IS Chartered Accountant Journal
AUGUST 2019

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INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Pathways, Programmes, Processes; Propelling The Profession Into The Future

Dear members,

THE STRONG SHOWING OF ISCA MEMBERS at our signature events last month is testimony of your commitment to keep up with the changes that will impact the profession. The Institute will continue to do its part to support your efforts and help you achieve your professional goals.

To expand members' career options into emerging areas of high demand, ISCA has launched specialisation pathways such as the ISCA-SUSS Business Analytics Certification Programme and ISCA Financial Forensic Accounting Qualification. We recently added the ISCA Infrastructure & Project Finance Qualification, a new pathway that was launched at the ISCA Professional Accountants in Business (PAIB) Conference in July. Developed with inputs from industry experts, qualified professionals will be conferred the ISCA Infrastructure & Project Finance Professional (ISCA IPFP) credential. Given Asia's rapid development, with a corresponding demand for urban infrastructure and related services, the ISCA IPFP designation is envisioned to open doors to the myriad opportunities in the infrastructure ecosystem. Find out more about the Qualification within these pages.

Also announced at the PAIB Conference, ISCA will be launching a new 30-hour e-learning Professional Business Accountant (PBA) Programme as part of our Continuing Professional Development (CPD) offerings. This Programme is an improved Associate membership pathway, where eligible accountancy professionals may be conferred the professional designation that validates their expertise, knowledge and experience in business and finance. This is aligned with the ISCA PAIB Framework. Of course the e-learning hours earned can be counted towards meeting CPD requirements, separately from the Programme. More details will be made available at the upcoming launch in October 2019.

The Institute's pathways and programmes are geared towards preparing members to navigate the increasingly complex business landscape, and gain a competitive advantage in their respective fields. With the digital revolution upon us, there is also a need for members to keep up with developments in emerging technologies, especially those that will disrupt the profession. For audit, which has been facing fee pressures as well as higher client expectations, technologies like robotic process automation (RPA) can be a game changer. When properly implemented, it can free up time for auditors to address the issues that matter most to their clients.

In the cover story, "Supercharging Audit With RPA", we look at the role of RPA and the benefits it can offer audit. Best described as a form of "digital labour", RPA software applications can be programmed to execute certain tasks, with their 24/7 automated processing capability delivering elevated levels of efficiency. Other potential advantages RPA brings include higher quality audit, auditors providing more strategic value to clients, and strengthening of the auditor-client relationship. In the long run, automation can lead to enhanced professional standards as audit professionals move from dealing with tedious and less challenging work to honing their analytical and communication skills, and developing critical mindsets through more meaningful work.

The value that technology offers accountancy is reinforced in "Services 4.0 (Part 2)", which boldly declares that the capabilities of a workforce automated by technology are "limitless". Again, RPA makes the cut as one of three technologies that are rapidly changing the face of accountancy; the other two are machine learning, and cognitive augmentation. Three case studies illustrate how such technologies enable the industry to move up the value chain in a Services 4.0 hub.

While much attention is paid to the value-add enabled by technology, there remains tacit recognition that accountants still play a central role. Among their many attributes, accountancy professionals are highly regarded for their experience, strategic thinking, professional judgement and scepticism, while their soft skills are indispensable in establishing and nurturing important relationships.

While the Institute continues to roll out initiatives to support members in various ways, members need to do their part too, and those with strong passion and perseverance are the ones who will stand out from the rest. Consider the success stories of members who have been featured in our Member Profile and Fun Accountants columns and you will notice the common threads – their passion and commitment towards their professional and personal pursuits, and their determination to overcome the hurdles to achieve their goals. You will find these same qualities in Daniel Seah, Consultant, People Advisory Services, EY, our featured member in this month's Member Profile.

Since July, the Institute has been running a series of advertisements across various media platforms as part of our brand campaign to reinforce the value that ISCA members bring to their organisations. To raise the profile of the profession, we also contribute articles to reputable publications to inform the public, and to share our perspectives. Last month, an abridged version of the article "Corporate Governance: A Shared Responsibility" (also in this issue) was published in *The Business Times*.

As always, the Journal is packed with insights and resources, and I wish you a purposeful read.

Kon Yin Tong
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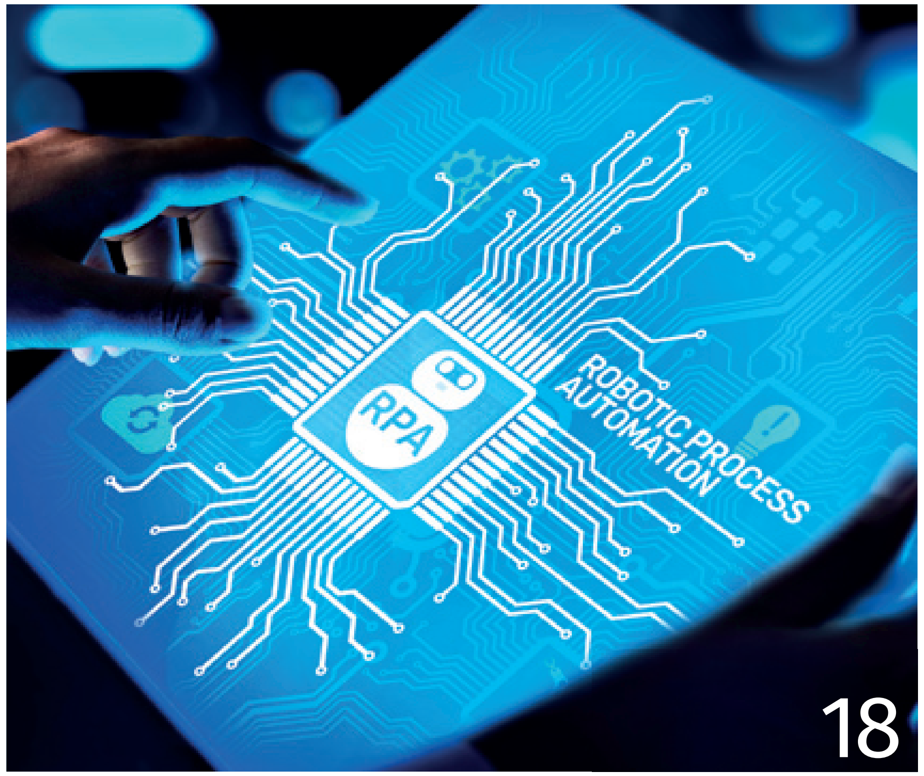

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Business Leaders Remain Optimistic About Growth Prospects

PHOTO SHUTTERSTOCK
Central Business District, Singapore

AMID RISING DISRUPTION AND HEIGHTENED US-CHINA TRADE TENSIONS, 92% of Chief Executive Officers (CEOs) in Singapore surveyed are still confident about the growth prospects of their companies, according to KPMG's "Agile or Irrelevant – 2019 Global CEO Outlook (Singapore edition)". However, confidence in the global economy has dropped to 64% (77% in 2018), and only 28% of CEOs here expect a revenue growth of 2% and above.

In contrast, 94% of global CEOs are bullish about their company's prospects, and 62% feel the same way about the global economy; 46% expect a revenue growth of 2% and above.

Commenting on the prospects for revenue growth of Singapore companies, Ong Pang Thye, Managing Partner, KPMG in Singapore, says, "There are expectations that the quantum of growth for companies in Singapore are lower as compared to global peers because trade is the key driver of growth for Singapore. The initial rounds of uncertainty from the trade tensions have dampened Singapore CEOs' confidence in the global economy and their expectations of top-line growth."

In the medium term, however, the trade tensions could result in a significant number of US, China and other multinational corporations (MNCs) increasing their presence in ASEAN. Singapore could therefore become an even more attractive regional or global headquarters as compared to its traditional regional rivals, Hong Kong and Shanghai.

Beyond Singapore, a Deloitte survey released in April 2019 noted that even as disruptions are rewriting traditional business operations, private business leaders remain steadfast in their optimism about their business outlook. The majority of the 2,550 company leaders across 30 countries expressed high or extremely high confidence in the success of their private firms over the next 24 months, reveals the "Global Perspectives for Private Companies: Agility in Changing Markets" survey.

"Private business leaders don't necessarily view today's disruption as negative, but rather as offering new opportunities for growth," says Jason Downing, Vice Chairman of Deloitte LLP and the US Deloitte Private leader. "Despite some concern about trade policy and geopolitical uncertainty, the majority of executives we surveyed are highly optimistic about growth and truly have confidence in their company's success in the year ahead."

quick facts

Most private companies are confident about their prospects in the next two years

Global

16%	Extremely high confidence
58%	High confidence
14%	Neither
9%	Low confidence
2%	Extremely low confidence

APAC

20%	Extremely high confidence
53%	High confidence
16%	Neither
9%	Low confidence
2%	Extremely low confidence

Source: "Global Perspectives for Private Companies" 2019, Deloitte

Taking action to fuel growth

The Deloitte survey found that firms are proactive in catalysing productivity. Globally, respondents are considering (43%) and implementing (40%) new business models to navigate disruption. In conjunction with exploring new business models, companies are also looking for ways to improve growth, with the top two strategies being increased productivity (29%) and new product/service development (24%); these same two categories also rank as the top competitive advantages.

Private business leaders are also investing in their staff, with human assets being identified as a differentiator in the survey. Talent development is done through various initiatives – 39% are devoting resources to training programmes, 35% are increasing the number of full-time employees, and 33% are investing in leadership development. To attract and retain employees, some 40% of respondents plan to reimagine learning and development programmes using experiential formats, develop strategies to build an inclusive workforce, and increase their focus on flexibility and well-being programmes.

Increasingly, a strong company culture (77%) is seen as being strategically important. The concept of social responsibility, in particular, is resonating with private firms worldwide with 66% viewing it as a top or high priority for their organisation. To make the most of these initiatives, organisations are focusing on corporate strategy as well as employee and customer branding to distinguish themselves further from the competition.

Regardless of business size or industry, technology has blurred borders and provides every company with the ability to be a global enterprise. According to the survey, the top driver cited for merger and acquisition (M&A) activities over the next 12 months is the opportunity to enter new global markets (39%). Many private businesses expect to conduct an aggressive M&A strategy, with 42% believing it is likely or very likely they will participate in an acquisition in that timeframe. This potential expansion comes in the face of uncertainties ignited by global trade tensions. While 24% of global respondents view trade barriers as a significant risk to growth, it is not at the expense of private business' optimism – 15% of respondents cite entry into foreign markets as their company's main growth strategy over the next 12 months. "Despite some areas of uncertainty, private businesses remain the engine behind the global economy, fuelled by their agility and ability to innovate," says Mr Downing.

ISCA Extends Brand Campaign: The Value ISCA Members Bring To Organisations

ISCA'S FUTURE-READY TALENT BRAND CAMPAIGN in 2018 received positive feedback, including several comments on social media that showed the content resonated with the audience. This year, based on the positive feedback, ISCA has extended our brand campaign, which positions ISCA members as trusted professionals armed with future-ready skills and the expertise to add value to diverse businesses.

Ong Wee Gee, Vice President, Finance and Administration, Equinix Asia Pacific

Belinda Tan, Practice Leader, Partner, Forensic & Integrity Services, Ernst & Young Advisory

Sebastian Widodo, Risk Assurance Manager, PwC

Targeted at employers, this year's series of advertisements feature ISCA members Ong Wee Gee, Vice President, Finance and Administration, Equinix Asia Pacific; Belinda Tan, Practice Leader, Partner, Forensic & Integrity Services, Ernst & Young Advisory, and Sebastian Widodo, Risk Assurance Manager, PwC.

Each member's story highlights different benefits of being an ISCA member. Mr Ong's story of being kept at the forefront of innovation underscores ISCA's efforts to prepare the profession for Industry 4.0. Ms Tan's narrative about attaining the ISCA Financial Forensic Professional credential shows how ISCA is developing members' expertise in sought-after areas through specialisation pathways such as the ISCA Financial Forensic Accounting Qualification. Mr Widodo's account establishes the ISCA membership as a trusted mark of excellence, where ISCA members have the support of the Institute and are equipped to add value to businesses.

The video and display advertisements will be screened across various online and social media platforms from July to October this year.

Further Your Career As An ISCA Infrastructure & Project Finance Professional

ASIA IS DEVELOPING RAPIDLY. Demand for urban infrastructure and services is expected to grow strongly, with infrastructure investments in developing Asia projected to be US$20 trillion (S$28.5 trillion) from 2016 to 2030.[1] Singapore is strategically positioned at the heart of the region, and has a strong ecosystem of infrastructure development companies, financing and risk management institutions, consultancies and law firms (among others). In 2018, the Singapore government set up a new office, Infrastructure Asia, to support the development of the region by bringing together local and international partners across the infrastructure value chain.

To keep pace with the growing industry, there is a continuing requirement for infrastructure and project finance professionals. One of the key strategies highlighted in "The Committee on the Future Economy" report is for professionals to collaborate and leverage their core competencies. One path for developing these resources is to build the capabilities of accountancy professionals who already have a good grounding in many of the issues involved, including risk management, financial modelling and forecasts, and credit analysis.

Examples of job roles within the infrastructure value chain include:

- Engineers
- Fund managers & investment analysts
- Infrastructure financial advisors
- Infrastructure technical advisors
- Legal professionals
- Master planners
- Project finance bankers & credit analysts
- Tax & accounting professionals
- Treasury professionals

[1] "The Committee on the Future Economy" report, 2017

[2] Public-Private Partnerships (PPPs): A form of joint cooperation between the government, or a government body, and the private sector where two parties cooperate as a means of establishing public services or public infrastructure

"To keep pace with the growing needs in the infrastructure space, more project financing specialists will be needed. Accountants are well placed to capture the opportunities in this space, given your familiarity with risk management, financial modelling, and financial forecasting concepts. So I was actually very happy today to see that on your tables, you have the new Infrastructure and Finance modules, because that's a way of upskilling, that's a way of gaining new opportunities and opening to new opportunities."

INDRANEE RAJAH
Minister in the Prime Minister's Office and Second Minister for Finance and Education, at the ISCA Professional Accountants in Business Conference, 17 July 2019

Table 1 Modules and focus areas

Modules	Focus Areas
Module 1: Project Lifecycle	Topic 1: Project Development Topic 2: Procurement Processes Candidates are expected to understand the factors that are required to be considered as part of project development as well as understand the different stages involved in procurement processes.
Module 2: Project Risks and Financing	Topic 3: Risk Analysis and Mitigation Topic 4: Project Financing Candidates are expected to understand risk analysis and its application as part of project development and implementation; the nature and characteristics of project finance, and the various sources and key financing terms.
Module 3: Contracts and Modelling	Topic 5: PPP[2] Contracts Topic 6: Project Value and Modelling Candidates are expected to present the basic structure of a PPP contract and the key commercial principles involved in designing PPP contracts. They will also be introduced to the basic concept of Value for Money and provided with hands-on experience in the financial modelling of PPP projects.

Table 2 Schedule for Module 1

Dates	Programme Title
1 Oct & 4 Oct	**ISCA Infrastructure & Project Finance Qualification Module 1: Project Lifecycle Workshops** Facilitated by EY Singapore
2 Oct & 3 Oct	**Asia Infrastructure Forum** Organised by Infrastructure Asia
25 Nov	**ISCA Infrastructure & Project Finance Qualification Module 1: Project Lifecycle Exam** (Optional)

Launch of ISCA Infrastructure & Project Finance Pathway

Launched in July 2019, the ISCA Infrastructure & Project Finance Qualification (Qualification) is developed with input from industry experts and leads to the conferment of the ISCA Infrastructure & Project Finance Professional (ISCA IPFP) credential. Individuals who will benefit from the Qualification include:

- ISCA members and professional accountants who wish to enter job roles within the infrastructure industry;
- Existing infrastructure and project finance professionals who wish to gain a better understanding of other areas of knowledge within the infrastructure value chain.

