IS Chartered Accountant Journal

MAY 2020

IS Chartered Accountant Journal

● focus

COVID-19 SPECIAL

Business And Technical Insights To Navigate The Pandemic

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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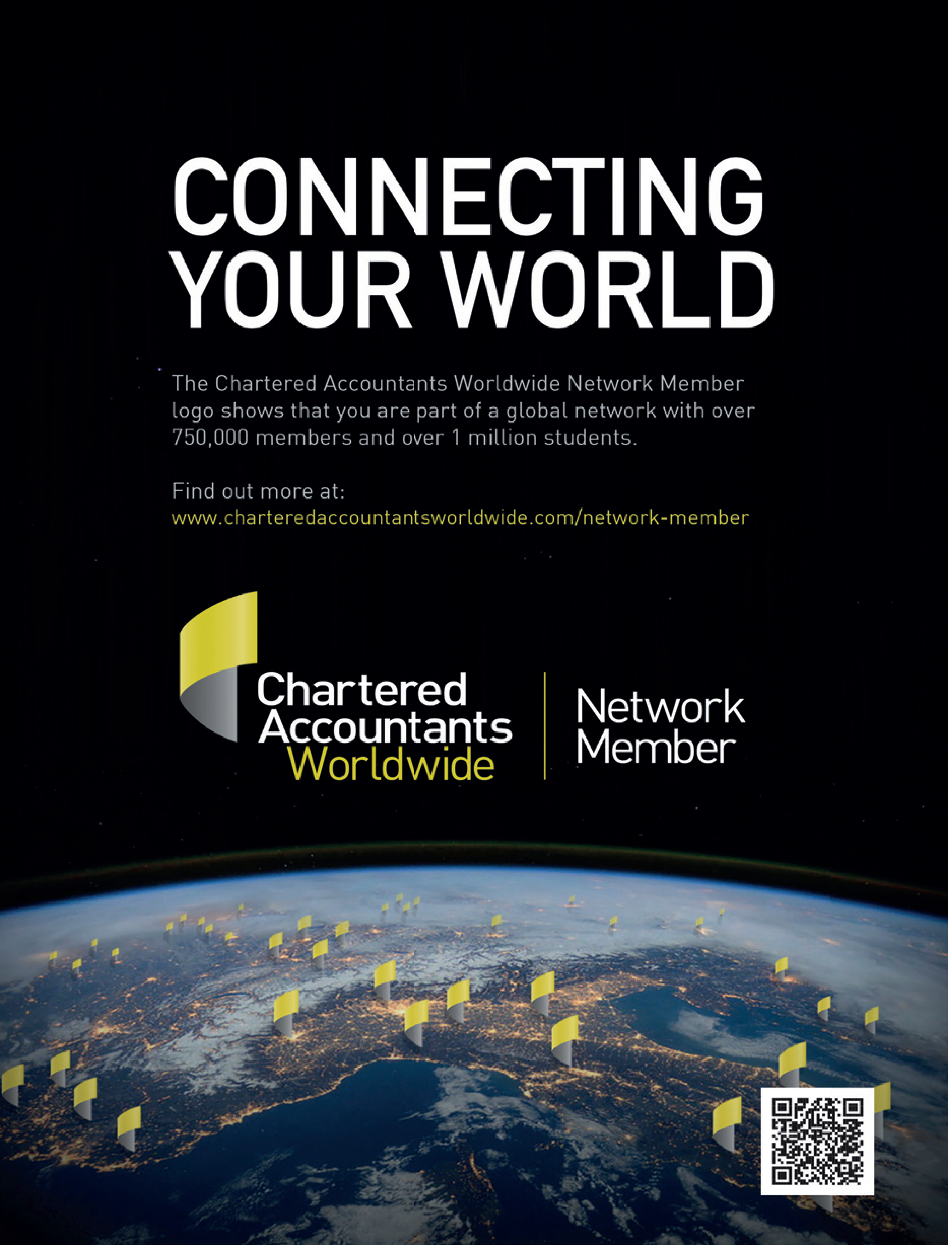
MAY 2020



Dear members,

MY LAST MESSAGE IN THE APRIL ISSUE HAD ENDED WITH A CHEERFUL NOTE FOR US TO "MEET AGAIN IN MAY". Little did we know then that Covid-19, which had started as a health emergency, would snowball into an economic crisis of epic proportions, wreaking havoc on countries around the world including Singapore. As I write this message at the start of May, we are midway through the circuit breaker, which has been extended four weeks to end on June 1.

As businesses grapple with the fallout caused by the pandemic, accountancy and finance professionals are in the best position to offer valuable advice. After all, in the day-to-day operations, management already looks to its Chief Financial Officer or Finance team to make sense of the numbers, and leverages the insights for strategic planning. In this time of crisis, Finance must step up to do more as business continuity plans kick in. They need to know how to navigate the new complexities, and how these affect their own organisations or their clients. Additionally, accountancy and finance professionals should be mindful of potential financial reporting and auditing issues which may arise.

To support members with relevant information and advice, the Institute has produced a "Covid-19 Special" for the journal. The dedicated segment is published over three consecutive issues beginning with May. Look out for the three articles here, which cover the implications of the pandemic on businesses, the technical resources and guidance from ISCA, and a Covid-19 Navigator – a comprehensive collation of the assistance schemes and resources from the government and Institute, to support affected individuals and businesses.

As members step up to support their organisations and clients, they may want to step back as well. This is because stepping back can provide the oft-needed distance to get an objective perspective on the current situation. The clarity would help members to prepare themselves, their organisations and their clients for the future, when the economy recovers. In short, take the circuit-breaker period to step back, regroup, so that you can emerge stronger.

Stepping back to prepare for the future may entail reskilling or upskilling of workers, adopting new technologies or even a change in business direction. The information in the articles, "ISCA's Covid-19 Navigator" and "A Third Stimulus: The Solidarity Budget", will be relevant to you as you assess your next steps.

With many people telecommuting from home due to the pandemic, technology – from cloud computing to video communications, online chats and webinars – helps to keep businesses running. In Accountancy, technology has taken over tedious, repetitive tasks that used to be performed by humans. Big data, business analytics and robotics are also making headway in Accountancy. But will technology make the accountant redundant? Discover the answer within these pages.

Even as digitalisation gains momentum in the business arena, some small and medium-sized enterprises (SMEs) have been slow to adopt technology. Their hesitation tends to revolve around a lack of resources including knowhow and budget. A potential solution lies in the collaboration between SMEs and institutes of higher learning. Find out more in the article, "Digitalisation Of SMEs In Singapore".

Elsewhere in this issue are resources that can add value to your work. Optimise this circuit-breaker period. While you do your part to help break the cycle of infection, professionally, also step up, step back and emerge stronger.

Be safe! I won't tempt fate again by hoping we will "meet again in June".

Circuit Breaker: Step Up, Step Back, Emerge Stronger

Kon Yin Tong
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contents

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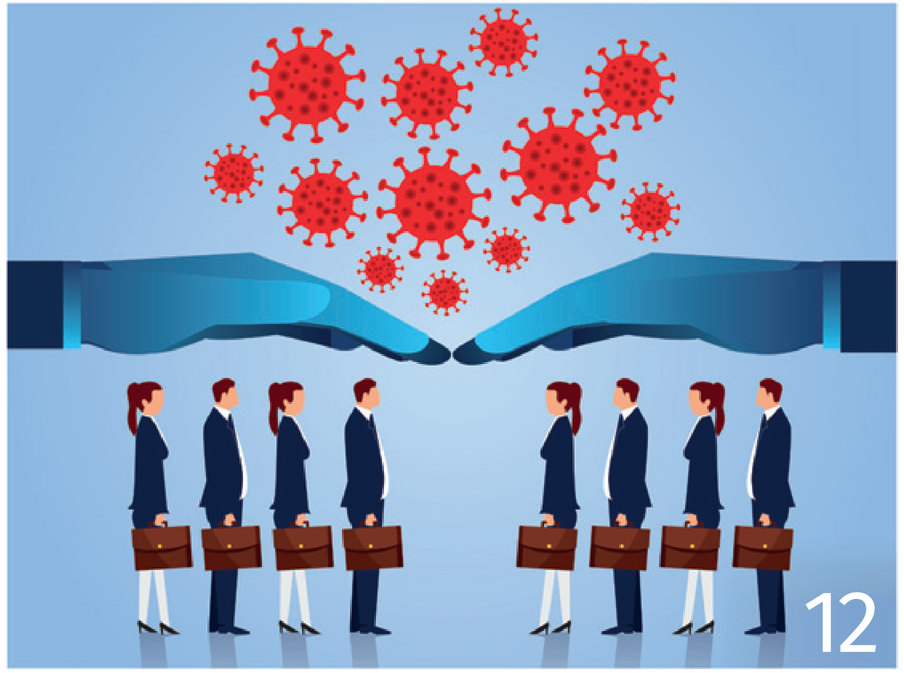

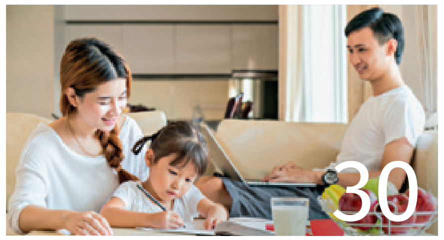

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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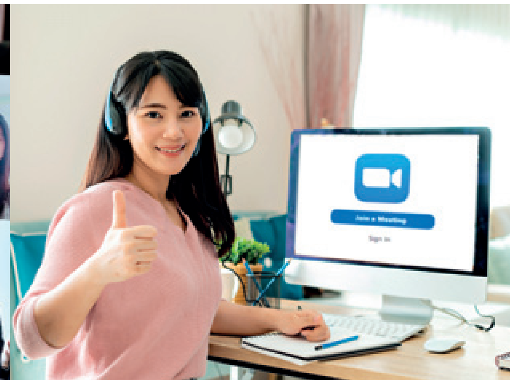
Dos And Don'ts Of Remote Business Meetings



EVEN BEFORE THE CURRENT COVID-19 CONTAINMENT MEASURES TO MINIMISE COMMUNITY SPREAD OF THE VIRUS, COMPANIES WERE INCREASINGLY ADOPTING FLEXIBLE WORK ARRANGEMENTS. The Singapore Ministry of Manpower categorises them as flexi-load (example, part-time, job-sharing), flexi-time (example, staggered work hours, reduced work hours), and flexi-place (telecommuting). The Ministry also provides incentives to companies to implement such schemes to promote work-life harmony among workers.

As video calls become more commonplace, taking the place of in-person interactions or complementing them, there is a need to observe certain protocols, particularly when it comes to group meetings.

The important thing to remember is that business calls are professional sessions totally different from your casual WhatsApp video chats with your family and friends, and they must be treated as such, with the attendant preparation and etiquette. The rule of thumb is that you should do for a remote meeting what you would normally do for an on-site meeting. Dress properly, prepare well, and present your best professional self.

Here are eight tips to enhance the experience of your video session with your colleagues or business contacts.

1 Ready the equipment

Even if it's not the first time you are attending a video session, do your due diligence. Have you downloaded the latest software? Test the audio and microphone functions. Do they work? Are they set at the correct levels? Are you plugged into a power source; is the battery fully charged?

> Dress appropriately in full business attire. Resist the temptation to pare it down for your lower half body.

Check the camera position to get the correct angle and height. The camera should capture the triangle comprising your forehead, and left and right shoulders.

Temporarily disable any automated backup programmes that may start running during the meeting as they may slow down your Internet connection speed. Also close all unrelated apps, auto-notifications and chats, to avoid unwanted interruptions.

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2 Optimise the setting

Make sure your lighting is adequate. A soft light shining on your face (also called the "key light") is ideal. It can be natural light from an open window or light from a lamp "bouncing off" the wall behind your camera. An overhead light is not ideal as it casts shadows under your eyes. Dim any harsh lights behind you if you don't want your face to be in the shadow. Allow the key light to keep the focus on your face.

Remove anything in your background that might be distracting. Close the door to prevent people from walking in.

3 Wear business attire

Wear flattering or solid colours near your face. Keep accessories to the minimum as they can be distracting. While you are likely to be appropriately attired for your upper body, do resist the temptation to pare it down for your lower half. You might have to get up during the video meeting.

4 Arrange your materials

Gather the relevant materials and review them prior to the start of the meeting. Ensure they are within easy reach – preferably with the relevant pages marked out. Fumbling and flipping through multiple pages looking for what you need makes you look unprofessional and unprepared.

5 Engage fully

Similar to your presence at in-person meetings, behave professionally. Check your body language and tone of voice. Pay attention to the person who is speaking. While it is not necessary to keep staring into the camera, it does become obvious when you are distracted or fiddling with your phone. Remember, people can see you. Don't multi-task on unrelated matters; it is disrespectful.

> Mute your microphone when you are not speaking, to cut out ambient noises.

6 Take notes

Keep a notepad and pen handy, to jot down notes.

7 Pay attention to sound

If you are using a laptop, consider investing in a headset with a microphone.

It can be a bit tricky using the ones that come with your laptop. Do you even know where the speakers and microphone are? While you can probably hear the proceedings of the meeting, your laptop's built-in microphone may not be good enough to distinguish your voice from the ambient noises. You would sound very faint to the other meeting participants, which would in turn dampen the impact of your great ideas or your insightful comments.

If you are using a mobile phone, the earbuds-cum-microphone set that comes with it is adequate for the job. As the microphone is situated close to your mouth, you might want to mute it when you are not speaking. No one wants to hear you breathing or muttering to yourself.

8 On a last note

Be polite and professional till the very end. Thank the attendees and bid them farewell. Don't just leave the meeting without a word.

WEF's Workforce Roadmap To Navigate Covid-19

IN 2019, LESS THAN 10% OF BUSINESS LEADERS FROM G20 AND OECD COUNTRIES CONSIDERED THE SPREAD OF INFECTIOUS DISEASES AS A LOOMING GLOBAL RISK, according to the World Economic Forum (WEF) Executive Opinion Survey. Yet, by 11 March 2020, when the world saw the "alarming levels of spread and severity" of the novel coronavirus, and the "alarming levels of inaction", Dr Tedros A. Ghebreyesus, Director-General, World Health Organisation (WHO), announced Covid-19 as a pandemic; at the media conference, he also outlined the broad areas where countries must take urgent action.

As economies grind to a halt, organisations need to address the longer-term implications of Covid-19. From customers to suppliers, shareholders and employees, businesses have to put in place new measures – often with no previous comparable experiences.

WEF has launched a roadmap, The Workforce Principles For The Covid-19 Pandemic, as a preliminary response to help business leaders. Comprising five principles and four management imperatives, it comprises suggested action pathways, with illustrative case studies and additional resources, in each section. The project was completed in collaboration with global advisory, broking and solutions company Willis Towers Watson.

"This crisis presents an opportunity to take bold actions and show leadership and solidarity," said Saadia Zahidi, Managing Director, WEF. "Responsible employers can apply these principles and guidelines to better balance short-term crisis measures against the medium- and long-term objectives." These actions can include protecting salaries and benefits, or providing learning opportunities to make progress in reskilling and workforce transformation objectives.

Five Guiding Principles

- See this crisis as a defining leadership moment and continue delivering the best possible outcomes for all stakeholders
- Adopt an agile and continuous learning mindset to ensure your response is (re)calibrated to the circumstances at hand
- Understand the perspectives of and engage all stakeholders (example, employees, shareholders, customers, suppliers, unions, healthcare providers, community) in decision-making
- Focus on the intersection of employee and company well-being
- Make decisions and take actions that consider medium-term needs and longer-term business objectives

Four Management Imperatives

- **Prioritise planning, well-being and communication** Clearly articulate key policies and procedures, empower local leaders and managers, and prioritise personal and empathic communications
- **Focus on employee experience, engagement and motivation** Lead with integrity and purpose, be active with employee listening, connect employees using new technologies
- **Ensure responsible work redesign** Sustainably manage the shift to flexible/remote working, incorporate contingent labour in a responsible manner, consider a cross-industry talent exchange, make progress towards the longer-term upskilling and reskilling agenda
- **Balance short-term cost concerns with medium-term resilience and rebound** Protect jobs and elements of total rewards, focus on the financial well-being of the most vulnerable employees, take a segmented view of the workforce

A company's commitment to its guiding principles is often most tested and most critical when it comes to decisions about labour cost and risk management. Companies must recognise the often-competing demands and look for innovative solutions. Such an approach enables organisations to earn the trust of employees and unlock the discretionary effort needed to move the organisation forward in turbulent times.

