IS Chartered Accountant Journal
SEPTEMBER 2020

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focus
Forensic Data Analytics
No Longer Just A Supplementary Tool

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

We Have Done It!

IS Chartered Accountant Journal clinches the Grand Award – the highest accolade – at the prestigious 32nd Annual Awards for Publication Excellence (APEX 2020)!

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS | IS Chartered Accountant Journal

Global Mindset, Asian Insights

Dear members,

YOUR CONTRIBUTIONS MAKE A DIFFERENCE, and nowhere is this more visible than at the National Day Awards. The Awards recognise various forms of merit and service to Singapore and this year, 62 members were conferred this prestigious honour. Congratulations!

We also want to congratulate the 38 members who received the Fellow Chartered Accountant of Singapore designation, or FCA (Singapore), in the last quarter of 2019 and first half of 2020. FCA (Singapore), the highest level of membership presented by the Institute, is a mark of distinction that signifies the epitome of professional achievement for accountancy professionals.

The National Day Awards and FCA (Singapore) title acknowledge the valuable contributions our members make to their organisations, the profession and the community. These contributions, made over an extended period, have called upon their varied skill sets as well as experience and created a significant difference. I am pleased to see, from the National Day Awards list, that our members are active at the community level. I know that many other members also volunteer at the grassroots level, where they put their accountancy skills to good use in the areas of finance and corporate governance. A strong governance framework provides structure and enhances efficiency and transparency; it also makes it harder for would-be wrongdoers to get up to their tricks.

In the online world, wrongdoers are committing financial crime using sophisticated technology. This is not surprising in today's transnational world, where there is accelerated adoption of digitalisation. To counter financial fraud, investigators are turning to advanced technologies such as forensic data analytics (FDA). FDA, which employs technology tools such as robotic process automation and artificial intelligence, can detect anomalies in data sets even at the preliminary exploratory stage, before financial crime patterns emerge. Such alerts enable investigators to prioritise their efforts on the higher-risk areas so that they can quickly mitigate the threats. Our cover story, "Forensic Data Analytics", explains why this branch of digital forensics is fast becoming an essential tool in financial crime investigations. Financial forensics is a specialised field where financial professionals follow the money trail to identify, ascertain and gather evidence of financial fraud. If finding clues to solve financial mysteries is your passion, the Institute offers the ISCA Financial Forensic Accounting (FFA) Qualification, an applied learning financial forensic qualification leading to the ISCA Financial Forensic Professional (FFP) credential.

With the escalating demand for infrastructure projects and services in Asia, infrastructure and project finance is another career option for accountants. The Asian Development Bank had projected that developing Asia would need to invest some US$26 trillion (S$35.5 trillion) from 2016 to 2030 to maintain its growth momentum, eradicate poverty and respond to climate change. To prepare members for this specialised role is the ISCA Infrastructure & Project Finance Qualification (ISCA IPFQ), leading to the ISCA Infrastructure & Project Finance Professional (ISCA IPFP) credential. In the words of CA (Singapore) Lawrence Wu, who is featured in this month's Member Profile column, "ISCA's IPFQ programme helps accountants develop a business owner's perspective and skill sets, and is particularly suited for those interested in the interplay of business, finance and accounting in infrastructure projects, all the way from pitching and business development to getting steel on the ground."

Lawrence is Group President & Co-Founder of Sunseap Group, one of the largest renewable and solar energy companies in Singapore. A serial entrepreneur, Lawrence has a finger in several pies, and is relishing the "wonderful journey". He credits his accountancy degree for enabling his pivot into banking and finance, and now, entrepreneurship. What comes across when you read his story is his willingness to embrace opportunities, and even create new ones. I hope our members will also seize the opportunities that come their way and make the most of them.

Have a good read!

Honouring Achievements; Embracing Opportunities

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

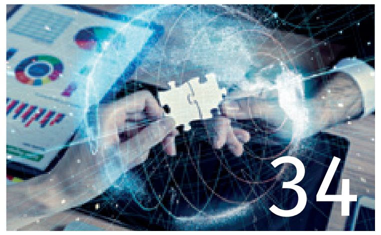
contents

2020 APEX® AWARDS FOR PUBLICATION EXCELLENCE

WINNER / GRAND AWARD, APEX 2020

focus

viewpoint



in tune

technical excellence

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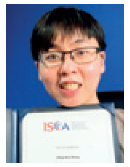
Accountancy Skills Development: "From Crisis To The Next Normal" Roundtable

BY CHUA KAI HONG



IN RESPONSE TO THE OVERALL DEMAND FOR PERSPECTIVES AND INSIGHTS INTO THE ROLE OF THE FUTURE ACCOUNTANT, the International Federation of Accountants (IFAC) launched a new initiative to develop a thought leadership piece exploring the path to the next normal for accountancy skills development. The Roundtable for Students: Accountancy Skills Development: "From Crisis to the Next Normal" was one of the six virtual roundtables conducted to gather information for the piece, with each roundtable consisting of representatives from a specific accountancy education stakeholder group. The virtual event, hosted via Zoom on 30 July 2020, was for students and the academia.

The roundtable was chaired by Anne-Marie Vitale, Chair of IFAC International Panel on Accountancy Education, for 11 student-participants from around the world, namely, Australia, Canada, France, Japan, Lebanon, Mexico, Nigeria, Singapore, Sri Lanka and the United States of America. The participants were nominated to IFAC and were subsequently invited to join the roundtable.

The main themes of the roundtable were Information and Communication Technology (ICT), Transformation and Trust. The two-hour free-flowing discussion garnered the participants' perspectives of the future accountant, the skills that would ensure they remain relevant and how these skills could be best acquired.

Given that lifelong learning is integral to the accountancy profession, the roundtable discussion was especially relevant as it reimagined the new normal for accountancy-related work and the corresponding skills identified to be in demand for the future accountant. With the Covid-19 pandemic accelerating the digitalisation of work, technology skills must feature in the future accountant's skill sets.

Firstly, the participants agreed that accountants are agile and adaptable. Advancements in ICT has led to greater ease of communications, allowing for global engagements and remote learning, making it ever easier for knowledge-sharing and the development of technical skills. However, online learning cannot replace the human interactions that are essential for the development of soft skills, such as communication and empathy. These skills were identified as necessary for the future accountant to have and which cannot, as yet, be replaced by technology.

Technology will transform how people work and become an enabler for accountants to not only do things differently, but to do different things, possibly beyond finance and numbers. Corporate social responsibility is one such area of interest. As sustainability is increasingly gaining more widespread acceptance as a necessity to guarantee an organisation's future, accountants are in a good position to play a leading role in balancing financial growth and social consequences.

The topic of ethics was also widely discussed during the roundtable. The profession is held in high regard due to the high ethical standards that are expected of accountants. Hence, it is important to think about ethics education and how the pandemic would affect its application. But can ethics be learnt and applied remotely? The participants generally agreed that with social distancing in place, the current environment could be challenging for the teaching of ethics as practical experience is necessary to internalise concept.

Another interesting topic of discussion was the accountant's professional judgement and professional scepticism. In the current pandemic situation where social distancing and remote working could become the norm, the increased distancing may lead to a poorer understanding of the business environment required for an accountant to demonstrate professional judgement. And perhaps, similarly, the lack of human interactions could affect one's ability to exercise professional scepticism.

Rounding off the session, the future accountant has been identified as one who is proficient in ICT and equipped with core human skills in ethics, empathy and communication. ISCA

This article was contributed by Chua Kai Hong, an ISCA Youth Associate and final-year Accountancy undergraduate from Singapore University of Social Sciences, who represented Singapore, and ISCA at the roundtable.

PHOTO SHUTTERSTOCK

395 Million New Jobs By 2030 If Businesses Prioritise Nature: WEF

THE GLOBAL COVID-19 PANDEMIC HAS CAUSED UNPRECEDENTED JOB LOSSES AND ECONOMIC UNCERTAINTY. As governments and businesses look to stimulate growth, a new study from the World Economic Forum (WEF) found that "nature-positive" solutions can create 395 million jobs by 2030.

The "Future of Nature and Business Report" provides blueprints for businesses to tap into a US$10.1 trillion business opportunity, focusing on industry actions that are nature-positive, meaning that they add value to nature.[1]

The report is built on real-world examples where business outcomes have been improved by nature-positive actions. Smart farming utilising sensors and satellite imagery in Indonesia improved crop yields on average by 60%. Suzhou Industrial Park's green development in China has seen its GDP increase 260-fold partially through green development. In Vietnam, people living in coastal communities saw their incomes more than double following the restoration of critical mangroves.

"We can address the looming biodiversity crisis and reset the economy in a way that creates and protects millions of jobs," said Akanksha Khatri, Head of the Nature Action Agenda, WEF. "Public calls are getting louder for businesses and government to do better. We can protect our food supplies, make better use of our infrastructure and tap into new energy sources by transitioning to nature-positive solutions."

quick facts

Report finds putting nature first is good for business and economic resilience

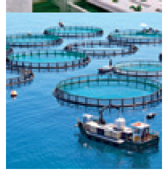
Nature-positive solutions will create US$10.1 trillion in business opportunities and millions of new jobs

Covid-19's impact is a stark reminder of our imbalance with the natural world, but the report shows opportunities for businesses and governments to build back better

Food, land and ocean use

What we eat and grow make up around US$10 trillion of global GDP and employs up to 40% of the global workforce. Nature-positive solutions can create 191 million new jobs and US$3.6 trillion of additional revenue or cost savings by 2030. Solutions can include actions like diversifying the diet, using technology in large-scale farms, retail, and fishing.

"30x30": The Singapore Food Story Goal



To adapt to the long-term challenges of climate change, Singapore is planning to meet 30% of its nutritional needs with food produced locally by 2030 or in short, "30x30". The current Covid-19 situation underscores the importance of the local food production, as part of Singapore's strategy to ensure food security.

Since 2014, Singapore has been supporting farmers through the Agriculture Productivity Fund and in recent years, awarded agriculture land to agri-food companies with promising technologies. The latest support from the government is the new "30x30 Express" grant to help farms ramp up their production.

Infrastructure and the built environment

About 40% of global GDP comes from the environment we build, namely, office buildings, homes and transport. Nature-positive solutions can create 117 million new jobs and US$3 trillion in additional revenue or cost savings by 2030. These solutions include smart buildings, smart sensors, and waste management.

Energy and extractives

The energy we produce and what we extract account for almost a quarter of global GDP and 16% of global employment. With energy demand growing, there is an opportunity to create 87 million jobs and US$3.5 trillion in business opportunities by 2030. Investments can be made in areas like mining and resource extraction, refurbishment and reuse of resources in manufacturing, commercialised renewables, and getting additional revenue streams out of the same investment.

A policy companion outlines how governments can complement and enable businesses to act. Finance ministers can combine six cross-cutting policy measures to put the right incentives in place as part of stimulus packages and create jobs without destroying nature.[2] They include better measurement of economic performance beyond GDP, incentives for innovation, improved spatial planning and management of marine and terrestrial assets, the removal of subsidies that endanger long-term job stability, investment in reskilling, and increased financial support for natural solutions.

[1] "New Nature Economy Report II: The Future of Nature and Business" (July 2020), WEF
[2] "The Future of Nature and Business Policy Companion" (July 2020), WEF

PHOTOS SHUTTERSTOCK

Singapore's Climate Action Plan

Climate change is a global challenge that requires a global response. As a small, low-lying city-state with one of the world's most open economies, Singapore is particularly vulnerable to the impacts of climate change. The country is committed to a multilateral, rules-based solution to address this challenge, and actively supports international negotiations on this front. Singapore is a signatory to various global initiatives on climate change, including the United Nations Framework Convention on Climate Change in 1997, Kyoto Protocol in 2006 and 2014, and Paris Agreement in 2016. Singapore also contributes through training and capacity-building, so that developing countries can take effective action on climate change. One such initiative is the dedicated Climate Action Package. This Package runs for three years from 2018, and is aimed at building capacity in developing countries in areas such as climate science, flood management, and disaster risk reduction.

Climate change and accountancy

The whole-of-government approach to tackle climate change and the global push for sustainability reporting have implications for the accountancy profession. ISCA set up the Corporate Reporting Committee, with the term of reference as the adoption of quality sustainability reporting in Singapore. In 2016, the Singapore Exchange launched the Sustainability Reporting listing rules and the Sustainability Reporting Guide. To help members kickstart their sustainability reporting journey, ISCA launched the ISCA Sustainability Reporting Implementation Roadmap in 2017. The same year, the Institute also produced the Sustainability Reporting Roundtable Report, "Chief Financial Officers for Sustainability Reporting". In 2019, ISCA collaborated with other partners to launch the first sector-specific Maritime Sustainability Report Guide for the Maritime and Port Authority of Singapore. In addition to sector initiatives, ISCA continues to support members in sustainability reporting including through its continuing professional education (CPE) courses.

National Day Awards 2020

The Singapore National Day Awards are a means of recognising various forms of merit and service to Singapore. This year, a total of 5,472 individuals in 24 award categories received National Day Honours. ISCA is proud to share that 62 of our members were conferred awards.

On behalf of the Institute, ISCA President Kon Yin Tong and the management team would like to extend their heartfelt congratulations to all award recipients.

