued, and with their valuable perspectives and coaching, I was able to zoom in on a few regions where it would be most beneficial for both my career

TEXT BY KOH YUEN LIN

"This is a profession that allows me to have **business knowledge** of a vast spectrum of clients across industries."

development and personal growth." The ASEAN region was one of the regions of interest to Mr Yeo. "Many large organisations tend to have a trans-ASEAN presence, thanks to the region's growth potential, large labour force, relatively competitive wages and potential consumers. In this regard, having an ASEAN exposure – and a better understanding of the regional market – allows professional accountants like us to stay competitive and relevant."

So when the opportunity for a stint at the Manila delivery office arose in 2015, Mr Yeo grabbed it without hesitation. "For one, the opportunity allowed me to work in a country where my area of specialisation is growing rapidly. As a bonus, it also afforded me a ground to hone my management skills as I would be required to set up team structures, formalise operating procedures, as well as train our overseas colleagues in the area of asset and wealth management assurance. This goes towards the servicing of our Singapore operations in a landscape where offshoring is a mega trend."

CAREER MILESTONES

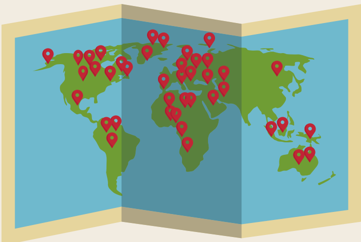
2008
Bachelor of Accountancy (First Class Honours), Nanyang Technological University

2008
Joined PwC Singapore

2013
Manager, Financial Services Assurance, PwC Singapore

2015
Manager, Financial Services Assurance, PwC Philippines

2016
Senior Manager, Financial Services Assurance, PwC Singapore



> **"Be open to new experiences,** look beyond the location and towards what you can achieve from both a career and personal development perspective."

With the establishment of the ASEAN Economic Community, ASEAN's golden jubilee and Singapore assuming the ASEAN chair in 2018, Southeast Asia is certainly where the action is these days. As more ISCA members consider regional career opportunities, we are expanding our regular Member Profile column to include the personal experiences of ISCA members who are working in other ASEAN countries. In this article, Eric Yeo, 33, Senior Manager of Financial Services Assurance, PwC Singapore, shares his insights gathered through a year working in Manila, Philippines.

A RE-ORIENTATION

Despite being in the midst of planning for his wedding at that point, Mr Yeo bit the bullet, bid farewell to his loved ones and went on this solo adventure. The relocation process was smoothened for Mr Yeo by PwC's global mobility programme. "The contacts in the hosting firm are made readily available to assist in a great deal of things. My tax colleagues, global mobility colleagues and finance colleagues all helped me with various logistical matters, from Philippines tax to sourcing for accommodation. Other than that, my only preparation was to read the secondment information pack provided to me by the HR team!" recalls Mr Yeo.

Upon arrival, he went through a further immersion course which covered topics ranging from working practices to cultural aspects of the Philippines. "In Singapore, we tend to focus on work efficiency. But in the Philippines, the people aspect is an important consideration as well. We have to be sensitive to cultural differences such as expectations when it comes to coaching and recognition," shares Mr Yeo. "One of the harder adjustments was having to make a conscious effort to find out whether my team was facing any challenges. My team might be reticent to openly approach me – as somebody that they perceive to be higher up in hierarchy – if they need to clarify things." To overcome this invisible barrier, Mr Yeo made the extra effort to bond with his team in non-work settings, such as having communal pot-luck lunches or even just sharing a cup of coffee. "It helps to build relationships, and have them share their thoughts in a less formal setting," he says.

While some might think that moving to ASEAN countries for an overseas stint compared to the developed countries is a "hardship posting", Mr Yeo feels otherwise. "This mentality has to change. The world is changing and ASEAN, the Philippines included, is developing at an amazing pace. Be it in entertainment, quality of living or technological advances, you will be surprised that it is very comparable to

Singapore, especially in the major cities. You have to see it to believe it. Whatever a developed country has to offer, you can probably get it in ASEAN."

Mr Yeo fondly remembers bonding with his Filipino team through visits to the local beaches, hiking expeditions, and the sharing of food. "I love food, and there are plenty of choices in Manila to choose from. One of my favourite local dishes is *tocino* (a cured meat that is usually fried or grilled, and served for breakfast or lunch). The slightly sweet flavour reminds me of some of the local Chinese meat dishes." Though he is not able to name any particular places that serve good *tocino*, every now and then, when he comes across pop-up stalls at the MRT stations in the Philippines serving Filipino food, he would stop by there for his "dose of Filipino indulgence". By his own reckoning, his time in the Philippines has also put him in a position to dispel certain notions about it. "Many think that the Philippines is a very dangerous country. However, the locals will tell you that occurrences of unlawful activities are largely limited to provinces farther out in the south. Having lived in Manila for a year, I would agree with the locals. That said, it would still be wise to practise basic caution, as one would at any other developed or developing nation."

Mr Yeo continues to look forward to future opportunities to enrich his work experience within the ASEAN markets. "Indonesia is a possible destination as there is potential for growth of the asset management industry. The country has a large middle class, increasing awareness (of professional asset management), and a relatively small number of players currently," he enthuses. And to fellow ISCA members or aspiring accountants wishing to gain overseas experience, he shares this piece of advice, "Be open to new experiences, look beyond the location and towards what you can achieve from both a career and personal development perspective." **ISCA**

BY PATRICK O'BRIEN

MENTORING OTHERS, MENTORING YOURSELF

PART 3

Drawing Down The Curtain

PHOTO SHUTTERSTOCK

Parts 1 and 2 of this three-part series on mentoring, published in *IS Chartered Accountant* journal in October 2017 and January 2018, discussed the origins of mentoring, and how it differs from managing, and the role and perspectives of the Mentor in creating real change in their Mentee. In this Part 3, we will look at how both Mentor and Mentee can effectively conclude the programme, starting from how to structure the final meeting to the points to reflect on and the accomplishments to celebrate as they look back on the Mentor-Mentee relationship they have established over the past nine months.

RECOGNISE THE TRANSITION

PROGRAMMES INEVITABLY RUN THEIR COURSE and will signal that the time is right to pivot the relationship. As Churchill might possibly have asserted, transition can be framed as the beginning of an end, or, the end to another beginning.

Yes, good things eventually do come to a new beginning, don't they? Yet, it's constructive to position closure as an anticipated step in the Mentoring process, one to knowingly plan for. The wasteful alternate would be to let it slip by insignificantly so that it becomes an event of little consequence to Mentor or Mentee. Transition is a great time to congratulate, evaluate, and contemplate.

Setting time aside to reflect on accomplishments and review future relationships can be exceptionally productive. It is corollary to that "First Meeting", the one that jump-started the relationship right at the beginning. Rather than let this closing coda just fade

away, it's better to capture and codify thinking within a targeted, formal and final Mentoring session.