The roadmap is available at the WEF website.

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MARK YOUR CALENDAR

18 MAY

Investment & Consumer Scams: The Law & Ethics Surrounding the Fraud (Live Webinar)

An engaging seminar on the ethical and legal considerations on consumer scams and fraud, as well as its impacts on individuals and its organizations.

21 MAY

ISCA Breakfast Talk – How to Manage Tax Dispute and Stay atop on the Benefits of a Good Tax Corporate Governance Framework (Live Webinar)

Businesses today must understand how controversy trends will affect them and think ahead by putting in place a sound system of risk management to prevent, manage and resolve tax dispute.

Join us at this Live Webinar to learn about the approaches to managing tax dispute and how to implement a robust tax corporate governance framework within your organisation.

23 & 24 JUN

Data Dashboards for Better Decision-Making NEW! (Live Webinar)

A dashboard essentially is a synopsis of the operations of a business. The dashboard displays information in a visual format that is easy to read, easily understood and remembered by key business decision makers.

Learn how to make effective dashboards and take your decision making to the next level. This course combines demonstrations and hands-on exercises* using Tableau (a data visualisation tool).

19 MAY

Tax and Transfer Pricing of Intercompany Financing Arrangements NEW! (Live Webinar)

Transfer pricing is increasingly an area of focus and seen as an alternate source of tax revenue by tax authorities across the region. This course is designed to equip the participants with an appreciation of the concepts and principles revolving around intercompany financing transactions as well as the tax and transfer pricing implications.

04 JUN

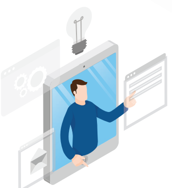
Financial Reporting in volatile environments: Accounting implications arising from COVID-19 (Live Webinar)

This webinar provides a hands-on step-by-step guide on various financial reporting issues arising from the effects of COVID-19. Learn how to comply with a specific FRS such as government interventions, renegotiation of existing revenue or lease contracts etc. It will also discuss the critical issues of exercising judgement in applying the principles based FRSs to the current uncertain environment.

29 JUN

ISCA Breakfast Talk – Lease Accounting Implementation and Post-Compliance Insight (Live Webinar)

In this Live Webinar session, experts will be sharing on how organisations have progressed on IFRS 16 and an analysis of the implementation challenges faced, opportunities to optimise leases processes and the benefits beyond compliance with the standard. Join us as we will discuss the key challenges you face in the implementation of IFRS 16, and how to use data analytics to extract business value for more informed decision making, reduce costs and better manage risks from leasing.



ISCA E-Learning Package - Learn on the go, anywhere, anytime

To support your learning journey, ISCA CPD has introduced a 7-hr ISCA E-Learning Package to provide our participants easy access and convenience to CPE training. Our e-learning portfolio covers a wide range of subjects and gives you the flexibility to learn on the go, 24/7. Pick and choose from the list of courses available for you. Get the most out of your time spent via e-learning today. Visit https://eservices.isca.org.sg/CPEHome to find out more.

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

Disciplinary Findings

UPON FINDING THAT MR CHUNG WAN, FCA (Singapore) and Public Accountant, had contravened Rule 64.1 read with Rule 65.2 of the Membership and Fees Rules, in that he had been found guilty by the State Courts of the Republic of Singapore of one offence under Section 323 of the Penal Code (Cap 224, 2008 Rev Ed) ("the Act") and sentenced to four weeks imprisonment, and his appeal was dismissed on 14 August 2019 in the High Court of the Republic of Singapore.

It is hereby ordered:

1) That pursuant to Rule 137.1.3 of the Institute (Membership and Fees) Rules, he be fined a sum of S$$10,000 which shall be paid within 28 days from the date on which this order is served on him.
2) That pursuant to Rule 137.1.4 of the Institute (Membership and Fees) Rules, he be censured.
3) That pursuant to Rule 137.1.9 of the Institute (Membership and Fees) Rules, he shall sign a letter of undertaking to the Institute.
4) That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, he shall pay to the Institute the sum of S$$1,744.35 (inclusive of 7% GST), being the costs and expenses of and incidental to the hearing before the Disciplinary Committee within 28 days from the date of this order.

COVID-19 SPECIAL

Business And Technical Insights To Navigate The Pandemic

THE CORONAVIRUS DISEASE, officially named Covid-19 by the World Health Organisation, has wreaked havoc all over the world. The devastation it has caused, to date, is alarming. According to Johns Hopkins University[1], as at 30 April 2020, there are 3,222,107 confirmed infection cases globally; 228,757 have succumbed to the virus. The numbers are increasing every day. With no vaccine in sight anytime soon[2], no one knows when this pandemic will end.

The impact of Covid-19 is not merely humanitarian. What started off as a health crisis has rapidly snowballed into an economic disaster of epic proportions. According to the International Monetary Fund on April 14, global gross domestic product (GDP) is forecasted to shrink by 3% in 2020.[3] This is a far cry from its previous estimate of a 3.3% growth in January.[4] Major global economies are expected to go into recession as a result of Covid-19[3] – the United States economy is estimated to contract by 5.9%; Europe by 7.5% and Japan by 5.2%. China, the second largest economy in the world, is expected to see a stunted growth of only 1.2%.

In this current crisis, it is imperative that accountancy and finance professionals know how to manage the situation, both from a business perspective and from a technical standpoint. They should be aware of the business implications to their organisations and at the same time, they should also be mindful of potential financial reporting and auditing issues which may arise. Additionally, where possible, they should also plan ahead and prepare themselves, their organisations and their clients for recovery when the outbreak ends.

To provide relevant information and guidance to accountancy and finance professionals, ISCA has prepared a Covid-19 Special, which will be published over three issues of the ***IS Chartered Accountant Journal***.

Part One, which is published in this May issue, comprises three articles. One article touches on the implications of Covid-19 on businesses while the other features the technical resources and guidance from ISCA – developed to address accounting and auditing issues arising from the current crisis. The Institute has also put together a Covid-19 Navigator, a compilation of the assistance schemes and resources from the government and ISCA, to support affected individuals and businesses.

In Part Two, to be published in the June issue, there will be three articles. Two of them will address how businesses can respond to the crisis now, and how businesses can reposition themselves for the new reality. The third article will cover the accounting treatment for the government's Jobs Support Scheme, as well as FAQs on auditing and financial reporting.

To complete the Covid-19 Special, Part Three in July will address the tax implications arising from the pandemic, and other related financial reporting issues.

We hope the information will add value to the work you do as you, your organisation and your clients navigate these challenging times.

In this current crisis, it is imperative that accountancy and finance professionals know how to manage the situation, both from a business perspective and from a technical standpoint.

[1] https://coronavirus.jhu.edu/map.html
[2] https://www.theguardian.com/world/2020/apr/06/when-will-coronavirus-vaccine-be-ready
[3] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
[4] https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020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BY INSIGHTS & PUBLICATIONS, ISCA

IMPLICATIONS OF COVID-19 ON BUSINESSES

Disruptions And Possible Solutions

THE WORLD HEALTH ORGANIZATION (WHO) China Country Office was first notified of the appearance of a pneumonia of unknown origin on 31 December 2019. Since then, the scientific community has determined that the cause is due to a novel coronavirus – SARS-CoV2 – which has now become a pandemic. Governments around the world have enacted lockdowns on virtually every sector of their economies and ordered their citizens to remain at home as part of efforts to contain the virus. Singapore was no different – a "circuit breaker" of stringent measures was put in place from 7 April to 4 May 2020, which was later extended to June 1. Residents were instructed to stay home, while non-essential businesses had to shut down and rely on remote working. These regulations were relaxed for some businesses in the second week of May. The tough measures imposed have repercussions for businesses and the economy at large.

UNPRECEDENTED ECONOMIC DEVASTATION

The spread of the coronavirus disease (Covid-19) created both a demand and supply shock. Panic buying of essentials such as rice and canned food, and personal care products such as hand sanitisers and face masks, created a sharp spike in demand, but manufacturers and logistics providers could not keep pace to stock the shelves. With demand and supply severely affected across most sectors, the situation triggered a rapid contraction in economic activity both internationally and domestically, which remains the case today.

Across the globe, businesses are also severely affected. Retail giants such as Neiman Marcus, Sears and JC Penney are now confronting the possibility of bankruptcy; airlines such as Singapore Airlines have to secure lifelines while Virgin Australia has since gone under administration. The tourism industry is essentially at a standstill, with visitor arrivals to Singapore falling 51.2% in February 2020 year-on-year[1]. But alongside the dismal outlook for many business sectors is the steep increase in demand for Covid-19-related items like face masks, ventilators, nasal swabs and medical supplies. It is clear that in the medium to longer term, the business environment will continue to evolve, with wide-ranging changes.

[1] https://stan.stb.gov.sg/public/sense/app/254dd6c2-eaf7-46c4-bf7a-39b5df6ff847/sheet/3101ecdd-af88-4d5d-be49-6c7f90277948/state/analysis

[2] https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

[3] https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2020/03/AdvEst_1Q20.pdf

[4] https://www.dbs.com.sg/treasures/templatedata/article/generic/data/en/GR/042020/200427_insights_singapore.xml

[5] https://www.ocbc.com/assets/pdf/regional%20focus/singapore/singapore's%20extension%20of%20its%20one-month%20circuit%20breaker.pdf

[6] https://www.mas.gov.sg/-/media/MAS/EPG/MR/2020/Apr/MRApr20.pdf

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The duration and severity of the economic downturn will depend largely on the success of the government policies and intervention, such as the public health measures which were introduced to minimise the spread of the virus. In the short term, we are currently experiencing drastic declines across all sectors. The International Monetary Fund expects the global economy to shrink 3%, with cumulative output loss over 2020 and 2021 estimated to be US$ 9 trillion[2]. Singapore is no different. Before the announcement of the circuit breaker and its subsequent extension, the Ministry of Trade and Industry had already downgraded the nation's 2020 GDP growth forecast twice – first to -0.5 to -1.5%, and later to -4.0 to -1.0%[3]. Based on the latest estimates by financial institutions (which take into account the effect of the circuit breaker extension), the decline is expected to be worse – DBS has predicted that Singapore's economy will dip by 5.7%[4] while OCBC has forecasted a deeper contraction of between 6 and 10%[5]. In the first week of May 2020, the Monetary Authority of Singapore warned of "significant downside risks to Singapore's growth outlook"[6]. With the situation still highly fluid at the time of writing this article (early May), it is almost impossible to point to a forecast with any level of certainty.

Though governments across the globe have rolled out stimulus and assistance packages to prop up their respective economies and businesses, it is too early to tell if these packages are adequate or effective. The resulting budget deficits are also poised to be harsh obstacles to full economic recovery, and it remains to be seen how governments are going to finance these rescue packages. We know that Singapore is tapping on its past reserves, but others will probably have to incur huge debts which could drive up interest rates and inflation.

It is also unclear how long these governments can continue pumping in the monies to save companies as it is unsustainable in the long term.

Businesses should watch this space closely for any major developments which could affect the recovery of economies. Accountancy and finance professionals should also keep themselves updated on the economic developments in Singapore and beyond, to get a general understanding of the potential impact on their employers and the sectors they work in. This will provide them with the right context when they are undertaking business and financial analysis, participating in internal discussions, and offering insights and suggestions, to help their organisations.

TECHNOLOGY TO THE RESCUE

In addition to monitoring the macro-economic trends, businesses should also explore potential changes at the organisational level, such as increased adoption of technology. Paradoxically, Covid-19 could drive greater digitalisation among businesses. Many businesses had quickly turned to technology to cope with the lockdowns as governments around the world introduced stringent safe distancing measures to limit the spread of the virus in their countries. Telecommuting software such as Zoom, Webex and Gotomeeting have seen their user numbers skyrocket as people began to work from home. For instance, it was reported that from the week of February 23 to the week of April 12, Zoom experienced a significant rise in lunchtime meetings of 500% and an even larger surge in calls between 5 pm and 9 pm on weekdays of 700%[7]. For many businesses, particularly small and medium-sized enterprises (SMEs), this may be their first big foray into the digital realm.

It appears unlikely that the trend towards telecommuting would disappear soon. WHO has warned that the lockdown measures should only be lifted gradually, and telecommuting is slowly but surely becoming a viable option for many businesses. For all their imperfections, remote working solutions are gaining widespread acceptance among businesses and individuals. This natural experiment of enforced remote working is a clear opportunity for leaders and managers to explore incorporating telecommuting as a permanent fixture in their operations.

The current climate clearly favours businesses that have already embarked on their digital transformation journey. These entities could now conceivably have a significant head start and competitive advantage over traditional brick-and-mortar or non-digital operations.

It is better late than never for businesses to start embracing technology, and the Singapore government has rolled out support schemes to help businesses take their first step towards digital transformation. For example, Enterprise Singapore (ESG) has launched an E-Commerce Booster Package for SME retailers to sell online, which covers 90% of costs.[8]

PHOTO SHUTTERSTOCK

On other fronts, the Ministry of Manpower's Work-Life Grant supports businesses that implement flexible work arrangements.[9]

Despite the widespread havoc caused by the pandemic, it inadvertently brought about renewed or accelerated efforts in the digital transformation of many organisations. Aside from commercial entities, other sectors are also exploring the use of different technologies to deliver content. For example, schools across the globe are now conducting lessons over the Internet, while many restaurants are focusing on food delivery platforms to garner sales.

A new reality regarding work is almost certain to emerge after the crisis. Businesses can no longer turn their backs on technology if they hope to operate and survive in the digital world. The question then will be what to digitalise and how to digitalise. The Kantar SPADES framework, from Kantar Consulting, suggests a six-step approach which senior leaders and those in the accounting and finance functions can consider. In a nutshell, it encompasses the following[10]:

1) S for Spot – Spot the right opportunities within the business for digitalisation which will reap the most benefits.
2) P for Plot – Plot the possible options to implement digitalisation.
3) A for Assess – Assess the costs and benefits of each option.
4) D for Design – Design the details to make the digitalisation work; they should include both the technology and human aspects.
5) E for Execute – Execute the chosen option, with special focus on the development and deployment phases.
6) S for Sustain – Sustain the digitalisation for the long term

The Infocomm Media Development Authority (IMDA) has launched a Start Digital Pack for SMEs looking to kickstart their digital journey. The Pack allows SMEs to explore adopting digital solutions from a variety of categories such as accounting, digital marketing and HR management for no cost for a period of time[11]. Apart from IMDA, ESG provides advisory services for Singapore businesses looking to explore digital solutions[12].

DISRUPTIONS TO THE SUPPLY CHAIN

When countries shut down business operations and residents were directed to stay home in a bid to slow the spread of the virus, it led to massive disruptions in the supply chains. For example, China ordered its citizens who had returned home, many in rural areas, not to return to the cities where the factories and logistics services were located. During Singapore's circuit breaker period, non-essential factories and shops had to close. Around the world, components for medical equipment such as ventilators were in short supply[13], while everyone from medical personnel to the man on the street found themselves desperately searching for face masks.

For all their imperfections, remote working solutions are gaining widespread acceptance among businesses and individuals. This natural experiment of enforced remote working is a clear opportunity for leaders and managers to explore incorporating telecommuting as a permanent fixture into their operations.

[7] https://youtu.be/vZCWzzI02Ws
[8] https://www.enterprisesg.gov.sg/media-centre/media-releases/2020/april/esg-rolls-out-e-commerce-booster-package-for-retailers
[9] https://www.straitstimes.com/politics/firms-implementing-flexi-work-for-at-least-one-month-amid-covid-19-restrictions-can-apply
[10] https://journal.isca.org.sg/2019/10/21/unpacking-digital-transformation/pugpig_index.html
[11] https://www.imda.gov.sg/programme-listing/smes-go-digital/start-digital-pack
[12] https://www.enterprisesg.gov.sg/keepgrowing/overview
[13] https://fortune.com/2020/04/17/ventilator-repair-biomed-technician-software/

Although disruptions in the supply chains are to be expected, the rapid pace at which the public health measures took effect gave businesses scant opportunity to react. Supply chains had also shifted to a just-in-time model which emphasises lean inventories. There was no inventory to fall back on, and no one knew which part of their supply chain was agile enough to cope with the disruptions.

