

IS Chartered Accountant Journal

AUGUST 2021



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SCHOOL OF
ACCOUNTANCY

Dear members,

AS I AM WRITING THIS MESSAGE, more than 5,300 kilometres away in Tokyo, over 11,000 elite athletes from around the world are primed to deliver the performance of their lives in their quest for Olympic glory. Among them are Team Singapore's 23 athletes, who would compete across 12 sports. Each athlete has a compelling story to tell and, in all likelihood, the story will feature similar elements such as discipline, resilience, adaptability and sheer grit – because this is how a solid foundation is built, and only upon a firm foundation can an athlete progress to become “Faster, Higher, Stronger” – the Olympic motto since 1894.

The Tokyo 2020 Olympic Games would be remembered as having taken place under the cloud of Covid-19. To reflect global solidarity during this time, the Olympic motto was amended to “Faster, Higher, Stronger – Together” on July 20. The addition of “Together” is noteworthy. As explained by International Olympic Committee President Thomas Bach, “We see everywhere the collaborative effort bringing faster and better solutions than working in silos.” His words resonate with me.

I am a sports enthusiast, as some of you may know. I appreciate excellent technical executions as well as clever strategies; I also like the values epitomised by sports. Values such as fair play, discipline, resilience, adaptability and integrity are universal, and I believe sports hold useful lessons for every industry, profession, community and individual.

For example, accountancy professionals are held to the highest standards of professional and ethical behaviour. To be able to consistently deliver at this level, members need to be aware of the latest standards and benchmarks, which require

them to be disciplined in pursuing continuous professional education (CPE). A good grasp of domain knowledge will strengthen the foundation on which members can further develop themselves. ISCA, with its rich repository of resources and CPE and other courses, will walk together with members on their professional journeys.

Having a strong foundation also entails preparing early to ensure a smooth transition. To this end, the Institute helps members by explaining the impending changes and their implications, providing guidance on implementation, and following up with technical support post-implementation. Our cover story, “A Paradigm Shift To Quality Management”, is a case in point.

In December last year, the International Auditing and Assurance Standards Board issued three Quality Management standards. Although the new standards are effective on 15 December 2022 – that's more than a year away – the Institute is laying the foundation to help members achieve a smooth transition.

The topics of transition and foundation bring me to ISCA Chief Executive Officer (CEO) Lee Fook Chiew, who will be retiring from his role on 31 December 2021. Fann Kor, currently ISCA's Director for Member Support & Services, stepped up as CEO-designate with effect from August 1; she will take over the helm from Fook Chiew as CEO from 1 January 2022.

Fook Chiew joined the Institute as CEO in August 2012. Much of his time was dedicated to steering ISCA on its decade-long transformation journey beginning 2010, to become a globally recognised professional accountancy body. With the solid foundation in place by 2020, he then oversaw the development of the Institute's new

vision and mission, to drive its next phase of growth. Many good initiatives were launched during his time at the Institute, including the Audit Committee Programme, Professional Business Accountant Programme and Professional Risk Management Programme, as well as specialisation pathways like the Financial Forensic Professional, and Infrastructure and Project Finance Professional, among many others. During the Covid-19 pandemic, he navigated the choppy waters and undercurrents, and steadied ISCA operationally and financially. On behalf of the Institute, I want to thank Fook Chiew for his contributions to ISCA, and wish him all the best in his future endeavours.

To members, the concluding note of this message is – draw inspiration from the Olympic values, to stay ahead of your game.



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

Faster, Stronger, Better; Building On Solid Foundation

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Decentralised Finance: New Approaches Needed For Industry Transformation

DECENTRALISED FINANCE (DEFI) LEVERAGES CRYPTOCURRENCY AND BLOCKCHAIN TECHNOLOGY TO MANAGE FINANCIAL TRANSACTIONS. Broadly described as an “unbundling” of traditional finance by removing the intermediaries, DeFi aims to democratise finance by replacing legacy, centralised institutions with peer-to-peer relationships that can provide the full spectrum of financial services¹, from everyday banking to loans and mortgages, and more complex transactions.

DeFi has been evolving since the launch of Ethereum blockchain in 2015, and is a category of financial services based on blockchain's distributed ledger technology. Although examples of DeFi have existed for several years, a sudden upsurge of activity in 2020 has raised interest in DeFi.

According to a recent report, “Decentralized Finance (DeFi) Policy-Maker Toolkit”, (hereafter referred to as “Toolkit”), in the past year, the value of digital assets locked in DeFi smart contracts grew by a factor of 18 – from US\$670 million to US\$13 billion. The number of associated user wallets grew by a factor of 11 – from 100,000 to 1.2 million, and the number of DeFi-related applications grew from eight to more than 200. The Toolkit was published in June 2021 by the World Economic Forum (WEF), in collaboration with the Blockchain and Digital Asset Project at the Wharton School, University of Pennsylvania.

- Interest in crypto and decentralised finance (DeFi) rose sharply during the pandemic and investment has accelerated.
- While DeFi has the potential to transform the financial system, it lacks a clear policy landscape that could help accelerate benefits and mitigate risks.
- To help policymakers make sense of these trends and to craft appropriate guidance, the World Economic Forum and a community of international organisations, startups, academics and financial institutions created a framework to evaluate DeFi.

¹ Napolitano, E. and Schmidt, John. “Decentralized Finance Is Building A New Financial System”. 2 April 2021. Forbes Advisor.



While DeFi has the potential to transform the financial system, it lacks a clear policy landscape that can help accelerate benefits and mitigate risks. The Toolkit aims to provide policymakers and regulators with guidance for technologies that are global and rapidly transforming. It is the second in the series, after “DeFi Beyond the Hype”.

The Toolkit highlights DeFi's distinguishing characteristics and opportunities, while also calling

attention to the new and existing risks. As well as providing an overview of the DeFi space generally, it maps out the potential legal and regulatory responses. The result of an international collaboration among academics, legal practitioners, DeFi entrepreneurs, technologists and regulatory experts, this first-of-its-kind Toolkit provides a solid foundation for understanding the major factors that should drive policymaking decisions.

“We are in a critical time for DeFi.

PHOTOS SHUTTERSTOCK

Following its rapid growth, and the price activity in crypto more generally, governments are closely watching cryptocurrencies and decentralised applications,” says Sheila Warren, Deputy Head of the Centre for the Fourth Industrial Revolution Network, and member of the Executive Committee at WEF. “This Toolkit is a critical first step in helping policymakers and regulators navigate this quickly evolving space. By outlining the potential risks, while highlighting the opportunities

The authors ... call for technologically neutral approaches that can balance objectives of regulatory regimes and innovation and market development with policies that are fair, efficient and enforceable. Effective regulations should involve a combination of existing, retrofitted, new and bespoke regulations.

for innovation, we hope it will be a valuable resource in informing balanced approaches to policies and regulations.”

Kevin Werbach, Director of the Blockchain and Digital Asset Project at Wharton, affirms that DeFi has “transformative potential for financial services worldwide but also creates an array of serious concerns”. Policymakers and regulators need frameworks to address these issues “responsibly”, and the Toolkit “provides that roadmap”.

“DeFi presents a generational expansion of financial opportunity (and always accompanying risk). The most important first step before any regulatory or policy undertaking is to level-set on the evolving landscape,” says Michael Mosier, Acting Director of the Financial Crimes Enforcement Network (FinCEN) in the US. The

Toolkit “helpfully provides us with a thoughtful, clear and comprehensive cartography of DeFi so that we can make the most of truly innovative opportunities for financial expansion and novel risk mitigation”.

The authors of the Toolkit call for technologically neutral approaches that can balance objectives of regulatory regimes and innovation and market development with policies that are fair, efficient and enforceable. Effective regulations should involve a combination of existing, retrofitted, new and bespoke regulations.

Representatives from governments around the world contributed to the creation of the Toolkit, including those developing Europe's Markets in Crypto-assets (MiCA) framework and major US financial regulators.



What They Want: Millennials And Gen Zs

AFTER A YEAR OF INTENSE UNCERTAINTY DUE TO THE COVID-19 PANDEMIC, political instability, racial discord, and severe climate events, millennials and Gen Zs around the world are determined to hold themselves and others accountable for society's most pressing issues. These generations have long pushed for social change, but many now feel the world is at a pivotal moment. They are demanding accountability to drive changes that will result in a more equitable and sustainable world, according to Deloitte's "2021 Millennial and Gen Z Survey"¹.

The study, now in its 10th year, reveals that respondents are channelling their energies towards meaningful action – increasing political involvement, aligning spending and career choices with their values, and driving change on societal issues that matter most to them. In turn, these generations expect institutions like businesses and governments to do more – a consistent finding over the years.

According to Michele Parmelee, Deloitte Global Deputy CEO and Chief People and Purpose Officer, in the decade that Deloitte has been conducting this survey, "millennials and Gen Zs' lives have changed, but their values have remained steadfast. They have sustained their idealism, their desire for a better world, and their belief that business can and should do more to help society".

Deloitte's findings are consistent with other surveys, such as the 2018 Dell study² on Gen Zs, which shows that 45% of respondents want work that has meaning beyond getting paid, 50% want the ability to learn new skills and have new experiences, and 38% want to work for a socially or environmentally responsible organisation.

¹"2021 Millennial And Gen Z Survey". Deloitte surveyed 22,928 respondents – 14,655 millennials (aged 27 to 38) and 8,273 Gen Zs (aged 18 to 26). They come from 45 countries across North and Latin America, western and eastern Europe, the Middle East, Africa and Asia Pacific.

²"Gen Z: The Future Has Arrived". Dell Technologies surveyed 12,000 Gen Zers aged 16 to 23. They come from 17 countries across the globe: US, Canada, Brazil; UK, Germany, France, Turkey; Australia/New Zealand; China, Japan; Indonesia, Singapore, Malaysia, Thailand, Vietnam and the Philippines.



In the Deloitte study, 44% of millennials and 49% of Gen Zs say they have made choices over the type of work they are prepared to do, and the organisations they are willing to work for, based on their personal ethics over the past two years. For them, despite the turmoil caused by the pandemic, environmental issues remain the top concern. About 37% of millennials and 40% of Gen Zs believe that more people will commit to take action on environmental and climate issues after the pandemic. As consumers, they continue to make decisions aligned with their values, with more than a quarter of respondents sharing that businesses' impact (both positive and negative) on the environment has influenced their buying decisions. However, approximately 60% of millennials and Gen Zs fear business' commitment to

Key findings

- Environment remains a top issue
- Millennials and Gen Zs believe discrimination is widespread, likely enabled by systemic racism across society and major institutions
- Stress and anxiety permeate the workplace, highlighting a growing need for business to focus on better workplace mental health
- Pandemic heightens financial worries and concerns about wealth inequality
- Views on business' social impact continues to decline, as job loyalty slips

Source: Deloitte's "2021 Millennial And Gen Z Survey"

helping combat climate change will be less of a priority as business leaders reckon with challenges brought on by the pandemic.

PHOTO SHUTTERSTOCK

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● isca breakfast talk

Responding To Covid-19: Risks And Opportunities In Real Estate

GOVERNMENTS RESPONDED TO THE RAPID ONSET OF COVID-19 WITH SOCIAL DISTANCING MEASURES, quarantines and lockdowns. Lockdowns, in particular, wreaked immediate havoc on many businesses. The intermediate decline in footfall meant that retail, restaurants and cafes, gyms, spas and many others that relied on face-to-face experiences found themselves floundering. These businesses had to rely on governmental aid to scrape by, but two organisations in real estate took the opportunity to transform themselves.

At the ISCA Breakfast Talk webinar on June 23, Chan Iz-Lynn, Chief Executive Officer, BHG Retail REIT and Eugene Seah, Senior Director (Special Projects), GCEO's Office, Surbana Jurong; Managing Director, Surbana Technologies and Director, Threesixty Contract Advisory Pte Ltd, shared their respective experiences on how their organisations adapted to Covid-19. They focused on how adopting various platforms and technologies allowed them to maintain supervision of their assets, continue engaging their stakeholders and remain competitive in their niche areas.

Ms Chan shared that all BHG Retail REIT's malls located in China quickly leveraged on technologies and adopted safety measures to continue their operations. BHG Mall's e-commerce platform was launched as a WeChat mini programme amid the Covid-19 outbreak to continue engaging omnichannel consumers. The new platform complements the malls' on-site experiential offerings and also serves as a loyalty programme to keep members apprised of live events and promotional

activities. Since the outbreak, the REIT team has tapped on video conferences to maintain supervision of its China mall operations and continued its investor outreach initiatives. Amid these new norms, BHG Retail REIT also seized the opportunity to refine its retail offerings and carry out asset enhancement initiatives to maintain the malls' appeal and relevancy.

Mr Seah highlighted that Surbana Jurong had moved many aspects of its work to the cloud as part of its digital transformation journey. This process, called Integrated Digital Delivery, where data is used across the entire value chain – from design to manufacturing to operation of the asset – proved to be prescient once lockdowns began. However, it went one step further and integrated technologies such as drones and virtual reality into their operations. Using a concept called Design for Manufacturing and Assembly, a community care facility with 1,000 beds was set up in just three days. Drones were used to monitor the progress of the setup, and a virtual reality platform was

created to allow on-site collaboration with multiple partners that mimicked being at the building site itself. These technologies and processes worked in tandem with the costing software. The platforms contributed to a Common Data Environment that is a critical part of Surbana Jurong's Integrated Digital Delivery. Having leveraged the opportunity to accelerate its digitalisation journey, the company is now able to create smart spaces easily – whether for a small office or at different locations across Singapore.

Technology has been an enabler and multiplier for both these organisations. Coupled with an eye for opportunity, BHG Retail REIT and Surbana Jurong have shown that staying agile and going digital are critical for any business.

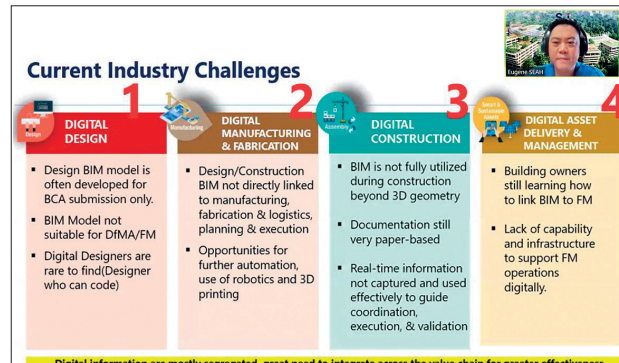
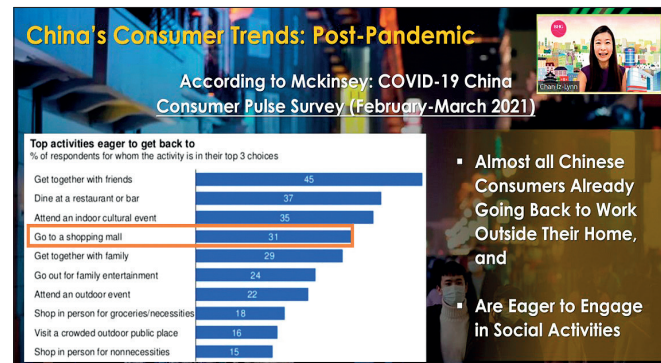
The webinar concluded with a Q&A session moderated by Victor Lai, a member of ISCA's Corporate Governance and Risk Management Committee and Independent Director of Astaka Holdings Limited, Daiho Energy Pte Ltd and Transcorp Holdings Limited.



BT 2106 : ISCA Breakfast Talk:
Responding To Covid-19: Risks And Opportunities In Real Estate (Live Webinar)
23rd June 2021, Wednesday

Global Mindset, Asian Insights

www.isca.org.sg



MARK YOUR CALENDAR

18 AUG

From the Accountants' Perspective: Ethical Issues with Remote Work and Working from Home in the New Normal

This course explores the importance of understanding the rights of working from home and helps as a guide to exercise the right decisions when facing ethical dilemmas from both the employers' and the employees' perspectives.

