IS Chartered Accountant Journal

JANUARY 2021

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focus

2021

What Lies On The Horizon

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

When The Going Gets Tough, Just Keep Going

Dear members,

HAPPY NEW YEAR! I hope 2021 brings new hope and fresh beginnings as we gear up for the months ahead.

2020 was a difficult year, with Covid-19 ravaging economies worldwide. In Singapore, the government unveiled five Budgets, committing close to $100 billion to save lives, help workers and prop up businesses affected by the pandemic. ISCA, too, ramped up efforts to support members. For example, professional education and training sessions went virtual, and more e-courses were added to our online content. Boosting our library of online resources was also part of the Institute's digital transformation efforts, which commenced before the pandemic. In particular, ISCA will continue to expand the repertoire of digital finance courses relevant to accountancy, to meet upcoming demand.

Given the critical role of Finance in addressing pandemic-related disruptions, and the increasingly strategic part played by finance leaders in their organisations, members need to acquire the most pertinent digital finance competencies to do their jobs better. To support members, the Institute is developing a course on data storytelling and visualisation for accountants who prepare management reports or are in financial planning and analysis roles, so that they can apply data visualisation techniques to effectively deliver insights and data findings. Look out for the launch of our new data analytics course in early 2021.

The growing reliance on technology brings with it new concerns including those surrounding cyber security and compliance. To this end, ISCA will be launching the second track of the ISCA Compliance Certificate – Information Systems Risk Management (ISRM) Certificate, for professionals who would like to gain an appreciation of information systems security, risks and controls. This certification puts participants on track for the ISACA CRISC (Certified in Risk and Information Systems Control) Certification, and comes on the back of the first track – ISCA Personal Data Protection Act Compliance Certificate – introduced last August.

Also on ISCA's agenda this year are studies featuring salient topics like accountants and the future of work; artificial intelligence in finance functions, and the emerging or in-demand services in different ASEAN countries. I encourage members to tap on the insights when the reports are published, to enhance your competitive advantage.

In addition to supporting members in their professional development, the Institute bolstered its career support initiatives to help members in their hiring and employment needs, and extended an assistance package valued at up to $3.6 million; these were covered in the December article, "2020: Year In Review". We are now working on an ISCA Support Fund to curate targeted support schemes that will provide more comprehensive assistance to members and firms, to help them weather the economic uncertainties. Find out what else we have in store for you in the cover story, "2021: What Lies On The Horizon".

There is a saying that goes, "When the going gets tough, the tough get going." But the reality, for us, is, "When the going gets tough, *just keep going*", because there was no pause and no halt in the way we did, and are doing, things. The outbreak did not stop the Institute from delivering training to our members; neither did our members take a break from their personal professional development. Significantly, the Institute's signature Singapore Accountancy and Audit Convention (SAAC) Series brought together specialists and veteran professionals who shared their expertise with large numbers of participants, indicating the positive attitude and commitment towards learning, even in tough times. We have here the highlights in "ISCA Practitioners Conference" – the final event of the SAAC Series 2020.

Technology opens doors and in this month's Member Profile column, Maria Teo, 33, is testimony that with the right attitude, experience and knowledge, a young accountant can establish a niche in her preferred area of specialisation; in Maria's case, it is financial forensics. Young accountants with the aptitude and interest in nascent areas of high potential can explore ISCA's specialisation pathways, to gain an edge in their career progression.

Last year, we weathered many storms together. Although we cannot predict how many storms will darken the skies in the coming months, my advice to you is, when the going gets tough, do not stop; stand tall and just keep going. The Institute is committed to walking with you all the way.

Kon Yin Tong
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WINNER / GRAND AWARD, APEX 2020

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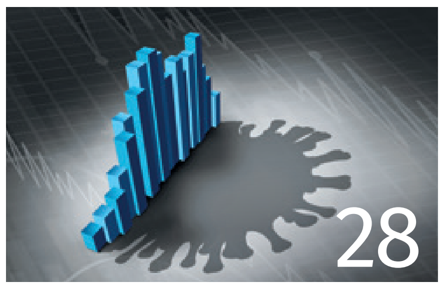

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A Glimpse Into Singapore's Future Economy

SINGAPORE IS FACING ONE OF THE GREATEST CHALLENGES in recent times as Covid-19 wreaks havoc on the society, economy and infrastructure. Recognising that there will be no return to the old normal, the Emerging Stronger Taskforce (Taskforce) was set up in May 2020, to prepare the nation for a different future.