What can organisations do to cope with the disruptions to their supply chains?

As part of supply chain risk management, a key strategy for businesses is to better understand their supply chains. A World Economic Forum survey of supply chain professionals showed that greater visibility, that is, more information, was the key to reducing supply chain vulnerabilities[14]. Supply chains have become extremely complex that monitoring them manually is literally impossible. New technologies, such as logistics solutions that incorporate artificial intelligence, may be able to revolutionise supply chain and logistics operations. These technologies provide more real-time data points at a finer resolution, giving a clearer picture, and enhance the decision-making process[15].

From this episode, businesses will need to critically relook at their supply chains to build resilience. KPMG suggests some tough but vital questions which businesses should consider[16]:

- Do businesses know where their input goods are being manufactured? This entails finding out from their immediate suppliers from where and whom they get their raw materials.
- Have all of the businesses' main suppliers carried out similar assessments to know where their inputs are sourced from? This will be useful in assessing any indirect exposure.
- Do businesses know the logistics route? If the primary route is inaccessible, are there any alternative routes available and what are the costs involved? This is important to ensure that deliveries from suppliers are not unduly delayed.
- Do businesses have any contingency suppliers on hand? How quickly can these alternative suppliers be activated and what are their charges? It is important to have a backup plan in case anything goes amiss with the main suppliers.
- Have those contingency options reached capacity or been contractually secured by other businesses? More critically, do they have similar supply chain issues coming from a different source? It is pointless to have alternatives which do not work when businesses need them the most.

PHOTO SHUTTERSTOCK

By now, some businesses will have realised the risk of over-reliance on a limited number of suppliers. Intuitively, sourcing for more suppliers to diversify supply chains is the response to address this risk. But it may not be so straightforward. There are factors which businesses will need to consider, such as the geographical locations of these new suppliers, their proximity to where the final product will be put together, quality of their materials and incremental costs that may be incurred. On a broader scale, depending on how businesses address their key inputs issues, we could see globalisation in trade gradually diminishing in importance if the trend moving forward favours localisation or regionalisation of suppliers.

> **On a broader scale, depending on how businesses address their key inputs issues, we could see globalisation in trade gradually diminishing in importance if the trend moving forward favours localisation or regionalisation of suppliers.**

Ultimately, businesses will need to have a very good understanding of their supply chains to make the right decisions, which will enhance their resilience.

MANAGING COST STRUCTURES

It is no surprise that some businesses may be in a panicky, cost-cutting mode right now. According to consulting firm Oliver Wyman, short-term measures like cost-cutting are not sufficient[17]. Managing costs with an eye on recovery is more useful. Deloitte also stresses the recalibration of costs of businesses to keep them afloat[18]. Essentially, this means managing the cost structure of businesses, that is, the various types of expenses a business incurs, typically composed of fixed and variable costs[19].

There are some strategies that businesses could employ to reduce their costs, such as reducing discretionary expenses or ceasing non-essential hires. These will be discussed in detail in the June issue of this *IS Chartered Accountant Journal*. The article will highlight how businesses can respond to the crisis now, such as improving their liquidity. Do look out for the article.

While exploring ways to reduce costs is both understandable and necessary, businesses may now need to ponder and deliberate more instead of making a beeline for the option with the lowest cost. Using the diversification of supply chains as an example, businesses probably used to go with the suppliers which offered the most competitive quotes. This will likely change after the Covid-19 period. As discussed in the preceding section, businesses will have more considerations in deciding where to source for their suppliers in the future. It will be a more holistic assessment with costs as just one of the points of consideration. As a result, costs may go up for businesses which prioritise other factors over cost, leading to a change in the cost structure.

The less-than-desirable living conditions of the foreign worker community in Singapore were put under the spotlight as a result of the large number of Covid-19 infections. Any corrective policy/regulatory measures will have an impact on the cost structure of businesses which are reliant on these workers. Notwithstanding that the dormitories are operated by third parties, relevant authorities and support groups are likely to lobby for better living conditions to be provided by the employers for their migrant workers. The resulting cost increases will likely be borne by the employers. For businesses which hire many workers, such as those in the construction sector, the cost structures will change. These companies will need to address questions such as whether they should absorb the additional costs to remain competitive, or pass on the costs to their end-customers, who may not be too happy with the elevated prices. They may also have to think about reducing their reliance on migrant workers to better manage their cost structures over the longer term.

Hence, businesses have to pay close attention to their cost structures which would ultimately impact their profitability. Accountancy and finance professionals have an important role to play here, to help their employers analyse and manage their costs. They will need to work closely with other departments to reprioritise the spending of resources. This is a great opportunity for accountancy and finance professionals to add value to their employers.

NEXT STEPS

Covid-19 did more than just close factories and force everyone into lockdown mode. Public health measures to slow the spread of the virus created an economic crisis unseen since the Great Depression, and many countries are struggling to cope with the fallout. It also brutally exposed the fragility of supply chains which must now be patched and ultimately strengthened. Be it obtaining timely and relevant information about supply chains or sourcing for alternative suppliers, businesses must rethink how they manage their supply chains as they move forward.

Perhaps a silver lining in the midst of all the gloom is that it has forced many businesses to take their first step towards digitalisation. Technology, particularly teleconferencing software, has helped to replace some routine operations. Whether this trend of adopting technological solutions will continue depends on many factors, including overcoming conservative corporate mindsets and also cost considerations. ISCA

This article was written by Insights & Publications, ISCA.

[14] http://www3.weforum.org/docs/WEF_SCT_RRN_NewModelsAddressingSupplyChainTransportRisk_IndustryAgenda_2012.pdf
[15] https://www.weforum.org/agenda/2020/04/covid-19-crisis-shows-supply-chains-need-to-embrace-new-technologies/
[16] https://home.kpmg/sg/en/home/insights/2020/04/covid-19-and-global-supply-chains.html
[17] https://www.oliverwyman.com/our-expertise/insights/2020/apr/managing-costs-in-times-of-covid-19.html
[18] https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-advisory/deloitte-ch-right-sizing-your-cost-base-for-covid-19.pdf
[19] https://corporatefinanceinstitute.com/resources/knowledge/finance/cost-structure/

ISCA's COVID-19 NAVIGATOR

A Guide For Singapore Chartered Accountants

TO ADDRESS THE VARIOUS CHALLENGES FACED BY OUR MEMBERS AND THEIR ORGANISATIONS, we have put together a comprehensive Covid-19 Navigator which summarises the relevant schemes announced through the government's Support Packages, industry transformation, development programmes as well as ISCA's initiatives.

This Covid-19 Navigator will help members better understand how these schemes are relevant to them, and how they can access these schemes for themselves and/or for their organisations.

The Covid-19 Navigator can be downloaded at https://isca.org.sg/media/2824549/covid-infographic-21-april.pdf.

A IF YOU ARE AN EMPLOYEE

Are you looking for employee related support or training to deepen your skills?

A1 Career Support

(A) ISCA'S CAREER SUPPORT PAGE

ISCA is dedicated to supporting your career and empowering you to achieve your aspirations.

SCAN ME *Career portal will only be live from end-April*

(B) ISCA'S CAREER PORTAL

Whether you are looking for a fresh start or new employment opportunities, the career portal is the place to go. The portal, a joint partnership between ISCA and WSG, is a job site targeted at the Accountancy community featuring job openings that are specific to the needs of finance and accounting professionals.

SCAN ME *Career portal will only be live from mid-April*

(C) ISCA-WSG's ACCOUNTANCY VIRTUAL CAREER FAIR (VCF)

In collaboration with WSG, the inaugural Accountancy VCF will be held over 2 weeks from 18 to 31 May to match employers and job seekers in these roles:

1. Professional Services in Accounting Firms *(Advisory, Audit, Tax, etc)*
2. Finance and Other Related Functions in Corporations *(Accounting, FP&A, M&A, Treasury, etc)*
3. Technology & Others *(Data Analytics, Digital Transformation, RPA, etc)*

SCAN ME *Accountancy VCF will only be live from 18 to 31 May*

A2 Training Grants

(A) SKILLSFUTURE SINGAPORE (SSG) TRAINING GRANT

Eligibility Criteria
Singapore Citizens (SC) and Permanent Residents (PR) aged 21 years old and above

Assistance
Receive subsidies of up to 80% of course fees for SSG-supported courses

SCAN ME

(B) MID-CAREER ENHANCED SUBSIDY (MCES)

Eligibility Criteria
SC aged 40 years old and above

Assistance
Receive higher subsidies of up to 90% of course fees for SSG-supported courses

SCAN ME

(C) UNION TRAINING ASSISTANCE PROGRAMME (UTAP)

Eligibility Criteria
NTUC union members who have attended trainings supported under UTAP

Assistance
50% of unfunded course fee capped at $250 per year upon course completion

SCAN ME

(D) ULEAP (Learning Enabled through Active Participation)

A free mobile learning app for all working professionals to access bite-size learnings on the go.

Eligibility Criteria
For all adult learners

Assistance
- Access bite-size learning relevant contents across various industries including accounting and finance
- Interact and learn from various content contributors
- Network and connect with industry practitioners

Download the free app: ULeap Applied Skills
Android Google Play or Apple App Store

SCAN ME SCAN ME

A3 Career Switch

(A) PROFESSIONAL CONVERSION PROGRAMMES (PCP)

PCPs are career conversion programmes targeted at Professionals, Managers, Executives and Technicians (PMETs), including mid-career switchers, to undergo skills conversion and move into new occupations or sectors that have good prospects and opportunities for progression.

Eligibility Criteria
- All SC and PR who are looking into branching out of your current accounting-related job role into a different occupation within the sector such as financial forensic professional, internal auditor or management accountant
- You should not have the relevant experience prior to being hired under the conversion programme

Assistance
- Job placement into a hiring company to undergo structured on-the-job training programme to acquire the necessary skills for the new job
- While on a PCP, you will be deemed as a full time employee of the hiring company.

Ready to make a switch?
To make a career switch to become a **Financial Forensic Professional:**

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To make a career switch to become an **Internal Auditor**

SCAN ME

To make a career switch to become a **Management Accountant**

SCAN ME

A4 ISCA's Support for Members

(A) ISCA MEMBERSHIP RENEWAL

Members who are facing financial hardship due to medical condition or unemployment can write to ISCA to seek waiver of membership fee. The Institute may also grant special waivers for members under exceptional circumstances on a discretionary basis. Please write in to **membership@isca.org.sg**

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Members who have not been able to fulfil CPE requirements due to unemployment, medical condition or pro-family reasons may request for CPE exemption (i.e. waiver or reduction in CPE hours). To make a request, please login to ISCA eServices Portal.

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(B) ISCA CPD - FINANCIAL DEFERMENT SCHEME

Members who are facing financial hardship such as unemployment and require further financial assistance, please contact us at **cpe@isca.org.sg**. We will do our best to support members who would like to continue with your professional development and upskilling journey, which will help to put you in a stronger position once we get out of this challenging situation.

B IF YOU ARE A BUSINESS OWNER AND/OR DECISION MAKER FOR YOUR ORGANISATION

If your organisation is facing cash flow problems

B1 Schemes / Measures that may help to ease your cash flow

(A) SELF-EMPLOYED PERSON (SEP) INCOME RELIEF SCHEME
Direct cash support

Eligibility Criteria
- All Singaporean SEPs who meet the following criteria:
  - Started work as a SEP on or before 25 March 2020
  - Do not earn / earn small income as an employee
  - Earn net trade income of no more than $100,000
  - Live in property with annual value of no more than $21,000
  - Do not own 2 or more properties
- For married SEPs:
  - Individual and spouse together do not own 2 or more properties
  - Assessable income of his/her spouse does not exceed $70,000

Assistance
- Receive $9,000 over 9 months

Application not required for SEPs aged 37 and over in 2020 who declared positive SEP income to IRAS or CPF Board for 2018

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NTUC Training Fund (SEPs)
Under the NTUC Training Fund (SEPs), SEPs will get paid an allowance of up to $8.50/hour when they attend courses under the SkillsFuture Series, as well as selcted sector-specific training programmes.

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(D) COVID-19 (TEMPORARY MEASURES) BILL

Eligibility Criteria
- Covers obligations to be performed on or after 1 February 2020 which are affected by reason of COVID-19 for contracts entered into before 25 March 2020
- Covers specific contracts such as commercial & industrial property leases, construction & supply contracts, event & tourism related contracts and certain secured loan facilities

Assistance
- Provide cash-flow relief to businesses and individuals in specific types of contracts who are unable to fufil contractual obligations because of COVID-19, by suspending certain actions to enforce those obligations for 6 months

Bill expected to be in effect mid-April. Notification for relief to be issued to the other party of the contract

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(B) JOBS SUPPORT SCHEME
Wage support

Eligibility Criteria
- All employers who have made CPF contributions for their SC and PR employees will qualify (some employer exclusion)
- Shareholder-directors with assessable income of $100,000 or less for YA 2019 are also eligible

Assistance
- Government co-fund first $4,600 of gross monthly wages paid to each local employee for 9 months (different tiers of support for different sectors)
- For the months of April and May 2020, support will be topped up to 75% for all sectors

Application not required (IRAS will notify eligible employers)

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(E) CORPORATE INCOME TAX (CIT) REBATE

Eligibility Criteria
All companies

Assistance
- CIT rebate of 25% of tax payable, capped at $15,000 for YA2020
- Automatic extension of interest-free instalments of 2 months for payment of CIT on ECI filed within 3 months from financial year end
- Allow unabsorbed capital allowances and trade losses for YA2020 to be carried back up to 3 immediate preceding YAs, instead of 1 preceding YA
- Provide option to accelerate write-off of cost of acquiring plant and machinery
- Provide option to accelerate the deduction of expenses incurred on renovation and refurbishment

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(G) PROPERTY TAX REBATE

Eligibility Criteria
Qualifying non-residential properties

Assistance
- 100% rebate for qualifying commercial properties
- 60% rebate for the Integrated Resorts
- 30% rebate for other non-residential properties

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(C) WAGE CREDIT SCHEME
Wage increases support

Eligibility Criteria
All employers who give wage increases to SC and PR employees will qualify (subject to certain conditions) (some employer exclusion)

Assistance
- Government co-funding ratios for wage increases in 2019 and 2020 raised from current 15% and 10%, to 20% and 15% respectively.
- Qualifying gross wage ceiling raised to $5,000 for both years, up from the current $4,000

Application not required (IRAS will notify eligible employers)

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(F) DEFERMENT OF INCOME TAX PAYMENTS

Eligibility Criteria
All companies and SEPs

Assistance
- Automatically defer income tax payments for 3 months
  - For companies - payments due in April, May and June collected from July 2020
  - For SEPs - payments due in May, June, July collected from August 2020

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(H) RENTAL WAIVERS

Eligibility Criteria
- Eligible commercial and social sector tenants in government properties
- Tenancies do not exceed 3 years
- Do not pay property tax

Assistance
Up to 2 months rental waiver for commercial and other non-residential tenants in government properties

Commercial tenants with cash flow concerns may apply to SLA for assistance including flexible rental payments such as instalment plans.

