IS Chartered Accountant Journal

APRIL 2020

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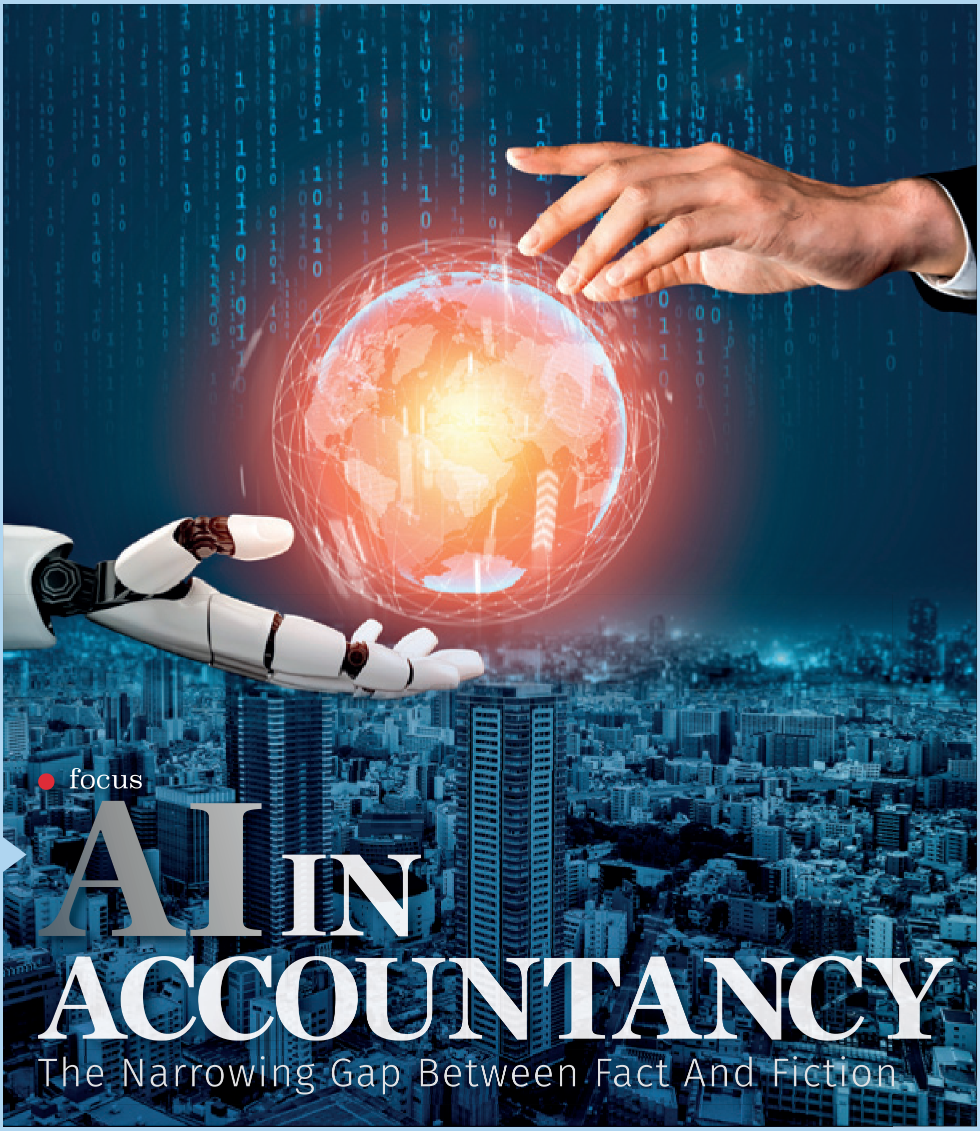
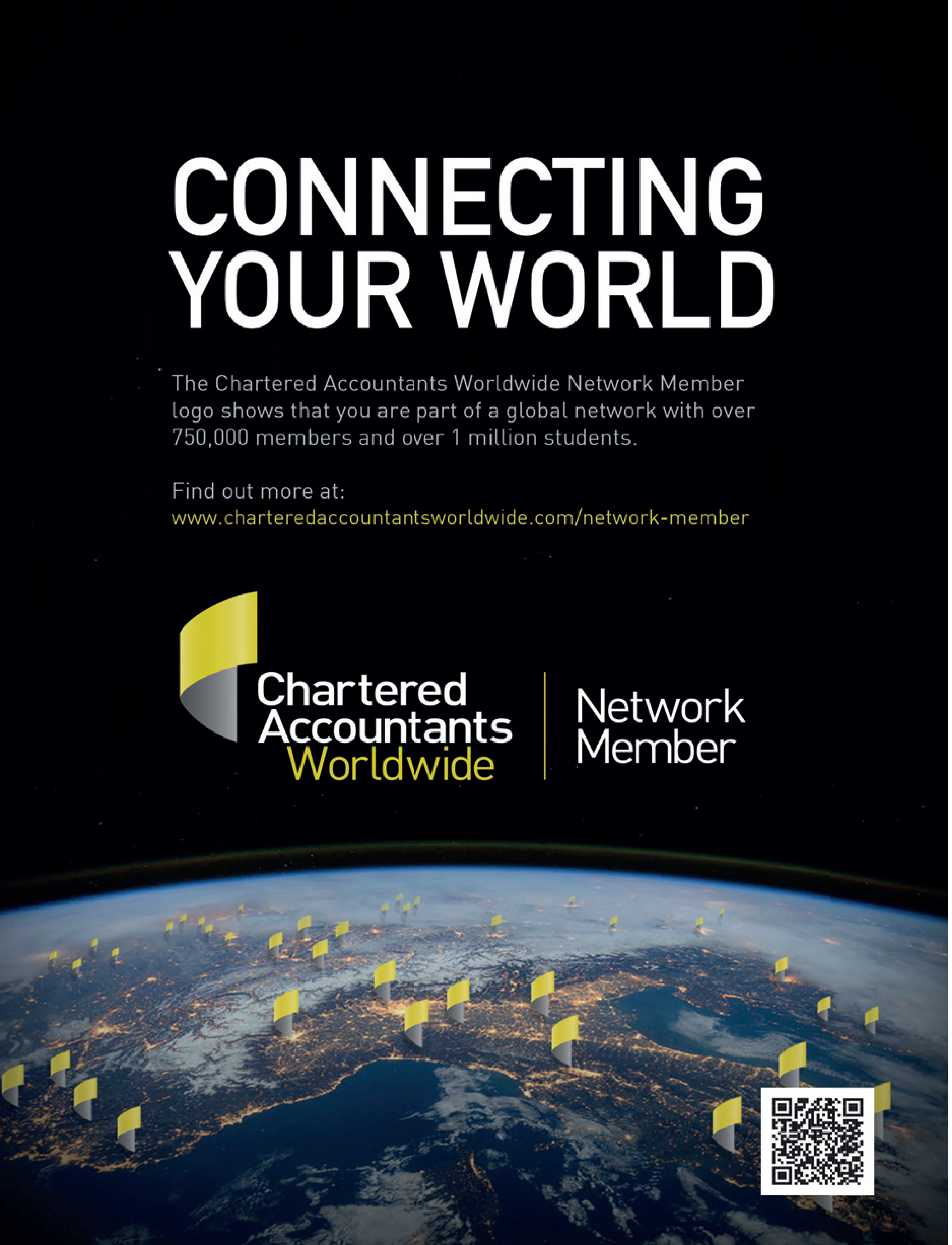


ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

APRIL 2020



Dear members,

UNUSUAL TIMES CALL FOR UNUSUAL RESPONSES. This was why on March 26, the Singapore government made the call to draw on an unprecedented $17 billion from the country's past reserves, to partially fund the landmark $48-billion Supplementary Budget. The need for the Resilience Budget about five weeks after the announcement of Budget 2020 indicates how swiftly and severely things have deteriorated. When Covid-19 first hit Singapore, no one could have predicted its devastating consequences. But as an open economy that is deeply entwined with the world, it soon became inevitable that Singapore would be hard hit. Singapore's GDP forecast has dropped to between -4% and -1%, down from an earlier estimate of -0.5% to 1.5%.

Things took a turn for the worse as the country saw an upward trend of local infections, which prompted the "circuit breaker" enhanced safe-distancing measures announced by Prime Minister Lee Hsien Loong on April 3. As this translated to greater disruption and costs for businesses, an unprecedented third support package – the $5.1-billion Solidarity Budget – was unveiled on April 6 to save jobs, protect livelihoods and help businesses preserve their capacity and capabilities.

Covid-19 has caused hardships across the board. From disrupted businesses to disintegrated supply chains, from distressed global financial markets to increasing fatalities, life, as we know it, has irreparably changed. "This extraordinary situation calls for extraordinary measures," Deputy Prime Minister and Finance Minister Heng Swee Keat had said earlier, when he announced the Resilience Budget. We have a summary of the "extraordinary measures" in this issue. Also look out for another summary – of the Solidarity Budget – which will be published in the upcoming May issue.

As we look around us, we also see evidence of the extraordinary measures taken by diverse stakeholders in these difficult times. At work, business continuity plans have kicked in, telecommuting is now commonplace, and video- and teleconferencing is the way to meet. At the Institute, things have changed as well.

ISCA has been tapping on technology amid a rapidly evolving business environment, and we continue to do so during the pandemic. Doing our part to minimise the risk of community spread of the coronavirus, the annual ISCA Budget Update Seminar went "e" and was shown via a live webinar on March 12. Flip the pages for information on how you can enrol for the recorded webinar if you have missed it. Besides the ISCA Budget Update Seminar, we had earlier planned to have our virtual Annual General Meeting (AGM) on April 25. This would have marked our first virtual AGM, with secure online voting facilitated. However, with the stricter measures announced, we have deferred our AGM to a later date to be decided.

On the same topic of leveraging technology, Kelvin Tan, who co-owns the FFL Group, is a good example of why technology and the ability to understand numbers is crucial to business. Our featured member this month, Kelvin uses data analytics to monitor the response to the marketing campaigns for his restaurants, run charts created from the sales data to improve manpower planning and also to tweak the restaurant menus. Clearly, technology enables him to make informed decisions.

Technology, in its various forms, is something I encourage every accountant to embrace.

Although technology has advanced quickly in recent years, more needs to be done to harness its full potential for Accountancy, where barriers to implementation remain high. Find out the advantages that artificial intelligence (AI) brings to the profession, and the considerations which firms need to assess when implementing an AI strategy, in the article "AI In Accountancy".

I have touched on a few topics so far, with the worker as the common element that ties them together. Developing the workforce is a major thrust of the Supplementary Budget; similarly, the Institute advocates that members continue to upgrade and upskill themselves to acquire new skill sets or sharpen existing ones. Be resolute as you shore up your professional reserves. But there is no need to wait for a rainy day to dip into them – apply your abilities today, to enhance the value that you offer.

Lastly, as we make major adjustments to our work and personal lives with the introduction of significant stricter safe-distancing measures to reduce the risk of community spread, I urge all our members to do our part by adhering diligently to the measures. The adjustments will be painful, but it is not just for your own good but for the sake of your loved ones as well. Each and every one of us must contribute towards keeping everyone in Singapore safe from Covid-19. I am confident we will emerge stronger from this pandemic. Stay home. Stay safe. We will meet again in May!

BE RESOLUTE; SHORE UP YOUR PROFESSIONAL RESERVES

Kon Yin Tong
FCA (Singapore)
president@isca.org.sg

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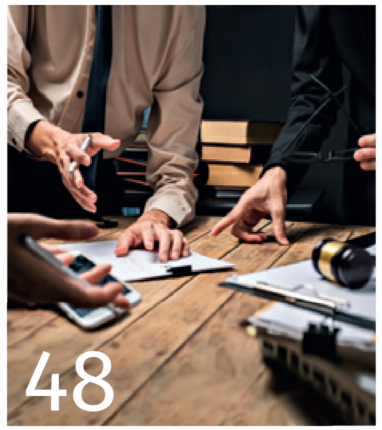
focus

in tune

viewpoint

technical excellence



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Pilot Programme To Help Companies Identify And Communicate Value Of Intangible Assets To Stakeholders

THE INTELLECTUAL PROPERTY OFFICE OF SINGAPORE (IPOS) AND SINGAPORE EXCHANGE (SGX) have partnered to launch the Intangible Disclosure Evaluation and Audit Scheme (IDEAS) programme exclusively for SGX-listed companies and companies preparing for a listing. The programme aims to raise awareness and encourage companies to undergo intangible assets (IA) evaluations and promote a more robust IA disclosure environment. This will help investors better appreciate the value of intangible assets, and support companies in capital raising.

IA is an important indicator of business value

In a knowledge-driven economy, IA is becoming increasingly critical in enterprise growth and success. Empirical evidence shows that leading global technology companies are investing heavily in IA to remain competitive. Despite this evidence, important IA information is often omitted from financial and stakeholder reports, which remain rooted in traditional accounting practices developed for a production-based economy.

The IDEAS programme provides companies with government support to undergo an IA evaluation and audit process. The process will enable companies to identify important IA information that are key drivers to their businesses, and make recommendations on disclosing such important information to communicate business value to the market. Greater transparency and clarity in IA disclosures will help companies build investor trust and enhance the effectiveness of the Singapore capital market in helping IA-rich businesses raise capital, as the knowledge economy shifts away from the traditional indicators of performance grounded in tangible asset values.

According to Dr Bernard Ong, Group Director of Policy & Engagement, IPOS, "Technologies, brands, ideas, data, knowhows and other forms of IA are the primary forces making the world's most innovative and valuable enterprises. Yet, market understanding of IA, including intellectual property, remains a big challenge to investors and enterprises alike." He adds that "IDEAS will enable investors to make sharper investment decisions while helping IA-rich companies unleash their real enterprise value".

IDEAS will run as a pilot programme until the end of 2020. During this period, companies will be nominated by IPOS and SGX to participate in the programme. These companies will receive IPOS' support to undergo an evaluation to identify key IA information that could be better disclosed to their stakeholders. Feedback gathered during the pilot phase will be instrumental in shaping future support for IA disclosures. Only a limited number of companies will be able to participate in the pilot programme.

Research and global trends towards IA disclosure

Today's investment environment sees IA comprising more than 80% of the market value within the S&P 500.[1] Global IA values have tripled in the last decade, amounting to US$57 trillion.[2] This also represents two-thirds of global GDP in 2018. Firms in Singapore have similarly experienced a 150% growth in IA values between 2010 to 2016.[3] Further research shows that leading technology companies investing into IA enjoy higher rates of return on their IA investments and are booking stronger profits.[4]

Current financial reporting standards place more emphasis on tangible asset disclosures than on IA disclosures. Given the value of IAs, more can be done to re-assess the accounting for and reporting of IA, to improve the relevance of information provided to financial report users.

[1] "Intangible Asset Market Value Study", Ocean Tomo (2019)
[2] "Global Intangible Finance Tracker 2018", Brand Finance (2018)
[3] "Singapore 100: 2016 Report", Brand Finance (2016)
[4] "Intangibles, Investment and Efficiency 2018", American Economic Association Research (2018)

PHOTOS SHUTTERSTOCK

Hedge Fund Industry Pivots Towards ESG Investing: Survey

AN INCREASING NUMBER OF INSTITUTIONAL INVESTORS are requiring their hedge fund managers to incorporate environmental, social and governance (ESG) factors in the course of their investment activities. Such investors now see ESG investing as serving their own long-term interest, as much as those of the wider society. These are among the key findings of a new report, "Sustainable Investing: Fast Forwarding Its Evolution", published by KPMG, Alternative Investment Management Association (AIMA), Chartered Alternative Investment Analyst Association (CAIA) and CREATE-Research. The report was launched on February 5.