The Public Service Star

MR WILLIE CHENG JUE HIANG *PBM*
Member, Proton Development Committee,
Singapore Health Services Pte Ltd;
Member, Audit and Risk Committee,
Integrated Health Information Systems Pte Ltd,
Ministry of Health

MDM DEBORAH TAN YANG SOCK *PBM*
Member, Council for Estate Agencies,
Ministry of National Development

The Public Administration Medal (Silver)

MS GISELIA GIAM BAN IAN
Vice President of Administration & Chief
Financial Officer,
Office of Finance and Corporate Services,
Singapore University of Technology and Design,
Ministry of Education

MR TERENCE TAN CHYE SIONG
Vice President, HR & Faculty Admin,
Office of Human Resources and Faculty Administration,
Singapore Management University,
Ministry of Education

MRS TIEW-TEO HUI LENG
Director, School of Business & Accountancy,
Ngee Ann Polytechnic,
Ministry of Education

MR LAWRENCE FONG WENG HONG
Head (Internal Audit), Internal Audit Office,
PUB, Singapore's National Water Agency,
Ministry of Sustainability and the Environment

MS CHEE WAN CHIN
Group Chief Finance Officer, Finance,
JTC Corporation,
Ministry of Trade and Industry

The Public Administration Medal (Bronze)

MDM TAN HUEY FEN
Audit Director,
Auditor-General's Office

ASSOC PROF SEOW POH SUN
Associate Dean (Teaching and Curriculum)/
Associate Professor of Accounting (Education),
School of Accountancy, Singapore Management University,
Ministry of Education

MRS CHENG-SIA SIEW HWA
Deputy Director, Finance, Finance Office,
Ngee Ann Polytechnic,
Ministry of Education

MDM WEE PUAY KOON
Deputy Director, Internal Audit,
Internal Audit Branch,
Ministry of Education

ASSOC PROF CHNG CHEE KIONG
Vice Dean (Undergraduate Studies), NUS Business School;
Associate Professor, Department of Accounting,
NUS Business School, National University of Singapore,
Ministry of Education

MS SHARON LHU SIOK HWEE
Deputy Registrar, Registrar's Office,
Nanyang Polytechnic,
Ministry of Education

MS LAURA KHO MIN ZHI
Director/Principal Lead Specialist,
Finance Division, Central Treasury,
MOH Holdings,
Ministry of Health

MR PAUL YONG YOOK CHOY
Chief Financial Officer,
Tan Tock Seng Hospital and Central Health,
National Healthcare Group,
Ministry of Health

MS GRACE LIM SIEW WAH
Deputy Group Chief Financial Officer,
Education & Service Transformation,
Singapore Health Services;
Chief Financial Officer,
KK Women's and Children's Hospital,
Ministry of Health

MR WONG KAI YEW
Chief Financial Officer,
SingHealth Polyclinics, Singapore Health Services,
Ministry of Health

MS YEO CONNIE
SAD (Finance & Administration Branch),
Logistics & Finance Division,
Singapore Prison Service,
Ministry of Home Affairs

The Commendation Medal

MS SIEW MAY SAN
Assistant Director, Finance,
National Arts Council,
Ministry of Culture, Community and Youth

MS LOH PUAY CHING
Assistant Director,
Internal Audit Department,
Ministry of Defence

MDM YANG XIN
Senior Assistant Manager, Cluster Operation,
School of Electrical & Electronic Engineering,
Nanyang Technological University,
Ministry of Education

MS TAY HWEE LING JUNIE
Assistant Manager,
Goods and Services Tax Division,
Inland Revenue Authority of Singapore,
Ministry of Finance

MS KWONG LAI YEE
Deputy Director and Head of Finance,
Finance, 1FSS, MOH Holdings,
Ministry of Health

MDM LING SIEW TIANG
Assistant Director,
Corp Services & Development Division,
Finance Department,
National Environment Agency,
Ministry of Sustainability and the Environment

MR TAN CHIN HUAT
Deputy Director, Treasury & Budgeting Dept,
JTC Corporation,
Ministry of Trade and Industry

MDM YONG SHIE KIM
Manager, Collections,
Receivables & Refunds, Finance,
Land Transport Authority,
Ministry of Transport

The Public Service Medal

MDM A A MEHRUNNISA
Treasurer, Siglap CCC,
East Coast GRC

MR NG CHOON HENG
Chairman, Jurong Central Zone D RC,
Jurong GRC

PROFESSOR HO YEW KEE
Member, PA Investment Advisory Committee,
People's Association

MR FRANKIE CHIA SOO HIEN
Board Member, Building and Construction Authority,
Ministry of National Development

MR NORMAN KA CHEUNG IP
Deputy Chairman,
Building and Construction Authority,
Ministry of National Development

LATE MR CHAN KUM LEONG
Former Life Member, APEX Club of Bukit Timah,
National Association of APEX Clubs of Singapore,
Ministry of Social and Family Development

The Efficiency Medal

MS TANG CHEE WAH
Manager (Finance), Central Singapore CDC,
CDC Planning & Development, People's Association,
Ministry of Culture, Community and Youth

MS LIM GEOK BEE LINDA
Accountant, Finance Department,
Nanyang Polytechnic,
Ministry of Education

MS SHARON PECK ONG MUI
Senior Manager, Finance,
National Dental Centre Singapore,
Singapore Health Services,
Ministry of Health

The Long Service Medal

MS TAN SHOA WHOON
Assistant Director,
Auditor-General's Office

MRS ANG-LIM HUI GEK
Senior Assistant Director,
Auditor-General's Office

MS TENG FEI LIN
Deputy Director,
Auditor-General's Office

MR LOW CHIN WAI
Audit Director,
Auditor-General's Office

MR KOH TECK HUA
Deputy Director,
Auditor-General's Office

MR LIAU CHIE KIONG
Senior Deputy Director,
Cybersecurity & Resilience Governance,
Info-Communications Media
Development Authority,
Ministry of Communications and Information

MISS LOH SIEW HONG
Assistant Director (Audit),
Internal Audit Division,
Ministry of Culture, Community and Youth

MS GOH LI LING, ADELINE
Assistant Director,
Naval Plans Department,
Ministry of Defence

MR YEO YONG KIAT
Senior Manager (Ops),
Joint Intelligence Directorate,
Ministry of Defence

MS SEE ENG PYNG
Senior Associate Director,
Office of Finance,
National University of Singapore,
Ministry of Education

MS SIM GEOK SIEW
Deputy Director, Finance,
Singapore Institute of Technology,
Ministry of Education

MS TAN SIEW PINK
Assistant Director, CET Academy,
Ngee Ann Polytechnic,
Ministry of Education

MS SEOW GEOK HONG
Manager, Finance Department,
Nanyang Polytechnic,
Ministry of Education

MS SU KALLY
Director, Finance Department,
Nanyang Polytechnic,
Ministry of Education

MS LHU SIOK HWEE SHARON
Deputy Registrar, Registrar's Office,
Nanyang Polytechnic,
Ministry of Education

MR CHUA KHENG TIONG
Senior Lecturer, School of Business,
Temasek Polytechnic,
Ministry of Education

MR LIU SY YEE
Administration Manager,
Zhonghua Secondary School,
Ministry of Education

MDM AUDREY WEE TOON JEE
Director (Treasury & Payment),
Treasury & Payment Department, Finance Group,
Housing & Development Board,
Ministry of National Development

MS CHEONG SOOK MU
Principal Internal Auditor,
Financial & Systems Audit Department,
Internal Audit Group,
Housing & Development Board,
Ministry of National Development

MDM DONNA LOH HSIANG LENG
Deputy Director (Management Reporting),
Management Reporting, Budget &
Administration Department, Finance Group,
Housing & Development Board,
Ministry of National Development

MS HO SU FERN
Principal Accountant,
Administration & Accounting Department,
Estate Administration & Property Group,
Housing & Development Board,
Ministry of National Development

MR JOSEPH CHUNG JEE YAT
Deputy Director,
Audit & Advisory Division,
JTC Corporation,
Ministry of Trade and Industry

MS CHOW WAI YEE
Assistant Commissioner,
Corporate Tax Division,
Inland Revenue Authority of Singapore,
Ministry of Finance

MS LEE LAI YU
Senior Tax Specialist (Accredited),
Tax Policy and Transfer Pricing Division,
Inland Revenue Authority of Singapore,
Ministry of Finance

MS GWEE HWEE LENG
Senior Manager,
Individual Income Tax Division,
Inland Revenue Authority of Singapore,
Ministry of Finance

MR HO WOEI YEN
Assistant Director (Internal Audit),
Group Internal Audit Division,
Singapore Totalisator Board,
Ministry of Finance

MDM PAULINE HENG WEN ENG
Assistant Manager (Internal Audit),
Group Internal Audit Division,
Singapore Totalisator Board,
Ministry of Finance

FCA (Singapore): A Mark Of Distinction

The Fellow Chartered Accountant of Singapore or FCA (Singapore) designation is a recognition accorded to long-standing senior CA (Singapore) members. A mark of distinction that signifies the epitome of professional achievement for accountancy professionals, it is the highest level of membership conferred by the Institute.

This prestigious designation is awarded to CA (Singapore) members who have achieved 10 years of membership and five years of senior management experience.

In the last quarter of 2019 and first half of 2020, 38 members were conferred the FCA (Singapore) status. They are established leaders with extensive experience across various industries in the accountancy profession.

Heartiest congratulations on attaining this prestigious title!

Ang Chin Heng, Alan
Basil Chan
Benjamin Choy
Chan Kheng Tek
Chandra Mohan s/o Subramaniam
Chew Chang Ching
Chua Chun Woei
Chuah Yak Ngi
Denise Yeow Yee Chan
Diana Ong Bee Lian
Dr Chinnu Palanivelu
Goh Sock Fong
Indramohan Ramachandran
Khor Boon Hong
Lee King See
Lem Chin Kok
Ling Cheng Suan, Vivien
Low Kong Juan
Lye Chee Fei, Anthony
Neo Peck Eng, Kelvin
Ng Kok Peng
Ng Kuan Mei
Ong Gim Seng
Ong Lien Wan
Pang Sally
Seow Hwee Koon
Steven Ng Soon Teck
Su Chun Keat
Tan How Choon
Tan Kok Peng
Tan Thai Ngee
Tan Yuan Ching, Darrell
Tang Chek Keng
Toh Han Boon
Uma Devi d/o Kaliperema
Wong Soon Inn
Yang Ching Bin
Zulhikam bin Ahmad

"Life is like accounting – everything must be balanced. I am very happy to attain the title of FCA and I thank ISCA for doing a great job enhancing the accountancy profession. Thank you all."
Chandra Mohan s/o Subramaniam

"Thank you, ISCA, for awarding me the FCA title. The title is acknowledgement of the individual's commitment to the accountancy profession in Singapore and in turn, provides the individual with increased recognition in the profession."
Su Chun Keat

"I am delighted to receive the FCA designation from ISCA, which is an endorsement of the technical skill sets and experience I have garnered over the years in the accounting and finance domain."
Yang Ching Bin

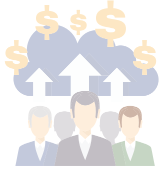
MARK YOUR CALENDAR

15 SEP — Design Thinking Experience for Accountants

Design Thinking enables participants to develop and deliver innovative ideas, change and find solutions to complex problems. It is an activity-based process with a strong emphasis on teamwork and co-creation.

Accountants will learn how to use Design Thinking tools to identify their stakeholders, use the inquiry approach to learn more about their customers and to propose solutions that are aligned with the needs of their customers.

17 SEP — Artificial Intelligence (AI) and the Accountant



Artificial Intelligence (AI) will be changing the face of accounting and auditing practices. It is timely for Chartered Accountants across all industries to be exploring how AI works within the accountancy field.

In particular, in grasping how AI properly implemented may even enhance the standing of this time-honored profession. No prior knowledge of AI is required for participants to benefit from this program.

17 & 18 SEP — WSQ Review and Implement Financial Controls NEW!

SkillsFuture Credit approved

This program covers the ability to review and implement financial controls for organizational compliance through understanding risk, internal controls and control self-assessment. It also includes evaluating, refining, implementing and monitoring financial controls and reporting findings to management.

14 OCT — ISCA-SMU Breakfast Talk - Governance Matters: Delivering Business Innovation

Diversity is not just a metric to be strived for. In fact, it is an integral part of a successful corporation and is ever more pertinent amid the Covid-19 pandemic, as companies are challenged to innovate in this uncertain business environment.

Join us in this talk as our speakers share the business case for promoting diversity and practical tips on how to promote diversity in the workplace and on Boards.

22 OCT — ISCA Practitioners Conference 2020

As the world navigates through the challenges of the pandemic and march towards an uncertain 2021, audit practices need to embrace new perspectives, transform and build resilience into their operations and workforce. Firms must be ready to poise themselves for unexpected risks and opportunities.

Practitioners Conference 2020 brings issues of sustainability to the forefront, in addition to pertinent topics such as quality management and ethics. Join us in our first virtual Practitioners Conference and the final instalment of the Singapore Accountancy and Audit Convention (SAAC) series.

29 SEP — Mingles – Navigating an Uneven Recovery and How to Impress our Clients With Your Whisky Knowledge (Live Webinar)

Signs of recovery are emerging in the financial markets and in the real economy. The worst could be over, but the recovery ahead will be uneven.

In this session, we will discuss some of the key external factors that will shape this normalisation process and how that will determine the outlook of the Singapore economy going forward. In the second half of the session, you will also be able to learn the language of whisky and how to impress your whisky enthusiast clients and friends in this guided session.

This live webinar session is jointly organized by ISCA, CAANZ and ICAEW.