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B IF YOU ARE A BUSINESS OWNER AND/OR DECISION MAKER FOR YOUR ORGANISATION

If your organisation is facing cash flow problems

B2 If the above measures are not sufficient, consider the following financing schemes

(A) ENTERPRISE FINANCING SCHEME -
Trade Loan
Enhanced help for trade financing needs

Eligibility Criteria
- Registered and operating in Singapore
- Minimum of 30% local shareholding
- Maximum Borrower Group revenue cap of $500million for all enterprises

Assistance
- Maximum loan quantum increase from $5million to $10million
- Risk-share from Government increase from 50-70% to 90% for new applications initiated from 8 April 2020 until 31 March 2021

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(B) ENTERPRISE FINANCING SCHEME -
SME Working Capital Loan
Enhanced help for SMEs' working capital needs

Eligibility Criteria
- Business entity registered and physically present in Singapore
- Minimum of 30% local shareholding
- Maximum Borrower Group revenue cap of $500million for all enterprises
- Group revenue of up to $100million or maximum employment of 200 employees

Assistance
- Maximum loan quantum increase from $0.3million to $1million
- Risk-share from Government increase from 50-70% to 90% for new applications initiated from 8 April 2020 until 31 March 2021
- May request for deferment of principal repayment for 1 year, subject to assessment by participating financial institutions

SCAN ME

(C) MAS AND FINANCIAL INDUSTRY SUPPORT SCHEME
Support SMEs with access to bank credit and insurance cover

Eligibility Criteria
SMEs that continue to pay interest and are in good standing with their banks and finance companies (for deferment of loan payments)

Assistance
- May opt to defer principal payments on secured term loan
- Assistance with insurance premium payment

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(D) TEMPORARY BRIDGING LOAN PROGRAMME
Provide access to working capital for business needs

Eligibility Criteria
- Business entity registered and physically present in Singapore
- Minimum of 30% local shareholding
- Cover all sectors

Assistance
- Maximum support loan of $5million, with interest rate capped at 5% p.a
- Government provides 90% risk-share on loans initiated from 8 April 2020 until 31 March 2021
- May request for deferment of principal repayment for 1 year, subject to assessment by participating financial institutions

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(E) LOAN INSURANCE SCHEME
Secure short-term trade financing loans

Eligibility Criteria
- Business entity registered and physically present in Singapore
- Minimum of 30% local shareholding
- Group revenue of up to $100million or maximum employment of 200 employees

Assistance
- Subsidy for loan insurance premium increase to 80%

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If your organisation is facing problems with excess staff

B3 Consider the following schemes that will help to keep your employees

(A) WORK-LIFE GRANT
Grants to implement flexible work arrangements

Eligibility Criteria
- Employers who implement flexible work arrangements for local employees (regular employees on permanent or a minimum employment contract term of 12 months)

Assistance
- Receive lump-sum grant to implement flexible work arrangements or job sharing for local employees
- Sector specific resources developed to facilitate implementation of flexiwork arrangements

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(B) TEMPORARY SCHEMES TO MANAGE MANPOWER
Flexibility to manage manpower needs

Companies with excess manpower can transfer their work permit holders to other companies quickly and companies facing shortage can tap on bigger pool of experienced work permit holders

Assistance
- Allow inter-sectoral transfer of foreign workers for all sectors
- Allow transfer of foreign workers whose work permits are nearing expiry for all sectors

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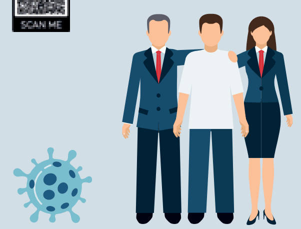

(C) TRAINING EMPLOYEES TO UPGRADE SKILLS AND EMPLOYABILITY
Consider SSG training grants for employers to upskill and/or reskill your employees

Companies can tap on training support schemes under the SkillsFuture movement, redeployment programmes under the Adapt and Grow initiative and other government grants.

Eligibility Criteria
- All companies registered or incorporated in Singapore
- Trainee on the approved course is a SC or PR
- Trainee must be employed by the applicant company
- For all other detailed eligibility criteria, please refer to:

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Assistance
- Enhanced Training Support for SMEs
  - SMEs receive up to 90% of the course fees when they sponsor their employees to attend courses supported by SSG
  - Enhanced Absentee Payroll (AP) Funding: SMEs may claim AP funding of 80% of basic hourly salary at a higher cap of $7.50 per hour
- Non-SMEs
  - Non-SMEs receive up to 70% (or up to 90% for mid-career workers) of the course fees when they sponsor their employees to attend courses supported by SSG
  - Absentee Payroll Funding: Non-SMEs may claim AP funding of 80% of basic hourly salary at a cap of $4.50 per hour

SCAN ME

(D) ALTERNATIVES TO RETRENCHMENT
Consider alternatives to keep business viable and support employees

- Redeploy employees to alternative areas of work within the company
- Implement flexible work schedule, flexible work arrangements, shorter work-week, or temporary layoff
- Adjust wages in line with tripartite norms
- Implement no-pay leave

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If you are in the worst-case scenario and looking for guidance to responsible retrenchment

WORST-CASE SCENARIO: RESPONSIBLE RETRENCHMENT
For guidance to responsible retrenchment

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If your organisation is thinking of digital transformation for now and future

B4 SME Good to have external consultant's help to go digital

(A) VISIT SME CENTRE

Eligibility Criteria
All SMEs

Assistance
- Free one-to-one business diagnosis and advisory services in areas like productivity, finance, human resources and overseas expansion
- Includes advisory on digitalisation with the SMEs Go Digital programme - identifying suitable digital solutions and training based on sector-specific Industry Digital Plans (IDPs)
- Capability workshops
- Group-based upgrading projects for businesses in the same trade and vicinity

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(B) VISIT SME DIGITAL TECH HUB

Eligibility Criteria
All SMEs

Assistance
- Provides specialised digital technology advisory to SMEs with more advanced digital needs, such as data analytics and cybersecurity
- SMEs can visit any of the SME Centres to get started. Advisors at the SME Centres will provide basic advice on IMDA-approved solutions and refer them to the SME Digital Tech Hub for assistance on more advanced needs.

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B5 SMP Good to have external consultant's help to go digital

(A) VISIT ISCA SMP CENTRE

The Small and Medium-sized Practices (SMP) Centre is a dedicated, one-stop virtual platform of information, tools and services to help SMPs build productive and competitive businesses.

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For advisory on digitalisation of your firm or other SMP related enquiries, please complete the consultation form.

SCAN ME

B6 Do not need external consultant's help to go digital

(A) STAY HEALTHY, GO DIGITAL: DIGITAL SOLUTIONS DIRECTORY

Jointly curated by IMDA and SGTech, the Directory lists solutions that SMEs need for business continuity amid COVID-19, across several key categories:
- Remote Working
- Visitor Management
- Bill and Pay Online
- Sell Online
- Others

Some of these solutions are free, some are supported by PSG, some come with limited time offers by the solution providers.

The "Stay Healthy, Go Digital" landing page also has other relevant resources for SMEs: training resources, explanation of other government assistance, e.g. E-invoicing Registration Grant.

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B) PRODUCTIVITY SOLUTIONS GRANT (PSG)

Eligibility Criteria
- Registered and operating in Singapore
- Purchase/lease/subscription of the IT solutions or equipment must be used in Singapore
- (Selected solutions only) An SME with minimum 30% local shareholding; AND Company's Group annual sales turnover less than $100 million, OR less than 200 employees

Assistance
Maximum of 80% grant for pre-approved solutions under the SMEs Go Digital programme (80% support is valid till 31 Dec 2020, 70% thereafter)

Refer to sector-specific IDPs for a step-by-step guide on the sector-specific digital solutions and training that meet your needs

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Select PSG-supported solutions based on the needs identified in the IDPs

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(C) ENTERPRISE DEVELOPMENT GRANT (EDG)

Eligibility Criteria
- Registered and operating in Singapore
- Minimum of 30% local shareholding
- Be in a financially viable position to start and complete the project

Assistance
- Maximum of 80% grant on qualifying project costs namely third party consultancy fees, software and equipment, and internal manpower cost
- For enterprises that are most severely impacted by COVID-19, the maximum support level may be raised to 90% on a case-by-case basis

SCAN ME

Produced by ISCA: Version 1 @ 7 April 2020

BY LIM JU MAY AND TERENCE LAM

COVID-19 TECHNICAL RESOURCES

Providing Guidance To The Profession

WHEN ONE THINKS OF THE PROFESSIONS WHICH HAVE BEEN SEVERELY AFFECTED BY COVID-19, images of workers in the healthcare, law enforcement and transportation sectors inevitably pop up, followed by travel and tourism, food and beverage... and the list goes on, especially as the pandemic continues.

While the disruption to the accounting and auditing segments has not been hogging the headlines, accounting and audit professionals are up against an array of challenges in a battle to uphold the quality and integrity of financial information in these trying times.

To help the accountancy profession address some of these challenges, ISCA's Covid-19 Working Group has published guidance in the form of Frequently Asked Questions (FAQs). ISCA, through its Auditing and Assurance Standards Committee (AASC) and Financial Reporting Committee (FRC), also issued:

- Audit Guidance Statement 12 (AGS 12) *Group Audits: Inaccessibility Of Component Auditors' Work Papers And Other Considerations* (issued by AASC);
- Financial Reporting Bulletin 2 (FRB 2) *Accounting Implications Arising From Covid-19 For Entities With 31 December 2019 Financial Reporting Date* (issued by FRC);
- Financial Reporting Bulletin 5 (FRB 5) *Covid-19 Government Relief Measures: Accounting For Singapore Property Tax Rebate From The Perspective Of The Landlord And The Tenant* (issued by FRC).

ISCA COVID-19 WORKING GROUP

Background

In view of the far-reaching accounting and auditing implications of Covid-19, AASC and FRC, in collaboration with Accounting and Corporate Regulatory Authority (ACRA), have formed a joint Covid-19 Working Group to support the accountancy profession in dealing with these challenges.

Form of guidance

The Working Group publishes guidance in the form of FAQs to share its deliberations on the accounting and auditing issues faced by the profession. These FAQs are published after incorporating inputs from AASC, FRC and ACRA.

The FAQs do not constitute an authoritative pronouncement of ISCA; nor do they amend or override the Singapore Financial Reporting Standards (International) (SFRS(I)s) or Financial Reporting Standards (FRSs) issued by the Accounting Standards Council, or Singapore Standards on Auditing (SSAs); they are also not considered long-term solutions to be applied when normal circumstances resume. Nonetheless, we encourage the profession to apply the guidelines within.

Composition of the Working Group

The Working Group is co-chaired by AASC Chairman Hans Koopmans and FRC Chairman Reinhard Klemmer, and comprises practitioners and ACRA representatives.

> **"In these unprecedented times, preparers of financial statements and auditors are facing many new challenges. I am heartened by this collaboration between ISCA, the practitioners and ACRA, which I believe will help to give guidance on how to address the challenges while meeting the needs of investors."**
>
> **ONG KHIAW HONG, Chief Executive, Accounting and Corporate Regulatory Authority**

PHOTO SHUTTERSTOCK

ISSUANCE OF FAQS

The FAQs have been issued in batches since 16 April 2020. Among the issues addressed are:

FAQ 2: For entities with financial reporting dates after 31 December 2019, is the Covid-19 outbreak a post-balance sheet event or an event that occurred during the financial period?

It is likely that the Covid-19 outbreak is not a post-balance sheet event for entities with financial reporting dates after 31 December 2019. This is because in Singapore, we consider the Covid-19 to be an outbreak in January 2020 as prior to this, it was considered to be isolated cases.

However, other related developments, in relation to Covid-19, put in place subsequent to the entity's financial reporting date will be post-balance sheet events. Careful consideration and judgement is required to assess whether these post-balance sheet events are adjusting or non-adjusting. This assessment depends on factors such as the financial reporting date of the entity and the particular event under consideration.

To illustrate, consider the following examples (important note: the following examples are purely illustrative in nature; entities are required to assess the impact of the Covid-19 outbreak and other related developments according to their specific facts and circumstances):

ENTITY A

Fact pattern

- Financial reporting date: 31 January 2020
- Singapore-incorporated entity, with significant operations in the Hubei province in China (example, suppliers, customers and manufacturing facilities are located in the Hubei province in China)

Analysis

- During the month of January 2020, the number of Covid-19 cases in China had been increasing and Wuhan was placed under quarantine (on 23 January 2020) with Hubei province following suit within days.
- The World Health Organisation (WHO) declared a global public-health emergency on 30 January 2020.
- The Covid-19 outbreak is an event that occurred during Entity A's financial reporting period. Therefore, the impact of Covid-19 outbreak on Entity A's assets and liabilities should have been assessed and recognised in Entity A's financial statements as at 31 January 2020.

ENTITY B

Fact pattern

- Financial reporting date: 31 March 2020
- Singapore-incorporated entity, with no foreign operations
- Owns and operates a hotel in Singapore
- Hotel occupancy rates have dropped since February 2020

Analysis

- The WHO declared the Covid-19 outbreak as a pandemic on 11 March 2020.
- The Singapore government announced, on 3 April 2020, the closure of most workplace premises from 7 April to 4 May 2020.
- The Covid-19 outbreak is an event that occurred during Entity B's financial reporting period. Therefore, the impact of Covid-19 outbreak on Entity B's assets and liabilities should have been assessed and recognised in Entity B's financial statements as at 31 March 2020.
- Although the "closure of most workplace premises" is an event that occurred subsequent to Entity B's financial reporting period, the impact of this measure was reasonably expected as at 31 March 2020.
- The rationale is that the hospitality industry (which includes Entity B which owns and operates a hotel) was already impacted by travel restrictions imposed since February 2020, as well as safe-distancing measures which had been effective as at 31 March 2020, and there had been expectations that stricter measures may be further imposed by the Singapore government. Accordingly, Entity B should assess the reasonably expected impact of the "closure of most workplace premises" on its assets and liabilities as at 31 March 2020, and make the appropriate adjustments to the measurement of assets and liabilities.

PHOTO SHUTTERSTOCK

FAQ 6: Can we perform the audit without sighting to the original documents?

Audit evidence can exist in electronic form, which includes documents that have been digitised, or system-generated reports. However, the auditor should be mindful that documents received from clients which are in digitised form are less reliable than original documents.

It is a matter of judgement to determine what audit procedures to perform when evaluating the authenticity of documents. The risk is higher as the volume of non-original documents used in an audit increases. Therefore, as with any heightened risk, the nature and extent of procedures performed to verify authenticity of these documents need to increase.

The auditor should remain alert to indicators that suggest that electronic information has been modified from the originals. Indicators can include missing basic information, changes to the usual format and missing or inconsistent-looking authorised signatories, among others. The auditor should also ensure that electronic information is consistent/corroborative with other audit evidence obtained throughout the audit when concluding on the authenticity.

Accordingly, auditors need to evaluate the quality of audit evidence received electronically and exercise greater professional scepticism as the proportion of such audit evidence increases. Some of the procedures which can be performed by the auditor include, but are not limited to, the following:

Testing the authenticity of electronic information

1) Testing controls over the preparation and maintenance of electronic information

The auditor should obtain an understanding of management's process and controls over the preparation and maintenance of electronic information. Such controls can include controls that prevent electronic information from being shared with unauthorised personnel (example, password encryption) and controls that prevent unauthorised edits (example, read-only access), among others. Where reliance is placed on such controls, the auditor performs the necessary test of controls to determine whether the controls are operating effectively.

In circumstances where electronic information preparation and maintenance are not subject to relevant controls due to working remotely[1], the auditor should obtain an understanding of the mitigating controls.

A possible way is to walk through the information preparation process with the preparer through technological means, such as video-conferencing.

Where reliance is placed on such mitigating controls, the auditor performs the necessary test of controls to determine whether the controls are operating effectively. The auditor should be mindful that any mitigating controls could be weak and there is potentially heightened risk in relying on such information.

It is possible that management may not have put in place controls over the preparation and maintenance of electronic information if management does not ordinarily convert information into digitised form and took this step only as an immediate response to the circuit-

[1] This encompasses situations such as employees working from home or remotely accessing accounting systems and company-shared drives as a result of circuit-breaker measures

breaker measures. In such instances, if the auditor is planning to rely on the digitised information from management, he should perform substantive procedures to establish the reliability of such information.

2) Performing additional substantive procedures

Where controls over the preparation and maintenance of electronic information do not exist, or where testing of controls does not provide sufficient evidence to establish reliability of such information, the auditor should perform substantive procedures to obtain sufficient appropriate audit evidence over the authenticity of the electronic information used as audit evidence.

Depending on the assessed risk that such evidence may not be reliable, it may be necessary for the auditor to perform further procedures to verify the authenticity of the documents including confirming the documents with third parties. It may also be possible to perform independent verification of certain details in the document against publicly available sources such as Internet searches of vendor details, address, email, etc.

If management has access to the original hard copies, a possible way that the auditor can inspect these documents is through technological means.

The auditor should note that for procedures over higher risk areas, such as review of significant contracts, it is important to sight to the original documents. Where it is impractical to review the originals through technological means, the auditor would need to wait until conditions allow for it.

The auditor may also note that the annual returns filing due dates for the period 1 May 2020 to 31 August 2020 for all listed and non-listed companies will be extended by 60 days. For more

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information on annual returns filing, you may refer to FAQ 5: As a result of enhanced safe distancing and circuit-breaker measures imposed by the Singapore government, entities may experience difficulties holding AGMs and filing their Annual Returns on time. Would these entities have to seek an extension from ACRA or SGX?