Comprising three modules, the contents are shown in Table 1.

The Qualification is a part-time programme involving a combination of self-study and mandatory practical workshops conducted by EY Singapore. Individuals have the flexibility to complete the Qualification or take the modules on an a la carte basis, based on their interest. Workshop enrolment for Module 1: Project Lifecycle is now open, and the sessions take place in October, in the same week as the Asia Infrastructure Forum organised by Infrastructure Asia (Table 2).

Upon completion of all modules, graduates of the Qualification who have acquired at least three years of full-time, relevant work experience in infrastructure and project finance-related fields can apply for ISCA membership, subject to meeting the prevailing membership admission requirements, and be conferred the ISCA IPFP credential.

"To address the regional infrastructure financing gap, efforts to crowd in private capital are important. Infrastructure Asia is heartened that ISCA has taken the initiative to focus on project finance. We trust that this course will be beneficial to participants, and help to deepen the community of qualified professionals to address Asia's infrastructure needs."

SETH TAN
Executive Director, Infrastructure Asia

Asia's First Infrastructure & Project Finance Pathway

- **First qualification leading to the conferment of a credential by a professional body in Asia**
- Developed in collaboration with **inputs from industry experts**
- **Flexibility** to take up individual modules
- **Practical workshops** offered by EY Singapore, with **ASEAN case studies**
- Gain hands-on experience in **financial modelling for infrastructure projects**
- **Networking opportunities** with the community

ISCA Infrastructure & Project Finance Professional (ISCA IPFP)

ISCA Infrastructure & Project Finance Qualification (ISCA IPFQ)

Six-day Workshop Delivered by EY Singapore, with end-of-module assessments

Module 1:	Module 2:	Module 3:
Project Lifecycle	**Project Risks and Financing**	**Contracts and Modelling**
Topic 1: Project Development	Topic 3: Risk Analysis and Mitigation	Topic 5: PPP Contracts
Topic 2: Procurement Processes	Topic 4: Project Financing	Topic 6: Project Value and Modelling

Entry Requirements:

- **Recognised Bachelor's degree or equivalent, and**
- **At least two years of professional work experience.**

**Individual applications will be assessed on a case-by-case basis.*

Grandfathering Scheme

Experienced infrastructure & project finance professionals can now apply for the ISCA Infrastructure & Project Finance Professional credential for a limited time period, up to 31 December 2020. All applications are subject to approval on a case-by-case basis.

Contact Us Now

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http://isca.org.sg/ipfq
http://isca.org.sg/ipfp

Business Study Mission To Myanmar

Fua Qiu Lin, Senior Manager, Quality Assurance, ISCA, sharing about Singapore's SMP landscape with the Myanmar SMPs

Head of delegation, ISCA Director Fann Kor (right), presenting a token of appreciation to Singapore Ambassador to Myanmar, HE Vanessa Chan

U Moe Kyaw, Vice Chairman, Myanmar Institute of Certified Public Accountants, sharing on Myanmar's SMP landscape

Pre-dinner cocktail networking session

Firm visit to law firm Kelvin Chia Yangon

THE 10TH SMALL AND MEDIUM-SIZED PRACTICE (SMP) BUSINESS STUDY MISSION took the delegation to Yangon, Myanmar, from May 14 to 16. The trip, which was led by Fann Kor, Director of Member Support & Services, ISCA, saw a total of 17 delegates join this specially curated trip for firms which are keen to consider Myanmar as a location for business expansion and partnerships.

Supported by Enterprise Singapore, this two-day business development trip allowed SMPs to (1) gain insights into Myanmar's economic, legal and accounting climate; (2) facilitate partnerships with Myanmar SMPs, and (3) network with Singapore businesses in Myanmar.

Loi Kai Cheow, Country Manager, UOB Yangon Branch, sharing the market overview and banking sector of Myanmar

Rooftop lounge area of Kelvin Chia Yangon, which is regularly used to host clients

Singapore delegation with the local practitioners from EY Myanmar

Singapore delegates meeting with their Myanmar SMP counterparts at the one-on-one business matching session

WHAT DELEGATE & HOST SAY...

"The trip was well co-ordinated and organised with many insightful firm visits. It was an immensely enriching and invaluable experience for me. I was able to meet local representatives to learn about different aspects of the business climate, local culture and challenges of doing business in Myanmar. It was also a great opportunity to network with fellow Singaporeans working in Myanmar."

JASON KHOR, Director, Precursor Assurance PAC

"Our firm was happy to have hosted the ISCA delegation at our Myanmar office. Their questions both during and after our foreign investment presentation were insightful, and it was evident that the delegates had a genuine interest in the Myanmar market. We likewise enjoyed ourselves at the networking dinner and had a nice chat with Her Excellency, the Singapore Ambassador to Myanmar, who gave warm welcoming remarks for the event."

LYRA FLORES BISNAR, Principal Foreign Attorney, Kelvin Chia Yangon

To enable SMPs to gain a better understanding of Myanmar's business climate, firm visits were planned to an international bank, an accounting firm and a Singapore law firm which has successfully expanded into Myanmar.

The programme kicked off with a firm visit to UOB Myanmar, where Country Manager Loi Kai Cheow, a Singaporean, provided the delegates with an insightful overview of the Myanmar economy. He described the limitations to foreign investment in Myanmar, such as restrictions on land purchase by foreigners. He went on to explain how foreign firms can leverage on the Special Economic Zones (SEZs) which have fewer restrictions. With the Myanmar government's plan to grow new regions outside Yangon, foreigners can now look into investing in other expanding SEZs such as Thilawa, Dawei and Kyaukpyu. Mr Loi also shared how Singapore firms are supported by foreign banks in their offshore transactions, such that they are protected from foreign currency exchange fluctuations.

When the delegates visited EY Myanmar's brand new office, Naing Naing San, Audit and Tax Partner, shared about the audit and accounting landscape in Myanmar; she also emphasised that only locals can sign off the audit reports in Myanmar. Furthermore, she said that from FY2022/23, the current Myanmar Financial Reporting Standards (based on IFRS 2010) will be abolished and all firms must adhere to the latest IFRS. The transition will bring Myanmar firms up to international standards and ease business collaborations globally. For Singapore SMPs, this can translate into opportunities to support the local Myanmar SMPs to help their clients transit to IFRS.

The visit to Kelvin Chia Yangon (KCY), a branch of an established Singapore law firm, provided delegates with information and shared experiences about the early struggles the Singapore law practice had when it first extended its footprint into Myanmar. Citing the lack of qualified labour as one of the key challenges, Pedro Jose Bernado, Principal Foreign Attorney, explained that KCY hires locals and sends them to its Singapore firm for training before they return to KCY as skilled repatriates. He also shared with the delegates that there were tax exemptions and reliefs from customs duties available for items ranging from machineries to raw materials for new businesses.

To conclude the fruitful day, our Singapore delegates hosted a business networking dinner which was graced by Her Excellency Vanessa Chan, Singapore Ambassador to Myanmar. In her welcome address, she encouraged the strengthening of partnerships between Singapore and Myanmar while advocating for Singapore companies to expand their networks to regionalise and internationalise. Said Singapore delegate Andrew Sim, Director, AccTrust Assurance PAC, "Ms Chan's warm welcome set the scene for participants of diverse backgrounds to mingle and establish deeper relationships throughout the dinner." Attended by close to 60 business leaders from Myanmar SMPs and Singaporean businessmen working in Myanmar, many rewarding networks were established that evening.

Backed by success stories from the previous business study missions, the trip ended with the highly anticipated one-on-one business matching session. This pre-scheduled "speed dating" style meeting paved the way for Singapore SMPs to engage in fruitful conversations with a total of 30 local Myanmar law, accounting and audit firms. "The sessions facilitated excellent connection opportunities with local practices and the business community. This will be valuable in developing new leads and partnerships in the market for RT ASEAN network," said Voo Chih Yeong, Chief Operating Officer, RT ASEAN.

This trip to Myanmar marks the ninth business study mission organised by ISCA. Supported by Enterprise Singapore, ISCA will continue to encourage our members to expand their horizons internationally with future mission trips.

Engaging Members In Dubai

THE MEMBERS' NETWORKING DINNER with ISCA Chief Executive Officer (CEO) event was held in Dubai on June 16. Attended by members who are based in Dubai, the networking session was hosted by Lee Fook Chiew, CEO, ISCA, and Jennifer Toh, Director, Marketing Communications, Insights & Publications, ISCA. Held over dinner, the session was a fruitful one as it enabled ISCA to engage our members as well as created a platform for these members in Dubai to build a connection and network of ISCA members.

As a member institute of Chartered Accountants Worldwide, ISCA members were also invited to attend the Chartered Accountants Worldwide Panel Discussion which took place on June 17. The panel discussion, with the theme "Trust: New technology meets old-fashioned values", was moderated by Richard Dean, broadcaster and host of "The Business Breakfast" radio show in Dubai.

(Standing, from left) Teng Chay Ling, Head of Compliance, Agricultural Bank of China; ISCA CEO Lee Fook Chiew; Chua Wee Meng, Chief Financial Officer, Emaar Hospitality Group LLC; (seated, from left): Kueh Chin Poh, Director of Finance, Al Habtoor Group LLC; Jennifer Toh, Director, Marketing Communications, Insights & Publications, ISCA; Crystal Yap, Area Director of Finance, Jumeirah Group; N. S. Ramjee, Chief Financial Officer, Stanford Marine Group

The Chartered Accountants Worldwide panel discussion was themed "Trust: New technology meets old-fashioned values"

Panellists included Michael Izza, Chairman, Chartered Accountants Worldwide and CEO, The Institute of Chartered Accountants in England and Wales; Freeman Nomvalo, Chief Executive, South African Institute of Chartered Accountants, and Sabbir Ahmed, Member Council, Institute of Chartered Accountants Bangladesh. They were joined by Bryan Stirewalt, CEO, Dubai Financial Services Authority, and David Haveron, an expert in artificial intelligence (AI) at PwC. Not only did the panellists share their perspectives on the importance of trust in finance and business, topics including technology, ethics, as well as the impact of AI on the profession were also discussed.

ISCA looks forward to members' participation in global networking events to connect and network with fellow Chartered Accountants globally.

Excelling In Tax Classics And Contemporaries

EVEN AS VARIOUS NEW DEVELOPMENTS shake up the tax landscape, zero-rated supplies, transfer pricing and goods and service tax (GST) still continue to stir up a buzz among tax professionals. Boosting the accredited tax professionals towards tax excellence, the Singapore Institute of Accredited Tax Professionals (SIATP) organised the recent *Tax Excellence Decoded* (TED) sessions covering these topics.

Helming the session on zero-rated supplies, Accredited Tax Advisor (GST & Income Tax) Gan Hwee Leng, Indirect Tax Partner at KPMG Advisory LLP, plunged straight into the principles of zero rating and the provisions. Using case studies and scenarios to illustrate the key concepts, participants got into the nuts and bolts of zero-rated supplies and their interplay with reverse charge.

But GST was not the only issue that was covered. Adriana Calderon, Director at Transfer Pricing Solutions Asia, brought the accredited tax professionals on a trail to uncover the complexities of services transactions in transfer pricing. Benefit tests, cost-based analysis and non-chargeable activities, among others, were closely examined during the sesssion. She also held extensive discussion with the participants, ensuring that they fully grasped the key concepts.

Moving swiftly on to the second half of the year, accredited tax professionals also had a refresher on the various revised e-Tax guides and other perennial GST issues. Kicking off in early July, a *S.U.R.E* session was jointly organised with the Inland Revenue Authority of Singapore (IRAS), providing a platform to seek clarity, understand the guides, reaffirm understanding and enrich the tax profession. Participants had the opportunity to clear their doubts during the panel discussion with Accredited Tax Advisor (GST) Yap Mei Mei, Group Tax Specialist, GST Division – Large Business Branch, IRAS; Norhaizah Zainal, Manager, GST Division – General Branch, IRAS, and the rest of the IRAS team. A partner from one of the Big Four firms who attended the session had this to say, "The session was insightful. I encourage my team to attend such seminars organised by SIATP as there is always something new to learn – be it a technical tip, a best practice or simply a refresher on a blindspot that is often overlooked".

These events ensured that tax professionals have a firm and accurate grasp of existing tax topics, enhancing their knowledge of the classics before ushering in the new.

If you, too, wish to learn something new to bring you closer towards the tax apex, email enquiry@siatp.org.sg.

It was a capacity-filled seminar facilitated by Accredited Tax Advisor (GST & Income Tax) Gan Hwee Leng, Indirect Tax Partner at KPMG Advisory LLP, on zero-rated supplies

Adriana Calderon, Director at Transfer Pricing Solutions Asia, illustrated the key concepts of services transactions with practical examples

Noelle Poh, Principal Tax Rulings Officer, IRAS, highlighted the recent updates in various GST e-Tax guides

isca mingles

More Than Just A Trade War

THE QUARTERLY ISCA MINGLES SESSION, jointly organised by ISCA, Chartered Accountants Australia and New Zealand (CA ANZ) and The Institute of Chartered Accountants in England and Wales (ICAEW), is a platform for networking and interaction, with the aim of establishing professional networks to broaden the sphere of opportunities while picking up relevant insights from the presenter.

Based on the current trajectory, China is set to overtake the US as the world's largest economy within the next decade, and the key beneficiaries in the region are Singapore, Malaysia, Thailand and Vietnam.

Chartered Accountants from ISCA, CA ANZ and ICAEW networking at the ISCA Mingles session

Held on July 10 at ISCA House, the session was preceded by a sumptuous dinner buffet with wine, providing some 40 members from ISCA, CA ANZ and ICAEW to mingle. After dinner, they settled down for a sharing session on the topic, "More Than Just A Trade War: What The US-China Stoush Means For ASEAN's Economic Outlook".

Khoon Goh, Head of Asia Research, ANZ Research, spoke about the tensions between the two largest economies in the world, how the region has benefited from globalisation, frictions in the global trading system and the challenges for growth. While these can be seen as obstacles, he said that opportunities will emerge as economies adjust to the new environment.

Mr Goh also shared that GDP growth has slowed down across the Asian region, which is still reliant on exports to drive economic activity. Factors contributing to the slowdown are saturation in the smartphone market, policy-induced deleveraging and excess capacity reduction in China as well as changing US consumer preferences towards services and experiences. The reduced import demand from China and US is already being felt in Asia.

Mr Goh ended his sharing on a positive note. Based on the current trajectory, China is set to overtake the US as the world's largest economy within the next decade, and the key beneficiaries in the region are Singapore, Malaysia, Thailand and Vietnam.

ANZ Research's Head of Asia Research Khoon Goh spoke about the implications of the US-China trade war on ASEAN's economic outlook

Participants gained insights on the opportunities for the region, as China looks set to become the world's largest economy isca breakfast talk

Beyond The Boardroom: Why Strong Internal Controls Are Important For Businesses Today

IN VIEW OF RECENT AMENDMENTS TO THE SINGAPORE CODE OF CORPORATE GOVERNANCE, more companies recognise the need to step up and tighten their internal controls, specifically in the areas of compliance, operational, financial, information technology and risk management. Pamela Chen, Director, Head of Internal Audit, Nexia TS, shared how the role of finance leaders can contribute to effective risk management and internal control at the recent ISCA Breakfast Talk.

