IS Chartered Accountant Journal

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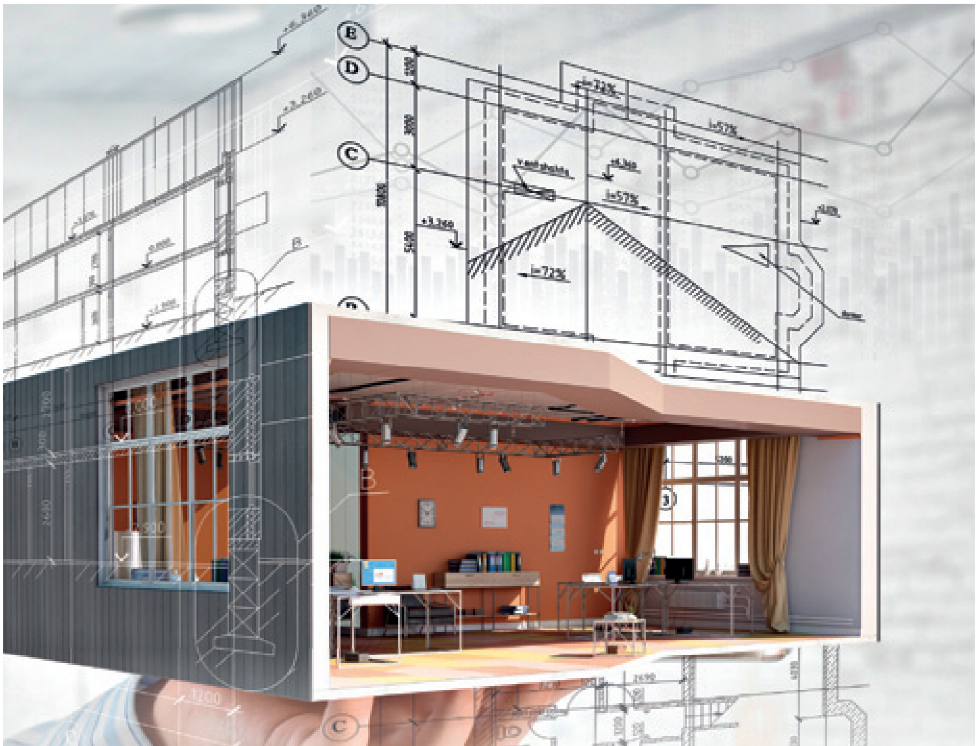

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Chance, Change, Challenge, Choice: The 4Cs Of Accountancy

Dear members,

IT USED TO BE THAT PROFESSIONALS IN SINGAPORE ASPIRED TOWARDS THE 4CS, comprising cash, credit card, condominium and car, to measure their success in life. Today, the 4Cs would have evolved into something entirely different, to correspond to the needs of a new generation. If I could ascribe the accountancy profession with its own 4Cs, I would list them as chance, change, challenge and choice.

Many ISCA members join the profession by choice, but there are some who do so by chance but go on to achieve success because of the choices they make during their accountancy journey. One such example is Kenneth Liew, CFO of Japan Foods, who shared that he "didn't know anything about accountancy in junior college" as he was in the Arts stream. Yet, years later, after discovering this "specialised skill" on which he could build a career, Kenneth received the Best CFO Award (small-cap category) at the recent Singapore Corporate Awards. For Lim Cheng Cheng, Group CFO of Singtel and winner of the Best CFO Award (large-cap category), it was a natural decision to read accountancy. After all, it is in her blood; her father also holds an accountancy degree. The award-winning members share their success stories within these pages.

Singapore's standing as a global business hub is due in large part to its strong economic and regulatory infrastructure, sound national security, stable political structure and good institutional corporate governance practices. Accountancy, very much a part of Singapore's growth story, is also able to advance towards its 2020 vision on the back of the country's sterling reputation. In September, the Institute honoured three distinguished public sector executives for their significant contributions to the city-state's exceptional progress, conferring the ISCA honorary lifetime membership on Benny Lim, Chairman of National Parks Board; David Chew, Director of Commercial Affairs Department, Singapore Police Force, and Wong Hong Kuan, former Director of Corrupt Practices Investigation Bureau and now Deputy Secretary (Development), Ministry of National Development.

Daily, our members do their part to uphold Singapore's global standing as they create value for their clients and their own organisations. As they face an increasingly complex business environment, it is crucial for members to adopt a positive mindset that embraces change and continuous learning, to support them in making good choices and manage upcoming challenges. To this end, ISCA has been rolling out many initiatives to help members navigate the business maze. In "Global And Regional Trends Disrupting Accountancy", ISCA CEO Lee Fook Chiew shares how the Institute is helping members to keep their skills relevant and aligned with shifting market needs, so that they are equipped with the know-how to address the myriad changes and challenges, as technology shapes global and regional developments.

This cover story shines the spotlight on real property valuation for financial reporting vis-à-vis the requirements of SSA 200 and SFRS(I) 13, and how to manage the expectation gaps among the reporting entities, valuers and auditors. To enhance clarity, ISCA has also produced a Guidance, currently in draft form, for reporting entities when engaging valuers to undertake real valuation for financial reporting purposes. As you are aware, the Institute collaborates with key stakeholders on different initiatives to improve the quality of financial reporting. Our committees and working groups have a wide representation that includes preparers, practitioners and regulators, allowing us to hear from the ground and ensuring that our initiatives continue to be impactful and relevant to members. Feedback is currently being sought from the targeted stakeholders for the Guidance, and the final version will be made available as soon as it is ready.

The Monetary Authority of Singapore, in its half-yearly macroeconomic review released on October 26, announced that the ongoing US-China trade conflict has had limited impact on Singapore so far; the negative effects, however, are expected to be felt more for the rest of 2018 and beyond. Bringing you up-to-date on the US-China dispute and the impact of trade protectionism by the world's two biggest economies on ASEAN is the article "US-China Trade Tussle".

The year end is fast approaching and, if you don't like to leave things to chance, now is a good time to start planning for your R&R. Relish a wine holiday? – then flip to "A Perfect Year-End Wine Escape". Come back refreshed and ready to stay ahead of the competition. Actually, "competition" could well be another C, giving us the 5Cs of accountancy!

Have an enjoyable read.

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Singapore Steps Closer To Being A Smart Nation

AS SINGAPORE MARCHES TOWARDS ITS SMART NATION VISION, there is concern among organisations' IT leaders that the city-state does not have the IT talents readily available to develop a Smart Nation-ready workforce. This is according to independent research commissioned by specialist recruiter Robert Half and released in September 2018. The research notes that nine out of 10 Chief Information Officers (CIOs)/ Chief Technology Officers (CTOs) felt this way.

Following the launch of Singapore's Smart Nation initiatives in 2014, businesses have been increasingly involved in the strategic deployment of technology across the nation for improved living, economic growth and national progress, which inevitably requires highly-skilled IT professionals to manage. As companies seek to secure the best IT candidates to drive innovation and business growth, they are confronted by a widening skills gap, exacerbated by an increased demand for IT professionals and intense competition in the job market.

"Many companies are currently experiencing challenges sourcing and attracting qualified IT professionals, and these crucial skills gaps will need to be filled quickly in order for Smart Nation to be a success," says Matthieu Imbert-Bouchard, Managing Director, Robert Half Singapore. Employers are embattled in the on-going war for talent, and struggle to find skilled job candidates in specific functional areas, namely, IT security (59%), cloud technology (36%), business intelligence (28%), IT management (27%) and business analysis (25%).

Companies welcome government training initiatives

There is optimism among survey respondents that government initiatives are helping to close the IT skills gap in Singapore's push to become a Smart Nation.

Some 60% believe that the TechSkills Accelerator (TeSA) will enhance the skills sets among IT professionals, and 53% think it will increase competition for high-level roles among IT candidates. TeSA is a SkillsFuture initiative which aims to help companies stay competitive by upskilling and reskilling existing ICT professionals, while supporting non-ICT professionals to acquire new, sought-after skills and domain knowledge.

Four in 10 (41%) CIOs/CTOs predict that TeSA will increase average salaries for skilled IT professionals and grow the competition among employers looking for the right candidate. Over a third (46%) think it will decrease IT skills shortage while only 3% of them do not think TeSA will impact the IT employment market.

The top skills that TeSA can help develop, when put in place, are IT security (53%), data analytics (37%), business analysis (32%) and business intelligence (32%), and 63% of respondents indicated that they are planning to use TeSA and other government schemes to improve IT staff skill levels over the next 12 months.

PHOTOS: SHUTTERSTOCK

KEY FINDINGS

Build a solid technical foundation

It's no secret that in order to become a CFO, you must have a solid technical foundation. However, these skills are not only built in classrooms. While most CFOs have relevant degrees and certifications, many found they learnt more through practical training and work experience. Some 77% of CFOs have a degree in business, commerce, finance and economics and 50% hold an MBA. Around 42% of CFOs have worked for at least four to five companies, and 21% worked for six or more companies over their careers.

Manage broadly and effectively

A recurring sentiment voiced by CFOs was the need for them to work across departments and understand how all areas of the business come together to achieve its goals. The vast majority of respondents (40%) agreed that it was important to work with all departments (HR, procurement, marketing/communications, IT, sales, legal/compliance, operations) rather than one in particular. It goes without saying that a CFO must expand his/her vision beyond the finance department in order to be a true strategic partner.

Develop a multitude of business skills

As businesses globalise, CFOs must be able to communicate clearly, lead multicultural teams, and exercise sophisticated people skills. Many CFOs from the survey recognised the importance of having strong business acumen, with 54% nominating "strategic planning" as the top skill needed to be a good CFO, along with "commercial acumen" (38%). Nominated closely behind "strategic planning" was "people management" (52%).

Think beyond the numbers

Contrary to stereotypes, CFOs are not limited to crunching numbers and making complex spreadsheets. Their role continues to evolve and today's CFOs are increasingly expected to play bigger roles in the performance and operations of the organisations they work for.

Respondents were asked to share tips with aspiring CFOs on the skills necessary for the role. Their responses demonstrated the importance of developing not only analytical and technical skills, but also management and people skills. Some 52% of all respondents said it is important to be "commercially aware", 48% said that it is vital to "develop your people skills," and 45% advised future CFOs to "get involved with the operations rather than just the numbers".

DNA Of A CFO: Going Beyond The Numbers

DEVELOPING EXCELLENT PEOPLE MANAGEMENT SKILLS and having a proactive nature are critical for anyone aspiring to become a Chief Financial Officer (CFO) in Asia, according to new research released in September by recruitment agency Hays.

The research, outlined in a new report titled "DNA of a CFO", shows that while most CFOs build their careers exclusively within finance, they value non-finance-related skills and attributes as key for career development. "CFOs are typically the right hand of the CEO and – as our research shows – must have superior leadership skills, excellent interpersonal skills and a thorough understanding of how every part of the business impacts costs and earnings," says Grant Torrens, Business Director of Hays Singapore.

CFOs tend to pursue the top job by building their career exclusively within finance; only 5% of respondents had worked in another speciality for part of their career. However, most of the respondents advise aspiring CFOs to pay close attention to developing interpersonal skills over and above their financial technical knowledge.

The top three skills CFOs advise the next generation of finance leaders to develop are commercial awareness (53%), people skills (48%) and to gain experience in operations and not just numbers (45%). "The top skills nominated by respondents in Asia were strategic planning (54%), people management (52%), commercial acumen (38%) and communication (34%)," says Mr Grant.

In terms of the top five personal attributes required to become a CFO, the findings indicated a proactive nature (61%), hardworking (46%), analytical (42%), being goal-focused (39%) and collaborative (37%).

According to Hays, the biggest challenge facing CFOs today are the changing industry and economic conditions. A quarter of them also identified the digitisation of the economy as a major challenge while 14% were concerned about responding to advances in technology.

New Approaches Needed To Prepare Youths For IR 4.0

PHOTO SHUTTERSTOCK

THE FOURTH INDUSTRIAL REVOLUTION (IR 4.0) is bringing emerging technologies to the forefront at an unprecedented pace. It is transforming the type of work people do and how work is done. While IR 4.0 offers new opportunities, many in the workforce today are left behind as they are ill-prepared for the future. This has led to growing concern among industry that the global workforce is not able to keep up with the current rate of change.

In particular, some 1.8 billion youths worldwide may be left behind by the changes, according to a recent report by Deloitte Global and Global Business Coalition for Education (GBC-Education). Titled "Preparing Tomorrow's Workforce for the Fourth Industrial Revolution. For businesses: A framework for action", the report notes that the business community needs to join other stakeholders in playing a more proactive role to prepare today's youths, so that they are ready to become the workforce of tomorrow.

"When it comes to addressing the opportunities and challenges of the Fourth Industrial Revolution, I believe we need a new mindset for action to ensure we are preparing now for the workforce of the future," says David Cruickshank, Deloitte Global Chairman. "This means that business has to play a leading role by not only defining and communicating what skills are needed in the future, but also by working side by side with educators, governments and non-profits to ensure our future employees are receiving the education necessary to compete and succeed in a workforce facing massive technological disruption."

When looking at what skills will be required to succeed in IR 4.0, four skills emerged from the research:

- **Workforce readiness** Basic skills such as time management, personal presentation, and attendance are critical to entering the workforce.
- **Soft skills** As humans increasingly work alongside robots, uniquely human skills, such as creativity, complex problem-solving, emotional intelligence, and critical thinking will be irreplaceable by machines.
- **Technical skills** New employment opportunities are being created through technology. Jobs that are currently going unfilled often require industry-specific technical skills and targeted training.
- **Entrepreneurship** As the gig economy grows, youths' ability to be innovative, creative and take the initiative to launch new ventures will serve them well in IR 4.0.

Driving change

IR 4.0 is often framed as a problem that needs to be tackled, as opposed to a unique opportunity for business to make an impact. So while businesses are focused on addressing the issue at hand, financial investment alone will not employ 1.8 billion youths. Instead, new, system-wide approaches are needed. The report has four key recommendations to drive the requisite change:

- **Align stakeholders' objectives and approaches** To achieve scalable results, businesses need to work with the broader ecosystem, implementing an integrated approach that leverages each group's strengths and capabilities for impact. This includes coordinating opportunities, identifying gaps in training, finding opportunities for co-investment, and sharing information about future talent needs.
- **Engage in public policy** Business has an opportunity – and role – to help governments prepare policies, rules, and regulations that will benefit youths and strengthen the future workforce. Dialogue, advocacy, collaboration, and influencing government are key means to drive results.
- **Develop strong talent strategies** Reviewing and adapting current talent strategies will be important to future success, and developing best practices that promote inclusivity and innovation will be critical.
- **Invest in workforce skilling** Employee training can no longer be a "check the box" activity, and business needs to evaluate, invest, and promote workforce training programmes strategically so that future talents' needs and requirements can be met.

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.

Flash your membership e-card to enjoy these benefits as an ISCA member.

Far East Hospitality

ISCA members enjoy:

Weekend Staycation Rates
- The Quincy Hotel: Per room night stay from $220nett
- Oasia Hotel Downtown: Per room night stay from $180nett
- Oasia Suites Kuala Lumpur: Per room night stay from MYR250nett

*Weekend staycation rates are valid from 1 Jan – 30 Dec 2018 and blackout dates apply

Kordel's

ISCA members enjoy:

- 25% off Kordel's products on Lazada by quoting ISCAKD2018.

Terms & Conditions:
- Offer excludes promotion packs and nett items
- Offer is not applicable with any other ongoing Lazada promotions
- Delivery charges apply

Offer is valid from 1 January 2018 - 31 December 2018.