02,03 & 04 NOV — PDPA – Risks, Compliance and Ethics NEW! (Live Webinar)

Launched at the ISCA Virtual PAIB Conference, the ISCA PDPA Compliance Certificate is the first of the ISCA Compliance Certificate series. The course is modular and developed based on the job roles and competencies for individuals tasked with Data Protection responsibilities.

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

Governance Matters: "Managing Governance And Sustainable Value Creation In Uncertain Times"

AMID THE COVID-19 PANDEMIC, there is heightened awareness among companies of the need to anticipate and manage risks in an ever-more dynamic and uncertain business and economic environment. Robust corporate governance will go a long way towards supporting companies in their risk management. With this in mind, ISCA and Singapore Management University (SMU) collaborated to co-organise the "Governance Matters" breakfast talk series.

The first session, titled "Managing Governance And Sustainable Value Creation In Uncertain Times", was held on July 1 via a live webinar attended by more than 250 participants. It covered the global trends in governance and their potential implications on sustainable businesses during this challenging time. The second and final breakfast talk in the series for this year will be held on October 14.

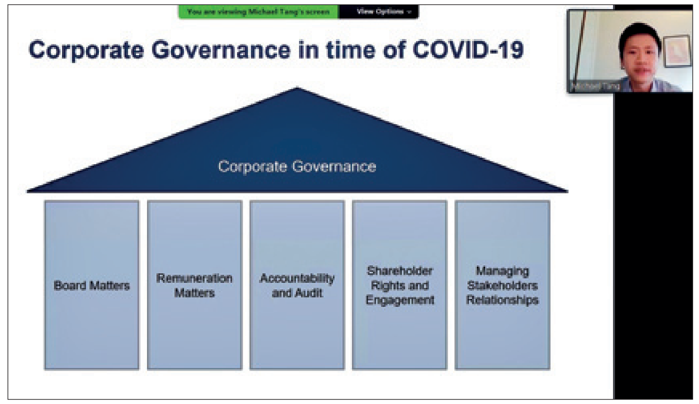
(From left) Michael Tang, Head, Listing Policy & Product Admission, Singapore Exchange Regulation, and Eric Lim, Chairperson, Group ESG Committee and Managing Director, Group Finance, United Overseas Bank, helmed the inaugural ISCA-SMU breakfast talk series titled "Governance Matters"

Michael Tang, Head, Listing Policy & Product Admission, Singapore Exchange Regulation, used the Code of Corporate Governance 2018 as the framework for discussion on corporate governance in times of Covid-19. He highlighted the key pillars of the framework, namely, board matters, remuneration matters, accountability and audit, shareholder rights and engagement, as well as managing stakeholder relationships.

Mr Tang shared that amid the rapidly evolving Covid-19 situation, boards have to consider putting in place a robust system, for them to be alerted to changes in business conditions. This will enable them to obtain complete, adequate and timely information from management. The board's composition, in terms of independent directors and the diversity of board members, may aid in better decision-making as the board members bring with them different perspectives and expertise. It is also useful to link remuneration of board members to sustained performance and value creation, when considering remuneration matters.

From an accountability and audit perspective, Mr Tang pointed out that companies need to consider the impact of Covid-19 on their operations, earning prospects, liquidity, balance sheets and threats to viability. This calls for increasing vigilance and closer scrutiny on high-risk areas such as fair value measurement, as well as emerging areas such as alternative performance measures.

During this uncertain economic climate, shareholder communication is very important. Singapore-listed companies are expected to provide immediate, periodic and annual updates to their shareholders. Mr Tang also encouraged companies to use the Covid-19 crisis as a catalyst for positive change. As the pandemic has heightened the importance of managing material social risks and opportunities among stakeholders, companies should carefully consider their stakeholder engagements with employees, customers, suppliers and community in order to successfully manage stakeholder relationships.



Eric Lim, Chairperson, Group ESG Committee and Managing Director, Group Finance, United Overseas Bank, shed light on the topic of creating long-term value through sustainability after the Covid-19 crisis. The pandemic is driving recognition for broader environment, social and governance (ESG) issues. Attention has also shifted significantly from environment and climate change in favour of social topics such as employee health, safety and well-being. This shift brings forth a more holistic discussion on sustainability. Mr Lim reinforced the importance of understanding the needs of various stakeholder groups and consideration for how companies can evolve their business models to be able to address those needs more effectively. In order for companies to remain resilient, sustainability strategies need to take long-term stakeholder interests into account.

While sustainability occurs at the confluence of environment, society and economy, a robust governance framework is essential for companies to remain sustainable. Corporate governance is key to a company's long-term value. Poor corporate governance can affect a company's performance, regardless of how holistic a company's policies may appear to be. To drive the point home, Mr Lim cited recent examples where poor governance not only cost companies from a financial and reputational standpoint, in many cases, it also resulted in negative impact on the environment and/or society.

As the Covid-19 crisis has shown, national response to pandemics can make a significant difference. Apart from corporate strategy and governance, national governance also has to be considered and companies should factor sovereign risk in the assessment of corporate risk. Rounding up his presentation, Mr Lim stressed the importance of striking a balance between a company's economic success and a better outcome from a sustainability standpoint.

BY PROFESSIONAL QUALIFICATIONS, ISCA

FORENSIC DATA ANALYTICS

No Longer Just A Supplementary Tool

IN TODAY'S TRANSNATIONAL WORLD WHERE THERE IS ACCELERATED ADOPTION OF DIGITALISATION, financial criminals are increasingly leveraging sophisticated technology to execute fraudulent schemes, making it more challenging for investigators to detect their illicit activities. Equally, digitalisation and advancements in technology have also presented new opportunities for financial investigators to counter the schemes effected by fraudsters.

Forensic data analysis (FDA) – one of the branches of digital forensics – uses appropriate statistical tools to uncover patterns of fraudulent activity by scrutinising structured data found within computer application systems. FDA employs technologies such as robotic process automation and artificial intelligence to aid organisations in achieving both accuracy and speed in their analyses of data. In light of these developments, FDA is also becoming an essential tool for financial crime investigations.

In today's business world, even as syndicates adopt tactics to obfuscate their fraudulent transactions, the growing use of digital tools in financial investigations is providing an effective counter.

USE OF FORENSIC DATA ANALYTICS TOOLS IN FINANCIAL INVESTIGATION

For financial crime patterns that have not yet been identified, exploratory analysis may be performed to unearth patterns and spot abnormalities using data at the preliminary stage. Using this risk-based approach, investigators can prioritise their resources more efficiently by focusing their investigation on higher-risk areas.

Examples of commonly employed FDA capabilities include:

- *Anomaly detection*
  Based on past cases and repetitive fact patterns, business rules are created over time. Anomaly detection techniques such as statistical outlier detection and cluster analysis highlight relationships, behaviours and events that deviate from the standard. This allows investigators to target transactions which display indicators of potential fraud.
- *Social network analysis*
  Social network analysis (SNA) is an analytical approach used to present a holistic view of the fraud network. It uses big data sets and advanced techniques to map out linkages and relationships between persons, which allows investigators to uncover sophisticated networks and hidden relationships behind criminal syndicates.
- *Predictive modelling*
  Predictive modelling uses machine learning techniques to identify patterns and behaviours of higher fraud risk based on past data (example, past compliance records). Predictive models are used to assist investigation bodies in allocating their resources effectively by prioritising cases and calibrating their investigation approach based on the varying risk levels of identified cases.

PHOTO SHUTTERSTOCK

Table 1 IRAS' tax recovery statistics (investigation)

Financial Year	No. of cases	Tax and Penalties Arising from Investigation ($'000)
2018	155	37,528
2017	243	35,371
2016	120	20,869
2015	121	18,545
2014	261	23,749

Source: IRAS

Table 2 IRAS' tax recovery statistics (audit)

Financial Year	Tax Type	No. of cases	Tax and Penalty Arising from Audit ($'000)	Total ($'000)
	Corporate	3043	103,814	
2018	GST	3145	195,839	351,136
	Individual Income Tax	3958	51,483	
	Corporate	3554	89,334	
2017	GST	2858	219,544	348,989
	Individual Income Tax	4071	40,111	
	Corporate	3597	96,605	
2016	GST	3113	168,821	310,733
	Individual Income Tax	3796	45,307	
	Corporate	4115	131,534	
2015	GST	3201	211,590	392,649
	Individual Income Tax	4013	49,525	
	Corporate	4960	216,213	
2014	GST	3407	173,731	433,523
	Individual Income Tax	4238	43,579	

Source: IRAS

REVOLUTION OF INVESTIGATION PROCESSES: A TAX AUTHORITY'S PERSPECTIVE

When it comes to tax investigations, the most common picture we have will be of tax officers sieving through stacks of physical documents, manually searching for red flags of potential tax fraud. While that may have been the case 10 to 15 years ago, the nature of tax investigation has evolved. Changes to regulatory, social, political and technological advancements are radically altering businesses and operating models which in turn, directed the need for tax administrations to adopt digital technologies. With rapid advancements in technology and changes in the business environment, Inland Revenue Authority of Singapore (IRAS) keeps itself abreast of technological developments in the business environment to stay one step ahead in detecting fraud and enforcing tax compliance effectively, to ensure that everyone pays their fair share of taxes. In Financial Year 2018/19, IRAS audited and investigated 10,301 cases and recovered about $389 million in tax and penalties (Tables 1 and 2).

IRAS uses FDA tools extensively in its compliance operations to detect and review high-risk cases of tax non-compliance. As an organisation that embarked early on automating work processes and digitalisation, IRAS recognises the potential of FDA to enhance the efficiency and effectiveness of its compliance operations and had incorporated data analytics in its processes as early as 2008.

PHOTO SHUTTERSTOCK

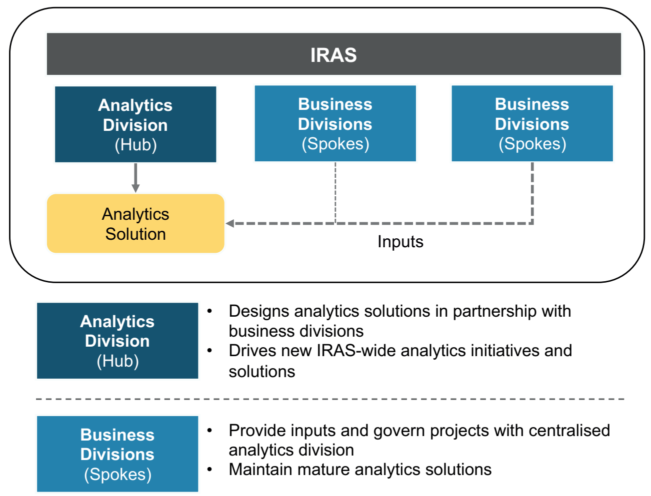
... IRAS invests heavily in its data management infrastructure and FDA to automate the selection of cases for audit, using analytics to improve its focus on high-risk cases.

IRAS adopts a hub-and-spoke model in the deployment of FDA solutions across the organisation (Figure 3). This model is built on a centralised analytics division which comprises data scientists and is complemented by teams of officers from various business divisions who are trained in the usage of data analytical tools. The centralised analytics division acts as a hub by developing FDA tools with its expertise in data analytics, while the business divisions lend their operational experience in their respective business domains to refine the solutions and ensure their relevance to business needs.

Applications of FDA in case detection for tax fraud

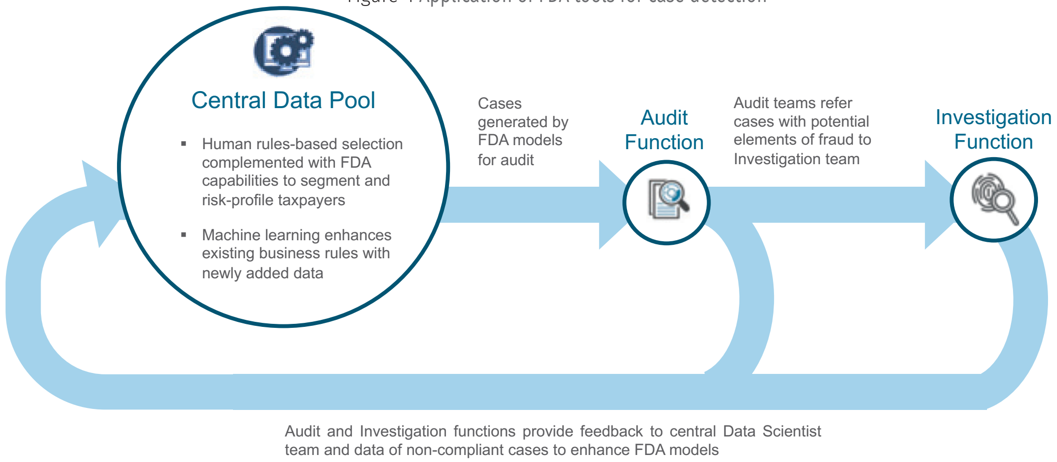
IRAS faces the challenge of managing a growing taxpayer base without a corresponding increase in resources. As such, IRAS invests heavily in its data management infrastructure and FDA to automate the selection of cases for audit, using analytics to improve its focus on high-risk cases. As FDA can effectively run through massive troves of data to identify patterns of risks – something which is nearly impossible using manual effort – it can provide more comprehensive risk-detection coverage.