Ms Chen explained that it is common to think that only large companies with operations across the globe are more susceptible to lapses in internal controls. Smaller businesses, too, have fallen victim to operational disruptions and financial losses due to internal control lapses. In fact, in order to survive in today's dynamic and highly competitive business landscape, smaller businesses would have to be more versatile in implementing internal controls.

She elaborated that finance leaders play a key role as the gatekeeper in maintaining reliability of financial reporting to the stakeholders, including business owners and investors. Some common challenges to implement adequate and effective internal controls include:

- No segregation of duties;
- Lack of experience in formalising policies and procedures for key processes;
- Inadequate resources to perform oversight and review functions;
- Insufficiency of transactions' documentation.

Pamela Chen, Director, Head of Internal Audit, Nexia TS, providing an overview of the importance of internal controls across all categories of businesses

(From left) Koh Soo Hoon, Head, Continuing Professional Development, ISCA, presenting a token of appreciation to Ms Chen

To improve internal controls, Ms Chen suggested some areas that can be developed and enhanced:

- Structure and formalisation of financial policies;
- Attract, retain and develop key talent;
- Roles and responsibilities against objectives;
- Streamlining finance and operations through structure, ERP systems and communication;
- Training.

She concluded the session by reminding participants that internal controls cannot take on a cookie-cutter approach where all companies model themselves after global conglomerates. Business owners must have a good understanding of their own organisational risks in order to implement practical, relevant and cost-effective internal controls which will strike the right balance between safeguarding assets and promoting business success.

Common Observations

Common Areas of Improvement

- ✓ Segregation of duties
- ✓ Integration of finance and operational
- ✓ Proper financial reporting
- ✓ Cash flow management
- ✓ Budgeting/Forecasting
- ✓ Finance process system
- ✓ Availability of policies and procedures in relation to financial management
- ✓ Communication lapses between operational and financial units
- ✓ Standardisation of financial reporting package

Common Challenges

Common Challenges

- ✓ Insufficient resources for accounting/IT system automation
- ✓ Competency of staff
- ✓ Segregation of duties (again, one might be in charge of too many roles)
- ✓ Insufficient resources and resultant financial closing and reporting difficulties
- ✓ Analysis paralysis which could hinder decision making process

Source: Presentation slides, Nexia TS

MARK YOUR CALENDAR

14 AUG — Personal Data Ethics and Management NEW!

Learn to better understand the challenges and ethical issues on the collection, usage, retention and protection of personal data within the company. Also, learn to establish the code of conduct and processes to handle personal data breaches.

15 AUG — ISCA Ethics Seminar: Serving the Public Interest - Narrowing the Expectation Gap

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Professional accountants need to conduct itself with the utmost care when rendering professional services.

This goes beyond service excellence because acting in the public interest requires ethical behaviours and sometimes hard decisions contrary to business interest.

20 AUG — Personal Data Protection Audit & Compliance NEW!

When establishing a workplace data protection policy, organizations need to consider how their operational structure fits in with the data protection requirements and what steps to be taken to ensure effective compliance.

This programme is to establish proper internal audit processes to comply to PDPA requirements on the handling and protecting personal data within the company.

14 AUG — ISCA Breakfast Talk: City-shaping and nation-building - how infrastructure will drive prosperity and opportunity for Southeast Asia

Infrastructure is a critical driver of economic growth, and Southeast Asia is facing unprecedented demands for new projects to improve living standards and create opportunities for the hundreds of millions of people in the region.

This session will explain what this demand means for regional development in terms of future projects, and how cooperation between governments and industry will be critical to delivering them.

15 AUG — ISCA Mingles – Creating optimistic conversations that propel people into action

Leaders always want their people to think and act more strategically, instead of being overwhelmed by problems that hold them back.

How do you hold useful conversations that will propel others towards action and at the same time feel good about it?

21 AUG — TP Documentation and Benchmarking Analysis - How to get it right?

Transfer pricing documentation and benchmarking analysis are key when defending transfer pricing risks from tax authorities.

Learn the practical solutions on how to test related party transactions, to ensure that your documentation and benchmarking analysis are 'bullet-proof' and tips to minimise risks related to benchmarking analysis to ensure you get it right.

30 AUG — Managing Diversity through Effective Cross Cultural Communication NEW!

We live in a multi-cultural society and communicate with people of different nationalities and ethnicities daily. At times unintentional miscommunication, conflict and awkward situations happen even in the workplace.

This course will help you to understand different people's communication styles and differences which lead to conflicts and how you can resolve these conflicts in an effective manner.

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


BY DAVID TOH AND MAGDELENE CHUA

SUPERCHARGING AUDIT WITH RPA

Implementation Success Factors And Considerations

THE DIGITAL REVOLUTION IS SPARKING TRANSFORMATION in every sphere of business. As this happens, the audit profession faces its own game-changing moment. To remain relevant, audit needs to open up to innovation. By pivoting towards advanced technologies such as robotic process automation (RPA), auditors have more time to focus on the critical issues that matter to their clients.

KEEPING AUDIT RELEVANT AMID TECHNOLOGICAL DISRUPTION

From an ever-competitive business landscape and the war for talent to evolving disclosure standards and increasing client expectations, today's audit profession faces constant challenges. But foremost on the minds of the profession's leaders is the impact from digital disruption. With the relevance of the profession at stake, can auditors keep up with the accelerating pace of technological change?

According to PwC's "2018 State of the Internal Audit Profession Study", 56% of internal audit leaders are concerned that failing to improve internal audit's technology adoption will diminish its value to their organisation.

Audit clients have raised their expectations. They want even deeper analysis and more meaningful advice from their auditors. Across almost every industry, audit clients are also embarking on digitalisation, making investments to simplify operations and streamline data. To leverage and perform robust analysis on clients' data, the profession needs to stay ahead of the curve.

On the flip side, auditors joining the profession expect to develop deep skill sets. They aspire to gain exposure to challenging and judgemental work which can add value to clients. At the same time, they do not want to be bogged down by repetitive or mundane tasks. To attract and retain these young talents, the profession must offer them a long runway for development.

The audit profession has to evolve to meet both internal and external expectations. It needs to execute audits better, faster and smarter, so that time can best be spent on strategic initiatives that can drive growth.

Today's leading companies recognise the importance of increasing the efficiency and effectiveness of operations. To drive revenue growth, the majority of respondents (77%) in PwC's "22nd Annual Global CEO Survey" plan to implement initiatives over the next 12 months to enhance operational efficiencies. This is where digitalising and automating processes can carry the weight.

As it is, the audit profession is already harnessing the benefits of technology to augment insights and improve audit quality. Technologies such as RPA have the potential to significantly improve operational efficiencies, giving auditors the opportunity to deliver more impactful work.

Perhaps the most important benefit of RPA is that it allows auditors to prioritise their attention on critical issues such as risk and governance, which can add better value to the audit. This frees up their time so they can turn their attention to work which requires professional judgement, estimation or analysis.

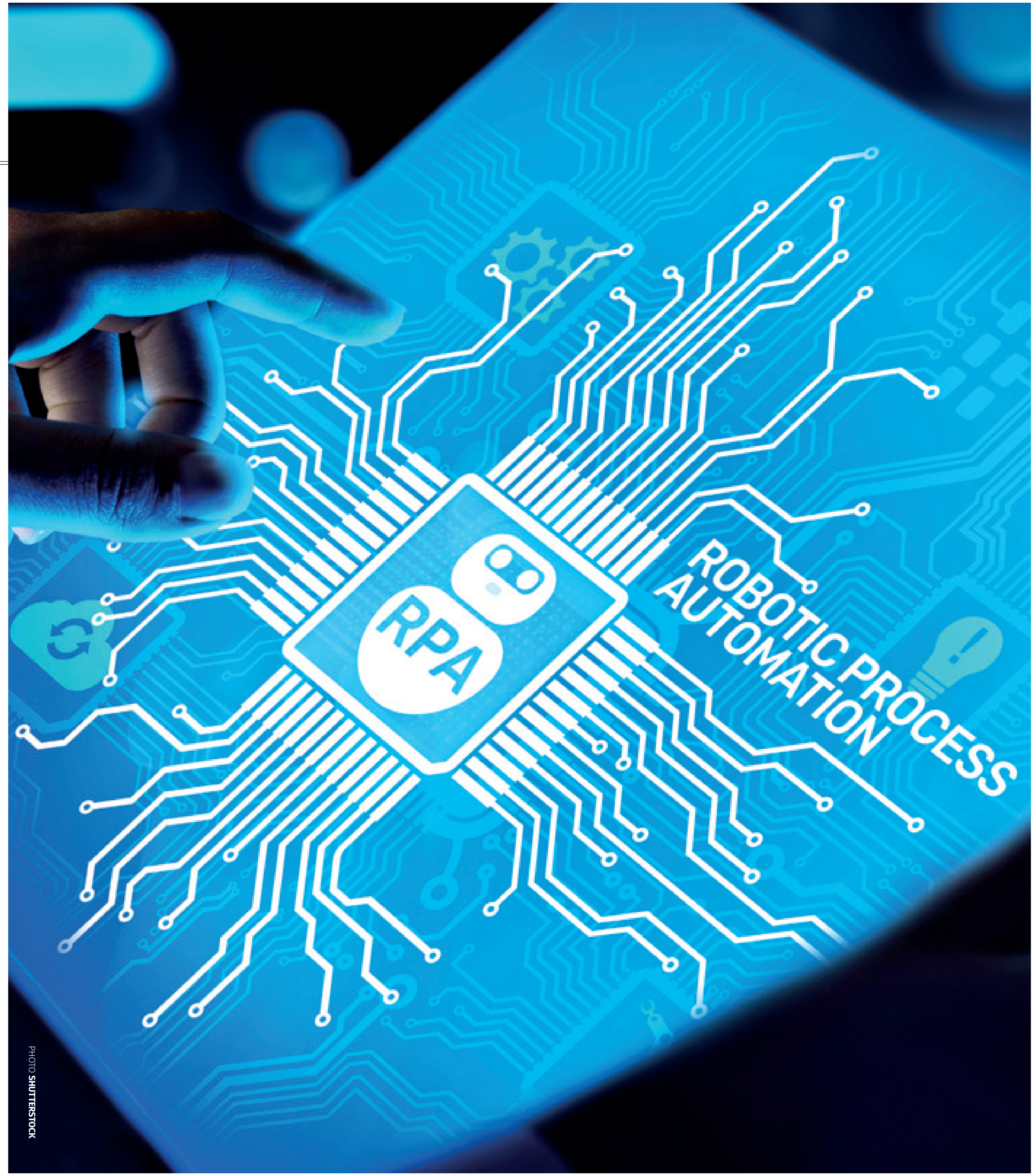


PHOTO SHUTTERSTOCK

PHOTO SHUTTERSTOCK

WHAT IS RPA?

RPA uses logic-driven software applications that are programmed to execute certain tasks. Contrary to its name, RPA does not involve a physical robot that performs operational processes. Instead, it can be thought of as digital labour, with bots that can be easily configured, trained and coded to automate tasks.

As these bots can run 24/7 with little or no downtime, processing time can be cut down significantly. Offering speed and agility, RPA can take over manual and time-consuming tasks, leading to greater efficiencies. According to PwC estimates, 45% of work activities can be automated, saving US$2 trillion in global workforce costs[1].

However, not all processes are suitable for RPA. Those that lend themselves best to automation are rules-based, standardised, repetitive and involve the use of structured data. Therefore, RPA is best suited for activities such as the transfer, reconciliation and cross-referencing of data among different applications.

ROLE OF RPA IN AUDIT

Internal and external audit procedures consist of a fixed sequence of processes to determine the quality of information that goes into financial statements. With RPA, these processes can be redesigned to enhance efficiency and effectiveness. These are some of the audit tasks that can be automated with RPA:

- Capturing documentation or transferring files;
- Validating information or checking master data files for completeness or duplicates;
- Tracking progress against the audit plan and monitoring key risk indicators;
- Reviewing and reconciling cash transactions, sales and purchases, journal entries, inventory lists, payroll and other expenses;
- Generating alerts when risk thresholds have been crossed;
- Comparing data against external sources as part of the validation process;
- Populating data for external stakeholders such as audit committee and management.

BENEFITS OF RPA IN AUDIT

There are many compelling reasons to implement RPA in audit, and here are some of them:

Enhances efficiencies

RPA reduces the manual workload and increases throughput and capacity on all levels. It can replace monotonous or routine activities such as the manual checking of inventory lists by junior auditors. As the bots can work round the clock, the audit cycle time can be cut down significantly. Bots can perform tasks such as controls testing much faster and more accurately than humans.

Increases effectiveness of the audit

Deploying RPA allows auditors to execute testing on a full population of accounting data, instead of conducting random sampling manually. As every process is recorded, a complete audit trail can be captured. This reduces the number of errors that can occur during the audit process. RPA also enables auditors to easily identify exceptions from standardised processes more quickly. As a result, they are better able to detect accounting anomalies, discrepancies or even fraud.

Raises audit quality

RPA enables more extensive and detailed data capture. This gives auditors greater access to information, helping them to gain a more indepth understanding of their clients' business operations. Auditors can then assess the risk of material misstatements more accurately, leading to a better quality of audit.

Provides more strategic value to the audit

Perhaps the most important benefit of RPA is that it allows auditors to prioritise their attention on critical issues such as risk and governance, which can add better value to the audit. The software performs the tasks which auditors usually find the most repetitive, administrative or time consuming. This frees up their time so they can turn their attention to work which requires professional judgement, estimation or analysis.

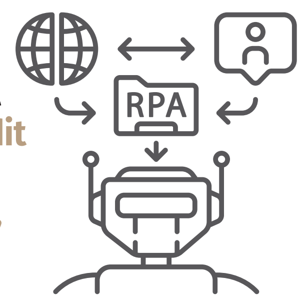
Strengthens the auditor-client relationship

With routine tasks taken care of by RPA, auditors can spend more time in meaningful discussions with their clients where they can raise, debate and address key issues. As RPA facilitates real-time audits at greater frequencies, management is also able to resolve problems that arise in a more timely manner.

Raises professional standards

In the long run, the implementation of RPA paves the way for improved professional capabilities. Instead of dealing with tedious, vouching work and sifting through piles of hard-copy audit files, entrants to the profession can focus on honing their analytical and communication skills, as well as developing critical mindsets through more meaningful work.

For RPA to fully work its magic, it is critical to integrate it with other innovative and more powerful technologies such as artificial intelligence (AI) and machine learning. As audit firms increase the scale of automation, they can use AI to improve automation algorithms, creating new applications for RPA.



RPA IMPLEMENTATION: CRITICAL SUCCESS FACTORS AND MAIN CONSIDERATIONS

Given the considerable benefits promised by RPA, it is clear that there is a strong business case for its implementation. Automating labour-intensive processes increases productivity and allows auditors to be more strategic in their work.

For RPA to succeed, both auditors and their clients need to make the leap to digitalisation. Some internal audit functions are already making significant headway in implementing digital initiatives, according to PwC's "2019 State of the Internal Audit Profession Study". According to the study, this group of "Dynamics", which comprises 19% of internal audit respondents, has been streamlining internal audit operations through technology and investing heavily in data, analytics and automation. For them, the future of digital transformation has already arrived.

While there has been progress, the ecosystem has yet to fully mature. In an ideal world, all clients' data should be standardised and aligned with audit protocols. In reality, many clients are still at different stages of digital transformation, with varying processes and data formats. Small and medium-sized enterprises in particular, in Singapore and

[1] "Robotics Process Automation: A Primer For Internal Audit Professionals", PwC

across Asia Pacific, have not entirely eliminated manual processes nor paper-based documents.