BMW

ISCA members enjoy (Not available for i3, i8 and Shuttle Programme):

- BMW Service Inclusive and extended warranty for up to 5 years/200,000km
- Exclusive deals and invitations to prestigious events, driving adventures and a top-of-its class automotive serving experience

Senior Civil Servants Named Honorary Members Of ISCA

IN SEPTEMBER 2018, the Institute announced the conferment of its honorary lifetime membership to three eminent public sector executives – Benny Lim, Chairman of National Parks Board (NParks); David Chew, Director of Commercial Affairs Department (CAD), Singapore Police Force (SPF), and Wong Hong Kuan, then-Director of Corrupt Practices Investigation Bureau (CPIB); Mr Wong was posted to the Ministry of National Development (MND) as Deputy Secretary (Development) on 1 October 2018.

The ISCA honorary membership is a privilege accorded on an exceptional basis to distinguished individuals who are non-ISCA members. They encompass individuals who have made significant contributions to the accountancy sector and wider business community, and are elected by the ISCA Council. The three new members are now part of the ISCA membership community of over 32,000 accounting professionals from diverse industries.

"Benny, David and Hong Kuan have each contributed significantly to Singapore's development as a global business hub, owing to its strong economic and regulatory infrastructure, sound national security, stable political structure and good institutional corporate governance practices. Today, Singapore has a reputation as one of the world's least corrupt countries, and one of the best cities for doing business. We are pleased to honour their efforts by presenting them with an honorary lifetime membership," says ISCA President Kon Yin Tong.

BENNY LIM
Chairman,
National Parks Board

Mr Lim started his career as a police constable and rose through the ranks to become Deputy Commissioner of Police. He was Director of the Internal Security Department where he led and developed Singapore's counter-terrorism efforts against the jihadist terrorist threat. He later served as Permanent Secretary at several ministries. As Permanent Secretary of the Ministry of Home Affairs, he established the Home Team Academy and its Behavioural Science Centre, and during his term, saw crime, drug, fire fatality and recidivism rates improve to be among the lowest in the world. As Permanent Secretary of the Ministry of National Development, he strengthened feedback and data analytics capabilities and reviewed housing schemes to meet changing needs.

Concurrently, as Permanent Secretary in the Prime Minister's Office, Mr Lim oversaw strategic national security and intelligence programmes as well as drove efforts in engaging Singaporeans in the Our Singapore Conversation, and organised the SG50 "Future of Us" exhibition.

"I thank ISCA for this award and am ever grateful to the Institute for lending its critical expertise to help shape and develop the white-collar investigation training programme driven by CAD and CPIB, which have benefitted many of our law enforcement officers over the years."

DAVID CHEW
Director,
Commercial Affairs Department,
Singapore Police Force

Mr Chew joined the Singapore legal service in 1992. He graduated with an LLB (Hons) from the National University of Singapore in 1991, and worked as a litigation lawyer prior to joining the State Courts (formerly known as the Subordinate Courts) in 1992 as a Magistrate and thereafter, as a District Judge. He was posted to the Attorney-General's Chambers (AGC) in 1999.

Mr Chew was previously Deputy Chief Prosecutor of the Financial and Technology Crime Division at the AGC. Prior to that, he was attached as an in-house Deputy Public Prosecutor at the AGC's satellite office in the CAD. He has also served as a District Judge (Juvenile Court) and a Deputy Registrar in the State Courts.

"ISCA plays an important role in enhancing the capability and technical skills of professional accountants. CAD is privileged to have an opportunity to partner ISCA in the fight against crime. The introduction of the Financial Forensic Accounting Qualification will enhance the profession's ability to combat financial crime and I am honoured to be conferred ISCA's Honorary membership."

WONG HONG KUAN
Then-Director,
Corrupt Practices Investigation Bureau

Deputy Secretary (Development),
Ministry of National Development

Mr Wong has held many appointments within and outside the SPF since he started his career in the public sector in 1995. These included Director of Operations in the SPF, Commander of Bedok Police Division, Commander of Police Training Command and Deputy Commissioner of Police (Policy). He also served as Assistant Director (Infrastructure & Economy) in the Ministry of Finance, and was Chief Executive Officer of the Workforce Development Agency. He has also contributed to the community through his involvement with the National Committee on Youth Guidance and Rehabilitation, National Police Cadet Corps Council and National Crime Prevention Council.

Mr Wong, in his last appointment as Director, CPIB, had strengthened the operational and investigations capability of the bureau, as well as internal controls and governance. Under his leadership, CPIB made significant strides in engaging external partners and implemented initiatives to promote good governance and ethical business practices in the private sector. On the international front, he strengthened the bureau's partnership with international organisations as it continues to fight cross-border corrupt practices.

"The CPIB has worked with the private sector to encourage ethical business practices and combat corruption relentlessly without fear or favour. Each of us has a part to play to stamp out corruption as we push on together, ensuring that Singapore remains a conducive place for investments and businesses. The CPIB and ISCA are aligned in the common mission to keep Singapore corruption-free. It is a privilege to be conferred ISCA's Honorary Lifetime Membership and I will do my best to continue this mission."

MARK YOUR CALENDAR

14 NOV

ISCA Breakfast Talk: Robotic Process Automation in the Transformative Age

Today, change is coming faster than ever before –and there is more of it. The sheer velocity of change has upended the business environment and rearranged the landscape.

Join us as we talk about the Robotic Process Automation, one of the fastest rising technologies in the digital world and understanding the technology, adoption hotspots and their benefits.

15 NOV

Audit of Accounts Receivable and Other Receivables

Learn to identify common financial statement misstatements and gain understanding of the client's revenue recognition policies involving accounts receivable and other receivables.

15 NOV

Effective Engagement Management for Accounting Firms NEW!

This workshop uses the principles of project management to enable Team Leaders and Engagement Managers to effectively execute the engagement life-cycle, achieve engagement objectives within the budget and timeline, and manage engagement teams and stakeholders.

SkillsFuture Credit approved

17 NOV

Tax and Transfer Pricing in Supply Chain

This course discusses tax exposures, risks, transfer pricing issues and the impact of the OECD Base Erosion and Profit Sharing.

21, 22, 23, 26 & 27 NOV

Practical Accounting Essentials

This programme 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.

27 & 28 NOV

Cyber Forensics and Cybersecurity for Decision Makers NEW!

This blended learning and experiential programme provides middle-senior management the understanding and application of the different aspects of cyber forensics and cybersecurity knowledge and skills.

SkillsFuture Credit approved

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

isca breakfast talk

Cybersecurity Risk Considerations In A Financial Statements Audit

ON SEPTEMBER 12, Tan Jenny, Risk Assurance Partner from PwC Singapore, conducted an insightful session on how cybersecurity risk and cyber attacks can impact an entity's financial statements and its related audit.

Ms Tan began the session by pointing out that cybersecurity is a subset of the overarching information security. Cybersecurity risk is relevant to every entity as every organisation is vulnerable to cyber attacks as long as it is connected to an active network. In fact, an entity gets silently attacked in the cyberspace at least twice a day.

Cybersecurity risk is an essential consideration in every financial statements audit and the impact of such risks and its related audit responses should be considered part of the audit planning process. Auditors are only required to consider risks that could impact the financial statements and an entity's assets.

Using a case study, Ms Tan illustrated the process of understanding the cyber environment of an entity as part of risk assessment. She emphasised that cyber risks do not solely sit with the IT functions in an organisation; they affect every employee in every function.

She went on to share how cybersecurity breaches will impact the financial statements. Some key takeaways include:

- Theft of data can lead to both reputational damage and potential impairment of tangible and intangible assets;
- Malware deletion of data which is not backed up properly may lead to incomplete or inaccurate financial information, and
- Loss of customer information may not have direct financial impact but may lead to penalties and lawsuits.

A Tan Jenny, Risk Assurance Partner from PwC Singapore, explaining the link between cyber risks and financial statements audits

Concluding the session, Ms Tan encouraged the participants to involve an IT specialist early to audit the organisation's IT environment. She also suggested conducting in-house simulation exercises to raise awareness of the different types of cyber attacks.

isca breakfast talk

Private Equity And Debt: What You Need To Know About Raising Funds From Alternative Capital Providers

PARTICIPANTS OF THE ISCA BREAKFAST TALK ON OCTOBER 17 heard from David Chew, Partner and Founder of DHC Capital, about the unprecedented flow of institutional money into private capital over the past five years, and that there was a large amount of "dry powder" waiting on the sidelines, to be invested in Asia. He explained that the regulatory changes post-global financial crisis have indirectly led to the growth in private capital globally, so in instances where traditional banks are more cautious in originating new loans, private capital funding has become an alternative source.

Private capital is broadly divided into two types – private equity and private debt. The type of business and its stage in the business life cycle will determine the type of funding that is most suitable. Investment strategies for private equity typically centre on venture (early-stage companies), growth, buyout and sector-focused funds. For private debt, the broad strategies tend towards senior debt, mezzanine and special situations. Mr Chew then explained the funding situations (example, growth, working capital and rescue), deal structuring, how returns are generated for investors and used case studies to illustrate the concepts.

Partner and Founder of DHC Capital David Chew talked about raising funds from alternative capital providers

The Views From The Top In Tax

IT WAS AN ACTION-PACKED PERIOD for tax professionals as they were taken on a fast-track ride to the top by the Singapore Institute of Accredited Tax Professionals (SIATP) through various programmes.

Bringing together well-established tax advisors from Deloitte Singapore in both areas of tax and customs, the recent *Tax Excellence Decoded* event provided participants practical approaches and tips on what it takes to manage the tax function at the global level.

With Sharon Tan, International Tax Partner, and Wong Meng Yew, Southeast Asia Leader for Global Trade Advisory, sharing their experiences and observations, participants certainly learnt various interesting perspectives on managing ambiguity in the international tax arena. A participant commented that the session was "very good and practical".

Accredited Tax Advisor (Income Tax) Kwan Chang Yew, Head of Group Tax at DBS (centre), engaged participants with his professional tax journey across the public and private sectors, in practice and in commerce

Accredited Tax Advisor (Income Tax & GST) Sharon Tan, International Tax Partner (speaking), and Wong Meng Yew, Southeast Asia Leader for Global Trade Advisory (seated in row 1, 1st from left), both from Deloitte Singapore, shared with tax professionals personal anecdotes and best practices

Participants were equally enthralled at the inaugural Tax Peek session that saw Kwan Chang Yew, Head of Group Tax at DBS, sharing with young tax professionals insights into the zenith of tax in the banking sector. Transcending the limitations of typical one-to-one mentor-mentee programmes, yet not quite as intimidating as sharing perspectives over mass networking sessions, the event saw new friendships formed as conversations flowed way past the closing hours.

Want a bird's eye view of tax? Email enquiry@siatp.org.sg.

BY LEE FOOK CHIEW

Global And Regional Trends Disrupting Accountancy

How ISCA Supports Members In Navigating Change

IN MY PREVIOUS ARTICLE TITLED "TECHNOLOGICAL DISRUPTION IN ACCOUNTING", published in the June 2018 issue of this ***IS Chartered Accountant*** Journal, I shared my views on how technological disruption is affecting jobs, yet also creating new opportunities and business models. In this article, I explore the key global and regional developments that we should be mindful of, and share how ISCA is helping members to keep their skills updated with the changing market needs.

CYBER THREATS: A QUESTION OF WHEN, NOT IF

One major incident that recently affected large numbers of Singaporeans unlike any other was the cyber attack on SingHealth in June. The incident was described by the authorities as the "most serious personal data breach" in Singapore's history. While it has had a catalytic effect in Singapore of attuning more individuals and organisations to the management of cybersecurity risk, it was but the latest in a string of high-profile cyber incidents globally. One only has to think of the WannaCry ransomware attack last year to realise the wide-ranging consequences of a cyber intrusion.

Indeed, cybersecurity risk is now a business threat that is becoming increasingly common, and can pose immense challenges to entities in the current business environment.

Cyber attacks are "no longer a question of if, but when", as Singapore's Deputy Prime Minister Teo Chee Hean had emphasised, when he shared how Singapore is continuing to strengthen its cybersecurity capabilities at the opening of the third annual Singapore International Cyber Week. In response to heightened risks in the cyber space, Singapore has actively invested in cybersecurity. In September 2018, Singapore announced its commitment of S$30 million over the coming five years to fund the upcoming ASEAN-Singapore Cybersecurity Centre of Excellence (ASCCE). Launched as an extension of the ASEAN Cyber Capacity Programme, ASCCE was established to aid the development of cybersecurity capabilities of ASEAN member states, covering the areas of policy, strategy, legislation and operations that are pivotal in aligning cyber-diplomacy efforts with operational issues.[1]

Similarly, the Institute recognises the need for members to stay up-to-date with the developments in cybersecurity. ISCA recently launched a publication titled "Cybersecurity Risk Considerations in a Financial Statements Audit"

[1] "New cyber security centre to boost ASEAN's capabilities", 19 Sept 2018, The Straits Times online

PHOTO SHUTTERSTOCK

I STRONGLY ENCOURAGE MEMBERS TO LOOK OUT FOR THE LATEST ISCA ARTICLES AND TOPICAL PUBLICATIONS AS A QUICK WAY TO STAY ABREAST OF THE LATEST TRENDS AND DEVELOPMENTS IMPACTING THE PROFESSION.

to provide a guide for auditors on assessing cybersecurity risk in a financial statements audit. This is the first publication in Southeast Asia that provides guidance on cybersecurity risk considerations in a financial statements audit.

With various case studies to illustrate the diverse impact of a cyber attack on companies, the guidance demonstrates how cybersecurity threats and cyber attacks can impact financial reporting and, by extension, the audit of financial reports. The publication also provides insights on how auditors should take cybersecurity risk into account as part of risk assessment during audit planning.

SINGAPORE: A HUB FOR INTANGIBLE ASSETS

In September, at IP Week @ SG 2018, Minister in the Prime Minister's Office and Second Minister for Finance and Education Indranee Rajah had highlighted that Asia is at the forefront of innovative activities and Singapore can be a hub to connect the region's markets through intellectual property (IP). She said, in her Guest-of-Honour address, "As a financial hub, Singapore is well placed to work with international and local partners to appraise as well as better monetise and finance intangible assets, which account for an increasingly large portion of a company's value today."[2]

At the same event, the Intellectual Property Office of Singapore had forged new partnerships with diverse innovation stakeholders such as insurance giant Lloyd's Asia and NUS School of Continuing and Lifelong Education (NUS SCALE), which offer organisations new tools and capabilities to grow their intangible assets and commercialise their IP.

Recognising the importance of intangible assets, ISCA organised two seminars on intangible assets, one in 2017 and another in 2018. The latest seminar was jointly organised with RSM in October 2018 and titled "Embedding Intangible Assets Management into your Strategy". Through our seminar, members were apprised of real-life examples of IP infringement, enforcement and solutions through the sharing by subject-matter experts and panellists. Members also learnt about the importance of strategic intangible asset management in maximising a company's value, and how unlocking the value of intangible assets enables their business to gain a competitive advantage in today's knowledge-based economy.

ARTIFICIAL INTELLIGENCE: A PART OF OUR EVERYDAY LIVES

The use of artificial intelligence (AI) is a growing trend that is becoming part and parcel of our everyday lives. Simulation-based research by the McKinsey Global Institute suggests that about 70% of companies are expected to adopt at least one form of AI by 2030. Overall, AI has the potential to deliver additional global economic activity of around US$13 trillion by 2030, or about 16% higher cumulative GDP.[3]

In South Korea, a voice-recognition AI platform called "Genie" is capable of doing your bidding, such as turning on the television, adjusting the room temperature and playing K-pop music during your hotel stay in South Korea.[4]

No doubt, the rapid developments in AI have engendered high expectations of the benefits it can deliver for business and for society at large. Yet, there are concerns about technology replacing human input and thus displacing jobs.