Survey

Stages of ESG adoption cycle:

15% "mature"

44% "in progress"

31% "awareness building"

10% "no implementation to-date"

Involving 135 institutional investors, hedge fund managers and long-only managers with total assets of US$$6.25 trillion in 13 countries, the survey shows that increasingly, investors now expect their asset managers to deliver attractive financial returns while considering the environmental and social risks associated with their investments.

"Thus, the traditional risk-return equation is being rewritten to include ESG factors," says Anthony Cowell, Head of Asset Management, KPMG in the Cayman Islands and co-author of the report. "In the hedge fund industry, ESG has gone from being a nice-to-have to a must-have".

Some 45% of institutional investors now base their investments in ESG-based hedge funds on the view that they offer opportunities to generate alpha, while also offering a more defensive portfolio that looks beyond the blind spots in markets that are slow to price in ESG risks.

Hedge fund managers have duly responded by advancing in the familiar ESG adoption cycle. Currently, 15% of the surveyed hedge fund managers define themselves as being at the "mature" stage, where ESG is implemented across the firm via appropriate policies, committees, research and data. A further 44% are at the "in progress" stage, while 31% are still at the "awareness raising" stage; this leaves the remaining 10% at the "no implementation to-date" stage.

"Sustainability is set to reshape the ecosystem of capital markets and the behaviours of their participants. It requires mindset shifts from the way investing has been done historically," explains Andrew Weir, KPMG Global Head of Asset Management, KPMG International, and a partner with KPMG China. "It will become the gold standard in investing."

In the process, three avenues have been principally used by the surveyed hedge fund managers – incorporating ESG factors into investment process (52%), excluding securities that sit uncomfortably with the personal values of investors (50%) and shareholder engagement (31%).

Currently, 29% of hedge fund managers and 11% of institutional investors report positive outcomes. The scale of adoption and the outcomes so far have been hampered by the difficulties in creating a direct line of sight between ESG factors and their investment outcomes. "Creating the necessary infrastructure of data, skills and technology is proving challenging," adds Amin Rajan, CEO, CREATE-Research and the report's co-author. "Progress may not be enough, but it remains exponential. Investors and their managers are having to climb a steep learning curve via learning-by-doing."

On the upside, however, the resulting price anomalies offer opportunities to generate alpha for those who are progressing fast on the learning curve. Markets usually price in progress only when it is in the rear-view mirror.

Winds of change

Winds of change are evident, according to the report. Data vendors are experiencing rapid consolidation. The rise of big data and machine learning is improving the quality and timeliness of information. Above all, better engagement with the investee companies is also serving two essential aims: bolstering the available data with a better picture of the reality on the ground and providing an information edge.

Under institutional pressure, managers are now increasingly expected to act as agents of change by taking their stewardship role more seriously. Indeed, a carrot-and-stick approach to corporate engagement is emerging. Under it, investors and managers have increasingly collaborated with their peers and external advocacy groups in promoting ESG-related goals among the target companies. Where their efforts appear to bear no fruit, some managers now explore other options with the most extreme, albeit rare, including divestment.

Such a pragmatic activist approach is part of a broad thrust that aims to minimise greenwashing by demanding better data, complying with industry codes of practices, improving reporting and enhancing transparency.

The survey report concludes that ESG investing across the broader financial services is poised to gain further traction with governments, regulators, asset owners and asset managers collectively pulling in the same direction. ESG concerns are the biggest challenges of our age. Leaders can make a huge difference.

Postponement Of Virtual Annual General Meeting 2020

IN LINE WITH THE LATEST ANNOUNCEMENT made by the government on stricter measures to deal with the Covid-19 situation in Singapore, the virtual Annual General Meeting (AGM), which was originally scheduled to be held on 25 April 2020, will be postponed to a later date after the restrictions are lifted. Once the new date for the virtual AGM is determined, ISCA will notify all members (via email and EDM) at least 21 days prior to the meeting, in accordance with the Institute (General Meetings) Rules.

A Confident Dive Into The Realm Of Tax For The Accredited

TAX PROFESSIONALS, particularly accredited tax professionals, kicked off the year by gaining new insights into tax as established tax lawyer, Accredited Tax Advisor (Income Tax and GST) S. Sharma, Partner at Malkin & Maxwell LLP, led them in exploring the new realm in the tax landscape. This was done at a *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

Accredited tax professionals also had their privileges enhanced by not one but two exclusive email addresses where they could email complex technical queries to senior officers at Inland Revenue Authority of Singapore (IRAS).

A Tax professionals gained new perspectives about IRAS' additional heft and the first-ever arrests last quarter by the tax authority

B Accredited Tax Advisor (Income Tax) Chris Woo enthralled the students with the multifaceted journey as a tax advisor at the annual National Tax Competition

Accreditation – the mark of recognition across the profession and beyond – is based on both qualifications and practical tax experience. The call to be accredited received a further boost at the National Tax Competition 2020, organised by Nanyang Business School, Nanyang Technological University. As one of the top-tier platinum sponsors, SIATP supported the event as a judge in the Finals, and its Board member, Accredited Tax Advisor (Income Tax) Chris Woo, Head of Tax at PricewaterhouseCoopers Singapore, captivated the audience when he shared the thrills and challenges of a tax career.

Be pumped up on tax knowledge and enjoy exclusive privileges. Find out more from SIATP at 6749-8060 or enquiry@siatp.org.sg.

Disciplinary Findings

UPON FINDING THAT MR LIAN KIAN WEE, Associate (ISCA), had contravened Rule 64.1 read with Rule 65.1, and Rule 64.4 read with Section 110.2 and Section 150.1 of the Code of Professional Conduct and Ethics under the Third Schedule of the Institute (Membership and Fees) Rules, in that he, at the material time, submitted to his former employer a forged Certificate of Membership (Certificate) falsely showing that he was qualified as a Chartered Accountant of Singapore, knowing that the Certificate was a forged certificate because he was not qualified as a Chartered Accountant of Singapore at the time.

The Disciplinary Committee ordered:

1) That pursuant to Rule 137.1.9 of the Institute (Membership and Fees) Rules, he be suspended for a period of 12 months with immediate effect and fined a sum of S$5,000 which shall be paid within 28 days from the date on which this order is served on him.
2) That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, he shall pay to the Institute the sum of S$3,771.75 (inclusive of 7% GST), being the costs and expenses incurred by the Institute in connection with the investigation and disciplinary proceedings undertaken against him, within 28 days from the date of this order.

ISCA Budget Update Seminar: In It To Ace It

ISCA President Kon Yin Tong (4th from left) with speakers and panellists: (from left) SIATP Board member and Accredited Tax Advisor (Income Tax & GST) Chung-Sim Siew Moon, EY Asia-Pacific Tax Policy and Controversy Leader and Partner, Ernst & Young Solutions LLP; Irvin Seah, Executive Director, Group Research, DBS Bank; Professor Sum Yee Loong, Professor of Accounting (Practice), SMU; Kurt Wee, President, ASME, and Satvinder Singh, Assistant Chief Executive Officer, ESG

FOR THE FIRST TIME, THE ISCA BUDGET UPDATE SEMINAR was conducted as a live webinar, a format the Institute decided on to minimise the risk of community spread due to the Covid-19 situation. The webinar, which took place on 12 March 2020, marked the first event in ISCA's signature Singapore Accountancy and Convention Series. ISCA Chief Executive Officer (CEO) Lee Fook Chiew opened the seminar with a short welcome address.

From A Tax Perspective

As at previous Budget update seminars, Professor Sum Yee Loong, Professor of Accounting (Practice), Singapore Management University (SMU), presented the salient features of the 2020 Budget unveiled by Deputy Prime Minister (DPM) and Finance Minister Heng Swee Keat on 18 February 2020, and explained the tax implications. These covered corporate tax, goods and services tax (GST), personal income tax, property tax, tax incentives for internationalisation and tax loss carry-back to name a few.

While corporate tax rate remains unchanged at 17% for Year of Assessment (YA) 2020, tax rebate will be increased to 25% for YA 2020, from 20% in YA 2019, and capped at $15,000, up from the previous year's $10,000.

ISCA CEO Lee Fook Chiew giving the welcome address

There are also minor changes to the Partial Exemption Scheme for Companies (PTE). While the tax exemption for the first $10,000 chargeable income remains at 75%, the exemption for the next $190,000 is 50% for YA 2020. This is opposed to the exemption in YA 2019 that was being applied for the next $290,000, after the first $10,000. Thus, maximum exemption for YA 2020 is $102,500, down from $152,500 for YA 2019.

The tax exemption scheme for new startup companies will also change from YA 2020. Instead of a full exemption on the first $100,000 and a further 50% exemption on the next $200,000 of normal chargeable income, it will be 75% exemption on the first $100,000 and a further 50% exemption on the next $100,000 of normal chargeable income with effect from YA 2020.

To help businesses with their cash flows, the Loss Carry-back Relief will be enhanced for YA 2020, such that the number of YAs to which unutilised capital allowances (CAs) and trade losses from YA 2020 can be carried back will be increased from one YA to three YAs immediately preceding YA 2020 (that is, YA 2017, YA 2018, YA 2019). Businesses may also elect for enhanced carry-back relief based on an estimate of the current year's unutilised CAs and trade losses for YA 2020.

Businesses incurring qualifying expenditure on renovation and refurbishment (R&R) during the basis year for YA 2021 for the purpose of its trade, profession or business will have the option to accelerate their R&R deduction claim from three consecutive YAs to one YA, although the cap of $300,000 for every relevant period of three consecutive YAs will continue to apply. This is a welcome temporary measure to help manage the cash flow of businesses. Businesses are encouraged to take advantage of this slowdown to embark on upgrades.

Targeted property tax rebate is introduced for sectors badly affected by Covid-19. Owners of qualifying commercial properties will be granted a rebate on the property tax payable for 2020. The rebate is 30% of the property tax payable for hotels, serviced apartments and

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Prof Sum sharing insights into the tax implications of the Budget

quick facts

CORPORATE TAX

Corporate tax **remains at**
17%

Increase in corporate tax rebate

YA 2020:
25%
capped at $15,000

YA 2019:
20%
capped at $10,000

prescribed Meetings, Incentives, Conventions and Exhibitions (MICE) venues; 15% for other qualifying commercial properties such as the premises of international airport and tourist attractions, and 10% for Marina Bay Sands and Resorts World Sentosa.

GST will remain at 7% for 2020 and 2021. The Finance Minister assured that when GST is eventually increased to 9% between 2021 and 2025, there would be a $6-billion Assurance Package to help Singaporeans cushion the impact of a higher GST, especially those from the lower income groups who proportionately spend more on GST from their income.

From 1 January 2020, a GST-registered partially exempt business that is not entitled to full input tax credit will be required to account for GST on all services that the business procures from overseas suppliers as if it was the supplier of those services, except for certain services which are specifically excluded from the scope of reverse charge. Prof Sum shared that this is to provide a level playing field for local service providers and overseas service providers.

Mr Seah spoke about the impact of Covid-19 on the Singapore economy

... there are pockets of positive signals that improvements may be happening, as evidenced by the increasing marine vessels movement reported in China.

"The Spanner In The Works"

Irvin Seah, Executive Director, Group Research, DBS Bank, commented on how the sudden plunge in the oil price, the worst seen since 1991, coupled with the Covid-19 situation, are creating negative impact especially in sectors like tourism and causing disruption to the global supply chain.

It was noted that some sectors that were initially showing signs of recovery have since stalled, aptly reflecting the title of his presentation, "The Spanner In The Works". He opined that the impact of Covid-19 on the Singapore economy will be more severe than from SARS as the world is more dependent on China for its supply chain, and Singapore has also become more dependent on China tourists.

There is also the likelihood that the growth rate might be zero for the year. However, there are pockets of positive signals that improvements may be happening, as evidenced by the increasing marine vessels movement reported in China.

... the impact of Covid-19 on the Singapore economy will be more severe than from SARS

Panel Discussion

The panel discussion featured Prof Sum, Mr Seah, Kurt Wee, President, Association of Small & Medium Enterprises (ASME), and Satvinder Singh, Assistant Chief Executive Officer, Enterprise Singapore (ESG), and was moderated by Accredited Tax Advisor (Income Tax & GST) Chung-Sim Siew Moon, Board member, Singapore Institute of Accredited Tax Professionals (SIATP); EY Asia-Pacific Tax Policy and Controversy Leader and Partner, Ernst & Young Solutions LLP.

There was a question about the timing and quantum of GST increase. While no firm details have been released to date, it was noted that if the GST were to be raised by one percentage point across two years to reach 9%, companies would have to adjust their systems twice. Considering that advance notice has been given, companies now have ample time to adjust and prepare for the increase to 9%.

Mr Singh shared that in his opinion, one of the most effective measures is possibly the SME Working Capital Loan (SME WCL) and Temporary Bridging Loan for the Tourism Sector Enterprises (TBL for TSE). The SME WCL will be enhanced from $300,000 to $600,000, and will be valid for a year from March 2020. The TBL for TSE will also be valid for a year from March 2020. Eligible enterprises in the tourism sector can borrow up to $1 million, with interest capped at 5% per annum. He believed these schemes address the pressing cash flow issues in the sectors most affected by Covid-19.

Mr Singh also shared that the Market Readiness Assistance (MRA) Grant has been enhanced. The grant cap has increased from $20,000 per year to $100,000 per new market per company over the enhancement period of fiscal year 2020 to 2022. As such, he reiterated the government's call to businesses to look beyond short-term issues and use the grant for consultancy fees and overseas business development. This would enable businesses to emerge from the current crisis stronger and ready for growth.

Sharing the same view, Mr Seah observed that there is a growing flow of foreign direct investments (FDI) towards ASEAN. He urged businesses to explore growth opportunities the inflow of FDIs into the region will bring. Although the diversification is driven by the manufacturing sector, the impact would be broad-based as the logistics and services sectors that support the manufacturers will benefit too.

(From left) Moderator Mrs Chung-Sim with panellists Mr Seah, Prof Sum, Mr Wee and Mr Singh

... there is a growing flow of foreign direct investments (FDI) towards ASEAN... businesses (should) explore growth opportunities the inflow of FDIs into the region will bring

quick facts

2020 and 2021: **GST remains at** 7%

Between 2021 and 2025: **GST increases to** 9%

DPM Heng had also indicated that the government was prepared to roll out a second support package for businesses in response to the Covid-19 crisis if the need arises. On what might be included to supplement the current package and address areas that were not fully addressed by the current package, the panellists offered various views. Mr Wee opined that while the current package has provided assistance in the form of rebates, the second package could perhaps offer direct cash assistance to businesses so that the assistance is more broad-based.

This is because tax rebates, for example, help businesses that are profitable and are paying taxes. Furthermore, if the property rebates were not passed down by the landlords to their tenants, then these rebates would not be effective as a support measure for businesses.

Separately, Mr Wee also wished that banks would step up and offer debt repayment moratorium, to help affected businesses facing cash flow problems. Responding, Mr Seah explained that some banks have already extended such assistance by offering a six-month principal repayment moratorium to its customers.

The panel discussion ended on a positive note to encourage Singaporeans to be resilient and to carry on with a positive mindset. (Note: DPM Heng announced a second package on 26 March 2020; details are in a separate article in this issue.) ISCA

For those who missed the ISCA Update Budget Seminar 2020 (live webinar), please click to enrol for the recorded webinar: https://eservices.isca.org.sg/courseDetail?courseMasterId=a0g0K00000FLhOcQAL

MARK YOUR CALENDAR

21 & 22 APR

Accounting Ethics: Understanding & Detecting Creative Accounting Practices (Live Webinar)

This course will discuss the environmental factors, situations and motivations behind Creative Accounting to help you gauge the believability and reliability of financial reports.

22 APR

IFRS13/SFRS(I) 13/FRS113: Fair Value Measurement – A Practical Approach (Live Webinar)

This course is intended to provide a practical approach to various fair value measurement methodologies. It also provides an analysis of the various accounting models to account for the effect of changes in fair value.