These are just some of the key questions that need to be considered during the RPA implementation process:

- Are all relevant information captured in a digital format?
- Which are the repetitive, mundane or undifferentiated tasks carried out by auditors that can be replaced by bots?
- Which audit processes can be simplified and then automated?
- Are functional or business leaders capable of coordinating RPA initiatives?

For audit firms or their clients to successfully implement RPA, several factors need to be considered:

Digital maturity needs to exist

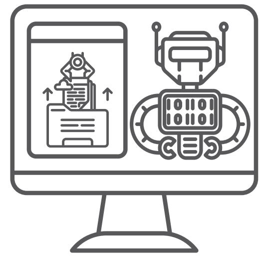
Before RPA can be implemented, legacy systems need to be replaced. Businesses need to ensure that data is machine-readable and in a digital format. For example, payroll data should be entered directly into a database, rather than filled out manually on paper.

A clear roadmap has to be devised

To roll out RPA successfully, businesses need to map out a formal strategy so that deployment can be managed with discipline. The steering committee will need to define a vision and develop an end-to-end strategy, as well as carry out an assessment of operational readiness. The full framework needs to consider the right infrastructure and operating model to manage the new, automated system.


PHOTO SHUTTERSTOCK

As bots can run 24/7 with little or no downtime, processing time can be cut down significantly. Offering speed and agility, RPA can take over manual and time-consuming tasks, leading to greater efficiencies.



Processes need to be streamlined

While RPA is highly scalable, much depends on the structure of the processes. Existing audit processes need to be evaluated in order to select those that are suitable to be automated. As RPA can only work for rules-based processes, the logic and workflow must be streamlined before automation takes place. There should also be a review of whether parts of the audit automation may require judgement. If human intervention is required, this may impact the workflow.

Governance is critical

Businesses need to enforce accountability for the enablement of RPA at the onset, assigning roles and mapping out responsibilities to manage and scale the implementation. Throughout the productive life, the bots will need constant maintenance, with regular updates and security patches. A strong control hub is needed to keep processes mission critical at all times.

Change management is a key piece of the puzzle

The change management process is instrumental to the success of the programme. It is important to get stakeholder and user buy-in for the automation so they can fully appreciate the final end-to-end process and recognise where they fit in. Users need to grasp how RPA would replace workflows, how it would impact their work and what they need to do to adjust to new ways of working.

Post-implementation training must be provided

Upon deployment, training must be given to arm end-users with the skills required to operate under the new model. A sound communication plan to update all stakeholders on the benefits of the new digital environment must be put in place.

MERGING RPA WITH AI

Redefining audit processes through RPA can bring audit firms to the next level of productivity. As a concept, RPA can be easily scaled to the extent that formats and data sets are structured. However, an RPA tool that reviews bank reconciliation, for example, cannot be used for the reconciliation of sales, purchases or payroll as the data sets are different. This poses a challenge in scaling RPA across audit clients from different industries.

For RPA to fully work its magic, it is critical to integrate it with other innovative and more powerful technologies such as artificial intelligence (AI) and machine learning. As audit firms increase the scale of automation, they can use AI to improve automation algorithms, creating new applications for RPA. In the long run, auditors will be able to create sustainable and long-term transformational change.

PwC's Halo platform is an example of data auditing technology which combines RPA with AI so that various data sets can be automatically transformed into a standard format that is suitable for testing. Halo can test huge volumes of business-critical data, analysing whole populations. With its unique algorithms, Halo can be applied to different industries and risks, allowing auditors to analyse different performance drivers, assess risks and identify outliers.

THE AUDITOR OF THE FUTURE

RPA not only adds value to clients and stakeholders, more importantly, it helps to preserve the longevity of those with careers in audit.

As RPA takes root in the audit industry, the next wave of emerging technologies is already on the horizon. This includes not only AI but augmented reality, blockchain, drones, the Internet of Things, robotics, virtual reality and 3D printing. As these technologies continue to disrupt industries, forward-thinking audit leaders will need to ask themselves whether they should mobilise any of these ahead of the curve.

While technology can help to bring about a better audit, professional judgement remains the bedrock of the profession. Auditors need to adapt to a future where algorithms and analytics may do most of the work for them. But intuition, judgement and an inquiring mind will be where auditors can continue to make a difference to their clients. ISCA

David Toh is Governance, Risks, Controls and Internal Audit Leader, and Magdelene Chua is Assurance Partner; both are from PwC Singapore.

MEMBER PROFILE

DISTINCTIVELY DETERMINED

ON THE SURFACE, Daniel Seah's story is no different from that of any other young accountant working in a Big Four firm. A Consultant for People Advisory Services at EY, Mr Seah's job sees him in an advisory capacity to expatriates on their tax-related matters. He handles their regular and ad hoc queries over email and the phone, and when the need arises, he attends client meetings as well. Apart from the rush to file tax returns on behalf of his clients in April, he is kept busy during the year conducting briefings for new clients and helping those who are leaving the country settle their tax matters.

But his story goes beyond that. It is a tale of triumph over adversity and sheer grit, which has cultivated a mindset that has in turn served him well at work. Born with brittle bone disease, which has affected his growth and necessitates the use of a wheelchair, the odds were stacked against him when growing up. But today, he gets to enjoy the fruits of an inclusive workplace culture, which is something EY strongly advocates. To accommodate his condition, EY installed automated doors in the men's room to enable Mr Seah seamless access. In addition, when they moved the department to a new level, they changed the bar-height tables in the pantry on that floor to standard heights so that Mr Seah is better able to interact with his colleagues.

Getting a job at EY was a defining moment for Mr Seah. "It has been my goal to get into a Big Four professional services organisation ever since I started studying accountancy," he says. The route to EY was not an easy one though; it was a long and challenging journey that took Mr Seah from the Normal (Academic) stream in secondary school to the polytechnic, and then to university.

A WHOLEHEARTED PURSUIT

Mr Seah was introduced to accountancy in Hillgrove Secondary School, where he was in the Normal (Academic) stream. "I found it quite interesting and easier than mathematics," he shares, adding

Daniel Seah, CA (Singapore), People Advisory Services, EY

"I found (accountancy in secondary school) quite interesting and easier than mathematics," he shares, adding that he preferred working with numbers than words, and enjoyed the intellectual challenges accountancy presented.

CAREER HIGHLIGHTS

2014
Graduated from Nanyang Technological University

July 2014 to September 2017
Associate, People Advisory Services, EY

September 2017 to Present
Consultant, People Advisory Services, EY

> **"Accountants need to be optimistic as they will face challenges every day. But as long as they believe in themselves, they can overcome those obstacles to allow them to achieve their dreams."**

that he preferred working with numbers than words, and enjoyed the intellectual challenges accountancy presented. "When the accounts balance, it gives me a certain thrill," he explains. After doing well in his 'N' Levels, he moved on to Secondary 5 in preparation for his 'O' Levels. Moving up from the Normal stream was the first hurdle but subsequently, tackling the subjects at 'O' Levels proved to be a big challenge. The level of difficulty increased tremendously, and he had to catch up quickly. "I had to start all over again," he says, and recalls asking many questions in class and attacking the books vigorously. He did well for his national examinations and got a place in the highly competitive Diploma in Accountancy course at Singapore Polytechnic.

Studying at the polytechnic demanded more of him than merely mastering the academic content. There were many group projects and he had to work with his course mates. "It's more challenging because you need to know how to deal with people from different backgrounds," he explains. This was followed by a degree from Nanyang Technological University (NTU), from where he graduated in 2014. Through the SPD (formerly Society for the Physically Disabled), Mr Seah received a scholarship from the Asia Pacific Breweries Foundation that helped defray the cost of his education.

Studying at NTU presented its own set of challenges. Because it is a large campus and classes were held at different venues, getting around was particularly difficult for him. At this point, Mr Seah's father, a taxi driver, quit his job so that he could bring his son from tutorial classes to lecture halls. Soon, the senior Mr Seah would become a familiar face on campus.

In his second year at NTU, Mr Seah struggled to get an internship. He applied to seven firms but failed to get a position. Thanks to SG Enable, an agency dedicated to enabling persons with disabilities, he was matched to a small audit firm that provided him with the opportunity to put his skills to work and get a taste of working life. Things took a turn for the better in his final year, when he successfully secured a position with EY before he graduated. It has proven to be a happy culmination of his efforts. At EY, he says, the people are nice and the work is challenging and exciting.

SCALING HIGHER PEAKS

To upgrade himself, Mr Seah decided to get his Chartered Accountant of Singapore or CA (Singapore) designation last year. "I felt that it would enhance my credibility in front of clients," he explains. "Being conferred this designation will increase their trust in me and it also allows me to confidently improve my marketability to potential clients." He feels that Chartered Accountants can play a vital role in organisations. "They can offer solutions to businesses because they can propose measures to lower costs for companies, given that they know the daily operations, both their profitability and expenses."

The other benefit of being a Chartered Accountant is that the Institute organises useful courses that members can enrol in to learn about industry trends, he explains.

To those who wish to enter the profession, his advice is that they need to be positive in their thinking. To him, the accountancy journey is not an easy one. "Accountants need to be optimistic as they will face challenges every day. But as long as they believe in themselves, they can overcome those obstacles to allow them to achieve their dreams."

As for his personal goals, apart from continuing to excel in his job, Mr Seah wants to be an advocate for persons with disabilities. "I want more people with disabilities to be embraced by organisations. If there is any outreach effort by EY, I will gladly participate." He believes that the Job Redesign guide developed by SG Enable and the Ministry of Manpower that was launched in June is a good step forward. "Each person has different capabilities and disabilities. Redefining a job will make it easier for persons with disabilities to be integrated into the workplace," he says. However, he believes that Singapore should go further. "I feel that there should be a few employees with disabilities in every organisation." He realises that this is an ambitious goal because it relies on employers to change the way they view the disabled. "If employers' perceptions do not change, it will be very hard to integrate people with disabilities." It is indeed a tough challenge, but then again, Mr Seah is no stranger to one. ISCA

BY IMDA, ISCA AND SAC

SERVICES 4.0

PART 2

Workforce Augmentation With Technology

IN THE ACCOUNTANCY SECTOR, the race is on to make use of technologies to provide services that are higher in the value chain, such as advisory and other professional services. The challenge of disruptive technologies that are upending the way people live, work and play has never been more keenly felt by the sector today and many accountancy firms are on their way to transforming themselves to be ready for a future where services are central to everything they do.

Services 4.0 is Singapore's response to the socioeconomic shifts accelerated by emerging technologies, such as artificial intelligence (AI) and advanced interfaces, which will work together to improve customer experiences – sometimes running in the background to anticipate their needs and resolving issues without human intervention.

One of the key enablers of Services 4.0 is workforce augmentation. By automating many of the workflows and processes performed by humans today, innovative technologies are rapidly changing the face of accountancy.

[1] "The Augmented Workforce: 4 Key Areas For Financial Institutions To Consider When Pursuing Intelligent Automation For Greater Value And Productivity", 2018, KPMG

There are broadly three types of automation technologies, according to KPMG[1]:

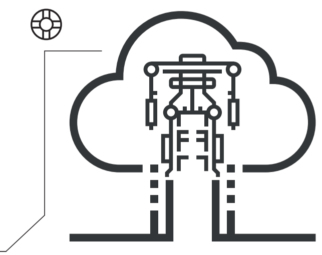
1) **Robotic Process Automation**
By making a set of rules for a machine, robotic process automation (RPA) automates repetitive processes to deliver results quickly and accurately. Since the "bot" sticks strictly to the rules given, it cannot adapt to new situations and needs to be told what to do when it encounters something unfamiliar.

2) **Machine Learning**
In this level of automation, a computer can take in large amounts of data and "learn" from the patterns within. A chatbot interacts with humans over time and understands how it can better respond, after gauging the past responses to its interactions.

3) **Cognitive Augmentation**
Computers that are "cognitive" can take raw, unstructured data and "make sense" of it. They can be asked to give an answer to a complex query and will be able to complete tasks that used to be completed only by humans.

The capabilities of a workforce automated by technology are limitless. In this second article of a four-part series on Services 4.0 and the accountancy profession, we share three ways that technology is helping to augment the workforce in different companies. These case studies also illustrate how technology enables the industry to move up the value chain in a Services 4.0 hub.

PHOTO SHUTTERSTOCK



CASE STUDY 1

OLAM INTERNATIONAL: AUGMENTATION OF THE FINANCE FUNCTION

A leading food and agri-business company listed on the Singapore Exchange, Olam has embraced Services 4.0 by augmenting its workforce with RPA tools and more

Large manuals and heavy ledgers, Lotus 123 files and busy couriers running back and forth with paper documents were a common sight 25 years ago, when S.V. Padmanabhan started his finance career. Back then, he recalled, most of the work was done manually, because the Internet was not readily available across the globe such as in Africa, where Olam had extensive operations.

Now Olam International's President and Global Head of Finance, Mr Padmanabhan said the need to make use of the technology/tools of the day has never been more urgent than today, as a wave of disruption washes up at the door of not just accountancy firms but of companies in every industry sector.

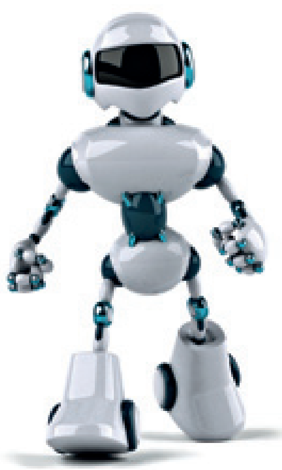
"In the past, we called it automation. Automation helped to remove many manual tasks in most of the ERP systems," he said. With technology becoming increasingly sophisticated, bots and RPA now have the capability to do more.

Already, RPA and business analytics tools are rendering repetitive, manual tasks redundant and, in the coming years, he noted that machine learning, and AI will replace tasks that can be learnt faster and reproduced more efficiently. RPA, for example, has improved efficiency and accuracy because the tallying and matching that used to be done manually are being carried out by machines. This means accountants do not have to spend so much of their time reconciling the ledger line by line with both internal and external documents (say, auto bank recon, AR receipts application, etc), which frees them up for higher-value tasks. Accountants can be more proactive and business savvy, and go beyond being efficient number crunchers. Their role can evolve to being the business partners or co-pilots in the organisation. Though technology will contribute positively to the workplace, it will not replace the professionals in the sector, noted Mr Padmanabhan.

For example, timely data analytics can alert a business partner to a problem if a manager earned $50 on a trade but lost some of that through currency rate movement. Analytics can reveal information such as which customer pays on time, incremental margin from increased credit period, return on investments made, etc, thus enabling proactive action where necessary. In both of these instances, with machine learning to look into recurring patterns in the accounting books, the BU partner can derive insights much faster than if he had to comb through voluminous piles of data to detect anomalies.

According to Mr Padmanabhan, in a world where data is a commodity, in addition to analytical expertise, it is equally important for Olam's finance team to continue to acquire soft skills including people, communication and influencing skills. What the company is currently facing, and working to improve on, is reflective of the challenges that the Singapore accountancy sector is facing as well.

"We (finance team) are working towards becoming world-class business partners," he stated.



Services 4.0 is Singapore's response to the socioeconomic shifts accelerated by emerging technologies, such as artificial intelligence (AI) and advanced interfaces, which will work together to improve customer experiences – sometimes running in the background to anticipate their needs and resolving issues without human intervention.

PHOTO SHUTTERSTOCK

CASE STUDY 2

CA TRUST PAC: NEW OPPORTUNITIES THROUGH AUTOMATION

CA Trust PAC is a public accountancy firm which has embraced Services 4.0 by making use of RPA and machine learning tools to be more efficient and provide higher value-adding services

At CA Trust PAC, clients are advised to embrace technology as the firm is itself adopting the latest accounting tools. For example, with Xero, a cloud-based accounting service, CA Trust can automate a number of processes that used to be carried out by accountants. The process now starts with clients participating in the accounting process such as taking a photograph of an expense receipt, where the accounting entries to record the expense is automated within the accounting system.