PHOTO SHUTTERSTOCK

The Institute had recently launched a publication titled "Artificial Intelligence: Opportunities, Risks and Implications" that examines the opportunities, risks and implications of AI use and other data-driven technologies – particularly in the context of the accounting and finance industry – and how we can equip ourselves to deal with such future scenarios. As with any new trend, a healthy perspective towards AI would be to embrace the possibilities it can bring, while also being alert to the potential risks.

I strongly encourage members to look out for the latest ISCA articles and topical publications as a quick way to stay abreast of the latest trends and developments impacting the profession.

CONCLUDING REMARKS

At ISCA, we endeavour to keep our members updated on the latest trends and developments, and the Institute will continue to support our members in their professional growth to further their career aspirations. We welcome your suggestions on how the Institute can further support members to stay relevant in the digital economy. ISCA

Lee Fook Chiew is CEO, ISCA.

[2] "Singapore a hub to value, monetise intangible assets: Indranee", 5 Sept 2018, The Business Times online

[3] "Notes from the AI frontier: Modeling the impact of AI on the world economy", Sept 2018, Discussion Paper, McKinsey Global Institute

[4] "How AI is transforming the way we live and work: A 'genie' is changing how Seoul hotel serves guests", 24 Sept 2018, The Straits Times online

WHAT'S ON

To thrive in today's economy, it has become an imperative for accountancy professionals to embrace innovation. This includes the need to venture beyond the region for business and professional growth. But how can members be better equipped for these opportunities, while also be prepared for the risks brought about by various forms of disruptions?

Keep a lookout for ISCA's emails, and do check the ISCA corporate website for the latest updates on events and resources including the following:

IS Chartered Accountant Journal articles on latest global and regional trends

- **September 2018: "ISO 27001: A Framework to Manage Information Assets"**
  ISO 27001 is a framework for the management of an organisation's information assets and lists the requirements that organisations need to follow when conducting a risk management assessment regarding the protection of information assets. For example, companies need to identify which of their assets are information assets; what risks are faced by these information assets, and what types of controls can be implemented to reduce, mitigate or remove the risks in relation to these assets.
- **August 2018: "Positioning Singapore as Asia's Infrastructure Hub"**
  To keep pace with the growing infrastructure industry in Asia, there is a continuing requirement for project finance specialists. One of the ways to develop these resources is to build the capabilities of accounting professionals who already have a good grounding in many of the issues involved. In support of the government's call to building the talent in this space, ISCA and EY are exploring the development of a professional/experience pathway to deepen the skills of ISCA members in project finance.
- **May 2018: "Cybersecurity Risk"**
  Technology has become an integral part of today's business environment, making cybersecurity risk an important risk area that cannot be ignored. Just as auditors would consider an entity's business risks in a financial statements audit, cybersecurity risk should be considered and assessed as part of risk assessment for every audit.

ISCA Learning Roadmap (LRM)

ISCA Learning Roadmaps lay out the recommended skills at each proficiency level, and the learning opportunities available to acquire such skills. Such information will be helpful to members in their career planning, and as they work towards their career aspirations.

- "Learning Roadmap for Auditors in Small-and-Medium-sized Practices"
- "Learning Roadmap for Professional Accountants in Business"

BY LIM JU MAY AND FELICIA TAY

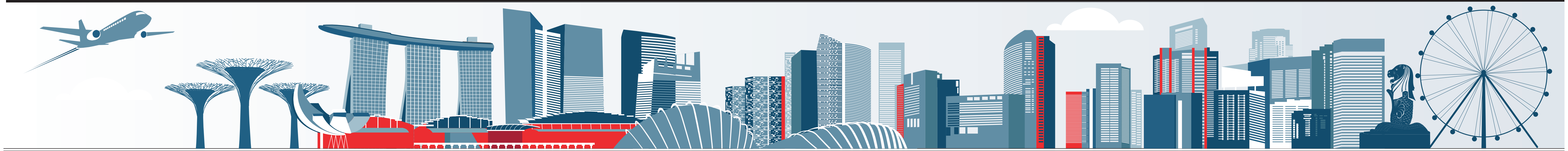
REAL PROPERTY VALUATION FOR FINANCIAL REPORTING

Plugging The Expectation Gaps

REAL ESTATE ASSETS such as land and buildings (or in valuation terms, real property interests) are, more often than not, significant assets of companies. These assets are commonly required by accounting standards to be reported at their fair values on the companies' financial statements. It is therefore pertinent for the valuation process of such assets to be efficient and effective for the financial reporting ecosystem to function well.

Accounting standards, International Valuation Standards (IVS) and professional valuation bodies each stipulates its respective requirements for the valuation of real properties. Inevitably, the misalignment of expectations among the Reporting Entities, Valuers and Auditors do exist, resulting in inefficiencies for the financial reporting ecosystem.

PHOTO: SHUTTERSTOCK



ISCA has developed a guidance (currently in draft form) for reporting entities when engaging valuers to undertake real property valuation for financial reporting purposes (the "Guidance"). The upcoming Guidance seeks to bridge the expectation gaps and facilitate the valuation process among the Reporting Entity, Valuer and Auditor.

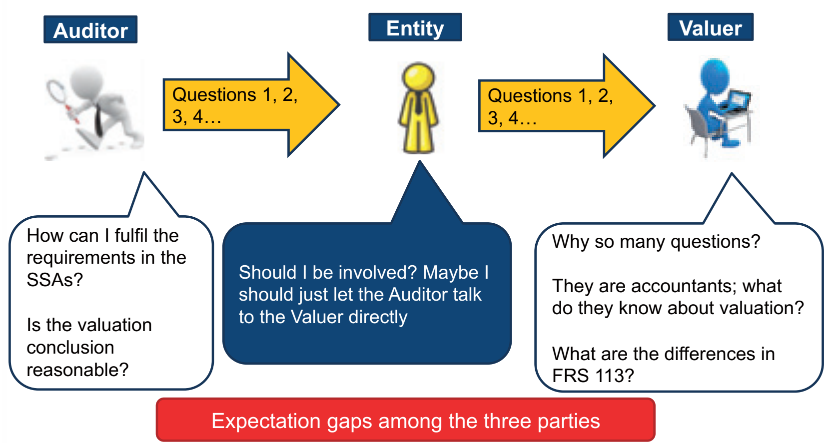
ISCA, through its Financial Reporting Committee (FRC), FRC Valuation Sub-Committee and Property Valuation Working Group, has discussed, deliberated and studied the practical issues and pain points encountered by stakeholders in the valuation process. Under the leadership of our FRC immediate-past Chairman Prof Chua Kim Chiu and Chairman Reinhard Klemmer; FRC Valuation Sub-Committee immediate-past Chairman Keoy Soo Earn and Chairman Lie Kok Keong; Property Valuation Working Group Chairman Andre Toh Sern, and the contributions of various individuals, ISCA has developed a guidance (currently in draft form) for reporting entities when engaging valuers to undertake real property valuation for financial reporting purposes (the "Guidance").

The upcoming Guidance seeks to bridge the expectation gaps and facilitate the valuation process among the Reporting Entity, Valuer and Auditor. Feedback from targeted stakeholders is currently being sought on the Guidance.

At the inaugural IVSC-WAVO Global Valuation Conference 2018, ISCA's FRC Valuation Sub-Committee Chairman Mr Lie presented a segment on "Real Property Valuation for Financial Reporting". His presentation included an overview of the expectation gaps among stakeholders in the preparation of the valuation report for the purpose of financial reporting, why Auditors need to understand how valuation is performed, responsibilities of the Reporting Entity, how the Reporting Entity and Auditor should work

Figure 1

A possible scenario during a year-end audit



ISCA's FRC Valuation Sub-Committee Chairman Lie Kok Keong presented on "Real Property Valuation for Financial Reporting" at the inaugural IVSC-WAVO Global Valuation Conference

with the Valuer and key requirements of SFRS(I) 13 *Fair Value Measurement*. He also shared some snippets of the upcoming Guidance and addressed questions from the floor.

This article captures some key highlights and insights from Mr Lie's presentation.

EXPECTATION GAPS AMONG STAKEHOLDERS

Without timely planning and communications, expectation gaps can exist among stakeholders, namely, the Reporting Entity, Valuer and Auditor, when preparing the valuation report for financial reporting (Figure 1). Common issues/pain points include the following:

1) Valuation reports used are not fit for purpose: the valuation reports may have been prepared for different purposes (example, for financing), and the extent of the investigation could be just desktop;
2) Involvement of experts at short notice/last minute;
3) Auditors may not have sufficient valuation knowledge to understand the experts' reports;
4) Reporting Entities may not want to get involved in the valuation process as they feel it is not their job and they already paid the professionals.

The above typically stems from a lack of understanding of each party involved in the valuation process and misalignment of expectations. The upcoming Guidance seeks to mitigate those gaps.

WHY DO AUDITORS NEED TO UNDERSTAND HOW VALUATION IS PERFORMED?

Auditor is responsible for conducting the audit in accordance with SSAs

Singapore Standards on Auditing (SSAs) are to be applied to the audit of historical financial statements, and require Auditors to exercise professional judgement and maintain professional skepticism throughout the planning and performance of the audit.

SSA 200 states that in conducting an audit of financial statements, an Auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance and is obtained when the Auditor has obtained sufficient appropriate audit evidence.

What is sufficient appropriate audit evidence is a matter of professional judgement. The Auditor obtains an understanding of the auditee's business context and exercises his professional judgement when designing audit procedures to determine what needs to be performed. The Auditor is also required to maintain professional skepticism whereby he looks out for consistency of valuation conclusion with other audit evidence, ensures that valuation conclusion is supported by appropriate evidence and performs alternative audit procedures if needed.

In the event that a Valuer is being engaged to perform a valuation and the valuation information is being used in the preparation of the financial statements, the Valuer is known as the management's expert in this relationship (Figure 2). The Auditor is required by SSA 500 to assess if the Valuer's work constitutes sufficient appropriate audit evidence (Figure 3), and he does this by:

a. Evaluating the competence, capabilities and objectivities of the Valuer

This is typically done through the review of the Valuer's curriculum vitae and confirmation by the Valuer of its independence;

b. Obtaining an understanding of the Valuer's work

The Auditor will typically review the terms of reference, purpose and objective of the Valuer's work, roles and responsibilities of the Valuer and Reporting Entity, sources of data used and assumptions made in the valuation;

c. Evaluating the appropriateness of the Valuer's work as audit evidence

The Auditor will typically review for the following:

(a) relevance and reasonableness of Valuer's conclusion in the context of the business;
(b) relevance and reasonableness of methods, assumptions and data used;
(c) extent of investigation by the Valuer;
(d) limitations (if any) faced by the Valuer in carrying out the engagement.

SSA 200 states that in conducting an audit of financial statements, an Auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance and is obtained when the Auditor has obtained sufficient appropriate audit evidence.

Fair value estimates to be determined in accordance with the measurement framework in SFRS(I) 13

SFRS (I) 13 *Fair Value Measurement* defines fair value and sets out in a single SFRS(I) a framework for measuring fair value.

IVS 2017 states that "bases of value describe the fundamental premises on which the reported values will be based". The bases of value include IVS-defined bases such as market value and non-IVS defined bases such as fair value under IFRS.

Under SFRS(I) 13, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (that is, the exit price from the perspective of a market participant that holds the asset or owes the liability).

Under IVS 2017, market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowingly, prudently and without compulsion".

For bank financing purposes, property valuers often use market value as the basis of value. However, for financial reporting purposes, SFRS(I) requires the basis of value to be fair value. While the definitions of fair value and market value are similar, there exists subtle differences. ISCA had previously commissioned a study, working together with the property valuers, to develop a guidance to assist property valuers in performing the valuation for financial reporting purposes. The findings of the study have been incorporated into the upcoming Guidance.

Figure 2

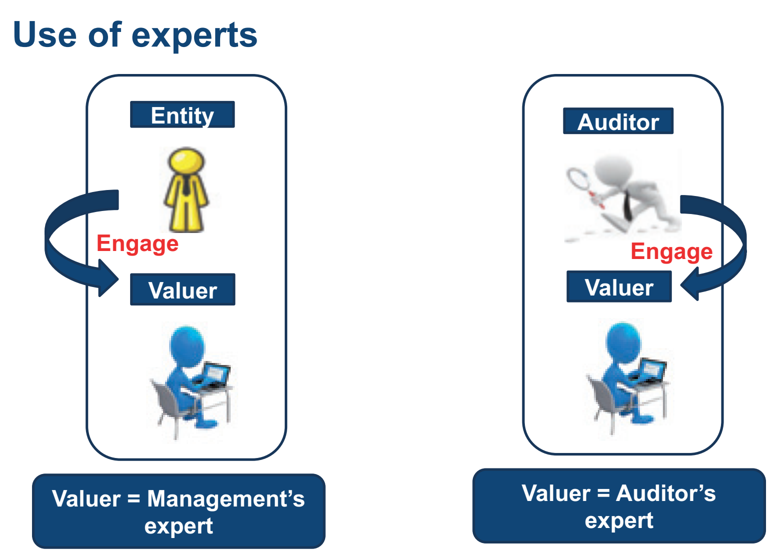
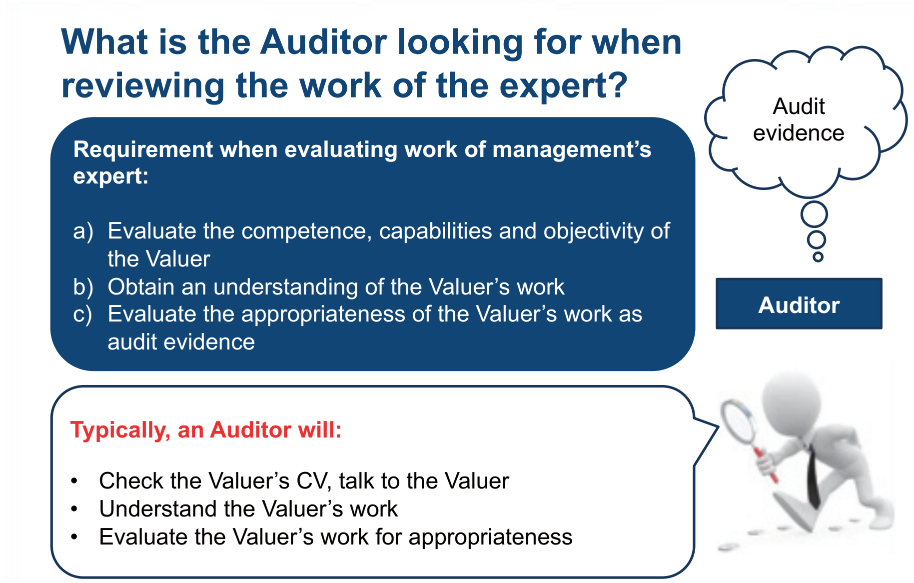


Figure 3



WHAT ARE THE KEY REQUIREMENTS OF SFRS(I) 13?

A fair value measurement requires the determination of:

- **The characteristics of the asset being valued**
  Such characteristics include, for example, the condition and location of the asset, and restrictions, if any, on the sale or use of the asset;

- **The valuation premise that is appropriate and consistent with the asset's highest and best use**
  The highest and best use takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
  - Physically possible: takes into account physical characteristics of the asset as considered reasonable by market participants
  - Legally permissible: takes into account any legal restrictions on use of asset
  - Financially feasible: generates adequate returns to market participants;

- **The principal (or most advantageous) market for the asset;**

- **The appropriate valuation technique**
  Three widely used valuation techniques are:
  - the market approach: this approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities, such as a business;
  - the cost approach: this approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost);
  - the income approach: this approach converts future amounts (example, cash flows or income and expenses) to a single current (that is, discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

In terms of the disclosure requirements relating to fair value measurements, SFRS(I) 13 requires the disclosure of the valuation techniques and inputs used to develop the fair value measurements; for fair value measurement using significant unobservable inputs (Level 3), the disclosure of sensitivity of the fair value measurements to changes in those unobservable inputs.