This "Last Meeting" is significant in the Mentoring relationship and preparing for it is vital. It recognises the Transformations that may have taken place. Reflection is aided by both Mentor and Mentee tapping into their own thoughts and feelings, and drawing from Journals compiled along the way. The meeting can be structured to broadly cover three areas, as follows:

- Recognition of competences and growth;
- Consideration of the quality of the relationship;
- Celebration and gratitude for what has been accomplished.

REFLECT AT TWO LEVELS: THE PAST AND THE FUTURE

Reflection is a thoughtful process that looks back on events, elicits experiences and makes sense of them. It's a process of discovery that constructs new insights and learning as it moves from recollection and attachment, through to synthesis and detachment.

At a fundamental level, reflection is historical as evidence considered is from the past. Better comprehension of past actions is important, which is why reflection asks questions such as:

- What decisions did I make?
- What actions did I then take?
- What outcomes did I eventually get?

Yet, reflection can reach an even more powerful level, once it embraces the above learning and re-purposes it to look ahead with the question, "What could be different, the next time?" To achieve this meta-level conversation requires dissociation from the details, plus an objective third-person contemplation of future possibilities. This next level requires questions such as:

- If I now set different and more challenging goals, how else might I change?
- If I choose to value different beliefs, how better could our relationship become?
- If I become unafraid of those things that I currently fear, how much more would I develop?

It can be all too easy to stop at the recent past, take the learning, and move on. Remembering though that Mentoring is for lifetime growth, that journey will continue; new destinations, new headings, new directions will eventuate. Multi-level reflection maximises the insight and wisdom.

Mentoring is for lifetime growth...
(and) multi-level reflection maximises the insight and wisdom.

1 Recognition of competences and growth

Mentoring is part transactional. There's a desire to improve personal competences and skills. An effective programme therefore creates the potential to build on personal strengths in order to achieve transformational change. The final session provides a means to determine the distance travelled.

Powerful reflection links the journey travelled to the progress made; it forms views on the growth achieved. Questions examine changes in personal knowledge, skills, expertise and attitude. They explore the new capabilities built and also probe into personal perceptions, such as the ability to act in more independent ways, and the ability to project greater confidence towards others.

Reflection also drills down into feelings, to consider the highlights and lowlights experienced. They gauge the nice surprises that may have presented themselves, and how they contributed to that journey. There may also have been disappointments, so it's important to ponder over obstacles and challenges that may have arisen, and how they had threatened progress.

Effective reflection looks at motivations too, as these tend to fluctuate over the relationship. Questions provide insights into the motivations held over the different programme phases. Which aspects were easier or more difficult – the early goal-setting? Selection of the final destination? Choice of projects to work on? Conducting deliberate practice, even regularising meetings?

These are some of the core aspects that can lead to real, authentic insight into strategies and actions pursued. Remember, the intention is to evolve insights into usable learning resources, rather than get them as "weapons" for personal judgement. This perhaps, is often easier said than done!

At a meta level, it is important to step right back, to objectively and dispassionately revisit the goals. It's insightful to wonder how things might have been different, with different starting assumptions, and even greater ambitions. Could you have achieved more, and if so, what different actions would you take next time, in order to achieve better results?

2 Consideration of the quality of the relationship

Mentoring is part relational. There's a desire to improve interpersonal competences and skills. It is a dialogical process enacted between Mentor and Mentee. The final session provides the means to reflect on the relationship and two key determinants of its quality – trust and safety.

Trust builds slowly, is earned over time and yet, can quickly be destroyed. Good reflection looks at how both have contributed to the creation and deepening of trust, for instance, the ability to keep commitments made, respect for confidentiality, and holding open, honest dialogue.

> Trust and safety sit at the core of the **Mentoring "Contract"** that's drawn up at the start of the relationship.

PHOTOS SHUTTERSTOCK

Safety enables that dialogue while danger closes it down. Skills can be examined that evidence commitment to and accountability for dialogue. For instance, propensity to speak up, probe sensitively, hold space while listening, manage conflict, and provide feedback are all valuable. The ability to suspend judgement while in dialogue is also crucial for others to feel safe.

Trust and safety sit at the core of the Mentoring "Contract" that's drawn up at the start of the relationship. The contractual emphasis is to establish good communication channels, bring clarity to the Mentoring process, and make sense of the purpose of mentoring. Effective reflection provides insight by contrasting the earlier intentions with actual realities.

Stepping back to the meta level, it is important to consider how the relationship feels. Be curious; consider in what ways the Contract could be changed, how regular meet-up sessions could be varied, or indeed, how the status between Mentor and Mentee could be changed (increased or reduced). The greater the objectivity, the more powerful and enriching the reflection will become.

3 Celebration and gratitude for what has been accomplished

Mentoring is also part recognition. There's a need to acknowledge and appreciate the quality of the personal investments made. Counterintuitively, this is often part of the formal closure that's overlooked. For a rounded, effective review, it is vital to appreciate fully your joint efforts.

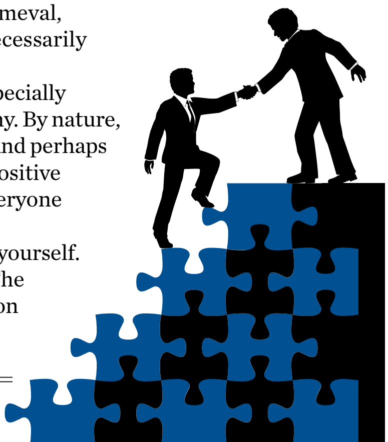
Celebration is a source of fuel for motivation, and accomplishment provides a launch-pad for all sorts of celebrations. So as part of the final meeting, find accomplishments and look for ways to celebrate them. Be intentional; find things that went well, and express gratitude for them. This is not empty new-age thinking; positive psychology is research-based, and the benefits are real.

Searching for success, however, can be more difficult than it appears. There are a few challenges that often get in the way, and they span the psychological, cultural, and habitual.

Firstly, analysis is part of the reflective process, so there is a tendency to seek out things that did not work as planned. It's natural as humans love to learn, fix and get it right the next time. This tendency to look for and find the worst, is known as negativity bias. It stems from our primeval, caveman instincts to survive. It's not necessarily bad, so long as it's managed.

Secondly, culture can play a part, especially where weight is placed on group harmony. By nature, communication can be less expressive, and perhaps more reserved. Finally, looking for the positive in things may not yet be habitual; not everyone practises it with great regularity.

At a meta level, choose to be kind to yourself. Give yourself some wiggle room to err. The Mentoring process is not about perfection but about making mistakes, learning, and growing. Choose to express gratitude for the small things that both of you have seen and done. Fully appreciate the efforts invested, not just the results achieved. Celebrate with pride and joy.



THE FINAL ACT: WAITING FOR THE CURTAIN TO FALL

Having conducted a formal, fruitful final session, one critical question that often remains is, "What next?" The answer is typically contingent upon the Mentor and Mentee perceptions and related to three relevant aspects. First, how much personal growth was achieved; second, how well each experienced the process, and finally, what, if any, future intentions each holds.