The Working Group will continue to publish new FAQs to support the profession throughout this delicate period.

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

Under normal circumstances, the review of a component auditor's work papers is ideally performed physically – with members of the group engagement team travelling to the component auditor's office. With the travel restrictions due to Covid-19, this may not be an option for most group audits. While the use of technology may be of help, such as file-sharing or video-conferencing, it is worth noting that, in practice, this may not be common when the component auditor is not an affiliated network firm and where there may be regulatory restrictions on the sharing of documents.

ISCA has thus issued AGS 12, which provides guidance on reliance on 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 the component auditor's work papers due to an extraordinary event, such as the current pandemic.

Alternative method of performing review of work papers

Without visiting the component auditor's office or reviewing the work papers remotely through the use of technology, such reviews can also be performed by way of requesting the component auditor to provide a detailed reporting memorandum, corroborated through the group engagement team's discussions with the component auditor (which should be duly documented), especially on the significant risks of material misstatement and areas of significant estimates and judgements.

The group engagement team could also participate in the component auditor's key meetings (such as planning meetings and finalisation meetings) with the component's management team via video/ conference call, so as to understand the key accounting/audit issues discussed, and how they were resolved.

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

FRB 2 ACCOUNTING IMPLICATIONS ARISING FROM COVID-19 FOR ENTITIES WITH 31 DECEMBER 2019 FINANCIAL REPORTING DATE

FRB 2 addresses the question of whether the Covid-19 outbreak is an adjusting or non-adjusting event for entities with a 31 December 2019 financial reporting.

Is the Covid-19 outbreak an adjusting or non-adjusting event?

Although the first cases of Covid-19 surfaced in December 2019, there was no evidence of an outbreak and no adverse changes to the economic and market conditions (as a result of Covid-19) as at 31 December 2019.

The outbreak occurred after December 2019 and subsequently resulted in adverse changes to the economic and market conditions. Deterioration of economic and market conditions in 2020 may be traced to the fallout from the surge in Covid-19 cases after December 2019, such as regulatory actions like travel restrictions and quarantine measures by several countries.

These subsequent events are not indicative of conditions that existed as at 31 December 2019. Therefore, in ISCA's view, the Covid-19 outbreak is a non-adjusting event for entities with a 31 December 2019 financial reporting date.

FRB 2 also highlights potential implications arising from the Covid-19 outbreak on financial statements disclosures and going concern assessments.

FRB 5 COVID-19 GOVERNMENT RELIEF MEASURES: ACCOUNTING FOR SINGAPORE PROPERTY TAX REBATE FROM THE PERSPECTIVE OF THE LANDLORD AND THE TENANT

To help businesses deal with the impact from Covid-19, the Singapore government has given property tax rebates to qualifying non-residential properties for the period from 1 January to 31 December 2020.

FRB 5 was issued to provide accounting guidance and key considerations on how to account for these rebates granted by the Singapore government to the landlord (from the landlord's perspective) and how to account for the related rental rebate granted by the landlord to the tenant (from the tenant's perspective). FRB 5 also includes an illustrative example to aid in the understanding of the principles being applied. ISCA

ISCA's Covid-19 related technical resources can be found at https://isca.org.sg/covid-19-series/resources/technical-resources/

Lim Ju May is Deputy Director, and Terence Lam is Senior Manager, Technical, ISCA.

BY STELLA LAU

A THIRD STIMULUS: THE SOLIDARITY BUDGET

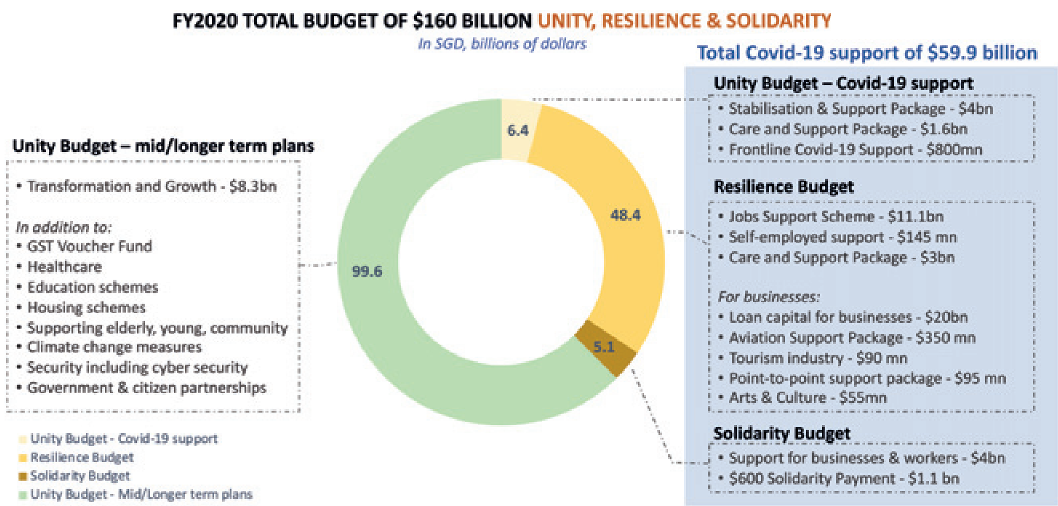
An Extra Boost To Unity And Resilience Budgets

JUST A DAY BEFORE THE MONTH-LONG NATION-WIDE "CIRCUIT-BREAKER" MEASURES KICKED IN, a third round of support measures was unveiled on 6 April 2020 by Deputy Prime Minister (DPM) and Finance Minister Heng Swee Keat in Parliament. The Solidarity Budget – so named to rally much-needed unity, mutual support and confidence in the face of the Covid-19 outbreak, dubbed the worst global crisis since World War II[1] – arms Singapore with an additional $5.1 billion in its fight.

Smaller than the two earlier launched packages to mitigate the damage to the economy caused by the ongoing pandemic, namely, the $6.4-billion Unity Budget and $48.4-billion Resilience Budget, the Solidarity Budget was a quick response just 11 days after the preceding Resilience Budget was announced on 26 March 2020. Specifically, it is a decisive move to help businesses and workers tide over drastic but necessary "circuit-breaker" measures that would close businesses and schools, directly affecting the majority of sectors and workers. It is aimed at saving jobs, protecting livelihoods and supporting businesses, to preserve capacity and capabilities.

Even as a nation well-known for fiscal prudence, Singapore has had to pull out all stops to strengthen its shield against the onslaught on its economic and social fronts. The three Budget packages to address the impact of the virus outbreak totals $59.9 billion, or 12% of Gross Domestic Product (GDP). Including the remaining allocated amount from the Unity Budget for more mid- to longer-term plans, the total expenditure stands at $160 billion for the year 2020, or about 32% of GDP. This is the largest spending in Singapore's history, and has also resulted in the largest-ever deficit of $44.3 billion, or 8.9% of GDP. It also warrants a total draw of $21 billion from past reserves, of which $4 billion will be drawn to fund the Solidarity Budget (Figure 1).

Figure 1



Note: Budget amounts indicated for schemes in the boxes may not add up to respective Budget amounts. Schemes and packages listed are highlighted as key components of each Budget package.
Source: Singapore Budget 2020 https://www.singaporebudget.gov.sg/budget_2020

[1] Transcript Of UN Secretary-General's Virtual Press Encounter To Launch The Report On The Socio-Economic Impacts Of Covid-19" (31 March 2020), United Nations Secretary-General online

PHOTOS SHUTTERSTOCK

Like the two earlier tranches of aid measures, the Solidarity Budget is broad-based and is aimed at disseminating widespread support quickly. An extension of the Resilience Budget, it features enhancements to newly introduced financial schemes and payouts. At the same time, there are also measures to provide emotional and mental support to Singaporeans, such as maintaining community mental health support services during the circuit breaker, and also the setting up of a new National Care hotline to offer psychological first aid. A summary of the enhancements is as follows.

1) HELPING BUSINESSES, WORKERS, AND THE SELF-EMPLOYED

Increased support in Cost, Cash, Credit

A. Costs and Cash Flow

- The Jobs Support Scheme (JSS) provides support to businesses through subsidising wage costs for local and foreign workers. This applies to all 1.9 million local employees and is targeted at helping firms retain workers as well as continue paying workers without implementing no-pay leave or retrenchments. Enhanced measures are as follows:
  - Wage subsidy *increased* for all firms to 75% for the first $4,600 (median wage level of full-time employed residents) of gross monthly wages, for April 2020
  - First JSS payout *brought forward* from May to April 2020
- For foreign workers, levy rebates and waivers will be provided. This will enable firms to take care of workers and retain them so that operations can quickly resume after the circuit breaker period.
  - *Levy waived* for month of April 2020
  - *Levy rebate* of $750 provided for each work permit or S-pass holder, based on previous levies paid in 2020
- A second set of measures implemented is aimed at providing rental cost relief. Measures are reinforced through legalisation to enable enforcement. This is aimed at ensuring that benefits are cascaded down to tenants.
  - Bill introduced to *allow deferment* of contractual obligations such as paying rent, repaying loans, or completing work, for a period
  - Bill introduced to ensure property owners *pass on Property Tax rebates in full* to tenants
  - *Increased rental waiver* from the government, as a major landlord, for industrial, office, agricultural tenants to one month, up from 0.5 month. Stallholders in hawker centres and commercial tenants will continue to benefit from three months and two months of rental waivers respectively.

JOBS SUPPORT SCHEME
(% share of subsidy, for the first $4,600 of wages)

Resilience Budget		Solidarity Budget
25% All local employees 50% Food services sector 75% Aviation and tourism sectors	INCREASED	75% for all sectors All 1.9 million local employees For April 2020

STEPPING UP ON RENTAL SUPPORT

- **Legalised deferment** of contractual obligations
- **Enforcement** of passing on of **property tax rebates**
- **Increase of rental waiver** to one month

B. Credit

- The government will also help enterprises with financing support and access. The government ***will increase its risk share of loans*** from 80% to 90% under the below-mentioned programmes, for loans initiated from 8 April 2020 to 31 March 2021.
  - **The Temporary Bridging Loan** provides working capital to enterprises. Eligible enterprises may borrow up to $5 million with interest rate capped at 5% p.a., from participating financial institutions.
  - Under the Enterprise Financing Scheme (EFS), the government's risk share will be enhanced specifically for **EFS-SME Working Capital Loan** and **EFS-Trade Loan** programmes. Introduced to help enterprises better access financing throughout various stages of growth, the EFS-SME Working Capital Loan was designed to help small and medium-sized enterprises (SMEs) with working capital needs. The maximum loan quantum was raised from $300,000 to $1 million.[2]
  - The Trade Loan (TL) programme helps enterprises with trade financing needs. The maximum loan quantum has been increased from $5 million to $10 million. It covers enterprises' domestic and overseas transactions and complements the Loan Insurance Scheme (LIS) by insuring loans beyond the capacity of LIS insurers. The TL programme pertains to financing trade needs, including (i) inventory/stock financing, (ii) structured pre-delivery working capital (revolving working capital), (iii) factoring/bill of invoice/AR discounting, and (iv) overseas working capital loan.[3]
- SMEs can defer principal payments on secured term loans till end of the year. Over $40 billion of SMEs' existing loans are likely to qualify for this relief.
- Also, banks and financing companies can apply for low-cost funding through a new Singapore Dollar facility under Monetary Authority of Singapore, for loans granted under the EFS–SME Working Capital Loan and TL programmes. They must then pass on the savings to borrowers.

GOVERNMENT'S RISK SHARE
increased from 80% to 90%

Temporary Bridging Loan	Enterprise Financing Schemes: SME Working Capital Loan	Enterprise Financing Schemes: Trade Loan
• Provides working capital to enterprises • Loans up to $5 million with interest rate capped at 5% p.a.	• Designed to help SMEs with working capital needs • Maximum loan quantum raised to $1 million, from $300,000	• Helps enterprises with trade financing needs • Maximum loan quantum increased to $10 million, from $5 million

C. For Self-Employed Persons

Support under the Self-Employed Person Income Relief Scheme (SIRS) will be broadened and cater to self-employed people who also earn a small income from employment. It will be capped at $2,300 per month, which is the current Workfare income ceiling. The scheme will cover those who live in properties with annual value of up to $21,000, up from $13,000, which includes those living in condominiums and private properties.

Under the SIRS scheme announced in the Resilience Budget, self-employed persons will receive $9,000 in total payout over nine months, starting May 2020. This is expected to benefit about 100,000 self-employed persons, an increase from 88,000.

Other criteria will remain in place to ensure assistance is directed to those who are in need, including limiting the support to those who own two or more properties with their spouse. Their spouse's income should also not exceed $70,000.

2) FOR HOUSEHOLDS

Direct and Quick Support in Cash

To provide direct and quick support to Singaporeans, a one-off $600 cash payout, named Solidarity Payment, will be issued in stages starting 14 April 2020.

In the Resilience Budget, under the Care and Support scheme, cash payouts of $300 to $900 will be paid out to every adult Singaporean, double the amounts announced in the Unity Budget. From this, $300 payout will be brought forward and topped up with an additional $300 to constitute the $600 Solidarity Payment.

This is over and above the remaining cash payouts of $300 and $600 under the Care and Support scheme, which will be issued later in June 2020 to lower- and middle-income Singaporeans. Additional $300 cash will be given out to Singaporean parents with at least one Singaporean child aged 20 and below. Those aged 50 and above can expect a $100 top-up of the PAssion Card, paid out in cash.

CONCLUSION

While the slew of measures is unlikely to be a panacea for all problems, it definitely provides temporary financial relief. In DPM Heng's Supplementary Budget round-up speech, he pointed out that the best response to the crisis is to build resilience in the economy and society, an objective of the two additional support packages. He urged businesses to utilise the resources "wisely" and "responsibly", reminding them to keep the longer-term view in mind and to be prepared for recovery. ISCA

Stella Lau is Manager, Insights and Publications, ISCA.

Support measures enhanced for circuit breaker extension[4]

On April 21, Prime Minister Lee Hsien Loong announced that the circuit breaker will be extended for another four weeks until June 1. Also, stricter restrictions will be imposed for at least two weeks, from April 21 to May 4. Along with this, support measures in the Solidarity Budget 2020 have been enhanced to protect livelihoods and stabilise businesses, and will cost an additional $3.8 billion. These include:

- Jobs Support Scheme of 75% wage subsidy across all sectors in April 2020 will be extended to May 2020;
- Jobs Support Scheme will be expanded to cover shareholder-directors with assessable income equal or below $100,000;
- Foreign worker levy waiver and rebate ($750 a month) in April 2020 will be extended to May 2020.

All other previously announced support and relief measures will continue to apply.

For ***IS Chartered Accountant Journal's*** coverage of Budget 2020, please refer to:
- ISCA Pre-Budget Roundtable 2020: **https://journal.isca.org.sg/2020/01/29/isca-pre-budget-roundtable-2020/pugpig_index.html**
- Budget 2020 (Unity Budget): **https://journal.isca.org.sg/2020/03/02/budget-2020/pugpig_index.html**
- Supplementary Budget 2020 (Resilience Budget): **https://journal.isca.org.sg/2020/04/02/supplementary-budget-2020-the-resilience-budget/pugpig_index.html**

For more information on the Budget, please refer to:
- Solidarity Budget Statement full statement: **https://www.singaporebudget.gov.sg/budget_2020/solidarity-budget/solidarity-budget-statement**
- Solidarity Budget Summary for a summary of enhanced measures introduced for businesses, workers and households: **https://www.singaporebudget.gov.sg/budget_2020/solidarity-budget/solidarity-budget-measures/solidarity-budget-booklet-eng**
- For all three Budget 2020 statements and relevant documents on the Singapore Budget 2020 site: **https://www.singaporebudget.gov.sg/budget_2020/**

ISCA Covid-19 Navigator
ISCA has put together the Covid-19 Navigator (**https://isca.org.sg/covid-19-series/resources/business-support/**) that provides an overview of the schemes announced in the government's support packages, industry transformation and development programmes, as well as ISCA's initiatives. It is designed to help members better understand how these schemes can be relevant to them, and how they can access these schemes for themselves and/or for their organisations.