> **The Reporting Entity is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50, and Financial Reporting Standards in Singapore.**


PHOTO SHUTTERSTOCK

WHAT ARE THE RESPONSIBILITIES OF THE REPORTING ENTITY?

The Reporting Entity is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50, and Financial Reporting Standards in Singapore. The directors' responsibilities include overseeing the company's financial reporting process. For listed entities in Singapore, the Code of Corporate Governance requires Audit Committees to review significant financial reporting issues and judgements to ensure integrity of the financial statements. The responsibility of ensuring that the financial statements are true and fair lies with the Reporting Entity. Therefore, the Reporting Entity should remain intimately involved in the valuation process and work with both the Auditor and the Valuer.

HOW SHOULD THE REPORTING ENTITY AND THE AUDITOR WORK WITH THE VALUER?

The key is timely planning and communication.

It is important for the Reporting Entity to provide clear instructions to the Valuer through the establishment of terms of reference for the engagement. The terms of engagement should also be discussed and agreed on with the Auditor. Once the terms of reference are established, the Valuer is generally autonomous in his work.

The terms of reference would include the scope of work, purpose and date of the valuation, basis of valuation (which is fair value for financial reporting purposes), extent of investigation by the Valuer, and any known limitations and any disclosure requirements. As stated earlier, the Auditor is required to understand how the valuation work is performed. Hence, there should be discussions and sharing of key information among the Valuer, Reporting Entity and Auditor.

Further guidance relating to the engagement process among the Reporting Entity, Auditor and Valuer could be found in our upcoming Guidance. Snippets of the Guidance are shared below.

Table 1 Recommended workflow of the engagement process of valuation among the Reporting Entity, Valuer and Auditor

STEP	PROCESS	INVOLVMENT OF		
		REPORTING ENTITY	VALUER	AUDITOR
	Preparation for engagement of Valuer			
1	Identification of the need for valuation: • Consider the intended use(s) of the valuation report (VR) that may include financial reporting (and the relevant financial reporting standards), fulfilment of loan covenants, etc • Determine the date of valuation required if the VR is to be used for more than one purpose • Consider any relevant characteristics of the real property interest that may affect the valuation	YES	N/A	YES
2	Request for Proposal (RFP): • Ensure that the intended use(s) or purposes of valuation and date of valuation are stated clearly in the RFP	YES	N/A	N/A
3	Discussion on scope of work and information required in the VR which may include the following: • Intended use(s) of the VR and valuation date • Key valuation matters, including basis of value, unit of account, etc • Relevant characteristics of the real property interest • Need for specific disclosures or information for the intended user(s) of the VR	YES	YES	YES
	During the valuation and before finalisation of valuation			
4	Discussion on any issues that the Valuer encountered in the process of valuation, if needed	YES	YES	IF NEEDED
5	Discussion on key valuation matters, including changes, if any, from the scope of work agreed before commencement of work	YES	YES	YES
	After finalisation of draft VR			
6	Respond to auditors on their inquiries on valuation matters	YES	YES	YES

SNIPPETS OF THE GUIDANCE

The key objective of the Guidance is to facilitate engagement among the Reporting Entity, Auditor and Valuer, and to reduce diversity in practice. Key topics covered in the Guidance include:

- Key information required in the Valuation Report;
- Terms of reference which include the scope of work, purpose of valuation, and basis of value;
- Disclosure of significant assumptions and limitations faced;
- A recommended workflow of the engagement process of valuation among the Reporting Entity, Valuer and Auditor (Table 1).

Mr Lie concluded the presentation with the key message that the Reporting Entity, Auditor and Valuer are to work together for an effective and efficient financial reporting ecosystem. ISCA

Lim Ju May is Deputy Director, and Felicia Tay is Manager, Corporate Reporting & Ethics, ISCA.

SINGAPORE CORPORATE AWARDS:

BEST CFO AWARD

Honouring Excellence

LIM CHENG CHENG
Group Chief Financial Officer
Singapore Telecommunications Ltd

KENNETH LIEW
Chief Financial Officer
Japan Foods Holding Ltd

Two of the winners for this year's Best CFO Award show that the constant pursuit of excellence bears great rewards, both professionally and personally

BY KOH YUEN LIN

BEYOND A HUNGER TO LEARN AND A YEARNING TO BROADEN HORIZONS, one also needs an embracing attitude towards change in order to succeed in the business world today. Speak to two of the winners for this year's Best CFO Award – presented as part of The Singapore Corporate Awards (SCA) – and you will find this common message.

The winner for companies with $1 billion and above in market capitalisation (large cap), Lim Cheng Cheng, Group Chief Financial Officer of Singapore Telecommunications Ltd (Singtel), talks about going beyond surviving disruptive technology to ride the waves of change to greater heights. Kenneth Liew, Chief Financial Officer for Japan Foods Holding Ltd – winner for companies with less than $300 million in market capitalisation (small cap) – demonstrates this philosophy through his own exciting career. Armed with a positive attitude and receptivity to the ever-changing business world, he has gained extensive experiences across multiple industries.

The dynamic pace of the business world calls for a new attitude, and these inspiring individuals are showing the way. This is indeed the objective of the SCA, organised by ISCA, Singapore Institute of Directors and *The Business Times*, and supported by Accounting and Corporate Regulatory Authority and Singapore Exchange.

The SCA serves to recognise and honour companies and individuals who raise Singapore's corporate disclosure standards and corporate governance through their exemplary practices. And through the personal stories of the awardees, we hope others will be similarly inspired to reach for greater heights, as these award-winning CFOs have.

CALLING THE SHOTS

Lim Cheng Cheng, FCA (Singapore), Group Chief Financial Officer, Singtel

AS ONE WORKING IN THE TELECOMMUNICATIONS (TELCO) INDUSTRY, Lim Cheng Cheng, 47, is no stranger to change. Hers is a job that calls for strategic forward-thinking and an adaptability that keeps her afloat in the sea of change – not least from new competitors and disruptors that are threatening the telco's bread-and-butter revenue.

You might think that Ms Lim is a chief engineer or a technology expert, but this strategist works with numbers way beyond the 1 and 0 in the binary code – she is the Group Chief Financial Officer (CFO) of Singtel. "In the digital age, the CFO today no longer occupies a ring-side seat. He or she is the co-captain steering the ship to navigate dynamic shifts in technology and customer preferences," says the winner of the Best CFO (large cap) title at this year's Singapore Corporate Awards. "The business needs to weigh a multiplicity of factors and make timely decisions to seize market opportunities. As a business partner, the CFO ensures that the business is armed with the right inputs and analyses for decision-making. The CFO advises the board and CEO on the risks and trade-offs, and is not afraid to challenge alternative views."

As Singtel's Group CFO, Ms Lim also leads the company's shareholder engagement efforts. "As Singtel transitions to a digital business, we want to ensure that investors are kept informed of our plans to protect the core business and for growth. It's critical that we're on top of the value drivers of our shares."

Indeed, she is one with a 360-degree view of the telco industry, and she credits this to her training in accountancy.

A VERSATILE SPECIALISATION

Ms Lim, whose father is also an accountancy graduate, took up the specialised degree on his advice that it offers an all-rounded training as well as wide career choices. "That wisdom and advice still applies in today's world," she says. Like many of her peers, she started her career as an auditor at PricewaterhouseCoopers, specialising in banking audit. This exposed her to the importance of proper processes, internal controls and governance. At the same time, it piqued her interest in investments and credit management, which led her to her next role at SP Group (then known as SingPower Ltd) about four years later. "As part of a newly-established international department looking into investments in overseas markets, I had a steep but enjoyable learning curve," recalls Ms Lim. She steadily rose within the group over the next 10 years, taking on various corporate planning, investment and finance roles. She was Head and Vice President (Financial Planning and Analysis) of SP Group before she joined SMRT Corporation as Executive Vice President and Group CFO. It was in 2012

> "In the digital age, the CFO today no longer occupies a ring-side seat. He or she is the co-captain steering the ship to navigate dynamic shifts in technology and customer preferences."

"More than ever, the finance team must have a clear appreciation of the company's strategic priorities. It must work hand-in-hand with the business to anticipate and meet their requirements, stretch performance, deliver on the right performance metrics and regularly report on progress and outcomes."

that she joined Singtel as Vice President, Group Strategic Investments, and in April 2015, she assumed the role of Group CFO.

Assessing the changing demands of her profession throughout her 26 years' experience, Ms Lim says, "Increasingly, the CFO must do more with less. As the company increases the number of products and serves more market segments, the CFO must balance performance and efficiency. Automation is key. That, in turn, calls for a rigorous governance and control framework." She humbly notes that she has been able to do this only with the support of her team, and that the role of the CFO today is also to empower team members and ensure that they understand the strategic goals of the business and how their work fits into the bigger picture. "Only then can it spark innovation and create an environment of continual improvements," she observes.

On this, Ms Lim shares that the management team is constantly thinking about how to take Singtel into its next phase of growth. Such forward-thinking calls for one to keep up with the rapid changes in the fields of geopolitics, global economics and technology – areas one might not associate with the accounting profession. Yet, these are the things that are constantly on her mind, for Ms Lim knows well that her job really goes way beyond balancing the books.

RIDING THE WAVES OF CHANGE

As Group CFO at Singtel, she plays a critical role in pushing the group's transformation. The global telco industry has been the earliest and hardest hit by disruptive technologies. For the last decade, traditional voice, messaging and TV revenues have been eroded by over-the-top (OTT) services such as Whatsapp, WeChat, Google and Netflix. "We knew early on that we need to reposition our business for a digitally-centric world, where competition is no longer just against other telcos but increasingly against OTT providers. We must continually focus on what is important to our customers and make the necessary investments, to create a superior customer experience and sustainable competitive advantages."

Today, Singtel derives close to a quarter of its revenues from new sources, including music, video, digital marketing, cybersecurity and other enterprise applications. The diversification away from traditional telco revenues took place through a radical transformation of Singtel's businesses and strategies.

Ms Lim notes that other industries are also undergoing their own transformation, and shares how she views the role of the finance department in the new digital era. "Given the limited resources, we have to objectively weigh competing uses of capital to maximise returns and ensure continual access to affordable capital."

She explains, "More than ever, the finance team must have a clear appreciation of the company's strategic priorities. It must work hand-in-hand with the business to anticipate and meet their requirements, stretch performance, deliver on the right performance metrics and regularly report on progress and outcomes."

Ms Lim observes that in order to do so, they have to change the way they work – less number-crunching and more incisive analyses that could better support the business. "This is how we should be discharging our duties as a partner and advisor to the business. I believe a high-performing finance team that is well-aligned with the business is a competitive advantage."

"There is vast potential for automation in financial reporting and other volume-heavy repetitive tasks. In recent years, we have started modernising and streamlining our systems and processes," shares Ms Lim. "For instance, Robotic Process Automation (RPA) has alleviated the manual task of bank reconciliations. Automation can also streamline complicated processes, allowing staff to better find fulfilment and empowerment in other new roles."

"With any automation, accounting professionals must be prepared to deal with job displacements," she points out. The way for the smart accounting professional to move ahead, she advises, is to take charge of one's own career development and use training and job rotation to gain wider exposure and experience. In this respect, her ISCA membership has proven beneficial. "It allows me to be updated on developments in accounting-related technical standards, issues and perspectives," shares Ms Lim. "I also appreciate the sharing of views by experts and peers, particularly as we strive to stay ahead in this fast-changing environment."

CAREER HIGHLIGHTS

1993
Bachelor of Accountancy, Nanyang Business School, Nanyang Technological University

1993-1996
Audit Supervisor, PricewaterhouseCoopers

1996-2006
Head and Vice President (Financial Planning and Analysis), SP Group

2003
MBA, The University of Chicago Booth School of Business

2006-2011
Executive Vice President and Group CFO, SMRT Corporation

2012
Vice President, Group Strategic Investments, Singtel

2015
Group CFO, Singtel

THE RUNNING MAN

Kenneth Liew Kian Er, CA (Singapore), Chief Financial Officer, Japan Foods Holding Ltd

WHEN HE DOESN'T HAVE HIS NOSE DEEP IN NUMBERS or his mind working on investment strategies for the company, Kenneth Liew Kian Er, Chief Financial Officer (CFO) of Japan Foods Holding Ltd, runs. "I started running with my son a few years back, as he wanted to score well for his NAPFA (National Physical Fitness Assessment) prior to entering National Service (NS)," he recalls. "And since then, I just couldn't stop." Though only an amateur runner, the 56-year-old trains rigorously and even does research on how to improve his physical performance. He has since gone on to compete in half and full marathons, and takes pleasure in going for what he calls "run-cations" with his family, such as when he visited Japan in August to take part in the Hokkaido Marathon 2018.

This go-getting spirit is perhaps what propels the Best CFO (small-cap category) winner at this year's Singapore Corporate Awards to ever greater heights in his career – a career he never originally considered getting into. "I didn't know anything about accountancy even in junior college. I was an arts student, studying history and economics. While serving my NS, I started thinking about what I could do (when I join the workforce), and a schoolmate suggested accounting. I got interested after reading up on it," he shares. "I liked that it is a specialised skill on which I can build a career, and studied for my London Chamber of Commerce and Industry (LCCI) qualifications through night school during NS. I joined an audit firm straight out of NS in 1984," he shares. Since then, Mr Liew has been striving to expand his skills and work experience, and in his bid to do so, has gone through myriad finance jobs in a diverse spectrum of industries from timber, engineering and chemical processing, to a Japanese manufacturer of motorcycle parts and now F&B.

"The human element is integral in accountancy – the same numbers can be interpreted differently based on your understanding of the industry, and experience also allows the seasoned accountant to pick up irregularities intuitively. Even with all the data being entered and processed automatically, a bug in the system could create errors, and you need someone with experience to catch that."

"In the early days, I changed jobs frequently because I got bored when things became routine," he explains. "Every new position I got into has a different job scope – from audit to internal audit; from learning to keep a full set of books at the timber company to doing costing at the chemical processing company. As an accountant at the engineering company, I looked after the whole range of accounting work, but what I really wanted to gain was some IPO experience. That eventually led me to other companies which were preparing to go for their IPO."

The only position he took that wasn't driven by his desire to learn more about his profession was taken with the aim of spending more time with his young family. "I was travelling quite a fair bit when my son was very young, and it was stressful for my wife. I did consultancy work, which was more stable in terms of hours and did not require me to leave town. This meant being able to be with my family; we would do things together, such as going to the park on weekends. My son, who is now 22, recently told me that was the happiest period of his life."

Today, this industry veteran continues to grow his experience as a professional, and is relishing every moment of it. "My work here is not just about financial reporting; I am also involved in meeting investors and fund managers and negotiating joint ventures," shares Mr Liew. And during the financial downturn in 2014 when it was a period of labour crunch, he even served tables. "All of us in the office, from the CEO to the accountants, went down to the restaurant to help out twice a week for about three months. Though that was done out of necessity, I also gained a better understanding of the restaurant's operations as a result. There is a very positive corporate culture here, with the CEO setting an example for all, and there is great camaraderie; this is why I am happy to come to work every day," he shares.

THE HUMAN ELEMENT

While those outside the industry might think that accounting is all about cold hard numbers, Mr Liew highlights that the human touch is indispensable. "Although we might read about technology taking over human accountants in science fiction – and that thought crosses my mind at times – artificial intelligence still doesn't allow technology to truly think like a human, yet," he says. "The human element is integral in accountancy – the same numbers can be interpreted differently based on your understanding of the industry, and experience also allows the seasoned accountant to pick out irregularities intuitively. Even with all the data being entered and processed automatically, a bug in the system could create errors, and you need someone with experience to catch that."