Xero lets client-employees scan their documents, such as invoices or receipts, which are then automatically included in a company's accounts. This means less work for both clients and CA Trust as they do not have to manually check each entry line by line, enabling both to see the forest rather than just the trees.

Paul Tan, Director of CA Trust, said that the compliance and assurance work that accountants do now will not attract high fees in the future, as the more mundane regulatory requirements will get cheaper with automation, and customers are demanding more value-added services.

He sees a future where accountancy firms would offer both the regular assurance services and the more lucrative advisory services, which their years of experience working with clients enable them to deliver.

He likened assurance to the "*nasi*" in *nasi padang* – the plain rice that is fundamentally important to both client and accountant – while comparing the meat and vegetable dishes to higher-value advisory services that an increasing number of accountancy firms can take on.

While the adoption of new tools and capabilities would not be overnight, he was of the belief that the time taken for clients and accountancy firm to ramp up will be short, once they experience the benefits.

CASE STUDY 3

MYFINB: DEVELOPING NEW CAPABILITIES

MyFinB is a fintech company that uses its proprietary AI to convert data into natural language, and provide a predictive and prescriptive analysis of an economy, industry and a company's financial well-being

The rapid development of new capabilities in AI and machine learning is helping the accountancy sector accelerate into the future. As these technologies become more mainstream and available, smaller firms will also start to adopt them to challenge the bigger players.

A good example of this is MyFinB's "RoboCFO" expert system. It takes data from different sources such as an annual report or a set of news articles, and compares these with patterns that it has learnt from other companies over time. The system then provides a detailed prognosis of the company's financial health and identifies the possible areas of concern and improvement, while predicting the likely future scenarios. For example, the analysis might predict that a company might be facing insolvency if its debts are mounting at a rate that cannot be sustained without the injection of new revenue or capital, or a reduction in costs.

For accountancy firms, MyFinB's analytics technology offers deep insights and financial advice that they can deliver to clients while preparing their regular financial reports. With these tools, which use an AI that "learns" based on the data that it is continuously fed, accountancy firms can help clients identify financial gaps, for example.

The tools also look into the future by studying past and emerging trends. When it comes to predicting risks, the company sees a 95% accuracy in detecting financial defaults in a company, two years before it occurs, according to M. Nazri Muhd, Founder and Group Chief Executive Officer of MyFinB. He said the technology could level the playing field by giving accountancy firms new capabilities and the competitive edge to carry out more high-value jobs.

"The key is being anticipatory and forward looking, to predict issues before they come up, not after," he explained.

CONCLUSION: WORKFORCE AUGMENTATION TO BE READY FOR SERVICES 4.0

Instead of continuing with business as usual, accountancy industry leaders say it is time to adopt new technologies such as automation, AI and even blockchain – the public ledger technology.

CA Trust's Mr Tan sees the opportunity to transform the accountancy industry from one that reacts to a problem to one that predicts and finds solutions for it. This will be the model for a new stream of revenue, he believes.

Olam's Mr Padmanabhan is of the view that a "continuous audit" is possible now with the automated tools in place, so accountants do not always have to work late during closing at month's end. He is convinced, too, that the disruption brought about by automation will open new doors. The people who were on the horse carriages simply changed jobs by acquiring a new skill, he pointed out. "When cars were invented, people learnt to drive cars." ISCA

The third article of this series will discuss the latest government initiatives to help companies in their digitalisation journey. It will be published in this *IS Chartered Accountant* Journal, September 2019.

This article was written by Info-communications Media Development Authority, Institute of Singapore Chartered Accountants and Singapore Accountancy Commission.

BY LOKE HOE YEONG

E-PAYMENTS AND CASHLESS SOCIETIES
PART 3
Why So Many E-Payment Options?

WE CAN CERTAINLY EMPATHISE with some older, less tech-savvy individuals when they do not have an alternative to e-payments. Bewildered by the plethora of e-payment options displayed at the counter, each represented by a fancy logo of its own, their instinct of simply pulling out banknotes and coins is understandable.

At one count in December 2018, there were no fewer than 42 mobile payment players active in Singapore.[1] Ranging from local bank options such as DBS PayLah! and those linked to mobile devices like Apple Pay and Samsung Pay to overseas e-wallets like Alipay and WeChat Pay, there has probably never been such a wide array of choices in the history of payments.

Having a multiplicity of choices is good for competition, but not when it creates a disincentive towards wider cashless payment adoption. Anecdotal evidence suggests that a segment of the population is not even able to distinguish between payment systems such as PayNow and digital wallets for practical purposes,[2] let alone become avid users of cashless payments.

Just as the previous articles in this series have done, we probe into the hype of cashless payments to unearth the real issues that need to be dealt with. The aim, though, is not to dissuade users from the cashless revolution, which presents itself as an inexorable trend. (Parts 1 and 2 of this article were published in the June and July issues of this *IS Chartered Accountant* Journal.)

Much still needs to be done to alert and educate consumers and businesses to the implications of e-payment, so that they can better understand and prepare for the future cashless economy. The use of cash is on the decline in every region of the world; Worldpay's "2018 Global Payments Report" projected that cash, which was still the leading point of sale payment method in 2018, will soon fall to fourth place in 2022, behind debit cards, credit cards, and e-wallets.[3]

TECHNOLOGY: LOWER BARRIERS FOR PAYMENTS BUSINESSES TODAY

It is not new for financial services enterprises to compete in the payments market, and this has led to a proliferation in the number of options for making payments. The credit card market of the past 70 years is not unlike what we see in the e-payments landscape today. The fact that Visa and Mastercard had been

Having a multiplicity of choices is good for competition, but not when it creates a disincentive towards wider cashless payment adoption.

[1] "Meet 42 Mobile Payment Players Active In Singapore Right Now", Fintechnews Singapore, 10 Dec 2018
[2] "Gen Y Speaks: 3 Suggestions For S'pore's Push Towards A Cashless Society", Todayonline, 28 Apr 2019
[3] "Global Payments Report 2018", Worldpay online

PHOTO SHUTTERSTOCK

overwhelmingly dominating the credit card market – at about 53% of market share in the US for Visa last year, and 22% for Mastercard[4] – did not happen by chance. They have continued their dominance even with the disruption posed by mobile payments in the past decade, not least because of how aggressively they have fought to keep themselves relevant; one example is allowing users of payment apps such as PayPal to add credit cards to their accounts.

But the current payments revolution at hand, which should perhaps be more clearly defined as a mobile payments revolution, is growing more exponentially than before due to the high penetration rate of smartphones around the world, coupled with how technology today has lowered the barriers of entry for a payments business; one no longer needs to be a Bank of America, which started Visa credit cards, nor the Interbank Card Association, which started Mastercard.

MOBILE PAYMENTS: LOWER PROCESSING FEES

Whatever the inconveniences of having a multiplicity of e-payment options, there are clear benefits for merchants.

While credit card companies tend to charge merchants a transaction fee of around 3%, QR code payments charge 1%, and sometimes even less.[5] And instead of merchants having to spend $270 to set up a credit card terminal, which could be considerable for micro-business owners such as hawkers, the cost of producing or printing a QR code label is effectively just $0.20.

MINIMISING PAIN POINTS FOR CONSUMERS AND MERCHANTS

For sure, there are clear benefits of mobile payment options even for less tech-savvy consumers. The much shorter time needed to wave a contactless card or scan a QR code, compared to the time needed for a credit card machine to dial up or for cash to be counted, comes to mind. But there are also undeniable inefficiencies in mobile payment methods.

It is not untypical for consumers to hold three or more e-wallets, since each offers deals and rewards in different areas, from transport to shopping mall expenditures. Each of these wallets would have to be topped up separately, and they would likely have different top-up and refund mechanisms that can add to potential confusion. They may each hold small amounts of money, but when added together, the e-wallets could contain more money than what consumers keep in one physical wallet.[6]

Imagine how much more frustrating it could be for the merchant who would have to deal with different acquirers which send them settlement files on different days, perhaps in different file formats too, and then pay the merchant on different days. All these complexities would be easily compounded if we are talking about consumers potentially holding 42 different e-wallets and payment methods, with merchants having to deal with 42 different payment providers.

But Singapore has not had to grapple with this, thanks to the action between Monetary Authority of Singapore (MAS) and the industry thus far. In 2016, a report by KPMG on the payments ecosystem in Singapore, commissioned by MAS, identified the lack of interoperability between payment systems as one of the critical issues that could hamper Singapore's Smart Nation ambitions.[7]

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> **"Today, we have existing powers to require payment platforms to open access to participants.** Looking ahead, we recognised that we needed two more measures: to require participants to use a common platform and to adopt common standards (such as SGQR)."

Around five years ago, MAS began to realise that a growing number of merchants used more than one payment terminal, provided by different bank acquirers. This presented obvious costs and inefficiencies when cashiers had to be trained to use different terminals, and customers were confused as to which terminal their card should use. In 2017, the roll-out of Unified Points of Sale (UPOS) terminals started in earnest in Singapore, beginning with supermarkets, convenience stores and petrol stations.[8]

In September 2018, the Singapore Quick Response (SGQR) code, the world's first unified payment QR code that is compatible with 27 e-payment solutions, was launched. The SGQR code facilitates the creation of a single multi-tenanted QR for each merchant, supported by a central infrastructure. This means merchants would no longer have to display multiple QR code stickers.

The UPOS and SGQR initiatives were the result of collaboration between MAS and industry partners. As cashless payment solutions continue to grow in number though, MAS recognises that it needs to be on top of developments to pre-empt future problems of interoperability.

In a speech at the Central Bank Payments Conference in Singapore on 26 June 2018, Jacqueline Loh, Deputy Managing Director, MAS, said, "Today, we have existing powers to require payment platforms to open access to participants. Looking ahead, we recognised that we needed two more measures: to require participants to use a common platform and to adopt common standards (such as SGQR)."[9]

DON'T SWEEP ASIDE CONCERNS AROUND E-PAYMENTS

There are also other issues that need to be addressed besides those brought about by the multiplicity of e-payment options. For instance, as more payment transactions take place outside of the banking system, they also start to fall outside central bank oversight like the Automated Clearing House and the Real-Time Gross Settlement system. And while interoperability between e-payment systems within Singapore is now well managed, how can they be kept interoperable with other e-payment systems around the world?[10]

MAS is already addressing some of these other concerns in the Payment Services Bill, which was passed in Parliament earlier this January, and will no doubt continue to do so.

But if there is one takeaway from this article, it is that in the quest for a cashless society, we should not sweep aside any concerns, even if they relate to the seemingly mundane concerns of consumers and merchants arising from the multiplicity of e-payment options.

It is futile and counterproductive to keep spotlighting the elderly, the less tech-savvy, or indeed anyone at all, for their inertia towards embracing cashless payments, as some have been doing.[11] Some of these concerns are real and should not be put down as an inexplicable penchant for banknotes and coins. Authorities and the industry have a critical role to play too, as the examples of the UPOS and SGQR initiatives attest to. Only then can the full extent of Singapore's Smart Nation ambitions be realised. ISCA

[4] "AmEx Is Likely To Become The Second Largest US Card Processing Company This Year", Forbes online, 29 May 2018

[5] "The Future Of Payments Is Inclusive And Invisible", The Business Times online, 27 Mar 2019

[6] "E-Payments In Asia: Regulating Innovation And Innovative Regulation". Keynote address by Jacqueline Loh, Deputy Managing Director, Monetary Authority of Singapore, at the Central Bank Payments Conference, Singapore, 26 June 2018

[7] "Singapore Payments Roadmap: Enabling The Future Of Payments 2020 And Beyond", KPMG in Singapore

[8] "Cold Storage, 7-Eleven Among Stores To Have Unified Payment Terminals This Year", Channel NewsAsia online, 4 May 2017

[9, 10] "E-Payments In Asia: Regulating Innovation And Innovative Regulation". Keynote address by Jacqueline Loh, Deputy Managing Director, Monetary Authority of Singapore, at the Central Bank Payments Conference, Singapore, 26 June 2018

[11] "Commentary: Beneath The Digital Friendly Facade, Singaporeans Still Reluctant To Accept Cashless Payments", Channel NewsAsia online, 20 Nov 2018

Loke Hoe Yeong was Manager, Insights & Publications, ISCA. He has since left the Institute.

BY LIM JU MAY

CORPORATE GOVERNANCE: A SHARED RESPONSIBILITY

An Ecosystem Of Participants

WHEN A COMPANY FALTERS, who takes the blame? Did the financial statements fail to communicate the underlying performance of the company? Were the disclosures inadequate in highlighting the key assumptions and judgements made when estimating the fair value of certain assets? Are investors aware that not all profits are the same, and that the accounting standards do not require companies to clearly differentiate between unrealised and realised profits in the income statement? Unrealised profits could potentially be reversed until they are, well, *realised*.

Auditors are not the sole guardians of public interest. Multiple stakeholders have a shared responsibility in this regard.

ROLES AND RESPONSIBILITIES

The corporate governance ecosystem is an intricate balance of multiple participants playing specific roles in directing and controlling an organisation's activities so that long-term value is generated. At the entity level, the Board of Directors (Board) work hand in hand with its management, audit committee (AC), internal auditors and independent external auditors to maintain effective financial reporting and governance systems. Externally, standard setters, regulators and enforcement agencies complete the ecosystem through implementing regulations and standards, monitoring compliance and investigating and prosecuting governance and other failures. Of course, education and training provide the basic raw materials and ingredients for the foundation of building public trust.

Under the Companies Act, the Board is responsible for:

- Complying with accounting standards issued by Accounting Standards Council (ASC), and preparing financial statements that give a true and fair view of the financial position and performance of the company, and
- Maintaining a system of internal accounting controls and keeping proper accounting and other records to enable the preparation of true and fair financial statements.

In this respect, the competency and quality of the Chief Financial Officer (CFO) and finance team is crucial, especially given the increasing complexity of accounting standards. A weak finance team will place over-reliance on the external auditors, causing an imbalance in the ecosystem. Currently, there are no regulations governing the minimum criteria and responsibilities of CFOs and preparers of financial statements in Singapore, unlike in some jurisdictions where they are regulated by law, and where they have personal liability.

The audit process is intensive, long drawn, and multifaceted. It goes beyond sighting documents and vouching invoices. It requires strategic thinking, professional judgement and professional scepticism throughout the entire process.

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The AC assists the Board to fulfil its oversight responsibilities. Under the Companies Act, the AC is required to review the auditor's scope of work and financial statements, among others.

Throughout the audit, three-way communication among the Board, AC and management takes place to ensure that key matters that affect the financial statements are brought to the timely attention of the relevant parties to be resolved.

WHAT IS THE AUDITOR'S ROLE?

In the whole scheme of things, the auditor's role is to express an independent opinion on the financial statements. In conducting the audit, the overall objectives of the auditor are:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared in all material respects, in accordance with an applicable financial reporting framework, and
- To report on the financial statements, and communicate as required by the Singapore Standards on Auditing (SSAs), in accordance with the auditor's findings.

The audit process is intensive, long drawn, and multifaceted. It goes beyond sighting documents and vouching invoices. It requires strategic thinking, professional judgement and professional scepticism throughout the entire process. Every public accountant and accounting entity in Singapore must also comply with relevant ethical requirements – the Code of Professional Conduct and Ethics (ISCA's EP 100/ACRA Code) and ISCA's EP 200 on Anti-Money Laundering and Countering the Financing of Terrorism. This includes complying with the independence requirements and fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The requirements of the SSAs are comprehensive. For example, the auditor is required to understand the entity's business model, risks, and internal controls, to identify unusual transactions or transactions lacking economic substance. A good understanding of the entity and its environment will provide the appropriate mindset and competence for the auditor to apply professional scepticism when gathering audit evidence.