Figure 3 IRAS' hub-and-spoke model



Source: IRAS

Figure 4 Application of FDA tools for case detection



Source: IRAS

Forensic Data Analytics: A Case Example

In 2016, five individuals were convicted of offences relating to fraudulent Goods and Services Tax (GST) claims under the electronic Tourist Refund Scheme (eTRS). They were also found guilty of money-laundering offences by taking the cash obtained from the fraudulent GST refunds, amounting to approximately $167,253, out of Singapore.

The accused persons masqueraded as "tourists" and paid local customers for their jewellery invoices. With these invoices and using their passports, the "tourists" then obtained eTRS tickets from the respective shops and claimed eTRS GST cash refunds at a port of departure.

These cases were detected by IRAS using anomaly detection and network analysis techniques. By modelling eTRS claims based on certain data variables (example, frequency and value of claims), IRAS was able to identify high-risk cases for targeted attention. IRAS also used network analysis to uncover more complex relationships indicative of syndicated fraud. These techniques enabled IRAS to uncover fraudulent schemes involving both the claimants and the retailers which are part of the scam.

Audit cases that are found to have suspicious indicators of tax evasion are referred to IRAS' investigation function for fraud investigation. As about half of investigation cases in IRAS arise from such referrals, the application of FDA tools in the upstream processes plays an important role in IRAS' efforts to detect tax fraud.

IRAS has been able to employ anomaly detection effectively as it can establish norms with the large data pool available. For example, IRAS can establish the profit margins of industry peers and use them to flag irregularities. Coupled with predictive modelling, IRAS can establish plausible relationships between different variables, which allows for more effective risk profiling and segmentation of taxpayer base. The models are frequently updated with new data, such as from completed cases, so as to enhance the effectiveness of assessing the non-compliance risk of entities. With more accurate risk profiling, audits and investigations conducted by IRAS are more targeted, thus optimising its use of resources (Figure 4).

Applications of FDA for combating syndicated tax fraud

In recent years, IRAS has observed an increase in incidences of criminals operating in syndicates to fraudulently extract monies from public revenue using complex schemes. Such schemes are usually perpetrated with the use of multiple individuals who are paid nominal fees to register companies and submit tax applications in their names, so that the masterminds can create additional layers to avoid detection.

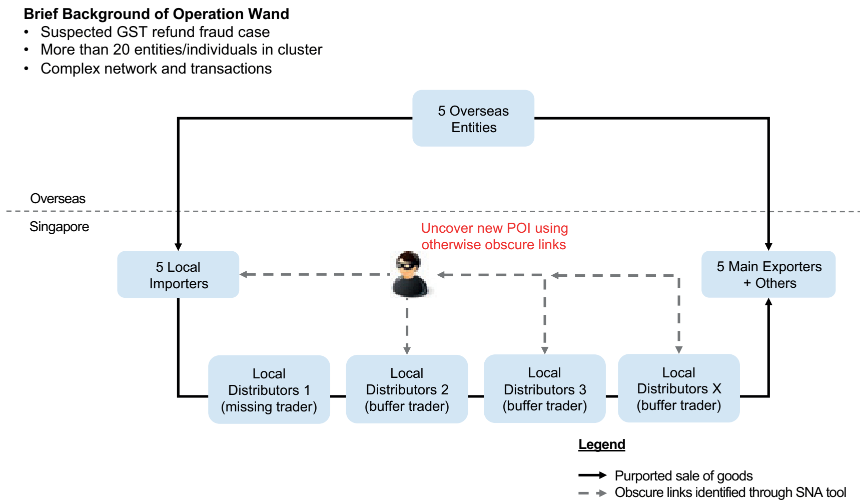
To address this challenge, IRAS' investigation and audit teams have employed SNA tools to augment its audit and investigation capabilities. This tool allows IRAS to uncover hidden relationships in complex networks through exposing obscure

Notwithstanding the dynamic business environment, resilience and an inquisitive mind are critical qualities an effective financial investigator must have – in addition to passion, ethics and integrity.

PHOTO SHUTTERSTOCK


PHOTO SHUTTERSTOCK

Figure 5 Application of SNA tools in tax investigation: A case example



Source: IRAS

linkages within the IRAS databases and generating new leads that are otherwise not obvious to the human eye. Relationship networks can be generated automatically and instantaneously with little manual effort. With these tools, IRAS can identify key persons behind the syndicates and conduct its operations effectively (Figure 5).

In addition to SNA, predictive modelling has also been applied in tracing transactional relationships between entities through information obtained from different sources. By deciphering transactional patterns, predictive modelling tools can identify probable patterns of transaction flows within large networks of entities.

FUTURE SKILL SETS OF INVESTIGATORS: APTITUDE AND DIGITAL SKILLS

In today's business world, even as syndicates adopt tactics to obfuscate their fraudulent transactions, the growing use of digital tools in financial investigations is providing an effective counter. Compliance bodies and law enforcement agencies may also leverage multiple data touch points with their stakeholders to obtain data for timely detection of new fraud methodologies. However, the use of digital tools is not limited to financial investigations – they are also useful to derive insights into the public's view towards certain compliance issues with FDA tools, such as text mining of enquiries and correspondences.

Financial investigators today are expected to be versatile in incorporating technology and analytics into investigation work, giving rise to the need to develop data analytics capabilities. As financial investigations commonly involve the handling of vast amounts of data, the prevalent use of FDA tools is now the keystone in investigation processes. However, the incorporation of technology and data analytics in tax investigations should be coupled with individual experiences and other technical skills to harness the full potential of technology adoption. As financial investigations often involve poring over huge amounts of accounting documents and data that are usually cluttered and unorganised, good accounting knowledge and business acumen remain key competencies of a financial investigator. These technical skills will enable the investigator to pick out incongruities such as accounting discrepancies and questionable accounting entries or data, as well as recognise loopholes in testimonies that are crucial to the investigation.

Besides the relevant technical skills, aptitude and attitude are key attributes of financial investigators. Individuals are required to handle a wide range of duties from researching and planning to piecing together of evidence in support of case theories for prosecution; they should also have the ability to handle the high-pressure environment from confrontational investigation subjects. Notwithstanding the dynamic business environment, resilience and an inquisitive mind are critical qualities an effective financial investigator must have – in addition to passion, ethics and integrity. ISCA

This article was written by Professional Qualifications, Institute of Singapore Chartered Accountants. We would like to express our gratitude to Inland Revenue Authority of Singapore for its contributions.

THE CLEAN ENERGY ADVOCATE

THE HIGH-STAKES, fast-paced world of investment banking was once where Lawrence Wu thrived in. The accountancy graduate from Nanyang Technological University (NTU) had spent a few weeks at a Big Four accounting firm as an audit assistant, before taking up a job with DBS' investment banking division. The pace fitted him better, he felt, and over the next 10 years, he was deeply immersed in the world of corporate finance and capital structuring with other big banks including Macquarie and BNP Paribas, helping companies raise money from public and private investors to finance sizeable investments and projects. He enjoyed the often-punishing demands of the job and the adrenaline rush of deal-cutting, but little did he know that he was in training for the next phase of his career.

In 2009, Mr Wu was having drinks with a good friend whom he had gotten to know while both were undergraduates at NTU. While chatting about the latter's solar panel manufacturing and assembly family business, the pair realised that while clean energy trends were here to stay, the prevailing business model – whereby consumers had to pay high upfront installation costs – was hampering market adoption. The answer: "Infrastructure-for-a-service" via a power purchase agreement (PPA) model, already practised in many other forms of business but not yet commonplace in Singapore. Under this model, an energy provider fully finances, installs and maintains the solar system on consumers' rooftops so that they pay only for the energy consumed on a monthly basis; this effectively removes, from the consumer, the burden of financial risk and technical complexities of maintaining a solar system. Think of it as "solar-as-a-service", describes Mr Wu, drawing parallels with the software-as-a-service (SaaS) model whereby companies pay a monthly fee to use cloud-based applications instead of forking out large capital amounts to build physical IT infrastructure.

While he enjoyed his job, Mr Wu could not resist the prospect of building a business from scratch, and not just any money-making venture, but one that

Lawrence Wu, CA (Singapore), Group President & Co-Founder, Sunseap Group

"There is growing expectation for accountants to go beyond a 'silo-ed' function to take on a more active business partnering role, helping to drive growth and strategic planning."

CAREER HIGHLIGHTS

2000 to 2006
Vice-President, Mergers & Acquisitions, DBS Bank

2007 to 2008
Senior Vice-President, Corporate Finance and Principal Investments, Macquarie Capital

2009
Director, Corporate Finance, BNP Paribas

2009 to present
Director, Thirdrock ISSEA Advisers Pte Ltd

2011 to present
Group President & Co-Founder, Sunseap Group

2014 to present
Co-Founder and Partner, TRIREC Pte Ltd

2016 to present
Director, SkyLab Holdings Pte Ltd

would help make the world a cleaner, better place. The pair established Sunseap Leasing in 2011, and that very year, they secured their first project with the Housing and Development Board (HDB) – to install solar panels on the rooftops of 40 HDB blocks under the Pasir Ris-Punggol Town Council. The next step was to raise money for the project, but they hit a snag. Smaller financial institutions did not really understand their business at that time and were thus reluctant to fund them S$4 million, which was too minuscule for the big infrastructure banks that typically dealt in hundreds of millions of dollars. This was where Mr Wu's background in accountancy and expertise in project financing, fundraising and investor engagement were brought to bear. The cash was raised, and the rest, as they say, is history.

At the centre of Sunseap's value proposition is the concept of grid parity, which refers to "the ability to provide clean energy at a cost lower than that generated from fossil fuels", explains Mr Wu. Grid parity is dependent on multiple factors from the amount of sunlight in an area to financing costs, existing electricity prices, installation costs and others. "This is why we can offer discounts of 20% and above to our clients on their electricity bills. If we can deliver clean energy to you at a price competitive to that of conventional sources, without requiring any additional upfront costs from you, what's there to lose?" enthuses Mr Wu.

THE CLEAN MACHINE

Today, Sunseap Group is one of the largest renewable and solar energy companies in Singapore. It was also recently named among the *Financial Times'* top 500 high-growth companies in Asia Pacific – the only one of 10 energy companies to have made it to the list. Among its biggest early successes was securing a contract with Apple in 2015 to be its sole power supplier, from its retail store in Orchard Road to its corporate office in Ang Mo Kio. In October last year, Sunseap won a tender to install more than 170,000 solar panels at 1,218 HDB blocks and 49 government sites. "As a city-state that does not have the luxury of space, we've come a pretty long way. We're constantly finding innovative ways of overcoming our limitations." One of these innovations is a floating photovoltaic (PV) testbed project at Tengeh Reservoir, in which Sunseap was a participant; the project is one of the world's largest floating solar panel systems. "The past 10 years have definitely been exciting, because while our vison and mission stay the same, we're constantly innovating. Back in the day, we were just a solar utility company; now we're offering a whole suite of decarbonising solutions to our clients," says Mr Wu.

But while he's busy helping to fight climate change with his green initiatives,

Mr Wu still has a finger on the pulse of accountancy, and values his ISCA membership not only as a resource to keep him up-to-date with what is happening in the sector, "but also what is *not* happening".

"By current International Financial Reporting Standards, companies incur a large liability on their balance sheets if they choose to adopt solar energy. There has to be a 'friendlier' way of financial reporting that is in line with growing expectations on corporations to seek out more sustainable ways of doing business," Mr Wu responds, when asked how accountants can play a part to help businesses better attain their corporate goals of energy efficiency and sustainability.

Fittingly, Mr Wu is also part of the Institute's Infrastructure & Project Finance Oversight Committee, where he offers industry expertise alongside that of other market leaders to support ISCA's Infrastructure & Project Finance Qualification (IPFQ) programme. It is Asia's first-ever qualification leading to the conferment of the ISCA Infrastructure & Project Finance Professional (IPFP) credential by a professional body in Asia.

The comprehensive programme, which covers project lifecycle to project risks and financing as well as contracts and financial modelling, is tailored to meet the growing demands of urban infrastructure and services in developing markets in Asia (projected to be S$28.5 trillion from 2016 to 2030[1]). "There will be other institutions offering similar qualifications, but it lends more credibility when backed by a professional body like ISCA," opines Mr Wu. "ISCA's IPFQ programme helps accountants develop a business owner's perspective and skill sets, and is particularly suited for those interested in the interplay of business, finance and accounting in infrastructure projects, all the way from pitching and business development to getting steel on the ground," he adds.

PIVOTING PAYS OFF

To prepare for a global marketplace where disruptions and automation are increasingly the norm, Mr Wu advises young accountancy professionals to seize opportunities to expand beyond pure accountancy functions. "There is growing expectation for accountants to go beyond a 'silo-ed' function to take on a more active business partnering role, helping to drive growth and strategic planning." As one whose accountancy degree has enabled him to pivot into banking and finance, and now entrepreneurship, Mr Wu's own career attests to how far one can go by adopting an interdisciplinary approach to career planning and development. Besides Sunseap, Mr Wu is also an investment partner at TRIREC Pte Ltd, a clean technology and sustainability venture capital firm and SkyLab, a startup in the Internet of Things, connectivity and cloud solutions, that optimises the transmission of content, software and machine data for mission-critical applications. Asked if he has ever regretted leaving his banking job, the 43-year-old father of two daughters aged eight and 10 affirms, "Absolutely no regrets. It has been a wonderful journey." ISCA

> **"ISCA's IPFQ programme helps accountants develop a business owner's perspective and skill sets, and is particularly suited for those interested in the interplay of business, finance and accounting in infrastructure projects, all the way from pitching and business development to getting steel on the ground."**

[1] "Report Of The Committee On The Future Economy: Pioneers Of The Next Generation" (2017), Committee on the Future Economy

BY LIM JU MAY AND TERENCE LAM

INSTILLING FAITH IN THE FIGURES

Corporate Governance Ecosystem And Audit Quality

COVID-19 HAS LED TO VOLATILITY IN THE FINANCIAL MARKETS. There are obvious concerns about whether corporations will be able to weather this storm. There are also reports of sharp increases in trading activities by retail investors. These investors typically look at profitability, size of reserves, and cash and gearing, among other metrics. Reliable financial information is essential in helping investors make informed decisions.