Established relationships often continue following a successful Mentoring stint. That said, it usually morphs into a different form. Optimistic indicators are an ability to appreciate joint accomplishments, holding positive feelings towards the other, and being comfortable expressing gratitude to the partner.

Where all three aspects are present, there's a high likelihood that Mentor and Mentee will continue ahead in a positive relationship. This may remain formal or informal, depending on the new needs.

So, whether Mentoring continues as a process for "giving" or for "getting", both paths are equally good. Tending to the details and conducting the relationship personally, professionally and full-heartedly will always lead to gains and growth for both. Enjoy! ISCA

Patrick O'Brien is Managing Director, The Amanuenses Network Pte Ltd.

BY BENJAMIN KESSLER

READY FOR THE GIG ECONOMY?

Independent Workers Pose Possibilities For Talent Development

THE RISE OF THE INDEPENDENT WORKER is arguably the biggest change to hit the global labour market in decades. Well over 30% of the United States (US) workforce reportedly lack "real jobs" working full-time for a conventional company, and that figure, some say, may top 40% by 2020. If these trends continue, non-traditional workers will almost certainly attain unprecedented levels of financial and political clout.

Yet, the cultural narrative around independent employment remains, for the most part, decidedly disempowering – concentrating as it does upon contingent workers at the mercy of peer-to-peer platforms such as Uber and TaskRabbit. In this analysis, the so-called gig economy has pushed workers into capitalist freefall, with no safety net in sight.

To be sure, the precarious existence that a great deal of these workers face should continue to be a cause for concern. However, Gianpiero Petriglieri, INSEAD Associate Professor of Organisational Behaviour, says there's more to the story. He cites a recent McKinsey report[1] suggesting that most independent workers in Europe and the US are knowledge workers or creatives, that is, people who presumably have options. Many could rejoin organisations, and those who succeed in securing a steady stream of work claim to make more money than when they were employed, though at increased risk. For this group, independent work provides an irreplaceable set of satisfactions. Freefall, after all, can be incredibly thrilling – if one were packing a parachute or tethered to a bungee cord.

Professor Petriglieri also points out that what we now consider non-traditional employment was once the standard option. With a tip of the hat to Jerry Davis, a professor at the University of Michigan's Ross School of Business, he says, "Before the Industrial Revolution, people did not have a sense of a *job* the way we have it today. They had tasks; they had work that needed to get done. And they had a craft that often defined who they were." Though large organisations have dominated business for at least the last 100 years, all this while, there have been freelancers operating in the corporate shadows, some doing quite well at it.

Professor Petriglieri's recent research paper (co-authored by Susan J. Ashford of the Ross School of Business and Amy Wrzesniewski of the Yale School of Management) in "Administrative Science Quarterly" takes a close look at how thriving freelancers manage their lives and careers outside the stabilising structure of an organisation. He and his co-authors conducted and analysed in-depth interviews with 65 independent workers, ranging from writers to corporate consultants to film producers – 30 of whom had been doing it for a decade or more.

PHOTO SHUTTERSTOCK

Four types of connections – to routines, places, people and purpose – helped the interviewees tamp down feelings of aloneness and their attendant anxieties.

[1] "Independent Work: Choice, necessity and the gig economy", McKinsey Global Institute, Oct 2016

NO SOFT LANDING

Perhaps the most surprising discovery to emerge from the interviews, says Professor Petriglieri, was that even the most outwardly successful freelancers admitted to feeling the same sense of precariousness as Uber drivers are said to be subject to. Without the ability to define themselves according to their standing within a company, their self-definition had become subsumed in their work, or their work was elevated to the status of self-definition (however you choose to look at it). What, for the conventionally employed, would merely be an off day brought on dire ruminations for the freelancers. As one filmmaker put it, "(On a bad day) I feel like Eeyore. I am just low and nothing is going right, and I suck and I'm a failure... It's a total death spiral."

What staved off the death spiral was productivity – the ability to perform well at their chosen task. Productivity took on existential significance, with each workday bringing a renewed struggle for both existence and a sense of aliveness. When they were making headway on a project, they felt an intoxicating freedom and mastery over their tenuous circumstances. They had the impression that they were channelling the high emotional voltage of their lives to power their creative engine. Of course on either side of every productive day, was a potentially paralysing anxiety.

Traditional working life includes its fair share of anxiety too. But Professor Petriglieri

... **the gig economy** could aid large organisations in attracting roving talents, at least for a while, if they ceased trying to tie people down.

draws a distinction between the *social* anxiety rife within organisations and the *existential* anxiety his interviewees wrestled with. Social anxiety is characterised by questions such as, "Will I be accepted? Will I be included? Will people listen to me?" Independent workers are more likely to stay awake at night pondering basic questions of identity, "Do I know who I am? Can I become who I aspire to be? Who will I be if I can no longer work at my best?"

The more experienced freelancers had learnt not only to remain productive despite uncertainty, but also to take pride in their ability to do so. According to one consultant, "The dark side (of independent work) is the struggle, the not knowing, being with the pain of it. You have to stay with it, is what I've learned in the past three years. You have to stay there and be willing to go into the abyss." In their professional choices, they sought just enough stability to prolong the existential adventure – like a parachutist manipulating steering toggles to stay aloft.

THE SECRETS OF RESILIENCE

Four types of connections – to routines, places, people and purpose – helped the interviewees tamp down feelings of aloneness and their attendant anxieties. Professor Petriglieri says that you could view these connections as replacements for the professional relationships and communal identity that naturally occur in organisations. But it is more interesting, he suggests, to consider the opposite – corporate structures may be spoon-fed substitutes for the more organic organising principles employees might resort to on their own. At the best of times, the four connections gave the freelancers something approximating the comfort and reassurance of a 9-to-5, without sacrificing excitement and autonomy as the corporate world so often requires.

Interviewees were religious about their routines. Even when the routine was not particularly strenuous – for example, one consultant described starting each day, no matter how busy, with a bath – adherence to it seemed to impart discipline and an inoculation against emotional and external distractions. In addition, routines gave focus to their lives so they could "show up" completely in their work.

Workspaces, too, took on enormous importance. Many freelancers said they worked best in surroundings such as cramped home offices, whose spatial constraints sharpened concentration. Others preferred to work in public spaces, particularly in places that held symbolic resonance for them personally. One artist said of her studio, "The look of it, the smell of it, everything is inside of me, but you can see it externally. It keeps all of the parts of myself in front of me."

They also cultivated very close connections with an inner circle of confidants. These were people who knew them well enough to soothe their emotional tension and restore their self-confidence when it flagged. Usually, professional peers were barred from the inner circle. Professor Petriglieri speculates that for these lone wolves, fraternising with people in the same line of work felt too similar to being in an organisation.

Finally, investing their work with a broader purpose was key to not getting bogged down in the day-to-day struggles of their working lives. It tied them to something greater than themselves, something beyond the impermanence in which they were immersed. One songwriter used a quote from former White House speechwriter Peggy Noonan to summarise his purpose, "'America is a song culture.' That's how we get so much of our values. And I think it's important that I could influence the culture through good songs."