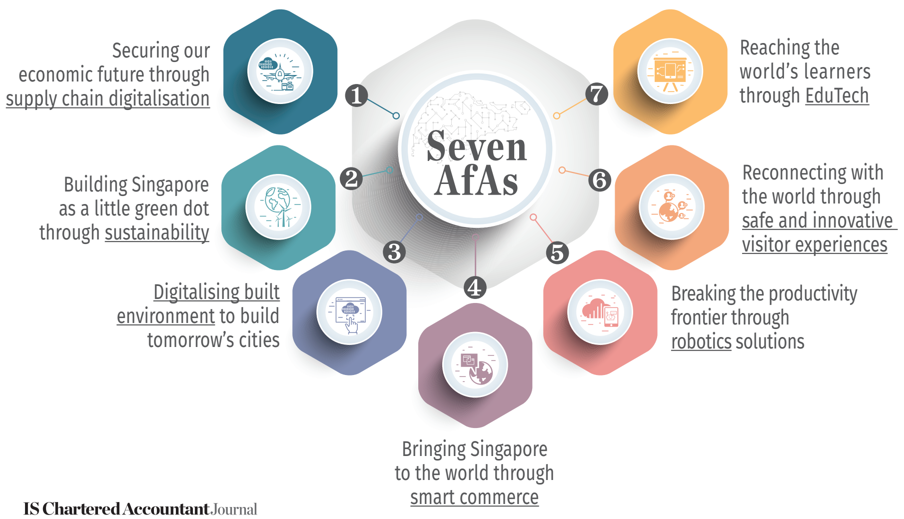
For Singapore to remain relevant and resilient in the changing global economy, the Taskforce has been guided by two themes that must underpin Singapore's future economy, namely, a Singapore that is connected, and a Singapore that is sustainable.

In June 2020, the Taskforce convened seven Singapore Together Alliances for Action (AfAs) (Figure 1). AfAs are industry-led coalitions, working in close partnership with the government, to act on key growth opportunities. "The emphasis is on taking quick action to prototype solutions and to concurrently explore ways to scale viable solutions across our economy and beyond," explains Deputy Prime Minister Heng Swee Keat, who is Coordinating Minister for Economic Policies, Minister for Finance, and Chairman of the Future Economy Council.

PHOTO SHUTTERSTOCK

As of November 2020, the seven AfAs have reached out to over 300 industry stakeholders including businesses, trade associations and chambers, and government agencies. For example, the AfA on Supply Chain Digitalisation has conducted around 30 workshops and engagements, connecting with more than 100 stakeholders.

Figure 1 A glimpse into Singapore's future economy



Although the seven AfAs cover different sectors, a common theme running through them is the use of digital technologies to strengthen the companies and sectors, enhance Singapore's competitiveness and expand its markets and reach. "Digitalisation will allow us to transcend our size, geography, and limitations. Our businesses will have unlimited possibilities in the rest of the world. Our ambition is to be Virtually Unlimited Singapore, and to achieve that with inclusivity, and with leadership in sustainability," says Group CEO of PSA International Tan Chong Meng, Co-Chair of the Taskforce.

According to Minister for National Development and Minister-in-charge of Social Services Integration Desmond Lee, Co-Chair of the Taskforce, the agile approach to public-private collaboration (AfAs) has enabled all stakeholders to "align our goals, experiment and change course quickly, and act together". He adds that "in a more competitive world, this collaborative Singapore Together spirit of our government, businesses, and workers will be Singapore's hallmark and competitive advantage".

CFOs To Play A More Critical Role Beyond Covid-19

THE CHIEF FINANCIAL OFFICER (CFO) WILL EMERGE AS ONE OF THE C-SUITE'S MOST CRITICAL ROLES IN REFRAMING THE FUTURE OF THE ENTERPRISE BEYOND COVID-19, according to the 2020 EY "DNA of the CFO" survey (EY survey), which garnered the views of over 800 global CFOs and senior finance executives.

Describing their future priorities, 86% of respondents say they will be required to protect their organisation today, while enabling future growth. At the same time, 84% agree that achieving a balance between short-term results and creating long-term value will be a priority. This will also include traditional mandates such as corporate reporting, along with new ones like overseeing digital transformation.

"Senior finance leaders need to look beyond solving today's major issues or even what lies ahead in the near-term future," says Myles Corson, EY Global Strategy and Markets Leader for Financial Accounting Advisory Services. "Instead, they need to imagine what finance could look like five years from now. The perception of finance as a risk-averse, cost-conscious team with a back-office mindset will be a thing of the past, with finance defined by a value-focused culture that's aligned with enterprise purpose."