The fundamental value of an audit lies in the fact that it is probably the most cost-effective mechanism which provides credibility to general purpose financial statements. Audited numbers are crucial for confidence in the capital markets and to make investment decisions. Unaudited financial information from management would normally be viewed sceptically because management is not independent and has vested interest to paint a positive outlook. Hence, audit reports are an important component in the entire financial reporting ecosystem. Accordingly, it is critical for audits to be – and perceived to be – of high quality.

Notwithstanding the importance of high-quality audits, we need to understand that auditors are not the sole guardians of public interest. Multiple stakeholders have a shared responsibility in this regard. For a balanced perspective of things, it would be meaningful to look into the roles of various stakeholders in the corporate governance ecosystem and how the quality of audits in Singapore is maintained.

THE CORPORATE GOVERNANCE ECOSYSTEM

It should first be established that auditors are only one of the components in the corporate governance ecosystem. The Board of Directors (Board), being responsible for true and fair financial statements and maintaining internal controls, discharges its duties with the assistance of the audit committee, management and internal auditors. In this respect, a competent finance and accounting team is crucial. A weak team results in overdependence on the auditors, causing an imbalance in the ecosystem.

Standard-setters, regulators and enforcement agencies uphold the structure of the ecosystem by implementing regulations and standards, monitoring compliance, and investigating and prosecuting governance failures while investor watchdog groups stand up for minority shareholders.

Education and training also play an integral role by laying the foundation of this ecosystem. This includes education for the investing community to keep up with the increasing complexity and sophistication of the financial markets.

> **The fundamental value of an audit** lies in the fact that it is probably the most cost-effective mechanism which provides credibility to general purpose financial statements.

What is the auditor's role?

The auditor seeks to obtain reasonable, but not absolute, assurance to express an independent opinion on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

The audit process involves understanding the business environment, risks and internal controls. It could be an interwoven complex process requiring the application of professional judgement and scepticism. A complex process is distilled into a few pages of the auditor's report.

The auditor also evaluates the appropriateness of management's assessment of going concern. If there are material uncertainties on the entity as a going concern or if the management's use of the going concern assumption is inappropriate, the auditor highlights this in the auditor's report. One needs to be mindful however, that businesses could fail due to a variety of reasons, from poor business decisions to changes in the business environment beyond anyone's control.

In addition, due to the inherent limitations of an audit, there is an unavoidable risk that a properly planned, performed and fully compliant audit may still not detect material misstatements, particularly where there is management collusion.

It is also important to note that an unqualified (or clean) audit opinion is not meant to endorse the viability of a business or the effectiveness of its management.

PHOTO SHUTTERSTOCK

HOW IS THE QUALITY OF AUDITS MAINTAINED?

In the face of increasing business complexity, the need for high-quality audits which can stand up to scrutiny is higher than ever.

The process in achieving audits of high quality begins even before an audit client is accepted, and extends to the time the audit report is signed. This process is highly iterative, and we will not elaborate further on this. However, there are some other not-widely-known factors which help drive the quality of audits in Singapore. These include:

Quality control

The Singapore Standard on Quality Control (SSQC) 1 requires an audit firm to maintain a system of quality control to provide reasonable assurance that:

(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and

(b) The reports issued by the firm or engagement partners are appropriate in the circumstances.

These include, among others:

- *Evaluate client acceptance and continuance*
  One key consideration during client acceptance and continuance assessments is the integrity of the principal owners, key management and those charged with governance of the entity.
  Another is to consider whether the engagement team has the competency and necessary capabilities to perform the engagement, including time and resources.
  Where there is significant doubt over these, a firm's risk assessment protocol would normally result in the engagement being rejected.
- *Engagement quality control review*
  For audits of listed entities, an engagement quality control reviewer (EQCR) is required. The EQCR is typically another partner or person in the audit firm (or suitably qualified external person), separate from the main audit engagement team, with sufficient and appropriate experience and authority to perform the EQCR's role.
  The EQCR's role, among others, is to perform an objective evaluation of the significant judgements made by the audit engagement team, the conclusions reached in formulating the auditor's report and consider if the proposed auditor's report is appropriate.
  This review process has to be completed before the auditor's report is issued.
- *Monitoring quality control*
  A firm's monitoring process is required to include, on a cyclical basis, inspection of at least one completed engagement for each audit engagement partner. Such inspection cannot be carried out by those who are involved in performing the engagement or the EQCR.
  Some firms go beyond this mandatory requirement by implementing an additional "hot review" process, where engagement files are reviewed by another person in the audit firm with sufficient and appropriate experience before the auditor's report is issued.

... due to the inherent limitations of an audit, there is an unavoidable risk that a properly planned, performed and fully compliant audit may still not detect material misstatements, particularly where there is management collusion.

Practice Monitoring Programme

The Accounting and Corporate Regulatory Authority (ACRA) conducts independent audit inspections under the Practice Monitoring Programme to ascertain if public accountants have complied with the prescribed auditing standards. The Programme is administered under the oversight of the Public Accountants Oversight Committee (PAOC), which is a Board committee under ACRA.

The PAOC appoints the Practice Monitoring Sub-committee, which comprises experienced public accountants and qualified professionals, to review the inspection findings and propose the recommended actions. The PAOC then decides on the review outcome and the appropriate consequential action to be taken in cases of fail outcome, which may include ordering the public accountants to undertake remedial actions, or it may impose sanctions, depending on the severity of the non-compliances.

CONCLUDING THOUGHTS

Even after multiple reforms and a long history of evolution which have led to today's comprehensive structure of audit standard-setting, quality control and regulatory oversight, the auditing profession remains persistent in its pursuit of quality. Improving the quality of audit is always high on the agenda of standard-setters and regulators the world over.

With risk being a constant presence in any form of business or investment, stakeholders' education, transparency and the availability of timely and fairly presented information are crucial in instilling trust in the capital markets. This, however, will require concerted efforts from all stakeholders in the corporate governance ecosystem. ISCA

Lim Ju May is Deputy Director, and Terence Lam is Senior Manager, Technical, ISCA. A translated version of this article was first published in *Lianhe Zaobao* on 11 July 2020.

PHOTO SHUTTERSTOCK

BY KEOY SOO EARN

M&A IN COVID-19 TIMES

What Is The Next Normal?

NO COUNTRY, AND INDEED, NO BUSINESS, WILL BE IMMUNE TO COVID-19'S IMPACT. In these uncertain times, it is understandably more difficult for business leaders to make decisions that look beyond the horizon, and it is no surprise that plans for mergers and acquisitions (M&A) take a backseat as businesses grapple with the pressing urgency to simply survive.

The number and value of deals in Singapore and Southeast Asia have decreased as a result of the pandemic. In 2019, Singapore saw 140 deals with an average deal value of about S$231 million compared to 10 deals with an average deal value of about S$45 million in the first half of this year. Southeast Asia saw 461 deals with an average deal value of about S$203 million in 2019, compared to 40 deals with an average deal value of about S$169 million in the first half of 2020.[1] We can expect that M&A activity will continue to decline in the next six to 12 months.

TRENDS ARE ACCELERATING

While the current outlook in the region may seem grim, the trends that are emerging – and accelerating – give us a glimpse of different opportunities in different sectors that can lift businesses out of survival into recovery, and eventually to thrive post-Covid-19.

Certain key trends in the pre-Covid-19 world have accelerated during the pandemic, for instance:

- **Digitisation** Social distancing has accelerated the adoption of contactless technologies and digital experiences. New businesses launched will increasingly be digital/cloud natives, which will further drive the adoption of emerging technologies (for example, analytics, sensing and 5G).
- **Virtualisation of workforce** Many organisations have already adjusted to working remotely through virtual communication and collaboration channels and are unlikely to revert entirely. The pandemic has also driven increased adoption of different business models (for example, telemedicine).
- **Focus on safety and surveillance** More consumers will expect safety and precautionary measures from both brands and governments, driving the need for enhanced surveillance policies and technologies (for example, mobile alerts for contact tracing) among employers and governments. This will give rise to potential privacy concerns that will need to be addressed.
- **Corporate social responsibility** Taking steps to "do the right thing" in the Covid-19 context is not only more appreciated, it is also becoming "table stakes" for consumers. The rising activism among consumers and employees is expected to drive an increased focus on corporate purpose.
- **Emergence of pop-up ecosystems** Value chain disruption is likely to lead to more and creative partnerships, which may in turn cause organisations to further invest in developing the mindset and agility to collaborate across sectors in the ecosystem.
- **Focus on cost reduction** Cost management will be a critical priority to ensure business continuity based on cash flow requirements to manage lower margins and revenues (for example, through restructuring).

The above trends suggest that the Covid-19 pandemic will drive structural change. Travel preferences, attitudes towards crowds and levels of health-consciousness will likely be re-evaluated, and the future of work may change – with businesses placing greater scrutiny over their global supply chains, increased use of technology to replace business travel, and working-from-home arrangements for employees will be more permanent. Also, the accelerated use of technology may support recovery and higher productivity in the long term.

We anticipate a different approach to M&A to emerge, where transformation is pursued simultaneously with an acquisition. Companies that take advantage of this can implement new business and operating models for a combined or separate entity, and drive significant revenue growth and sustainable margin improvement.

[1] Statistics from Mergermarket

THE EFFECT ON SINGAPORE'S INDUSTRIES

A significant share of industries is estimated to experience negative growth in output over 2020 due to Covid-19, reflecting the widespread impact of the current health and economic crisis as well as the broad reach of the Singapore government's "circuit-breaker" measures. Industries considered "non-essential" during the circuit-breaker period, that are less able to make use of e-commerce and digital delivery, and less prepared to support work from home strategies will be more impacted.

A recent Deloitte research[2] has ranked the top five industry groups in Singapore that are most impacted on an Industry Impact Index, measured by their estimated growth in industry output and their readiness for the new normal (Figure 1). In the same report, industry groups are also ranked in a Policymaker Priority Index which scales the most impacted industries by their degree of integration with the broader economy (Figure 2). Industries that contribute more to economic growth, support more jobs, and are more integrated with other industries may be higher priority for receiving government support.

The businesses within industries most impacted should have greater impetus to take decisive action to address their vulnerabilities and ready themselves for the future. These actions could involve diversifying the sources of revenue or sales channels to strengthen resilience to external shocks, such as those currently being experienced, or investing in workforce training and new technologies to improve adaptability to the structural changes that will define the next normal.

THE NEXT NORMAL FOR M&A

In this environment, we can expect to see increased distressed M&A opportunities. Enterprises and private equity firms with available funds set aside for acquisitions and investments will be well-positioned to enter the market at a lower asking valuation than pre-Covid-19 times. However, these acquisitions and investments will require the investor to have access to expertise to turn around the distressed business.

Figure 1 Industry Impact Index

Rank	Industry	Index
1	Accommodation and Food Service Activities	100
2	Transportation and Storage	51
3	Arts, Entertainment and Recreation	37
4	Real Estate Activities	29
5	Wholesale and Retail Trade	27
Note: SSIC division-level and industry clusters. An index score of 100 reflects the most impacted and highest priority industry		

Source: Deloitte Southeast Asia Financial Advisory

Figure 2 Policymaker Priority Index

Rank	Industry	Index
1	Accommodation and Food Service Activities	100
2	Wholesale and Retail Trade	87
3	Transportation and Storage	76
4	Construction	58
5	Manufacturing	49
Note: SSIC division-level and industry clusters. An index score of 100 reflects the most impacted and highest priority industry		