WHAT ORGANISATIONS CAN LEARN

In a way, Professor Petriglieri says, the shift we are seeing towards independent work is an outgrowth of societal changes that have taken place over the last 30 years. "The big narrative has been a transition from a social contract based on loyalty to a transactional one, where the organisation sees me as a bag of skills and I see it as offering opportunities," he says.

Most organisational environments, however, have retained their shape from the era of loyalty. They are still designed for reassurance and control, yet they can no longer offer material security. According to Professor Petriglieri, it's no surprise then that more and more talents are choosing to go it alone – a less grounded but more vital and connected way of working.

He says that the gig economy could aid large organisations in attracting roving talents, at least for a while, if they ceased trying to tie people down. Instead, they could offer to help employees cultivate the types of connections they need to score their next gig and beyond. He refers to his previous research on "portable selves"[2], or professional identities made to withstand the flux of nomadic working lives. Organisations that help talents develop such identities may inspire loyalty that lasts long after the talents themselves have moved on to their next opportunity.

Professor Petriglieri offers a caveat, however. Mixed careers, in which talents alternate between solo and organisational stints, may not be viable over the long term, because protracted existential independence profoundly affects people's self-conception. Over time, they come to see organisations as little more than collections of stifling confinements. That should also strike a note of warning for corporate leaders who encourage creative independence and entrepreneurial thinking.

"They should be careful what they wish for," says Professor Petriglieri. ISCA

[2] "Today's leaders require a new sense of self", INSEAD Knowledge, 23 Aug 2017

Benjamin Kessler is Asia Editor and Digital Manager, INSEAD.
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BY CALEB CASTRO, LAM YOU KANG, NG YEN LYN, JASON KOH AND AMOS TAN

THE FUTURE OF AUDIT

An AI Perspective

This article is an adaptation of a project report submitted by the writers for the Accounting Analytics Capstone Course at the SMU School of Accountancy (SoA). Supervised by Associate Professor Gary Pan and Professor Venky Shankararaman, it is part of SMU-X – a learning pedagogy that allows students to apply an interdisciplinary approach as they develop innovative solutions for real client projects with mentorship by faculty and the industry partner.

For this project, the students, as aspiring young accountants and auditors, envisioned how the future of audit, and the profession, will change as the traditional roles are transformed with the help of new technologies, to become more efficient, strategic and catalytic. They focused on how accounting processes can be simplified and streamlined, and how applied data-driven analytics and insights can deliver future solutions to current real-world challenges.

This project is a collaboration between Deloitte Singapore and SMU SoA to develop future-ready audit professionals.

AI will completely replace the staff headcount currently needed to carry out tasks involving control, data and reporting.

ARTIFICIAL INTELLIGENCE, or AI, is fast changing the way we do work in the audit profession. In this article, we posit a vision of what the future of the profession will be like with the rise of AI, and examine how AI technologies can potentially be integrated into the future audit process.

Before we are able to look into the future of audit, we must first define the future client. From experience, it is almost always that the advancement of the audit methodology is limited by how technologically advanced the client is. In order for us to proceed with our exploration into the future without restrictions, we must presume that our future client are Industry 4.0 organisations.

In the Industry 4.0 world, where companies are completely digitalised, employ robotics and the Internet of Things, and allow for the creation of a mirror world[1], audit firms will need to integrate AI technologies into the way audit is performed in order to stay relevant to their clients. We call this next step in the evolution of audit "AI-assisted audit".

In this future world, the future audit firm transforms into a technology company which specialises in audit. Unlike how audit firms operate today, the future audit firm operates primarily over the web, as being physically on-site to conduct audits has become redundant. Instead, the future audit firm provides audit as an online service comprising three modules – control, data and reporting.

THE CONTROL MODULE

The control module generates test cases through the use of a self-coding AI, and tests them against a company's controls which are digitised and defined within an enterprise system. The AI generates syntax using a technique known as inductive programme synthesis[2], where it is first given a set of input(s) and output(s), after which, the AI obtains codes from existing programmes and intelligently induces the programmes.

By using this self-coding AI, the control module is able to smartly adapt and provide testing on controls for other clients with other requirements.

[1] A mirror world is a representation of the real world in digital form

[2] Balog, M, Gaunt, AL, Brockschmidt, M, Nowozin, S & Tarlow, D (8 March 2017). DeepCoder: Learning to Write Programs

WHAT EXPERTS SAID

Lee Kong Chian Chair
PROFESSOR CHENG QIANG,
Dean, SMU School of Accountancy

"Technology is changing, and will continue to change, the accounting profession. The advent of technology means that mundane and tedious work in the accounting profession will be automated. However, accounting professionals will play a more important role in processing and generating information that is critical for corporate decisions and financial reporting. Such changes suggest that accounting professionals should develop skills that are required in the future – tech-savvy, critical thinking skills and the ability to make sound professional judgement."

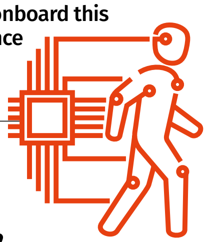
"The world of audit has evolved over the past two decades and continues to evolve, with stronger regulatory demands, increasing data volumes and exponential growth in technological capacity. The introduction of new technologies and platforms, the rise of e-commerce, and the shift from manual to automated processes in organisations are also major factors in this evolution.

At Deloitte, we believe that the audit of the future is all about innovation. In fact, this future is already upon us – we are seeing exponential technologies and emerging operating models that are leading the way in transforming traditional audit processes. These include Artificial Intelligence and Cognitive Computing, Robotics, Cloud Computing, Internet of Things, Blockchain and Crowdsourcing.

There are significant benefits – speed, cost efficiency, better data access and improved audit quality – and to reap these benefits, audit professionals will need to be well versed in the new technologies and data analytics.

These are exciting times for the profession as it looks to reinvigorate and reinvent itself, and it is encouraging that the academia has started incorporating new modules as part of their curricula to equip future audit professionals with the skills and knowledge needed to deliver the audit of the future. It is equally important to have the standard-setters and regulators coming onboard this journey early, to provide guidance to the audit practitioners."

SANJAY PANJABI,
Audit & Assurance Innovation & Analytics Leader,
Deloitte Singapore



... **with the impressive progress of AI in many fields,** the audit profession ought to actively embrace its potential, rather than shy away from the uncertainties.

PHOTO SHUTTERSTOCK

Furthermore, as an automated process, it allows controls to be continually tested even if a company introduces new controls. This function significantly changes the role of the auditor from that of manually testing the controls to that of checking the syntax generated by the AI to ensure that controls are tested fairly.