However, Mr Liew is also quick to point out that technology should be harnessed, and its potential explored. "I would say that I have not seen the negative side of technology advancement, because technology itself is designed to help us advance. If there are any downsides, it would be a result of how people (mis)use it."

In his field, Mr Liew says that technology has given the CFO access to timely and extensive data. "This has enabled us to expand our roles beyond just financial reporting. The CFO is (thus) well-placed to work closely with the CEO to analyse the potential financial impact of any deals," he shares. "It is more fulfilling to be able to have a positive influence on the bottom line than on aftermath reporting. To be able to do this, the CFO must have a good understanding of the business and establish mutual trust with the working partners." That said, he cautions that it is important to be wary of the blind spots. "There is only so much technology can do; it takes a person to interpret the results rather than just give an automated analysis at face value."

The human factor is especially important in the F&B sector. "The biggest challenges faced by the F&B sector are high operating expenses, especially in terms of rental, and the labour crunch," he says. To tackle the latter, he provides long-term analysis and advice on how the company should park its resources, such as investing in relevant technology to help ease the need for manpower, be it automated food preparation equipment in the central kitchens or iPads for customers to key in their own orders at the restaurants. He can advise on such matters not simply based on projected figures, but also on his personal understanding of how the restaurants operate.

In his field, Mr Liew says that technology has given the CFO access to timely and extensive data. "This has enabled us to expand our roles beyond just financial reporting. The CFO is (thus) well-placed to work closely with the CEO to analyse the potential financial impact of any deals."

A PURSUIT OF EXCELLENCE

"Accountancy is a career with an exciting and diverse future," says Mr Liew, looking back on his own professional journey. "It is certainly not a boring job about balancing the books... but then again, one has to have the right attitude to fully explore the potential and possibilities of this career. You need to have personal ambition."

The CFO says that ambition isn't just about dreaming big but being proactive in bettering oneself. "ISCA helps its members to keep current," he shares. "A member has to attain minimum hours of verifiable Continuing Professional Education per year upon renewal of the annual membership. This is to ensure that a member's professional skills and knowledge are relevant to meet today's market requirements. ISCA also organises regular courses, and makes articles and other resources and tools available for members' use."

Over the years, Mr Liew has himself made the effort to expand his professional knowledge, taking courses on foreign exchange contracts, treasury and financial reporting standards. "These make up about 21 verifiable hours a year – either through seminars or classes – and probably another 20 more hours of self-study. It is not very taxing, and I certainly encourage my team to learn," he says, sharing that all members of his finance team are free to organise discussions to learn from each other should they have any clarifications or questions. "You need to learn beyond what you are doing, to go beyond what you are doing." ISCA

Koh Yuen Lin is a contributing writer.

CAREER HIGHLIGHTS

1984
Completed National Service and joined a local firm as Auditor

1997
Accounting Manager, Sunstar Logistic Singapore Pte Ltd

2002
Deputy General Manager, Sunstar Logistic Singapore Pte Ltd

2004
Associate, Bensyl Consultancy Services Pte Ltd

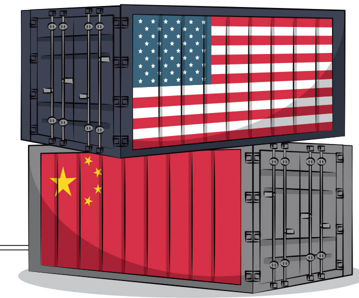
Jan 2007
Finance Manager, Abterra Ltd

Mar 2007
Financial Controller, Abterra Ltd

2008
Financial Controller, Japan Foods Holding Ltd

2012
Chief Financial Controller, Japan Foods Holding Ltd

PHOTO SHUTTERSTOCK



FROM QUARTERLY GLOBAL OUTLOOK 4Q2018

US-CHINA TRADE TUSSLE

Impact On China And Asean

UNITED STATES (US) TRADE PROTECTIONISM was one of the key risks that the markets had feared when Donald Trump first got elected in late 2016. However, during 2017, his first year in office, with the exception of withdrawing US from the Trans-Pacific Partnership (TPP) trade deal, President Trump largely focused on the US domestic agenda and avoided foreign trade issues, which were a key area that he had vowed to make significant changes to during his presidential election campaign.

On the other hand, President Trump's second year of presidency (so far in 2018) has been much more volatile and has much further wide-reaching global economic impact and geopolitical consequences. These range from imposing tariffs on steel and aluminium imports to renegotiating existing trade agreements, including the North American Free Trade Agreement (NAFTA), US-EU agreement for tariff reduction negotiations and the on-going US-China trade tussle. Figure 1 shows a timeline of how the trade tensions between US and China escalated in 2018.

So far, China and US have already implemented additional tariffs on US$110 billion and US$250 billion worth of goods from each other

Figure 1 Timeline of key US-China trade tensions in 2018
Source: Media reports, UOB Global Economics & Markets Research

	Jan - Mar	Apr	May	Jun	Jul	Aug	Sep	Oct & Nov
US 	**23 Jan** Trump announced tariff rates of 20% on imported washing machines and 30% on solar panels and cells, under Section 201 of the 1974 Trade Act **22 Mar** USTR completed and released its "Section 301" report on China. US Trump on the same day proposed 25% tariffs on certain products that are supported by China's "unfair industrial policy", for public comment	**3 Apr** USTR proposed list of US$50bn of Chinese goods subjected to additional tariffs, for public comment and consultation **6 Apr** Trump instructs USTR to consider additional tariffs on US$100bn of Chinese goods due to China's "unfair retaliation"	**4 May** US trade delegation to Beijing led by Treasury Secretary Steven Mnuchin **29 May** White House said US to proceed with 25% tariffs on US$50bn of Chinese imports (including those related to 'Made in China 2025'). List to be published on 15 Jun	**15 Jun** US announced additional 25% tariffs on 818 Chinese imports worth US$34bn, from 6 Jul. The 2nd set of $16bn on a future date **18 Jun** Trump instructs USTR to identify US$200bn of Chinese products for additional 10% tariff and threatens to impose tariff on another US$200bn after that if China retaliates	**6 Jul** US imposed 25% tariff on US$34bn of Chinese goods takes effect **7 Jul** USTR releases new round of 10% tariffs on new list of Chinese goods valued at US$200bn. Public hearing & comment period until 5 Sep (which was raised to 25% rate subsequently)	**23 Aug** US imposed 25% tariff on next US$16bn of Chinese goods takes effect **24 Aug** 4th round of US trade talks led by mid-level officials on both sides ended without any breakthrough **30 Aug** Bloomberg reported Trump ready to impose tariffs on US$200bn imports as soon as public comment period ends 5/6 Sep. Also looking at "formula" to determine FX manipulation	**6 Sep** USTR ended its public comment period for proposed US$200bn of Chinese goods targeted next for additional 25% tariffs **13 Sep** US invites China for 5th round of talks **24 Sep** USTR imposes 10% tariff on US$200bn of Chinese goods, and will increase to 25% by Jan 2019	**17 Oct** US Treasury FX report did not name China as FX manipulator but directed most of its commentary and the harshest words in the report towards China **19 Oct** US Treasury Sec Mnuchin said to be open to changing how USD determines which nations are 'currency manipulator' **6 Nov** US mid-term elections
CHINA 	**23 Mar** China proposed tariffs targeting US$3bn of US goods in response to US' steel and aluminum tariffs, to be effective from 2 April 2018	**4 Apr** China announced plans to impose a 25% tariff on US$50bn worth of US exports, including cars & soybeans **10 Apr** At Boao, China's Xi said China will lower import tariffs on autos and other products and pledged to protect IP of foreign firms	**17-18 May** China trade delegation led by Liu He in Washington **20 May** Both sides announced ceasefire after 2 rounds of talks. In joint state, China said would "significantly increase" purchase of US agricultural and energy goods	**3 Jun** China warned after the 3rd round of trade talks that it would not honor its pledge to expand purchases of US goods if tariffs imposed **16 Jun** China responded with "equal scale & intensity" of 25% tariffs applied on 659 US imports worth US$34bn from 6 Jul, while a second round of tariffs on US$16bn of US goods at later date	**6 Jul** China imposed 25% tariff on US$34bn of US goods takes effect	**3 Aug** China announced it will impose tiered tariff rates of 5% to 25% on US$60bn of US goods, though the timing of implementation was not specified. We estimate the "blended" tariff rate of approx. 18.6% on the total US$110bn of goods subjected to tariffs. **23 Aug** China imposed 25% tariff on US$16bn of US goods takes effect, in reaction to US' move.	**13 Sep** China welcomes US invitation for further talks (but no details on who will lead the Chinese delegation) **22 Sep** China Liu He formally rejected US' offer for talks **24 Sep** China levies 5-10% tariff on US$60 bn worth of US goods (5,207 products) in response to US tariff	**29 Nov** Chinese President Xi and US President Trump have tentatively agreed to meet on 29 Nov on the sidelines of the G20 leaders' summit, in what would be the first face-to-face meeting in nearly a year

respectively. That said, we believe that the current US-China trade tensions will *not* worsen to a point of no return. Instead, our base case scenario (at 65% probability) is that while there is possibility for further increase in the tariff rates on the latest tranche of US$200 billion of Chinese goods and US$60 billion of US goods in 2019, this will be followed by a long negotiation process before reaching some form of resolution. We expect the aggregate impact of the trade measures to be felt more materially only in 2019, and we estimate it would reduce global growth by about 0.4 percentage points next year (Figure 2). Using the International Monetary Fund (IMF) estimates of global growth at 3.9% in 2018 and 2019 (World Economic Outlook, July 2018), we will expect 2019 growth to be reduced to 3.5%. In the latest review, the IMF lowered its global growth forecast by 0.2% points to 3.7% for both 2018 and 2019.

Outside the US, the rest of the world has to live with the consequences of the on-going US rate hikes and increasing trade tariffs on both US and Chinese goods.

Escalating trade protectionism between US and China, the two biggest economies in the world, will undoubtedly be negative for the global economy. But the conventional assumption that emerging market (EM) economies will be worse off than developed market (DM) economies, because EMs are more exposed to trade, may not be entirely accurate. This is due to the maturity of the global supply chain over the past several decades of globalisation and outsourcing.

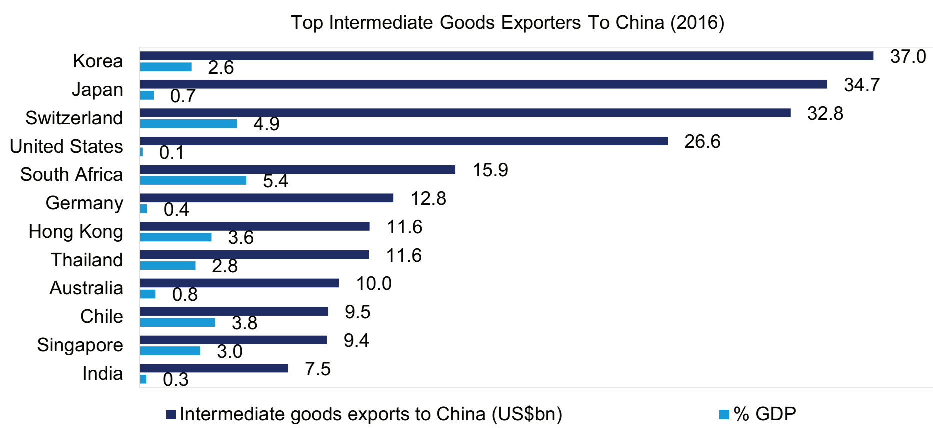
As Figure 3 shows, the top intermediate goods exporters to China include DM economies like South Korea and Switzerland as well as EM economies like South Africa and Chile, and ASEAN economies like Singapore and Thailand.

Having said that, some ASEAN countries may benefit from the initial impact of trade diversion to the region but second-order effect from demand declines, and the slowdown in China and US could weigh on the outlook. We estimate that China and US contributed up to 27% and 16% of global growth respectively in 2017. In addition, the increased trade and connectivity between ASEAN and China over the years imply that the negative impact from US trade protectionism on China will also be felt by ASEAN economies. The magnitude will likely vary – higher for trade-dependent economies like Singapore to lower for less trade-dependent economies like Indonesia.

Figure 2 Scenario probability impact on 2019 global GDP growth
Source: UOB Global Economics & Markets Research Estimates

	Scenario	Probability	Impact on 2019 Global GDP Growth
Base Case	Tariffs on US$50bn of goods by US and China, additional tariffs for US$200bn of Chinese goods and US$60bn of US goods, followed by long negotiation process into 2019 before reaching resolution	65%	~ -0.4ppt
Worst Case	Tariffs on US$50bn of goods by US and China, additional tariffs for US$200bn of Chinese goods and US$60bn of US goods, followed by escalating and sustained trade actions including blanket tariffs, restrictions on technology transfer & other measures	35%	~ -0.9ppt

Figure 3 US-China trade tensions will affect a mix of emerging market and developed market economies
Source: World Bank, UOB Global Economics & Markets Research



THE US IS NOT DONE WITH PROTECTIONIST MEASURES ON CHINA YET

The trade data in the July to September period suggests that China has already started to divert from US imports, as seen in the US products share of its total imports falling to around 6.9% in July to September from 8.1% in 1H18 and 8.4% last year. Meanwhile, China's exports to the US registered the fifth consecutive month of double-digit growth in September, with export share rising to 20.1% of China's total exports compared to 19.0% in 2017.

The resilience of China's shipments to US could be supported by the strength in the US economy, frontloading before further tariffs are implemented and the depreciation in the Chinese yuan. As such, we may not even see much impact on China's exports to the US until next year. However, the sharp slowdown in the secondary industries growth in 3Q18 suggests that the negative impact from the trade tensions with US is starting to seep into the economy.

However, given that the continuation of the "tariff war" will inevitably expose a greater share and amount of China's exports to tariffs compared to the US, there are certainly concerns that the impact will be significantly larger for China going forward. Former People's Bank of China Governor Zhou Xiaochuan claimed the impact will be at less than 0.5% of GDP even if the US imposes tariffs on all Chinese goods, given the companies' ability to re-route their exports over time and a series of fiscal and monetary policy measures undertaken by China since the middle of 2018. The caveat here is that the impact from the drop-in sentiment is harder to estimate.