24 APR

Cost-Benefit Analysis Of Business Development Plans (Live Webinar)

Accounting & finance managers often face the challenge of evaluating the financial feasibility of business development proposals. This foundation workshop provides a comprehensive model to evaluate such proposals, weighing the value of business development initiatives against the associated costs including hidden costs and risks.

28 & 29 APR

Advanced GST Workshop – Managing GST Risks in Your Business and Avoiding Pitfalls and Errors (Live Webinar)

Grasp a deeper understanding of the various key GST concepts so that participants are able to immediately apply what they learn in their workplace. Some participants had taken immediate action to relook their GST transactions after attending the workshop and consider voluntary disclosures, where appropriate.

12 MAY

ISCA FINANCIAL STATEMENTS REVIEW COMMITTEE ("FSRC") LIVE WEBINAR

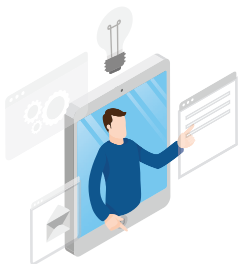
Findings from ACRA Financial Reporting Surveillance Programme ("FRSP") & Observations from ISCA FSRC

Join us at the FSRC Seminar on 12 May 2020! Our speakers, comprising subject matter experts and regulators will be sharing insights towards enhancing the quality of financial reporting such as practical tips to identify and address red flags in financial statements, ACRA's findings on material accounting breaches and the resulting regulatory outcomes.

13 MAY

Ethical Issues for Accountants: Reducing Potential Ethical Breaches (Live Webinar)

Learn to look at how accountants can deal with various ethical issues they face from a legal perspective. Have a better understanding of ethics in specific circumstance and how they can mitigate potential ethical breaches in their organizations.



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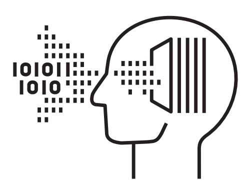

BY RONALD WONG

AI IN ACCOUNTANCY

The Narrowing Gap Between Fact And Fiction

ARTIFICIAL INTELLIGENCE (AI) has long been featured in many science fiction novels and movies. However, with the increase in computer processing power, ever-growing connectivity and access to more data than ever before, the gap between fact and fiction is narrowing.

AI is not a single technology but a broad and deep set of technologies, tools and methods. Key AI technologies include computer vision, natural language processing (NLP), speech recognition and machine learning.[1] These technologies are helping organisations improve efficiency and at the same time, derive insights to enable them to be competitive in their customer and talent strategies.

According to the EY 2018 Global corporate reporting survey, "How Can The Digital Transformation Of Reporting Build The Bridge Between Trust And Long-Term Value?", close to three-quarters (72%) of finance leaders around the world believed that AI would have a significant impact on the way finance drives data-driven insight. Respondents believed that AI will be the critical technology for the finance function in the future.

IMPACT OF AI ON ACCOUNTING

Accountants play an important role in the effective functioning of business and the capital markets. In its simplest terms, accounting is the recording and reporting of financial transactions of a business.

Yet, in the true sense of the term, accounting covers many aspects of the business – from the recording of the transactions along with storing, sorting and summarising to the presentation of information in a form and manner that is required for compliance with regulations as well as decision-making. The quality of the reporting will also provide the basis for investor confidence and public trust in the company.

The growing pressure that accountants face in their role stems from outside as well as within their organisations. Companies face an increasingly challenging reporting environment. With globalisation, companies today have more complex operations spanning different jurisdictions. The pace of regulatory change is increasing, and investors and capital market participants have heightened demands. Within companies, the Board and senior management are requesting for additional information to help them make more informed decisions.

Accountants today need to ensure that reporting is meeting the different needs of stakeholders, and that it is timely, accurate and consistent. That is no easy task. Accountants deal with various touchpoints in the organisation and information –

> **AI can often provide real-time status of financial matters as it can process documents using natural language processing and computer vision faster, making daily reporting possible and inexpensive. This promotes better and more timely insights to enable swift decision-making.**

[1] "Enterprises Need To Develop An AI Strategy Now", Nigel Duffy (March 2019), Search Enterprise AI

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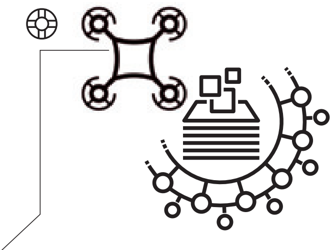


financial and nonfinancial – comes in different shapes and forms. To help them make better sense of this vast data, accountants have been leveraging technology – to varying extents of sophistication – for several years now.

In fact, AI technologies, such as machine learning, are not new and organisations have been embedding or combining them with other technologies such as robotic process automation to automate many mundane tasks performed by accountants. The time accountants used to spend on such tasks can then be redirected to performing high-value, high-impact tasks.[2]

Adding AI to accounting operations can also increase the quality of output because human errors are minimised. AI can mimic human interaction in many cases, such as understanding inferred meaning in communication and using historical data to adapt to an activity. AI can often provide real-time status of financial matters as it can process documents using NLP and computer vision faster, making daily reporting possible and inexpensive. This promotes better and more timely insights to enable swift decision-making.

Auditors, too, are using machine learning in audits. This includes developing tools that can "read" documents such as sales and lease contracts, perform trend analysis and identify outliers. This reduces the administrative time spent on reviewing audit documents and allows auditors to spend more time on areas that involve significant estimates and judgement.

Many audit firms are digitalising their audit process. Likewise, at EY, we developed EY Digital Audit, a connected data-driven audit that takes advantage of companies' digitisation journey by tapping on the sheer volume of data generated by new technologies to effectively help deliver high-quality audits, allowing them to put greater emphasis on risk identification and provide better business insights.

PHOTO SHUTTERSTOCK

As part of digitalising the audit process, an AI proof of concept has been launched, using computer vision to help enable airborne drones to monitor inventory during the auditing process. For example, the drone can count the number of vehicles in a production plant under audit and communicate this data directly into the EY global audit digital platform.

That said, while AI-enabled systems can support compliance and their related audits by monitoring documents against rules and flagging issues, there are hidden dangers. To date, there is little visibility into how AI and machine learning technologies come to their conclusions in problem-solving, leaving practitioners open to various significant business risks.[3]

BARRIERS TO IMPLEMENTATION

While AI has clear benefits, the implementation of these technologies in finance functions can be challenging. Resistance to change from teams within the organisation is a key risk as many may choose to adopt a wait-and-see attitude.

In the EY survey, "Does Corporate Reporting Need A Culture Shock?", conducted in 2019, 60% of the Singapore respondents said the quality of finance data produced by AI cannot be trusted as much as the data from usual finance systems. The top risks cited in relation to turning nonfinancial data into reporting information are: maintaining data privacy, data security and lack of robust data management systems.

AI relies on access to vast volumes of data for its success. As such, significant efforts are needed to extract, transform and house the data appropriately – and securely. The advantage of AI systems is the ability to analyse and independently learn from this diverse data and generate valuable insights. However, this can be a double-edged sword where a lack of proper data management or cybersecurity systems can predispose organisations to significant risks of inaccurate insights, data breach and cyber attacks.

Further, smaller organisations may face the issue of insufficient data to build models surrounding specific areas for analysis. As well, obtaining such data will require systems and processes to be established and integrated to ensure that external data harnessed will complement existing data. This requires significant financial and time investments. Hence, most companies that implement AI applications into their accounting systems will likely focus on areas that will have the most significant financial and business impact. This can be challenging as more sophisticated AI technologies are still in infancy stages and hence, the first implementations will likely not reap immediate benefits.

Even with the right data, there could still be a risk of machine learning algorithms bias. If the patterns reflect some existing bias, the algorithms are likely to amplify that bias and may produce outcomes that reinforce existing patterns of discrimination.[4]

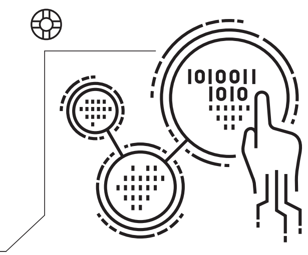
Another major concern is the potential overexposure to cyber-

There should also be mechanisms to allow a clear audit trail of the decisions made by AI and extensive testing of the systems should be done before deployment. Risk mitigation should also include assessing the acceptable costs of error.

[2] "Accounting AI And Machine Learning: Applications And Challenges", J.L. Alarcon, Troy Fine and Cory Ng (April 2019), Pennsylvania Institute of Certified Public Accountants

[3] "Risky AI Business: Navigating Regulatory And Legal Dangers To Come", Bob Violino (Feb 2018), CIO

[4] "How Can The Digital Transformation Of Reporting Build The Bridge Between Trust And Long-Term Value?" (2019), Ernst & Young LLP



related risk. Hackers that want to steal personal data or confidential information about a company are increasingly likely to target AI systems, given that these are not as mature or secured as other existing systems.[5]

While the legislation governing AI is still considered to be in its infancy, that is set to change. Systems that analyse large volumes of consumer data may not comply with existing and imminent data privacy regulations and therefore, pose risks to organisations.

As with any transformation initiative, the human factor is critical to ensuring its success. The evolution in AI technologies is changing the roles and responsibilities of accountants, requiring competencies beyond traditional technical accounting to knowledge of business and accounting processes, including the systems supporting them. These competencies are important to effectively identify and apply use cases for AI technologies, and being the bridge between the effective collaboration with other stakeholders, including IT, legal, tax and operations, during implementation.

However, despite these challenges, the benefits of AI technologies remain compelling. The competitive economic environment and rapid technological advances will drive adoption. Over time, slow adopters will be disrupted and risk becoming obsolete. With AI technologies looking to be a game changer for accounting and finance,

[5] "Why AI Is Both A Risk And A Way To Manage Risk", Jeanne Boillet (April 2019), EY

[6] "How Can The Digital Transformation Of Reporting Build The Bridge Between Trust And Long-Term Value?" (2019), Ernst & Young LLP

[7] "Risky AI Business: Navigating Regulatory And Legal Dangers To Come", Bob Violino (Feb 2018), CIO

[8] "Why Success With AI In The Audit Starts With Asking The Right Questions", Jeanne Boillet (June 2019), EY

[9] "How Can The Digital Transformation Of Reporting Build The Bridge Between Trust And Long-Term Value?" (2019), Ernst & Young LLP

[10] Ibid

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> **By changing recruitment criteria to favour openness and innovation, finance leaders can seek to attract people from different sectors and backgrounds who come with new perspectives and without the ingrained assumptions and biases of typical accounting talent.**

adoption is inevitable. Hence, a sound AI strategy is paramount to successful adoption.

Some of the key considerations when implementing an AI strategy include:

Understanding and managing risks

Harnessing disruptive technologies brings great opportunities but managing the new risks that come with them is as important. The risks will be peculiar to each finance function and individual application, but organisations should begin by assessing their situation against the spectrum of possible risks[6]:

Data quality and management

This is key to transforming volumes of data into strategic assets of an organisation. Organisations should commit to building trust proactively into every facet of the AI system from the start. This trust should extend to the strategic purpose of the system, the integrity of data collection and management, the governance of model training, and the rigour of techniques used to monitor system and algorithmic performance.

Cyber and data privacy

Considerations should be made when designing and embedding AI technologies into systems. Developing proper system separation and understanding how the system handles the large amounts of sensitive data and makes critical decisions about individuals in a range of areas including credit, education, employment and health care are critical to managing this risk.

Legal risks and liability

At the most fundamental level, organisations need to have a thorough understanding of the reasoning and decisions made by AI. There should also be mechanisms to allow a clear audit trail of the decisions made by AI and extensive testing of the systems should be done before deployment. Risk mitigation should also include assessing the acceptable costs of error. Where the costs of error are high, consideration should be made to still have a human supervisor to validate the output to manage this risk. As the technology matures further, the acceptable level of risk can then be adjusted accordingly.[7]

Identifying and prioritising use cases and people

Developing a successful AI implementation roadmap requires the identification and prioritisation of use cases, with the understanding that the human element is a fundamental piece of the equation. And the reason is not only because of the uniquely human soft skills such as creativity and leadership, but also the human scepticism and judgement that are necessary to address the new risks that come with the adoption of emerging technologies.[8]

To overcome resistance to change and drive sustainable culture transformation, organisations should inject new ideas and fresh impetus into the team. One way is to identify "change ambassadors" who are empowered by management to embark on new technology initiatives and successful proof of concepts that would then be commissioned for rollout to the organisation. Similar efforts will be critical to overcome inertia and resistance.[9]

Changing the finance and accounting talent mix may provide an important lever for culture change. By changing recruitment criteria to favour openness and innovation, finance leaders can seek to attract people from different sectors and backgrounds who come with new perspectives and without the ingrained assumptions and biases of typical accounting talent. Upskilling the existing accounting workforce beyond traditional finance and accounting skills and redefining the profile for talent acquisition are key considerations in driving an effective digital-enabled workforce.[10]

The benefits of adopting AI technologies is evident. While it is impossible to predict how AI technologies will ultimately affect the accounting industry and profession, one thing is clear – companies and accounting professionals need to invest time, earlier rather than later, to understand the AI technology and ecosystem, embark on proof of concepts to validate use cases and drive behavioural changes to build a truly digital workforce and organisation that is well-positioned for competitive growth. **ISCA**

Ronald Wong is Singapore Financial Accounting Advisory Services Leader and Partner, Ernst & Young LLP. The views reflected in this article are the views of the writer and do not necessarily reflect the views of the global EY organisation or its member firms.

BY STELLA LAU

SUPPLEMENTARY BUDGET 2020: THE RESILIENCE BUDGET

Delivering Extraordinary Support In An Unparalleled Time Of Crisis

AMID THE ESCALATING COVID-19 CRISIS and a gloomy economic forecast described as "the worst economic contraction since Singapore's independence", Deputy Prime Minister (DPM) and Finance Minister Heng Swee Keat announced a landmark $48-billion Supplementary Budget package on March 26, to deliver "decisive" and timely support to workers, businesses and households.

The Supplementary Budget, also called the Resilience Budget, is more than seven times the $6.4 billion committed to the Budget 2020 (Unity Budget) announced just slightly more than a month ago on February 18. In total, it amounts to a deployment of about $55 billion to combat the growing crisis, or 11% of Singapore's Gross Domestic Product.

Indicative of the severity of the current crisis, the Resilience Budget follows through on an earlier commitment at the Unity Budget announcement that more will be done should the need arise. This is also only the second time that past reserves will be tapped into, apart from the 2008 Global Financial Crisis. About $17 billion will be drawn from past reserves this time, more than three times the $4.9 billion previously drawn.

Just three days prior to the announcement, the International Monetary Fund (IMF) warned of a global recession in 2020 that could be as bad or worse than the global financial crisis of 2008. The IMF welcomed "extraordinary fiscal actions" to be undertaken and stressed that more fiscal measures will be needed.[1]

Reinforcing the unpredictability and volatility of the situation, DPM Heng once again assured that the government is closely monitoring the situation and will take swift action as needed. He cautioned that the future course of the situation remains uncertain and "highly fluid" with "significant risks".

The Resilience Budget aims to provide timely support to cushion Singapore's economy and Singaporeans against the impact from this crisis. This is on top of a slew of increasingly stringent measures on many other fronts, including travel deterrence, border-entry restrictions, stepping up on hygiene and precautions, and social distancing.

Another focus of the Resilience Budget is to help the nation ride through this crisis in a "spirit of resilience" and to "emerge stronger", said DPM Heng. The broad-based Resilience Budget features enhancements to existing schemes, grants, rebates and financial assistance announced in the Unity Budget, as well as new initiatives targeted at specific worker segments and industries.

[1] "IMF Managing Director Kristalina Georgieva's Statement Following A G20 Ministerial Call On The Coronavirus Emergency", 23 March 2020, IMF

"We are all in this together... and we must look after one another in these trying times."
– DPM and Finance Minister Heng Swee Keat

There are three key thrusts with a focus on businesses and workers. The following are the key highlights for each of them.