THE DATA MODULE

The data module checks the reliability of the clients' data by leveraging on Big Data. Advanced text-mining techniques are used to extract structured and unstructured data from the Internet and various data sources to identify fresh insights. Financial analytics and AI firm Kensho[3] is a prime

[3] Gara, A (28 February 2017). "Kensho's AI for Investors Just Got Valued at over $500 Million in Funding Round from Wall Street", Forbes online

[4] McCormack, J, Dorin, A, & Innocent, T (2004). "Generative Design: A paradigm for design research", Proceedings of Futureground, Design Research Society, Melbourne

[5] Neller, L (2013). An Introduction to Counterfactual Regret Minimization

[6] Tian, Y, & Zhu, Y (2015). Better Computer Go Player with Neural Network and Long-Term Prediction

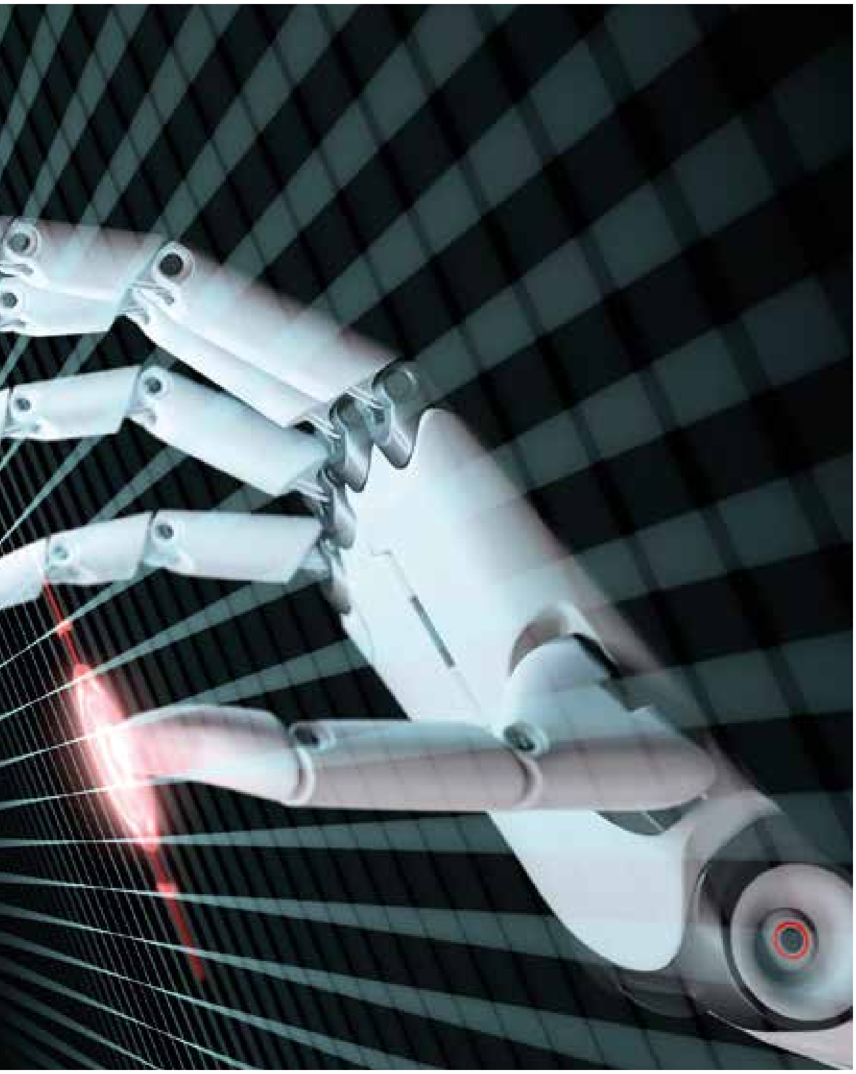


Table 1 Example of an AI-assisted audit on a purchasing order

Module	Current	AI
Control	Purchasing order more than $3,000 is to be approved by management.	
	A few samples of orders more than $3,000 are tested to check if control works.	AI generates test cases of orders above and below the threshold of $3,000 to ensure control is triggered.
Data	Auditor performs market research and analyses historical data to conduct reasonableness test to check estimates.	AI forecasts expected purchase expenses by various means to make accurate predictions. For example, it finds news that floods in Thailand have affected the harvest. AI predicts expenses to increase as purchase price may increase or purchase quantity may decrease owing to poor harvest.
Reporting	An anomaly "Many Purchase Orders with values below $3,000" is raised. AI suggests possible reasons and their respective probabilities. Employee charging many small value expenses to company: 83% Did not forecast demand properly: 58%	

example of this – it is able to process large amounts of data in real time from structured sources such as financial databases, as well as unstructured data from the news, political reports, social media, etc. Auditors are able to harness the power of Big Data to perform reasonableness tests and substantive analytical procedures to determine whether a company's forecasts, valuations and transactions are conducted in a true and fair manner.

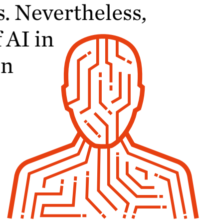
THE REPORTING MODULE

The reporting module focuses on generating hypotheses to understand why and how anomalies occur. Audited financial statements may be generated at different time periods such as real time, daily, weekly, monthly and quarterly. Machine learning algorithms such as generative design[4], counterfactual regret minimisation[5], and reinforcement learning[6] are used to generate possible reasons as to why and how fraud or misstatements occur. By designing a set of constraints – the company's internal controls, codified accounting standards, and the objective to explain the anomaly – the module replicates the anomaly by running through every possibility of how the anomaly might occur given the constraints. The hypotheses generated will then be statistically analysed and ranked by likelihood of it causing the error. This allows auditors to judge which scenarios are most likely, and subsequently investigate the more pertinent ones. This streamlines the investigation process and results in effort and time saved for auditors.

To help explain how these modules and their AI technologies are applied, please refer to an example of an AI-assisted audit on a purchasing order (Table 1).

When Industry 4.0 and, consequently, AI-assisted audit become a reality, there will be changes to the structure of the audit firm. One example is manpower. AI will completely replace the staff headcount currently needed to carry out tasks involving control, data and reporting. This means that the job scope and skill sets required from this group of employees will be different – they will need to have the technical knowledge to maintain, modify and update the AI technologies.

Transiting from traditional audit to AI-assisted audit may take time. It requires technological evolution and is dependent on the clients' level of technological adoption as well as approval from standard-setters and regulators. Nevertheless, with the impressive progress of AI in many fields, the audit profession ought to actively embrace its potential, rather than shy away from the uncertainties. **ISCA**



This is an adaptation of a project report submitted by the writers for the Accounting Analytics Capstone Course at the SMU School of Accountancy.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA COMMENTS ON IASB EXPOSURE DRAFTS

- **ED: Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)**
  ISCA supports IASB's efforts to clarify the distinction between accounting policies and accounting estimates. However, ISCA is of the view that the proposed definition is not robust enough to address complex but commonly seen interpretation issues as the terms used in the proposed definition remain ambiguous and subject to differing interpretations.

For more information, please visit https://isca.org.sg/media/2239119/comment-letter-ap-and-ae.pdf

- **ED: Definition of Material (Proposed amendments to IAS 1 and IAS 8)**
  ISCA supports IASB's efforts to clarify the definition of "material". However, ISCA has concerns with the inclusion of "obscuring" in the definition of "material". In ISCA's view, this constitutes a significant modification to the existing definition.