Findings from another survey also show that CFOs are expected to take on greater strategic and enterprise-building roles after guiding their organisations through the challenges of Covid-19. The report, "Leading the Way through Critical Times" (FTI survey) by FTI Consulting in collaboration with CFO Research, Argyle Advisory & Research Services, recorded the responses of 325 corporate finance executives, to better understand how CFOs and the finance function drive enterprise value. "In a post-pandemic world, there will be no substitute for solid planning and leadership, and finance's role in driving change across enterprise will be critical in thriving in future disruptions and shaping the organisation for success," says Gina Gutzeit, Leader, Office of CFO Solutions, FTI Consulting.

CFOs as stewards of long-term value

In a shift mirroring market trends in 2020, CFOs in the EY survey recognise the importance of a purpose-driven strategy, with 82% of respondents saying that they are increasingly seen by key stakeholders as the stewards of long-term value. In addition, 79% of respondents say that investors are increasingly requiring much more information on how their organisation creates long-term value for all stakeholders, while 81% believe there is significant value for their organisation that is not measured or communicated using financial KPIs.

With the changing business landscape, "it is imperative that finance professionals take the lead in integrating financial and non-financial performance through an enterprise-wide framework for value creation that embraces how crucial intangible assets – including talent, brand, innovation and culture – contribute to long-term value creation," Mr Corson iterates.

PHOTOS **GETTY IMAGES**

The FTI survey reveals that CFOs are leading the way in the efficient delivery of functional services. Having experienced the disruption caused by the pandemic – more than 40% respondents say it had significant impact on cost management, financial planning and analysis, and budgeting and forecasting, while more than a third say risk management, treasury and working capital management, technology adoption, and accounting and financial reporting were significantly impacted – finance models are headed for a change post-Covid-19. Of note, CFOs should ensure that the refreshed finance strategies have the vision and capability to proactively address business-cycle volatility, lead enterprise performance management and create value across the enterprise.

Rethinking finance

The EY survey reveals that the performance of markets is fundamentally changing. New virtual markets are emerging as platform-based giants connect buyers and sellers in a more seamless way, and new technologies converge to eliminate even more inefficiencies and frictions.

A more fluid operating model that extends beyond the enterprise's four walls will likely be a key factor in enabling finance to play a central role in the connected markets of the future. More than three-quarters (77%) of respondents believe that by 2025, finance IT will be cloud-native rather than on-premises, and 74% believe the function will be part of a blockchain-based ecosystem. The finance function would likely become more open, working as part of an extended ecosystem, in deeper collaboration both within the organisation and also externally.

Collaboration, in the form of outsourcing and shared services, is already a part of finance's day-to-day processes. In the FTI survey, 89% of respondents indicate that they use global business services, business process outsourcing or captive shared services to execute finance processes. While they leverage the latest technologies to deliver timely, accurate and relevant information, the survey results suggest that automation has not reached its full potential in most organisations. This will be an area that is expected to see further growth.

Looking ahead, the CFO is well positioned to take on more responsibilities and lead the way as an enterprise value creator. The finance function's ability to provide insights on predictability in an ambiguous market will guide company decisions on cost, working capital, liquidity, risk and capital markets.

Singapore Companies Attain Highest Average Score In ASEAN Corporate Governance Scorecard

SINGAPORE PUBLICLY LISTED COMPANIES HAVE IMPROVED SIGNIFICANTLY IN CORPORATE GOVERNANCE. In the latest ASEAN Corporate Governance Scorecard (ACGS), Singapore companies scored 88.3 out of 130 points on average, the highest score to date.

SATS, the chief ground-handling and inflight catering service provider at Changi Airport, is the top scorer with 119.7 points under the top 100 Singapore companies.

The biennial ACGS is part of an initiative under the ASEAN Capital Markets Forum, a grouping of capital market regulators. National University of Singapore (NUS) Business School's Centre for Governance, Institutions and Organisations, and Singapore Institute of Directors (SID) were appointed by the Monetary Authority of Singapore as Singapore's domestic ranking body for the ASEAN Corporate Governance Initiative since 2013. ACGS 2019 was unveiled on 14 December 2020.

PHOTO SHUTTERSTOCK

Singapore, Indonesia, Malaysia, Thailand, the Philippines and Vietnam participated in the latest assessment. The domestic ranking bodies each assessed a list of top 100 publicly listed companies by market capitalisation in their jurisdictions. The top 35 companies from each country underwent peer review assessment randomly by the domestic ranking bodies of the other countries. The final scores of these companies were derived after discussion by the ranking bodies. This produced a list of companies in ASEAN that had achieved a minimum score of 75% of 130 points, a list of the top 20 companies in ASEAN, and a list of the top three companies in each country.