Source: Deloitte Southeast Asia Financial Advisory

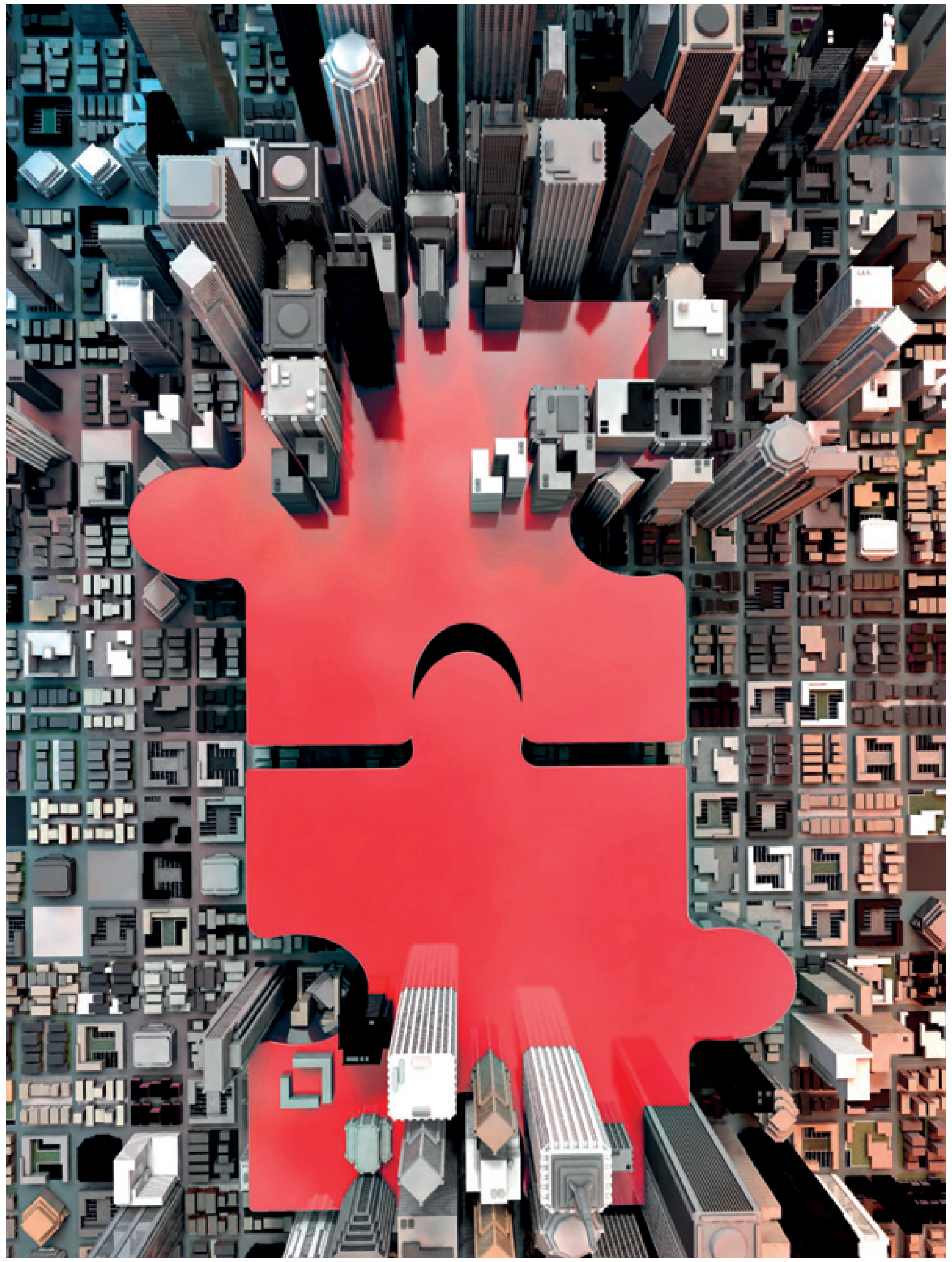


PHOTO SHUTTERSTOCK

Sectors that would likely present distressed M&A opportunities include:

Hospitality Halted consumer demand has forced the closure of many hospitality venues, and business model changes have been accelerated to address profitability. Digital channels and home delivery are expected to grow fast. Many hotel chains are facing liquidity issues due to very low occupancy rates, and further consolidation is expected.

[2] "Local Industry - The Impact Of Covid-19 And Readiness For The New Normal" (2020), Deloitte Southeast Asia Financial Advisory

Aviation Airlines are expected to reduce the size of their fleets, and no-frills airlines and mid-sized/regional carriers are the hardest hit. Privatised airport operations and ground-handling services are facing radical capacity reductions and financial restructuring, or potential wind-down.

Retail and wholesale (non-food) Lower footfall at physical locations will pose viability issues for companies that cannot go digital. Significant acceleration in online sales has resulted in companies rushing to move their offerings to digital channels to maintain demand. Customers will expect a seamless omni-channel experience with new shopping and delivery options that will affect margins.

Automotive Dealers are under significant cash flow pressure due to the sharp decline in sales; dealer capacity is too high and consolidation of dealerships is expected.

Corporate purpose that intertwines sustainability with commercial success, resilience and building trust across a wide coalition of stakeholders will be the cornerstone of deal-making.

We are also noticing that investors are moving from an "acquire for growth" to "acquire to transform" model. We anticipate a different approach to M&A to emerge, where transformation is pursued simultaneously with an acquisition. Companies that take advantage of this can implement new business and operating models for a combined or separate entity, and drive significant revenue growth and sustainable margin improvement.

As we ride out the Covid-19 wave, we envision the following focus areas of M&A activities where enterprises may look to "acquire to transform" and be well-positioned for the next normal:

Technology The pandemic has demonstrated the importance of digital readiness and is catalysing digital transformation. Businesses must leverage on technologies to address changing needs of consumers, better manage supply chain, and re-energise and manage workforce remotely. Enterprises will likely explore acquiring or investing in relevant emerging technology startups to speed up their own digital transformation. A boost in M&A activity will likely happen in software and e-industries as the online business presence will remain strong post-crisis, with convenience and speed being competitive advantages. We are also expecting to see activity in data-rich industries with businesses becoming digital and embracing technology-driven solutions including blockchain, cybersecurity, artificial intelligence and cloud to extract additional value for the business after it has been digitised. Another emerging investment hotspot is in digital infrastructure that is the foundation of digital economic activities and technological applications of any nation.

Environmental, social and governance (ESG) Enterprises are realising that identifying, assessing and managing inherent ESG aspects of their business offer opportunities, oftentimes in financial, economic and brand preservation terms. With ESG under the spotlight, and with enterprises getting regularly critiqued on ESG performance by regulators, investors and financiers are rewarding enterprises which not only abide by but also demonstrate continual improvement. Any ESG gaps offer opportunities for enterprises to increase the value of their business. Enterprises could look to plug any ESG gaps via acquisition of a business with a strong ESG agenda to transform the combined entity. Enterprises with a strong ESG agenda can also access green/social funding. Sustainable finance, specifically, green and social bonds, has seen unprecedented growth, driven by increased issuer and investor approaches to environmentally-conscious and socially-related issues, regulations and demands by stakeholders. Green finance has been applied to transform carbon-dependent businesses, cities and infrastructure. The increasing issuance of social bonds, on the other hand, seeks to fund positive social outcomes such as generating employment opportunities, access to healthcare and education, and affordable housing.

CONCLUSION

The post-Covid-19 M&A environment will be materially different. Corporate purpose that intertwines sustainability with commercial success, resilience and building trust across a wide coalition of stakeholders will be the cornerstone of deal-making. Well-planned bold moves will help companies recover and transform themselves to augment their competitive edge and redefine market opportunity while maximising value creation and accelerating time to value in the new world. ISCA

Keoy Soo Earn is Regional Managing Partner, Financial Advisory, Deloitte Southeast Asia.

BY GEORGE WILLIE AND MICHAEL MBAYA

MAKING TECHNOLOGY INVESTMENTS

Five Steps For Consideration

BASED ON THE 2018 IFAC GLOBAL SMP SURVEY[1], 46% of 6,258 small- and medium-sized practices (SMPs) were planning to invest less than 5% of their next 12 months' forward revenue on technology products and services, while one-third planned to invest less than 1%. Technology is a game-changer and a disruptive force on so many business fronts; thus, it is important for firms to make the necessary investment in technology to remain relevant to their clients.

Based on the responses to the survey, the top technology developments planned or introduced were the development of in-house skills and expertise in IT, and the adoption and use of cloud options for clients' interface and servicing (Figure 1).

The SMP Business Support Task Force (SBSTF) of the IFAC SMP Committee recently discussed this topic as part of its practice transformation initiatives. The Committee offered five steps for SMPs to consider when investing in technology:

(1) Develop a technology strategy

An investment in technology, like everything else in a practice, needs to be planned. What is the firm's business strategy within the next year? What about the next three to five years? What specific technology and the requisite investment will need to be prioritised by the firm to meet its long-term business plan? How will this impact the firm's service delivery over time?

The technology strategy should be fully aligned to the firm's long-term business plan. To develop a comprehensive plan, Chapter 5 of the Guide to Practice Management for Small- and Medium-Sized Practices (PM Guide) and a Gateway article on "Developing A Technology Strategy" which covers the steps to help embed technology into a practice will be of help.

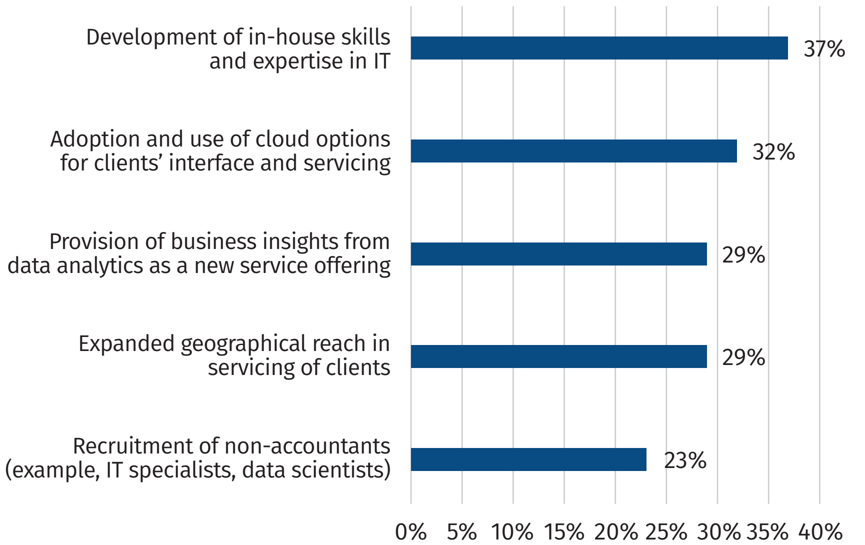
Chapter 5 of the PM Guide also includes other in-depth information for firms planning to embark on a technology project, starting with a plan and selection of technology, and covering training and contracts that come with system implementation.

(2) Identify technology needs and examine firm readiness

The firm-wide technology strategy will need to be broken down into sub-components, either by services provided (example, audit, tax, etc) or by some identifiable functionality (example, human resources, billing, and/or customer relationship management).

It is important to determine the firm's current operational needs and future requirements, and how those align with the firm's strategic direction. How critical is it for a firm to meet those needs, and by when? It can be helpful to draw up a list using categories such as critical, beneficial, or optional (good to have) which can then help the firm to prioritise. Conversations with other practitioners who are ahead of the technology curve can be insightful. It is imperative to gauge whether staff are also ready to embrace new ways of working with technology. If staff are not ready, then appropriate intervention will have to be applied, such as in-house training and demonstrations, appointment of product champions, and other possible incentives. Buy-in from staff will be necessary for a successful technology implementation strategy.

Figure 1 Technology developments introduced or planned in the next 12 months, among survey respondents



[1] "IFAC Global SMP Survey: 2018 Summary" (October 2018), IFAC

(3) Conduct a thorough cost-benefit analysis and investment appraisal

Being aware of the technology needed to achieve the firm's strategy is critical. The next step is to conduct a cost-benefit analysis of technology investments while being cognisant of the opportunity cost. For example, a firm may have $15,000 with the choice to either invest in a new technology system that can enhance the productivity of the staff, or leave the money in a fixed deposit that earns 5% per annum. If the increase in productivity from the former can be quantified at 10% per annum on the cost of investment, then the opportunity cost for not making the investment on the new technology system is a negative return of 5%. This negative return should form part of the cost-benefit analysis.

The extent of an investment appraisal will very much depend on the scale of investment in question. Usually, an investment should be considered only if it can produce a positive return. It is also important to identify the break-even timeframe in the implementation phase. But, on the flip side, the cost of being left behind should not be ignored either.

Various methodologies can be used to conduct an investment appraisal. Common challenges are: arriving at an acceptable rate of return, getting complete information on costs (including opportunity cost), and quantifying benefits such as efficiencies and staff satisfaction in monetary terms. In recent years, training budgets have become more common and spending on cybersecurity has risen, so it is more important than ever that these costs are also factored into the computation. The Institute of Chartered Accountants Scotland (ICAS) has an article that can be useful as a reference on various appraisal techniques.

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(4) Explore different funding strategies

Different investment alternatives should be considered at this stage, for example, a "bring-your-own" device strategy may reduce the entry cost for the firm but may also require robust cybersecurity firewall/protection and consequently, more investment in this specific area. There are also options such as outright purchase (rather than leasing or paying rent). Arrangements such as software-as-a-service (SaaS) or infrastructure-as-a-service (IaaS) in recent years have proven to be popular alternatives for firms. Such investments generally allow firms to break up their initial capital outlay over time. In an SMP environment, funding can be obtained from the following sources:

- *Partners and/or shareholders*
  This is the most directly accessible source but possibly the most difficult to mine because not everyone shares the same enthusiasm for investment returns. Different people have different investment time frames.
- *Co-funding with other firms*
  This is possible if a technology type can be shared among firms. Sharing will reduce the necessary cost contribution by any single firm. However, there may be copyright issues and scheduling conflicts during peak work cycles.
- *Commercial loans from banks and other financial institutions*
  These usually involve collateral and personal guarantees from partners or shareholders. They can take a long time to obtain. Interest rates can also be prohibitive in certain jurisdictions.
- *Credit from suppliers or technology suppliers*
  This routinely means that the credit provider will have the final say on the type of technology to be selected. As a result, the firm might have limited options.
- *Assistance from government agencies*
  In many developing countries, governments have set up agencies to help small- and medium-sized entities (SMEs) and/or SMPs. Some provide loans at highly-subsidised rates while others award grants to targeted groups. For example, the Malaysian government had set up an SME Corporation, among other institutions, that can help SMPs to modernise their practices, provided that their services can be exported to other countries. With the proliferation of cloud technology, this capability is no longer rare.