At this juncture, it is worthwhile to note that the audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. An unqualified (or clean) audit opinion provides a reasonable assurance that the financial statements are prepared in all material respects in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)s). That said, an


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The initial assessment of the entity operating under the going concern assumption is made by management. This is management's responsibility and requires significant judgement to be exercised in a robust manner.

auditor earns his keep by exercising judgement and communicating that judgement. A complex process is distilled into a few pages of the auditor's report.

On the going concern agenda

Such understanding is central to the auditor's judgement on the entity as a going concern. Simply put, a going concern is a business that functions without the threat or necessity of liquidation for the foreseeable future, typically measured as at least the next 12 months. Such an assessment may entail complex management forecasts and assumptions, requiring the auditor to have a good grasp of the business and its industry in order to make a judgement call. The initial assessment of the entity operating under the going concern assumption is made by management. This is management's responsibility and requires significant judgement to be exercised in a robust manner. Management needs to select the appropriate factors that impact the entity's ability to operate in the future and management needs to have appropriate plans to ensure that the entity has the available funds they need to operate in the future. The external auditor then assesses the appropriateness of management's assessment. It is not the external auditor who is primarily responsible for the going concern assessment – this remains a task for management of the company. And management does not provide any guarantees on the going concern of their organisations.

If there are material uncertainties on the entity as a going concern, the auditor needs to highlight this in a separate section under the auditor's report and ensure other necessary disclosures. However, users of financial statements have to be mindful that businesses fail due to a large variety of reasons, sometimes arising from poor business decisions, at other times arising from changes in the business environment. Businesses can fail because of market forces beyond their control; for example, an oil and gas company can go out of business shortly after a clean audit opinion has been issued due to a crash in crude oil prices. An unmodified or clean audit report does not guarantee the viability and sustainability of a business.

On the fraud agenda

While the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity and management, the auditor is required to maintain professional scepticism throughout the audit and consider the potential for management override of controls. However, owing to inherent limitations of an audit, which are particularly significant in the case of misstatement resulting from fraud involving management collusion, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed. This is why an audit provides reasonable assurance and not absolute assurance.

However, there is broad consensus that auditors clearly have a part to play in identifying material fraud relating to financial reporting. In this respect, the auditor is required by the SSAs to identify areas where such risks occur, and design and carry out appropriate procedures to address such risks. When designing audit procedures, the auditor should be selective of the nature and extent of documentation to be examined in support of material transactions, corroborate management explanations or representations concerning material matters and incorporate an element of unpredictability in selecting the nature, timing and extent of audit procedures to be performed. Armed with a thorough understanding of the entity, the auditor should also be able to flag material transactions that are outside the ordinary course of business which do not have a business rationale.

VALUE OF THE AUDITOR

Financial statements users comprise a complex spectrum of stakeholders with diverse needs. While there is no one-size-fits-all audit product, stakeholders do rely on an independent audit opinion to obtain the assurance that a set of financial statements can be relied upon, and hence is useful for decision making. Any unaudited financial information from management would normally be viewed sceptically because management is not independent and has vested interest to paint a positive outlook. Hence, notwithstanding that a clean audit opinion does not assure business success, audit reports are an important component in the entire financial reporting ecosystem. If users cannot trust that the assets reflected on the balance sheet exist, or that revenue numbers relate to actual income made during the period, what good are financial ratios and metrics derived from these numbers that are used in analysing a company's performance? In a recent UK Competition & Market Authority (CMA) study, it was highlighted that there is overwhelming public interest in the quality of audits, because audited numbers are so important for confidence in capital markets and to investment decisions that affect all of us.[1] However, users cannot just rely on the financial statements alone to make decisions. Shareholders, for example, could engage with management at annual general meetings and other appropriate fora.

In a recent UK Competition & Market Authority (CMA) study, it was highlighted that there is overwhelming public interest in the quality of audits, because audited numbers are so important for confidence in capital markets and to investment decisions that affect all of us.

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Quality audits also provide value beyond the audit opinion, which may not be apparent from the few pages of audit report which the auditor signs off on. Auditors share key insights arising from their independent observations on internal controls and business processes with the Board and AC through management letters. Robust internal controls are essential in preventing and detecting fraud, as fraud typically occurs when there are poorly designed internal controls, or when internal controls are not operating effectively.

Some directors comment that auditors are not sufficiently communicating the value that they bring to the table, causing shareholders to view the audit as a mere compliance exercise, and a commodity. This results in fee pressure, which potentially has a negative impact on time and resources spent on audits, resulting in a decline in audit quality. In this respect, enhancing the current financial statements audit can be in the form of improved communications with stakeholders.

Considering the importance of internal controls in the prevention of fraud, some financial statement users suggest expanding the scope of the auditor's responsibilities to report on internal controls. They think that such a requirement could be a catalyst for companies to strengthen their internal controls.

While we have observed momentum to reform the profession in other jurisdictions, we should be mindful to adopt aspects that are useful in the local context after a careful cost-benefit analysis to prevent unnecessary costs and over-regulation.

IT IS A COMPLEX WORLD OF ACCOUNTING

Amid recent corporate failures, surveys have been conducted to assess the level of understanding by the public of the role and function of auditors. It is noteworthy that many are unsure of what an auditor does. But more disturbing is that many believe that auditors are responsible for preventing company failures and for fraud prevention. Educating the public and investors on what to expect of the auditors, management and directors is important. Investors need to understand that a clean audit report is not an endorsement of the quality of a company.

A more pressing question is whether users of financial statements understand the financial information presented in financial statements. Do financial statements adequately communicate the underlying performance of the company? SFRS(I)s are increasing in complexity and not many are well versed with their requirements nor able to sieve out from the financial statements, important indicators of the company's underlying performance and financial risks.

Why are SFRS(I)s complex? Why have we gone beyond basic debits, credits and historical costs? SFRS(I)s aim to provide useful information to different users through financial statements that convey relevant information and faithfully represent transactions that have occurred. Towards this objective, there are increasing requirements for fair value measurement, among others. However, fair value is an estimate and the reliability of such measurement depends on the various inputs and assumptions used. Although preparers of financial statements are responsible for valuation measurements, there is judgement involved on many occasions, and the flip side is more subjective and potentially more volatile financial statements. Notwithstanding the above objective, users of financial statements need to understand the intricacies embedded in the financial statements arising from fair value measurements and make sense of the key assumptions and judgements made when estimating the fair values of certain assets. How can this knowledge gap be bridged, for users to better understand financial statements? The crux is for information provided in the financial statements to be more effectively communicated. To this end, the International Accounting Standards Board, through its Disclosure Initiative project, will develop guidance for use when drafting disclosure requirements. Better disclosure requirements would set the impetus for preparers to improve the disclosure and communication value of their financial statements.

In conclusion, corporate governance is a collective responsibility and the ecosystem cannot function without any one component. There must be proportionality, and commensurate responses. In the event that the auditors, or other parties, are proven to have fallen short of their responsibilities, penalties will be meted out by the regulators. If the individuals involved are members of ISCA, the Institute may convene a case before the Disciplinary Committee to mete out sanctions, such as suspension of membership. ISCA

Lim Ju May is Deputy Director, Technical, ISCA. An abridged version of this article was first published in *The Business Times* on 26 July 2019.

[1] With reference to "Statutory Audit Services Market Study" Final Report, Competition & Markets Authority, 18 April 2019

PHOTO SHUTTERSTOCK

BY BENJAMIN KESSLER, CLARISSA CORTLAND AND ZOE KINIAS

INCLUSIVE WORKING CULTURES

Potential Interventions To Minimise Barriers

GENDER IMBALANCE IN THE WORKPLACE is not confined to the gender pay gap or number of women versus men in senior leadership positions. It also has to do with subtler yet deeper cultural cues about who belongs and who doesn't. For the most part, organisational cultures do not yet meet the needs of a gender-balanced workforce. Not only do mental models of brilliance and leadership mostly skew towards male, policies and practices are also largely holdovers from an era when male-dominated professional contexts were unquestionably normative. Expected to "prove themselves" within a system that holds them to double standards, women often justifiably feel set up to fail. As a result, too many women burn out or second-guess their own suitability for leadership roles. The underutilisation and departure of valuable female talent come at a heavy cost to companies.

The second annual Women at Work conference, held in March on INSEAD's Asia campus in Singapore, featured a session of research talks titled "Visibility & Fit", which explored actions organisations can take to address this problem. The presenters' research-based insights suggest that proactively developing gender balance is critical to organisations evolving with the times. It is also a priceless opportunity to nurture leaders in a way that benefits everyone, just when the race for top talent is intensifying globally.

VISUAL REPRESENTATION

Biased beliefs about what professional roles women fit are deeply embedded in decision making. Unconscious gender bias can affect our split-second sensory responses to another person.

UCLA Professor Kerri L. Johnson presented findings from her research on visual representation and gender fit. Johnson focused primarily on science, technology, engineering and mathematics (STEM) fields, where stable and well-paid jobs are expected to be increasingly concentrated in the coming years. In this STEM context, women are dramatically underrepresented around the world.

When Johnson and her team showed study participants images of men and women and asked which were likely to be in a STEM career versus non-STEM (or administrative assistants in STEM firms), men were assumed far more often to have STEM careers. This confirmed the prevalence of the assumption that STEM is a place for men.

Beyond this, there is a more surprising finding. When Johnson's team displayed faces of men and women that ranged widely in gender typicality, or the extent to which they looked masculine or feminine, she found that the masculinity or femininity of the face significantly predicted perceived suitability for STEM within genders as well. More masculine-looking men were judged more likely to work and succeed in STEM than men with less masculine appearance. Women with very feminine faces were seen as less STEM-worthy than those with less feminine facial features.

For organisations, having a diverse group of role models – in terms of gender, appearance and occupational role – can revise people's automatic

When women feel that their gender may simply be an additional asset on top of their skills and abilities, rather than (as is usually the case) a liability, they can be more motivated to strive for leadership positions.

assumptions and associations regarding gender and competence. There is robust research evidence that "changing exemplars changes the evaluations we make of other people", according to Johnson.

IMPROVING QUOTAS

Numerical representation is obviously crucial as well. Gender diversity in currently male-dominated fields such as STEM and top business management will eventually become normalised when it is more common. That is one argument for gender quotas, such as Germany's and Malaysia's requirements of 30% female representation on supervisory boards of public companies and California's mandate that women hold at least 40% of directorships in listed companies by 2021.

Through quotas, advocates hope to create opportunities for women aspiring to lead and also encourage women to aim higher than they otherwise would. However, Christa Nater, a PhD candidate at University of Bern, has found that the way quotas work is hardly that simple.

Nater conducted a study with her collaborator and session discussant, Professor Sabine Sczesny, also from University of Bern. In it, male and female management students read one of four different versions of mock job advertisements for leadership positions.

One advertisement did not mention gender. Another described a policy of preferential hiring with a 40% gender quota. One advertisement explicitly invited "qualified women" to apply. A fourth advertisement mentioned preferential policies for "equally qualified women" with no quota. Only this last advertisement changed how women saw themselves in relation to the position advertised. The authors concluded that granting women preferential treatment in hiring works best when requirements other than gender are also emphasised. When women feel that their gender may simply be an additional asset on top of their skills and abilities, rather than (as is usually the case) a liability, they can be more motivated to strive for leadership positions.

The authors also noted that when women are made to feel that their gender constitutes the core of their advantage – as can be the danger with quotas – the encouragement effect in the study above was basically nil. Additional studies compared management students' leadership aspirations after reviewing a corporate website featuring a story about a merit-based woman leader, a quota-based woman leader (with and without later success), or no information about a female leader (control group). The merit-based description boosted women's interest in leadership positions relative to the control group, with no effect on the men. The quota description without later success, on the other hand, did not increase women's aspiration, and reduced that of men. The quota effects were improved when the leader was subsequently successful in her role. Men's aspirations were not reduced and women's aspirations were increased, despite the leader's initial selection based on a quota.

The answer, Nater said, is not to dispense with quotas, but rather to ensure that qualifications and performance are communicated as crucial selection criteria, especially when quotas or similar mandates are implemented. For example, one way to effectively signal the qualifications of women would be to explicitly communicate the use of "merit-based quotas".

GLOBAL MINDSETS

Fitting in is a fraught concept for women with working lives across multiple cultures. They have learned to understand and benefit from the challenges and opportunities of standing out in a cultural context. INSEAD Organisational Behaviour Emeritus Professor Linda Brimm has done years of research following professionals (of both genders) with hybrid cultural identities, whom she calls "Global Cosmopolitans".

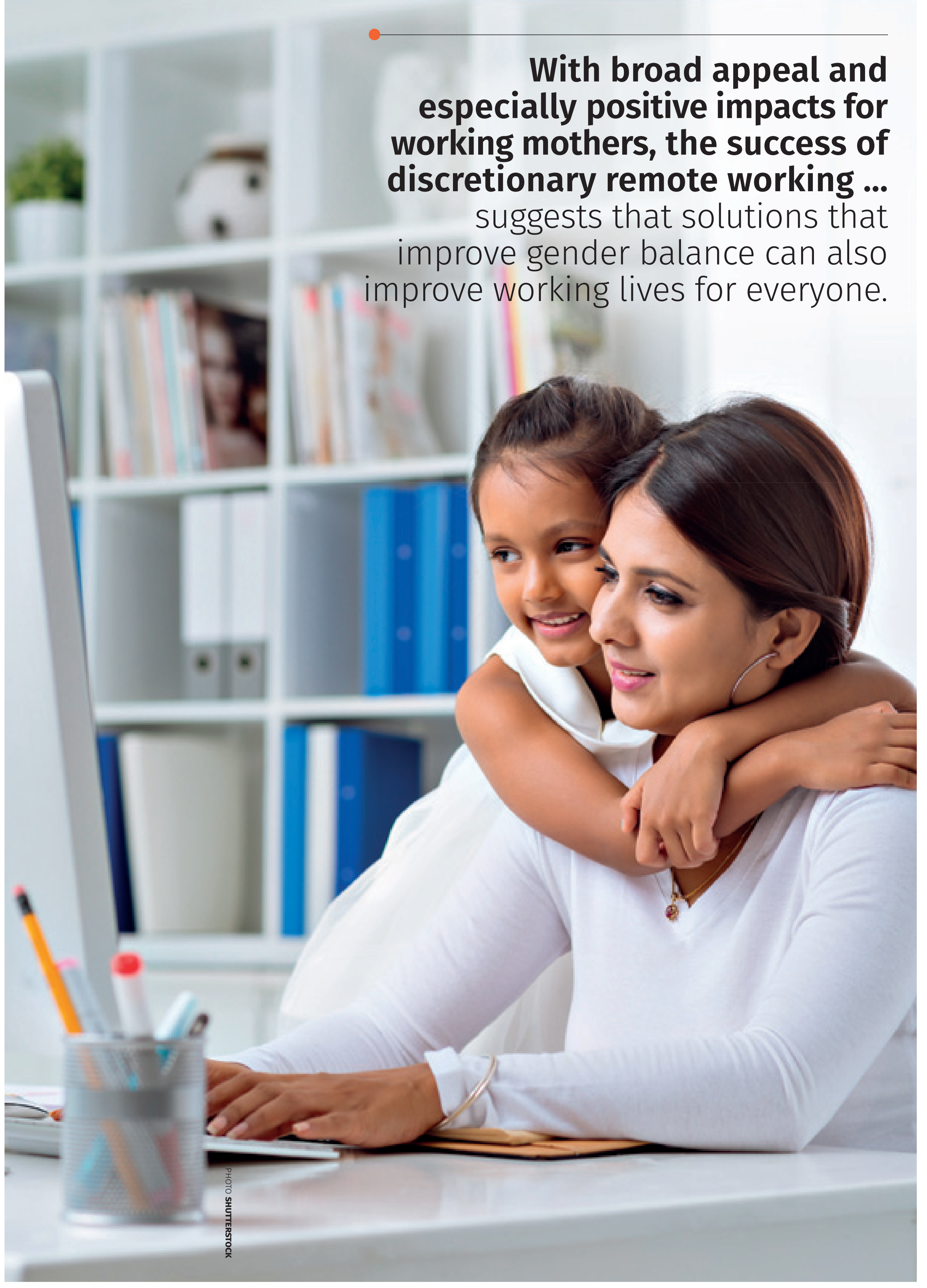
Multinational employers can misunderstand these professionals and categorise them narrowly as mobile game pieces to be shifted around the global chessboard. But Brimm says they have much more than their mobility to offer organisations. They possess a problem-solving skill set and a change-ready mindset, derived from a long history of cross-cultural bridge-building.