Singapore companies put in a strong showing, with more than a quarter (26 companies) scoring at least 75% of the total attainable 130 points.

ASEAN Corporate Governance Scorecard 2019: Singapore Rankings (Top 10)

Ranking	Company name	Award category	2017 Ranking[1]
1	**SATS Ltd**	Top 3 Singapore PLCs Top 20 ASEAN PLCs ASEAN Asset Class[2]	11
2	**United Overseas Bank Ltd**	Top 3 Singapore PLCs Top 20 ASEAN PLCs ASEAN Asset Class	5
3	**Singapore Exchange Ltd**	Top 3 Singapore PLCs Top 20 ASEAN PLCs ASEAN Asset Class	4
4	**Singapore Telecommunications Ltd**	Top 20 ASEAN PLCs ASEAN Asset Class	1
5	**Oversea-Chinese Banking Corporation Ltd**	Top 20 ASEAN PLCs ASEAN Asset Class	8
6	**Singapore Press Holdings Ltd**	ASEAN Asset Class	7
7	**DBS Group Holdings Ltd**	ASEAN Asset Class	3
8	**ComfortDelGro Corporation Ltd**	ASEAN Asset Class	18
9	**Keppel Corporation Ltd**	ASEAN Asset Class	–
10	**Sembcorp Industries Ltd**	ASEAN Asset Class	6

[1] 2018 was a gap year and no assessment was conducted.
[2] ASEAN Asset Class refers to the class of companies in ASEAN that achieved a minimum score of 97.5 points (75% of the total 130 points achievable) in ACGS 2019.

Top 10 Singapore scorers

The top 100 Singapore companies assessed had a combined market capitalisation of S$484 billion, which accounted for almost half of the Singapore Exchange (SGX)'s total market capitalisation as of 31 March 2019. The top five companies were also among the top 20 ASEAN publicly listed companies.

According to John Lim, Chairman of SID's Corporate Governance Benchmarks Committee, there has been a "significant improvement in average scores for Singapore's top 100 companies in the latest assessment". However, Singapore companies should be able to "do even better with greater disclosures of their corporate governance practices. Good disclosure is one area where we appear to have lagged some of our ASEAN colleagues in recent years".

Cheerful Hiring Outlook For Singapore In 1Q2021

SINGAPORE EMPLOYERS HAVE REPORTED THE STRONGEST HIRING OUTLOOK IN SIX YEARS, FOR THE FIRST QUARTER OF 2021. This was revealed in the "ManpowerGroup Employment Outlook" report released in December last year.

The Singapore insights were part of ManpowerGroup's survey of over 37,500 employers across 43 countries and territories, on the hiring prospects in the first three months of the year. In Singapore, a representative sample of 476 employers were asked the same question as their global counterparts: How do you anticipate total employment at your location to change in the three months to the end of March 2021 as compared to the current quarter?

Respondents in Singapore were largely positive about their hiring plans for the first quarter (Figure 1), with 19% expecting to increase payrolls; 4% to decrease, and 66%, unchanged. Net employment outlook came out at 15%, seasonally adjusted.

Employers anticipated workforce gains in all seven industry sectors for the first quarter (Figure 2), led by the upbeat figures from the Mining and Construction sector (26%), Services (18%), and Transportation and Utilities (17%). These were followed by steady hiring from Public Administration and Education (14%), and Manufacturing (12%), and gains from Wholesale and Retail Trade (10%), and Finance, Insurance and Real Estate (8%). Across all sectors, hiring prospects had improved from the prior quarter. Compared to the same period a year ago, employers reported stronger hiring sentiment in five of the seven industry sectors, with the exceptions of Finance, Insurance and Real Estate, and Public Administration and Education.

In the Finance, Insurance and Real Estate sector, given the fair hiring climate indicated by the four percentage point increase over the previous quarter, jobseekers should also note that the figure represented a five percentage point decrease year-over-year.