1) SAVE JOBS, SUPPORT WORKERS, AND PROTECT LIVELIHOODS

The first thrust outlines measures to protect jobs, support workers, create employment opportunities and help households with expenses. It comprises over one-third of the Resilience Budget.

Protecting jobs

- The government will increase its co-funding of wages from 8% to 25% under the Jobs Support Scheme (JSS). Firms in the food services sector will receive more support at 50%, while firms in the aviation and tourism sectors will receive even higher support at 75%. The government will also fund wage increases with an additional $500 million under the Wage Credit Scheme (WCS) targeted for end-June.

Supporting the self-employed and lower-income workers

- To step up support for self-employed persons, a new initiative provides direct cash assistance through the Self-Employed Person Income Relief Scheme (SIRS) of $1,000 a month over a period of nine months. This is on top of training allowance and SkillsFuture Credits. Lower-income workers will also receive an increased Workfare Special Payment of $3,000 each in cash.

DIRECT CASH ASSISTANCE THROUGH SIRS

$1,000 a month, for nine months

Increased Workfare Special Payment of $3,000

Creating jobs and supporting the unemployed

Another priority is to create employment opportunities both for first-time jobseekers as well as for the unemployed, with the government taking the lead. One such measure is the SGUnited Jobs initiative which aims to create 10,000 jobs in the next one year. Financial assistance will be provided through the Temporary Relief Fund and the Covid-19 Support Grant, aimed at helping workers whose incomes and jobs are impacted by this crisis.

The government will also support households with daily expenses and cater more help to parents with younger children, and the needy. Cash payouts and grocery vouchers have been tripled from that announced during the Unity Budget. In addition, all government fees and charges will be frozen for a year, student loan repayments will be suspended, grants given to self-help groups will be doubled to $20 million over two years, and additional grants to Community Development Councils (CDCs) will be increased from $20 million to $75 million.

2) HELP ENTERPRISES OVERCOME IMMEDIATE CHALLENGES

The second thrust of the Resilience Budget is aimed at delivering help to businesses in three aspects – cash flow, cost, and credit. Significantly, up to $20 billion of loan capital will be set aside to support enterprises in need, representing over 40% of the Resilience Budget.

Access to credit

Enterprises can expect more access to credit. In a major financing effort, the government will assist "good companies with strong capabilities" and "catalyse private sector loan capital". The loan quantum for the Enterprise Financing Scheme (EFS)-Trade Loan will be increased from $5 million to $10 million, and the government's risk-share will be increased from 70% to 80%. All enterprises will also be eligible for the Temporary Bridging Loan Programme, with the maximum supported loan increased from $1 million to $5 million. Small and medium-sized enterprises (SMEs) can continue to tap on the EFS-SME Working Capital Loan, with the maximum loan quantum for this further enhanced from $600,000 to $1 million.

Faster disbursements, greater cash flow

Secondly, enterprises can look to quick payouts disbursements under the wage support schemes. About $5.6 billion will be paid out by May this year.

Cost relief

Thirdly, earlier announced property tax rebates in the Unity Budget will be increased and expanded to cover more properties. In particular, property tax will be waived for sectors more badly hit by the Covid-19 outbreak – hospitality, tourism, retail and food services. This is a big jump from the original 15% to 30% rebates given. The government will also take the lead by enhancing rental waivers for tenants, while at the same time strongly urging landlords to pass on these savings to tenants.

Income tax payments will also be deferred for companies and self-employed persons for three months.

Supporting sectors harder hit by pandemic

Aside from the above, there are specific measures catering to sectors that are harder hit by the pandemic, such as the aviation sector. The Budget will support wage offsets for workers, as well as fund rebates on charges, rentals and costs.

The tourism sector will also receive similar support in wage offsets. A sum of $90 million has been set aside, to be deployed in due course, to help the tourism industry rebound.

Food services, point-to-point transportation, and arts and culture sectors will also benefit from a range of measures including wage offsets, relief payments, upskilling support and digitalisation efforts.

QUICKER DISBURSEMENTS
Quick payouts
under wage support schemes
About $5.6 billion
to be paid out by May 2020

EFS-TRADE LOAN
Increased to
$10 million,
from $5 million
Government's risk-share
increased to
80%, from 70%

TEMPORARY BRIDGING LOAN PROGRAMME
Maximum supported loan
increased to
$5 million,
from $1 million

EFS-SME WORKING CAPITAL LOAN
Maximum loan quantum
increased to
$1 million,
from $600,000

PHOTOS SHUTTERSTOCK

3) STRENGTHEN ECONOMIC AND SOCIAL RESILIENCE TO EMERGE INTACT AND STRONGER

A running focus in recent years' Budgets has been to stay the course on building up for the longer term, even in the face of challenging circumstances.

The third thrust of the Resilience Budget exemplifies this and constitutes three key pillars, namely, (a) enhance preparations for critical challenges at the national level by investing in research and development to manage pandemics and increase food security; (b) strengthen industry-led initiatives to support businesses in bad times and continue to drive business transformation, and (c) encourage individuals towards lifelong learning and continual skills upgrading.

Building economic resilience at the industry level and supporting workers to stay resilient

Trade associations and chambers (TACs) and business groups will benefit from greater government co-funding of qualifying initiatives to help enterprises build capabilities or tide through difficult times through the SG Together Enhancing Enterprise Resilience (STEER) programme. The government will match $1 for every $2 raised by TACs, double the earlier matching rate of $1 for every $4.

Enterprises will receive more support to continue driving digitalisation under the SME Go Digital Programme, which has been enhanced to provide support for more digital solutions. Funding has been increased from 80% to 90% for the Productivity Solutions Grant (PSG) and the Enterprise Development Grant (EDG) to encourage companies to adopt IT solutions and equipment, for market expansion, as well as to innovate and strengthen core business functions.

Worker training and skills upgrading subsidies are extended to more sectors including arts and culture, and land transport.

All employers will be eligible for 90% absentee payroll when they send workers for training. This will also be extended until the end of this year.

Concluding the Supplementary Budget statement, DPM Heng said, "We are all in this together... and we must look after one another in these trying times." As the government takes the lead to put in place the pillars of support, the next step must be for all businesses and people to do their respective parts. Keppel Corporation has set up a $4.2-million package to help healthcare workers and patients, lower-income families and SMEs impacted by the outbreak. Micron and SMRT have joined the SGUnited Jobs Initiative. Businesses also should not lose sight of the need to digitalise, restructure and transform. At the same time, all workers must continually upgrade to stay employable. ISCA

STEER PROGRAMME
Government matches
$1 for every $2
raised by TACs
Up from earlier matching of $1 for every $4

SME GO DIGITAL PROGRAMME
Enhanced
to provide support for more digital solutions

PSG & EDG
Funding increased to
90%, from 80%

Refer to Supplementary Budget Statement for the full statement:

https://www.singaporebudget.gov.sg/budget_2020/resilience-budget/supplementary-budget-statement

Refer to the Supplementary Budget Booklet for a summary of key measures introduced for businesses, workers and households:

https://www.singaporebudget.gov.sg/budget_2020/resilience-budget/supplementary-budget-measures/supplementary-budget-booklet-eng

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FEEDING STOMACHS AND MINDS

AT 36, KELVIN TAN FITS SQUARELY IN THE MILLENNIAL, keen-to-try-new-things demographic – and he has the varied, multisector career arc to back it up. His first 12 years in the workforce have already been packed with a diverse range of experiences covering both the public and private sectors, and in roles spanning information technology (IT) and accountancy to business development and academia. Now, Mr Tan is putting all his experiences and skills to use as one half of the husband-and-wife team behind the food and beverage (F&B) business – Fresh Fruits Lab (FFL) Group.

FIRST-TIME RESTAURATEURS

He may have pursued an Accountancy degree during his undergraduate years, but Mr Tan's first love was, and still is, IT. He studied IT at the polytechnic and later on – while working in his first job as an IT auditor at the Auditor-General's Office – took up a part-time Master's degree in Information Systems. "Back when I was in poly, IT was experiencing a 'peak' of sorts with the e-commerce boom. My switch to studying Accountancy in university came about because the two fields are complementary. IT is everywhere, across all business sectors, so naturally, Accounting has to change with it," says Mr Tan.

By the time his wife opened the FFL eatery in Changi in 2015, Mr Tan had spent nearly a decade in the working world and had built up his business acumen on the job. After the Auditor-General's Office, he had joined a statutory board and then moved on to Singapore Polytechnic (SP)'s School of Business. The then-full-time lecturer played a supporting role from the sidelines as he helped his wife get her restaurant up and running.

It was not plain sailing, however, especially at the start. "I helped my wife out a bit in strategising how to improve the business, but things were quite tough during that first year," Mr Tan admits. So it was a stroke of luck that about nine months in, a blogger came to the restaurant and wrote a positive review about it. Almost overnight, customers started coming in and, through word of mouth, the restaurant grew.

Motivated by the success of FFL, Mr Tan decided in 2017 to scale back his teaching load at SP and join the business full-time. The last two years have seen the couple expand the Group to its current

Kelvin Tan, CA (Singapore), Co-owner, FFL Group

> "The CA qualification is like a badge of honour. By having this printed on my name card, I've found that it's easier to gain people's attention and respect. People are more willing to talk to me."

"To me, success is about setting personal goals and working towards them so that when you retire, you can look back with pride on all that you've done. Ask yourself what you really want to achieve at the end of the day; set your own goals, and aim for that."

CAREER HIGHLIGHTS

2008
IT Auditor, Auditor-General's Office

2011
Business Development Assistant Manager, Infocomm Development Authority of Singapore (now Infocomm Media Development Authority)

2012 to Present
Lecturer (now Adjunct Lecturer), Singapore Polytechnic

2017 to Present
Co-owner, FFL Group

three outlets, each with a unique concept and a different customer profile. The original Changi outlet, with its bright, fruit-inspired décor and offerings, pulls in mostly parents with young children. Platform 1094, also known as the "Harry Potter-themed café", draws a fair share of curious tourists and fans of the book series to its Serangoon Road location. Herit8ge, which was launched last year at Jewel Changi Airport, tends to attract more mature customers.

"Because of our prior experience with the first Fresh Fruits Lab, things were smoother the second and third time around. We knew how to attract customers better, for example, by sending out press releases and posting on social media. We've also become more active in the networking scene, which has helped us gain valuable feedback and investment," says Mr Tan. Being an ISCA member is a plus point during networking sessions, he adds. "The Chartered Accountant (CA) qualification is like a badge of honour. By having this printed on my name card, I've found that it's easier to gain people's attention and respect. People are more willing to talk to me."

The day-to-day running of the business is shared between Mr Tan and his wife. She manages the operational side of things, while he handles administrative tasks such as marketing and looking for new business opportunities. He has also utilised IT to optimise front-end and back-end operations. "Using government grants, we set up an iPad ordering system and a cloud-based point-of-sale system. Our accounting and social media marketing systems are also in the cloud," says Mr Tan.

Data analytics is another important technology for the business. For example, run charts created from sales data have enabled Mr Tan and his wife to identify peak periods, to help improve manpower planning. They have also used data analytics to determine which dishes are selling better than others, so that they can tweak the menu accordingly.

Like all F&B businesses, the main challenge for FFL Group is bringing customers through their door. "New outlets are opening and closing all the time, and to some extent, the economy also influences whether people eat out or eat at home," says Mr Tan. There is also the "time-consuming" work involved in managing three distinct concepts, which requires as many menus, marketing strategies and other business considerations. On that score, the insights gleaned from data analytics can help them make more informed decisions.

NURTURING YOUNG MINDS

While Mr Tan's efforts are now concentrated on FFL Group, he is not ready to quit teaching altogether, which explains why he continues to teach in an adjunct capacity. "I love working with young people. As a lecturer, I get to teach them relevant skills based on my own experiences. I teach them how to run a business and the skills they will need," he says.

Mr Tan's teaching career began in 2012 on the recommendation of one of his Master's degree course mates – a lecturer at SP – who told him about a job opening there and encouraged him to apply for it. "At the time, the poly was looking for someone to teach Accountancy as well as run its Student Development department. The latter involved organising student leadership camps and interacting closely with students, so they felt a younger person like myself would be more suited for the role," recalls Mr Tan. He believes that having the CA qualification also helped him land the position.

It did not take long for Mr Tan to discover that he enjoys connecting with young people and preparing them for the future. He has, to date, taught various courses including Accountancy, Analytics and more recently (after becoming a co-owner of FFL Group), Entrepreneurship. His teaching commitments usually take up about 10 hours a week. Coupled with his responsibilities running FFL Group, Mr Tan certainly keeps a busy schedule. Nonetheless, he manages to find time for leisure pursuits such as travelling with family and friends, typically during semester breaks. "Many of the part-time waiters and waitresses at our restaurants are actually my students. I also engage interns from my class, to expose them to the business world and show them what SMEs do. For example, I bring them with me to business meetings and involve them in marketing campaigns," says Mr Tan. "This creates a win-win situation – the students get to learn from me and at the same time, they also contribute to my business."

In particular, he hopes young and aspiring accountancy professionals will absorb two key pieces of advice. The first is to be open to learning new things. "Data analytics is very exciting and there is a lot of use of analytics in the working world these days. However, I don't see many young professionals – especially in the accountancy field – who are willing to learn the technical or IT skills required for analytics. They need to embrace learning and upgrade their skills," says Mr Tan.

The second is to define success on their own terms. "To many people, success is about money or climbing up the corporate ladder. But that's not necessarily true. If it were, I would've joined a Big Four firm," he points out. "To me, success is about setting personal goals and working towards them so that when you retire, you can look back with pride on all that you've done. Ask yourself what you really want to achieve at the end of the day; set your own goals, and aim for that."

So how would Mr Tan evaluate his efforts thus far in reaching his personal goal to nurture and guide the young? "I would say I'm about halfway successful, but I still have a long way to go!" ISCA

BY LIM JU MAY, FELICIA TAY, DONAPHAN BOEY AND MARCUS CHAN

RISING TO THE CHALLENGES OF FINANCIAL REPORTING

Codification Framework And Guidances On Property Valuation And Cryptoassets Issued

SINGAPORE'S FINANCIAL REPORTING LANDSCAPE has witnessed many changes during the last decade. Most notably, 2018 and 2019 saw Singapore embracing full convergence with the International Financial Reporting Standards (IFRS) and three new accounting standards – Singapore Financial Reporting Standard (International) or SFRS(I) 9 *Financial Instruments*, SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 16 *Leases*. With change comes challenges in the form of practical issues faced by the accountancy profession in applying and implementing these new standards.

ISCA, through its Financial Reporting Committee (FRC), is committed to support the accountancy profession in rising to these challenges in order to continue to uphold technical excellence. FRC's initiatives cover three broad areas: (i) contribution towards the global accounting standard-setting process via submission of comment letters featuring Singapore's perspective to the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC); (ii) issuance of ISCA guidances to address application and implementation challenges, and to promulgate ISCA's views and best practices in areas with divergence in practice or uncertainties faced by the profession, and (iii) reaching out to ISCA members and the profession via seminars and focus group sessions.

With the objective of reaching out to ISCA members and the profession and keeping them abreast of emerging trends and developments impacting the profession, FRC and the ASEAN Federation of Accountants (AFA) jointly organised the ISCA FRC-AFA Financial Reporting & Business Conference (the Conference) at One Farrer Hotel on 26 November 2019. The participants included delegates and business leaders from the 10 ASEAN countries and senior members of the Singapore accountancy profession.