For more information, please visit https://isca.org.sg/media/2239171/isca-comment-letter-for-definition-of-material.pdf

IASB ISSUES NARROW-SCOPE AMENDMENTS TO PENSION ACCOUNTING

The amendments to IAS 19: Employee Benefits specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments are effective on or after 1 January 2019.

For more information, please visit www.ifrs.org/news-and-events/2018/02/international-accounting-standards-board-issues-narrow-scope-amendments-to-pension-accounting/

IFRS 17: INSURANCE CONTRACTS

- **Transition to the New IFRS Standard for Insurance Contracts**
  This article outlines steps national standard-setters or regulators may take, alongside the materials and other support available from the IFRS Foundation, when planning for implementation of IFRS 17 in their jurisdiction.

For more information, please visit www.ifrs.org/news-and-events/2018/01/transition-to-the-new-ifrs-standard-for-insurance-contracts/

- **IASB Publishes One-Page Summary of IFRS 17**
  This summary is meant to help insurers and others understand the requirements of IFRS 17. The summary explains different elements of the accounting model and how they will be displayed on a company's balance sheet and in its profit or loss statement.

For more information, please visit www.ifrs.org/news-and-events/2018/01/the-ifrs-17-accounting-model-in-one-page/

IFRS STANDARDS' IMPACT ON FINANCIAL STABILITY AND LONG-TERM INVESTMENTS

IASB has published two presentations. The first presentation explores the impact of accounting volatility on financial stability; how IFRS 9: Financial Instruments, and IFRS 17: Insurance Contracts contribute to stability, and the relationship between the IFRS Foundation and regulators. The second presentation explains how accounting standards contribute to long-term investments and how capital markets benefit from transparent reporting.

For more information, please visit www.ifrs.org/news-and-events/2018/01/ifrs-standards-and-their-impact-on-financial-stability-and-long-term-investments/

AUDITING AND ASSURANCE

IAASB MEETING HIGHLIGHTS PODCAST

This podcast contains highlights from the IAASB Meeting in December 2017. It covers the various on-going projects including quality control, auditing accounting estimates and identifying and assessing risks of material misstatement.

For more information, please visit www.ifac.org/news-events/2018-01/iaasb-december-2017-meeting-highlights-podcast

PHOTO SHUTTERSTOCK

Stone Forest IT

Automating Data Management across Multiple Systems for Greater Productivity

CHALLENGE

As its membership grew, a local club that serves traditional Chinese cuisine found itself spending excessive time managing voluminous data from multiple systems. Its finance team had to manually enter transactional data from the restaurant system and new members' details into the club's Sage 300 accounting system. Payment details, such as those relating to membership fees, had to be manually compiled before they were sent to the club's merchant bank for processing. These manual processes were time-consuming, posed a high risk of data entry error and delayed billing, negatively affecting the timeliness of payment collection. Seeking a solution, the club approached Stone Forest IT (SFIT) for assistance.

SOLUTION

After consulting with the client, SFIT proposed the following:

- A customised utility for Sage 300 that automatically exports daily transactional data from the restaurant system as well as details of members and membership fee payments from the membership system into the client's Sage 300 Accounts Receivable module
- SFIT's BankLink solution that translates members' payment details into a format that can be read by the client's merchant bank to facilitate collection

RESULTS

After implementation, the client enjoyed the following benefits:

- 60% reduction in processing time for daily transactions, leading to greater productivity
- 50% reduction in late payments collected
- Eliminate risk of manual data entry errors

With its vast experience in providing customised solutions for Sage 300, SFIT is well-positioned to help organisations align technology with their business objectives.

HIGHLIGHTS

Industry:
F&B, Retail and Consumer Products (Club)

Location:
Singapore

Solution:
Customised utility for Sage 300 and BankLink

Results:
- Greater productivity
- Reduction in late payments collected
- Eliminate risk of manual data entry errors

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Premier Partner


BY KOH WEI CHERN AND TONG YEN HEE

DON'S COLUMN

FRS 17 VERSUS FRS 116

Implications Of Residual Value Guarantee On Lease Accounting

IN JANUARY 2016, the International Accounting Standards Board issued an effects analysis paper on International Financial Reporting Standard (IFRS) 16: Leases, which is the equivalent of Financial Reporting Standard (FRS) 116 in Singapore. The paper stated that IFRS 16 "does not change substantially the accounting for finance leases in International Accounting Standard (IAS) 17. The main difference relates to the treatment of residual value guarantees provided by a lessee to a lessor". This article serves to highlight how the accounting for residual value guarantee under a lease arrangement will change when FRS 116 becomes effective for annual periods beginning on or after 1 January 2019.

CURRENT TREATMENT UNDER FRS 17

Under FRS 17 paragraph 20, a lessee shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. FRS 17 paragraph 4 defines minimum lease payments as payments over the lease term that the lessee is or can be required to make, which include any guaranteed residual value. Paragraph 4 further defines guaranteed residual value for a lessee as "that part of the residual value that is guaranteed by the lessee or by a party related to the lessee", and is "the amount of the guarantee being the *maximum amount that could, in any event, become payable*".

Let us use a numerical example to illustrate the accounting for a lease arrangement with residual value guarantee by a lessee under FRS 17. On 1 January 20x1, Lessee Ltd leases a machine for four years. The annual lease payment of $20,000 is payable on 31 December each year, which is also Lessee Ltd's financial year-end. Lessee Ltd

PHOTO SHUTTERSTOCK

guarantees to the lessor that the residual value of the machine at the end of the lease term would be $10,000. In an extreme scenario where the machine becomes worthless at the end of the lease term, the maximum amount that could become payable is $10,000, and this would be the amount used to compute the lease liability at initial recognition.

Assuming an implicit interest rate of 5%, the present value of the minimum lease payments, which is also the lease liability, is $79,146. Correspondingly, the leased asset would also be $79,146.

Using the effective interest method, the interest expense for the year 20x1 would be recorded at $3,957. Assuming that depreciation is based on the straight-line method, the depreciation expense per year is $17,287, calculated as the leased asset amount of $79,146 less $10,000 (that is, the guaranteed residual value at the end of the lease term), and divided by four. The total lease expense recognised on the income statement is therefore $21,244. The carrying amount of the leased asset and lease liability on 31 December 20x1 would be $61,859 and $63,103 respectively, and the net effect on the statement of financial position is a net credit of $1,244.

At the end of the lease term, if the residual value of the machine is greater than the guaranteed value, Lessee Ltd simply returns the machine to the lessor. If the residual value of the machine is less than the guaranteed residual value, then Lessee Ltd returns the machine, pays the difference in cash to the lessor, and recognises the difference as a loss on lease.

TREATMENT UNDER FRS 116

How would the accounting for residual value guarantees for a lessee be changed under FRS 116?