[2] EFS-SME Working Capital Loan, Enterprise Singapore; https://www.enterprisesg.gov.sg/financial-assistance/loans-and-insurance/loans-and-insurance/enterprise-financing-scheme/sme-working-capital/overview

[3] EFS-Trade Loan, Enterprise Singapore; https://www.enterprisesg.gov.sg/financial-assistance/loans-and-insurance/loans-and-insurance/enterprise-financing-scheme/trade-loan/overview

[4] https://www.mof.gov.sg/Newsroom/press-releases/government-to-continue-support-measures-to-protect-livelihoods-and-stabilise-businesses-during-extended-circuit-breaker-period

BY CHUA KIM CHIU

DON'S COLUMN

WILL ROBOTS TAKE OVER THE ACCOUNTANT'S JOB?

Not When Human Judgement Is Still Required

A FEW YEARS AGO, a website was launched that claimed to rank various professions according to their likelihood of automation. For accountants and auditors, the website spelt out its blunt verdict in a stark, bold font, "**You are doomed.**"

But is this really the case?

As a former partner with a Big Four firm and now a professor of accounting, I obviously have a significant stake in the trade. But to adapt a line from American author Mark Twain, reports of the death of accountants have been greatly exaggerated.

Let's consider the facts. The Singapore Accountancy Commission's Accounting Entity Survey 2019 (AE Census 2019) found that the nation's accounting industry actually registered strong revenue growth in 2018. The revenue reached $2.53 billion, an 8% growth compared to 2017, with a 7% expansion in the workforce in 2018. The sector is doing well in relation to the whole Singapore economy, which grew by 3.2% in 2018.

There is no doubt that automation is here to stay. A recent report from PayPal showed that 89% of respondents believe that automation is good for the Singapore economy. It is clear that automation will change the way we work. In the same report, 77% of respondents said that new technology would greatly impact their jobs.

RIDING THE WAVE OF AUTOMATION

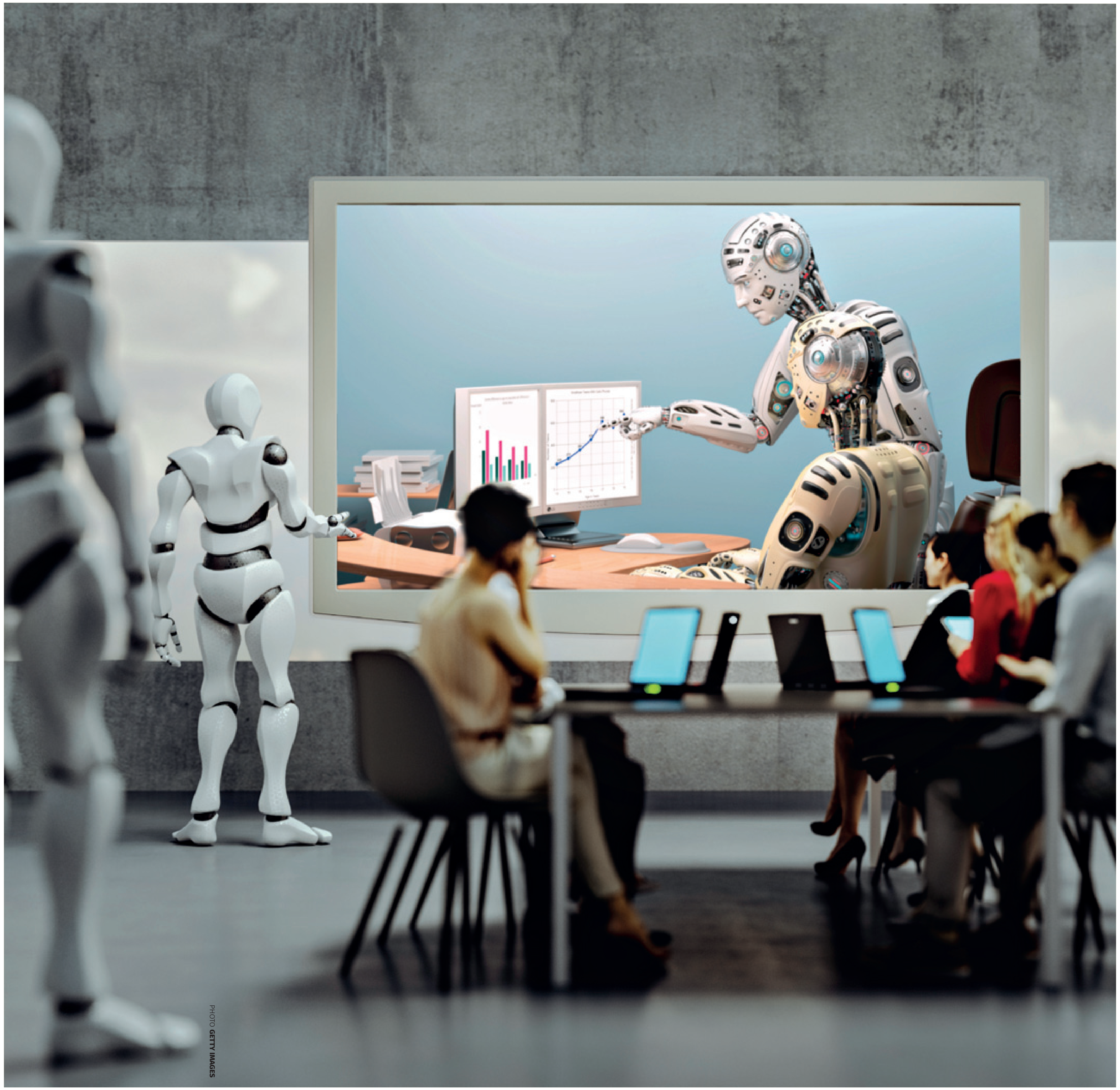
Accountants can ride the wave of automation. As technology takes over more rules-based and repetitive recordkeeping tasks, accountants and auditors have moved up the value chain to undertake more complex, challenging and enriching work. Today's accountant may be an external auditor evaluating the client's complex merger and acquisition transaction, an internal auditor assessing the organisation's cyber defence strategy, a Chief Financial Officer exploring various fundraising options or an analyst valuing an Initial Public Offering-aspirant's shares.

And help is given. In 2018, Singapore announced the Accountancy Roadmap that focused on developing skills, boosting productivity, fostering innovation and promoting internationalisation. The Roadmap included $2.4 million in funding support for smaller accounting firms' digitalisation. A year later, the Accountancy Industry Digital Plan was set in place to support the Roadmap. Small and medium-sized accounting firms can go to new innovation centres to seek digital solutions or prototype ideas.

STILL NASCENT, BUT THE TIME IS NOW

The application of data analytics (DA), robotic process automation (RPA) and artificial intelligence

Delivering insightful judgements, spotting meaningful patterns from big data, balancing stakeholders' interests and having the mental flexibility to understand the many humanistic nuances are among the critical competitive skills needed to add value for employers or clients.



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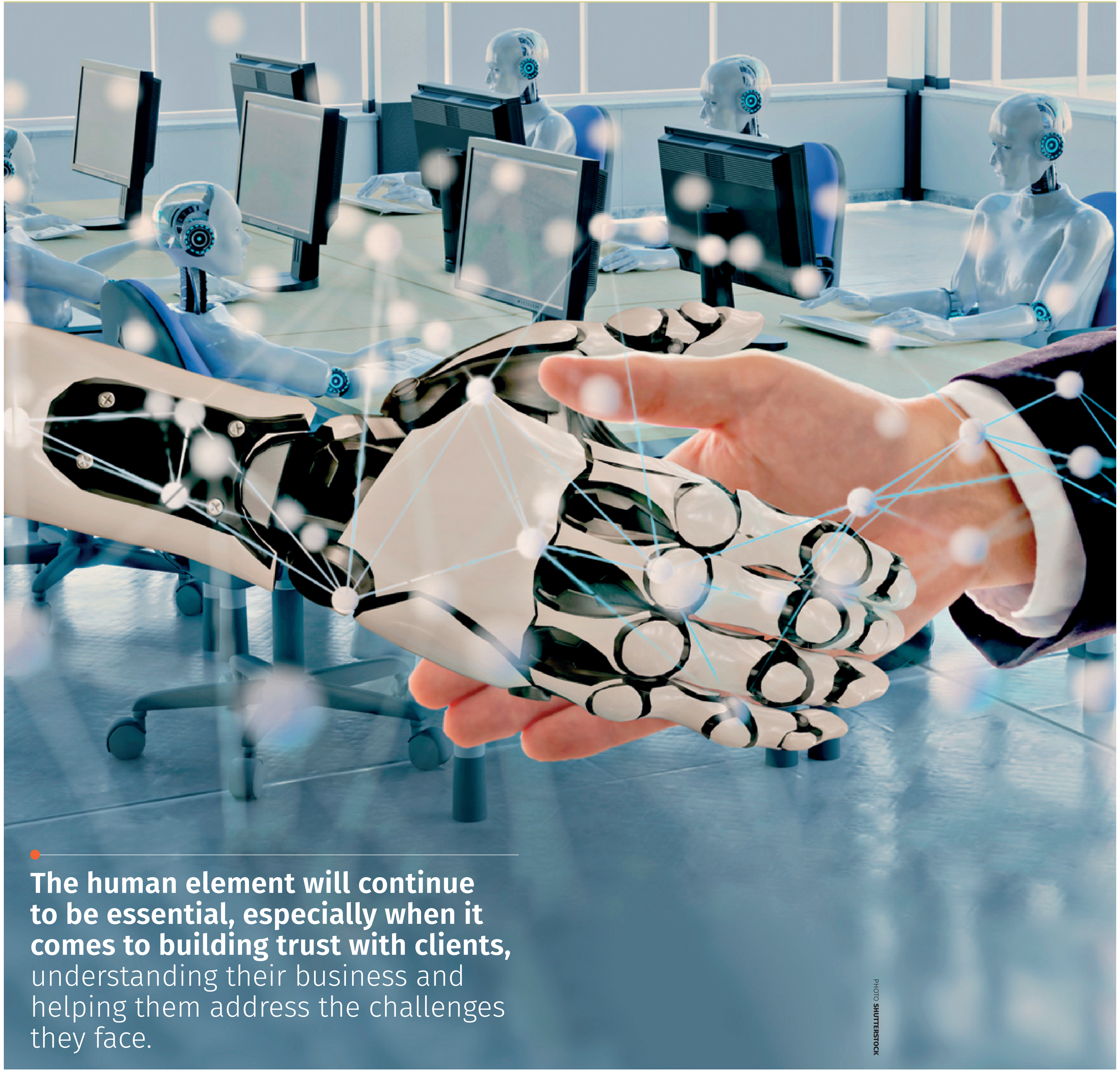

The human element will continue to be essential, especially when it comes to building trust with clients, understanding their business and helping them address the challenges they face.

PHOTO SHUTTERSTOCK

(AI) is still at a nascent stage in the accounting industry, when compared to other fields such as retail, banking, insurance and medical services. However, most large auditing firms are currently in a game-changing phase as they embark on pilot projects to automate the auditing process.

For instance, PwC has initiated the re-engineering and automation of the audit of journal entries with a software tool called Halo. Halo utilises data auditing technology capable of analysing huge volumes of accounting or other business-critical data, thereby improving the overall efficiency of the testing process. The firm has also invested heavily in a firm-wide programme to make all staff more digital-savvy.

There is potential in automation. In Deloitte's 5th Annual Global Robotics Survey 2019, over 500 executives in 26 countries across the globe were asked about their intelligent automation strategies and the impact on their workforce. The respondents said they expected automation to increase their workforce capacity by 27% over the next three years, with a significant rise in productivity and enrichment in human experience as the employees' work becomes more meaningful.

ACCOUNTANTS PLAY BEYOND TECHNICAL ROLES

Accountants and auditors play a key role in producing high-quality and reliable financial information. This function has existed since the 1800s and is expected to continue, as long as there is a separation of company ownership and management. This function also exists because investors need financial reporting for accountability, corporate governance and decision-making. Automation has certainly taken over many of the more monotonous process elements of traditional accounting and auditing.

But in today's complex and dynamic global business climate, accountants and auditors are performing much more than a technical role. Delivering insightful judgements, spotting meaningful patterns from big data, balancing stakeholders' interests and having the mental flexibility to understand the many humanistic nuances are among the critical competitive skills needed to add value for employers or clients. In one firm, a valuation team has devised a comprehensive spreadsheet to automate the valuation of acquisition targets. With a few key strokes, the valuations pop up on the computer but the results are often far out of the reasonable range expected by the valuers. This is because while the automated model incorporates some clear-cut factors, it lacks the human ability to consider other nuanced factors too complex for modelling. The machine's output, based on a narrow set of inputs, is just the first cut. From this, humans must continue to use their broader business sense and professional experience to polish it to a final product. Ultimately, it is the business leaders, not the machine, who make a final call based on their vision, judgement and business acumen.

The human element will continue to be essential, especially when it comes to building trust with clients, understanding their business and helping them address the challenges they face. Those of us who have interacted with the chatbots of service providers understand how impersonal and rigid the chatbot can be in answering our questions, let alone understand our real concerns and build rapport with us.

HUMAN AND MACHINE COLLABORATION

The real high-value intelligence comes from skilled humans who are able to apply this powerful technology to produce innovative applications and deliver critical insights – actionable intelligence that offers tangible business solutions and opens up opportunities.

For example, OCBC's internal audit team has begun to use DA and AI technology to help identify risk and improve audit efficiency. Starting with audit planning, they use the new tools to perform continuous monitoring of branch activities. This has proven more effective in spotting high and emerging risk areas for allocating audit hours. In audit execution, they leverage on the DA and AI technology to detect anomalies, spot trends and gain greater insights. The overall result is a higher degree of assurance compared to what was achievable without the aid of new technology. This also frees up the staff to spend more time on emerging issues in areas such as digitalisation and cyber security. This is a good example of how technology will be complementing and augmenting auditors' capabilities instead of replacing them.

BEING FUTURE-READY

Advances in technology do not spell the death of accounting and auditing. Few would yearn to go back to the days of menial number-crunching and form-filling. We must also recognise that technological change is an inevitability and something to be embraced as part of a process of continual learning.

For students considering studying for an accounting qualification, it is important to be aware that no job today is a job for life. The skills you learn at one stage are the stepping stones to another stage of learning, where you must acquire new skills and unlearn outdated ones.

Upskilling, after all, is not just about learning to cope with new technology. We must also keep pace with emerging business trends, enhance our business acumen, and improve our social and emotional skills such as creativity, versatility and agility that make the core attributes of a future-ready professional accountant. ISCA

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PHOTO: SHUTTERSTOCK

BY BENJAMIN LEE AND GARY PAN

DON'S COLUMN

DIGITALISATION OF SMES IN SINGAPORE

An Institute Of Higher Learning-Enterprise Partnership Model

DIGITALISATION DESCRIBES HOW DIGITAL (AND DISRUPTIVE) TECHNOLOGIES SUCH AS INTERNET OF THINGS, Big Data Analytics and Artificial Intelligence, etc, can be used to optimise existing business processes, hence allowing more efficient coordination between processes that enrich customer experiences and enhance business value. An illustrative example in digitalisation involves establishing visualisation dashboards of sales records, marketing patterns and growth metrics, and predictive models of future revenue trends. In this way, data visualisation and modelling can support a company in making critical business decisions on formulating product pricing and promotion strategies, and developing new product lines. In addition, productivity can be raised through the automation of business processes, bringing benefits that include increased efficiency, improved decision-making, and an enhanced control environment.

While digitalisation has been observed as broad-scale institutional change in numerous industries, small and medium-sized enterprises (SMEs) are just on the cusp of digital revolution. Even though most SMEs are well aware of the merits of digitalisation, when it comes to investing in digital technologies, some would say it is a huge commitment that may not always reap returns. SMEs' slowness in adopting digital technologies could be attributed to the inertia in taking the first step towards digitalisation – often seen by many as a journey of discovery and experimentation.

A common challenge in digitalisation for SMEs is that many are still operating as traditional, non-digital businesses. Owing to a lack of digital and technical knowledge, these SME owners feel intimidated by the idea of adopting digital technologies. They are not able to envisage how digital technologies could be leveraged to help them make better business decisions and improve business performance. As a consequence, these SMEs set a lower priority for investing in digitalisation when it comes to budget allocation.