At the Conference, Reinhard Klemmer, Chairman of FRC and FRC Core Sub-Committee and Partner, KPMG Singapore, and several FRC members shared useful insights into the application challenges arising from IFRS 9[1] and IFRS 16[2]; these insights aided the profession to be better prepared for regulatory inspections as they included updates on areas of review focus and common pitfalls to avoid in financial reporting. The Conference also featured the issuance of:

- the ISCA Financial Reporting Codification Framework for technical contents on financial reporting;
- Financial Reporting Guidance (FRG) 1 "Real Property Valuation for Financial Reporting – Best practices when engaging valuers: Considerations for Scope of Work and Valuation Report", which sets out best practices when engaging valuers for financial reporting, and
- Exposure Draft ED FRG 2 "Accounting for Cryptoassets: From a Holder's Perspective", which sets out considerations in the accounting of cryptoassets from a holder's perspective.

Below are some of the more interesting salient matters discussed at the Conference.

Central Business District, Singapore.

PHOTO SHUTTERSTOCK

MESSAGE FROM FRC CHAIRMAN

One of FRC's broad initiatives is the issuance of guidance to provide technical support to members and the profession. The guidance includes Technical Bites[3], guidance publications[4] and articles in the *IS Chartered Accountant Journal*.

With the aim of formalising the various ISCA financial reporting technical contents, the ISCA Financial Reporting Codification Framework (Framework) was developed and issued. The Framework establishes formalised categorisations, degrees of authority and a due process for future issuance of ISCA's technical content. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework organises technical content into three categories:
(i) Financial Reporting Practice (FRP);
(ii) Financial Reporting Guidance (FRG);
(iii) Financial Reporting Bulletin (FRB).

[1] IFRS 9 is identical to SFRS(I) 9 *Financial Instruments* and FRS 109 *Financial Instruments*
[2] IFRS 16 is identical to SFRS(I) 16 *Leases* and FRS 116 *Leases*
[3] Technical Bites, Knowledge Centre, ISCA website
[4] Practical Guidances, Knowledge Centre, ISCA website

A ISCA President Kon Yin Tong (3rd from left) with speakers (from left) Kok Moi Lre, Prof Chua Kim Chiu, Reinhard Klemmer, Chan Yen San and Lie Kok Keong

With the Framework in place, members of the public will have the opportunity to provide comments and feedback when exposure drafts (EDs) of technical content for FRPs and FRGs are issued. This due process would facilitate the consideration of comments from the public which will in turn result in better adoption and application of the guidance by the financial reporting ecosystem.

FRG 1 and ED FRG 2 were issued under the new Framework. Mr Klemmer shone the spotlight on ED FRG 2[5], which is intended to fill the gap in accounting for cryptoassets as such assets are currently not explicitly within the scope of any IFRS Standard. Guidance on accounting for cryptoassets from the issuer's perspective would be the subject of a separate FRG expected to be issued at a later date.

The latest financial reporting developments, including Interest Rate Benchmark (IBOR) Reform and IBOR developments in Singapore, and recent agenda decisions published by IFRIC, were shared with the participants. Agenda decisions[6] were highlighted as they contain useful explanatory materials on how to apply certain principles and requirements in the IFRS Standards to the question/issue that was submitted to IFRIC. The objective of including explanatory material in agenda decisions is to improve consistency in the application of IFRS Standards.

GRASPING THE PRINCIPLES OF SPPI TEST IN IFRS 9

IFRS 9 *Financial Instruments* fundamentally rewrites the accounting rules for financial instruments. One key change is the introduction of a new concept in the classification of financial assets – the Solely Payments of Principal and Interest on the principal amount outstanding (SPPI) test.

Chua Kim Chiu, a member of FRC Core Sub-Committee and SFRS(I) 9 Working Group, immediate-past Chairman of FRC, and Professor (Practice) at NUS Business School, explained the principles to consider when performing the SPPI test (Figure 1) and highlighted the implications of "passing" or "failing" the SPPI test.

Prof Chua also expounded several Singapore-specific challenges[7] arising from the application of the SPPI test. One such application challenge is whether debt instruments with interest rates that are referenced to the Singapore Interbank Offered Rate (SIBOR) or Swap Offer Rate (SOR) would pass the SPPI test. For a SIBOR-based financial asset, it is clear that it is consistent with a basic lending arrangement and meets the SPPI test. For a SOR-based financial asset, the SFRS(I) 9 *Financial Instruments* Working Group had deliberated over the nature of SOR and concluded that a SOR-based financial asset is consistent with a basic lending arrangement and meets the SPPI test.

Prof Chua ended his presentation by reiterating the two key considerations in assessing whether a financial asset meets SPPI:

- Is the reference interest rate (the time value of money element) of the financial asset's interest rate "modified"?
- Is there any embedded contractual term that could change the timing or amount of contractual cash flows such that they are no longer SPPI?

INSIGHTS INTO REAL PROPERTY VALUATION FOR FINANCIAL REPORTING

As real estate assets such as land and buildings are often significant assets of companies, it would be beneficial for all involved parties (that is, the valuer, the preparer company and the auditor) to have a clear understanding of the valuation process of these real estate assets and the requirements of the relevant accounting standards. This would help to bridge the expectation gap and facilitate a smooth valuation process. Therefore, FRG 1 was issued to facilitate the valuation process for real property valuation that is intended to be used for financial reporting under SFRS(I)s or Singapore Financial Reporting Standards.

Lie Kok Keong, a member of FRC, Chairman of FRC Valuation Sub-Committee, and Partner at PricewaterhouseCoopers Ltd, shared on practical issues and pain points typically encountered by the parties involved in the valuation process when reporting real property interests at their fair value. He then walked the audience through FRG 1 and communicated how these issues were addressed by the FRG.

One of the practical issues is the use of valuation reports which are not fit for financial reporting purposes. For instance, the valuation report was not prepared using "fair value" as the basis of value (example, market value). The use of such basis does not meet the requirements of SFRS(I) 13. To address this, timely agreement of the scope of work is key.

FRG 1 highlights best practices for preparers when engaging the valuers, which include setting out a recommended workflow of the engagement process with the valuer and the auditor; stipulating matters to be considered in the scope of work and valuation report, and recommending that known limitations and contentious issues should be discussed upfront. Most importantly, FRG 1 emphasises that the basis used in valuation reports that are being used for financial reporting can only be fair value as required under SFRS (I) 13.

THE NEW LEASES STANDARD IS UPON US; ARE YOU READY FOR IT?

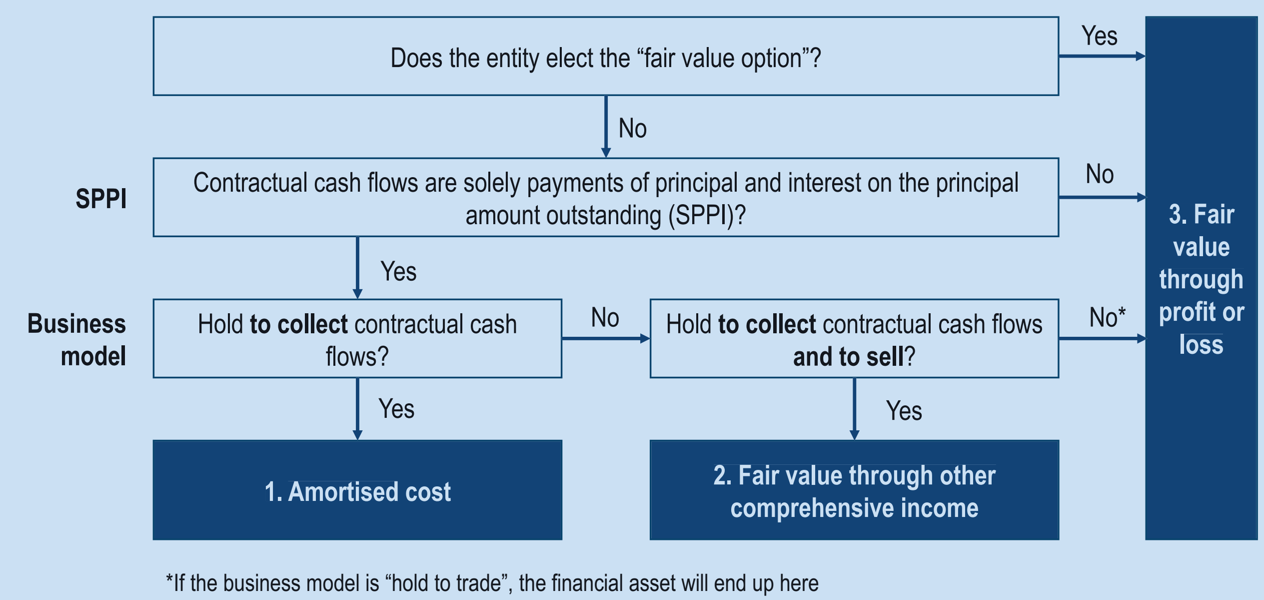
IFRS 16 *Leases* is effective from 1 January 2019 and almost all "operating leases" are now required to be recognised as lease liabilities and right-of-use assets on the balance sheet. The concept of recognising leases on balance sheet is not new as lessees are already required to recognise "finance leases" on balance sheet under IAS 17 *Leases*. However, a magnitude of challenges arises on the application of IFRS 16. Chan Yen San, a member of FRC and FRC Core Sub-Committee, and Partner at KPMG Singapore, expounded on several pressing common application issues faced by entities and provided practical tips to aid entities in addressing them.

The application issues highlighted were:

- What is a lease?
- What is the lease term?
- How are variable rent leases with JTC Corporation accounted for under IFRS 16?
- How to determine the appropriate discount rate?
- Does a right-of-use asset need to be assessed for impairment?
- Are there deferred tax implications arising from IFRS 16?

In addressing the above issues, Ms Chan shared on (i) past ISCA

Figure 1 Classification of financial assets under IFRS 9 – three categories



[5] FRG 2 was finalised and issued in March 2020

[6] How The IFRS Interpretations Committee Helps Implementation, IFRS website

[7] The Singapore-specific application challenges were deliberated on by the SFRS(I) 9 Working Group that was formed under the FRC. The deliberations are shared in a series of five Technical Bites issued by ISCA in February 2019; they can be found at Technical Bites, Knowledge Centre, ISCA website.

Figure 2

Leases Roadmap

Roadblock 1: Is there an identified asset? If NO, the journey ends. If YES, proceed to Roadblock 1A.

Roadblock 1A: Does the supplier have substantive asset substitution rights? If YES, the journey ends. If NO, proceed to Roadblock 2.

Roadblock 2: Does the customer have the right to control the use of the identified asset? If YES, the contract contains a lease.

Roadblock 2A: Does the customer have the right to obtain "substantially all" of the economic benefits from the use of the identified asset? If NO, the journey ends. If YES, proceed to Roadblock 2B.

Roadblock 2B: Does the customer have the right to direct the use of the identified asset? If NO, the journey ends. If YES, the contract contains a lease.

Roadblock 2B(i): Does the customer have the right to direct how and for what purpose the asset is used throughout the period of use? If YES, the contract contains a lease. If NO, consider Roadblock 2B(ii).

Roadblock 2B(ii): Are the relevant decisions about how and for what purpose the asset is used predetermined? If YES, (i) does the customer have the right to operate the identified asset throughout the period of use without the supplier having the right to change those operating instructions, or (ii) did the customer design the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use? If YES to either (i) or (ii), the customer can still direct the use of the asset and hence, the contract contains a lease.

guidances that were issued such as the Leases Roadmap (Figure 2) which provides instructions to negotiate the roadblocks in the journey to determine whether there exists a lease at the end of the road; (ii) relevant agenda decisions published by IFRIC, and (iii) key considerations that entities should take note of.

KNOWING THE AREAS OF REVIEW FOCUS AND AVOIDING COMMON PITFALLS IN FINANCIAL REPORTING

Kok Moi Lre, Chairperson of ISCA Financial Statements Review Committee (FSRC), a member of FRC Core Sub-Committee, and Partner at PricewaterhouseCoopers LLP, introduced FSRC and its collaboration with the Accounting and Corporate Regulatory Authority (ACRA) on ACRA's Financial Reporting Surveillance Programme (FRSP). The FRSP aims to enhance the quality of financial reporting in Singapore through the review of financial statements, which are conducted through FSRC which comprises 12 experienced senior practitioners from the accountancy sector. FSRC would share its observations on potential non-compliances in the financial statements with ACRA, which would then deliberate and take enforcement actions under the Companies Act if necessary.

To aid directors in their review of financial statements through highlighting areas of possible reporting misstatements, areas of review focus have been regularly published by ACRA.[8] For FY2019 financial statements, the areas of review focus are:

1. Accounting standards that took effect recently
   - SFRS(I) 16/FRS 116 *Leases* – specific areas include whether a contract contains a lease, lease term, amount of lease liability to be recorded, variable rents payable to JTC Corporation, and presentation and disclosure;
   - SFRS (I) INT 23 *Uncertainty over Income Tax Treatments (2019)* – more guidance provided on when and how to provide for uncertain tax provisions;
   - SFRS(I) 15/FRS 115 *Revenue from Contracts with Customers (2018)* – specific areas include variable consideration, significant financing component, borrowing costs for uncompleted properties and disclosure of aggregated revenue;
   - SFRS(I) 9/FRS 109 *Financial Instruments* – specific areas include fair valuation of unquoted equities and new impairment loss model;
2. Impairment assessment – common challenges in estimating future cash flows;
3. Business acquisitions – separating intangible assets from goodwill.

Ms Kok walked the participants through some of the above areas of review focus with the use of simple examples to illustrate the principles and requirements of the respective financial reporting standards. As the above areas are highly judgemental, the appropriate accounting of each transaction would depend heavily on the facts and circumstances of the entity. Directors should be prepared to ask relevant questions so as to ensure appropriateness of the accounting and related disclosures in the financial statements.

Q&A SESSION

During the ensuing Q&A session, Mr Klemmer, Mr Lie, Ms Chan and Ms Kok fielded questions from the floor including:

- How relevant are the issues discussed this morning to the other countries in the region?
- In determining the discount rates for leases, what are some possible online sources of information which could be used?
- What are the key differences between market value and fair value?
- Are entities expected to state compliance with the FRGs in their financial statements?

CONCLUDING REMARKS

The old adage rings true: the only constant is change. The accountancy profession must continually rise to the challenges brought about by changes to the financial reporting landscape. ISCA will continue to address these challenges through the issuance of technical content and outreach. ISCA

Lim Ju May is Deputy Director, Technical, ISCA; Felicia Tay, Donaphan Boey and Marcus Chan are from Financial & Corporate Reporting, Technical, ISCA.

[8] Financial Reporting Practice Guidance No.2 of 2019 (issued on 21 November 2019)

PHOTO SHUTTERSTOCK

BY ROBYN ERSKINE AND JOHNNY YONG

PERFORMANCE AND FINANCIAL MANAGEMENT

Key Factors For SMEs' Survival In A Volatile Environment

ACCORDING TO THE SMALL BUSINESS ADMINISTRATION (SBA), 80% of small businesses established between 2005 and 2017 survived past their first anniversary. Unfortunately, only about half of these businesses see their fifth anniversary, and only one in three small businesses typically get to the 10-year mark. While data cited here is for the United States, other studies suggest a similar trend globally.

These statistics are a cause for concern. According to the World Trade Organization, SMEs represent over 90% of the business population, 60% to 70% of the employment base, and 55% of gross domestic product (GDP) in developed economies. Additionally, a 2017 OECD Report claims SMEs can contribute as much as 45% of total employment and 33% of GDP in emerging economies.

While there are a variety of reasons why SMEs ultimately fail, financial management skills and performance are two of the most often-cited explanations. Small and medium-sized practices (SMPs) can play a critical role in helping these SMEs to navigate an increasingly volatile operating environment.

THE IMPORTANCE OF PERFORMANCE AND FINANCIAL MANAGEMENT

Studies suggest low financial literacy levels and a lack of financial discipline may be reasons for the poor track record of SMEs.[1] Small businesses can make poor decisions due to their inability to identify key metrics for their business performance.