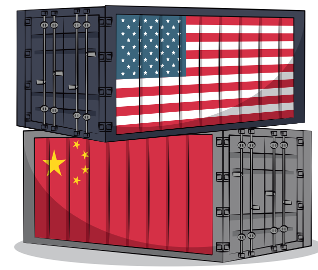


Figure 4 ASEAN's major trading partners (2017)
Source: CEIC, UOB Global Economics & Markets Research

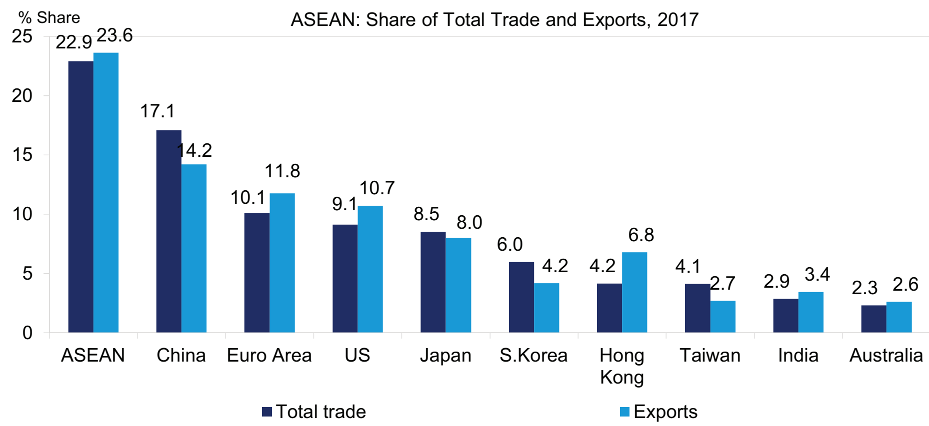
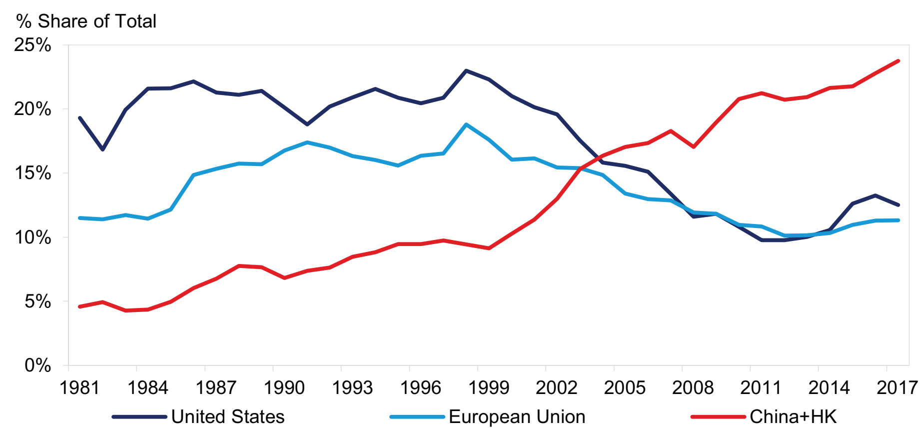


Figure 5 ASEAN's trading trends with US, EU and China
Source: CEIC, UOB Global Economics & Markets Research



To put this in perspective, the US market accounts for 19% of China's exports, and assuming that around a fifth of these are lost as a result of the tariffs, the impact on total China's export will be around 3.8%, translating into a manageable impact on growth particularly if part of this can be offset by currency depreciation and an increase in China's export tax rebates. To be sure, China's growth is mainly driven by consumption and investment while net export of goods and services had contributed negatively to the GDP growth rates in the 1Q to 3Q2018 period. Thus, the key avenues of damage to China's economy from the trade tensions will likely be on investment and consumption. We estimate that the indirect impact from loss in investments and consumption could amount to as much as 0.8 percentage points to growth in 2019, but a more proactive fiscal and monetary policy can help to mitigate some of this impact. With our base-case assumption of tariffs on US$250 billion of Chinese goods for now, we assume China's growth at 6.6% in 2018 and we lower GDP growth forecast by 0.3 percentage points to 6.3% in 2019. ISCA

This is an updated version of the article which was first published in the "Quarterly Global Outlook 4Q2018" by UOB Global Economics & Markets Research.

A PERFECT YEAR-END WINE ESCAPE


Alsace Wine Route Village, France

Not all year-end holidays are dull and grey; this year, skip the dreary sweater weather for lush, luxurious wine experiences at top-tier vineyards

ALSACE, FRANCE

The area around Alsace may not be the warmest at the close of the year, but the holiday season is always a great opportunity to discover its vineyards. With its capital city Strasbourg teetering on the border between France and Germany, this wine getaway is best known for its Riesling, Pinot Gris and picturesque Christmas markets. If it is your first time in the region, plan your days around the famed **Alsace Wine Route** which transverses the vineyards across Marlenheim and Thann. The rolling hills and half-timbered towns throughout the route present a refreshing mix of older master growers and young up-and-comers. From early November, the inimitable smells of gingerbread and mulled wine will start to fill the air as winemakers deck out their vineyards and offer seasonal tastings paired with Christmas delicacies. A crowd favourite, the **Grand Cru Mackrain** (Cave de Bestheim in Bennwehr, 68630 Bennwehr) hosts an annual "Night Gourmet Walking Tour" featuring local produce and spanning four kilometres; visitors will even get to create their own Christmas decorations.

PHOTOS SHUTTERSTOCK

SONOMA COUNTY, CALIFORNIA, USA

Pack your sunglasses and hiking boots. In Sonoma County, the pleasant weather persists even in the winter months, so you will still have the opportunity to frolic on the grassy slopes and mountain trails. This is on top of an excess of extraordinary wines from crowd-pleasing Chardonnays to luscious Pinot Noirs. In fact, if you are a Napa Valley fan, you will relish Sonoma County for its relative affordability and laid-back atmosphere. Plus, it stretches across nine different cities and is more than twice the size of Napa Valley. Make a stop at **Quivira Vineyards** (94900 W Dry Creek Rd, Healdsburg, CA 954480) at **Dry Creek Valley** and feast on its famous biodynamically-farmed Zinfandel, which is produced without synthetic chemicals and is magically tangy, tart and spicy at the same time. Otherwise visit **The Barlow** (6770 McKinley St, Sebastopol, CA 95472) in the charming western town of **Sebastopol**, a 12.5-acre produce-driven centre with wine-tasting rooms, craft breweries, art galleries and offbeat restaurants. It's all about slowing down at Sonoma County, so set aside plenty of time and get to know the locals and winemakers to get the most out of your trip.


Sonoma County, California


Yarra Valley, Australia

YARRA VALLEY, AUSTRALIA

Yarra Valley and its surrounding Dandenong Ranges in December is a no-brainer – the region livens up with warm open fires and hearty meals. With a median temperature ranging from 15- to 20-degree Celsius, one can easily hop into a car and make a day out of the rolling green hills and verdant vineyards. Most cellar doors are open throughout the year, and Yarra Valley's winery restaurants are fast becoming one of the most sought-after dining destinations down under. For the best Aussie experience, head straight to **Innocent Bystander** (316-334 Maroondah Hwy, Healesville VIC 3777) – a bar, cafe and cellar door all rolled into one. The unpretentious joint feels more like a beer hall than anything else, with wines stored in kegs and poured from copper taps into flasks and carafes. Try a noir or a gris, then top off your evening with a flute of their signature fluorescent pink moscato for dessert. At the turn of the new year, when a solid glass of bubbly plays a critical part no matter which part of the world you are in, bring out a couple of bottles of your prized buys from **Domaine Chandon** (727 Maroondah Highway, Coldstream, VIC, 3770) to usher in 2019 with an exceptional midnight toast.

HUA HIN, THAILAND

You will be hard-pressed to find an exceptional vineyard experience closer to home than **Monsoon Valley Vineyards** (1 Moo 9 Baankhok Chang Patana, Nong Plup, Hua Hin, Prachuap Khiri Khan 77110) in southernmost Hua Hin – just a little over five hours' flight from Singapore and 36 kilometres away from the Hua Hin city centre. All 560 acres of the verdant area are folded within lush greenery and mountain ranges, perfect for year-end holidays as the region eases into its coolest and driest months.

Adventurous wine aficionados will relish the chance to taste New Latitude wines borne of Hua Hin's rich soil terroir and coastal climate. Each bottle of wine is in fact a milestone in viticulture, as it has been produced beyond the traditional wine-growing belt in spite of unique environmental conditions.

One of Monsoon Valley's most accoladed wines, the Cuvee de Siam Rouge is a bold red bursting with notes of cherry and chocolate – a worthy testament that these *nouvelle vague* Thai wines are here to give mainstream vinos a run for their money. If you are a first-time visitor, be sure to set aside some days for the city to load up on popular tourist spots such as the **Plearn Wan** vintage market and the historical **Rajabhakti Park**, then take a 40-minute *songthaew* ride out for an entire day of wine-tasting and dining experience in this idyllic Hua Hin location.


Monsoon Valley Vineyards, Hua Hin, Thailand


Aythaya Vineyard, Myanmar

PHOTOS SHUTTERSTOCK

AYTHAYA, MYANMAR

Nestled in the Aythaya village near Taunggyi (the capital of Shan State), **Aythaya Vineyard** (Htone Bo, Taunggyi 11181) was founded in 1999 by German winemaker Bert Mosbach and is, significantly, the first of its kind in Myanmar. Its location is prime – irrigated and limestone-rich soil, an enviable elevation of almost 4,000 feet, and a refreshingly cool climate. The namesake Red (a Shiraz, Dornfelder and Tempranillo blend), White (a Sauvignon Blanc-dominant white blend) and Rose are some of the region's most classic tipples. For a romantic getaway, book a stay at the **Monte diVino Lodge** (Bogyoke Aung San Rd, Taunggyi 11181; rooms from S$96), a boutique accommodation boasting gorgeous timber-and-glass-panelled bungalows. Then drop by the in-house **Sunset WineGarden Restaurant** which spotlights a stellar wine-tasting menu accompanied by traditional Shan cuisine. ISCA

...the results of AI are only as good as the data that is fed into a given system. Businesses should therefore consider measures to ensure that data integrity is not compromised. It is vital for businesses to have quality, accurate data on hand before considering the implementation of AI.

PHOTO SHUTTERSTOCK


BY LOKE HOE YEONG AND YEO SHU WEN

ARTIFICIAL INTELLIGENCE

Preparing For Opportunities, Risks And Implications

SCENARIOS OF ROBOTS TAKING OVER THE WORLD may seem to be the stuff of science fiction from the 1980s and '90s. The reality today, however, is that humans do co-exist with robots in factories, offices, hotels, restaurants, schools and many other work, live and play spaces.

The rapid developments in artificial intelligence (AI) have engendered high expectations of the benefits it can deliver for business and for society at large, but there remain concerns about the risks and implications of using AI, especially in the area of ethics. One of these key ethical risks associated with the use of AI is the potential for discrimination.

In the controversial case of *State v. Loomis* in the United States, an AI-powered programme was used to decide the length of jail sentence for a convicted criminal on the basis of his likelihood to re-offend. A study of the programme in question found that it was far more likely to judge black defendants to be at a higher rate of re-offending than whites.

There is also anxiety about AI replacing human input and thus displacing jobs. With the aim of fostering a healthy perspective towards AI that embraces the possibilities it can bring for the accounting and finance sector – while also being alert to the potential risks – ISCA launched a publication on September 14 discussing the opportunities, risks and implications of AI use.

The publication, titled "Artificial Intelligence: Opportunities, Risks and Implications", follows on from national efforts in the same vein. In June, it was announced that an Advisory Council on the Ethical Use of AI and Data would work with the Info-communications Media Development Authority (IMDA) on the responsible development and deployment of AI. Earlier in April, the Monetary Authority of Singapore (MAS) had announced that it would be working with stakeholders in industry to develop a guide to promote the responsible and ethical use of AI and data analytics by financial institutions.

The launch event for the ISCA publication on AI featured a panel discussion on "Pain or Gain: What AI can do to Businesses and Society?", where industry experts weighed in on the issue, and shared practical insights on considerations surrounding the use of AI, particularly for accounting and finance professionals. Moderated by Glenn Van Zutphen, Founder of VanMedia Group, the panel comprised:

- Derrick Goh, Managing Director and Head, Group Audit, DBS Bank;
- Enoch Ch'ng, Former Associate Professor of Information Systems (Education), Singapore Management University and Senior Advisor Data Science Rex;
- Richard Koh, Chief Technology Officer, Microsoft Singapore, and
- Matt Pollins, Partner and Head of Technology, Media, Telecommunications, CMS (Singapore).

HOW AI IS USED IN FINANCE

In finance, AI is used widely – first, in trading and portfolio management for identifying opportunities, trade execution and assets allocation; second, in the customer-focused areas of the industry, AI is used in customer engagement, service, pricing, marketing and in advisory; third, AI is used in operations-focused areas such as credit scoring, capital optimisation, testing and impact analyses. Last but not least, AI is used in regulatory compliance, data quality assurance and fraud detection by financial institutions as well as in collaboration with tech firms.

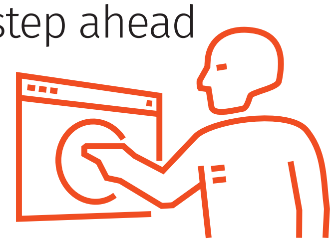
Ultimately though, the results of AI are only as good as the data that is fed into a given system. Businesses should therefore consider measures to ensure that data integrity is not compromised. It is vital for businesses to have quality, accurate data on hand before considering the implementation of AI.

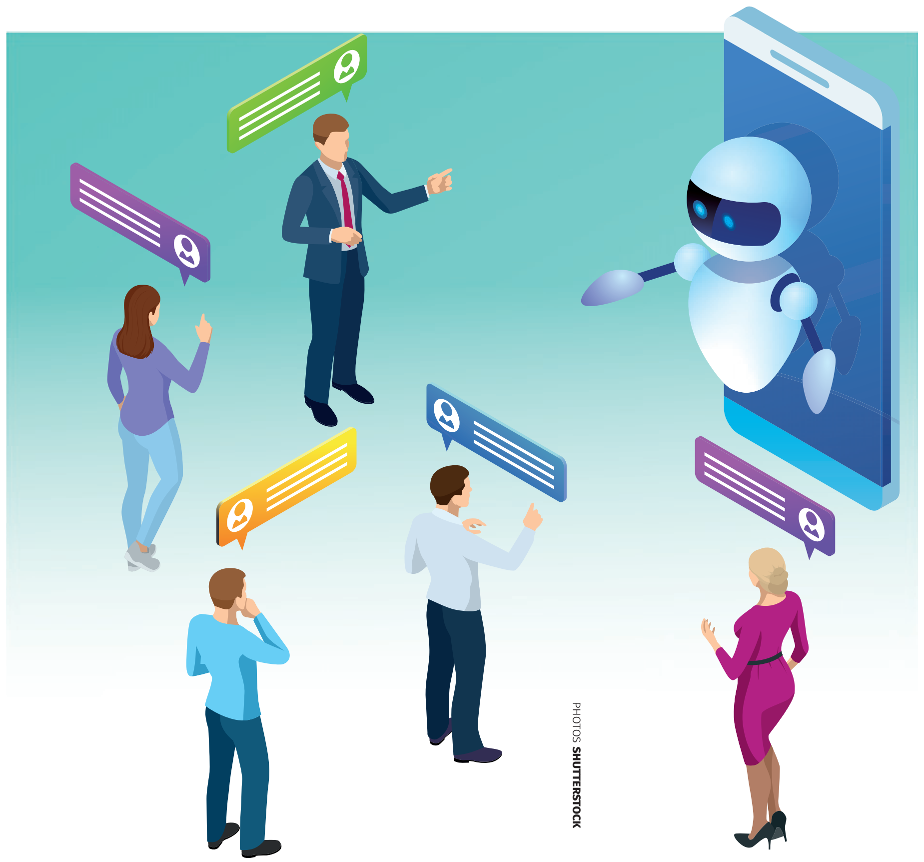
Mr Goh's advice to SMEs is to start with small steps, by automating their operations such as implementing cashless payment. Only after a business has gathered large tracts of data can it then start to think about harnessing AI.

AI is used in regulatory compliance, data quality assurance and fraud detection by financial institutions as well as in collaboration with tech firms.

AI systems need to be trained and fed with the right data.

... more can be done in regulating AI, without stifling innovation. Regulators should ideally be one step ahead of industry, in terms of providing guidance on the use of data in AI applications.





PHOTOS: SHUTTERSTOCK

THE IMPACT OF AI ON JOBS

Contrary to the popular belief that AI will inevitably take over all jobs, Mr Koh underscored that the focus should be on how AI takes away mundane tasks, which would then allow people to place greater attention on more cognitively demanding tasks. Just as the invention of automobiles symbolised a key milestone in the evolution of technology, developments in AI can be viewed in a similar manner.

In this regard, Mr Ch'ng called for AI to be redefined as "augmented intelligence" rather than "artificial intelligence". Aside from the semantics, such a redefinition would also provide a compass for efforts in AI development to be geared towards enhancing, rather than replacing, human intelligence.

Mr Ch'ng highlighted that AI is still in its infant stages and has not completely replaced the ability of humans to empathise, question, look ahead and exercise creativity.