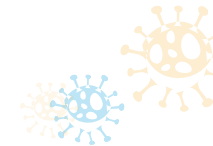


21 AUG

Accounting Considerations under COVID-19

The COVID-19 outbreak has significantly impacted entities, disrupting their operations, financials, risk management and internal control systems.

This course aims to explore the various accounting implications arising from the effects of COVID-19 pandemic using examples and case studies that are applicable in Singapore's context.



19 AUG 2021

SAAC PAIB Conference

Singapore Accountancy And Audit Convention Series

Sustainability & Trust: Taking Centre-Stage in a New Era of Business (Virtual Conference)

Our annual PAIB Conference is making its way back on 19th August 2021 with a more exciting line-up featuring industry hot topics for both the public and private sectors.

With 2 break-out tracks focusing on Financial Forensics and Intelligent Automation, delegates will be spoilt for choice in the half-day virtual conference. Hear from esteemed speakers and panellists from both the public and private sector as they shed light on how organisations can fortify business trust through combatting white-collar crime and effective risk management or discover how intelligent automation opens new doors for the finance function.

Use your Member CPD Credits to get \$100 off! Register here now! <https://isca.org.sg/PAIB2021Reg>

19 & 20 AUG

Practical Application of the three New Standards IFRS9, 15, 16 (Contractual Interaction between these Standards) (Live Webinar)

This course provides an insight into the salient technical features of the three new Standards. The delegates will gain a working knowledge on how to apply these three Standards in practice and to understand the impact on financial position (effect gearing ratios), financial performance (timing and amount of income and expense) and cash flows.

26 AUG

Leading with Mindfulness

Mindfulness enables you to understand the inner workings of your mind and the patterns it creates. It helps you to lead with presence and awareness, in a non-judgment way.

At the end of the workshop, you will clarify and be aware your thoughts and feelings, recognize any tension and develop yourself to be more aware of people and the environment.



08 SEP

ISCA Breakfast Talk – Fighting Climate Change and Supporting Green Finance (Live Webinar)

The global green and sustainable financing market continues to grow strongly, as investors increasingly incorporate ESG criteria into their capital allocation decisions, banks adopt responsible financing practices and businesses step up their sustainability efforts.

Join us in this talk as our speakers examine how accountants can contribute to the fight against climate change and how increased transparency needs to be built into sustainable finance to move it forward.



Mingles: Sustainable Accountants Change The World

THE JULY 7 MINGLES SESSION BROUGHT TOGETHER CLOSE TO 400 MEMBERS FROM THREE ACCOUNTANCY BODIES, namely, ISCA, Chartered Accountants Australia and New Zealand (CAANZ), and The Institute of Chartered Accountants in England and Wales (ICAEW). This quarterly get-together presents a conducive platform for networking and interaction, albeit virtually, in line with safe management measures, with the aim to establish professional networks that could widen the sphere of opportunities beyond direct contacts. At the same time, participants can pick up new knowledge from the webinar presenters.

The session kicked off with an on-trend topic – how to get your company aligned with the global goals for sustainable development, and how chartered accountants can play a part in this area.

After the opening address by Mark Billington, Managing Director International, ICAEW, Richard Spencer, Director of Thought Leadership & Head of Sustainability, ICAEW, delved into how companies can become more sustainable in the way they conduct business, without compromising on the quality of the services provided.



Sustainable Accountants Change the World

RICHARD SPENCER, DIRECTOR TECHNICAL THOUGHT LEADERSHIP, ICAEW

7 JULY 2021





Mingles: Sustainable Accountants Change The World (Live Webinar) 7 July 2021

The participants learnt that accountants can play a vital role in aligning their companies with the values of the UN Sustainable Development Goals (UN SDGs). Below are some considerations for accountants:

- Creation of information in the form of common bases of measurement, reporting

and assurance;

- Reporting on all sustainability matters that reflect significant positive or negative impacts on people, planet and profit;
- As accountants in both the private and public sectors may perceive sustainability differently, they may create and implement different strategies.

Economic prosperity depends on a thriving planet. As Mr Spencer pointed out, accountants can help to create strong economies and a sustainable future for all, with businesses having a moral and environmental duty to lead by example. There are many ways to achieve sustainability. He highlighted ICAEW's commitment to achieving the UN SDGs and its journey to carbon neutrality, including its efforts to offset its emissions and reduction of its carbon footprint. Additionally, ICAEW has launched a new content series to share how chartered accountants are helping to tackle the most urgent social challenges within the UN SDGs.

The Mingles event concluded with a Q&A session helmed by Mr Spencer.

Saving the world: what can I do next?



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Irene Kamphuis,
Payroll Controller

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Mr Weerayuth,
General Manager

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Winnie Chan,
CEO and Founder

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Sheryl Zhang,
Senior HR Coordinator

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Better Assurance in Protecting Your HR/Payroll Data





BY TAN CHIU PING, SHARON

A PARADIGM SHIFT TO QUALITY MANAGEMENT

Significant Evolution From Quality Control To Quality Management

THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) issued three Quality Management standards in December 2020. The three new interrelated standards, which replace International Standard on Quality Control (ISQC) 1 and International Standard on Auditing (ISA) 220, are effective 15 December 2022¹. They are:

- International Standard on Quality Management (ISQM) 1, which deals with a firm’s responsibilities

¹ Systems of quality management in compliance with ISQM 1 are required to be designed and implemented by 15 December 2022, and the evaluation of the system of quality management is required to be performed within one year following 15 December 2022.

ISQM 2 is effective for:

- (a) Audits and reviews of financial statements for periods beginning on or after 15 December 2022, and
- (b) Other assurance and related services engagements beginning on or after 15 December 2022.

ISA 220 (Revised) is effective for audits of financial statements for periods beginning on or after 15 December 2022.

to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

- ISQM 2, which deals with the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer’s responsibilities relating to the performance and documentation of an engagement quality review.
- ISA 220 (Revised), which deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner.

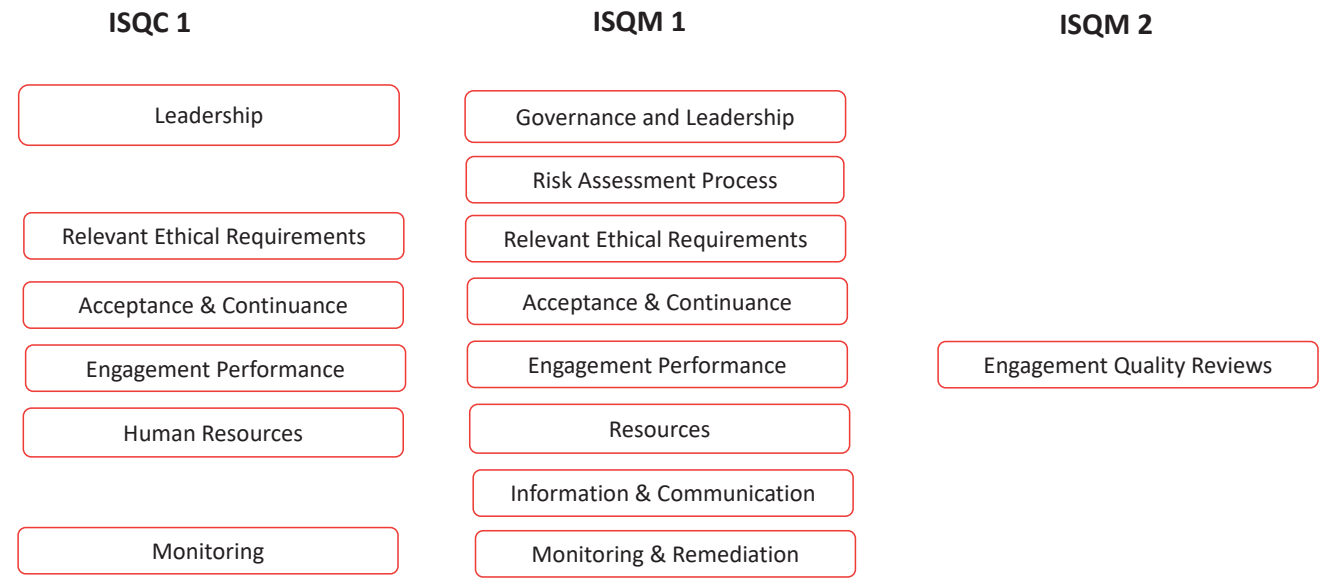
The new standards are creating a paradigm shift, and require accounting firms to take a proactive approach to quality management in order to establish the foundation

The firms are required to monitor the system as a whole and tailor the nature, timing and extent of the monitoring activities based on the factors described in ISQM 1.



PHOTO GETTY IMAGES

Figure 1 Comparison between ISQC 1, and ISQM 1 and ISQM 2



for consistent engagement quality. Figure 1 shows a comparison between ISQC 1, and ISQM 1 and ISQM 2.

ISQC 1 comprises six elements, compared to the new ISQM 1 with its eight components. ISQM 2 deals directly with engagement quality reviews. In summary, here are the key changes:

- More robust requirements for governance and leadership;
- Require firms to have risk assessment processes to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks;
- Enhance engagement partner’s responsibility for audit engagement leadership and audit quality;
- Clarify and enhance the requirements on the scope of engagements that are subjected to engagement quality reviews under ISQM 1 while ISQM 2 addresses the appointment and eligibility of the engagement quality reviewers, and the performance and documentation of the engagement quality reviews;

- Expand categories to include both technological and intellectual resource, in addition to human resource under ISQC 1 as well as considering the resources from service providers;
 - New component to focus on improving continuous flow of information and appropriate communication both within firms as well as to external parties;
 - Proactively monitoring the system as a whole, and timely and effective remediation action.
- There are prescribed quality objectives in all the components except for the risk assessment process, and monitoring and remediation process where specific processes are set out.

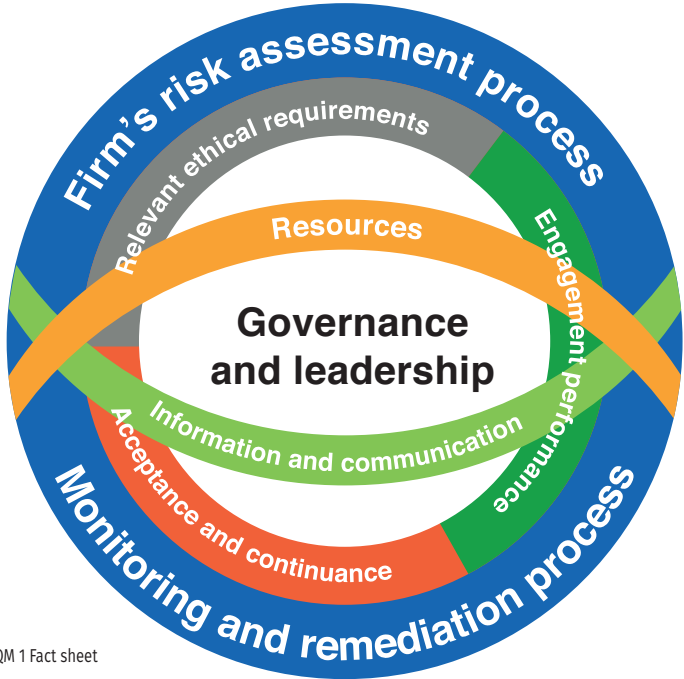
ISQM 1

ISQM 1 aims to improve the four aspects of quality management within firms (Figure 2):

- **Scalability**
The scalability of the standards means they can be applied by firms of different sizes and complexities.
- **Proactiveness**
The focus is on proactively identifying risks, so that policies and procedures can be designed to manage or mitigate the identified quality risks.
- **Effectiveness**
The ongoing monitoring ensures that the designed policies and procedures have been implemented and are effective.
- **Integration**
The eight components are specifically designed to be highly integrated.

The new standard shifts the focus to a risk-based approach to manage the firms’ risk in order to adapt to an increasingly complex business environment.

Figure 2 ISQM 1



Source: ISQM 1 Fact sheet

A further description of each of the eight components are as follows:

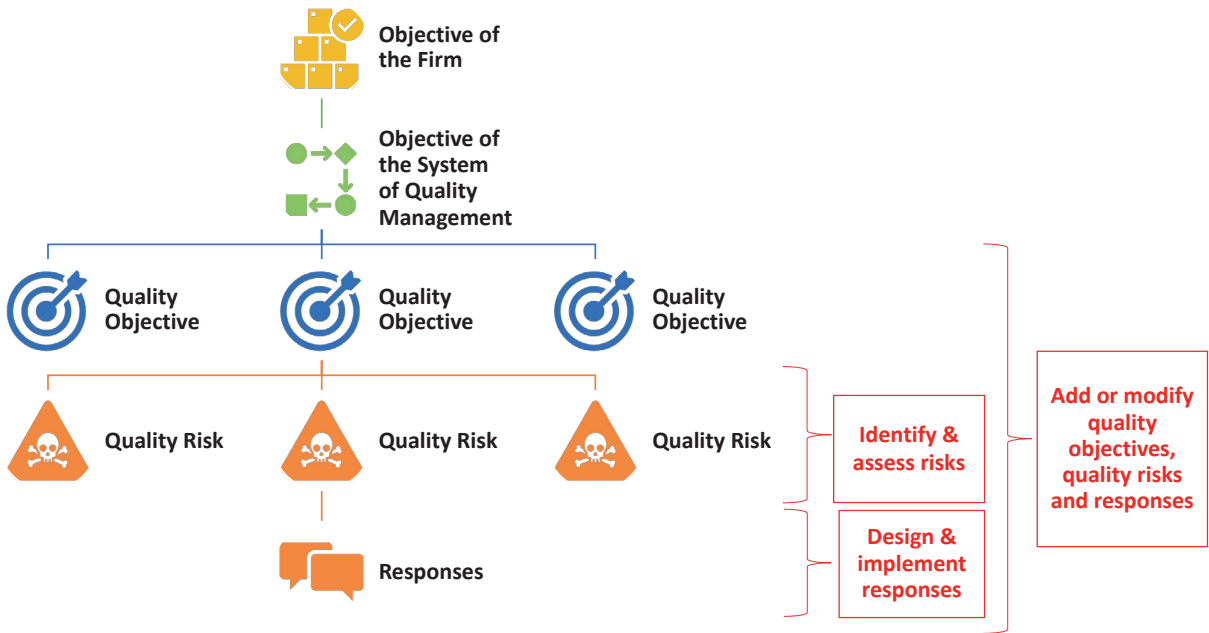
(1) Firms’ risk assessment process

The new standard shifts the focus to a risk-based approach to manage the firms’ risk in order to adapt to an increasingly complex business environment. With this new approach, firms are expected to set up their own systems of quality management that are proactive and adaptable. This will allow firms to better manage the quality of engagements performed.

In designing the quality management system, there are three main steps (Figure 3):

- Establish *quality objectives* to achieve the objective of the system of quality management;
- Identify and assess *quality risks* to provide a basis for the design and implementation of responses;
- Design and implement *responses* to achieve those quality objectives.

Figure 3 Three main steps in the design of a quality management system



Quality objectives

The quality objectives are outcome-based to manage quality through the identification of risks. These objectives are established to address possible quality risks that may result in non-quality engagements. For example, insufficient work performed for planning may result in inappropriate identification of audit risks and other significant audit issues.

ISQM 1 specifies quality objectives that firms need to establish, and these objectives are mandatory to be adopted by firms, where applicable. For example, the quality objective of assigning roles and responsibilities for the system of quality management within the firm may not be relevant for a sole practitioner.

In addition to those prescribed by ISQM 1, firms will also need to consider if additional quality objectives are required to be established based on the firms’ risk assessment processes, where applicable.

Quality risks

One of the new requirements of ISQM 1 is the identification of quality risks with respect to the nature and circumstances of the firms and their engagements. For example, the complexity and operating characteristics of the firm, management style of leadership, client portfolio and complexity of the engagements performed by the firm will impact the risk assessment process and result in different quality management systems for individual firms.