Each move can feel like creating a new chapter in a life story, and this can involve a decision to return to a place called home. This choice can be particularly difficult for women, highlighting the difference between their global perspective and the local perspective back home. Brimm told the story of a woman with Korean heritage whose repatriation left her feeling like an anomaly, as an unmarried non-mother in her 30s. Yet the pull of family and passion to make a difference gave her the motivation to turn this challenge into an opportunity.

When they want to position themselves for high-level leadership, Global Cosmopolitans can count on their ability to effectively communicate what they bring to the table. And leaders can enable dialogue with Global Cosmopolitans, value their difference and convey their value. As Brimm says, "Organisations that confine executives by limiting their ability to see who they are and who they can be will lose key players unless they are able to listen and learn."

WORKING FROM HOME

As workplaces continue to evolve, the need for knowledge workers to come into the office every day is increasingly scrutinised. Yet, a certain amount of conspicuous face time is still considered essential for aspiring leaders. For women, who even in relatively egalitarian contexts are doing most of the management of the home, housework and childcare, this obligation creates constant tensions between work and family life.



With broad appeal and especially positive impacts for working mothers, the success of discretionary remote working … suggests that solutions that improve gender balance can also improve working lives for everyone.

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Some organisations have tried to address the problem by introducing flexible working options, such as job sharing, compressed work weeks and reduced working hours with pro-rated pay. But research shows that women (and it is almost solely women) who adopt flexi-work suffer significant career penalties for appearing to back away from work commitments. Evidence suggests working women are aware of this and often feel compelled to reject flexi-work as a consequence.

Professor Eliot Sherman of London Business School recently explored a potential alternative. Partnering with a life sciences company based in the UK, he launched a four-week experiment whereby employees could work remotely as much as they wanted during randomly assigned weeks. Unlike formalised flexi-work, men and women (both parents and non-parents) chose to work remotely about two days per week. According to surveys completed by all employees after each week, working from home had no effect on the total number of hours worked, compared to in-office weeks. However, the vast majority of employees felt that they were more productive when they were allowed to work remotely at their discretion. This effect was largest for mothers, who also experienced a meaningful reduction in conflict between work and family demands.

According to employees that Sherman subsequently interviewed, working from home helped mainly by restoring time that would otherwise be spent commuting (many mothers' commutes are lengthened by school pick-ups and drop-offs), avoiding the social distractions that are rife in office environments, and allowing people to catch up on sleep. These interviews also suggested that employees did not wish to work remotely for more than a few days per week, due to concerns about social isolation.

With broad appeal and especially positive impacts for working mothers, the success of discretionary remote working in Sherman's context suggests that solutions that improve gender balance can also improve working lives for everyone.

INTERVENTIONS TO EXPLORE

The above research points to some possible interventions for resolving conflicts between women's gender and working identities, so that they can fully contribute to their organisations and receive commensurate recognition. The big takeaway is that organisations would benefit by implementing interventions that target women's obstacles and concerns, without overemphasising gender in ways that call attention to gender differences or solidify gender stereotypes. ISCA

Benjamin Kessler is Managing Editor, "INSEAD Knowledge"; Clarissa Cortland is INSEAD Post-Doctoral Research Fellow, and Zoe Kinias is INSEAD Associate Professor of Organisational Behaviour. This article was first published in "INSEAD Knowledge". Reproduced with permission.

TECHNICAL HIGHLIGHTS

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FINANCIAL REPORTING

STRENGTHENING THE RELEVANCE OF FINANCIAL REPORTING

At the IFRS Foundation Conference 2019 in London, IASB Chair Hans Hoogervorst shared IASB's plans to maintain and strengthen the relevance of financial reporting in two specific areas – primary financial statements and management commentary.

For more information, please visit www.ifrs.org/news-and-events/2019/06/strengthening-the-relevance-of-financial-reporting/

JUNE IASB UPDATE AND WORK PLAN UPDATED

This Update highlights discussions of IASB on topics such as Financial Instruments with Characteristics of Equity, and the Exposure Draft *Property, Plant and Equipment – Proceeds before Intended Use*. The work plan of IASB has also been updated.

For more information, please visit www.ifrs.org/news-and-events/2019/06/june-2019-iasb-update-published/

JUNE 2019 IFRIC UPDATE PUBLISHED

This Update is a summary of the decisions reached by IFRIC at the June meeting and features topics such as the Holdings of Cryptocurrencies, and Costs to Fulfil a Contract (IFRS 15 *Revenue from Contracts with Customers*).

For more information, please visit https://www.ifrs.org/news-and-events/2019/06/june-2019-ifric-update-published/

AUDITING AND ASSURANCE

ISCA ISSUES STATEMENT OF AUDITING PRACTICE (SAP) 2 (REVISED)

SAP 2 has been enhanced to include a new section on the guidance on what reporting auditors should comment in their private reports. The enhancements are effective for reports dated on or after 1 October 2019.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2019/june/enhanced-statement-of-auditing-practice-sap-2-auditors-and-public-offering-documents/

ISCA COMMENTS ON IAASB'S EXPOSURE DRAFTS ON PROPOSED INTERNATIONAL STANDARDS ON QUALITY MANAGEMENT

ISCA supports IAASB's overall direction and shared our views on areas that need more clarify and guidance, in particular, on applying scalability to requirements. We also highlighted potential implementation challenges that may be faced by small and medium-sized practices.

For more details, please see comment letter https://isca.org.sg/media/2823098/comment-letter-iaasb-isqm-ed.pdf

JUNE 2019 IAASB PODCAST NOW AVAILABLE

This podcast contains highlights from the IAASB June Meeting. It covers the various ongoing projects including identifying and assessing risks of material misstatement, group audits, agreed-upon procedures and extended external reporting.

For more information, please visit https://www.ifac.org/news-events/2019-06/iaasb-june-2019-meeting

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BY FELIX WONG

REVERSE CHARGE AND OVERSEAS VENDOR REGISTRATION

Understand The Tax Risk Areas

FROM 1 JANUARY 2020, GOODS AND SERVICES TAX (GST) will be applied on business-to-business (B2B) imported services and business-to-consumers (B2C) imported digital services in Singapore by way of a reverse charge mechanism and an overseas vendor registration (OVR) regime respectively.

Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax and Business Process Solutions Leader, Deloitte South East Asia and Singapore, shared his insights on the new GST regimes and highlighted practical challenges and risk areas to look out for at a recent *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax and Business Process Solutions Leader, Deloitte South East Asia and Singapore, shared his insights on the new GST regimes

REVERSE CHARGE
Overview and scope

Under the reverse charge mechanism, a GST-registered person who belongs in Singapore and receives services from outside Singapore must account for GST on the value of its imported services as if it were the supplier of those services. This is the case unless the recipient is fully taxable, or such services are excluded from the scope of reverse charge (such as exempt supplies, zero-rated supplies, certain non-taxable government supplies or certain services acquired that are directly attributable to taxable supplies). The GST-registered person may then claim the corresponding GST as its input tax, subject to its normal input tax recovery rules.

Non-GST registered recipients of supplies of imported services must also be mindful of the new reverse charge mechanism, as they may become liable for GST registration by virtue of the reverse charge rules. Once registered, they, too, would be required to apply reverse charge and account for GST on their imported services.

Essentially, reverse charge is applicable to two groups of taxpayers:

(i) GST-registered persons who procure services from overseas suppliers and are not entitled to full input tax credit or who belong to GST groups that are not entitled to full input tax credit, or
(ii) Non-GST registered persons who procure services from overseas suppliers exceeding S$1 million in a 12-month period and who would not be entitled to full input tax credit even if GST-registered.

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Partly exempt businesses such as banks, financial services firms, residential property developers, educational institutions and charities are expected to be among the most affected by the introduction of reverse charge.

It is important to note that inter-branch transactions and intra-GST group transactions will also be subject to reverse charge where the recipient is not able to recover all of its input tax. In other words, reverse charge will apply to supplies between a partly exempt Singapore branch and its foreign head office, between a domestic member and a foreign member of a partly exempt GST group, or between a partly exempt local and an overseas partnership sharing the same composition of partners.

Filing and recordkeeping

Starting in 2020, the GST return will include a new field to report the value of imported services subject to reverse charge. In addition, businesses also need to report the value of output tax to be accounted for on the imported services and the value of input tax claimable on the imported services in their tax returns.

To substantiate the reverse charge transactions and the corresponding input tax claims made in the GST returns, businesses must ensure that the following documents are properly retained:

(i) Overseas supplier invoices;
(ii) Transactional listings for reverse charge;
(iii) Evidence of payment, accounting system records or journal entries to support the reverse charge transactions;
(iv) Contracts or agreements with the overseas supplier, and
(v) Input tax apportionment workings.

To reduce errors, businesses should consider modifying their accounting systems to identify reverse charge transactions (such as designating specific tax codes to record reverse charge transactions). It is also best practice for information on the contractual parties, types of transactions and location of the establishment supplying the services to be clearly stated in the contracts with overseas suppliers.

Practical issues

Determine the requirement to register for GST

Businesses that are not currently liable for GST registration and are not fully taxable may be caught under reverse charge rules for GST registration. For such businesses, it is important to start identifying overseas vendors and imported services that are within the scope of reverse charge. The value of in-scope imported services should then be aggregated to determine whether GST registration is required, subject to specific exemption rules.

Make transitional arrangements

Businesses must identify all imported services and payments straddling 1 January 2020 and calculate the value of imported services subject to reverse charge. As the potential GST costs arising from reverse charge may be significant, there is a need for businesses to plan ahead and budget for these additional costs early to avoid unwanted surprises. Businesses should also ensure that documents and listings are complete and "audit ready".

To reduce costs and to avoid the hassle of transitional arrangements for reverse charge, businesses may want to consider making full payments to their suppliers before 1 January 2020 where possible. Separately, businesses may also consider liaising with overseas suppliers to issue invoices for services completed up to 31 December 2019 to ensure a clear demarcation between pre- and post-implementation of reverse charge.

Set up the system for reverse charge

Businesses need to review their vendor database to differentiate the local and overseas vendors. New tax codes should then be created, where necessary, to segregate transactions where reverse charge is applicable.

Multinational groups must be especially cautious and ensure that all cross-border related party transactions are properly captured as inter-branch transactions and intra-GST group transactions are subject to reverse charge. Finally, it would be wise for businesses to set aside sufficient time for system testing and staff training prior to the actual rollout of the system, to ensure a smooth transition to reverse charge.

> The OVR regime affects overseas vendors and electronic marketplace operators (both domestic and foreign) providing B2C supplies of digital services to Singapore non-GST registered consumers.

OVERSEAS VENDOR REGISTRATION

Overview and scope

Under the OVR regime, overseas vendors providing digital services to non-GST registered customers in Singapore will charge and account for GST on such services. This regime affects overseas vendors and electronic marketplace operators (both domestic and foreign) providing B2C supplies of digital services to Singapore non-GST registered consumers.

For the purposes of the OVR regime, digital services are defined as services supplied over the Internet or an electronic network and the nature of which renders the supply essentially automated with minimal or no human intervention, and impossible without the use of information technology.

The OVR regime mainly covers downloadable content, subscription-based media, software programmes and electronic data management. Support services performed via electronic means to arrange or facilitate a transaction may be included as well, even if the underlying service is not digital. For example, subscription fees for a website facilitating the purchase of financial services will be subject to OVR.

Foreign suppliers must register under the OVR regime if their annual global turnover exceeds S$1 million and they make more than S$100,000 of B2C supplies to customers in Singapore per calendar year. Registration is also required if the foreign supplier expects that the above thresholds will be exceeded in the next 12 months.

Customer belonging status is key

Under the OVR regime, overseas vendors are required to determine whether the digital services are supplied to customers belonging in Singapore. Specifically, overseas vendors are required to obtain at least two pieces of non-conflicting evidence of the customers' belonging status, comprising one payment proxy (such as credit card information or bank account details) and either a residence proxy (such as billing address or home address) or access proxy (such as IP address or mobile country code).

Electronic marketplaces

Electronic marketplace operators are regarded as the supplier of digital services if they authorise the charge or the delivery of supply to customers, set the terms and conditions under which the supply is made, or are identified as the supplier in the documentation provided to the customer (instead of the merchant). The electronic marketplace and the merchant may also agree contractually that the marketplace is liable for GST.

Electronic marketplace operators are required to charge and account for GST on supplies of digital services made on behalf of the overseas suppliers listed on their platforms to non-GST registered customers in Singapore, in addition to their own taxable supplies. Local GST-registered suppliers that make supplies of digital services through the electronic marketplace will continue to account for GST in their respective GST returns.

Filing and recordkeeping

Overseas suppliers under the pay-only regime will file simplified GST returns. Any errors made are to be corrected in the next GST return; businesses are not required to file GST F7 (for disclosure of errors).

On recordkeeping, suppliers are expected to maintain business and accounting records for five years to support the GST collected from all supplies made in Singapore. No invoicing and pricing display requirements are imposed on the suppliers.

Practical issues

Determine the requirement to register for GST

Overseas suppliers of B2C digital services need to determine whether they are obliged to be registered under the OVR regime. First, they must identify the customers belonging in Singapore and then determine if the digital services supplied to such Singapore customers fall within the definition provided in the IRAS e-Tax Guide, "GST: Taxing imported services by way of an overseas vendor registration regime".

Overseas vendors that supply both directly to Singapore customers and through digital marketplaces should segregate their supplies, as digital services supplied through the marketplaces are excluded when determining the overseas vendors' GST registration liabilities.

Set up the system for OVR regime

To accurately determine whether digital services are supplied to customers belonging in Singapore, businesses will need to modify their accounting system and customer database to capture and analyse key customer information in order to establish the two pieces of non-conflicting evidence (comprising one payment proxy and either a residence proxy or access proxy) as required under the OVR rules. Ideally, the system should also keep track of customers' GST registration to avoid charging GST on such services provided to GST-registered customers.

Finally, to reiterate, do allocate time to test the system in the run-up to implementation. Remember, GST is transactional and an erroneous transaction could be repeated.

Guard your GST risks. ISCA

Felix Wong is Head of Tax, SIATP.