So instead of focusing debate on how AI will take over jobs, Mr Koh said greater emphasis should be placed on studying and addressing the moral and ethical concerns of AI use. For instance, AI will increasingly have the ability to make decisions on behalf of humans such as in medicine, but what are the possible dangers, ethical or otherwise? There is always the danger of an AI system going rogue.

CONSIDERATIONS ON REGULATING AI

Some of the panellists agreed that more can be done in regulating AI, without stifling innovation. Regulators should ideally be one step ahead of industry, in terms of providing guidance on the use of data in AI applications.

The panellists broached scenarios where AI could create disadvantages with far-reaching consequences. For instance, the use of AI in credit-rating models are inherently meant to discriminate against those who are not credit-worthy, but when used in the extreme, it could have the effect of racial or other forms of unfair discrimination. While this is not unlike the current use of credit-rating models by financial institutions, new issues arise when humans relinquish more and more decision-making autonomy to AI applications, with the danger of insufficient oversight or outdated fiduciary standards.

Ultimately, the principles for the ethical use of AI to "do no harm" and to "uphold fairness" can only provide vague assurances against abuse. Going further, regulators should engage the industry in discussions, while themselves also learning about AI and the potential risks as developments in technology proliferate, as IMDA has been doing in Singapore.

There are also legal implications for businesses to consider when using AI. In the classic question, "Who is at fault when an autonomous vehicle makes a wrong decision and causes an accident?", Mr Pollins clarified that existing laws can already address such accident scenarios involving driverless cars. It would be more a matter of how these laws are adapted to fit an AI world, rather than a rush towards ever more regulation and legislation.

TRANSPARENCY AND ACCOUNTABILITY

Building upon the foundations of transparency and accountability, Mr Koh emphasised the need for businesses to ensure fairness and inclusivity, by not excluding segments of society when developing new technology. The panellists agreed that software developers and business owners should also consider how they can ensure the privacy and security of their users and the data they hold, including preparedness for cyber threats.

In conclusion, Mr Koh compared the development and adoption of AI to raising a child who needs basic guidance in life. AI systems need to be trained and fed with the right data. "AI is a process," he said. "It is not just a piece of machinery used to solve a problem." ISCA

More information about the "Artificial Intelligence: Opportunities, Risks and Implications" publication is available at https://isca.org.sg/media/2240477/isca-artificial-intelligence_final-draft.pdf. Also watch a related AI video at https://youtu.be/TOm3mbakZ8A.

Loke Hoe Yeong is Manager, and Yeo Shu Wen is Executive, Insights & Intelligence, ISCA.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

WEBCAST TO SUPPORT IFRS 17: INSURANCE CONTRACTS IMPLEMENTATION

IASB has published the webcast in two parts. Part 1 provides an overview of the effect of participation and other features on the measurement of the fulfilment cash flows. Part 2 gives an overview of the contractual service margin and the scope and requirements of the variable fee approach.

For more information, please visit https://www.ifrs.org/news-and-events/2018/08/new-ifrs-17-webcast-insurance-contracts-with-participation-and-other-features/

EDUCATIONAL MATERIALS TO SUPPORT IFRS 17 IMPLEMENTATION

As part of IASB's activities to support the implementation of IFRS 17: Insurance Contracts, IASB has published the following educational materials on reinsurance contracts held:

- a pocket guide on reinsurance contracts held, and
- an example of a reinsurance contract held.

For more information, please visit https://www.ifrs.org/news-and-events/2018/07/ifrs-17-implementation-new-support-materials-on-reinsurance-contracts-held-now-available/

IASB RELEASES SIX WEBCASTS ON FICE DISCUSSION PAPER

IASB has issued a series of six web presentations to help stakeholders as they prepare to submit their comments on the Discussion Paper, Financial Instruments with Characteristics of Equity (FICE). Topics covered in the webcasts are:

- overview of the FICE Discussion Paper[1];
- IASB's preferred approach and classification of non-derivative financial instruments[2];
- classification of derivatives on own equity[3];
- classification of compound instruments and redemption obligation arrangements[4];
- presentation of equity instruments[5], and
- presentation of financial liabilities[6].

For more information, please visit https://www.ifrs.org/news-and-events/podcasts/#podcasts-2018

[1] https://www.ifrs.org/news-and-events/2018/07/new-webcast-overview-of-the-discussion-paper-fice/

[2] https://www.ifrs.org/news-and-events/2018/07/webcast-iasbs-preferred-approach-to-classification-of-financial-instruments/

[3] https://www.ifrs.org/news-and-events/2018/07/webcast-classification-of-derivatives-on-own-equity-fice-discussion-paper/

[4] https://www.ifrs.org/news-and-events/2018/07/webcast-classification-of-compound-instruments-and-redemption-obligation-arrangements-fice-dp/

[5] https://www.ifrs.org/news-and-events/2018/08/webcast-presentation-of-equity-instruments-fice-discussion-paper/

[6] https://www.ifrs.org/news-and-events/2018/09/webcast-presentation-of-financial-liabilities-fice-discussion-paper/

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AUDITING AND ASSURANCE

ACRA'S AUDIT PRACTICE BULLETIN NO. 1 OF 2018

This Bulletin highlights some of the legislative requirements and provides guidance for auditors on the audit procedures and report on the revised Financial Statements made under Sections 202A and 202B of the Companies Act.

For more information, please visit https://www.acra.gov.sg/components/templates/newsDetails.aspx?id=3f4009ce-e95e-4258-8851-ac3196c13c6f

ISCA ISSUES SAMPLE AUDITOR'S REPORT ON REVISED FS

In line with ACRA's Bulletin highlighted above, ISCA has also developed a sample auditor's report to guide the profession in the reporting on the audit on revised Financial Statements. This sample report is housed in Audit Guidance Statement 1, Appendix 1J.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2018/october/amended-ags-1-sample-independent-auditors-reports/

ISCA ISSUES ED SAP 2 (REVISED)

ISCA has issued ED SAP 2 (Revised): Auditors and Public Offering Documents. A new section on private reports on profit forecasts has been added, including an illustrative example report.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2018/september/comments-sought-on-ed-sap-2/

REGULATORY

ACRA'S PRACTICE DIRECTION NO. 1 OF 2018

This Direction serves to remind Public Accountants of the need to comply with Rule 10 of the Accountants (Public Accountants) Rules when providing public accountancy services, and lays down the auditing standards which have been adopted by the PAOC under Rule 10 of the Rules.

For more information, please visit https://www.acra.gov.sg/components/templates/newsDetails.aspx?id=c5676805-6f0f-416f-b2bd-fe7d6f6b5ce2

BY FELIX WONG AND ANGELINA TAN

BUSTING SERVICES TRANSACTIONS MYTHS

Getting Transfer Pricing Right For Service Transactions

Adriana Calderon, Director, Transfer Pricing Solutions Asia, shed light on the key transfer pricing considerations when setting up a service transaction, and what it takes to ensure that intra-group services are appropriately priced

IN TODAY'S GLOBAL BUSINESS ENVIRONMENT, it is commonplace for multinational enterprise (MNE) groups to provide a wide array of intra-group services for various strategic reasons. These services may range from routine administrative services to other specialised services such as financial, marketing, technical or research and development (R&D) services. As one of the most common related-party transactions carried out by MNE groups, intra-group service transactions are regularly scrutinised by tax authorities, and increasingly so in the post-Base Erosion and Profit Shifting (BEPS) era.

"IDEAL STEPS" TO SET UP A SERVICE TRANSACTION

To mitigate transfer pricing risks associated with intra-group service transactions, Adriana Calderon, Director, Transfer Pricing Solutions Asia, recommended a five-step process that MNEs could adopt at the recent *Tax Excellence Decoded* (TED) session organised by the Singapore Institute of Accredited Tax Professionals (SIATP). These steps are designed to ensure that the service charges are defensible in the event of a transfer pricing review or audit by the tax authorities.

Step 1: Address The "Benefits Test"

The "benefits test" is used to determine whether intra-group services have indeed been rendered. If the "benefits test" is not satisfied, tax authorities may challenge that no intra-group service has been provided, and accordingly, disregard the entire transaction and deny the service charge deduction.

In Singapore, the tax authorities consider four key factors when determining whether intra-group services have been provided. Intra-group services are generally considered to be provided if:

i) the activities are performed for another party which receives (or reasonably expects to receive) benefits from such activities;
ii) there is commercial or practical necessity for the activities to be provided;
iii) the benefits have economic or commercial value (such that an independent party would expect to pay to receive the benefits), and
iv) the benefits are direct and substantial.

The Organisation for Economic Co-operation and Development (OECD)'s guidelines provide further guidance regarding the "benefits test" by categorising intra-group activities into chargeable or non-chargeable activities (to the associated enterprise). Chargeable activities refer to those activities that provide a benefit and therefore constitute the rendering of services for which a charge should be levied, while non-chargeable activities refer to those activities that do not provide a benefit.

> Tax authorities around the world are getting increasingly sophisticated and savvier in dealing with transfer pricing issues.

Specific Benefit Activities

Services performed to meet the specific needs of another entity in the group would generally satisfy the "benefits test", as they are specifically designed to cater to the operations of the associated enterprise. Such specific benefit activities would therefore be categorised as chargeable under the OECD framework. An example would be a marketing campaign carried out

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by the group marketing company that is specifically tailored for one of its associated enterprises' product.

Centralised Activities

Centralised activities are services which benefit the group as a whole. They are commonly undertaken by one of the group entities, usually the parent company, and made available to the entire group. Such services are typically chargeable on the basis that group entities receive a benefit for which an independent enterprise would be willing to pay.

Shareholder Activities

Shareholder activities are services that a group entity, usually the parent company or a regional holding company, performs solely for its ownership interest and in its capacity as shareholder. Shareholder activities may include activities pertaining to the juridical structure of the parent company, compliance requirements of the parent company and investor relations.

As shareholder activities do not benefit other group entities, they would not satisfy the "benefits test" and are hence non-chargeable under the OECD framework.

Duplicate Activities

Generally, duplication of services occurs when an intra-group service is provided to a group entity which has already performed the same activity. Duplicate activities are generally not chargeable on the basis that associated enterprises do not receive any benefits from them. For example, if Parent Company A charges its subsidiary for accounting services even though the subsidiary has a finance team handling its own accounting needs, such accounting services provided by Parent Company A would likely be duplicative, and hence considered non-chargeable activities under the OECD framework. The key for MNEs is to demonstrate why the service is not duplicative.

Step 2: Establish The Appropriate Cost Base

Upon determination that a chargeable intra-group service has been rendered, the next step is to establish an appropriate cost base (constituting only costs associated with the service provided). MNEs may, depending on the scenario, use the direct method or the indirect method when establishing

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the appropriate cost base, or accept pass-through costs where applicable.

Direct Method

The direct method is best used when several features are clearly identifiable – the actual work done, the beneficiary of the services, the basis of charge and the costs expended in providing the services. This method is commonly used in situations where only two companies are involved in the transaction, or where the service provider is specifically set up to provide the service (for example, an entity specifically set up to provide contract R&D services to all group entities).

While the direct method is generally preferred by tax authorities, direct determination of the cost base is not always possible. It would be impractical, for example, for a group marketing entity to identify the specific benefits that each associated entity receives from its marketing campaign. In such situations, MNEs may consider using the indirect method instead.

Indirect Method

The indirect method involves the allocation of costs to the various group entities using appropriate allocation keys for the specific services provided.

Common allocation keys include gross sales, income, headcount, loans and deposits, floor area and asset size. The selection of an appropriate allocation key is dependent on the nature of the service. For example, headcount may be the most suitable allocation key for human resource services, while the actual time spent by the project group (based on timesheet) may be most appropriate for technical services.

Pass-through Costs

A group service provider may, at times, arrange and pay for services acquired from other service providers (whether independent or related) on behalf of its associated entities. In such situations, the group service provider may pass on the costs of the acquired services to its associated entities without a markup, provided that such acquired services are for the benefit of the associated entities and have been charged at arm's length; the group service provider is merely the paying agent and does not enhance the value of the acquired services, and the costs of the acquired services are the legal or contractual liabilities of the related parties.

Step 3: Determine The Right Mark-Up

Once the cost base of the intra-group service has been established, the next step is to determine the appropriate mark-up to be applied on those costs. Essentially, the appropriate mark-up depends on the type of service.

> Ideally, the service contract should provide a clear description of the activities performed by the service provider and an explanation on how the service charge is arrived at.

"The characterisation of the service, as determined by the functional analysis, is critical," highlighted Ms Calderon. "It is the foundation in supporting that the price of the service is at arm's length."

On one end of the service spectrum are support services, which are generally remunerated on a cost-plus basis. In Singapore, the Inland Revenue Authority of Singapore accepts a 5% cost mark-up to be a reasonable arm's length charge for certain routine support services, subject to certain conditions.

In applying the 5% cost mark-up concession on routine support services, businesses are not required to perform a benchmarking analysis to support the 5% mark-up. Nonetheless, it is good practice for businesses to keep simplified documentation providing an analysis of the "benefits test", cost base and allocation keys, and substantiating that the services are indeed support or routine services (as opposed to being core to their business activities).

On the other end of the service spectrum are core services to the business. These should typically be remunerated at a higher mark-up on the basis that they add value to the main revenue-generating activities. Services such as manufacturing, sales, marketing and distribution, which are normally linked to the core business activities of the company, should accordingly expect a higher mark-up. For such services, separate benchmarking analyses should be performed to determine their arm's length pricing.

Step 4: Ensure Well-Drafted Contracts Are In Place

In a transfer pricing review or audit, one of the first documents that tax authorities would request to substantiate a service transaction is the service contract between the service provider and the service recipient.

Ideally, the service contract should provide a clear description of the activities performed by the service provider and an explanation on how the service charge is arrived at. In addition, it should also reflect the clear appointment of the service provider and service recipient.

Step 5: Conduct A Transfer Pricing Analysis

Finally, a transfer pricing analysis should be conducted to provide strong support for the company in justifying that its transfer prices set between related parties are at arm's length. It should be noted that the transfer pricing analysis is only useful to the extent that the earlier steps are sustainable.

Tax authorities around the world are getting increasingly sophisticated and savvier in dealing with transfer pricing issues. Instead of focusing on the mark-up, they are questioning the fundamental question of whether a service has been rendered in the first place. Businesses must therefore adapt and stay one step ahead by ensuring their transfer pricing positions are robust and sustainable. It would be wise to start reviewing existing related-party services transactions. If your organisation is making significant service transactions, it may be timely to try out the five-step process to ensure that your service charges are defensible in the event of a transfer pricing review or audit. ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Adriana Calderon, Director, Transfer Pricing Solutions Asia. For more tax insights, please visit www.siatp.org.sg.

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BY PEARL TAN

DON'S COLUMN

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

PART 2

Fresh Perspectives In Recognition, Measurement And Disclosures

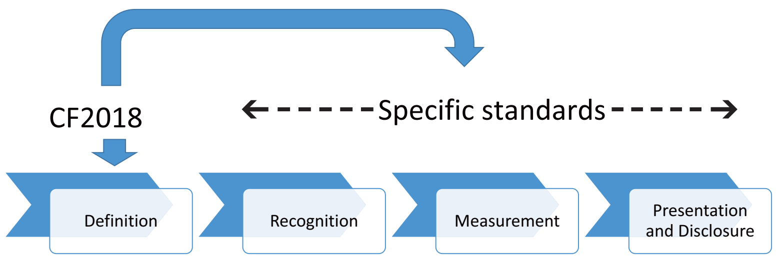
IN THE FIRST ARTICLE OF THIS TWO-PART SERIES, published in the October issue of ***IS Chartered** Accountant* Journal, we saw how the Revised Conceptual Framework for Financial Reporting (CF 2018) redefines focus and boundaries by highlighting the importance of information on management stewardship, symmetric prudence and updated definitions for assets and liabilities. This second article explains how CF 2018 provides new and updated principles on recognition, measurement and disclosure in a manner that was not seen in earlier framework projects. The International Accounting Standards Board (IASB) presents the new content with consistent reference to the qualitative characteristics that form the overarching pillars of financial reporting – "relevance" and "faithful representation".