There are no prescribed quality risks in the standards. Firms are required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives with respect to the nature and circumstances of the firms and their engagements prescribed in paragraph 25(a) of ISQM 1, with the caveat that the list is non-exhaustive.



PHOTO SHUTTERSTOCK

The managing partner needs to identify the key personnel who should be involved. **The team needs to have an indepth understanding of its own firm and the standards’ requirements to drive the implementation.**

Firms are expected to identify their own quality risks, assess if a risk has a reasonable possibility of occurring, and how the risk may adversely affect the achievement of one or more quality objectives when it occurs, either individually or in combination with other risks.

Responses

Once the quality objectives and their quality risks have been established (other than some responses specified in the standard that firms are required to design and implement), firms are expected to develop their own responses to address the identified quality risks.

It is also important to take note of the interconnectivity of different components, such as, ethics-related requirements are being dealt with in the information and communication component, as well as the relevant ethical requirements component.

The responses to common quality risks identified by different firms may differ as each firm is faced with varying conditions, events, circumstances, actions or inactions.

Hence, firms will need to customise the design, implementation and operation of their quality management systems to ensure that they are responsive to changes in the nature and circumstances of the firms and their engagements.

The next few sections will illustrate the key principles of the remaining components with an example of quality risk and the proposed corresponding response.

(2) Governance and leadership

The tone at the top determines the company’s culture and its working environment, which ultimately influences the behaviour of the employees towards quality engagements. The standard also emphasises firms’ strategic decisions and actions (for example, financial and operational priorities), which may impact the firms’ commitment to quality.

The responsibilities and accountabilities of the firms’ leadership are being established in this component. In addition, the individuals assigned with the roles must have the appropriate experience, knowledge, influence and authority within firms. An annual evaluation of the effectiveness of the system of quality management will also be required.

Example of possible quality risk faced by smaller firms	Suggested response
The person assigned with the responsibilities for the system of quality management does not have the experience related to, and knowledge of the firm's strategic decisions and actions and business operations, including engagements performed by the firm.	The Managing Partner (MP) shall be assigned the ultimate responsibility and accountability for the firm's system of quality management. The MP shall have an understanding of the ISQM requirements, including the application and other explanatory material, to understand the objective of the ISQM and to apply its requirements appropriately.

(3) Relevant ethical requirements

This component deals with the relevant ethical requirements that firms and their personnel will have to comply with. In addition to the requirements by ISQC 1, the standard also extends the requirements to cover relevant ethical requirements for network firms and service providers.

A policy on offering or accepting inducements which might create a self-interest, familiarity or intimidation threat is another potential area that firms should evaluate and set a more specific policy in addition to the requirements.

Example of possible quality risk faced by smaller firms	Suggested response
The measures to prevent disclosure of confidential information are not put in place by the firm.	The firm should use encrypted or password-protected thumb drives to transfer information. Alternatively, files can be sent through email. Sensitive data files should be password-protected.

(4) Acceptance and continuance of client relationships and specific engagements

This component addresses firms’ policies on client acceptance and continuance. The factors to consider include:

- The nature and circumstances of the engagement and the integrity and ethical values of the client (for example, industry of the clients, reasons for the proposed appointment of the firm and non-reappointment of the previous firm);
- The ability to perform the engagements (for example, knowledge of the client’s industry);
- Financial and operational priorities (for example, accepting or continuing any engagements with unreasonably low fees where the quality might be comprised).

... firms should start the implementation process early by engaging key stakeholders and commence a rollout plan to achieve quality objectives.

Example of possible quality risk faced by smaller firms	Suggested response
There is inappropriate judgement exercised in acceptance/continuance considerations which resulted in poor quality engagements.	The firm shall not accept or continue any engagements where fees are unreasonably low such that it allocates insufficient amount of time to complete the audit where quality might be compromised.

(5) Engagement performance

The component covers the requirements relating to engagement performance, which include:

- Engagement teams fully understand and fulfil their roles and responsibilities;
- Directing, supervising and reviewing the work performed by experienced engagement team members;
- Engagement teams exercise appropriate professional judgement and professional scepticism throughout the course of audit;
- Consultation on difficult or contentious matters;
- Resolution of differences in opinion within engagement team or between engagement team members and engagement quality reviewer;
- Assembly, retention and maintenance of engagement documentation.

Example of possible quality risk faced by smaller firms	Suggested response
The engagement documentation is not assembled on a timely basis.	The firm shall put in place a monitoring mechanism to keep track of the deadlines, and ensure that the engagement files are archived within 60 days after the issuance date of the auditor’s report.

(6) Resources

This component addresses four main areas:

- Human resources (for example, hiring, developing and retaining personnel within the firm);
- Technological resources (for example, audit software);
- Intellectual resources (for example, firm’s audit methodology);
- Service providers (for example, services obtained from external sources such as engagement quality reviewer).

Firms will need to consider the resources that are relevant, and the methods of obtaining, developing, using, maintaining, allocating and assigning these resources in a timely manner to enable the design, implementation and operation of the system of quality management.

Example of possible quality risk faced by smaller firms	Suggested response
The firm’s personnel are not adequately trained on an ongoing basis to ensure that they possess the necessary knowledge and skills to perform quality engagements.	The firm shall adopt a structured training policy to proactively identify the training gap of each professional staff, and ensure that professional staff are adequately trained and have the relevant technical competency to perform audit work. The firm shall maintain proper training records of all the staff.

(7) Information and communication

The standard emphasises the importance of communication both internally and externally. Firms need to set in place an information system with processes to identify, capture, process and maintain information to

ensure effective communication both within firms as well as to external parties (for example, communication between group engagement team and components auditors).

Example of possible quality risk faced by smaller firms	Suggested response
There is a lack of exchange of information within the firm on areas such as technical issues faced by individual engagement teams and the solutions.	The firm shall determine the method of communicating such information, for example, through direct discussions with all the engagement teams or alerts on a monthly basis.

(8) Monitoring and remediation process

Firms are required to monitor the system as a whole and tailor the nature, timing and extent of the monitoring activities based on the factors described in ISQM 1. The inspection of completed engagements will need to be included in the monitoring activities. Each engagement partner will need to have at least one completed engagement inspected on a cyclical basis determined by the firm.

The standard has established a new framework to guide firms in evaluating findings and identifying deficiencies from the performance of monitoring activities, external inspections, and other relevant sources. This includes assessing the severity and pervasiveness of deficiencies, which include examining the root cause(s) of deficiencies. Firms are also expected to design and implement remedial actions to address identified deficiencies as well as to evaluate the remedial actions.

ISQM 2

The engagement quality review is a specified response in ISQM 1 to address the engagements that need

to be subjected to an engagement quality review, while ISQM 2 builds upon ISQM 1 by including specific requirements on the engagement quality reviews.

ISQM 2 strengthens the eligibility criteria for an individual to be appointed as an engagement quality reviewer.

The enhanced requirements for the engagement quality reviewer include a cooling-off period of two years. The standard also covers the engagement quality reviewer’s responsibilities for performing the engagement quality review at appropriate points in time during the engagement (for example, planning, performing and reporting), and especially on significant matters and areas that require significant judgement. It includes a stand-back requirement to determine if the performance requirements in ISQM 2 have been fulfilled. The change will clarify and strengthen the relevant requirements for a more robust engagement quality review.

For smaller firms or sole practitioners, the firm may need to engage an external party who can be a partner of a network firm or a service provider to be the engagement quality reviewer if the engagement is subjected to an engagement quality review. This continues to be one of the key challenges for small and medium-sized practices (SMPs), especially sole practitioners.

ISA 220 (REVISED)

This standard applies to audits of financial statements, and it aims to address the engagement partner’s responsibility to manage and achieve quality at the engagement level. It provides clarification on the responsibilities of the engagement partner in three areas:

- Managing and achieving quality at the engagement level;
- Ensuring sufficient and appropriate resources are assigned or made available on a timely basis;
- Determining the nature, timing

and extent of direction, supervision and review.

The engagement partner is also required to determine if his/her involvement has been sufficient and appropriate to provide a basis for taking overall responsibility.

KEY TAKEAWAYS

There will be different challenges for individual firms to implement the new standards, depending on the nature and circumstances of firms and their engagements. Here are the key takeaways for firms which are looking to implement the new standards:

- (1) The new standards require firms to perform a holistic review of their entire system and to design a risk-based approach that is tailored to the firms’ circumstances. It takes a strong tone from the top to ensure a successful and effective implementation of the firms’ quality management system.
- (2) The managing partner needs to identify the key personnel who should be involved. The team needs to have an indepth understanding of its own firm and the standards’ requirements to drive the implementation.
- (3) Lastly, firms should start the implementation process early by engaging key stakeholders and commence a rollout plan to achieve quality objectives.

New initiatives are currently being developed by the ISCA Quality Assurance (QA) department to assist SMPs in their implementation of ISQM 1 and ISQM 2. For updates on such initiatives, please visit the ISCA website(<https://isca.org.sg/learn-connect/guide-to-find-courses/promotion-and-packages/quality-management-2-day-workshop>). **ISCA**

Tan Chiu Ping, Sharon is Assistant Director, Quality Assurance, ISCA.

NEXT-GEN GO-GETTERS

ISCA Youth Ambassadors Make A Difference

EACH YEAR, ISCA invites full-time accountancy undergraduates who are ISCA Youth Associates to apply to be ISCA Youth Ambassadors. These Youth Ambassadors are the embodiment and advocate of professionalism, commitment and enthusiasm to aspiring accountants.

The Ambassadorship accords successful applicants a host of benefits, including networking opportunities with leaders in the accountancy industry, and exclusive invitations to attend ISCA professional development and conferences. ISCA Youth Ambassadors are also the faces of the new generation in accountancy.

Our Youth Ambassadors have proven to be excellent in their field of study as well as society. As critical thinkers who are highly motivated, proactive and socially engaged, these individuals represent the future of accountancy, and are an inspiration to their peers in myriad ways.

In this feature, we talk to five ISCA Youth Ambassadors who share their passions and aspirations with us.



Daniel Lam



Noor Raimi



Siak Rujing



Sim Yu Kang



Woo Jia Yu



HAVING EARNED HIS BUSINESS DIPLOMA FROM Ngee Ann Polytechnic, Daniel Lam is now pursuing a Bachelor in Business Administration (Accountancy) with specialisation in Finance at the National University of Singapore. He has a clear plan for his postgraduate years – he wants to become an investment banker and his calling is to alleviate poverty. It is not often that a young person has such clarity about life, and Daniel is a great example of a young aspiring professional who knows what he wants, and is willing to work for it.

“Coming from a business background in the polytechnic, I value the technicalities and versatility that an accountancy degree provides,” he explains. He adds that his flair for numbers and analytical nature make accountancy a natural choice. “The shift towards a data-reliant economy has made the ability to analyse financial statements increasingly important in the business world.” Additionally, he believes that an accountancy degree provides a thorough understanding of how the numbers flow – from the preparation of journal entry to the output of financial statements – and how changes in regulations or standards can affect various financial metrics. “With a solid foundation

in financial knowledge, I feel that I am well equipped to critically analyse financial numbers from all angles. I will be able to provide quality financial advice to clients in my future career in investment banking,” he shares.

MAXIMISING VALUE WHILE ERADICATING POVERTY

Investment banking holds a certain allure for him because of the steep learning curve, the wide industry exposure and the direct interactions with management in transactions. “There are very few careers that are able to provide such enriching experiences at an entry- or junior-level position,” Daniel points out. “It also blends well with my interest in the technical aspects of valuation and financial modelling to find solutions that maximise value for a client.” In preparation for his future career, he took on various investment banking internships to gain deal experience. He also reads widely on sector trends and economic events to stay abreast of the ever-changing financial landscape.

The mirror to his passion for investment banking is his drive to address systemic poverty through financial

literacy. “We in Singapore are very fortunate to be in a developed country. But there are many people who live in rural and underdeveloped areas, with limited access to food, water and basic sanitation,” he notes. In his view, poverty stems from two main problems: the first is the lack of opportunities for inclusion into the society, and the second is the lack of knowledge or skill sets. “These two form a chicken-and-egg situation,” he explains. “Therefore, I hope to provide children who are living in poverty with access to basic education, whether through monetary or in-kind donations, or by sharing my time and knowledge to educate them.”

WORKING FOR A HIGHER PURPOSE

Since 2019, Daniel has been involved in Bridges for Enterprise, a non-profit organisation that provides pro bono financial advisory services to social enterprises located mainly across Asia, the Middle East and Africa. “In offering my professional knowledge and advice through the creation of deliverables – such as pitch decks, financial models and investor lists – I hope to empower these social enterprises to be better equipped to fundraise and fulfil their mission to better society,” he reveals.

Being an ISCA Youth Associate has provided strong support for Daniel in his fledgling journey so far. “Being associated with Singapore’s national accountancy body at such an early stage of my career helps me to build credibility and allows me to stand out in a crowd,” he says. “It also provides me with a clearer understanding of the route to becoming a Chartered Accountant of Singapore.” He is grateful that ISCA has provided its Youth Associates an abundance of workshops and training sessions to further hone both soft and hard skills. “These allow us to explore new emerging fields and areas of interest, such as public speaking and accounting data analysis, which prepare us for the future.”

USING FINANCIAL KNOWLEDGE TO BETTER THE WORLD

Daniel Lam, ISCA Youth Associate and Youth Ambassador, National University of Singapore

A NATURAL BORN LEADER

Noor Raimi, ISCA Youth Associate and Youth Ambassador, Singapore Institute of Technology

WE ALL HAVE 24 HOURS A DAY, but how each person spends them can be totally different. Noor Raimi, an ISCA Youth Ambassador from the Singapore Institute of Technology (SIT), seems to be able to fit more achievements into her schedule than most.

The second-year accountancy student at SIT has a full academic load, and also holds multiple leadership positions in university. “As the Vice-President of SIT’s Debate Club, I have planned and organised public speaking events to enhance the communication skills of students, which are essential when entering the working world,” she shares. Raimi feels that being a student leader has given her various useful life skills, such as working on tight deadlines and dealing with conflicts. “As I am planning to take the Singapore Chartered Accountant Qualification while holding down a full-time job, my time management skills will definitely come in useful,” she notes.

Raimi’s pursuit of accountancy began in secondary school, where she learnt that the subject went far beyond numbers to encompass deep critical thinking and analytical skills. “Studying accountancy gives me flexibility in selecting a career as the roles I can take on are diverse,” she explains. Her particular area of interest is audit. “A career in audit is an extremely smart move for a fresh graduate as it can set you up for any role in the future,” says Raimi. “Audit encompasses all the different components of accountancy, from financial accounting to tax.” She believes that auditing clients in various industries provides excellent learning opportunities to understand the background and key business processes of these companies. “For example, my previous audit internship experience in the financial services industry gave me the exposure to subsequently secure a finance internship in the FMCG (fast-moving consumer goods) industry,” she elaborates. “Furthermore, the skills required to become an auditor, such as basic proficiency in finance and business processes, build the foundation for managing a company. As such, this experience would prepare me to take on a leadership role in the accountancy industry in future.”



WHEN ACTIONS SPEAK LOUDER

Given her already hectic schedule, it may be surprising to discover that Raimi is also a grassroots volunteer for the People’s Association – a voluntary position that requires commitment and time. On the other hand, it seems like a perfectly natural thing for her to do, as she sees this as a rich learning experience. “One of my most memorable experiences was volunteering as a petition writer. I got to meet and listen to various concerns raised by residents and drafted an appeal letter on behalf of the Member of Parliament for my constituency,” she recalls. “I was able to develop a deep sense of empathy from interacting with the residents.” To her, volunteering is not just about “taking a few hours of your day to help someone in need; it is about being able to put yourself in someone else’s shoes and understanding their perspective of life”. This has motivated her to create a lasting social impact in her community, to make it a better place. Most importantly, she adds that it has taught her to never take things in life for granted, and to appreciate everything.