Under FRS 116 paragraph 26, a lessee shall measure the lease liability at the present value of the lease payments. Paragraph 27 goes on to define lease payments to include the *amounts expected to be payable* by the lessee under residual value guarantees. This results in two significant differences in the computation of lease liability when compared to FRS 17. First, a lessee no longer considers the maximum amount that could become payable, but just the amount expected to

Under FRS 17 paragraph 20, a lessee shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

be payable under residual value guarantees. The lessee is also required to re-measure the lease liability if there are changes in amounts expected to be payable under the residual value guarantees. Second, while residual value guarantees by a party related to the lessee is included in the computation of lease liability under FRS 17, only residual value guarantees by the lessee is included under FRS 116.

Under FRS 116, any re-measurement of lease liability and right-of-use asset because of changes to the expected amount payable under residual value guarantees will result in subsequent recognition of total lease expenses that are higher than those under FRS 17 (which does not require re-measurement) for each of the affected financial years.

Going back to the Lessee Ltd's example, at initial recognition, Lessee Ltd would have to estimate the amount expected to be payable under the residual value guarantee. If the residual value of the machine is expected to be greater than the guaranteed value at the end of the lease term, the amount expected to be payable is zero. In this case, the lease liability will be computed as $70,919 based on 5% implicit rate. If the residual value of the machine is expected to be $8,000, then Lessee Ltd expects $2,000 to be payable at the end of the lease term. In this case, the lease liability is computed to be $72,564. Note that all else being the same, under FRS 116, the amount recognised as lease liability under this lease arrangement will not be more than that recognised under FRS 17. Correspondingly, the amount recognised as the right-of-use asset under FRS 116 would also be smaller than that of the leased asset recognised under FRS 17.

Suppose the lease liability is recognised at $70,919 based on zero expected amount payable under the residual value guarantee. Using the effective interest method, the interest expense for 20x1 is recorded at $3,546. As the right-of-use asset under FRS 116 would be fully consumed by the end of the lease term, straight-line depreciation

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per year is $17,730 (computed as $70,919 divided by four). Thus, the total lease expense recognised on the income statement is $21,276. The carrying amount of the right-of-use asset and lease liability on 31 December 20x1 would be $53,189 and $54,465 respectively, and the net effect on the statement of financial position is a net credit of $1,276.

At the end of the lease term, if the residual value of the machine is greater than the guaranteed value, then there is no amount payable by Lessee Ltd. However, if the residual value of the machine is less than the guaranteed value, Lessee Ltd pays the difference in cash to the lessor, and recognises the difference as a loss on lease.

As a further illustration, suppose that at the end of 20x2, Lessee Ltd expects the residual value at the end of the lease term to be $8,000. Thus, the amount expected to be payable under the residual value guarantee at the end of the lease term is now $2,000. The lease liability will have to be re-measured from $37,188 to $39,002, and a corresponding adjustment is made to the right-of-use asset. At the end of the lease term, if the residual value of the machine is $8,000, Lessee Ltd would simply debit lease payable of $2,000 and credit cash of the same amount under FRS 116.

Note that unlike FRS 116, FRS 17 does not require the re-measurement of the lease liability at the end of 20x2 because the maximum amount payable under the residual guarantee (that is, $10,000) is already incorporated into the liability amount at initial recognition and amortised accordingly. With the increase in lease liability and increase in right-of-use asset as a result of this re-measurement, the interest and depreciation expenses in 20x3 and 20x4 are higher under FRS 116 when compared to those under FRS 17. However, if the residual value of the machine is $8,000 at the end of the lease term, Lessee Ltd would have to recognise a loss on lease of $2,000 under FRS 17 but need not do so under FRS 116 because of the re-measurement at the end of 20x2.

SUMMARY AND CONCLUSIONS

Based on the above examples, it is clear that the definition of lease payments by the lessee is different between FRS 17 and FRS 116. This results in the differential treatment of residual value guarantees and the computation of lease liability and asset. However, it seems that any differential impact on the income statement and the statement of financial position over the lease term is likely to be minimal. Under FRS 116, any re-measurement of lease liability and right-of-use asset because of changes to the expected amount payable under residual value guarantees will result in subsequent recognition of total lease expenses that are higher than those under FRS 17 (which does not require re-measurement) for each of the affected financial years. Such re-measurement allows for more relevant financial information because it mitigates the delayed recognition of lease expenses, which is only recognised as a loss on lease at the end of the lease term under FRS 17. **ISCA**

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BY FELIX WONG

FRS 109 TAX TREATMENT

Understanding The Intricacies In Applying FRS 109 Tax Treatments

FINANCIAL REPORTING STANDARD (FRS) 109: FINANCIAL INSTRUMENTS, which replaces FRS 39: Financial Instruments: Recognition and Measurement, applies to all institutions reporting under FRS for annual periods beginning on or after 1 January 2018. Assuming that an entity has a 31 December financial year-end and has not opted for early adoption of FRS 109, Year of Assessment (YA) 2019 will be the initial YA that FRS 109 tax treatment would apply.

"The move to FRS 109 represents a shift from a more rules-based accounting approach used in FRS 39 towards a more principles-based accounting approach. The new

Taxpayers that are required to comply with FRS 109 for accounting purposes must follow the FRS 109 tax treatment, with no option to opt out.

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accounting standard introduces principles-based requirements for classification and measurement of financial assets," highlighted Accredited Tax Advisor (Income Tax) Chai Wai Fook, Tax Partner, and Accredited Tax Practitioner (Income Tax) Toh Shuhui, Director, Ernst & Young Solutions LLP, at a recent *Tax Excellence Decoded* session by the Singapore Institute of Accredited Tax Professionals (SIATP).

Under FRS 39, financial assets were classified into the fair value through profit or loss (FVTPL), held-to-maturity, available-for-sale and loans and receivables categories. This changed under FRS 109 as these categories made way for the amortised cost (AC), fair value through other comprehensive income (FVOCI) and FVTPL categories. Financial assets are now classified on the basis of the business model within which they are held and their contractual cash flow characteristics.

In respect of impairment requirement, it has moved from the incurred loss model under FRS 39 to the expected loss model under FRS 109. It is no longer necessary for a loss event to have occurred before impairment losses are recognised. Instead, an entity must now assess whether the credit risk on a financial instrument has increased significantly since the initial recognition and if so, recognise a loss allowance for "Expected Credit Losses" (ECL) equal to either a 12-month ECL or lifetime ECL.

Taxpayers that are required to comply with FRS 109 for accounting purposes must follow the FRS 109 tax treatment, with no option to opt out. Taxpayers that do not need to comply with FRS 109 for accounting purposes will not be required to comply with FRS 109 tax treatment unless the taxpayer specifically elects to adopt the FRS 109 tax treatment.

Accredited Tax Advisor (Income Tax) Chai Wai Fook, Partner, Ernst & Young Solutions LLP, explained the underlying principles and key concepts in applying the FRS 109 tax treatments

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FRS 109 TAX TREATMENT
New Section 34AA of the ITA

The tax framework for FRS 109 is found in Section 34AA of the Income Tax Act (ITA).