AN IHL-SME PARTNERSHIP MODEL

To overcome the inertia, SMEs could consider partnering Institutes of Higher Learning (IHLs) through faculty-mentored student projects for their digitalisation efforts. These student projects often come at low to no cost, hence potentially lowering the hurdle for SMEs to embrace digitalisation. There are several benefits to such partnership. For example, student teams taking on such projects function like a consulting team that can work on exploring aspects of the SME's operations that may be overlooked because of day-to-day responsibilities. The experience they garner from the project also allows them to understand the inner workings of the SME, making them the ideal candidates as potential new hires. Through such projects, multifaceted real-world problems could be resolved with solutions addressing technical, business, and social issues. While it may require the engagement

SMEs could consider partnering Institutes of Higher Learning through faculty-mentored student projects for their digitalisation efforts. These student projects often come at no cost, hence potentially lowering the hurdle for SMEs to embrace digitalisation.

of the SME partner – from the definition of project specifications to the evaluation of students' skills – the collaboration will allow IHL students to better understand the growing complexities in running an SME, and build business capabilities that will benefit the overall SME sector.

This partnership idea is also reinforced in both Singapore Budget 2020 and ISCA Pre-Budget Roundtable 2020, which advocated a closer collaboration and deeper knowledge exchange between IHLs, such as universities and polytechnics, and SMEs, so as to build an enabling industry ecosystem that enhances efforts in the digitalisation of SMEs.

DIGITALISATION OF THE ACCOUNTING FUNCTION OF A LOCAL SME

A Case Study

An SME had commissioned a team of five accounting students to develop a forecasting model using analytics. The student team was from the Accounting Analytics Capstone (SMU-X) course offered by the School of Accountancy, Singapore Management University (SMU), in January 2018. For this project, the student-consultants applied their knowledge of accounting data and analytics, combining it with a multidisciplinary approach to solve real-world complex financial analytical problems that have real-time consequences.

Harnessing the powers of modern technology, a forecasting model with both analytical and predictive capabilities can offer many advantages to SMEs, which tend to have lean resources.

Issues facing the SME

The SME, which is in the food manufacturing business, had numerous issues that were impeding its growth.

It had to keep track of more than 40 varieties of products in different packaging designs and weight. In addition to the various retail packaging formats were customisations for private labelling, again in different packaging, weight and quantity, for different customers. The permutations resulted in voluminous stock keeping units (SKUs) that were challenging to manage; the company was also holding high quantities of raw materials and packaging materials.

As with many local SMEs, the SME wanted to explore overseas expansion but lacked important supporting information including operating costs, returns on investment, production quantity and more. Such information is a must to assess the potential risk of investing in different foreign markets, and its absence ultimately impeded the company's overall expansion strategy.

Value of a forecasting model

A key value proposition of data analytics is that it can help companies to visualise what the future holds, and hence, justify the decisions made.

Data analytics can be used to examine a company's historical sales figures, ascertain

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Through the partnership with IHLs, SMEs could gain completely new perspectives to some of their pre-existing problems, and sometimes even learn of a novel and effective solution to an issue.

the seasonal buying patterns, and define the products which are most responsive during certain timeframes. For this SME, data analytics revealed a spike in consumer demand from December to February every year, which coincided with the Christmas, New Year and Chinese New Year celebrations.

With the knowledge gleaned via technology, the SME could manage the supply chain process more efficiently during the festive period by adjusting its procurement of raw materials, and managing production, marketing, distribution and warehousing appropriately, to cater to the increased demand.

Using predictive analytics, the company could calculate the likelihood of success when introducing a new product in a new market. The predictive model suggested a few countries that had the market potential for the consumption of a specific item, and based on the preferred manufacturing quantity, it would also calculate the startup costs, sales volume that would enable the company to break even, returns on investment and expected profit following five years of operations. The predictive model also helped to quantify the potential reduction in revenue of well-established products upon the market introduction of a new product variant under the same family brand.

Leveraging technology, the SME is now able to collect data and analyse its spending patterns. Such data include purchase orders, card transactions, employee claims relating to travel, and medical and flexible benefits. The information provides answers to questions like, "Who is buying?"; "Who is selling?"; "What is being bought?"; "How many?"; "When is the transaction?" and "What is the mode of payment?", among others, all of which are the very questions that revolve around the work that Procurement does, to add value to companies.

Exploring clustering and its variants is but the first foray into spend analytics for SMEs looking to better manage their spending. Through the use of text analytics combined with natural language processing, text information can be converted into data for more advanced analysis of expenditure data.

In risk management, text analytics can help group transactions into "high risk", "medium risk" and "low risk" using classification methods like decision trees, k nearest neighbours and neural networks to analyse historical records. Using the analysis findings, these algorithms can predict whether a transaction is likely to be "high risk", and Procurement can step in to block such a payment.

BENEFITS OF PARTNERSHIP

An IHL-enterprise collaboration can plug a gap for SMEs that do not wish to engage professional consultants. As the IHL teams are typically mentored by industry veterans as well as the faculty, they are able to deliver effective, workable solutions to the myriad of business issues facing SMEs.

Looking at the technology-related curricula in the IHLs in Singapore, the undergraduates would be able to help SMEs in their digitalisation journey in areas such as:

- developing data visualisation dashboards for financial performance evaluation, inventory planning, and payment and collection cycles reviews;
- constructing revenue and cash flow predictive modelling;
- conducting simulation of business scenarios on customer demand and inventory control;
- developing a balanced scorecard encompassing both financial and non-financial performance metrics;
- exploring impacts of blockchain technology and artificial intelligence on the effectiveness of audit design process, and
- fraud detection model driven by machine learning algorithms.

Through the partnership with IHLs, SMEs could gain completely new perspectives to some of their pre-existing problems, and sometimes even learn of a novel and effective solution to an issue. Additionally, they could work with some of the students prior to recruitment visits. From an education standpoint, developing good working partnerships between SMEs and academe, if done effectively, could also provide a well of opportunities to bring educational value to new heights. We foresee such collaboration between SMEs and IHLs to grow in the years to come. ISCA

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TECHNICAL HIGHLIGHTS

ISCA ISSUES COVID-19 TECHNICAL FAQS

These Technical FAQs provide guidance and key considerations in addressing pertinent accounting and auditing challenges arising from Covid-19, and are developed by the new ISCA Covid-19 Working Group that was set up by the ISCA Auditing and Assurance Standards Committee (AASC) and Financial Reporting Committee (FRC), in collaboration with ACRA.

As the Covid-19 situation continues to evolve, new FAQs will continue to be issued. For more information, please visit https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs/

FINANCIAL REPORTING

ISCA ISSUES FINANCIAL REPORTING BULLETIN (FRB) 2, FRB 3, FRB 4 AND FRB 5

- FRB 2 *Accounting Implications Arising From Covid-19 For Entities With 31 December 2019 Financial Reporting Date*

In response to the Covid-19 outbreak, FRB 2 was issued to share ISCA FRC's views on the accounting implications arising from Covid-19 for entities with 31 December 2019 financial reporting date. FRB 2 also covers other associated accounting implications arising from the Covid-19 outbreak, such as required disclosures in the financial statements and going concern assessment.

- FRB 3 *Classification Of Liabilities As Current Or Non-Current (Amendments to IAS 1)*

In January 2020, IASB issued amendments to IAS 1 which clarify the requirements on determining whether a liability is current or non-current. FRB 3 was issued to assist members in understanding and applying these amendments to certain commonly encountered scenarios in Singapore, such as "long-term loans with callable clauses" and "term loans with rollover facilities".

- FRB 4 *FAQs On Application Of ISCA Financial Reporting Codification Framework*

FRB 4 was issued to address anticipated questions on the application of the Codification Framework issued in November 2019.

- FRB 5 *Covid-19 Government Relief Measures: Accounting For Singapore Property Tax Rebate From The Perspective Of The Landlord And The Tenant*

To help businesses deal with the impact from Covid-19, the Singapore government has given property tax rebate to qualifying non-residential properties for the period from 1 January to 31 December 2020.

FRB 5 was issued to provide accounting guidance and key considerations on how to account for the above property tax rebate granted by the Singapore government to the landlord (from the landlord's perspective) and how to account for the related rental rebate granted by the landlord to the tenant (from the tenant's perspective). FRB 5 also includes an illustrative example to aid in the understanding of the principles being applied.

For more information, please visit https://isca.org.sg/tkc/fr/financial-reporting-bulletins/

IASB PUBLICATION ON THE APPLICATION OF IFRS 9 IN LIGHT OF THE CORONAVIRUS UNCERTAINTY

The publication highlights requirements within IFRS 9 that are relevant for companies considering how the pandemic affects their accounting for expected credit losses.

For more information, please visit https://www.ifrs.org/news-and-events/2020/03/application-of-ifrs-9-in-the-light-of-the-coronavirus-uncertainty/

PHOTOS SHUTTERSTOCK

BY ARMIN CHOKSEY

THE VARIABLE CAPITAL COMPANY

A Flexible Vehicle For Investment Funds

SINGAPORE IS VIEWED GLOBALLY AS A PREEMINENT ASSET AND WEALTH MANAGEMENT CENTRE IN ASIA PACIFIC, with a robust regulatory framework and business-minded government; it also provides an entry point to the region. Nevertheless, the fast-changing environment globally as a result of regulatory and other dynamics has put increasing pressure on financial centres such as Singapore to continually up its game and re-invent itself to remain at the forefront of the industry. In recent years, there has also been an increasing trend towards setting up Singapore-domiciled investment vehicles. This is primarily driven by the fact that Singapore offers a place where substantive fund management activities and investment vehicles can co-exist.

Prior to the introduction of the variable capital company (VCC) , Singapore did not have a corporate form sufficiently flexible to accommodate an investment fund vehicle which caters to the specific needs of mutual funds, hedge funds, private equity, real estate and infrastructure funds. Currently, Singapore offers a variety of investment fund forms, for instance, limited partnerships, unit trusts, business trusts, and real estate investment trusts. Corporations are also used as investment subsidiaries for "fund" investments. The addition of VCC to this suite of legal entities, which can be used as a vehicle for investment funds, is key to elevating Singapore's value proposition as a competitive asset management hub in the region. Corporate form funds are not a novelty in Singapore, as most private equity and real estate funds today are already using some form of Singapore corporate entity as investment subsidiaries within their fund structures. Further, over 70% of offshore funds sold in Singapore are corporate form funds that are domiciled in foreign locations.

HOW DOES THE VCC WORK?

Registration and incorporation

A VCC would be incorporated by the Accounting and Corporate Regulatory Authority (ACRA), and supervised by the Monetary Authority of Singapore (MAS) directly through the Securities and Futures Act (SFA) as pertaining to funds, and indirectly through the regulatory oversight of the fund managers.

Corporate structure

The VCC legislation is separate and distinct from the legislation that governs existing Singapore companies. This would "future proof" VCCs against any unintended consequences arising from changes in the Companies Act. The VCC can hold a single asset and as such, would not be required to diversify its investments unless required under the SFA. A VCC can be used as a vehicle for both traditional funds and alternative funds, such as hedge funds, private equity funds, real estate funds and infrastructure funds. The share capital of a VCC will always be equal to the net asset value of the VCC. The assets and liabilities of the VCC shall be measured and evaluated on a fair value basis at all times.

Fund manager

A VCC cannot be self-managed. It must be managed by a fund management company duly registered or licensed by MAS under SFA. In addition to being able to set up as a standalone fund, a VCC can be established as an umbrella structure with multiple sub-funds and share classes. The umbrella VCC would have provisions for the segregation of assets and liabilities between sub-funds, such that the assets of one sub-fund may not be used to satisfy the liabilities of another sub-fund.

Shares and debentures

A VCC can issue debenture stocks, bonds or other securities. Such instruments may be listed on a stock exchange. The liability of members of

> The addition of VCC to this suite of legal entities, which can be used as a vehicle for investment funds, is key to elevating Singapore's value proposition as a competitive asset management hub in the region.

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a VCC will be limited to the amount, if any, unpaid on the shares held by them respectively. A VCC may issue shares of varying amounts and issue at times for payment of calls as agreed between its shareholders. It can accept members without having its shares fully paid up and can pay dividends in proportion to the amount paid up on each individual share such as when a larger amount is to be paid on some shares than on others. A VCC is not required to disclose its register of shareholders to the public, but must make the register available to supervisory and law enforcement agencies.

Accounts, reports and audits

The financial statements of a VCC can be prepared under different accounting frameworks (example, IFRS, Singapore FRS and US GAAP), and can be prepared at each individual sub-fund level. Authorised VCCs will be required to use Recommended Accounting Practice 7 *Reporting Framework For Investment Funds*, as it is currently applicable for unit trusts under the Code on Collective Investment Schemes (CIS Code).

The Board of Directors of a VCC can also elect to dispense with the need to hold annual general meetings.

The VCC shall lodge an Annual Return with ACRA after its general meeting within seven months from the end of its financial year-end. A VCC must have a qualified company secretary and must have a registered office in Singapore.

Custodian

A VCC is required to safeguard its assets, entrusting a "custodian" unless exempted. For Authorised VCCs, the custodian must be an approved CIS trustee under SFA. Such custodians must comply with the CIS Code, which will set out the operational obligations for custodians of the Authorised Scheme.

For VCCs which comprise restricted or exempt schemes, the custodian must be a specified custodian as defined under the VCC Act or also a custodian outside Singapore which is authorised to act as a custodian in the country or territory where the account is maintained. VCCs which comprise restricted or exempt schemes that are private equity, real estate or venture capital funds may be exempted from requiring a custodian.

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The VCC will be treated as a company and a single entity for tax purposes. Consequently, the VCC is subject to income tax in Singapore. However, the tax exemption under sections 13R and 13X of the Income Tax Act of Singapore will be extended to VCCs.

Directors

It must have a minimum of one director who is ordinarily a resident in Singapore. The sole director can also be a sole shareholder of the VCC. A VCC must have at least one director who is also a director or qualified representative of the fund management company that will be managing the VCC. VCCs consisting of Authorised Schemes would require at least three directors, of which at least one director has to be independent.

Winding up a VCC

Members of the VCC may choose to wind up the VCC voluntarily. The process of a voluntary winding up will commence by calling a meeting of the VCC to pass a special resolution for winding up. The resolution must be shared with ACRA as well. Alternatively, the VCC may be wound up by the court.

When winding up a sub-fund, all shareholders of that sub-fund should redeem their shares (where appropriate) and the VCC shall be required to submit an application to MAS to be de-authorised.

The VCC will be treated as a company and a single entity for tax purposes. Consequently, the VCC is subject to income tax in Singapore. However, the tax exemption under sections 13R (referred to as "Singapore Resident Fund Scheme" or "SRF") and 13X (referred to as "Enhanced-Tier Fund Scheme" or "ETF") of the Income Tax Act of Singapore will be extended to VCCs. The new provisions for umbrella VCCs provide benefits for such structures, since the conditions for the tax exemption schemes are applied to an umbrella VCC as a whole.

Redomiciliation

A foreign CIS, organised as a body corporate, can be redomiciled to Singapore as a VCC. The requirements for redomiciliation for a VCC are different from those in the Companies Act.

IMPLICATIONS FOR THE INDUSTRY

The conception of the VCC is a result of much industry analysis and feedback over the last few years, which subsequently led to a legal study to develop the legislation. This is testament to MAS' reputation of being a pragmatic and innovative regulator.

It has long been the vision and mission of Singapore to introduce a versatile and fungible legal entity form that can be used for investment business in whatever form. Therefore, it is also envisioned that the next steps to developing Singapore's financial services industry would entail studying the applicability of VCC on other sub-industries within the asset and wealth management sector, such as real estate investment trusts, securitisation and insurance products. ISCA

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BY FELIX WONG AND ANGELINA TAN

THE MANY FACES OF SINGAPORE TAX CASES

Delving Deeply Into Recent Tax Cases

2019 SAW SEVERAL DEVELOPMENTS IN THE TAX LEGAL SCENE. A multitude of tax cases spanning different issues in the various areas of tax were played out in the courts. The Singapore Institute of Accredited Tax Professionals aims to highlight the salient tax issues and nuances of these cases.

DEFINITION OF "CONTROL": *BZZ V COMPTROLLER OF INCOME TAX (CIT)* [2019]

BZZ v CIT [2019] centred on a taxpayer's appeal against the Income Tax Board of Review (ITBR)'s decision in relation to the CIT's imposition of a balancing charge of over S$40 million arising from the sale of a property.