PHOTO GETTY IMAGES

Figure 1 Singapore employment outlook, by quarter

	Increase (%)	Decrease (%)	No change (%)	Net employment outlook (%)	Seasonally adjusted (%)
Jan to Mar 2021	**19**	**4**	**66**	**15**	**15**
Oct to Dec 2020	7	10	73	-3	-2
Jul to Sep 2020	11	38	46	-27	-28
Apr to Jun 2020	13	4	77	9	9
Jan to Mar 2020	13	5	79	8	8
Oct to Dec 2019	13	8	77	5	6

Source: ManpowerGroup Employment Outlook Survey

Figure 2 Singapore employment outlook for 1Q2021, by sector

Source: Seasonally adjusted figures from ManpowerGroup Employment Outlook Survey

MARK YOUR CALENDAR

25 JAN

Operational Risk Management - More than Just Compliance in the Post-Covid19 World (Live Webinar)

This workshop takes a pragmatic approach to comprehend the expansive scope of operational risks encountered in various industries and the evolving disruptive nature of the business landscape (and emerging risks such as pandemics) coupled with ever changing cyber and production/consumer behaviours.

29 JAN

Transform to Perform for Finance Leaders (Live Webinar)

The aim is to prepare Finance Leaders to handle the various challenges they face in leading teams throughout their career. This workshop involves self-reflection and support skill development dialogue through interactive role-playing, self-assessment measures, group discussions, exercises, and interactive lectures.

As leadership styles are uniquely individual and situational, these activities are designed to enhance each participant's development of their own unique leadership capabilities

17 FEB

ISCA Breakfast Talk - Finance Disrupted: Industry Preparedness Index and Looking Ahead (Live Webinar)

Join us in this breakfast session, as Tan Lee Thong, CFO Practice Lead Asia, Workday share their findings on the impact of the global pandemic on businesses and specific industries from the finance perspective.

Find out where you stand within the Industry Preparedness Index and stay ahead of the curve as he shares the future trends and opportunities within the APAC region with insights from the study.

27 & 28 JAN

A hands-on approach towards Data Analytics (for Accountants and Analysts)

Data Analytics (DA) is a process that involves multiple stages needed to turn data into insights. While data analytics does involve technologies, a successful DA project requires far more considerations than that.

Learn how to perform an analytics project on how Obtain an understanding on data structure and the tools and more!

08 FEB

Financial Reporting Standards: 2021 Annual Update (Classroom)

UTAP Funding approved

To discuss the provisions of the new/revised Financial Reporting Standards issued by the Accounting Standards Council and effective for the years 2018, 2019 and 2020.

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For more details, visit www.isca.org.sg

isca breakfast talk

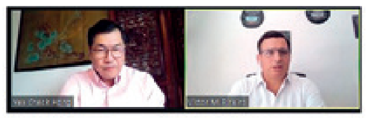
Fighting Fraud in The Post-Covid-19 World – Is Technology The Solution?

THERE IS SIGNIFICANT MISMATCH IN EXPECTATIONS OF THE ROLE OF AUDIT. Each time a fraud is discovered, especially after a clean audit, investors clamour that the auditor has failed. Auditors would respond that fraud detection is not part of their professional duty of care. Reckoning whether it is their duty to also detect fraud is important to the relevance of audit – this at a time when the nature of fraud is changing, making it harder to detect, said Victor Pineiro, Managing Director APAC, Confirmation, at the ISCA Breakfast Talk webinar on 11 November 2020. Additionally, business models are becoming more complex, and fraudsters use technology to produce fake websites, documents and digital signatures. Remote work is also a contributor, making internal oversight and controls slower and more difficult.

This gives rise to the question: Are traditional audit practices and tools up to these challenges? General assessment is that many firms are not prepared, both technologically and culturally, according to a Confirmation report, "Uncovering Fraud in the Age of Covid-19: 5 insights to help audit firms meet their responsibility to detect fraud". Even though the audit process has seen some digitalisation, fundamentally, the way an audit is conducted has not changed significantly, and there is a need to better integrate technology into the audit process.

Today's technology makes fraud detection faster, easier and more complete. The use of robotics and APIs reduces manual or incorrect entries. Data analytics and artificial intelligence enable full population coverage, better identify anomalies, drive sample selection and highlight key risk areas. Blockchain technology and Open Banking provide more transparency. All these raise efficiency and effectiveness and allow more time for professional judgement in an audit. The right technology can significantly streamline routine audit tasks while helping the auditor perform the more expert analysis required for fraud detection. But firms need to move more quickly and embrace technology more fully. The digital platform offered by Confirmation, for example, helps audit firms save time and money with online management of audit confirmations, provides a closed and secure channel, and better detects fraud.

It is also important to remember that technology is only an enabler, and there are things that technology cannot do, said Mr Pineiro. The human element is still crucial in uncovering financial crimes, and the need continues for the auditor to scrutinise, for example, related party transactions, manipulation of consensual rules in blockchain, or even authenticity of digital transactions or documents.