She carries this empathy and sense of gratitude to her other voluntary role as a Youth Mentor at Yayasan Mendaki. She strongly believes that every child is entitled to a proper education, and needs to have a role model to help him/her navigate through life. “I am very grateful that my parents have been great pillars of support throughout my education journey. As such, I want to give back to

my community by being part of a similar support system for youths who do not have the same privilege. Most of these students have family problems, which makes them reluctant to open up. Therefore, I have to be patient when communicating with them. But once I am able to earn their trust and build rapport, they are willing to open up and talk to me about their lives.” This has allowed her, in some cases, to help the youngsters plan for life after secondary school as she helped them narrow down the possible career paths that match their interests.

Raimi is someone who practises what she preaches, and she believes that an aspiring accountant should be diligent and attentive to detail by staying on top of the latest industry trends. “Personally, I keep myself updated by reading the monthly *IS Chartered Accountant Journal* as it provides a good summary of the latest happenings in the accountancy sector,” she shares, adding that as an ISCA Youth Associate, she has benefited from the numerous courses offered by the Institute. These courses have helped her gain recognition from employers when she applied for internships. As for the traits of a good accountant, she believes that “an aspiring accountant should possess integrity and reliability as he or she will be working with highly confidential financial information. Most importantly, a young accountant should be purpose-driven and embark on any given task with full commitment.”



ISCA YOUTH AMBASSADORS ARE EXPECTED TO BE THE EMBODIMENT OF PROFESSIONALISM, commitment and enthusiasm. Siak Rujing ticks all these boxes and more, being a person of diverse interests who is not averse to doing the unexpected if there is a deeper purpose to the pursuit. In fact, her decision to study for an accountancy degree at Nanyang Technological University was surprising, even for herself. “Truth be told, it did not occur to me that I would be getting an accountancy degree as I came from a ‘hybrid’ background in college,” she admits. “However, as someone who prefers challenging herself to staying in her comfort zone, I knew that reading accountancy would not only make me more adept with numbers, it would help me to become more financially literate.”

The ISCA Youth Associate, who is also an ISCA Youth Ambassador, is full of curiosity about the different roles professional accountants can play to curb crime. Following a stint as a quality associate with one of the major food delivery platforms before she entered university, she became fascinated by financial forensics. “Customers gaming the system was a common occurrence

on the platform,” shares Rujing. Being involved in identifying such fraudulent activities piqued her curiosity to find out more about how preventative systems could be implemented to better pre-empt such occurrences. “Fraud is increasingly intricate, and undertaking this specialisation has allowed me to study and learn from various cases,” she reveals. “I would definitely like to explore financial forensics as a career, considering how accounting helps with identifying anomalies among the numbers.”

BEING AN AGENT OF CHANGE

This penchant for doing good and righting wrongs cuts across many aspects of Rujing’s life. When she felt that she did not have much exposure working with children with special needs, she signed up to do so. Now, she is a volunteer at a weekly virtual reading session for children with special needs. Through the activity, she has learnt to communicate better – she no longer feels the need to fill awkward silences with a litany of queries; instead, she patiently waits for a response or simplifies her question.

Rujing’s willingness to break her own barriers is evident by her participation

in women’s football at the junior college level. “I actually joined football because there was no prerequisite to enter the sport,” she explains. “We started off with fewer than 11 players, so being a part of this team was special because everyone started from scratch. Also, it felt as if we were redefining gender norms together through the many training and gym sessions.” To her, football is not just a sport, it is a mission for change. “I feel that to achieve gender equality, there has to be an acceptance of the decisions individuals make without being judgemental,” she asserts. “Being supportive of what may be deemed unconventional can go a long way in redefining the social construct that exists in society.”

BROADENING HER HORIZONS

Rujing reveals that she joined the ISCA Youth Ambassador programme to expand her network and to know more about the work done by chartered accountants. “I have definitely benefited from the workshops ISCA organises, such as the resume and interview skills workshop by Mr Lionel Lim, where he provided helpful tips on securing an internship,” she notes. She is appreciative of the fact that ISCA also provides technical workshops for skills such as Python. “I have really learnt a lot along the way, not only from these workshops but also through building connections. It is heartening to meet people with experiences different from my own, which help broaden my horizons,” she says.

For Rujing, becoming an accountant means much more than dealing with numbers. “You must have the heart to be ethical. You must be curious about how different industries operate. You must also have the awareness to stay adept in an industry where automation may be a threat. And lastly, be patient with yourself when things get tough.” ISCA

CHALLENGING HERSELF FROM FOOTBALL TO FORENSICS

Siak Rujing, ISCA Youth Associate and Youth Ambassador, Nanyang Technological University

THE BIG PICTURE PROBLEM-SOLVER

Sim Yu Kang, ISCA Youth Associate and Youth Ambassador, Singapore University of Social Sciences

“IN MY PERSPECTIVE, the wastage of resources is the biggest environmental issue the world faces today,” declares Sim Yu Kang, an ISCA Youth Ambassador from the Singapore University of Social Sciences. He thinks that many individuals or organisations tend to believe their actions are limited, and this demotivates them from making the effort altogether. “Electricity is a great example,” he shares. “Given its abundance, people tend to take it for granted. As an accountant, the role I play is to educate people about the downside of inaction, both financially and image-wise. Educating an organisation about the negative impact the mismanagement of resources can create will, hopefully, encourage its leadership to act.”

Yu Kang’s views on the environment reveal the big-picture manner in which he naturally thinks. It is a mindset he also applies to accountancy. “I enjoy working with numbers,” he reveals. “Numbers tell a story; they portray an underlying pattern. Given the dynamic nature of accountancy, expectations and trends constantly change. This trait of the industry is what makes it interesting: accounts are constantly changing, making them interesting to view.”

An awareness of the breadth of any given issue puts Yu Kang in a unique position to become the enterprise risk manager he aspires to be. “As a natural problem-solver, this line of work and its scope appeal to me,” he shares. “Enterprise risk management entails a broad set of business issues originating from the business environment or the business operations. I find it exciting to be constantly involved in identifying the next big wave that is relevant.”

CASTING A WIDE NET

As he needs to be knowledgeable across a range of topics, Yu Kang understands the importance of networking to learn from his peers in different specialties, as well as constant self-improvement. Hence, he constantly seeks out networking opportunities with various subject-matter



experts, and participates in seminars and events to learn new things. “One great example of such a platform would be ISCA, which has been invaluable in helping me attain the knowledge and information that I would not get from school,” he says. “The professionals I have met through the Institute have been generous in providing industry insights, while the seminars I’ve attended have also helped me develop soft and technical skills, like programming and SQL (structured query language).” He has also taken part in various overseas programmes, namely in China, Indonesia, India, Israel and Laos. “Being able to meet people from various cultures is always exciting since you can build a broader world view,” he explains. “Every culture has its own merits and there is always much to learn from it. Language or cultural barriers may affect the level of communications at times, but there are always ways to resolve such issues. Cultural barriers can often be overcome by taking an active interest in one another and asking good questions.”

Yu Kang’s determination to expand his horizons has also led him to do volunteer work. “My volunteer work tends to focus on helping people with disabilities achieve their goals or interests,” he explains. One example was when he joined Runninghour as a running guide, where he ran races with the visually-impaired. Another was the SUSS Applied Business Service Learning in Laos, where he and his fellow volunteers imparted basic education to hearing-impaired beneficiaries. “Volunteering has helped me realise the impact we can leave on those in need, regardless of how small our actions are, for example, bringing joy to a visually-impaired runner,” he says. This desire to make the world a better place aligns perfectly with what Yu Kang views as the most crucial qualities an aspiring accountant must have – an openness to keep learning, and to constantly take the initiative to gain new skills and knowledge to remain relevant and add value to any organisation. Indeed, he is a living example of all that he promotes.



WOO JIA YU’S INNATE SENSE OF CURIOSITY was what sparked off his interest in accountancy. “As a child, I loved to visit the neighbourhood mom-and-pop store,” he recalls. “I was fascinated with how the shopkeepers would know the exact quantity of products to order for the following week. This interest would lead me to study accountancy.”

This penchant for learning through real-life experiences has served Jia Yu well, and he is about to begin his career as an advisory accountant. “From previous internships, I found that I like working in dynamic environments,” he notes. “I prefer to learn new things and apply them to different projects, rather than perform routine tasks. In advisory, each client has a set of unique problems and circumstances, which is what makes the job

both highly challenging and interesting.”

Not surprisingly, Jia Yu is a voracious learner who seeks to gain exposure to a wide variety of projects that allows him to learn and develop the skills to become a trusted advisor – he holds certifications in data protection and Python. “Even as students, we were already handling and processing highly sensitive data, such as personal data during co-curricular activities or financial data during internships,” he points out. “I was also able to apply my programming skills to automate and deliver a process improvement project during an internship.” During the Covid-19 circuit breaker in 2020, he took the opportunity to complete courses like Essential Financial Modelling and Working with APIs. “My motivation for completing

these courses was to bridge various gaps in my knowledge,” he explains. “For example, I didn’t like the way I was importing data in my projects – I was populating spreadsheets either manually or through clunky macros.” He adds that learning about APIs allowed him to explore an alternative method to import data, and it also opened a new world of possibilities for his projects. “Generally, this has been my approach: while immersing myself in a project, I often learn alternative, and more efficient, solutions to what I had originally planned,” he shares.

GATEWAY TO KNOWLEDGE

Becoming an ISCA Youth Associate set the foundation for Jia Yu to further his accumulation of skills. He had first heard about the programme from an ISCA representative on campus, who shared the various benefits of membership, such as access to exclusive events, workshops and resources organised by the Institute. “And it’s all free!” he emphasises. “I’ve attended a few workshops covering both technical and soft skills, and I also attended the ISCA Practitioners Conference, where I had the opportunity to listen to the perspectives of experienced industry leaders.” He believes that this experience helped to develop his understanding of current issues faced by the profession and the efforts taken by accountancy firms to navigate the current business climate.

It was connecting with seniors and alumni in the Youth Associate programme that helped Jia Yu understand the kind of job that aligned with his interests. “Their advice was invaluable in helping me decide which internships to pursue, and that ultimately led to my first full-time job,” he reveals. “He now hopes to pass on this knowledge and similarly provide guidance to his juniors in the future. “I know how overwhelming it can be to make tough career or internship decisions, and how support and advice can go a long way towards making well-informed choices,” he says. ISCA

A YEARNING FOR LEARNING

Woo Jia Yu, ISCA Youth Associate and Youth Ambassador, Singapore Management University



PHOTO SHUTTERSTOCK

BY ADRIÁN ZICARI AND JULIA SMITH

SOCIAL ACCOUNTING:

A Tool For Measuring Corporate Sustainability

CORPORATE SOCIAL RESPONSIBILITY (CSR) IS AN INCREASINGLY POPULAR TOPIC in the corporate world and beyond, highlighting a need for best practices and a stronger understanding of what it really means to be a sustainable business. For this to occur, we need ways of measuring corporate sustainability: social accounting is one way of doing so. Adrián Zicari, professor at ESSEC, explains its merits, as well as its limitations, in a recent chapter in the *Handbook On Ethics In Finance*.

First, a primer: social accounting refers to the measurement of an organisation's social and environmental performance, recognising the need to go beyond measuring economic impact only. There are a number of indicators that can be used, for example, the disclosure of pollution information or the composition of the company's workforce, among others. The list of indicators goes on, as assessing social

and environmental information is a complex matter. This makes the scope of social accounting quite broad, and also leads to the question of balancing comprehensiveness and comprehension: more information is not necessarily better, as it can make reports hard to understand. Many of these indicators are not measurable in financial terms, so practitioners of social accounting need to go beyond conventional accounting and gather information from different sources. This requires a significant investment. As a result, social reports are more common in bigger companies.

Dr Zicari explored five issues¹:

- 1) The motivation behind corporate disclosure of social and environmental information;
- 2) The use of social accounting internally for management purposes;
- 3) The link between social accounting and financial performance;
- 4) Whether or not regulation contributes to sustainability, and
- 5) The potential that social accounting has for contributing to sustainable practices.

¹Zicari, A. "The Many Merits And Some Limits Of Social Accounting: Why Disclosure Is Not Enough". *Handbook On Ethics In Finance*. 2020. 541-557.

... **assessing social and environmental information is a complex matter.** This makes the scope of social accounting quite broad, and also leads to the question of balancing comprehensiveness and comprehension...

● **Social accounting could also help with the “big picture”;** while reports may highlight smaller, incremental improvements, these could inform long-term changes to conventional business practices.

DISCLOSURE ON SOCIAL AND ENVIRONMENTAL INFORMATION


Today, the disclosure of social and environmental information is usually voluntary, though some European countries have recently implemented regulations. For instance, some companies in France have to present a “déclaration de performance extra-financière”. This means that in many cases, companies can pick and choose what, how, and when they disclose. This makes it difficult to compare companies, as there are many different frameworks in use.

If it is not mandatory, why do companies disclose this kind of information? One reason is to show their legitimacy, that is, living up to social expectations. Others may have a more “defensive” strategy in play, like if they are under fire from environmental agencies. If they do produce social reports, their motivations may impact the content. Researchers have noted that companies with poorer environmental performance tend to talk more about their environmental projects² and use more optimistic language³.

In other words, companies tend to be strategic when deciding what they share and how they share it, and their motivation is often based on protecting or enhancing the company’s reputation. This does not necessarily mean that companies are acting in bad faith, but it does mean that they may not disclose all their social and environmental indicators. Dr Zicari notes that this can lead to tensions between companies and stakeholders: companies may not disclose all information, while stakeholders may seek more transparency.

SHOULD DISCLOSURE BE MANDATORY?

CSR initiatives and social accounting alike are typically voluntary, but there are increasing calls for more mandatory reporting. This would be beneficial in that it could increase comparability, standardise reporting and boost the scope of information shared, resulting in better-informed consumers.



Possible benefits of mandatory reporting:

- increase comparability,
- standardise reporting,
- boost the scope of information shared, and result in better-informed consumers.

One way to increase regulation is through “soft-law” initiatives, meaning the use of frameworks that are voluntary but provide structure, like Global Reporting Initiative, SASB, and Integrated Reporting. If a company says that it complies with one of those, then it has to abide by that and provide the according data. This could also boost stakeholder engagement by providing a reference point and also make it easier to compare companies as currently, comparisons are hindered by the many different frameworks out there.

Another option is the use of “hard-law” legally-binding regulations. One example of this is the Directive 2014/95/EU of the European Union, under which companies with over 500 employees disclose non-financial information. Some initial research suggests that this could have a negative impact on information quality, as companies prefer to share good news⁴.

Increased regulations on social reporting could help, but regulation alone will not ensure disclosure, nor does increased disclosure lead to increased sustainability. This suggests that while




² Cho, C. H., & Patten, D. M. “The Role Of Environmental Disclosures As Tools Of Legitimacy: A Research Note”. Accounting, Organizations And Society. 2007. 32(7-8), 639-647.
³ Cho, C. H., Roberts, R. W., & Patten, D. M. “The Language Of US Corporate Environmental Disclosure”. Accounting, Organizations And Society. 2010. 35(4), 431-443.
⁴ Costa, E., & Agostini, M. “Mandatory Disclosure About Environmental And Employee Matters In The Reports Of Italian-Listed Corporate Groups”. Social And Environmental Accountability Journal. 2016. 36(1), 10-33.

regulation could be useful, it does not replace the need for stakeholders to advocate for sustainability.

USING SOCIAL ACCOUNTING INTERNALLY

Much of the discussion has focused on disclosure to external parties. What about the goings-on inside the company? Internal indicators can help managers make decisions that align with CSR indicators. However, since the indicators can be hard to decipher, managers may struggle to work with them, especially as CSR work can be siloed within the organisation.