It is useful to refresh our understanding of these two qualitative attributes. Information is relevant if it is capable of making an impact on decisions of users[1]. Hence, it must have predictive and/or confirmatory value. The information must also faithfully represent the substance of the purported economic phenomenon. To achieve faithful representation, the information must be complete, neutral and free from error. These twin attributes of "relevance" and "faithful representation" are the motivating factors for bold moves in CF 2018.

> ... in principle, an asset or liability may be recognised if recognition provides relevant information even if the probability of an inflow or outflow of economic benefits is low.

[1] Conceptual Framework for Financial Reporting – March 2018, International Accounting Standards Board, paragraph 2.6

Figure 1 Interactions of the Framework with Specific Standards



As explained in the first article, the conceptual framework is not a standard and does not override any standard (Figure 1). However, the framework provides broad principles and concepts to assist the IASB in formulating standards. In the first article, we noted that the definitions of assets and liabilities have changed. However, an asset or liability, so defined, may not be recognised or measured if it fails to meet the criteria specified in the appropriate standard.

UPDATED RECOGNITION CRITERIA

Under CF 2018, recognition is no longer dependent on filters or thresholds. This is a significant departure from the recognition criteria in the previous conceptual framework that requires the benefits or outflow to be "probable" and the cost or value to be measured with "reliability". CF 2018 provides overarching principles instead (Figure 2 provides a pictorial summary). An item is to be recognised if it provides relevant information of an item and is a faithful representation of that item. CF 2018 also emphasises symmetry in recognition. Failure to recognise an asset or liability is as serious as inappropriate recognition. The new framework expects an asset or liability *not* to be recognised only in limited circumstances[2]. Hence, in principle, an asset or liability may be recognised if recognition provides relevant information even if the probability of an inflow or outflow of economic benefits is low[3]. CF 2018 also evaluates faithful representation through the combined effects of recognition on the financial statements and the presentation and disclosure of footnote information.

NEW MEASUREMENT CONCEPTS

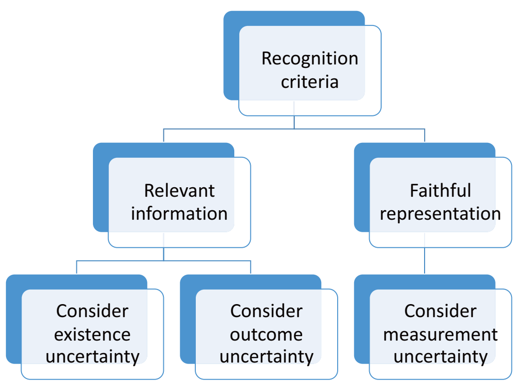
As with recognition criteria, the IASB provides substantially more new content on measurement in CF 2018. These concepts will guide the IASB in its future standard-setting activity. Figure 3 presents a pictorial summary of the measurement concepts. The guiding principles for measurement fall back on the fundamental qualitative characteristics of relevance and faithful representation. Although relevance and faithful representation have been the hallmarks of financial reporting, previous iterations of the conceptual framework did not feature them explicitly in the selection of a measurement basis.

A situational approach is applied affirming a mixed measurement model of the IFRSs. The answer to the question, "Which measurement basis applies?" is answered by, "It all depends..." Relevant information is determined by the characteristics of the asset or liability and the contribution of the asset or liability to future cash flows. Critical questions asked to establish relevance include the following:

- What is the variability of cash flows of the asset or liability?
- Is the value of the asset or liability sensitive to market factors or other risks?
- What is the nature of the entity's business activities?
- Do economic resources produce cash flows directly or indirectly?

One underlying principle is that the greater the exposure to cash flow or fair value variability, the greater the relevance of fair value information. Another principle relates to the business activities of the entity, that is, the economic context relating to the use of the asset. For example, this principle is applied in IFRS 9: Financial Instruments, where the measurement basis for a debt instrument depends on the business model for holding that asset. Another principle of relevance is the nature of the asset's interdependencies with other assets, which is determined in part by the entity's business activities. The greater the interdependencies, the more relevant is the use of historical cost or current cost information[4]. CF 2018 recognises that no one single factor would determine the measurement basis.

Figure 2 Recognition Criteria



[2] Ibid, Paragraph 5.22
[3] Ibid, Paragraph 5.17
[4] Ibid, Paragraph 6.55
[5] Ibid, Paragraph 6.44
[6] Basis of Conclusions, Conceptual Framework for Financial Reporting – March 2018, IASB, paragraph BC6.42
[7] Conceptual Framework for Financial Reporting – March 2018, IASB, Paragraph 6.46

As with recognition criteria, the IASB provides substantially more new content on measurement in CF 2018. These concepts will guide the IASB in its future standard-setting activity.

The relative weights given to each factor would depend on "facts and circumstances"[5].

Articulating principles of measurement for accounting is always a challenging process. The economic environment that firms operate in are complex and dynamic, making the determination of measurement models difficult. Principles can be derived using a deductive approach or an inductive approach. In a deductive approach, the principles are derived by logic and a process of reasoning in a top-down approach that is independent of practice. An inductive approach, on the other hand, are generalisations from actual practice in a bottom-up approach. The measurement concepts, while new to CF 2018, appear to be distilled from existing measurement standards. Given that standards preceded the framework, the implicit inductive approach is somewhat expected. The IASB also indicated that they consulted the guidance in IFRS 9: Financial Instruments in developing the measurement criteria in CF 2018[6]. Hence, it is not surprising that the measurement criteria ratify the mixed measurement models of existing accounting standards and do not change the status quo.

As with earlier framework projects, CF 2018 recognises the tension or trade-off between relevance and faithful representation. CF 2018 invokes the "efficient and effective process" of identifying the measurement basis that would provide the most relevant information first and then tests it for faithful representation[7] rather than the other way. In addition, CF 2018 provides factors to consider that are specific to initial measurement, situations when more than one measurement basis may be needed and the measurement of equity and cash flow-based measurement techniques.

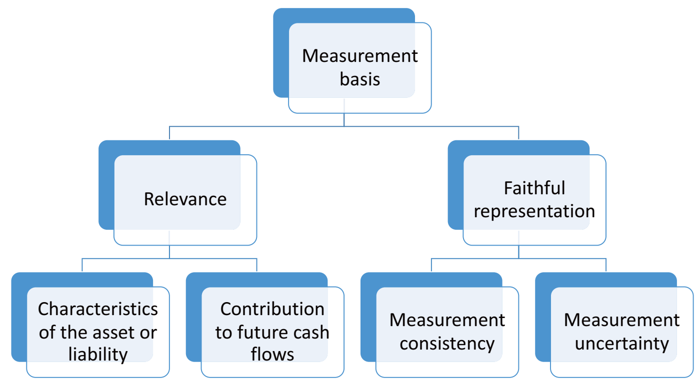
NEW PRESENTATION AND DISCLOSURE CONCEPTS

This is a new component in the conceptual framework. One of the key contributions of this segment is the provision of principles governing the decisions on the items that are presented as "other comprehensive income" (OCI). CF 2018 affirms that the statement of profit or loss is the primary source of information about the entity's financial performance. Hence, income and expense items should be reflected in net income. However, CF 2018 recognises that in "exceptional circumstances", some income or expense items provide more relevant information or more faithful representation of the entity's performance when presented in OCI. The decision as to which item is better presented as OCI is solely under the purview of the IASB which evaluates the decision on the basis of the qualitative characteristics of relevance and faithful representation. Likewise, the IASB applies the qualitative characteristics of financial reporting to decide on reclassification (recycling) of OCI to net income. If there is no clear basis for identifying the period or amount of reclassification, the norm is not to reclassify the OCI to net income. The statement of profit or loss and OCI is described in CF 2018 as the statement of financial performance. However, the framework does not specify whether this statement comprises one or two statements.

CONCLUSION

CF 2018 emphasises the importance of "relevance" and "faithful representation" in recognition, measurement, presentation and disclosures. The framework removes the triggers and thresholds for recognition. If the information on an asset or liability is relevant and is a faithful representation of the economic phenomenon relating to that asset or liability, it should be recognised even though the probability of an outcome is low. CF 2018 provides new concepts for determining measurement basis, albeit ratifying the underlying principles in existing measurement standards. For the first time in its history, the IASB has arrived at a documented stance on whether and how OCI should be identified. Although broad in nature, the principles governing OCI would compel future standards to explain how an OCI classification would contribute to the fundamental qualitative characteristics of financial reporting. ISCA

Figure 3 Measurement Concepts



Pearl Tan is Associate Professor (Education), Singapore Management University. She has co-written two textbooks on IFRS standards as well as cases and opinion pieces on accounting issues.

BY CARL R. MAYES JR, CHARLES E. LANDES AND HIRAM HASTY

TAKING THE RISK OUT OF RISK ASSESSMENT

How To Provide Better Audits

RISK ASSESSMENT IS AT THE CORE OF EVERY AUDIT. The goals of identifying, assessing and responding to risks of material misstatement (risks) drive every audit procedure, from gaining an understanding of the entity and its internal control to vouching transactions back to vendor invoices.

However, more than a decade after the 2006 Risk Assessment Standards (Statements on Auditing Standards Nos. 104–111) provided a new roadmap for executing the audit, some auditors continue to struggle with implementing these standards.

Data collected by the AICPA Peer Review Programme in 2016 show that more than one in 10 firms failed to comply with AU-C Section 315: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, or AU-C Section 330: Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained.

By analysing the data, the Peer Review team uncovered a misconception in practice that is having a major impact on audit quality: Many auditors, especially those auditing small to medium-sized entities, believe they can perform a quality audit without properly considering their clients' risks.

This thinking is fundamentally inaccurate and is leading to violations of professional standards. This article walks through a few examples of what the Peer Review team has found, along with some tips to help promote compliance.

RISK ASSESSMENT IS VERY LIMITED OR NON-EXISTENT

The risk of material misstatement is the risk that the financial statements are materially misstated prior to the audit. This consists of two components – inherent risk and control risk – which are defined in AU-C Section 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.

Paragraph .03 of AU-C Section 315 indicates that risk assessment provides "a basis for designing and implementing responses to the assessed risks of material misstatement".

If auditors do not assess their clients' risks, they will have no basis for designing audit plans that respond to those risks. Regardless of the amount and type of substantive testing they perform, the auditors will have no way of knowing whether their procedures reduced audit risk to an appropriately low level.

As such, a failure to comply with AU-C Section 315 represents a failure to obtain sufficient appropriate audit evidence to support the opinion.

Properly considering a client's risks is essential to a quality audit.

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NO LINKAGE BETWEEN ASSESSED RISKS AND PLANNED RESPONSES

Performing substantive procedures without linking them to a risk assessment is like throwing darts while blindfolded. You might occasionally hit the bull's eye and properly respond to a client's specific risks, but more often, you'll miss the board entirely.

The Peer Review team has noted numerous instances where auditors appear to be "going through the motions", assessing risks because the standards require it but ignoring the risk assessment when selecting or designing their substantive procedures.

This approach can lead to over-auditing and can have a significant impact on an auditor's efficiency. By completing standardised audit programmes without considering the client's specific risks, the auditor may be performing more work than is necessary in areas of low risk.

The more important concern with this approach is that it can lead to under-auditing, such that the auditor fails to perform procedures that are responsive to a client's specific risks. When this occurs, the auditor fails to obtain sufficient appropriate audit evidence to support the opinion.

IMPROPER USE OF THIRD-PARTY PRACTICE AIDS

Standardised, third-party practice aids can be valuable tools that provide auditors with useful insights when planning and conducting an audit. However, to be effective, these tools must be used as intended.

Even if auditors use standardised practice aids, they are still required to perform a risk assessment and show the linkage between that assessment and their procedures. Auditors should not assume that the recommended procedures in their standardised practice aids will always address a particular client's risks.

Auditors should thoughtfully consider whether the procedures recommended in their practice aid are responsive to a client's account-level and assertion-level risks. Modification of those procedures or the addition of new procedures may be required, especially if an auditor is responding to a significant risk, according to AU-C Section 315, paragraphs .28–.30.

FAILURE TO PROPERLY RESPOND TO SIGNIFICANT RISKS

The Peer Review team has noted varying interpretations of the term "significant risk". Some practitioners believe significant risks are limited to fraud risks, while others believe any assertion with a high risk of material misstatement should be considered a significant risk.

Neither is accurate. A significant risk is any risk that, in the auditor's professional judgement, requires special audit consideration. These risks often relate to non-routine transactions that require significant judgement on the part of the client.

For example, if a small manufacturing company purchases a business and records goodwill, assessing goodwill for impairment may occur infrequently and require professional judgement. Depending on the materiality of the account balance, goodwill valuation may represent a significant risk.

"Special audit consideration" means the auditors go above and beyond what they would ordinarily do in auditing that account or assert for a similar client. When a significant risk has been identified, the auditor should obtain an understanding of the client's controls relevant to the significant risk, evaluate the design of the controls, and determine whether they have been implemented.

Additionally, the auditor should perform substantive procedures that are specifically responsive to the risk. In most cases, this would require the auditor to modify or add procedures to standardised audit programmes.

Virtually every audit, including audits of small and medium-sized entities, involves at least one significant risk. Accordingly, if you are not modifying your standardised audit programmes to address significant risks on your audit engagements, it is likely that you are not complying with AU-C Section 330.

REPEATING THE SAME APPROACH FOR CLIENTS IN THE SAME INDUSTRY

Auditors should thoughtfully consider the procedures that would best respond to their client's risks and should not simply perform the same procedures that were required for another client in the same industry.

To illustrate, consider two clients in the manufacturing industry, both of which have a high risk of material misstatement associated with inventory existence.

- Client A's risk relates to concerns about theft, which spiked during the year under audit;
- Client B's risk relates to receiving processes, which have affected the accuracy of inventory counts in the past.

While these clients operate in the same industry, and both have a high risk of material misstatement for inventory existence, they may require two very different audit responses. During a physical inventory count, Client A's auditor may determine that the best way to lower detection risk would be to make a targeted selection of high-dollar items that would be easy to liquidate. Conversely, Client B's auditor may consider a random sample to be more appropriate, with more time dedicated to observing the receiving process at fiscal year-end.

In this example, if the auditors of Client A took a random sample, they could spend hours counting inventory that is not at risk of theft, ultimately devoting time and effort to procedures that do not reduce the detection risk associated with inventory existence to an appropriate level.

Some practitioners believe significant risks are limited to fraud risks, while others believe any assertion with a high risk of material misstatement should be considered a significant risk. Neither is accurate.

TIPS TO HELP YOUR FIRM COMPLY WITH AU-C SECTIONS 315 AND 330

When performing your next audit engagement, be sure to:

- Obtain a strong understanding of your client and its environment, including the system of internal control;
- Identify the client's risks, including any significant risks;
- Document the linkage between your risk assessment and the procedures on your audit programmes;
- Design and perform procedures that specifically address any significant risks;
- Revisit your risk assessment and audit plan throughout the engagement.

Following these tips and avoiding common pitfalls can help practitioners deliver high-quality audits and provide an important service to clients and the public. Free tools available at the AICPA website (www.aicpa.org/riskassessment) can be used to document your risk assessment, train your staff, help you perform an effective internal inspection, and start improving the quality of your audits. ISCA

Carl R. Mayes Jr. is Senior Manager, Charles E. Landes is Vice President-Professional Standards & Services, and Hiram Hasty is Senior Technical Manager, from AICPA. This article was first published in the "Journal of Accountancy".

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