IFAC research[2] highlights that accountants from SMPs are the most frequently utilised source of business advice for SMEs. Furthermore, accountancy or business advice received by SMEs from SMPs is associated with better performance, for example, improved growth and profitability, better survival rates and decision-making.

In addition, the literature review, "The Role of SMPs in Providing Business Support to SMEs — New Evidence", highlighted that:

- Factors driving SMEs' demand for business advice from SMPs, among others, include company-related factors (that is, size, debt, age, growth, and available resources) and environment-related factors (that is, economic conditions, including regulations and competition);
- Market segmentation (example, startups, growth ambitions, etc) will impact the demand and type of advice provided;
- SMEs seeking business advice tend to be larger and younger and carry higher levels of debt or have greater aspirations to obtain new funding.

SMPs can serve as trusted advisers and are the ideal partner to help nurture, grow and develop SME clients. Helping clients build strong, successful businesses can also lead to new income streams for SMPs. For example, many organisations struggle to prepare accurate and meaningful financial accounts. SMPs can play a critical role in helping prepare these accounts, while also providing the context found within the numbers. For many owners, simply having someone "demystify" the financial information and provide meaning to the numbers allow them to make informed decisions regarding their future operations.

... accountancy or business advice received by SMEs from SMPs is associated with better performance, for example, improved growth and profitability, better survival rates and decision-making.

[1] "OECD/INFE International Survey Of Adult Financial Literacy Competencies" (2016), OECD
[2] "The Relationship Between Accountancy Expertise And Business Performance" (2016), IFAC

The examples and key SME concerns elaborated below are a result of discussions at recent IFAC SMP Committee meetings which involve practitioners from around the world sharing their perspectives and insights. The examples demonstrate how SMPs help SMEs to ensure they're running their businesses efficiently:

- An SME is experiencing falling profits and increasing write-offs due to bad debts. An initial review determines poor credit control being exercised by the business as the culprit. While sales are increasing, the customers are not credit-worthy (hence, the increase in bad debts, which in turn affects profits). The practitioner is able to understand this outcome and suggests actions to help correct the situation.
- An SME's financial performance is deteriorating due to an increase in stock levels caused by a slowing sales environment. The SMP advises on the cashflow risks associated with too much of the company's resources being tied up in stock, as well as the increased risk of stock obsolescence that can result in an inability to sell the stock. The practitioner is able to identify these issues quickly and suggest strategies to manage the stockholding before it reaches an unhealthy level.
- An SME, which has been operating for several years, posts weaker-than-normal results and suggests that it is due to competition and price undercutting. The SMP helps the organisation's management to develop a series of short-, medium- and long-term strategic plans. The plans are refreshed on a regular basis to ensure they are nimble and thoughtful in responding to competition and price undercutting. These strategies help to reverse the company's sliding fortune over time.
- An SME approaches an SMP on ways to enhance its business performance. The SMP establishes a proper financial accounting and reporting system (complete with profitability margins, expense ratios, cashflows, taxes and capital investments) which can be easily monitored. The owner finds a regular review of these indicators particularly insightful and, armed with accurate, insightful data, is now more confident in making decisions.
- The management of an SME consults with an SMP because they have decided to exit the business. Often, in a situation that requires quick disposal, businesses cannot be expected to realise a "good" value. However, with guidance from the practitioner, the management can develop and initiate a viable planned exit strategy which leads to a better valuation for the business.[3]

[3] "Encouraging Successful Exit Strategies – Passing The Baton" (2019), IFAC

[4] "IFAC Global SMP Survey: 2018 Summary", IFAC

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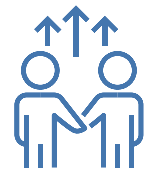


SMPs can serve as trusted advisers and are the ideal partner to help nurture, grow and develop SME clients. Helping clients build strong, successful businesses can also lead to new income streams for SMPs.

TOP TIPS: WHAT ARE SMES' MAIN CONCERNS?

Below are some common questions asked by SME clients and what SMPs can do to help:

Profitability vs cashflows

Q My business is profitable, so why do I not have more cash in my bank account?

A One of the big puzzles for many SMEs is the difference between profitability and cashflow. While an SME may see an increase in sales and in turn, profit, much of the actual cash could be tied up in receivables or inventories. This is usually true for many growing businesses. Cashflow forecasts and projections are therefore important for business decision-making. Educating the SME on the difference between profit and cash can provide great insights and make a huge impact on the business operation. It will make the organisation more diligent in its inventory and debtors management routine at the very least.

Business competition

Q Why is my competitor more profitable than me?

A Another common misconception is the tendency to compare businesses without understanding the underlying financial ratios such as gross margin, net margin, variable and fixed costs and thus, the impact on business profitability. SMPs can show the client the importance of benchmarks (for comparison), impact of margin on sales, efficient and effective use of capital – whether fixed and/or recurring – and the leverage on the cost of financing, where applicable. Many clients also appreciate a break-even analysis for their operations and how changes of product mix, for example, will produce a different set of results.

Access to finance

Q How can I finance my operations more efficiently? Or, I don't have capital for further expansion.

A Access to finance can be a challenge for SMEs. This can be due to their limited capital base and lack of a track record or due to the current economic climate of that region. The preparation of cashflow forecasts and projections with various scenarios, leveraging on the use of financing, are important for many SMEs. With a credible forecast and projection coupled with good documentation and a compelling business plan, SMEs can have easier access to finance from the credit provider.

Taxation exposure

Q How can I minimise my taxes? What is the impact of the recent tax legislation on my business?

A Death and taxes are the two constants in life. It is therefore not surprising for SMEs to be asking such questions. In other instances, the corporate vehicle or tax structure may need to evolve as the business grows. SMPs can discuss this with their clients, at a certain point of the SME's evolution. Preparation (for the entrepreneur) is important to ensure long-term success of the business.

Use of technology

The "2018 IFAC Global SMP Survey"[4] found that 86% of SMPs provided some form of advisory/consulting service with 50% providing management accounting (example, planning, performance, risk management and internal control, budgeting). Many of these SMPs have started to use technology tools and data analytics when providing advice to their SME clients. With better tools and data, more predictive analytics can be made available at a faster rate.

CONCLUSION

Running an SME can be very challenging and the early failure rates are daunting. But SMEs are absolutely critical to every nation's economic prosperity. Therefore, they need all the help they can get to make sure they are successful. The research confirms that the odds of survival are significantly increased if the SME had received professional expert advice from its trusted SMP – and the earlier the better. ISCA

Robyn Erskine is Partner, Brooke Bird, and Johnny Yong is Technical Manager, Global Accountancy Professional Support, IFAC. This article was first published by IFAC.

PHOTO SHUTTERSTOCK

BY DR ANG HAK SENG

COLLABORATING AS ONE COMMUNITY

Charity Sector Progresses Towards Next Stage Of Development

THE CHARITY SECTOR SHOULD BE ONE BIG FAMILY, bound by our shared purpose to serve the community so that no one is left behind. To build a thriving and trusted charity sector, I have written about its evolution from "regulation" to "co-regulation", which was published in the December 2019 issue of this ***IS Chartered Accountant Journal***. However, that is not the end of the journey. The next step is going to be even more crucial as the sector moves from "co-regulation" to "collaboration", which is working as One Family, One Community (Figure 1).

WHY COLLABORATE?

As the saying goes, "It takes a village to raise a child." In the same vein, "It takes a concerted community to help those in need." With the social tapestry becoming more complex, including challenges such as Singapore's aging population and other issues, we need to collaborate more.

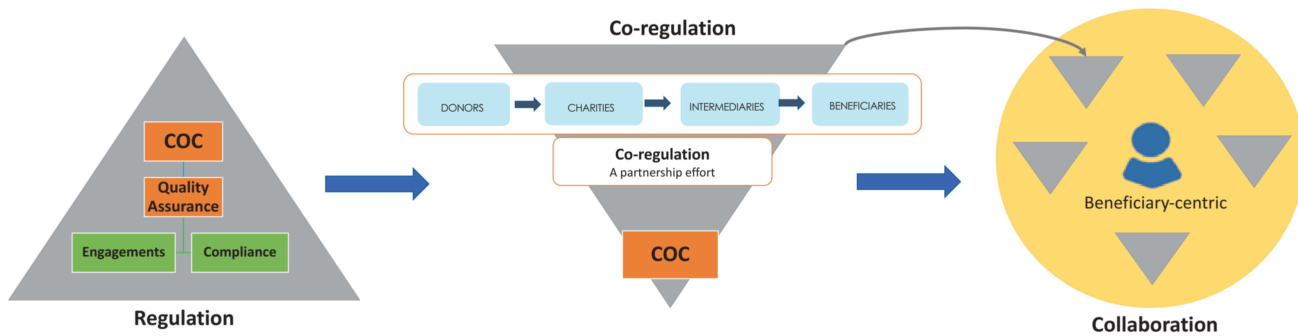
To illustrate the complicated social issues faced by our community these days, let's look at a real-life example of an elderly who lives alone. He or she has just been discharged from the hospital due to a minor stroke. What assistance would he/she require to attain the "best" recovery process?

- **Medical assistance.** A medical escort would be necessary to accompany the elderly for followup medical reviews and physiotherapy appointments. Assistance would also be required to ensure that the elderly knows what medication to take and when to take it.
- **Food assistance.** Meal delivery services would provide the elderly with healthy meals, noting that the elderly may face physical challenges cooking or even buying food from nearby coffeeshops.
- **Emotional assistance.** To ensure that the elderly does not feel isolated in the entire recovery process, befriending services would be necessary for regular checkins and to see that the elderly is adapting well to the lifestyle changes. To facilitate a quick and sustained recovery, the elderly could also be linked up with nearby social groups to encourage an active lifestyle.

The example earlier proves that social issues are complex and require multiple community partners to lend a hand. If charities work in silos, our society will have a disparity between the underserved and overserved segments. Therefore, collaborating is no longer a good-to-have but a must-have. I posit that collaboration will not only benefit the community at large, it is also beneficial to the charity organisation.

First, it will improve service delivery. When charity organisations collaborate, service delivery will improve, and organisations will be able to effectively address complex issues. This can be done by tapping on the strengths of other community partners through close partnership. Furthermore, by collaborating, charities provide a deeper sense of purpose to volunteers. For example, charities that conduct food distribution drives may target different festive seasons during various parts of the year so that they can tap on a shared pool of volunteers. Not only are the resources optimised, such sharing can elevate the

Figure 1 From Regulation to Co-regulation to Collaboration



sense of purpose among the volunteers as they have more opportunities to serve the community, regardless of charity groups. Through collaboration, resources are optimised, and service delivery can be made more seamless for the beneficiary.

Second, collaboration will also help to drive costs down and increase efficiency. One of the common challenges faced by charities is resource constraint. Hence, one solution to explore is the pooling of resources through collaboration while tapping on the pervasive nature of technology. For example, a common operating system could be adopted by many charities with similar nature of work and requirements. This not only eliminates the need for each charity to pay the cost of individually creating, operating and maintaining the operating system, it allows for more collaboration and data sharing.

Third, with collaboration, charities can also increase access to funds. When collaboration occurs, programmes could be better developed to meet a greater need in the communities and hence, result in stronger service delivery with more impact on the ground. Collaboration enables the creation of sustainable value. Value creation is something that attracts philanthropists and persuades investors as they are increasingly investing in causes that have a positive and significant impact on society.

Through collaboration, resources are optimised, and service delivery can be made more seamless for the beneficiary.

THREE WAYS TO COLLABORATE

Moving from co-regulation to collaboration is a journey that we walk together. Together, we can work on areas to (1) motivate collaboration, (2) enable collaboration, and (3) facilitate collaboration (Table 1).

Table 1 Three ways for collaboration

What to do:	How to do it:
(1) Motivate collaboration (shared purpose)	Develop cause-specific indicators
	Provide training
(2) Enable collaboration (shared structure)	Increase funding support
	Increase use of technology
(3) Facilitate collaboration (shared processes)	Encourage networking
	Share information

(1) Motivate collaboration

Develop cause-specific indicators

To increase motivation to collaborate, each charity cannot view itself as a separate entity. Instead of always focusing on the success of each individual charity, there should be *cause-specific indicators* that track the progress of the charities that help a specific cause or area. For example, if a charity's focus area is on eldercare, instead of it being fixated on its donation amount and number of volunteers, there is a need to know the total number of elderly persons the charity serves in the area, and the total volunteer and donation numbers for this cause. Through such figures, we will be able to understand the needs and be motivated to collaborate more.

There is an impetus to bring cause-specific indicators to charities' attention so as to nudge the sector to work towards having and achieving joint goals.

Provide training

To collaborate effectively, there is a need to upskill. This will be done by first understanding your needs and knowing what areas and skills your charity requires to best meet the needs of the beneficiaries. This can range from IT skills to volunteer management skills.

In addition to skills-based training, charities should embark on a different approach to tackle complex issues and solve problems. *Design-thinking workshops* will be useful in developing beneficiary-centric solutions and it should cover crucial areas such as:

- create and identify synergies among charities;
- understand the root cause of an issue;
- exercise a divergence and convergence of thinking to come up with solutions, and
- work together to implement the solutions.

(2) Enable collaboration

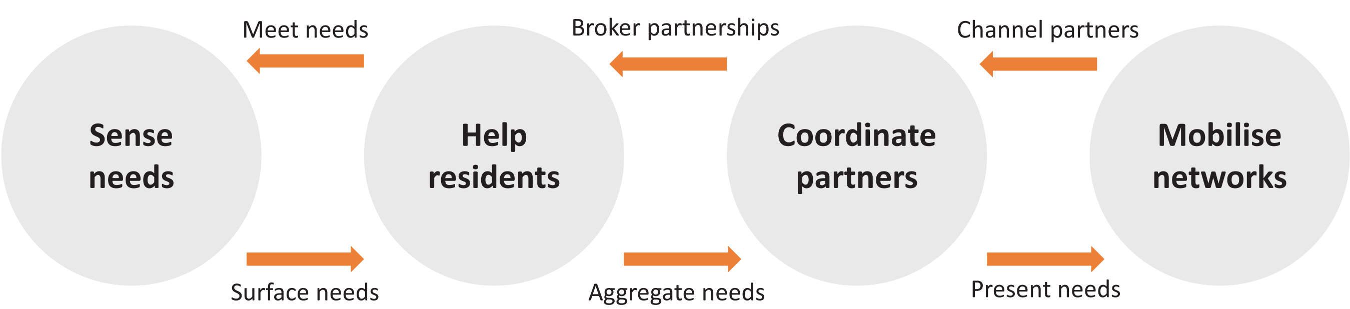
Increase funding support

Motivation alone is not enough to achieve collaboration. We will also seek to enable more collaboration through the refinement of current processes. One way to do this is by *increasing funding to support more collaborative efforts*. In time to come, focus will be shifted to providing grants and funding to charities with collaborative programmes that strengthen service delivery and outreach. In addition, grants could be provided to charities that step up to be a charity cause-based coordinator. These charity coordinators will have deep knowledge of the needs in a geographic area in relation to a specific cause. This will allow them to:

- coordinate efforts among charities more effectively;
- identify and refer volunteers to the right charities;
- train other charities and volunteers to best meet the needs of beneficiaries, and
- de-conflict work and events to optimise efforts.

This takes reference from the SG Cares Volunteer Centres (VCs) where some community partners are chosen as VCs to sense needs, initiate programmes, coordinate partners and mobilise networks (Figure 2). To illustrate the effectiveness of such collaboration, after Loving Heart Multi-Service Centre (Jurong East) was identified as a VC at end-2018, there was an 800% increase in engaged volunteers and a 100% increase in new partnerships forged. More importantly, this led to an increase in the number of beneficiaries – bearing strong testimony that collaboration can help to enhance outreach and impact.