Social accounting should combine “inside-out” and “outside-in” approaches.

Companies use different approaches when using social accounting internally. An “inside-out” approach highlights the use of internal social accounting information by managers in their decision-making processes; this can be combined with the “outside-in” perspective, wherein external stakeholders use report information to inform their decisions⁵. Both of these perspectives are important in striving for sustainability. To facilitate this process and also help managers interpret the information, CSR discussions should be integrated into corporate performance and dealt with across the organisation, rather than being the responsibility solely of a specialised team.

WHAT IS THE LINK BETWEEN SOCIAL ACCOUNTING AND FINANCIAL PERFORMANCE?

Social accounting is not interchangeable with conventional accounting: how exactly do they relate? Their scopes are different, but there is a lot of overlap, both in content and in audience. For example, perhaps a firm makes an expenditure to make a process greener – this will be reported in Profit and Loss Statements (the cost) and in social reports (the effect of the green initiative). An investor may read both these

⁵ Burritt, R. L., & Schaltegger, S. “Sustainability Accounting And Reporting: Fad Or Trend?”. *Accounting, Auditing & Accountability Journal*. 2010. 23(7), 829-846.
⁶ Burke, J. J., & Clark, C. E. “The Business Case For Integrated Reporting: Insights From Leading Practitioners, Regulators, And Academics”. *Business Horizons*. 2016. 59(3), 273-283.
⁷ Rodrigue, M., Magnan, M., & Cho, C. H. “Is Environmental Governance Substantive Or Symbolic? An Empirical Investigation”. *Journal of Business Ethics*. 2013. 114(1), 107-129.
⁸ Blasco, J. L., & King, A. “The Road Ahead: The KPMG Survey Of Corporate Responsibility Reporting”. 2017. Zurich: KPMG International.



PHOTO SHUTTERSTOCK

We must be clear-eyed on the promise of social accounting. It can help improve existing business models but does not create new ones, and managers should be encouraged to use complementary tools.

statements, as the financial statements help evaluate the company’s potential and social reports show its environmental impact. The research is mixed when it comes to how sustainability actually impacts financial performance. As a result, managers may be unsure about the profitability of sustainable policies, even if they think the ethical rationale is strong. When measuring the situation, managers thus need to carefully consider the framework they use, and whether or not it is appropriate for the situation.

CAN SOCIAL ACCOUNTING LEAD TO ORGANISATIONAL CHANGE?

Even if the link between sustainability and financial performance is unclear, sustainability remains a worthy goal. This means that social accounting too, is useful, as a tool for achieving sustainability. What can it actually achieve? Some scholars⁶ suggest that social accounting can inform better decision making and facilitate teamwork. Others are less certain⁷, as they argue that it is mainly symbolic and may not lead to significant change. One thing is true: realising true improvements is difficult, and the mere implementation of social accounting processes will not automatically improve sustainability. Further, over-reliance on social accounting may lead to a focus on the “small picture”, rather than truly revisiting conventional business models. While social accounting is not a silver bullet, it has shown success. The KPMG Survey of Corporate Reporting (2017)⁸, studying reporting practices in 50 countries, found that social reporting is widespread, and there is a community dedicated to its improvement and implementation. Social accounting could also help with the “big picture”; while reports may highlight smaller, incremental improvements, these could inform long-term changes to conventional business practices. For example, mining, which is, by definition a polluting activity, but nevertheless one that is necessary

for industrial production. Using social accounting could give managers and stakeholders information that could help reduce the environmental impact as a short-term strategy, while preserving the need to look for long-term solutions that are better for the planet. Social accounting is necessary and helpful for improving business models. Increased disclosure illuminates managers how the company can improve, and informs the company’s efforts to be socially responsible. More transparency will benefit stakeholders and empower the public. We need to remember that social accounting remains a means to an end, and it will be tested by how effectively it creates measurable change in corporate practices.

KEY POINTS AND TAKEAWAYS

- Tension exists between companies and stakeholders, as the former may not share all information and the latter seek greater transparency.
- Regulation could improve report quality, but will not automatically improve disclosure.
- Managers may find it challenging to work with social and environmental indicators, leading us back to the first point: some information may not be disclosed because it is not well understood or not readily available.
- We still do not have a clear picture of the link between sustainability and financial performance.
- We must be clear-eyed on the promise of social accounting. It can help improve existing business models but does not create new ones, and managers should be encouraged to use complementary tools.
- All things considered: social accounting is an increasingly helpful tool for managers and stakeholders, and can help improve corporate sustainability. ISCA

Adrián Zicari is Teaching Professor at ESSEC and Julia Smith is Editor-in-Chief of ESSEC Knowledge. This article was first published in ESSEC Knowledge.



BY DR ANG HAK SENG

SYSTEM THINKING:

A Practical Approach

THERE IS NO DOUBT THAT WE LIVE IN A COMPLEX WORLD. Many issues we face do not have a binary solution. It takes analysis to understand the issue, the cause of the issue and the components that relate to the issue. In fact, it would be hasty to view an issue on a linear plane with self-contained components. Rather, there is a need to adopt a system-thinking approach to develop solutions that are effective in not just tackling symptoms but also addressing the root cause.

Adopting system thinking is also crucial for the accountancy sector. As issues become increasingly volatile, uncertain, complex and ambiguous, accountants are no longer expected to only be responsible for recording, interpreting and analysing financial records. Accountants need to advise leaders on business decisions and provide insights that could help the organisation perform more efficiently and effectively.

Let's take the food and beverage (F&B) industry as an example. In the past, when F&B outlets wanted to expand their business, they would typically increase the number of outlets to reach out to diners in the more densely populated areas in Singapore. However, is this the most effective solution? While increasing

the number of outlets can increase customers, it is costly to implement. This solution points towards a linear form of solutioning that follows the line of reasoning in Figure 1.

In recent times, the F&B industry has started to adopt a system-thinking approach where links are drawn

System thinking helps to better identify the root cause of an issue...
System thinking also helps one to analyse all solutions with the view of avoiding unintended outcomes due to unforeseen interactions between components of an issue.

Figure 1 A linear form of solutioning

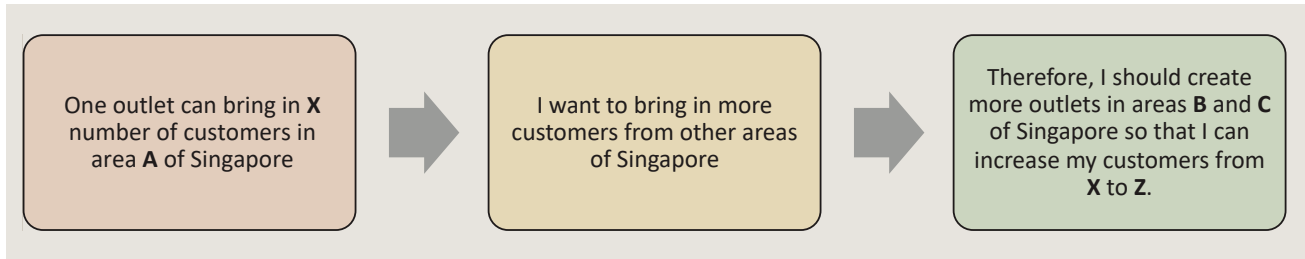
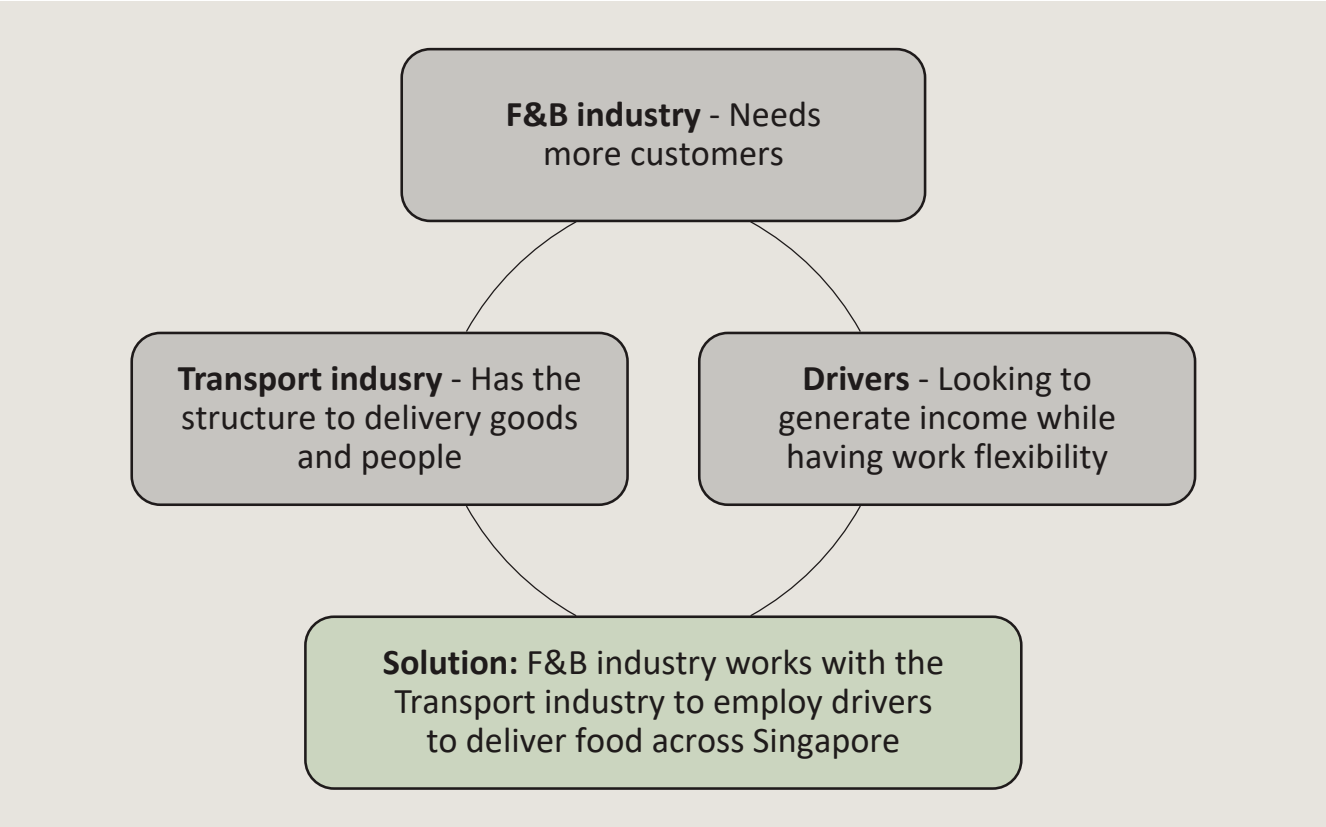


Figure 2 A system-thinking approach



between industries. This has resulted in the development of the food delivery scene as solutions were created with an understanding of how the transport and F&B industry interacted with each other. A simplified process flow to formulate the solution is shown in Figure 2.

SETTING THE SCENE

The focus of this article will be on “how” system thinking could be adopted. There are many publicly available articles and resources that clearly explain the purpose of system thinking. Therefore, instead of explaining why you should adopt system thinking, I would like to explain how system thinking should be done.

After reading this article, I hope that you will have a slightly clearer picture of the steps and mindset needed to implement system thinking to your work.

Before diving in, it would still be useful to briefly explain system thinking so that all of us are on the same page.

➤ **“What” system thinking is**
System thinking seeks to identify and analyse the overall patterns and

A good guiding principle to identify the best solutions is the 80-20 principle where we choose a handful of solutions that have high relations to the outcomes.

interactions of the components of an issue. Through this, we can understand how various components relate to each other. This also enables one to see the issue as an amalgamation of many parts instead of independent components.

➤ **“Why” system thinking is important**
System thinking helps to better identify the root cause of an issue. In doing so, the identified solutions would not simply address the symptoms – they also extend to the root cause. System thinking also helps one to analyse all solutions with the view of avoiding unintended outcomes due to unforeseen interactions between components of an issue.

➤ **“When” system thinking should be used**
System thinking can and should be used for complex issues. There is also a need to have enough data points to map and validate the relationship between components.

➤ **“How”: suggested steps to start your system-thinking journey**
As seen in Figure 3, there are many different methods and tools to implement system thinking. Some are more complex, such as topic modelling; others are simpler, such as data regression.

¹ Grdr Broo, D. and Trngrn, M. Martin. “Visual Analytics for Cyber-physical Systems Development.” NordDesign 2018. Sweden.
² Expert Program Management website, accessed 2 July 2021.

Nonetheless, system thinking is often a rather long and winding process that requires patience of the heart and openness of the mind.

A PRACTICAL APPROACH

I would like to share a practical approach to adopt system thinking. This can be summarised in five steps, starting from having a mindset shift and ending with implementing solutions. They should be viewed as a guide, with each step gradually leading to the next – akin to a slope rather than a staircase.

(1) **First, we need to know that parts and factors are interconnected.**
The first step is most likely the hardest. This involves a change in perception where one accepts that the components of each issue are interconnected. Through this, there is a need to shift away from a linear perspective to one that is circular. In addition to having this mindset shift, it is equally important to understand the boundaries of our

analysis. To this end, we need to learn to expand the scope of our thinking to include secondary and complementary factors, but not expand it to the point where the universe of factors is contained within the study. If we are not careful, we might end up conducting extremely lengthy analysis with few results due to the weak correlation between components.

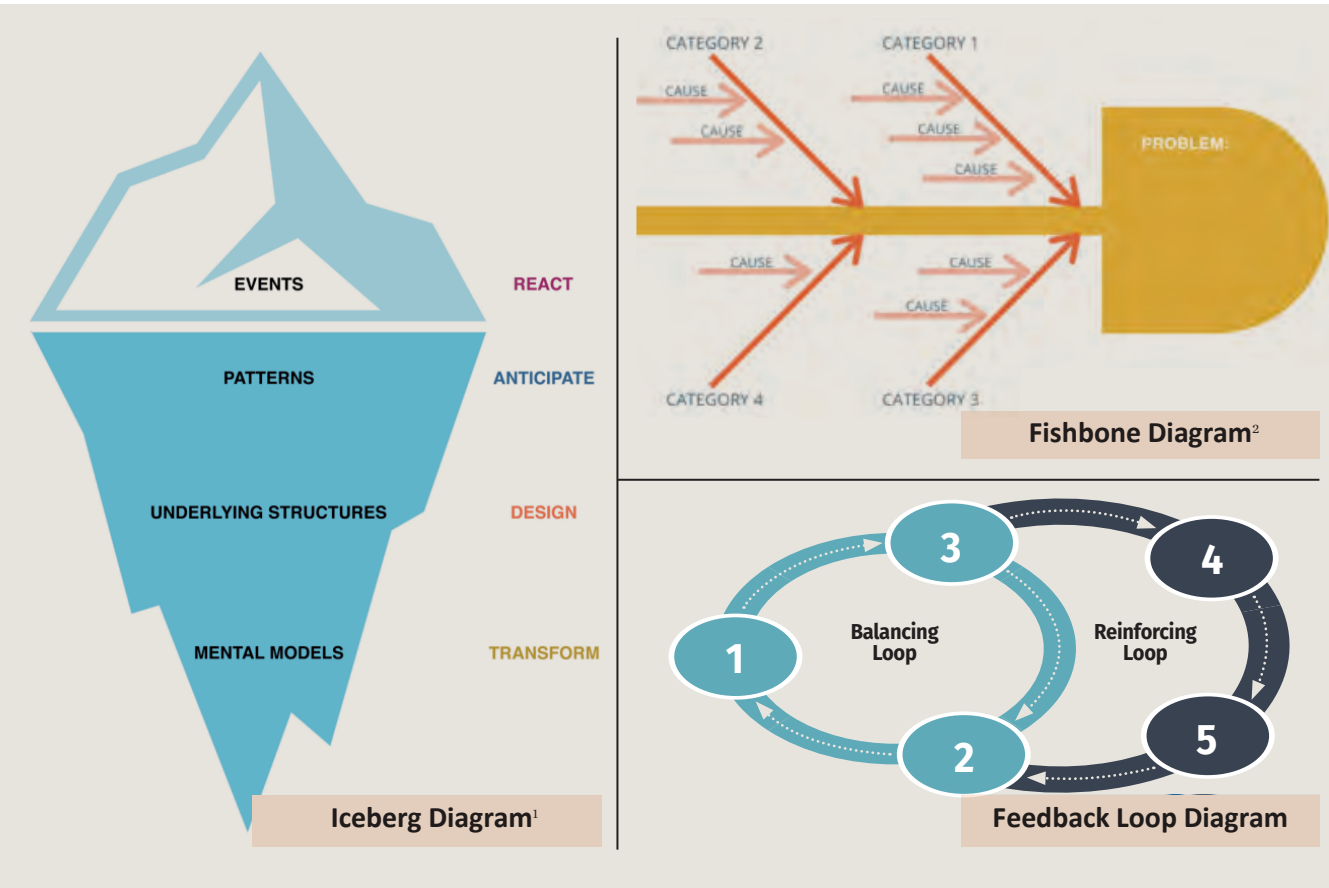
Example
In order to increase customer base, the F&B industry adopted a mindset shift where it saw the industry as part of an interconnected ecosystem that closely interacted with the transport industry. It was important to draw boundaries to ensure focus. For this example, the boundaries were kept to the F&B industry and the transport industry.