While it is crucial to plan the monetary outlay in all funding options, the timing of cash outflows and how they will be met by these funding options will also need to be examined concurrently as part of the investment appraisal.

Successful implementation of any technology investment will be highly dependent on SMPs getting the right support along the implementation journey. One of the more important skill sets that SMPs will need to cultivate internally in the next few years is in the area of change management as all these disruptions become more of a reality.

(5) Determine the implementation timetable and monitoring

Once an implementation timetable is drawn up and a budget finalised, it is time to put the plan into action. Appointing a product champion is a good way to get staff buy-in. It is vital for the firm to ensure that the project is executed on a manageable scale with clear milestones, and that it can be built upon when moving upward to bigger-scale projects. This allows for easier project management and better risk management. For bigger technological implementation projects, SMPs must be open to seek professional help from experts.

It is also essential to monitor the implementation against a set timetable. This helps in managing budgets and cashflows. Actions may be required should issues occur during the implementation phase. Partners and/or proprietors' support is paramount for a technology project to be successful.

CONCLUSION

Successful implementation of any technology investment will be highly dependent on SMPs getting the right support along the implementation journey. One of the more important skill sets that SMPs will need to cultivate internally in the next few years is in the area of change management as all these disruptions become more of a reality. With buy-in from staff and support from senior management, the journey of the SMPs will be much more certain and manageable.

Without a doubt, SMPs will need to embrace all these rapid advances in technology if they want to stay relevant in the industry and provide the best services to their clients. This will include staying up-to-date with technological trends, optimising and adapting whatever current technologies are available within the firm to better meet the needs of clients, and being open to technologies as they come along. Recognising these steps as part of the firm's technology investment and implementation cycle will be necessary going forward. ISCA

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Nissan showroom, Tokyo, Japan

PHOTO SHUTTERSTOCK

BY HAVOVI JOSHI

CORPORATE GOVERNANCE

Of Misses, Awareness And Improvements

NISSAN IN JAPAN, SAMSUNG IN KOREA, PIONEER INDUSTRIES IN HONG KONG, KINGFISHER AIRLINES IN INDIA – WHAT DO THESE FIRMS HAVE IN COMMON? Each is a poster child firm from Asia known for its corporate governance failures. That is not to say that the western world has not had its fair share of such companies: think Enron, WorldCom, Lehman Brothers, and Royal Bank of Scotland. The picture, however, is grimmer in the east because most Asian countries are not reputed for good corporate governance, commonly described as "the structures and processes by which companies are directed and controlled".[1] While key markets like Singapore, Hong Kong and Japan have already adopted corporate governance as well as stewardship codes, most other Asian economies, especially the frontier ones like Myanmar and Laos, are still struggling to ensure governance at the most basic levels.

Why is this so? History provides a perspective. Even as the developed world started pursuing the establishment of "modern corporations" with dispersed shareholding, businesses in most parts of Asia continued to have a concentrated ownership structure. This was either due to the dominance of family firms, as seen in India, or substantial state ownership, such as in China and Vietnam.

[1] "A Corporate Governance Approach Statement by Development Finance Institutions" (October 2007), International Finance Corporation

Colonialism did not help the matter, as the ruling powers were typically more interested in pursuing their own economic interests than establishing codes of governance and institutional safeguards. Hence, corporate governance in Asian countries, with the notable exception of Japan, really started only after the colonial period and the two World Wars.

GROWING AWARENESS

Asian countries began focusing on strengthening corporate governance after the 1997 Asian financial crisis. The crisis led to a surge of interest by governments in implementing robust frameworks in line with the OECD-listed corporate governance norms that ensured adequate protection of the interests of all stakeholders. However, with a weak institutional system set-up in most countries, and oftentimes a strong nexus between the political and business leaders of the country, the onus for ensuring corporate governance fell largely on the firm's Board of Directors. As Ma Cherry Trivedi, CEO, Myanmar Institute of Directors, argues, "Most businesses in Myanmar are family-run, with both the board and management run by the same set of people. So while we have a rulebook on corporate governance and the role of a director, who will investigate all the violations and ensure that penalties are enforced?"

It is quite clear that investors today will pay a premium for a well-governed company, particularly in emerging markets, and for the Asian growth story to continue uninterrupted over the next few decades, there needs to be a shift to a more robust and effective corporate governance framework.

This period also coincided with strong Asian economic growth when firms began to aggressively expand overseas. Consequently, they had to dilute their family/minority shareholding and go public, convincing the market that they had strong corporate governance frameworks in place. In Korea, businesses were dominated by the massive, family-run, global conglomerates called *chaebols*, which were forced to move away from their largely paternalistic, Confucian style of working to adopt governance structures that were in line with the requirements of the international financial community. They had to adopt more of the Anglo-American style of corporate governance – increasing corporate transparency and accountability, recruiting independent directors and improving their financial reporting.[2] Also, in Japan, firms followed the traditional *keiretsu* structure of deep and strong invisible crossholding networks among companies, and their suppliers and customers. These firms needed to access capital from international finance markets to fund overseas growth, and along with that came the condition to adhere to best practices of corporate governance. In China, there was a surge in corporate governance improvements that happened on account of a need to strengthen the governance of state-owned enterprises that were being listed abroad.[3]


Exchange Square, Hong Kong

PHOTO SHUTTERSTOCK

THE SITUATION TODAY

Today, while most countries in Asia have implemented a Corporate Governance Code or similar principles, there is still a considerable degree of variation across the continent – these could be "binding" as in the case of Bangladesh, India and Vietnam; "voluntary" as in China and Korea, or "comply or explain" as seen in Hong Kong, Singapore and Thailand.[4]

The widely-awaited biennial survey by the Asian Corporate Governance Association and the Asia-focused brokerage CLSA on the ranking of corporate governance in Asia, released in December 2018, put Australia in the top spot, followed by Hong Kong and Singapore, and then Japan, which tied with India.[5] Both Hong Kong and Singapore were criticised because their stock exchanges had changed the rules in 2018 to allow companies to list with dual-class shares. These shares offered extra voting power to top executives but could also be potentially misused by company insiders. As for Japan, it had taken initiatives to improve corporate governance standards, with Prime Minister Shinzo Abe instituting Japan's Stewardship Code that applied to company boards in 2014, followed by the Corporate Governance Code for institutional investors in 2015. However, the country has since suffered the repercussions of the Carlos Ghosn/Nissan scandal. In India, there have been several high-profile cases like Satyam Computer Services, where the founders/promoters were perceived as adopting autocratic management styles that brushed aside good governance norms. In addition, a number of sectors like banking and telecoms has been plagued by corporate governance challenges; the near collapse of Yes Bank in the earlier part of 2020 is yet another striking example of corporate governance failure. Overall, the report ranked China, the Philippines and Indonesia at the bottom as these countries were perceived as still having a way to go in terms of improving corporate governance.

But why is corporate governance getting so much more attention today? The "2018 Global Competitiveness Report" published by the World Economic Forum affirmed that poor performance on the "institutions" pillar of its global competitiveness index, which includes corporate governance, continues to pull down the competitiveness of many Asian countries. It is quite clear that investors today will pay a premium for a well-governed company, particularly in emerging markets, and for the Asian growth story to continue uninterrupted over the next few decades, there needs to be a shift to a more robust and effective corporate governance framework. This framework will also have to be forward-looking, and include a focus on environmental and social factors, which we now term as "ESG" (environmental, social and governance). Accordingly, organisations will need to adapt to this new focus and change how they behave, work and create value to stay relevant in the future. ISCA

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[2] "The Corporate Governance Lessons From The Financial Crisis" (February 2009), G. Kirkpatrick, OECD

[3] "Awakening Governance: ACGA China Corporate Governance Report 2018" (August 2018), Jamie Allen and Li Rui, Asian Corporate Governance Association

[4] "OECD Survey Of Corporate Governance Frameworks In Asia" (2018), OECD

[5] "Japan Slides In Key Asia Corporate Governance Ranking, Ties With India" (December 2018), Alun John, Reuters.com

TECHNICAL HIGHLIGHTS

PHOTO SHUTTERSTOCK

AUDITING AND ASSURANCE

ORGANISATIONS' AUDIT COMMITTEES MUST RISE TO THE CHALLENGES OF THE "NEW NORMAL"

IIA and IFAC have issued a call to action for audit committees to ensure objective oversight of organisational activities, including risk management, performance, controls, and key processes. Specific recommendations were developed for organisations to more vigorously confront uncertainties and turmoil that may threaten their integrity, transparency, and accountability.

For more information, please visit https://www.ifac.org/news-events/2020-07/organizations-audit-committees-must-rise-challenges-new-normal-0

ETHICS

ISCA ISSUES EP 100 (REVISED ON 28 JULY 2020) TO UPDATE DEFINITION OF FINANCIAL INSTITUTIONS

EP 100 (revised on 28 July 2020) has been updated from EP 100 (revised on 11 December 2019) to incorporate consequential amendments to the definition of financial institutions due to the implementation of the Payment Services Act 2019. Arising from this, changes have been made to the definition of financial institutions in EP 100. EP 100 (revised on 28 July 2020) is effective as of 1 April 2020.

For more information, please visit https://isca.org.sg/ethics/ethics-pronouncements-and-implementation-guidances/

FINANCIAL REPORTING

ISCA ISSUES UPDATED COVID-19 TECHNICAL FAQ 3 (TARGETED AT PAIBS)

FAQ 3 [PAIB] highlights some potential areas of misstatements that an entity should be mindful of when preparing financial statements for financial reporting periods ending in 2020. This FAQ has been updated as of 24 July 2020 for the following:

- Inclusion of an additional potential area of misstatement that entities should be mindful of: "Are the fair values of the entity's investment properties overstated?"
- Inclusion of a footnote that explains that the guidance shared in this FAQ is also relevant for entities preparing financial statements for purposes of interim reporting in 2020
- Editorial clarifications to other parts of the FAQ

For more information, please visit https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs/

SGX RegCo has also published a regulator's column, which highlights areas that issuers should take note of when preparing their interim financial statements. In the area of Asset Valuations, it is emphasised that asset values should be carefully assessed to determine if they are appropriately reported in the interim financial statements.

For more information, please visit https://www.sgx.com/media-centre/20200727-regulators-column-what-sgx-regco-expects-financial-reports-amid-covid-19

JULY 2020 IASB UPDATE AVAILABLE AND WORK PLAN UPDATED

This Update highlights IASB's discussions on topics such as IBOR Reform and the Effects on Financial Reporting (Phase 2) and Disclosure Initiative. The IASB work plan has also been updated.

For more information, please visit https://www.ifrs.org/news-and-events/2020/07/july-2020-iasb-update-available/

IASB DEFERS THE EFFECTIVE DATE OF AMENDMENTS TO IAS 1

The amendments, Classification of Liabilities as Current or Non-current, was issued in January 2020, effective for annual reporting periods beginning on or after 1 January 2022. In response to the Covid-19 pandemic, IASB has deferred the effective date by one year (to 1 January 2023) to provide companies with more time to implement any classification changes resulting from the amendments. No further changes were made to the amendments other than the deferral of the effective date.

For more information, please visit https://www.ifrs.org/news-and-events/2020/07/iasb-defers-the-effective-date-of-amendments-to-ias-1/

REGULATORY

ACRA ISSUES REPORT ON KEY FINDINGS FROM ITS REVIEW OF ANNUAL FINANCIAL STATEMENTS

Based on the key findings from the latest third review cycle of the Financial Reporting Surveillance Programme report issued by ACRA, it was observed that the lack of deep knowledge and due care by preparers and directors were the root causes contributing to material non-compliances with accounting standards. Overall, there is room for improvement in the quality of financial statements issued by companies incorporated in Singapore.

For more information, please visit https://www.acra.gov.sg/news-events/news-details/id/559

BY NG ENG JUAN

DON'S COLUMN

SIA'S MANDATORY CONVERTIBLE BONDS

Equity Or Liability?

SINGAPORE AIRLINES LIMITED (SIA) has recently issued S$3.5 billion of mandatory convertible bonds (MCB), together with S$5.3 billion of ordinary shares under its Rights Issue. One major accounting issue is whether the MCB should be presented as "equity" or as "liability" in SIA's financial statements.

Very briefly, the MCB were issued in the denomination of S$1 each, amounting to approximately S$3.5 billion. Upon maturity (which is 10 years from the issue date), SIA will convert the MCB into approximately 1.3 billion of its ordinary shares (based on the ratio of 0.373 ordinary shares for each MCB, calculated as the "final accredited principal amount" of S$1.806 divided by the "conversion price" of S$4.84). Before the maturity date, SIA has the option to redeem the MCB based on the accreted principal amount (which is calculated to give the MCB holders an annualised yield of between 4% and 6% compounded on a semi-annual basis). No interest or dividend is payable by SIA on the MCB.

The presentation of the MCB as equity or as liability is a major accounting issue because it has significant impact on SIA's balance sheets and income statements.

Balance sheet impact

To illustrate the balance sheet impact, based on SIA's 31 March 2019 balance sheet figures, if the MCB are presented as equity (with consequential increases in shareholders' equity by S$8.8 billion (including the S$5.3 billion right shares) and assets by S$8.8 billion), SIA's debt-asset ratio will be 29.5% and its debt-equity ratio will be 42.7%. However, if the MCB are presented as liability (with consequential increases in shareholders' equity by S$5.3 billion, liability by S$3.5 billion, and assets by S$8.8 billion), SIA's debt-asset ratio and debt-equity ratio will respectively jump to 40.5% and 69.6%. This may impact SIA's ability to raise additional financing and the cost of such financing in the future.