Figure 2 Charity coordinators can take reference from SG Cares Volunteer and SG Cares Community Network Centres



SG Cares Community Network Session at Yishun

Increase use of technology

Technology should be leveraged to enable collaboration. There are providers in the market that have basic IT tools that help operations to be cost- and time-efficient. For example, iShine Cloud is currently working with the charity sector on cloud-based services for areas such as accounting and human resource management. With such partners supporting the charity sector, it helps to drive the adoption of consistent technology, thus reducing time and resources for charities to individually develop and use their own volunteer management system or corporate system. With the charities utilising the common digital tools, there is a shared platform to enable collaboration.

(3) Facilitate collaboration

Encourage networking

To nudge charities along this collaboration journey, *networking sessions for charities* have been initiated, with the focus on smaller charities. By sharing your programmes, plans and challenges, we aim to spark more conversations and collaboration with one another. A good start to a collaborative journey begins with the building of relationships and trust within charities.

This takes reference from the SG Cares Community Network Sessions that are held at all 24 towns. These sessions seek to gather community partners together, facilitate discussion, partnerships and collective action to resolve local issues, as well as rationalise resources to meet community needs.

Through these networking sessions, we hope that charities that serve the same beneficiaries or causes will work together to deepen engagement and efforts on social needs. In time to come, this could lead to more formal agreements and consolidation within the sector where there will be sustainable collaboration.

Share information

With information becoming more accessible, we need to ensure *clear and transparent information sharing* among charities. Through the Charity Portal, we also want to facilitate collaboration by reflecting on the key activities that each charity is engaged in. We hope that by providing such information in an accessible and easy-to-read manner, it will encourage and facilitate more collaboration between charity organisations. By presenting the big picture, the issue of overserved and underserved segments in the communities should decrease.

CONCLUSION

The charity sector has come a long way from regulation to co-regulation and now to collaboration. As we venture on this journey, we may face some uncertainty and challenges, but we will face them together as a family. We will push forth as trailblazers – as One Community. ISCA

Dr Ang Hak Seng is Deputy Secretary (Singapore Cares), Ministry of Culture, Community and Youth; Commissioner of Charities, and Adjunct Professor, Nanyang Technological University.

BY JAYMEE NG

US FIRMS NOT COMING HOME AMID TRUMP'S TRADE WAR

They Are Heading To Low-Cost Foreign Countries

THE FOUNDATION OF THE CURRENT US ADMINISTRATION was President Donald Trump's vision of "Make America Great Again" and his promise to bring jobs back to the US. From the tariffs on US$550 billion of Chinese goods to tax cuts, President Trump was confident that his economic initiatives could bring investment and manufacturing back home. However, a recent research study by The Chinese University of Hong Kong (CUHK) Business School revealed that things did not actually go President Trump's way.

Entitled "Not Coming Home: US Trade and Global Economic Policy Uncertainty in American Production Networks", the study was conducted by Professor Jing Wu, Assistant Professor in the Department of Decision Sciences and Managerial Economics at CUHK Business School, PhD student Miaozhe Han and Professor Ben Charoenwong, Assistant Professor of Finance at the National University of Singapore Business School.

President Trump imposed tariffs on China in the first quarter of 2018, kickstarting what is now called the US-China Trade War, which has since escalated. A phase-one deal was signed in January 2020, putting a pause to the trade dispute. "But even before the start of the trade war, President Trump sent a myriad of mixed messages on whether trade deals would be made, flipflopping between hawkish and dovish statements," said Prof Wu. Although existing academic research and policy discussions focus on the effect of tariffs on global value chains, there were few empirical studies of the effect of the uncertainty surrounding trade and other economic policy on production decisions.

On the one hand, risk-averse firms may try to diversify some uncertainty by establishing backup suppliers and customers. On the other hand, such uncertainty may disincentivise investments abroad and induce firms to bring their production networks home where they are more familiar, he said.

The researchers studied the relationship between different types of economic policy uncertainty and firm global value chains. Prof Wu and his collaborators specifically considered three types of uncertainty: American trade policy uncertainty created by the imposition of tariffs, duties, import barriers as well as government subsidies; American non-trade economic policy uncertainty from changes such as those made to tax codes and monetary and fiscal policies, and economic policy uncertainty from measures that target a specific foreign country. They aimed to find out if an increase in trade uncertainty would actually move a firm's production network home.

Another major finding from the study is that companies with more complex production chains and those that are more sensitive to the business environment in the US are more likely to take precautionary measures and relocate production elsewhere long before the actual trade dispute takes place.

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> **"We find that a rise in economic and policy uncertainty is destructive to corporate value.** This negative impact would propagate to other companies through the supply chain, who do not directly connect with countries with uncertainty. The relocation of supply chains to countries or regions with less uncertainty is also costly."

OVERSEAS TILT

"Contrary to the hypothesis that firms move production back home as it is more 'safe', we find an increase in US trade policy uncertainty tilts the production process of American firms overseas," Prof Wu said. The share of domestic suppliers decreases relative to foreign suppliers, primarily due to an increase in the number of foreign supplier relationships. "This 'not coming home' phenomenon runs counter to President Donald Trump's stated goal of moving the production of American firms back to America."

The researchers examined all publicly traded US companies from April 2003 to December 2018, using an index to measure trade policy uncertainty. The index spiked near tight presidential elections, the 9/11 attacks, the 2011 debt ceiling dispute and other significant disputes over fiscal policy.

"Our most important finding is that facing growing economic and policy uncertainty, US companies would adjust the relationship of global supply chains rather than wait for the uncertainty to turn into actual events. In the recent example of the US-China trade war, we find that the supply chain adjustment actions of American companies began from Trump's presidential campaign starting in June 2015, long before 22 March 2018, when President Trump signed a memorandum to start a trade war," explained Prof Wu.

As companies seek to diversify away from economic risks specific to a certain country – in this case China – they transfer their supply chains to regions with less uncertainty.

As an example, the researchers found that Chevron, the American multinational energy corporation, ceased its operational relationship with a handful of oil industry-related companies in China between 2015 and 2018. At the same time, Chevron also ceased operations with some 185 US suppliers including fuel and energy companies SPX and DXP. Instead, Chevron started using suppliers in other countries including Vietnam, Columbia, Spain and Sri Lanka. Other major US firms such as fashion retailer L Brands, Marriott International and Dana Holding also increased their non-Chinese foreign suppliers to up to 166% from 2014 to 2015, mostly with firms in South Korea, Vietnam and Malaysia.

"US firms reduce the domestic supplier base at a large rate and seek more suppliers overseas after Trump's election. Meanwhile, we find China, the country hit specifically by Trump's policy, suffers a lower growth rate of receiving orders from US companies, while other low-uncertainty countries in Southeast Asia, such as Vietnam and Indonesia, and South America, such as Brazil and Chile, benefit with an increase in production," Prof Wu said.

COMPLEXITY COUNTS

Another major finding from the study is that companies with more complex production chains and those that are more sensitive to the business environment in the US are more likely to take precautionary measures and relocate production elsewhere long before the actual trade dispute takes place. The study cited US multinational technology company Apple, which lowered its share of domestic suppliers from 33% in 2014 to 30% in 2016, and further to 27% in 2018.

"Because of the irreplaceability between different production chains, the instability of any link will bring damage to those companies' normal production. Thus, they are more sensitive to business environment uncertainty," Prof Wu explained.

As for increase in non-trade-related economic policy uncertainty, the study found that US firms tended to react the opposite by scaling back their foreign supply chain. The researchers argue that this is likely because economic policy that is not trade-related tends to be announced during periods of poor economic performance, when firms are seeking to scale back production, and foreign supplier relationships are more likely to be cut during such times.

Prof Wu said the same conclusion for trade policy uncertainty also applies to Chinese companies. They observed that Chinese corporations such as Sinopec, Petro China and China Southern Airlines have significantly reduced their US suppliers after 2015 but at the same time, started new supply chains in other countries such as Malaysia and Brazil.

"We find that a rise in economic and policy uncertainty is destructive to corporate value. This negative impact would propagate to other companies through the supply chain, who do not directly connect with countries with uncertainty. The relocation of supply chains to countries or regions with less uncertainty is also costly. Another difficulty may come from the shortage of factory capacity due to sudden surging orders and rising labour costs," Prof Wu commented. ISCA

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TECHNICAL HIGHLIGHTS

AUDITING AND ASSURANCE

ISCA ISSUES AGS 12 GROUP AUDITS: INACCESSIBILITY OF COMPONENT AUDITORS' WORK PAPERS AND OTHER CONSIDERATIONS

In response to the Covid-19 outbreak, ISCA has issued AGS 12, which provides guidance on reliance of the work performed by the component auditor in situations where the group engagement team has determined it to be necessary to review the component auditor's work papers but is unable to access them due to an extraordinary event which restricts travel.

AGS 12 also provides guidance on other applicable audit considerations in such extraordinary events.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2020/february/ags-12-group-audits-inaccessibility-of-component-auditors-work-papers-and-other-considerations/

REVISED AUDIT QUALITY INDICATORS DISCLOSURE FRAMEWORK

ACRA has revised the Audit Quality Indicators (AQI) Disclosure Framework in January 2020 as part of ongoing efforts to raise audit quality. The revised AQI framework comprises audit quality indicators to provide relevant and useful information to help Audit Committees in their evaluation of statutory auditors.

For more information, please visit www.acra.gov.sg/news-events/news-details/id/532

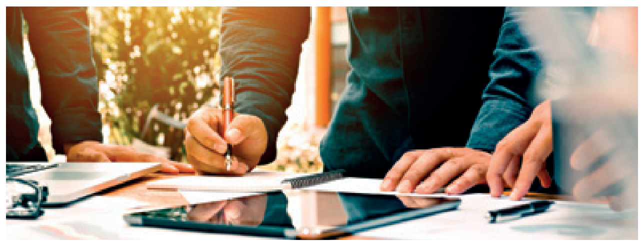
ETHICS

ISCA COMMENTS ON IESBA'S PROPOSED REVISION TO THE CODE ADDRESSING THE OBJECTIVITY OF ENGAGEMENT QUALITY REVIEWERS

We support IESBA's proposed guidance addressing the objectivity of an engagement quality reviewer (EQR) in Section 120 of the Code.

For audit clients that are public interest entities, we recommend that IESBA prescribe a cooling-off period to specifically address the situation where an individual is appointed to an EQR role after serving as the engagement partner.

For more information, please visit https://isca.org.sg/media/2824203/comment-letter-objectivity-of-eqr.pdf



ISCA ISSUES EP 100 EXPOSURE DRAFT TO ADOPT IESBA'S RESTRUCTURED CODE AND INDUCEMENT PROVISIONS

New additions include an enhanced conceptual framework, more robust safeguards provisions to address threats to fundamental principles and application guidance on professional judgement and professional scepticism.

A mapping table is included to map the existing sections in EP 100 (revised on 11 December 2019) to the corresponding sections in the proposed EP 100.

Please send your comments to technical@isca.org.sg by 23 April 2020. For more information, please visit https://isca.org.sg/ethics/ethics-headlines/ethics-headlines/2020/march/isca-issues-ep-100-exposure-draft-to-adopt-iesba-s-restructured-code-and-inducement-provisions/

ACRA ISSUES CHANGES TO ACRA CODE TO ADOPT NOCLAR PRONOUNCEMENT

ACRA has issued changes to the ACRA Code to incorporate the NOCLAR Pronouncement issued by IESBA and consequential amendments to certain sections of the ACRA Code. The changes took effect from 1 April 2020.

These changes mirror ISCA's EP 100 (Revised on 11 December 2019) which was issued on 11 December 2019 to adopt the NOCLAR Pronouncement. EP 100 (Revised on 11 December 2019) was also effective as of 1 April 2020.

For more information, please visit https://isca.org.sg/ethics/ethics-headlines/ethics-headlines/2020/march/acra-issues-changes-to-the-code-of-professional-conduct-and-ethics-for-public-accountants-and-accounting-entities/

FINANCIAL REPORTING

ISCA ISSUES FINANCIAL REPORTING GUIDANCE 2 (FRG 2) "ACCOUNTING FOR CRYPTOASSETS: FROM A HOLDER'S PERSPECTIVE"

To fill the gap in accounting for cryptoassets, FRG 2 was issued under the ISCA Financial Reporting Codification Framework after a one-month public consultation period. FRG 2 provides an understanding of the nature of the various cryptoassets and guidance on their accounting together with illustrative examples, as well as classification, measurement and disclosure considerations.

For more information, please visit https://isca.org.sg/media/2824062/frg-2-accounting-for-cryptoassets-from-a-holder-s-perspective.pdf

ISCA ISSUES FRB 1 "FAQS ON APPLICATION OF FINANCIAL REPORTING GUIDANCE 1 (FRG 1)"

In November 2019, ISCA issued FRG 1 which sets out best practices when engaging valuers for financial reporting purposes. ISCA Financial Reporting Bulletin 1 (FRB 1) addresses anticipated questions on the application of FRG 1, such as, "How soon are entities expected to apply FRG 1?" and "Are entities required to state compliance with FRG 1 in their financial statements?"

For more information, please visit https://isca.org.sg/media/2824103/frb-1-on-application-of-frg-1-final.pdf

PHOTO SHUTTERSTOCK

BY FELIX WONG AND ANGELINA TAN

TAX ARRESTS AND MORE

Tax Authority's Powers To Deal With Tax Crimes

SINCE THE COMMENCEMENT OF THE INCOME TAX (AMENDMENT) ACT 2018 and Goods and Services Tax (Amendment) Act 2018 on 12 November 2018 and 1 January 2019 respectively, the power of the Inland Revenue Authority of Singapore (IRAS) to investigate tax crimes in relation to both income tax and goods and services tax (GST) was enhanced. In addition, IRAS is also empowered to share information with other law enforcement agencies (LEAs) going forward.

Accredited Tax Advisor (Income Tax and GST) S. Sharma, Partner at Malkin & Maxwell LLP, shared his insights on IRAS' enhanced powers of investigation and the safeguards provided in the law at a recent *Tax Excellence Decoded* session titled "Tax Arrests and More"; the session was organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

Accredited Tax Advisor (Income Tax and GST) S. Sharma, Partner, Malkin & Maxwell LLP, guided participants through the nature and extent of IRAS' enhanced powers for income tax and GST

POWERS TO INVESTIGATE TAX CRIMES

Prior to the enhancements, IRAS had powers under the Income Tax Act (ITA) to require persons to provide information, record statements and take possession of documents or items that constitute evidence of tax offences, and powers under the GST Act (GSTA) to gather information (including documents) relating to a person's business transactions. These powers, however, were deemed inadequate in the evolving landscape.

Second Minister for Finance Lawrence Wong provided the government's rationale for the enhanced powers in his second reading speeches on both amendment Acts when he said, "Tax offenders and criminal syndicates are employing more sophisticated schemes to defraud the authorities. As so, enhanced investigative powers are required to more effectively deal with serious tax offenders, as well as acts of obstruction which may hamper IRAS' investigations and prosecution".

On 13 November 2019, IRAS exercised for the first time its enhanced powers to arrest alleged key members of a criminal syndicate suspected of perpetuating GST carousel fraud.[1] In a GST carousel fraud, the same goods are traded through a contrived supply chain which eventually results in the export of the goods. The exporter company would claim input GST paid on the exported goods, which is effectively seeking a refund of GST that IRAS never received in the first place. The enhanced investigative powers are aimed at allowing IRAS to deal with such criminal syndicates more effectively.

With new Sections 65B(1A), 65B(1D) and 65F of ITA and Sections 84(1A), 84(1D) and 83E of GSTA, authorised IRAS officers are now given the power of forced entry, the power to carry out body search, and the power to arrest without warrant, respectively. The Minister said that investigation officers of other tax authorities (such as in the UK and US) have similar powers to facilitate their investigations.