(2) **Second, once we accept that parts are interconnected, we need to analyse them.**
The second step is to start analysing the interactions among the components of

the system. In doing so, we will synthesise these components with the focus on gaining a clearer understanding of the relationships of the various components and holistically seeing them as part of a whole. Through this, we can hypothesise and map out the key nodes within the system so that we understand the key levers of influence.

Example
Upon further analysis of the components within the F&B and transport industries, two key nodes stood out, namely, (1) private-hire transport drivers (for example, Grab drivers), and (2) food delivery services. These were possible key nodes as there were strong synergies between the work of private-hire transport drivers and the demand for food delivery services. The infrastructure needed (the vehicle) was the same, and the service provided was consistent (transport something or someone from location A to location B). The only key difference was that instead of transporting a person, there was a need to transport food.

Figure 3 Various methods and tools to implement system thinking



(3) **Third, once clarity has emerged from analysis, we need feedback to refine the model.**

Once the possible key nodes are identified, we need to validate them by collecting feedback and observing how these key nodes interact with other components. There are generally two types of feedback – positive and negative.

If the feedback is positive, this means that an increase in a third component would reinforce and increase the link between the two key nodes. Conversely, if the feedback is negative, this means that an increase in a third component would reduce the link between the two key nodes. While it is intuitive to think that positive feedback is a good thing, we also need to be mindful of how the

overall system could be compromised if the bonds between the two key nodes are strengthened by too much.

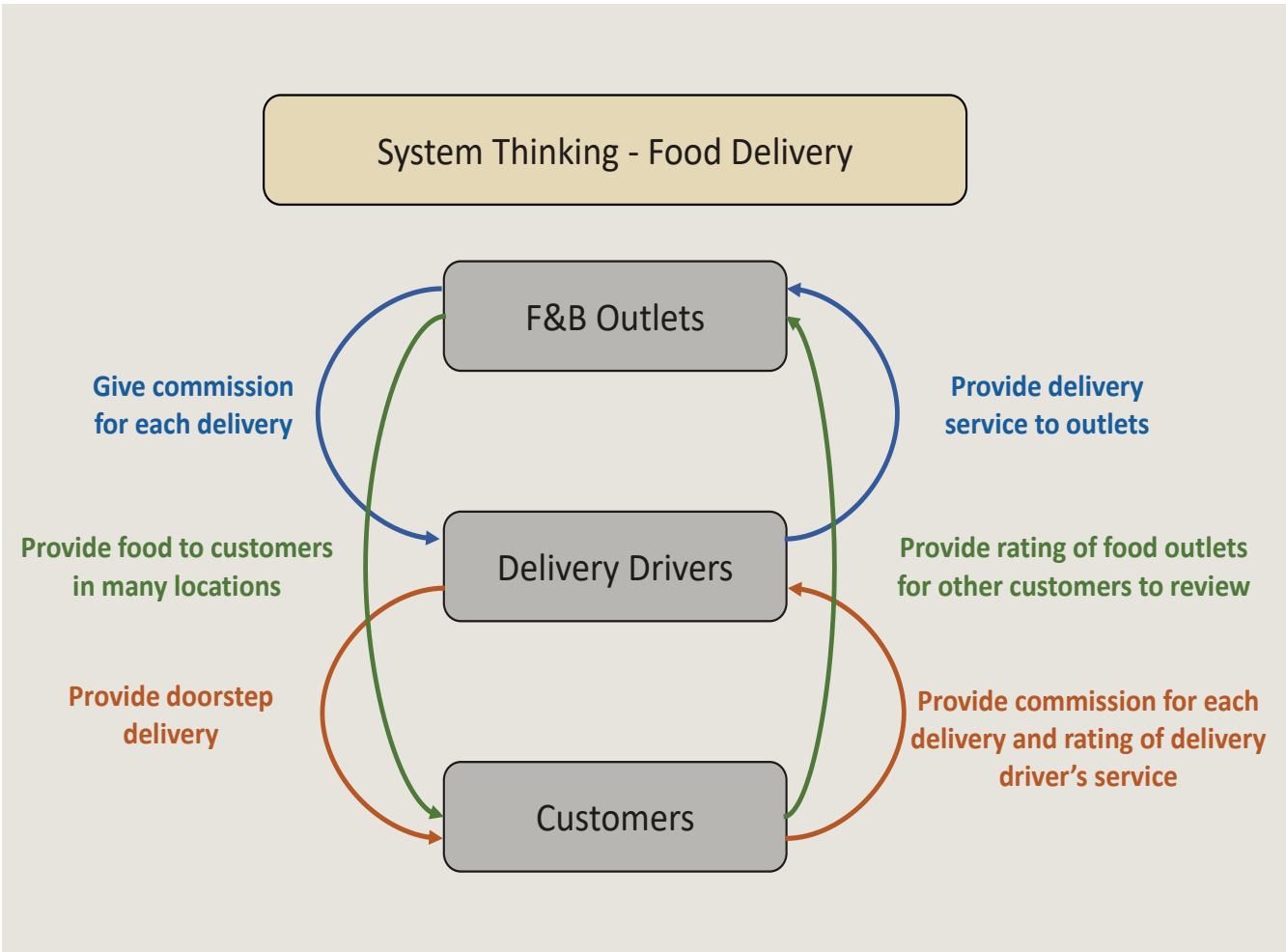
Example

In collecting feedback, it was noted that private-hire transport drivers tended to work harder if there were higher commissions. With more motivated drivers, the F&B industry would also be able to deliver food to customers more efficiently.

Therefore, it was concluded that providing high commissions for each food delivery could serve as positive feedback that would strengthen the bonds between food delivery services and private-hire transport drivers.

However, in doing so, there was a need to ensure that this did not divert private-hire drivers to only focus on food delivery. Furthermore, providing high commissions could also lead to increased food prices. On balance, providing higher commissions could result in an overall negative impact to both the transport and F&B industries as food prices rose and number of drivers fell.

Figure 4 Overview of interactions between food outlets, delivery drivers and customers



(4) **Fourth, with early feedback, we can pilot and test out possible solutions.**

After we have shortlisted possible solutions through feedback, we can test our theories and solutions through pilots. For this, it is important to select a pilot group of stakeholders that closely represents the identified system.

By testing various solutions on the pilot groups, we can understand the optimal levers to use that could help ensure that both nodes are strengthened, and that the overall system remains robust. This is usually an iterative process with refinements made to the solutions to ensure optimal outcomes.

In addition, we must ensure that the implementation of the solutions to the pilot groups can be replicated to the

System Thinking – SG Cares Ecosystem

The diagram shows a central column of needs for a vulnerable senior: Medical Needs, Transport Needs, Food Needs, Emotional Needs, and Lifestyle Needs. These are interconnected by a double-headed arrow. Surrounding this are various support mechanisms:

- Medical Needs:** "Need medical escort to go to physiotherapy" (blue arrow) and "Need to collect medication" (blue arrow).
- Transport Needs:** "Food delivered to home" (green arrow).
- Food Needs:** "Volunteers delivering food can also serve as befrienders" (orange arrow).
- Emotional Needs:** "Befrienders can connect the senior with neighbours to form a community" (black arrow) and "Befrienders can also deliver food" (orange arrow).
- Lifestyle Needs:** "Senior can become a befriender to others within the community" (black arrow).

Ang Hak Seng

Dr Ang Hak Seng sharing on System Thinking and how it can be applied in the SG Cares ecosystem

With accountancy cutting across all sectors and industries, system thinking is especially important and useful. By taking on a whole-of-system approach in tackling issues, efficiencies can be forged, and interventions can be formulated to address the root causes of issues.

whole system. There are cases where the pilot solutions did exceedingly well but failed in reality as they were too difficult to roll out system-wide, due to other externalities or lack of scalability.

Example

With the “high commission rate” selected as a possible solution to meet the food delivery needs of the F&B industry, there was a need to select a range of shops and delivery drivers to test the optimal level of commission.

Components that went into the decided commission rates were (1) flat rate, (2) percentage of food items’ prices, (3) distance travelled by driver, (4) time taken to deliver the food.

Through the pilot, each component was adjusted and the response measured. Apart from measuring the number of food deliveries made and the number of drivers engaged, it was also important to measure other factors like the overall change in food prices and drivers.

(5) **Finally, we can identify interventions.**

With the pilots concluded, we can further analyse the results of the solutions and plot out the best intervention points that have the highest levels of causation to the desired outcomes. At this stage, there could still be several solutions to choose from. A good guiding principle to identify the best solutions is the 80-20 principle where we choose a handful of solutions that have high relations to the outcomes. With this, we can start to plan the implementation details for rolling out the solutions to the whole system (in phases, if possible).

While this is the last of the five listed steps, this is not the end of the process. When new interventions are injected

into the system, flux will be created when a new version of the system is formed. Hence, steps 1 to 5 need to be repeated and the system needs to be refined.

Example

When the new commission rates were decided, work needed to be done to have partner outreach and onboarding, stakeholder engagements and marketing. Without proper implementation plans, even the best policies or interventions will fail as the take-up rate would be low.

After the solution has been rolled out, further tweaks and refinements must be made. For the earlier example, refinements could include the giving of seasonal gift vouchers or an adjustment of the commission split between delivery drivers and F&B outlets.

CONCLUSION

System thinking cannot be viewed as a solution but as a tool. To use this tool, we need the proper techniques and mindsets. This article seeks to provide a glimpse of such techniques.

With accountancy cutting across all sectors and industries, system thinking is especially important and useful. By taking on a whole-of-system approach in tackling issues, efficiencies can be forged, and interventions can be formulated to address the root causes of issues. ISCA

Dr Ang Hak Seng, FCA (Singapore), is Deputy Secretary, Ministry of Culture, Community and Youth.



PHOTO SHUTTERSTOCK

BY KELLOGG INSIGHT

DO DIVERSE HIRING COMMITTEES CHOOSE MORE DIVERSE LEADERS?

The Answer Comes Down To Organisational Culture

MOST PEOPLE AGREE THAT THE LACK OF WOMEN IN CORPORATE LEADERSHIP ROLES IS A PROBLEM, yet there's less agreement on the best solution to tackle it. Some advocates believe that getting more women on hiring committees, corporate boards, and other decision-making bodies would lead to more women appointed to leadership roles at all levels.

Is this likely to work?
Not unless it is accompanied by broader cultural changes, according to new research from Nicola Persico, Professor of Managerial Economics and Decision Sciences, Kellogg School of Management, Northwestern University. He and co-authors examined leadership appointments made by the selection committee for the Internet Engineering Task Force (IETF), a high-profile body that develops interoperability standards for Internet hardware and software, essentially ensuring that the Internet runs smoothly. The selection

committee nominates some of the most high-profile leaders in the organisation.
The researchers chose to study the IETF partly because of its unique process for choosing the members of its selection committee. They are randomly picked every year from a list of volunteers – a process meant, in part, to bring diversity to the powerful committee.
Persico and his colleagues sought to determine whether the number of women on the IETF's selection committee each year impacted gender diversity among leaders throughout the organisation. Would more women be appointed to leadership roles during the years when more women sat on the committee?
No, they found – at least, not until holistic cultural changes were implemented throughout the organisation that reinforced the importance of gender diversity. Without these more diffuse cultural

“If you change the formal mechanism of representation, but you don’t change the culture in an organisation, then change is not going to happen.”

NICOLA PERSICO, Professor of Managerial Economics and Decision Sciences, Kellogg School of Management, Northwestern University

As counter-intuitive as this may seem, the researchers note that previous research found that more women on selection committees can in some cases lead to fewer female appointments, perhaps because of a perceived need for women to signal their commitment to factors beyond gender.

efforts undergirding it, involving more women in the process of selecting IETF's leaders simply wasn't sufficient to increase diversity throughout the organisation. However, when accompanied by cultural changes that demonstrated that diversity was indeed valued, having more women on the selection committee led to more women in leadership roles.

"If you change the formal mechanism of representation, but you don't change the culture in an organisation, then change is not going to happen," Persico says. "I think that speaks to the strength of culture over formal mechanisms."

TRACKING CULTURE

The Internet standards developed by the IETF are meant to ensure that the hardware and software designed by various tech companies can work together. Because this has financial implications for tech firms, companies around the world are eager to see their own employees in IETF leadership roles.

One such leadership role is the Area Director, or AD, who oversees the working groups responsible for much of the technical work. Also important are those who serve on the Internet Architecture Board (IAB), who collaboratively provide architectural oversight, or in other words, keep "an eye on the 'big picture' of the Internet", as IETF literature puts it.

Both ADs and IAB members are nominated by IETF's selection committee, colloquially referred to as the NomCom. The powerful NomCom consists of 10 members who are randomly selected every year from a list of volunteers.

Persico notes that the random selection mechanism of NomCom

members was crucial to the research project's design – it removed the possibility that the number of women on NomCom in a given year could be a function of an organisational initiative or internal politics, or other factors he hadn't considered. (Previous researchers have investigated the link between the diversity of a board and its leadership team, but because board members were not chosen randomly, it is challenging to disentangle numerical representation from broader cultural shifts.)

Persico and his collaborators – Justus Baron at Northwestern, Bernhard Ganglmair at the University of Mannheim, Timothy Simcoe at Boston University, and Emanuele Tarantino at LUISS Guido Carli – focused on AD and IAB appointments made by the NomCom between 2005 and 2020.

They also reviewed public IETF documents as well as publicly available internal emails, and conducted interviews with IETF leaders, all of which helped the researchers better understand the organisation's culture and, importantly, the efforts to change it.

EXPLAINING AN INFLECTION POINT

The researchers found that in the first half of their study period – between 2005 and 2011 – increases in female representation on the NomCom actually led to a decrease in the number of women appointed as IETF leaders. After 2011, that relationship was reversed, and more women in NomCom led to more female appointees.

The shift was dramatic. Before 2011, the causal effect of adding a woman to NomCom decreased the number of female IAB and AD appointments by 6.2%. As counter-intuitive as this may seem, the researchers note that previous research¹ found that more women on selection



PHOTO SHUTTERSTOCK

¹Bagues M.F. and Esteve-Volart B. "Can Gender Parity Break The Glass Ceiling - Evidence From A Repeated Randomized Experiment". The Review of Economic Studies. 2010. 77(4) 1301-1328.