Speakers from Confirmation (from left) Yee Cheok Hong, Country Head – Singapore and Malaysia, and Victor Pineiro, Managing Director APAC, shared insights from a report on how audit firms can meet their responsibility to detect fraud

Noteworthy frauds

luckin coffee: False sales of 300 million are being investigated on the part of its former COO. Stocks plummeted 83% after it was revealed more than **$300 million** lost in fraudulent revenue.

nmc health: NMC healthcare group admitted net debt was twice what it had disclosed, after it found almost **$3 billion** of borrowings hidden from its board that had been used for unknown purposes.

PATISSERIE VALERIE Est. 1926: Patisserie Valerie fell into administration after a black hole in its accounts worth **£94 million** was unearthed amid accusations of fraudulent activity that hid its existence.

parmalat: Europe's largest fraud - **$4.9 billion** fake confirmation – The two accounting firms involved were both sued for $10 billion; Investors lost billions. Banks lost $2.5 billion in unsecured debt.

CONFIRMATION Part of Thomson Reuters

BY KON YIN TONG

2021

What Lies On The Horizon

2020 WAS AN UNFORGETTABLE YEAR FOR MANY OF US. It was a potent cocktail of issues spanning politics, healthcare, economics and the community. As I look back and ponder on what makes 2020 unforgettable, the words that inevitably come to mind are: circuit breaker, lockdown, work from home, quarantine, safe distancing, anxiety, uncertainty, stress, recession, job losses, retrenchment and bankruptcy. These words have become part of our everyday vocabulary that even school-going children are now well acquainted with many of them. Disruption is the order of the day – it is a stark reality that has beset us.

The highlight of 2020 is undoubtedly the Covid-19 pandemic. Covid-19 has red-carded most things. It is not business as usual and the goalposts have shifted. It has drastically altered how we live, work and play. A fashionable or high-tech face mask is now the newest accessory to complement the ubiquitous mobile phone. Going out for a leisurely walk and socialising at gatherings were things I took for granted before the pandemic, and I am thankful that technology has enabled me to catch up with family, friends, colleagues and clients (some of whom I have not met in person for at least eight months!) via online conferencing platforms and social media. It feels really strange "speaking" to an inanimate camera and I think I should have gotten used to it by now, but I haven't. While working from home may be more flexible, it sometimes feels more like living at work, as some of you have said to me.

Last year, what really resonated with me were the themes of the Budgets, where close to $100 billion were committed by the Singapore government to save lives, help workers and prop up businesses affected by Covid-19. What ISCA strives to deliver to our members amid the pandemic mirrors these themes. Let me share the lineup of some of the new initiatives we have in store for you in 2021.

... the Institute will stand united and walk hand in hand with members and the profession through the difficult journey ahead. We have drawn up a suite of initiatives to support you in tackling the challenges brought about by Covid-19...

PHOTO SHUTTERSTOCK

"... we will face more complex challenges ahead, but we are in this for the long haul. We can succeed only if we work together."
Deputy Prime Minister and Finance Minister Heng Swee Keat in Parliament, 18 February 2020, delivering the Unity Budget

The Unity Budget conveys a clear message that the government is standing together with workers and companies during the current tough times. It aims to help workers remain employed and support companies in weathering the economic uncertainties caused by Covid-19. In the same vein, the Institute will stand united and walk hand in hand with members and the profession through the difficult journey ahead. We have drawn up a suite of initiatives to support you in tackling the challenges brought about by Covid-19, and I would like to highlight the key ones here.

PROFESSIONAL DEVELOPMENT

ISCA has been diligently rolling out specialisation programmes and certifications, CPE courses and e-learning modules in trending or high-growth areas. This was aimed at supporting members to upskill and maintain employability, and even enhance their career prospects as disruptive trends reshaped the accountancy profession. I had previously mentioned that one of the ways to be adaptable, and to be resilient, is to be multi-skilled. These attributes are required to thrive in the new normal. Given a choice between two accountants where one has broader skill sets, it is obvious who will get hired. To date, we have curated an extensive library of courses and programmes in areas such as digital finance, business analytics, financial forensics, project finance and infrastructure, coding, cybersecurity and financial modelling.

The pandemic has brought forth unprecedented challenges and opportunities for accountants who are on the frontlines helping to save businesses. Hence, the need for accountants to continuously upskill to stay ready to offer strategic assistance and advice to businesses has become more critical than ever. As ISCA continues to build on our portfolio of forward-looking professional development offerings for members in 2021, we will be rolling out the following:

(i) Information Systems Risk Management Certificate

In August 2020, the Institute had launched the first track of the ISCA Compliance Certificate – ISCA Personal Data Protection Act (PDPA) Compliance Certificate. The PDPA Compliance Certificate targets finance/accountancy and non-finance professionals who are undertaking data protection roles in their organisation. In 2021, the second track of the ISCA Compliance Certificate – Information Systems Risk Management (ISRM) Certificate will be launched. It will be available to those who would like to gain an appreciation of information systems security, risks and controls, and progress towards the ISACA[1] CRISC (Certified in Risk and Information Systems Control) Certification.