Powers to obtain information

In addition to the enhanced powers mentioned above, the scope of IRAS' powers to obtain information has also been expanded. IRAS is now empowered under Section 65B of ITA and Section 84 of GSTA to gather from any person all information relevant to its investigations or prosecution of tax offences (for example, information relating to a person's income or assets, business transactions or those of the accomplices').

> The enhancement to allow sharing of information with other law enforcement agencies (LEAs) facilitates a whole-of-government approach against serious crimes, and is in line with international trends where tax authorities are increasingly allowed to disclose tax information to other LEAs to combat non-tax crimes.

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[1] "IRAS Cuffs For The First Time In Island-wide Raids", 13 November 2019, Inland Revenue Authority of Singapore

SHARING OF INFORMATION WITH OTHER LEAS

Prior to the legislative amendments, IRAS was only allowed to provide information to LEAs under limited circumstances (for example, pursuant to a court order). On the basis that information may be necessary for the investigation or prosecution of serious crimes, as the activities of criminals (including syndicates) are often multifaceted and may not be limited to tax evasion, both ITA and GSTA have been amended to allow IRAS to share with other LEAs information that are relevant for the investigation or prosecution of specified serious crimes.

The enhancement to allow sharing of information with other LEAs facilitates a whole-of-government approach against serious crimes, and is in line with international trends where tax authorities are increasingly allowed to disclose tax information to other LEAs to combat non-tax crimes.

CHECKING AGAINST POSSIBLE ABUSE OF POWERS

While the government has good reasons to provide IRAS with enhanced powers to investigate and to share information, taxpayers must be cognisant of their own rights and the scope of IRAS' powers to ensure that such powers are not abused.

Fundamentally, any given power must be granted under written law and exercised within its prescribed limits. The powers of the Comptroller of Income Tax (CIT) and the Comptroller of GST (CGST) are granted under the ITA and GSTA respectively and do not arise inherently from the office held. Accordingly, they may only act within the scope of the power granted to them under the relevant tax law. The tax authorities cannot exercise such powers arbitrarily. Instead, the powers have to be exercised reasonably (with proper basis) and for proper purposes (for example, investigation purposes).

Where such power is sought to be exercised, the affected taxpayer may check the actions or proposed actions against the nature and scope of the powers granted. If the exercise of the particular power is questionable, taxpayers should review the various safeguards provided in the tax law to ascertain whether the power has been exercised properly by those authorised to do so.

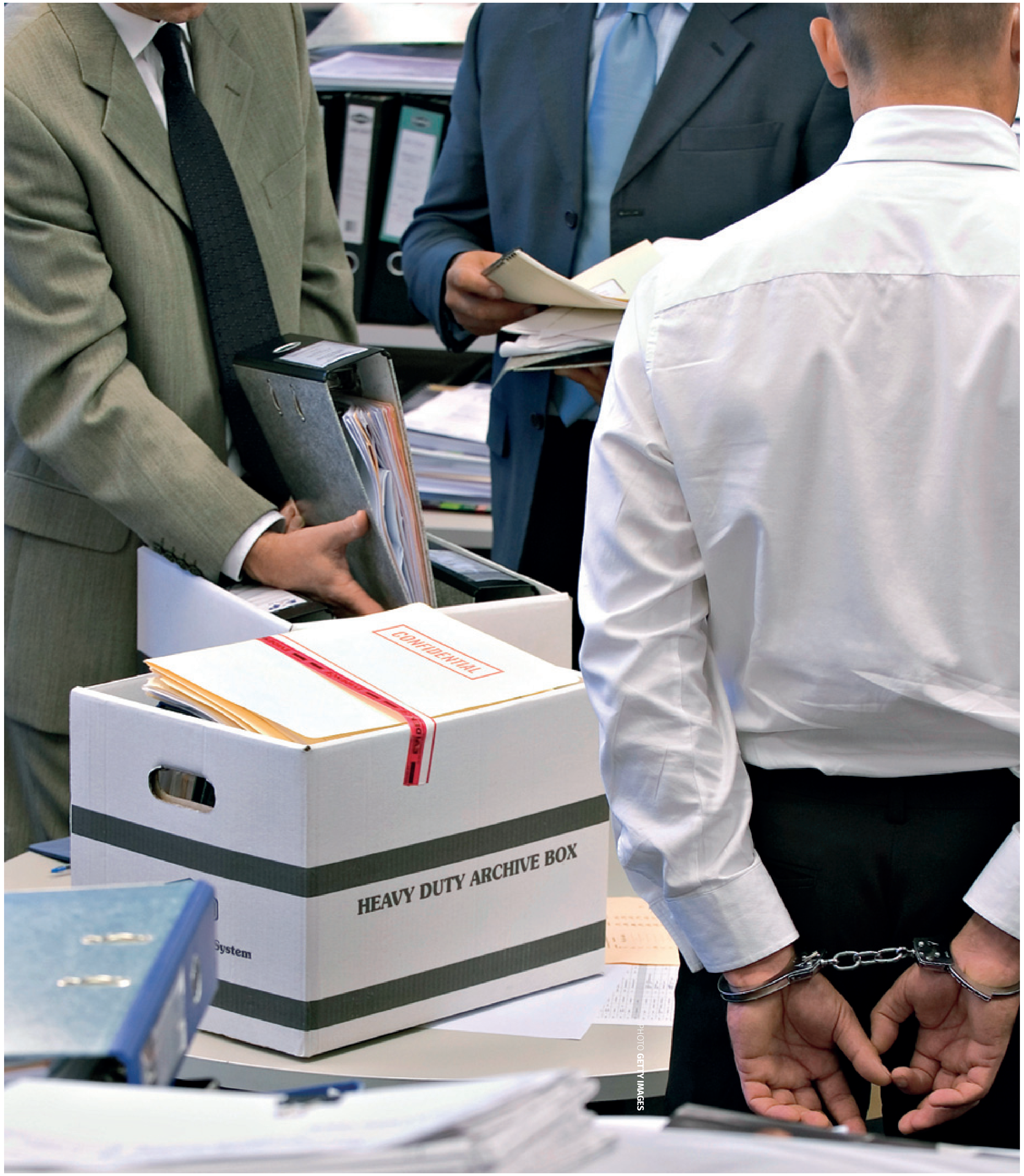

PHOTO GETTY IMAGES

> While the government has good reasons to provide IRAS with enhanced powers to investigate and to share information, taxpayers must be cognisant of their own rights and the scope of IRAS' powers to ensure that such powers are not abused.

Safeguards against abuse

Essentially, all enhanced investigative powers may only be exercised by officers authorised by CIT or CGST and who have received training consistent with those in other enforcement agencies (such as the Singapore Customs and Singapore Police Force).

Power of forced entry

The power of forced entry may only be exercised if entry cannot be gained into a building or place in two situations: firstly, when it involves an investigation of a serious tax offence and there is reason to believe that there is in a place an item relevant to the investigation or prosecution that may otherwise be concealed, removed or destroyed, and secondly, when there is a reason to believe that a person liable to be arrested under ITA or GSTA is in the building or place.

Power to arrest without warrant

The power to arrest without warrant may only be exercised for an investigation of serious tax offences (such as tax evasion), or where a suspect attempts to destroy evidence with a view to hindering or obstructing IRAS' investigations.

Power to carry out a body search

The power to carry out a body search may only be exercised on a person found in a place in which IRAS has lawfully gained entry into for the purpose of investigating a tax offence, and to search for items which may be relevant for investigation or required as evidence. Further, a woman may only be searched by a female officer.

Powers to share information

It is essential to note that information being shared with other LEAs can only be disclosed by CIT or CGST to the head of LEA, either for the purpose of investigation or prosecution of serious crimes as prescribed in the First and Second Schedules of the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act (CDSA), or where the Comptroller has reasonable grounds to suspect that the information affords evidence of the commission of such offences.

Income tax crimes which are listed as serious offences under CDSA are tax evasion (Section 96 of ITA), serious fraudulent evasion (Section 96A of ITA), giving false information to CIT to obtain or to assist another person to obtain cash payout or Productivity and Innovation Credit (PIC) bonus (or both) (Section 37J(3) of ITA), and falsifying records or using contrivances to obtain or assist another person to obtain cash payout or PIC bonus (or both) (Section 37J(4) of ITA).

GST crimes which are listed as serious offences under CDSA are fraud and improperly obtaining refund of GST (Sections 62 and 63 of GSTA respectively).

In a nutshell, the government has entrusted IRAS with enhanced investigative powers and powers to share information with other LEAs to deal with specific types of criminals and syndicates amid the evolving landscape. As popularised in the Spider Man franchise, "with great power comes great responsibility", and IRAS, too, would be expected to exercise its enhanced powers with due care to avoid potentially sticky situations.

Taxpayers being investigated should review any notice received or action taken by the tax authorities and decide on the appropriate response. When in doubt over the validity of the power exercised by IRAS, taxpayers may consider obtaining external advice on a timely basis but should nonetheless keep in mind that non-compliance carries risks of sanctions or penalties if the power exercised is ultimately determined by the court to be valid. ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP.

PHOTO SHUTTERSTOCK


BY KOH WEI CHERN AND PATRICIA TAN MUI SIANG

DON'S COLUMN

IAS 7 STATEMENT OF CASH FLOWS AND ITS PROPOSED AMENDMENTS

The Current State Of Presentation Choices Allowed

THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) initiated a project on primary financial statements in June 2015 as part of IASB's plan to promote better communication in financial reporting. Stakeholders have expressed various concerns regarding the classification and presentation choices allowed in the statement of cash flows. Hence, in a bid to improve comparability and transparency of companies' performance reporting, the Board is proposing targeted improvements to the statement of cash flows.

CURRENT CHOICES ALLOWED UNDER IAS 7

International Accounting Standard (IAS) 7 currently allows some presentation choices to firms. Firstly, under paragraph 18, firms can choose to report cash flows from operating activities using either (a) the *direct* method, whereby major classes of gross cash receipts and gross cash payments are disclosed, or (b) the *indirect* method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Secondly, under the indirect method specified in paragraph 18(b), firms are required to adjust "profit or loss" to derive the cash flows from operating activities. However, "profit or loss" is currently not defined in the standard and firms can make their own choices as to which profit or loss line to start off with.

Thirdly, paragraph 33 states that generally, interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution and that "there is no consensus on the classification of these cash flows for *other entities*. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments". Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources or alternatively, classified as an operating cash flow in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows (paragraph 34).

... IAS 7 allows firms to choose to classify dividends paid and interest paid as either operating cash flows or financing cash flows and to choose to classify dividends received and interest received as either operating cash flows or investing cash flows.

In other words, IAS 7 allows firms to choose to classify dividends paid and interest paid as either operating cash flows or financing cash flows and to choose to classify dividends received and interest received as either operating cash flows or investing cash flows. As a result, classification varies, even among entities in the same industry (Basis of Conclusions to Exposure Draft General Presentation and Disclosures (BC) paragraph 189).

THE BOARD'S PROPOSAL

IASB issued the proposed amendments to IAS 7 in December 2019 with a call for comments that is due on 30 June 2020. With respect to the above three presentation choices, IASB has the following proposed amendments. Firstly, IASB continues to allow a choice between the direct and indirect methods when reporting cash flows from operating activities.

Secondly, under the indirect method, IASB proposes to require operating profit as the single starting point for reporting cash flows from operating activities.

Thirdly, IASB proposes to eliminate options for the classification of the cash flows from interest and dividends in the statement of cash flows. In BC paragraph 190, "users of financial statements have indicated that the diversity in classification between entities in the same industry: (a) reduces comparability, making their analysis more difficult, and (b) is often not meaningful – that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in the entity's business activities".

For non-financial entities, the proposed approach is for dividends paid and interest paid to be classified as cash flows from financing activities, while for dividends received and interest received to be classified as cash flows from investing activities. This approach seeks to align the classification in the statement of profit and loss with the classification in the statement of cash flows, thus increasing the understandability of the information.

For financial entities, dividends paid are to be classified as cash flows from financing activities. For dividends received, interest paid, and interest received, the proposed amendments require the entity to classify each of the above categories by reference to the classification of the income or expenses corresponding to such cash flows in the statement of profit or loss.

In an example cited in the proposed amendment, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, then it will classify its interest paid as cash flows from financing activities. Should an entity classify some of its interest expenses in the operating category and some in the financing category of the statement of profit or loss, then the entity has to make an accounting policy choice to classify the interest paid as either operating cash flows *or* as financing cash flows.


PHOTO **GETTY IMAGES**

IMPACT ON 30 COMPANIES ON THE STRAITS TIMES INDEX

We obtain a list of the top 30 companies listed on the Singapore Exchange that make up The Straits Times Index and examine how these firms are making their presentation choices. We review one year of annual reports of these 30 companies with financial year ending between 30 June 2018 and 31 March 2019. There are 26 non-financial companies and four financial companies.

First, we examine whether most firms adopt the indirect method of presenting cash flow from operating activities. Indeed, all 30 firms use the indirect method.

Second, we examine the starting points used for the indirect method. We note that there are three common starting points used for the indirect reconciliation of cash flows from operating activities. Seventeen firms (57% of the sample) use net profit before taxation. Seven firms (23% of the sample) use net profit after taxation and only six firms (20% of the sample) use operating profit before tax. Hence, there is variation in practice. Specifying a common starting point as proposed by IASB will reduce variability and increase comparability. However, if the current practices of the sample firms are indicative of the presentation choices by the overall population of the firms, and if IASB pushes through with operating profit as the starting point, then 80% of the firms are likely to have to make changes in the presentation of their cash flow statements.

Third, we examine the classification choices of interest and dividend. In the case of dividends paid, 29 of the firms (97% of the sample) classify it as cash flows from financing activities. Given that IASB is proposing for all firms, regardless of whether financial or non-financial, to classify this as cash flows from financing activities, there should be minimal impact should this amendment be effected.

Given that the proposed classification choices for interest paid, dividends received and interest received differ for non-financial and financial firms, we shall examine the

26 non-financial firms first. Table 1 summarises the findings. Fourteen companies (54% of the non- financial sample) classify interest paid as cash flows from financing activities. Nineteen companies (73% of the non-financial sample) classify dividends received as cash flows from investing activities. Fifteen companies (58% of the non-financial sample) classify interest received as cash flows from investing activities. It can be noted that the majority of the firms appear to classify interest and dividend-related cash flows in line with what IASB proposed for the non-financial firms.

Next, we describe the presentation choices of the remaining four financial firms. Three of them are banks. For interest paid, one bank classifies it as from financing activities, while two other banks classify it as from operating activities.[1] For interest received, all three banks classify it as from operating activities. For dividends received, one bank classifies it as from investing activities, while two other banks classify some as from investing activities and some as from operating activities.

[1] The remaining non-bank financial firm has no interest paid

Table 1 Classification choices of the 26 non-financial firms

	Non-financial (26 firms) – Current Practices					Proposed approach
	Operating	Financing	Investing	Mixed*	NA**	
Interest paid	12	14				Financing
Interest received	11		15			Investing
Dividends received	4		19	1	2	Investing
Dividends paid	1	25				Financing

*classified part as investing cash flows and part in operating cash flows
**did not report any dividend income

IASB proposes for financial firms, when classifying their cash flows, to follow the classification per their statement of profit or loss. It can be seen from these three banks that there appears to be variability, but given that the sample is small, it is difficult to assess the impact of the proposed amendment put forth by IASB.

CONCLUSIONS

The findings in this article show that firms are relatively varied in their starting point for the indirect method for reporting cash flows from operating activities and their presentation choices for interest and dividend cash flows as permitted under IAS 7. Hence, IASB prescribing a single starting point for the indirect method and requiring consistent classification for these various items can likely help increase comparability of financial information. ISCA

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PHOTO SHUTTERSTOCK