... when accompanied by cultural changes that demonstrated that diversity was, indeed, valued, having more women on the selection committee led to more women in leadership roles.

committees can in some cases lead to fewer female appointments, perhaps because of a perceived need for women to signal their commitment to factors beyond gender. Starting in 2012, Persico and his collaborators found that each additional woman on NomCom increased the number of female appointments by almost 12%.

What made that year an inflection point? The researchers tested for various possible explanations. They ruled out the possibility that the change could be explained by a sudden improvement in the qualifications of female applicants or by a formal procedural overhaul in how IETF named leaders.

Instead, the researchers’ interviews and document reviews suggested that the shift probably had another explanation – a set of concerted changes within IETF culture that started in 2012.

“By culture,” the researchers write, “we refer to holistic, informal norms ... that is, public speeches, codes of conduct, and other activities that are technically unconnected with the appointment process, but whose effect is to change members’ attitudes towards certain gender stereotypes.”

Changes within IETF’s culture had been touched off, in part, by a women’s group within IETF called Systers. In 2012, Systers conducted an experiment – it gave the NomCom a list of qualified female candidates for appointment to AD positions; none of them was selected. This seemed to signal to many that the organisation had a true problem with gender diversity in leadership positions.

Several concerted changes to IETF’s culture followed soon after. A diversity design team was established in 2012; a diversity listserv that served as a forum for discussion was created in early 2013 and, later that year, the IETF adopted a code of conduct and an anti-harassment policy.

These changes quickly had an impact on the organisation’s culture. The researchers searched internal emails and found that in 2013, the share of email messages containing the word “diversity” leapt to an all-time high of 1% of all email correspondences.

The researchers’ interviews with IETF leaders confirmed their sense that 2012 was a key turning point for the institution’s culture.

“Conducting the interviews was important,” Persico says. “Personally, I place trust in what people say about what is going on in an organisation’s culture. And it meant we could triangulate – we had the interviews, we had the published documents, we had the organisation’s emails, and we could start to see these patterns surfacing.”

LEADERS: “FIND THE LANGUAGE”

Persico’s takeaway from these findings is not that formal mechanisms meant to improve diversity – like the random choice of selection-committee members – should be dismissed as ineffective. Rather, he emphasises that more diffuse cultural changes must accompany these mechanisms – and are too often neglected.

“For formal mechanisms to matter, you need to have a tone from the top that matches,” he says. “If you say, ‘We’re going to do quotas’, and you have a highly meritocratic organisation, people are going to feel that the organisation’s mission is being hijacked. As a leader, you have to find the language to gently redirect the culture.” ISCA

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TECHNICAL HIGHLIGHTS

AUDITING AND ASSURANCE

ISCA ISSUES UPDATED AGS 1, SAMPLE INDEPENDENT AUDITOR'S REPORTS

Main updates relate to revised sample reports in relation to:

- 1) Housing Developers (Project Account) Rules, where an additional licence condition has been imposed on mortgages, charges or encumbrances on the land and/or building project;
- 2) Payment Services Act, which replaces the Money-changing and Remittance Business Act and the Payment Systems (Oversight) Act in regulating payment services.

For more information, please visit <https://isca.org.sg/content-item?id=4f7e5f38-8abf-4aee-8cb0-954101cb6e35>

NEW QUALITY MANAGEMENT IMPLEMENTATION GUIDES ISSUED BY IAASB

The guides will help stakeholders understand the quality management standards and properly implement the requirements in the manner intended.

- First-time Implementation Guide for International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- First-time Implementation Guide for ISQM 2, *Engagement Quality Reviews*.

An implementation guide for ISA 220 (Revised) will be issued in Q3.

For more information, please visit <https://www.iaasb.org/news-events/2021-06/new-quality-management-implementation-guides-now-available>

ETHICS

ISCA ISSUES EP 100 (REVISED ON 7 JULY 2021) TO ADOPT IESBA'S REVISIONS TO PART 4B AND ROLE & MINDSET PROVISIONS

Revisions to Part 4B of EP 100 (revised on 7 July 2021) seek to align Part 4B with the assurance terms and concepts used in ISAE 3000 (Revised). Role & Mindset provisions reaffirm the profession's responsibility to act in the public interest and the fundamental role of the Ethics Code in meeting that responsibility.

EP 100 (revised on 7 July 2021) is expected to be effective 31 December 2021. Early adoption is permitted.

For more information, please visit <https://isca.org.sg/content-item?id=00621e8e-a41e-4a87-b784-8debb6bb67c3>

ISCA ISSUES EP 100 IG 4 (REVISED) WITH UPDATED LIST OF FINANCIAL INSTITUTIONS

EP 100 IG 4 *Clarification on Financial Institutions Considered as Public Interest Entities* clarifies the scope of entities that falls within the definition of a financial institution (FI) in EP 100 (Revised on 14 August 2020) and hence, are considered as public interest entities.

ISCA issues EP 100 IG 4 (Revised) with an updated list of FIs which corresponds to the definition of an FI in EP 100 (Revised on 7 July 2021).

For more information, please visit <https://isca.org.sg/contsitem?id=8f4dfbcc-dee1-4bd7-a681-a93d0e2e1150>



FINANCIAL REPORTING

ISCA INVITES COMMENTS ON IASB'S ED ON MANAGEMENT COMMENTARY

ISCA seeks comments on IASB's Exposure Draft on *Management Commentary*. The ED sets out the IASB's proposals for a comprehensive new framework for preparing management commentary. The proposed framework would replace IFRS Practice Statement 1 *Management Commentary*.

Please send comments to technical@isca.org.sg by 1 October 2021.

For more information, please visit <https://isca.org.sg/content-item?id=9dc2936e-4d20-4f90-8cc5-c233e6ded670>

ASC ISSUES AMENDMENTS ON DISCLOSURE OF ACCOUNTING POLICIES AND DEFINITION OF ACCOUNTING ESTIMATES

The ASC has issued:

- Amendments to SFRS(I) 1-1 and SFRS(I) Practice Statement 2: Disclosure of Accounting Policies and Amendments to FRS 1 and FRS Practice Statement 2: Disclosure of Accounting Policies;
- Amendments to SFRS(I) 1-8: Definition of Accounting Estimates and Amendments to FRS 8: Definition of Accounting Estimates. These amendments are effective for annual reporting periods beginning on or after 1 January 2023.

For more information, please visit <https://www.asc.gov.sg/current-news>

IASB SECOND WEBINAR ON DISCUSSION PAPER, BUSINESS COMBINATIONS UNDER COMMON CONTROL

This webinar, scheduled on 30 June 2021, discussed feedback received in the initial outreach activities, and addressed some of the frequently asked questions from stakeholders. The recording of the webinar can be found on the IASB website and YouTube Channel.

For more information, please visit <https://www.ifrs.org/news-and-events/news/2021/06/second-webinar-on-discussion-paper-business-combinations-under-c/>

IASB SECOND WEBINAR ON EXPOSURE DRAFT DISCLOSURE REQUIREMENTS IN IFRS STANDARDS

This webinar, scheduled on 17 June 2021, explored in detail the proposed new approach to developing disclosure requirements in IFRS Standards and included a discussion of the IASB's views on comparability, enforceability and electronic reporting. The recording of the webinar can be found on the IASB website and YouTube Channel.

For more information, please visit <https://www.ifrs.org/news-and-events/news/2021/06/iasb-webinar-ed-disclosure-requirements-in-ifrs-standards-pilot-approach/>

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BY PATRICIA TAN MUI SIANG AND KOH WEI CHERN

DON'S COLUMN

PURCHASE PRICE ALLOCATION ARISING FROM M&A

A Look At The Healthcare Industry

WHAT ARE COMPANIES PAYING FOR WHEN THEY ENTER INTO BUSINESS COMBINATIONS? Various studies indicate that a large percentage of purchase consideration (PC) was allocated to intangible assets and goodwill. The Houlihan Lokey 2018 Purchase Price Allocation Study, based on 715 transactions, where the acquirer was a United States (US) public company, showed a median allocation of 33% and 41% of the PC to intangible assets and goodwill respectively. Out of nine industry sectors, healthcare and technology sectors have allocation to intangible assets and goodwill that are above the mean and median of the sample. Particularly, the median allocation in the healthcare sector was 46% and 42% respectively.

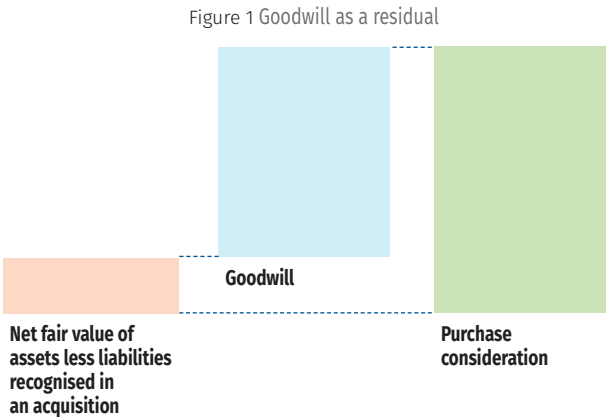
Given the relatively high percentages of the PC allocated to intangible assets and goodwill observed in the healthcare sector in the US, and given a recent report issued by Moody's Investors Services predicting that hospital merger-and-acquisition (M&A) activity will remain robust through 2021¹, this article examines whether the same pattern exists in the Singapore healthcare sector. We examine the purchase price allocation attributed to intangible assets and goodwill for a sample of Singapore Exchange-listed companies in the healthcare sector

¹Lagasse, J. "Hospital Merger And Acquisition Activity Will Remain Robust Throughout The Year, Moody's Finds". 22 Apr 2021. Healthcare Finance.

to determine the significance of intangible assets and goodwill as a percentage of the PC. Further, given the March 2020 discussion paper issued by the International Accounting Standards Board (IASB) on proposed disclosures on goodwill, we also examine the types of disclosures about goodwill arising from business combinations in the year of acquisition.

CURRENT STANDARD REQUIREMENTS UNDER SFRS(I) 3

SFRS(I) 3 *Business Combinations* paragraph 32 implies that goodwill is determined as a residual. Goodwill is the amount paid in excess of the target company's net fair value of its assets minus its liabilities. Figure 1 shows how goodwill is determined as a residual.



Given that entities are using a substantial part of the purchase consideration to pay for goodwill, it is critical that investors have the necessary information to decipher what the entities are buying.

Currently, SFRS(I) 3 paragraph B64(e) requires disclosure for each business combination “a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors”.

The Basis for Conclusions (BC) for *IFRS 3 Business Combinations*² listed two components as core goodwill:

- (a) “The fair value of the going concern element of the acquiree’s existing business” – it represents “the pre-existing goodwill that was either internally generated by the acquiree or acquired by it in prior business combinations”, and
- (b) “The fair value of the expected synergies and other benefits from combining the acquirer’s and acquiree’s net assets and businesses”.

Component (a) is goodwill relating to the acquiree, determined by taking the fair value of the acquiree as a standalone existing business and subtracting the net fair value of its assets less liabilities recognised in the acquisition. This goodwill exists primarily because the current accounting standards do not permit the recognition of internally generated goodwill and include intangible assets that do not qualify for separate recognition. Component (b) is the remaining portion of goodwill relating to the combination of the acquirer and the acquiree and relates to the expected benefits and synergies arising from the business combination. Figure 2 shows the breakdown of the goodwill into the two components.

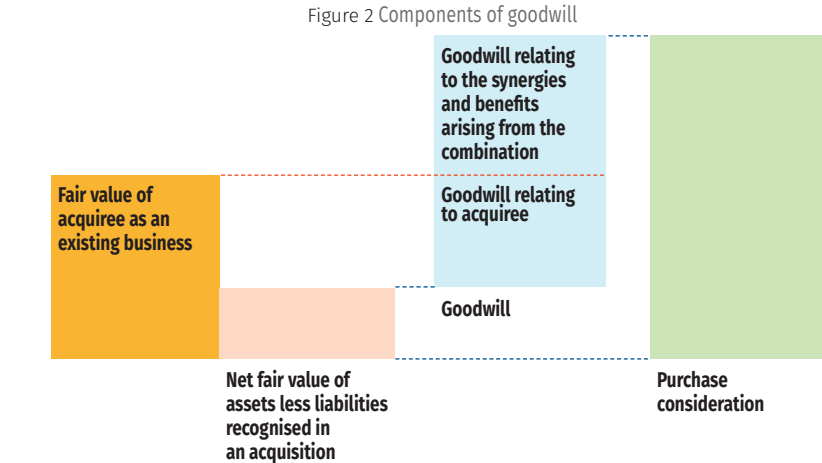


Table 1 Descriptive statistics on the percentage of PC allocated to intangible assets and goodwill

	Intangible assets as a percentage of PC	Goodwill as a percentage of PC
Mean	7.65%	82.62%
Min.	0.00%	15.24%
Max.	102.28%	137.85% ⁴
Median	0.00%	87.77%

Table 2 Percentage of business combinations

As a percentage of PC	Percentage of transactions	
	Intangible assets	Goodwill
0%	50.91%	0.00%
>0, <=50%	45.45%	10.91%
>50%, <100%	1.82%	78.18%
>=100%	1.82%	10.91%

Quantitative and qualitative disclosures of these two distinct components of goodwill will be useful for investors to understand what the acquirers are buying and assess if the acquisition price is reasonable.

THE SAMPLE AND FINDINGS

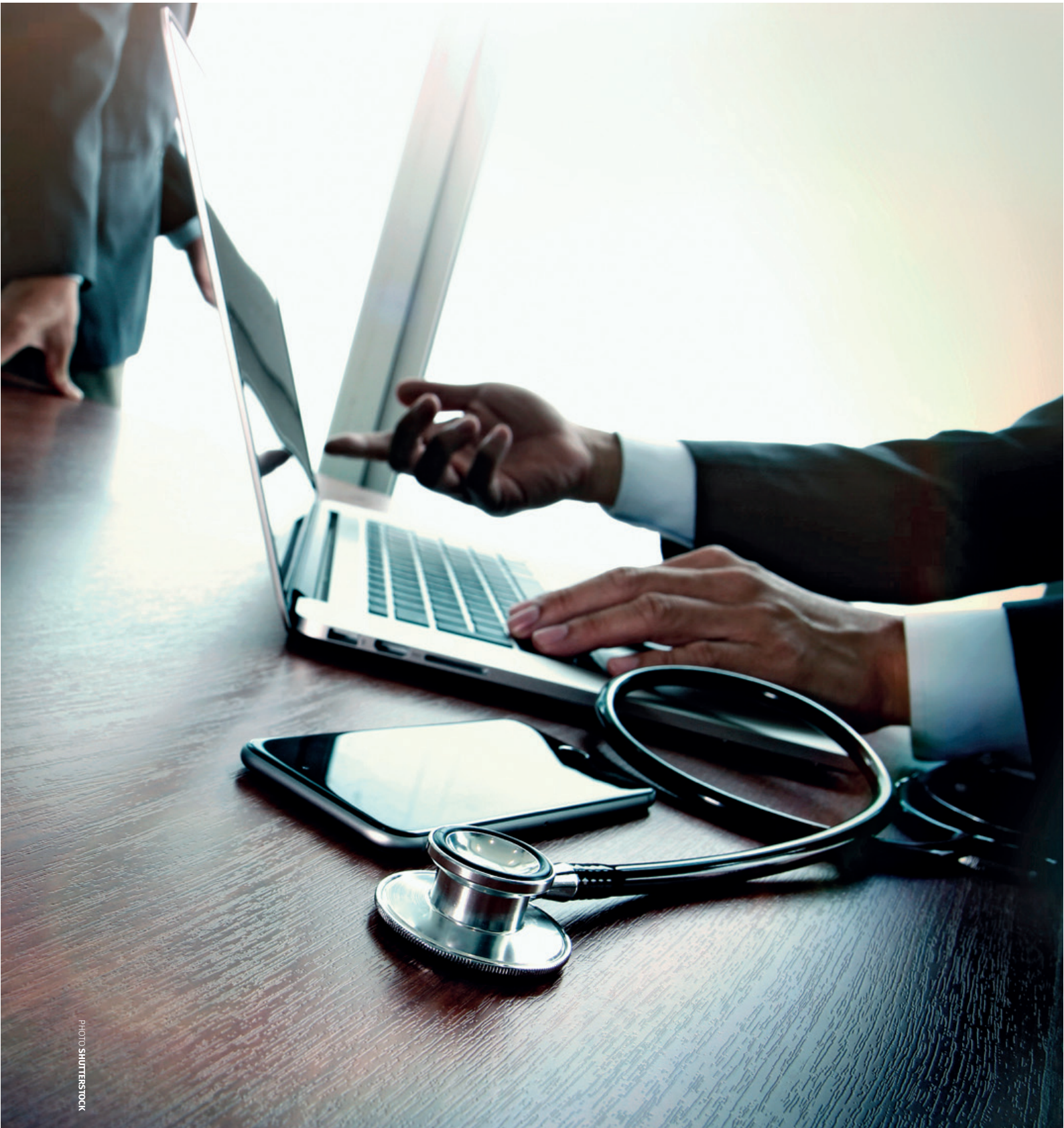
A list of firms categorised as related to the healthcare sectors was extracted from the Singapore Exchange. We focused on a sample of firms with a smaller market capitalisation, that is, between S\$30 million and S\$300 million. We extracted a sample of 15 such firms and studied their annual reports from FY2016 to FY2020. There are a total of 55³ business combinations with data.