(ii) Digital finance-themed courses

The digital transformation agenda has become a top priority for businesses that want to survive and stay ahead of their game. Finance leaders and finance teams need to embrace technology and embark on a finance transformation now as they have a critical role to play in positioning their organisations for recovery and growth when the pandemic ends. ISCA will continue to expand our library of digital finance courses relevant to the accountancy profession, in areas such as analytics and automation. In particular, we are developing a course on data storytelling and visualisation for accountants who prepare management reports or are in financial planning and analysis roles so that they can apply data visualisation techniques to effectively deliver insights and data findings to their target audience. Auditors and accountants can also sign up for our new data analytics course, which will be launched in early 2021.

PHOTO GETTY IMAGES

... the profession must be frugal yet flexible in its outlook, and be innovative and agile in its response to the needs of the market, on the back of building stronger foundations.

TECHNICAL RESOURCES

Covid-19's impact on financial reporting and audit is complex. With the pandemic impacting businesses in varying degrees, there is tremendous uncertainty about the economy and the future. These present challenges, especially in areas such as assessment of going concern, impairment and fair values. All accountants will be challenged, especially in their professional judgement. ISCA has issued a number of technical publications[2] and FAQs[3] to support the profession in these areas. For instance, in 2020, the Singapore Exchange (SGX) had approached ISCA for inputs when developing the publication titled "Regulator's Column: What SGX RegCo expects of financial reports amid Covid-19". In addition to incorporating our inputs, SGX also made specific references to the "Covid-19 Technical FAQs" published by ISCA, in collaboration with the Accounting and Corporate Regulatory Authority.

In 2021, we will continue working closely with standard setters, regulators and the industry to actively shape professional standards and promote best practices to help maintain a high ethical and professional standard within our financial ecosystem. Do also stay tuned to our short technical webinars, which we are organising to help busy members keep abreast of emerging topical issues and technical guidance issued by ISCA.

INSIGHTS & PUBLICATIONS

The far-reaching damage that Covid-19 has wreaked is not without a silver lining. Covid-19 has created a new normal for everyone and this is where we should seize the opportunities on the horizon. It has reset many things and levelled the playing field for some. For example, local brick-and-mortar businesses seeking to survive had to go online and in doing so, some now see an exponential increase in the size of their potential market, with a wider market reach through the Internet.

To help our members prepare for the new opportunities during and after this pandemic, ISCA will be undertaking studies and publishing reports such as the following:

(1) Accountants and the Future of Work

Through this publication, members will have a better understanding of the demand and supply for the labour market moving forward, and what it means for the accountancy profession. This can help point members

[1] ISACA is an IT professional institute which helps business technology professionals and their enterprises around the world realise the positive potential of technology; https://www.isaca.org

[2] ISCA Covid-19 Series: Technical Resources; https://isca.org.sg/Covid-19-series/resources/technical-resources/

[3] ISCA Covid-19 Technical FAQs; https://isca.org.sg/Covid-19-series/resources/isca-Covid-19-technical-faqs/

to a possible alternative career pathway, and employers to gain an understanding of the drivers of future employment preferred by the next generation of workforce.

(2) Artificial Intelligence (AI) in Finance Functions

The Covid-19 outbreak has forced many businesses to accelerate the adoption of technology to enable business continuity. Similarly, the technological impact on finance functions is expected to gather speed and one such technology enabler is AI. The publication will highlight practical applications of AI in the finance function across different industries.

(3) Country reports highlighting emerging or in-demand services in ASEAN

Given Singapore's small domestic market, the government has been encouraging small and medium-sized enterprises to internationalise. To further complement ISCA's continuing efforts in supporting members in their internationalisation journey, the Institute will curate country reports that carry accountancy-related information including highlights on opportunities available in ASEAN – a fast-growing economic bloc.

ENHANCING THE CHARTERED ACCOUNTANT BRAND

As we continue our work in ensuring that members are equipped and able to thrive in a fast-changing world, the picture is not complete without raising the profile and promoting the chartered accountant (CA) brand. Promoting the CA brand is important to ensure that it continues to be recognised and respected by employers, businesses and the public.