Similar to FRS 39 tax treatment, FRS 109 tax treatment is generally aligned with the accounting treatment. There are, however, exceptions to the default FRS 109 tax treatment as provided in the provisions of Section 34AA, such as any profit, loss or expense that is capital in nature. The Inland Revenue Authority of Singapore (IRAS) has also issued an e-Tax guide on "Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments" on 22 November 2017, after seeking feedback from the public previously on its proposed positions on the income tax implications arising from the adoption of FRS 109. The e-Tax guide provides guidance to entities that are required to comply with FRS 109 and incorporates some of the feedback received.

Itemised listing of financial assets on capital and revenue account

Under FRS 39 tax treatment, taxpayers are required to submit to the Comptroller of Income Tax (CIT) a list of financial assets on capital account for CIT's determination (whether the assets are indeed on capital account).

Similarly for FRS 109 tax treatment, taxpayers are encouraged to submit an itemised listing of all debt instruments (measured at FVTPL, FVOCI or AC) and equity instruments measured at FVTPL held as financial assets on capital account annually, together with their income tax returns. Taxpayers should also submit an itemised listing of all equity instruments measured at FVOCI (on both revenue and capital account) together with their income tax returns in the YA of the basis period in which the asset is derecognised. Submission of such itemised lists serves as a form of contemporaneous documentation on taxpayers' intention at the point of tax return filing.

Adjustment of financial instrument classification

If at any one time there is information showing that a financial instrument (whether an asset or a liability) ought to be classified as on revenue account instead of capital account, or vice versa, all the tax adjustments relating to the gains and losses of that financial instrument will be treated as income or deduction in the YA of the basis period in which discovery occurs. Any such amendments, however, must be made by the CIT within a time limit of four years following the YA in which the financial instrument is disposed of. The converse can be applied by taxpayers as well.

Tax treatment

In determining whether a tax adjustment is required on a gain or loss, the first consideration is whether the financial asset or liability is on revenue or capital account. Generally, tax adjustments are required for financial instruments on capital account as the gains are non-taxable and the losses are non-deductible.

For financial instruments on revenue account, gains are generally taxable and losses are deductible (with the exception for impairment loss on non-credit-impaired financial instruments) and as such, no further tax adjustments are required. The timing (of when tax is levied or deduction is allowed) is dependent on the classification of the financial instrument, and in general, occurs when the gain or loss is recognised in the Profit and Loss (P&L).

The same concept applies to financial liabilities. If a financial liability on revenue account is measured as FVTPL, the gains or losses (other than that attributable to changes in credit risk recognised in OCI), whether realised or not, will be taxed or allowed a deduction as they are recognised in the P&L.

Impairment losses

Under the FRS 109 tax treatment, only impairment losses recognised in the P&L in respect of credit-impaired financial instruments on revenue account will be allowed for tax deduction and any reversal amount subsequently recognised in the P&L will be taxable.

A An attentive audience at the talk by Accredited Tax Practitioner (Income Tax) Toh Shuhui, Director, Ernst & Young Solutions LLP

TRANSITION TO FRS 109

Transition from FRS 39 tax treatment

On transition from FRS 39 to FRS 109, taxpayers are required to reclassify their financial assets and liabilities, and re-measure the carrying amount of such financial assets and liabilities. Any difference between the re-measure carrying amount at the Date of Initial Application (DIA) of FRS 109 and the previous carrying amount (which represents the unrealised gain or loss) is recognised in the opening retained earnings or equity at DIA.

In addition, taxpayers are also required to determine the difference between the ending impairment allowance (in accordance to FRS 39) and the opening loss allowance at DIA (in accordance to FRS 109) and recognise such impairment loss or reversal in the opening retained earnings at DIA.

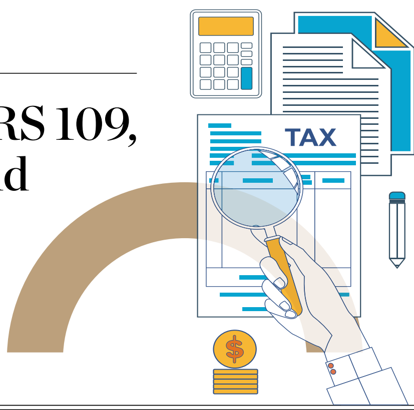
For taxpayers moving from FRS 39 tax treatment to FRS 109 tax treatment, such transitional accounting adjustment recognised in the opening retained earnings at DIA may be subject to tax or allowed as a deduction in the YA of the basis period in which FRS 109 is first applied.

Transition from pre-FRS 39 tax treatment

Transitional tax adjustments from pre-FRS 39 tax treatment to FRS 109 tax treatment seek to ensure all taxable or deductible cumulative gains or losses at DIA are valued as if there were no opt out of FRS 39 tax treatment previously, and make adjustments to cumulative gains or losses (including applicable impairment losses) on financial instruments that are on revenue account.

Unlike transitional tax adjustments from FRS 39 tax treatment, transitional tax adjustments from pre-FRS 39 to FRS 109 are calculated using prescribed formulae on an instrument-by-instrument basis. Such transitional tax adjustments are then brought to tax or allowed a deduction in the transition YA.

As entities move into FRS 109, it is useful to identify and consider the tax impact of transitional tax adjustments early.



CONCLUSION

As taxpayers move into FRS 109, it is important to identify and consider the tax impact of their transitional tax adjustments early. This is to minimise possible cash flow crunch from the additional tax payable arising from the transitional tax adjustments in the YA of the basis period in which FRS 109 is first applied.

Taxpayers should also familiarise themselves with the FRS 109 tax treatment to ensure that they comply with the requirements under Section 34AA and the IRAS' e-guide. As a good practice, taxpayers should consider maintaining any other contemporaneous documentation that would support their claim on whether the financial instruments are held on revenue or capital account, in addition to the itemised listing of financial instruments on revenue and capital account submitted to the CIT. ISCA

Felix Wong is Head of Tax, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Accredited Tax Advisor (Income Tax) Chai Wai Fook, Partner, and Accredited Tax Practitioner (Income Tax) Toh Shuhui, Director, Ernst & Young Solutions LLP. For more tax insights, please visit www.siatp.org.sg

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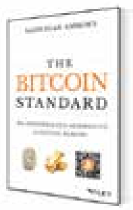

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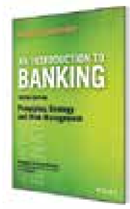

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1. In "Robotic Process Automation In Finance", automating manual-intensive finance and accounting processes can help save costs and reduce the number of errors to produce higher-quality outcomes for the many consumers and users of financial reports.
   A: True **B:** False

2. In "FRS 109 Tax Treatment", the move to FRS 109 represents a shift from a more rules-based accounting approach used in FRS 39 towards a more principles-based accounting approach.
   A: True **B:** False

3. In "Mentoring Others, Mentoring Yourself (Part 3)", trust and safety sit at the core of the Mentoring "Contract" that's drawn up at the start of the relationship.
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