Our findings show an average of 82.62% of the PC was allocated to goodwill and an average of 7.65% of the PC was allocated to intangible assets. Forty-nine per cent of the transactions has at least one identifiable intangible asset. The most common category of intangible assets is customer-related and includes customer contracts and customer relationships.

Table 1 summarises the descriptive statistics regarding the percentage of PC allocated to intangible assets and goodwill. Table 2 shows the percentage of business combinations in the respective range of intangible assets and goodwill as a percentage of PC.

Compared to the sample of acquisitions in the US healthcare sector in the Houlihan Lokey 2018 Study, our findings on the Singapore healthcare sector show a relatively higher allocation of PC to goodwill and a relatively lower allocation of PC to intangible assets. One potential reason could be the difference in sample and sample size. Houlihan Lokey examined the entire healthcare sector with available data while we examine the list of healthcare firms within a certain

² Basis for Conclusions for IFRS 3 Business Combinations paragraphs BC313-BC 316.
³ There is one business combination where the entity used the fair value method to determine the non-controlling interests (NCI). We removed this data point resulting in 55 total data points. The other business combinations with NCI used the proportionate share method.
⁴ The acquiree company was in a negative net asset position.



market capitalisation with available data. Another possible reason for the high allocation of PC to goodwill in the Singapore healthcare sector may be due to the more optimistic revenue growth rates used, resulting in higher PC. A report by Bain & Company states that the developing Asia-Pacific healthcare landscape is expected to “represent more than 40% of growth in global healthcare spending over the next decade – expanding at a rate almost double that of the rest of the world”.⁵ This may explain the more optimistic expected revenue growth rate used for the Asia-Pacific region.

Next, we examine the extent of the disclosures on the goodwill arising from the business acquisition. The following observations are made:

- 1) Even though it is a requirement per SFRS(I) 3 to provide a brief description of what the goodwill represents, only 12 of the 15 companies did so. The other three companies did not comply.
- 2) Seven companies described the goodwill as only representing the expected synergies and benefits from the business combination. No mention was made of the internally generated goodwill and intangible assets that do not qualify for separate recognition in the acquiree.
- 3) Three companies described the goodwill as representing both the expected synergies and benefits from the business combination as well as tapping on the workforce expertise of the acquiree.
- 4) One company described the goodwill as representing both the expected synergies and benefits from the business combination, tapping on the workforce expertise and brand name of the acquiree.
- 5) One company described the goodwill as representing both the expected synergies and benefits from the business combination, and the anticipated profitability from the acquiree.

In general, not all firms comply with SFRS(I) 3 paragraph 64(e). Where the firms comply, the description on the nature of the synergy is generic and brief. For example, one of the larger firms in our sample made an acquisition in 2019, reported a very high allocation

⁵ “Asia-Pacific Front Line Of Healthcare Report 2020”. Bain & Company, Inc.
⁶ “Business Combinations – Disclosures, Goodwill And Impairment”. IASB Discussion Paper, paragraph IN4.



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... our findings on the Singapore healthcare sector show a relatively higher allocation of purchase consideration to goodwill and a relatively lower allocation of purchase consideration to intangible assets.

of PC to goodwill and disclosed in the notes to the accounts: “The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the Group’s existing healthcare business.”

Given the relatively high percentage of PC allocated to goodwill as observed in our sample, if the acquirer does not provide additional information on the goodwill, it is no surprise that the sentiment about goodwill is rather negative. Firms could improve on their goodwill disclosures as follows:

- (a) Identify and disclose intangible assets of the acquiree that do not meet the identifiability criterion. Examples are workforce expertise, customer list and distribution network.
- (b) Regarding the expected benefits and synergies arising from the business combination, firms should consider providing some discussion on the expected source of the synergies. Examples are synergies expected to arise from economies of scale, from cross-selling opportunities and/or from broadening of their product and service portfolio/network.

RECENT PROPOSALS BY IASB

Given that entities are using a substantial part of the PC to pay for goodwill, it is critical that investors have the necessary information to decipher what the entities are buying. Investors need information to decide if the price for the acquisition was reasonable and if the acquisition has been successful.⁶

In March 2020, IASB issued Discussion Paper “Business Combinations – Disclosures, Goodwill and Impairment” to explore whether companies can “provide investors with more useful information about the acquisitions those companies make”. The information can then help

investors “assess the performance of companies that have made acquisitions... (and) more effectively hold a company’s management to account for management’s decisions to acquire those businesses”.

IASB’s preliminary view as stated in paragraph IN20 of the discussion paper is that companies should be required to disclose:

- (a) Management’s objectives for an acquisition;
- (b) The metrics that management will use to monitor whether the objectives of the acquisition are being met;
- (c) The extent to which management’s objectives for the acquisition are being met in subsequent reporting periods, using those metrics, and
- (d) Other information, reflecting possible targeted improvements to the disclosure objectives and disclosure requirements of IFRS 3.

CONCLUSIONS

The data gathered based on a sample of 55 business combinations by 15 healthcare companies showed that an average of 82.62% of the PC was allocated to goodwill. Yet, disclosures on what the goodwill represents is brief and tends to be generic. We believe that proposing an improvement in disclosure requirements for SFRS (I) 3, subject to information costs, would help investors better understand the nature of the goodwill that companies are buying, assess whether the acquisition price is reasonable, and provide a benchmark to assess whether an acquisition is indeed a successful acquisition. ISCA

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BY FELIX WONG

CLEARING THE AIR ON THE “TAX TRANSPARENCY AGENDA”

A Focus On Tax Transparency And Governance

“TRANSPARENCY” IS THE EMERGING TAX BUZZWORD. As the authorities, the media and the public set their sights on tax, it is critical for corporations to proactively manage their tax disclosures and reputations. Business-as-usual is no longer enough.

WHAT IS TAX TRANSPARENCY AND GOVERNANCE?

Transparency, plainly defined, is the condition of being easy to perceive. When used in the context of tax, it suggests that a business should report its taxes in a manner that visibly and faithfully reflects its practices. Exploitation of legal loopholes and profit-shifting practices to lower tax jurisdictions have lost their lustre; accountability and accurate disclosure of information are strongly advocated.

Governance, on the other hand, refers to the manner of governing an organisation. In Australia, the tax authority defines tax governance as having clear controls and processes within the organisation’s corporate governance framework to support tax decision making and manage tax risks¹.

“Tax transparency and tax governance are intricately linked. Building effectiveness within and confidence around a company’s tax governance is key to fuelling the tax transparency agenda,” shared Accredited Tax Advisor (Income Tax) Brendan Egan, Tax Partner at PwC Singapore, at a webinar organised by the

¹ATO (n.d.) “Tax Governance For Privately Owned Groups”. ATO, Government of Australia.



Accredited Tax Advisor (Income Tax)
Brendan Egan, Tax Partner at PwC Singapore,
walked participants through the discussions surrounding tax transparency

Singapore Chartered Tax Professionals. “Strengthening one’s compliance capabilities will allow a company to consistently deliver the correct tax outcomes and consequently, mitigate the financial and reputational risks arising from potential tax disputes.”

THE GENESIS OF THE TAX TRANSPARENCY AGENDA

Before 2000, tax transparency and governance would rarely (if at all) make it to the board agenda. The dawn of the 21st century witnessed major corporate financial scandals and sweeping regulatory enactments such as the Sarbanes-Oxley Act designed to strengthen corporate governance and accountability across multiple aspects of corporate business practice.

These would be followed by the SARS epidemic in 2003, the Global Financial Crisis in 2007-2009, the MERS outbreak in 2012, and the ongoing



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Covid-19 pandemic. To manage these crises, governments around the world scrambled to deploy support measures and fiscal stimulus while they literally watched their tax bases contract. In need of more revenue to fund their economic policies, governments turned their attention to large multinational corporations (MNCs), particularly those with extremely low global effective tax rates, in search of the next “pot of gold” (tax dollars). Improved tax transparency was called for, to scrutinise MNCs’ tax positions.

THE STAKEHOLDERS DRIVING THE TAX TRANSPARENCY AGENDA

Several key players stood at the forefront of the tax transparency agenda – international forums, tax authorities, non-governmental organisations (NGOs), the media, and investors.

International forums

International forums provide powerful platforms for countries to come together to discuss tax issues and have been imperative in setting the basis and tone for the tax transparency agenda. One example is country-by-country (CbC) reporting, which emerged from the Organisation for Economic Co-operation Development (OECD)’s Base Erosion and Profit Shifting (BEPS) initiative².

More recently, the G7 nations have agreed at the 2021 G7 Summit to work towards a global minimum corporate tax rate. This provided the much-needed impetus and political support for the ambitious international tax reform to counter base erosion and profit shifting, eventually nudging 130 countries and jurisdictions into joining the new framework for international tax reform.

Tax authorities

As the administrators of tax, tax authorities are naturally key to the tax transparency agenda. Improved tax transparency and the standard of reporting empower tax authorities to adopt risk-based assessments, focus resources on high-risk areas, and identify any red flags of tax avoidance or evasion.

² OECD (n.d.) “Action 13 Country-By-Country Reporting”. OECD.
³ GRI. “GRI 207: Tax Standard 2019 Factsheet ”. 18 Sept 2020. GRI.
⁴ GRI. “Comparison Of GRI 207: Tax 2019 & OECD Action 13 BEPS Country-By-Country Report”. 18 Sept 2020. GRI.



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Tax transparency and tax governance are intricately linked. Building effectiveness within and confidence around a company’s tax governance is key to fuelling the tax transparency agenda.

NGOs

Certain NGOs have consistently lent their voices to calls for measures against tax avoidance, tax havens and financial secrecy around the world through research and analysis on the efficacy of current proposals by countries or international forums.

Media

The media has been a driving force of the tax transparency agenda. Apart from coverage of tax developments, investigative journalism has galvanised the agenda into action on occasion, following the public disclosures that provided shocking revelations into the vast network of tax havens involving high-profile individuals and corporations across the world.

Beyond the traditional media, social media platforms have also contributed to heightened awareness of tax transparency and governance. Public indignation and uproar over tax scandals can translate into public boycott on the perceived culprits.

Investors

Investors have been stirring the next wave in the tax transparency and governance agenda. Cognisant that a corporation’s long-term success is not limited to its economic viability, investors are increasingly savvy about the importance of tax in the overall corporate strategy and sustainability objectives and have progressively pushed for better tax disclosures.

ESG AND GRI

Emerging from the focus on extractive industries is the concept of environmental, social and governance (ESG) reporting. While the original ESG proponents focused mainly on environment factors, there has been an increased emphasis on other social

factors, including the role of tax in the context of corporate strategy and sustainability objectives.

ESG is now providing another framework for tax transparency, in areas such as governance structures, transparency in disclosures, investor/ shareholder rights, and fair and legal business operations. Through such sustainability reporting, insights into a corporation’s tax strategy and practices are publicly released for investors’ consideration. As a consequence, ESG is propelling discussion on tax transparency and governance into the boardroom.



- ESG is providing another framework for tax transparency
- Sustainability reporting provides investors with insights into a corporation’s tax strategy and practices

The Global Reporting Initiative (GRI) is a widely adopted standard for sustainability reporting that encourages voluntary disclosure of a company’s ESG activities. Specifically, the GRI 207 focuses on public reporting on tax. This includes management’s perspective towards disclosures relating to the corporation’s approach to tax, tax governance, controls, and risk management, as well as the reporting of financial, economic, and tax-related information for each jurisdiction in which the corporation operates³.

Comparing the GRI with OECD’s guidelines in augmenting tax transparency, it must be noted that they are different in certain aspects⁴. Under OECD BEPS Action 13, CbC reporting is to tax administrations, and mandated for multinationals with consolidated group revenues of more

than €750 million. On the other hand, voluntary reporting by any organisation adopting the GRI 207 is accessible not only to revenue authorities, but also to the public. “Without a single consolidated global tax body, the standards will not always gel,” Mr Egan noted.

Ultimately, the divergence in reporting requirements can be attributed to inherent differences in purpose.

CHECKLIST FOR TAX TRANSPARENCY AND GOVERNANCE

Essentially, each organisation should have a set of customised tax policies that caters to its specific needs and endorsed by the board. These tax policies should in turn be supported by a tax control framework to ensure that the tax objectives are met. It should be noted that the tax control framework need not be built entirely from scratch; existing benchmarks (such as tax authorities’ corporate governance guidelines) can be referenced and adapted to the organisation’s own practices and policies. Governance can be built around the tax controls framework and tax transparency matters may be incorporated into the agenda. Information to be disclosed to tax authorities or the public can then be corroborated and confirmed with these existing controls.

- Have a set of customised tax policies
- Tax policies should be supported by a tax control framework
- Tax control framework can be adapted from existing benchmarks

For the tax transparency and governance framework to work, it is critical to institutionalise a formal reporting mechanism (of material tax issues) to the board. Otherwise, the board will not be in a position to make informed decisions regarding the organisation’s tax matters. In this regard, companies may consider consolidating a semi-annual or annual report on the significant tax issues to ensure that the board maintains effective oversight of the organisation’s tax strategy.

BENEFITS OF TAX TRANSPARENCY

Corporate tax transparency and effective governance has its benefits for



More recently, the G7 nations have agreed at the 2021 G7 Summit to work towards a global minimum corporate tax rate. This provided the much-needed impetus and political support for the ambitious international tax reform to counter base erosion and profit shifting, eventually nudging 130 countries and jurisdictions into joining the new framework for international tax reform.

governments, shareholders, the society and even the environment. However, this does not mean that corporations are excluded as accountability and responsibility are not a one-sided equation. With many tax authorities moving towards a cooperative approach, corporations are better able to manage their tax risk through a strong governance framework and an enhanced relationship with the tax authorities.

Corporations should also consider how the appropriate level of public disclosure on tax can fulfil and enhance their corporate responsibilities. Analysing and presenting the contribution that the organisation

makes to the countries it operates in can promote confidence and credibility in the organisation’s business practices both within and outside the company.

CONCLUSION

By building an appropriate tax governance and controls framework, corporations will be well placed to position and support not only the corporation’s tax transparency agenda but also the wider corporate disclosure agenda. ISCA

Felix Wong is Head of Tax, Singapore Chartered Tax Professionals



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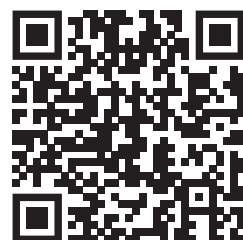
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