> ... for "instruments settleable in the issuer's own equity instruments" to be classified as equity, it must be a case where the instrument will be settled by the issuer issuing a *fixed* number of its own equity instruments (this is what is referred to as "fixed for fixed" in accounting practice).

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Income statement impact

On its impact on the income statement, if the MCB are presented as equity, both the Singapore and international accounting standards provide that there will be no charge to the income statements. However, if the MCB are presented as liability (and given that there is an implicit 4% cost, semi-annually compounded, during the first four years, and which increases to 5% during the fifth to seventh year, and 6% during the eighth to 10th year), then there will be an interest charge of S$141 million in the first-year income statement (the interest charge increases each subsequent year and will be S$374 million in the 10th-year income statement). This will substantially reduce the reported profit (or increase the reported loss) of SIA for each of the next 10 years.

APPLICATION OF FINANCIAL REPORTING STANDARDS

The issue of whether a financial instrument should be presented as equity or liability is governed by SFRS(I) 1-32 *Financial Instruments: Presentation*, which is based on International Accounting Standard 32 *Financial Instruments: Presentation* issued by the International Accounting Standards Board. There are two sections in SFRS(I) 1-32 that are relevant to SIA's MCB, namely, (i) "Compound financial instruments" (paragraphs 28-32), and (ii) "Instruments settleable in the issuer's own equity instruments" (paragraphs 16(b) and 21-24).

Compound financial instrument

A "compound financial instrument" is a financial instrument that contains both a liability and an equity component. A common example of a compound financial instrument is the "convertible bond", where an entity issues a financial liability and grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For compound financial instruments, SFRS(I) 1-32 requires the issuer to bifurcate the instrument into its liability and equity components and present the liability component as liability, and the equity component as equity, in the balance sheet.

At first glance, SIA's MCB seem to be compound financial instruments. If so, then SIA would have to present the MCB as partly liability and partly equity in its balance sheet.

However, a more detailed analysis of the MCB shows that they are not compound financial instruments. This is because, when SIA issued the MCB, it had not granted the MCB holders the option to convert the MCB into ordinary shares. The conversion option is exercisable by SIA (the issuer), and not by the MCB holders.

Instruments settleable in the issuer's own equity instruments

SIA's MCB are, in fact, "instruments settleable in the issuer's own equity instruments" (ISOEI). This is because, at maturity date, the MCB will be converted into ordinary shares (that is, settled by SIA issuing its own ordinary shares).

It should be noted that not all ISOEI are equity instruments. SFRS(I) 1-32 specifically provides that an ISOEI is an equity instrument if and only if it "includes no contractual obligation for the issuer to deliver a *variable* number of its own equity instrument" (paragraph 16 (b); emphasis added). Thus, for an ISOEI to be classified as equity, it must be a case where the instrument will be settled by the issuer issuing a *fixed* number of its own equity instruments (this is what is referred to as "fixed for fixed" in accounting practice).

It is easy to understand the above provisions of SFRS(I) 1-32. If the accounting standard were to allow all ISOEI to be accounted for as equity instruments, then entities would want to structure most if not all their liabilities as ISOEI and account for them as equity to take advantage of the positive, albeit distorted, impact on financial statements. Where an entity may use a variable number of its own equity instrument to settle a contract, for example, to issue 10 million of its shares if the market price is S$1 per share, and to issue five million of its shares if the market price is S$2 per share, to settle a contract of S$10 million, the contract does not evidence a residual interest in the entity's net assets, and therefore does not meet the definition of "equity". That is the reason why accounting standards do not allow instruments that are settleable in *variable* number of issuer's own equity instruments to be accounted for as equity.

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> ... they are not compound financial instruments... because, when SIA issued the MCB, it had not granted the MCB holders the option to convert the MCB into ordinary shares; the conversion option is exercisable by SIA (the issuer), and not by the MCB holders.

For SIA's MCB, in accordance with the terms and conditions in the Offer Information Statement, they will be converted into 1.3 billion ordinary shares on maturity date (assuming none of the MCB were redeemed, or purchased and cancelled, and there is no dilution of the conversion price), regardless of the market price of SIA's ordinary shares on that date. Thus, SIA's MCB are "instruments settleable in the issuer's own equity instruments" that will be settled by SIA issuing a "fixed" number of its ordinary shares.

Therefore, SIA's MCB are "equity instruments" and should be accounted for as "equity" under SFRS(I) 1-32.

REDEMPTION OPTION

How about the redemption option? As spelt out in the Offer Information Statement, the redemption option is held by SIA (the issuer) and not by the MCB holders. In this case, SIA does not have any obligation to make cash payment on the MCB until and unless it announces its decision to redeem the MCB. Thus, SIA does not have any "liability" to account for until and unless it exercises the redemption option. (This is very similar to the redeemable preference shares issued by DBS Bank where the redemption option is held by DBS, and the redeemable preference shares are appropriately accounted for by DBS as equity, as DBS does not have obligation (and therefore no liability to account for) until and unless DBS exercises its redemption option.)

CONCLUSION

From the analysis, it is clear that SIA's MCB are equity instruments and should be accounted for as "equity" in SIA's financial statements. This conclusion is also consistent with SIA's stand as expressed in its Response to Questions from Shareholders dated 29 April 2020. ISCA

Look out for Prof Ng's next article, "SIA's Mandatory Convertible Bonds: From The Investors' Perspective", which will be published in the October issue of *IS Chartered Accountant Journal.*

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BY FELIX WONG AND ANGELINA TAN

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GST AND THE DIGITAL ECONOMY

Rising To The Tax Challenges Of E-commerce

ORCHARD ROAD, ONCE A RENOWNED SHOPPING MECCA IN ASIA, is today a far cry from its heyday, its gradual decline coinciding with the growing influence of e-commerce.

Then came the Covid-19 pandemic. Singapore's famed shopping strip is now dotted with empty stores. The fast-growing digital economy, on the other hand, has further burgeoned. With consumers staying away from the malls amid this global pandemic, more and more brick-and-mortar stores are pivoting towards the digital economy and rethinking their operations, hoping that they are not too late in joining the digital revolution.

As more consumers ditch shopping malls for virtual shopping carts, what does this mean from a tax perspective? In particular, what are the goods and services tax (GST) implications and considerations that businesses should take note of?

"In Asia Pacific, countries have been introducing electronic supplies of services rules for several years. However, as there is no supranational GST law in this region, unlike the European Union (EU), countries in Asia Pacific have consequently applied their respective GST law in a less consistent way," shared Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Service Line Leader, Deloitte Asia Pacific, Singapore and South East Asia, in a webinar organised by the Singapore Chartered Tax Professionals. "It is

Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Service Line Leader, Deloitte Asia Pacific, Singapore and South East Asia, provided an overview of the GST rules on B2C services across Asia Pacific and highlighted some practical considerations

therefore imperative for businesses to keep abreast of tax developments on the digital economy in the countries that they are exposed to," added Mr Mackender, on the virtual platform.

TAX CHALLENGES ARISING FROM THE DIGITAL ECONOMY

The digital economy poses many challenges to traditional tax rules as many of these rules were drafted before the advent of the Internet.

To address such tax challenges arising from the digital economy, the Organisation for Economic Co-operation and Development (OECD) has published a number of papers in an attempt to provide guidance on how best countries can reshape their tax systems. The OECD advocates the use of the "destination principle" as the basic position, such that tax is ultimately levied only in the jurisdiction where the final consumption occurs.

B2B services

To reduce the administrative burden and complexity for offshore suppliers, the reverse charge mechanism, which removes the need for offshore suppliers to register and account for GST in the numerous countries that they may sell into, is recommended for business-to-business (B2B) service transactions. Under the reverse charge mechanism, the service recipient (instead of the service provider) is liable to account for any GST due to its local tax administration.

B2C services

For business-to-consumer (B2C) service transactions, the OECD distinguished two general rules to determine the place of taxation – one for on-the-spot supplies and another for other supplies. For on-the-spot supplies, the place of supply is generally where the services are physically performed in the presence of both the person performing the supply and the person consuming it (for example, haircuts performed at hair salons).

For other supplies which are not consumed on-the-spot (for example, consultancy or accountancy services), the place of supply should be where the customer has its usual residence; the service provider and the customer need not be at the same time and place where the service is provided. If the supply of services is directly connected with an immovable property (such as a building), the place of supply should be where the immovable property is located.

For offshore B2C services, the OECD advocates the use of a simplified registration and compliance regime, such that the non-resident supplier registers and accounts for GST in the jurisdiction where the consumer resides.

INDIRECT TAX RULES ON ELECTRONIC SUPPLIES OF SERVICES IN SINGAPORE AND THE REGION

To keep pace with the significant growth in e-commerce, countries in Asia Pacific are introducing measures to tax electronic supplies of services, albeit in a less consistent way than in the EU. We will look into some of these measures below.

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Where digital services are supplied via electronic marketplaces – at least for Singapore – businesses should segregate such supplies as digital services supplied through the marketplaces (as the supplier) are excluded when determining GST registration liability.

Singapore

Since 1 January 2020, Singapore has imposed 7% GST on B2B imported services and B2C imported digital services by way of a reverse charge and an overseas vendor registration regime respectively.

Under the reverse charge mechanism, a GST-registered person who belongs in Singapore and receives services from outside Singapore must account for GST on the value of its imported services as if it were the supplier of those services, unless the recipient is fully taxable or such services are excluded from the scope of reverse charge.

Under the overseas vendor registration regime, overseas suppliers with annual global turnover exceeding S$1 million and making supplies of digital services (including digital products, subscription-based and licensed content, as well as support services via electronic means) to customers in Singapore exceeding S$100,000 are required to register, charge and account for GST. Registration is also required if the foreign supplier expects that the above thresholds will be exceeded in the next 12 months. Under certain conditions, a local or overseas operator of electronic marketplaces may also be regarded as the supplier of the services made by the suppliers through these marketplaces.

To minimise the extraterritorial compliance burden, the overseas suppliers and overseas electronic marketplace operators are to be registered under a pay-only regime with simplified registration and reporting requirements.

Australia

Australia levies 10% GST on the sales of imported services and digital products to Australian consumers. Overseas businesses are required to register for GST, charge GST on sales of imported services and digital products, and lodge returns to the Australian Taxation Office, if the value of their sales made to Australian consumers is A$75,000 or more in a 12-month period. Simplified GST registration is available for non-resident businesses.

Malaysia

Since 1 January 2020, registered foreign service providers providing digital services to consumers in Malaysia are required to charge 6% service tax on such digital services. Registration is mandatory for foreign providers of digital services with annual turnover from digital services provided to Malaysian consumers of at least RM500,000.

South Korea

Non-resident providers of digital services (such as Internet games, music, cloud computing and shared economy services) are required to charge 10% value-added tax (VAT) on their sales to Korean consumers. Foreign suppliers that provide electronic services via information communication networks are required to apply for simplified registration of the business with the National Tax Service. There is no threshold limitation on registration requirements.

PRACTICAL TIPS ON MANAGING B2C ELECTRONIC SUPPLIED SERVICES

While the administrative burden of B2B service transactions is mostly shouldered by local service recipients via the reverse charge mechanism, foreign suppliers of B2C digital services are often required to "fend for themselves" in the overseas jurisdictions. Below are some practical tips for foreign suppliers in managing their B2C electronic supplied services.

Determine registration requirement

Businesses involved in cross-border sales of B2C digital services need to determine whether they are obliged to register in the countries in which sales of digital services are made. A good starting point would be to identify and segregate customers that belong in each country and analyse whether digital services provided to these customers fall within the definition of digital services defined by the local tax authority.

Where digital services are supplied via electronic marketplaces – at least for Singapore – businesses should segregate such supplies as digital services supplied through the marketplaces (as the supplier) are excluded when determining GST registration liability.

It is not always easy to determine the registration requirements and procedures in particular countries, especially since the rules are not consistent across different countries and are subject to updates and local interpretations. Where necessary, businesses should consider getting specific local advice in each market to ensure compliance.

Once a potential GST liability in a given country has been identified, businesses must establish whether their levels of sales exceed the registration thresholds and, where exceeded, prepare the relevant documentation for registration.

Businesses should also ensure that proper processes and systems are set up to capture the local GST collected, and to keep track of the obligations and filing due dates in each tax jurisdiction.

Determine transitional supplies of digital services

Businesses should take steps to identify all B2C digital services supplied to non-GST-registered customers belonging in the affected country that would straddle the effective services date. For discrete supplies of digital services, businesses should determine whether payment has been made or is still outstanding, and for continuous supplies, the portion of services to be performed on and after the effective services date.

To mitigate cashflow issues, businesses should calculate the value of digital services subject to GST (based on the criteria defined in the rules) and prepare early the necessary budget for payment in the first GST return to be filed. Businesses should also ensure that documents and listings are complete in case of an audit by tax authorities.

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It is imperative for businesses to keep abreast of tax developments in countries that they are exposed to and accordingly, put in place the necessary processes and systems to comply with any new rules.

With tax authorities worldwide updating their respective tax regimes (at times in a haphazard manner) to keep pace with the burgeoning digital economy, it is imperative for businesses to keep abreast of tax developments in countries that they are exposed to and accordingly, put in place the necessary processes and systems to comply with any new rules.

The future of e-commerce is undoubtedly exciting and a brave new world for businesses. It remains to be seen whether taxation on the digital economy will become too exciting for some. ISCA

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