The taxpayer sold a property to BMT (the "Trustee"), who bought it in its capacity as trustee of the beneficiary, FCOT, a real estate investment trust (the "REIT"). The manager of the REIT is FCAM (the "Manager"). Both the taxpayer and the Manager are wholly-owned subsidiaries of a company called FCL.


Accredited Tax Practitioner (Income Tax & GST) Allen Tan (left) and Jeremiah Soh, both from Baker & McKenzie.Wong & Leow, shared insights into recent tax cases

Under the Income Tax Act (ITA), a balancing charge will result when the sale proceeds of the capital asset exceed the amount of capital allowances not claimed. This balancing charge will be taxed at the prevailing corporate tax rate unless Section 24(1), which has "the effect of nullifying a balancing charge if a sale in question can be said to be not a true commercial sale in that the seller is under the control of the buyer or, vice versa, the buyer is under the control of the seller, or, in the third situation, both buyer and seller are under the control of a third party", applies.

> "The purpose behind a Section 24 election is to allow the buyer to step into the shoes of the seller as if no sale had taken place. In order to benefit from this special treatment, the relationship and level of control between the seller and buyer should be a close one, with a high degree of control."
>
> – **Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, Baker & McKenzie.Wong & Leow**

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The taxpayer disputed the CIT's claim that a balancing charge was necessary as it was of the view that Section 24(1) applies. Specifically, the taxpayer contended that both itself and the Trustee were under the common control of FCL. Some arguments put forward include (a) under the Monetary Authority of Singapore's requirements and accounting procedure, the accounts of the REIT are consolidated with those of FCL, and (b) under the Trust Deed, the Trustee must exercise its powers only as directed by the Manager (which is controlled by FCL).

The High Court rebutted that under the Trust Deed, the Trustee may, in its absolute discretion, act without or contrary to the direction of the Manager if it considers it necessary to do so. The control that the Manager has over the Trustee is therefore not absolute.

The taxpayer also argued that just because the Trustee assumes fiduciary duties to one party (the REIT) does not mean that it cannot be under the control of another (the Manager), as long as it retains an irreducible core of duties to the REIT. The High Court rejected this argument by saying that the control envisaged by Section 24(1) must refer to the buyer and seller, and legally, FCL does not control the buyer (which is the Trustee).

On these facts, the High Court concluded that while FCL may be in control of the taxpayer, it only had (at most) substantial influence and not control, over the REIT. As FCL did not have control over both the taxpayer and the REIT, the taxpayer's appeal was dismissed.

Key observations

What constitutes "control" under Section 24 of the ITA

"The purpose behind a Section 24 election is to allow the buyer to step into the shoes of the seller as if no sale had taken place. In order to benefit from this special treatment, the relationship and level of control between the seller and buyer should

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be a close one, with a high degree of control," says Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, Baker & McKenzie.Wong & Leow. "In the present case, the taxpayer's definition of 'control' as 'the power to direct or influence' or 'substantial influence' was rejected by the High Court on the basis that it was too broad and did not promote the object of Section 24(1). The High Court emphasised the high degree of control required by using the words 'dominance' and 'absolute authority' to describe 'control'", Mr Tan elaborates.

STAMP DUTY ON COMPENSATION PAYMENT: *ONG BENG CHONG V COMMISSIONER OF STAMP DUTIES (CSD)* [2019]

In *Ong Beng Chong v CSD* [2019], the taxpayer owned a plot of land. The land was rented to tenants who (at their own cost) built terrace houses ("Houses") and paid ground rent to the taxpayer. No land title was issued in respect of the Houses.

Subsequently, the taxpayer sought to recover vacant possession of the land for the purposes of redevelopment. He entered into agreements with the five owners of the Houses for the vacant possession of each house in exchange for a cash payment, and obtained a court order obligating the remaining (sixth) owner to deliver vacant possession of the house in consideration for a payment.

After the taxpayer sold the land and the Houses, the CSD conducted stamp duty audit investigations and determined that stamp duties and penalties were payable.

Pursuant to Section 22 and Article 3 of the First Schedule of the Stamp Duty Act (SDA), and read with the definition of a "conveyance on sale" under Section 2 of the SDA, one of the requirements for stamp duty to apply is that "there is a conveyance, assignment or transfer on sale of the Houses".

The taxpayer argued that the payments were not for the sale of the Houses, but for the satisfaction of the "equity" that each tenant had in their respective Houses.

The High Court noted under equitable principles, the construction of the Houses at the tenant's own costs created an equity which must be satisfied by way of "reasonable compensation".

On the basis that the true and real meaning of the instruments was a compensation payment to satisfy the house owner's equity and obtain vacant possession of the land, the High Court ruled that no stamp duty was chargeable, as the compensation did not fall within the meaning of a "conveyance on sale", nor was it deemed to be one by the SDA.

Key observations
Where does the "equity" arise from?

"Because of how the tenancy was created, the landowner could have legally recovered possession of its land merely by serving a notice to quit on the tenants. However, under the law of equity, the tenants may raise the doctrine of equitable estoppel to prevent the landowner from exercising his legal rights," says Jeremiah Soh, Senior Associate, Baker & McKenzie.Wong & Leow. "This is because the landowner allowed the tenants to expend their own money to improve the land under an expectation created by the landowner that the tenant would be able to remain there. The doctrine of equitable estoppel therefore kicks in and raises an equity in favour of the tenant."

"Such equity may be satisfied if the landowner made reasonable compensation to replace the cost of the house, adjusted for depreciation and took account of the current age and condition of the land," explains Mr Soh. In this case, the payments to the tenants were held to be compensation payment to satisfy the house owner's equity and obtain vacant possession of the land.

DETERMINATION OF ANNUAL VALUES: *HSBC INSTITUTIONAL TRUST SERVICES (SINGAPORE) LTD (TRUSTEE OF CAPITALAND MALL TRUST) V CHIEF ASSESSOR (CA)* [2019]

This case revolved around an appeal against the Valuation Review Board's decision in relation to the annual value of a subject property.

The subject property comprised 10 cinema halls and other units in a mall. It was leased to a cinema operator in its original bare condition, and was used as a cinema complex, an office, and a retail space. The cinema operator carried out fitting-out works on the subject property, at a cost of over S$7 million, in order to fit it out as a fully functional cinema complex.

Any fixtures in or on such immovable property would be assessable to tax in accordance with its annual value.

The High Court addressed several issues in this case. First, the taxpayer argued that the CA's approach was wrong when assessing the subject property by separately valuing it as three tenements (cinema, office and retail space) but issuing only one valuation notice for the subject property. The High Court disagreed and held that that the Property Tax Act (PTA) does not prescribe the manner in which the assessment should be carried out, and that the only requirement was that the subject property be sufficiently described and identified in the valuation list. In any case, the taxpayer was not prejudiced by the single valuation notice.

Another issue was whether the fitting-out works installed by the cinema operator amounted to fixtures which ought to be included in the assessment of the annual value. The taxpayer contended that these fitting-out works were not fixtures but chattels, as the taxpayer was merely a temporary occupant of the subject property and did not intend to dedicate the assets to the subject property. In addition, the fitting-out works had to be removed at the end of the tenancy.

The High Court disagreed and held that the fitting-out works were fixtures and should be included in the assessment of the annual value. Specifically, the High Court determined that leasehold improvements were essential works that secured the functioning of the subject property as a cinema complex. For example, the projection systems were integral to the operation of cinemas, and the seats and other items (such as signages and carpets) were there to enhance the use of the property as a cinema.

The taxpayer also argued that the CA's methodology in determining the annual value was flawed. This was because the rental comparison method (based on the actual rent paid by the taxpayer) should have been used.

The High Court rejected this argument as the actual rent paid was based on a lease of the bare shell. This would not be an accurate comparison as the subject property should be valued based on its physical nature and condition as well as its usage.

Separately, the taxpayer argued that it was wrong to use separate methods to assess the value of the property when there was only a single entry and single annual value in the Valuation List. The High Court rejected this argument and highlighted that the PTA does not prescribe the manner in which the assessment should be carried out. Therefore, the CA's methodology was justifiable. In addition, given that the subject property had already been divided into distinct components by the taxpayer, it was reasonable to use different methodologies to assess each distinct tenement, and this was not prohibited by the PTA.

Key observations
Fixtures or chattels?

"As noted in the decision of *Pan United Marine Ltd v CA* [2008], the two considerations for determining whether assets are fixtures or chattels are the degree of annexation and the object of annexation. Of the two factors, the courts have indicated that the object of annexation generally takes precedence," says Mr Tan.

"To determine the object of annexation, the relevant question that taxpayers should ask is whether the item in question was placed on the land in order to be enjoyed as a chattel, or whether it enhances the use of the land and therefore its value," he elaborates. "Where the item forms the pith and marrow of the business conducted by the occupier on the property, it supports the conclusion that it is a fixture." ISCA

> "As noted in the decision of *Pan United Marine Ltd v CA* [2008], the two considerations for determining whether assets are fixtures or chattels are the degree of annexation and the object of annexation. Of the two factors, the courts have indicated that the object of annexation generally takes precedence."
>
> – **Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, Baker & McKenzie.Wong & Leow**

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, Singapore Institute of Accredited Tax Professionals.

PHOTO GETTY IMAGES

BY PATRICIA TAN MUI SIANG AND KOH WEI CHERN

DON'S COLUMN

IAS 1: PRESENTATION OF FINANCIAL STATEMENTS AND ITS PROPOSED AMENDMENTS

Current State Of Presentation Choices For Financial Performance

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 strong demand for IASB to undertake a project to improve the reporting of financial performance. Hence, in a bid to improve comparability and transparency of performance reporting, the Board is proposing to issue a new standard to replace International Accounting Standard (IAS) 1 *Presentation of Financial Statements* with new requirements on presentation and disclosures in the financial statements, particularly the statement of financial performance.

CURRENT REQUIREMENTS UNDER IAS 1

IAS 1 paragraph 81A requires an entity to present profit or loss. There is, however, no requirement to present other specific subtotals.

IAS 1 paragraph 82(c) requires presentation of the share of profit or loss of associates and joint ventures as a separate line item in the statement of profit or loss but does not specify its location in the same statement.

IAS 1 paragraph 99 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function, whichever provides information that is reliable and more relevant. In addition, paragraph 104 requires entities classifying expenses by function to disclose additional information on the nature of expenses.

THE BOARD'S PROPOSAL

IASB recently issued the Exposure Draft on General Presentation and Disclosures (ED) in December 2019 with a call for comments that is due 30 June 2020. In brief, there are three key proposals requiring entities to:

(1) present new defined subtotals in the statement of profit or loss,
(2) disaggregate information in a better way, and
(3) disclose information about performance measures defined by management.

We will focus on the first two proposals in this article as we study the current state of presentation of entities relating to these two proposals.

The *first* proposal arises because investors want subtotals in the statement of profit and loss to be comparable between entities. The lack of requirements for subtotals in the current IAS 1 results in diversity in the structure and content of the statement of profit or loss. For example, many entities report operating profit in the statement of profit or loss. However, there is a diversity of definitions of operating profit and this makes it difficult for investors to compare financial performance across entities, even within the same industry.

IASB is proposing that entities present three subtotals thus creating four defined income/expense categories. The subtotals are, namely, (i) operating profit, (ii) operating profit and income and expenses from integral associates and joint venture, and (iii) profit before financing and income tax. The four categories are, namely, (i) operating, (ii) integral associates and joint ventures, (iii) investing, and (iv) financing. Category (ii) recognises that entities may be invested in associates and joint ventures that are closely related to the entity's main business activities while investing category (iii) is a category that reflects returns from "standalone" investments.

The *second* proposal requires entities to present in the statement of profit or loss, an analysis of operating expenses using the method (by nature or function) that provides the most useful information to investors. If the function method is used, entities are required to disclose in a single note an analysis of their total operating expenses by nature. This proposal arises because investors have expressed concerns that useful information is lost because entities may not choose the method that provides the most useful information. Furthermore, some entities insufficiently disaggregate information. Functional line items aggregate "expense items with different natures that respond differently to changes in the economic environment" (ED Basis of Conclusions (BC) paragraph BC111), which in turn makes it difficult for investors to forecast future operating expenses.

IASB is also proposing to define unusual income and expenses as "income and expenses with limited predictive value". Entities present these items together with "usual" income and expenses in their

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respective categories in the statement of financial performance and are required to supplement with detailed disclosures. BC paragraph 56 states that predictive value is not a characteristic that differentiates whether income or expenses are operating (or any category). The separate identification with supporting disclosure of such unusual items will be helpful for investors when predicting the entity's future cash flows. Currently, some entities disclose unusual (or similarly described) expenses and income. However, it is unclear how these items have been identified as unusual and the supporting disclosures vary significantly.

A LOOK AT THE STRAITS TIMES INDEX TOP 30 COMPANIES

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

First, we examine whether entities report an "operating profit" (or similarly described) subtotal. Twenty-one (including three financial companies) of the 30 entities report operating profit in the financial statements. The most common term used to describe "operating profit" is inevitably "Operating profit" (16 entities). Others include "Profit from operations" (two entities), "Profit from operating activities" (two entities) and "Profit before income tax and non-operating items" (one entity).

Various definitions of operating profit are used. One entity defines operating profit as representing "recurring earnings". Others may choose to either include or exclude interest income and finance costs, gain or loss from disposal of fixed assets and impairment losses. Table 1 shows the number of non-financial entities that include these items in operating profit, and different combinations exist. These point to clear diversity in the current presentation of statements of profit or loss.

Most entities are, however, consistent in excluding share of profit in associates and joint ventures in operating profit. Only one entity out of the 21 entities includes the share of profit in associates and joint ventures in operating profit.

Second, we examine the disclosure of operating expenses and whether the disclosure by nature is complete. Table 2 summarises the findings.

Sixteen entities present expenses by function, while 14 entities present expenses by nature in the statement

Table 1 Determination of operating profit (for non-financial entities)

	Number of entities that included item in operating profit			
Number of entities that report "operating profit"	Interest income	Finance charges	Gain/Loss on disposal of fixed assets	Impairment losses
18	4	2	14	14

Table 2 Disclosure of operating expenses

	Expenses by nature		
	Complete	Incomplete	
Function	5	11	16
Nature	6	8	14
	11	19	30

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of profit or loss. Five entities in the former group provide detailed breakdown of the expenses by nature in their notes and the total expenses by function can be tied back to the total expenses by nature. For the 14 entities that present expenses by nature, six entities provide detailed breakdown of these expenses and the subtotal in these notes can be tied to the total expenses presented in the income statement.

Of the 19 entities that do not provide a complete analysis of the expenses by nature, the proportion of expenses without information on their nature averaged more than 25% (with median at 19%). Firms that present expenses by nature tend to use broad categories like "other operating expenses" and the supporting disclosures generally cannot be tied to the total expenses presented in the income statement. Clearly, more disclosures required by the ED with respect to expenses disclosure will support the forecasting needs by investors.

As for the current state of presentation/disclosure of "unusual items", two entities use the phrase "Exceptional items" on the income statement, with one entity excluding it from operating profit (for impairment loss on property, plant and equipment) while the other entity includes the exceptional item (for restructuring expenses, gain on disposal of fixed assets and investments and dispute settlement) in the determination of operating profit. The lack of supporting disclosure makes it difficult for users to assess if these items are not expected to arise for several future periods.[1]

> The findings in this article show that under the current requirements of IAS 1, there exists diversity in the structure and content of the statement of profit or loss.

CONCLUSIONS

The findings in this article show that under the current requirements of IAS 1, there exists diversity in the structure and content of the statement of profit or loss. Many entities choose to report operating profit but the diversity in the definitions of operating profit reduces the usefulness of this subtotal. Furthermore, the findings also show that many entities provide incomplete disaggregation of their operating expenses by nature. IASB's proposal to require companies to present new defined subtotals in the statement of profit or loss will result in a more standardised statement of financial performance. This will increase the comparability of financial performance both within the same industry and over different industries. The Board's proposal to require entities to disclose an analysis of their total operating expenses by nature (with unusual items separately disclosed) is likely to provide a better basis for investors when forecasting future operating expenses. ISCA

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[1] One other entity states that there is a "one-off financial penalty & related costs" on its income statement. For this entity, it can be assessed that this item will not be expected to arise in future periods.