BY NG ENG JUAN

DON'S COLUMN

IFRS 16 LEASES

Consolidation Issues In Accounting For Intra Group Lease Transactions

IFRS 16 (and its Singapore equivalents of FRS 116 and SFRS(I) 16) *Leases* is effective for annual periods beginning on or after 1 January 2019, superseding IAS 17 (and its Singapore equivalents of FRS 17 and SFRS(I) 1.17) *Leases*. For ease of discussion, the international standard codes of "IFRS 16" and "IAS 17" are used in this article. But the discussion is equally applicable to the corresponding Singapore equivalents of FRS 116 and FRS 17, and SFRS(I) 16 and SFRS(I) 1.17.

While IAS 17 adopts the "purchase" model for both lessee accounting and lessor accounting, IFRS 16 adopts a new "right-of-use" model for lessee accounting and retains the old purchase model for lessor accounting. Consequently, lessee accounting and lessor accounting are substantially symmetrical under IAS 17, but they are substantially asymmetrical under IFRS 16 (especially in cases where lessor accounts for a lease transaction as an operating lease while lessee capitalises the right-of-use asset and the related lease liability, which may happen in most cases as indicated by IASB's Effect Analysis (January 2016) that showed approximately 85% of the US$3.3 trillion lease commitments were off balance sheet under IAS 17).

Given that lessee accounting and lessor accounting are substantially asymmetrical under IFRS 16, there will be consolidation issues arising from intra group lease transactions under IFRS 16. This article discusses the consolidation issues involved.

> Lessee accounting and lessor accounting are substantially symmetrical under IAS 17, but they are substantially asymmetrical under IFRS 16 (especially in cases where lessor accounts for a lease transaction as an operating lease while lessee capitalises the right-of-use asset and the related lease liability, which may happen in most cases).

PHOTO SHUTTERSTOCK

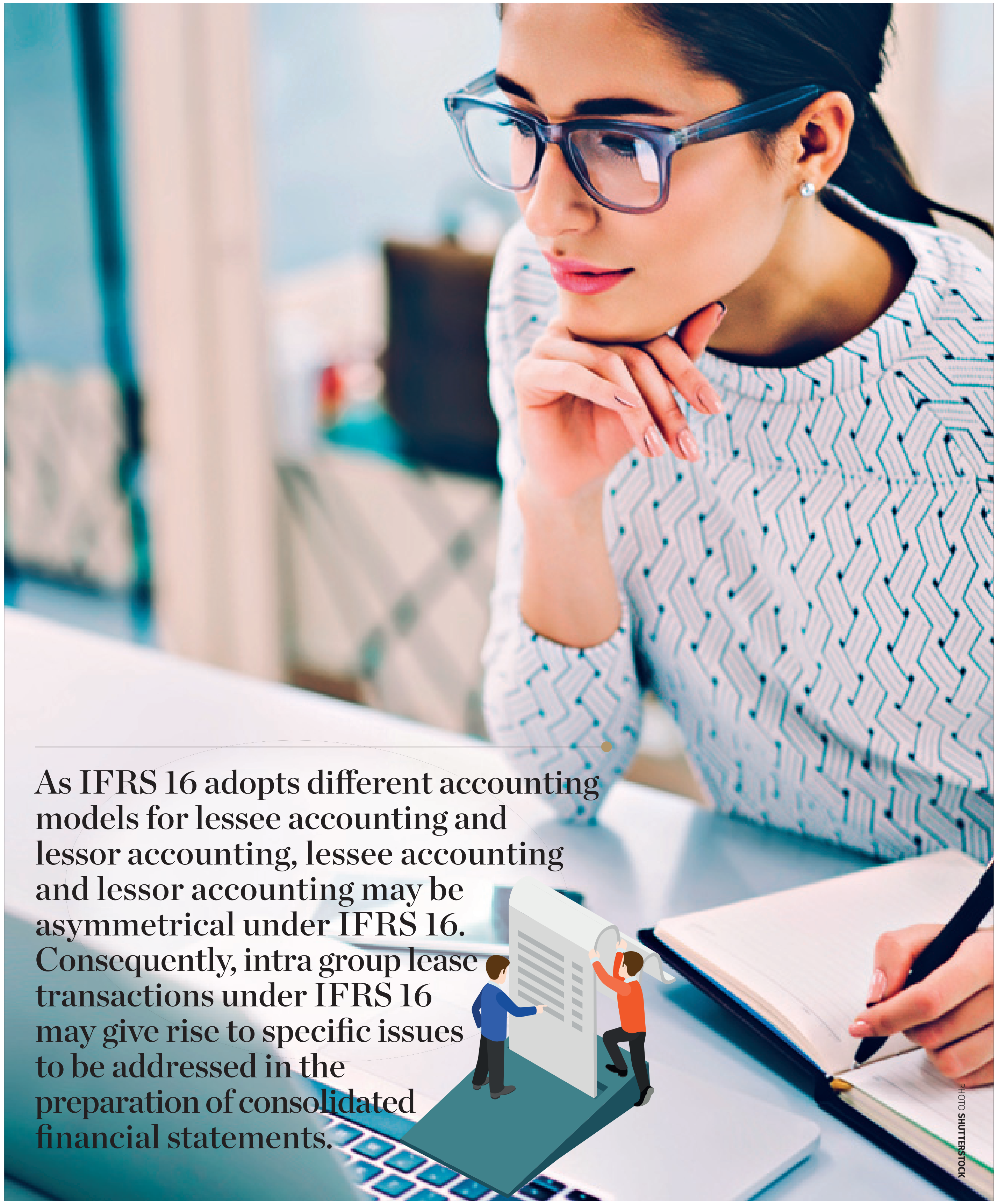

PHOTO SHUTTERSTOCK

As IFRS 16 adopts different accounting models for lessee accounting and lessor accounting, lessee accounting and lessor accounting may be asymmetrical under IFRS 16. Consequently, intra group lease transactions under IFRS 16 may give rise to specific issues to be addressed in the preparation of consolidated financial statements.

INTRA GROUP LEASE TRANSACTIONS UNDER IAS 17

For purposes of comparison, the consolidation issues involved in intra group lease transactions under IAS 17 will first be examined. As mentioned, IAS 17 adopts the purchase model for both lessee accounting and lessor accounting. Consequently, lessee accounting and lessor accounting are substantially symmetrical. With some very rare exceptions, if lessee accounts for a lease transaction as an operating lease, lessor will similarly account for the lease transaction as an operating lease, and if lessee accounts for a lease transaction as a finance lease, lessor will similarly account for the lease transaction as a finance lease.

Given that lessee accounting and lessor accounting are substantially symmetrical under IAS 17, consolidation for intra group lease transactions under IAS 17 is relatively simple.

For an intra group lease transaction that is accounted for as an operating lease by both lessee and lessor, the lease transaction will be accounted as if it is a rental transaction. The leased asset will remain in lessor's books. The periodic lease payment will be accounted by lessee as an expense, and accounted by lessor as income. Thus, the only consolidation adjustment required at group level will be to eliminate the lease expense against the lease income. (Additional consolidation adjustments may be required, for example, where lessor accounts for the leased asset as an "investment property" but the lessee uses the leased asset as a "property, plant and equipment". In such cases, consolidation adjustments will be required to effect the leased asset as a "property, plant and equipment" at group level.)

For an intra group lease transaction that is accounted for as a finance lease by both lessee and lessor, the lease transaction will be accounted for as if lessee purchases the leased asset with financing provided for by lessor. Consequently, the lessor will derecognise the asset and recognise a lease receivable, and the lessee will recognise a leased asset and a lease payable. The periodic lease payments will be accounted for by lessor as comprising a principal portion that reduces the lease receivable and interest portion that is treated as an income. The periodic lease payments will be accounted similarly by lessee as comprising a principal portion that reduces the lease payable and interest portion that is treated as an expense. Consolidation adjustments in this case will involve eliminating the lease receivable against the lease payable, and eliminating the interest income against the interest expense. (Alternatively, the same group effects may be achieved by reversing out the lease transaction in the lessee's books and in the lessor's books.) The leased asset should of course be accounted at group level on the basis it is used by the group.

INTRA GROUP LEASE TRANSACTIONS UNDER IFRS 16

As mentioned earlier, IFRS 16 adopts different accounting models for lessee accounting (the right-of-use model) and lessor accounting (the purchase model).

Under the right-of-use model, lessee has to capitalise all leases (except for (i) short-term leases, and (ii) leases with low-value underlying assets), very much like finance leases under IAS 17. Under the purchase model, lessor has to categorise a lease transaction into either an operating lease or a finance lease (as in IAS 17).

For an intra group lease transaction that is accounted for by lessor as finance lease (and capitalised by lessee as right-of-use asset), lessor accounting and lessee accounting will still be symmetrical. Consolidation adjustments will involve eliminating the lease receivable (recognised by lessor) against the lease payable (recognised by lessee), and eliminating the interest income (recognised by lessor) against the interest expense (recognised by

Example 1

On 1 January 20x1, P Ltd purchases a factory building for $10 million as an "Investment property" and immediately leases it to its subsidiary, S Ltd, to be used as "Property, plant and equipment". The lease term is for the factory building's entire useful life of 20 years. P Ltd and S Ltd have agreed that P Ltd's rate of return should be 6% per annum. Consequently, the lease payment is determined to be $822,495 [$10 million divided by present value factor of 12.15812 (20-year period at 6%)] per year, payable at end of each calendar year.

In this case, P Ltd will account for the lease transaction as a finance lease. Consequently, P Ltd derecognises the Investment property and recognises a Leased receivable on commencement date, and recognises an Interest income (using the effective interest method) at each year end, as follows:

1/1/20x1	Dr Lease receivable	10,000,000	
	Cr Investment property		10,000,000
31/12/20x1	Dr Cash	822,495	
	Cr Lease receivable		222,495
	Cr Interest income (6% x $10 million)		600,000

S Ltd will recognise a Right-of-use asset and a Lease payable on commencement date, and recognises depreciation expense on the right-of-use asset (assuming on a straight line basis) and the interest expense on the lease liability (using the effective interest method) at each year end, as follows:

1/1/20x1	Dr Right-of-use asset	10,000,000	
	Cr Lease payable		10,000,000
31/12/20x1	Dr Depreciation expense	500,000	
	Cr Accumulated depreciation		500,000
31/12/20x1	Dr Lease payable	222,495	
	Dr Interest expense (6% x $10 million)	600,000	
	Cr Cash		822,495

For 20x1 consolidation, what is required will simply be to (i) eliminate Lease payable against Lease receivable, (ii) eliminate Interest income against Interest expense, and (iii) re-class the Right-of-use asset as Property, plant and equipment, as follows:

Dr Lease payable	9,777,505	
Cr Lease receivable		9,777,505
(to eliminate inter-company lease payable/receivable)		
Dr Interest income	600,000	
Cr Interest expense		600,000
(to eliminate inter-company interest income/expense)		
Dr Property, plant and equipment	10,000,000	
Cr Right-of-use asset		10,000,000
(to re-class ROU asset as PPE)		

The depreciation expense and the accumulated depreciation will be carried forward to the group level. As the factory building is used at group level as "property, plant and equipment", it will have to be accounted for as, and in accordance with the accounting policy for, "Property, plant and equipment" at group level.

Example 2

On 1 January 20x1, P Ltd purchases a factory building for $10 million as an "Investment property" and immediately leases it to its subsidiary, S Ltd, to be used as "Property, plant and equipment". The useful life of the factory building is 20 years, but the lease term is five years, and the lease payment is $900,000 per year, payable at end of each calendar year.

S Ltd is not informed of how the lease payments are arrived at, but its own incremental borrowing rate is 5% per annum.

In this case, P Ltd will account for the lease transaction as an operating lease. Consequently, P Ltd will continue to carry the Investment property in its books (assuming accounted for using cost model and depreciated using straight line method), and recognises the periodic lease payment as Lease income, as follows:

31/12/20x1	Dr Depreciation expense	500,000	
	Cr Accumulated depreciation		500,000
31/12/20x1	Dr Cash	900,000	
	Cr Lease receivable		900,000

S Ltd will, however, recognise a Right-of-use asset and a Lease payable (at an amount equal to the present value of ordinary annuity of $900,000 per year for five years at a discount rate of 5%, which is equal to $900,000 x 4.32948 = $3,896,532) on commencement date. At each year end, S Ltd will recognise depreciation expense on the right-of-use asset (assuming on a straight line basis) and the interest expense on the lease liability (using the effective interest method), as follows:

1/1/20x1	Dr Right-of-use asset	3,896,532	
	Cr Lease payable		3,896,532
31/12/20x1	Dr Depreciation expense	779,306	
	Cr Accumulated depreciation		779,306
31/12/20x1	Dr Lease payable	705,173	
	Dr Interest expense (5% x 3,896,532)	194,827	
	Cr Cash		900,000

It may be noted that it is difficult to eliminate intra group accounts and account balances because they do not match, due to the asymmetrical treatments.

One easy way to eliminate the intra group lease transaction is to reverse out the accounting entries in the books of P Ltd and S Ltd (except for "depreciation" in P Ltd's books which will be carried forward to the group level).

For 20x1, the consolidation adjustments may be as follows:

Dr Lease income	900,000	
Cr Cash		900,000
(to reverse out the inter-company lease transaction in P Ltd)		
Dr Lease payable	3,896,532	
Cr Right-of-use asset		3,896,532
(to reverse out the inter-company lease transaction in S Ltd)		
Dr Accumulated depreciation	779,306	
Cr Depreciation expense		779,306
(to reverse out the inter-company lease transaction in S Ltd)		
Dr Cash	900,000	
Cr Lease payable		705,173
Cr Interest expense		194,827
(to reverse out the inter-company lease transaction in S Ltd)		

The above adjustments may, of course, be combined as follows:

Dr Lease income	900,000	
Dr Lease liability	3,191,359	
Dr Accumulated depreciation	779,306	
Cr Depreciation expense		779,306
Cr Right-of-use asset		3,896,532
Cr Interest expense		194,827

As the factory building is used at group level as "property, plant and equipment", additional consolidation adjustments are required to re-class the factory building from "Investment property" to "Property, plant and equipment", as follows:

Dr Property, plant and equipment	10,000,000	
Cr Investment property		10,000,000
(to re-class the factory building as PPE)		

Additional adjustments may be necessary to ensure that the factory building is accounted for in accordance with the group accounting policy for "Property, plant and equipment" at group level.

lessee). The right-of-use asset will be accounted for at group level on the basis it is used by the group. (Alternatively, the same group effects may be achieved by reversing out the lease transaction in the lessee's books and the lessor's books.) See Example 1 for illustration.

For an intra group lease transaction that is accounted for by lessor as an operating lease (but capitalised by lessee as right-of-use asset), lessor accounting and lessee accounting will be asymmetrical. While the lessor retains the leased asset in its books (as required under operating lease accounting), the lessee will recognise a right-of-use asset. Also, while lessor recognises the periodic lease payment as lease income (as required under operating lease accounting), the lessee will recognise depreciation expense on the right-of-use asset and the interest expense on the lease liability. It may be noted that part of the asset is double counted, and the income effects of the intra group lease transaction do not offset each other. It may also be noted that eliminating intra group accounts is not possible, as the relevant accounts and account balances in lessor's books and those in lessee's books do not match. In this case, probably the easiest consolidation adjustment is to reverse out the effects of the lease transaction at lessor's level, and at lessee's level, as if the group has not entered into the lease transaction (which in fact is the effect from group's viewpoint). Of course, the leased asset has to be accounted for at group level on the basis of use by the group. See Example 2 for illustration.

CONCLUSION

As IFRS 16 adopts different accounting models for lessee accounting (the right-of-use model) and lessor accounting (the purchase model), lessee accounting and lessor accounting may be asymmetrical under IFRS 16. Consequently, in the preparation of consolidated financial statements, intra group lease transactions under IFRS 16 will have to be addressed. This article suggests ways to deal with these consolidation issues under different circumstances. ISCA

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INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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