In this time of crisis, ensuring financial health is critical for business survival and CAs are best placed to help businesses through challenges that arose from the crisis. This is an opportunity to showcase the pre-eminence of CAs and create confidence that CAs have the training, ethics and global expertise to help businesses navigate these challenging times. While local responses to enhance the brand are important, we need internationally coordinated responses to fulfil its potential. Together with Chartered Accountants Worldwide – a group of globally recognised chartered accountancy bodies – a global brand campaign will be developed and promoted in various countries including Singapore.

To enhance the CA brand locally, ISCA will be rolling out a media plan to promote this global CA brand campaign across varied digital channels in Singapore, reaching out to business decision makers, employers and students. A series of member profile stories will be added to promote the CA brand as part of the campaign. In addition to brand campaigns, ISCA will continue to promote the CA brand and value of the ISCA membership through our various student outreach efforts in the institutes of higher learning as well as other institutions to encourage students to choose accountancy as a field of study and become a CA.

MORE SUPPORT FOR MEMBERS

> **"Let us unite, demonstrate our resilience, stay united and press on in solidarity. Together, we will emerge stronger from this!"**
> Deputy Prime Minister and Finance Minister Heng Swee Keat in Parliament, 6 April 2020, delivering the Solidarity Budget

The future is fraught with uncertainties, which has made many feel stressed and anxious. Some of the questions on people's minds are: How will the pandemic evolve? Will it ever end? Will the vaccines be effective and safe?

One of the more pressing questions would be: Would I still have a job tomorrow? The alarm bells were sounded when estimates released by the Ministry of Manpower, on 30 October 2020, showed that Singapore's unemployment rate had shot up to a 16-year high of 3.6% in September. As more business closures are expected in the coming months, especially as government aid dries up[4], more retrenchments are likely. ISCA stands ready to support members who are in need.

Career support services

In 2020, ISCA directed its focus on beefing up several career support initiatives to support our members' hiring/employment needs. We rolled out a job-matching scheme for ISCA members. This members-only service allows job-seeking members to profile themselves to potential employers by posting their career history to potential employers on an anonymous basis on ISCA's job-matching site. Employers seeking to hire can search for suitable candidates, and inform ISCA to link them up with suitable candidates.

We also collaborated with Workforce Singapore to launch the inaugural virtual career fair and a dedicated ISCA Career Portal for accounting and finance professionals. We will continue to enhance our career support services in 2021, and we strongly encourage members in need to approach our service staff.

When the going gets tough, just keep going. Let's keep our spirits high, remain optimistic and build resilience.

PHOTO GETTY IMAGES

[4] Yun Ting, Choo. "More firms tipped to close in the coming months, say experts". The Straits Times online. 29 Nov 2020; https://www.straitstimes.com/business/economy/more-firms-tipped-to-close-in-coming-months-say-experts

ISCA Support Fund

To help members cushion the impact as Covid-19 brought the Singapore economy almost to a grinding halt in 2020, the Institute had quickly put together and rolled out an assistance package valued at up to $3.6 million.

As the Covid-19 virus continues to rage on in many parts of the world, the government has cautioned about a long road to economic recovery for Singapore. The Institute is now working on an ISCA Support Fund for 2021 to curate targeted support schemes that will provide more comprehensive assistance to members and firms, to weather the economic uncertainties. Details of the schemes and corresponding eligibility criteria will be announced in due course.

DEVELOPING A RESILIENT INSTITUTE

> **"Come what may, no matter how daunting the challenge at hand, we will bounce back, stronger and more united than ever, as we weather this storm together."**
> **Deputy Prime Minister and Finance Minister Heng Swee Keat in Parliament, 26 March 2020, delivering the Resilience Budget**

The Resilience Budget called on Singaporeans not to face the pandemic with fear and despair but with a spirit of resilience. In this regard, besides taking steps to build a resilient membership that can thrive in the new normal, ISCA is also taking concrete steps to fortify our organisational resilience so as to emerge stronger and be poised for growth when the crisis is over.

Training and events go virtual

The Covid-19 outbreak did not stop us from delivering training to members. ISCA had quickly remodelled our training courses for physical classrooms to virtual classrooms and webinars that can be streamed live to members in the safety of their own homes or another place, as long as there is Internet connectivity. We have witnessed how quick and positive our members have been towards adopting virtual learning. This gives us the encouragement to continue pushing ahead with the digital transformation of our training courses so as to enhance the virtual learning experience for members.

Going digital also helps to make professional development accessible to a wider audience that goes beyond the geographical boundaries of Singapore. However, we face increasing competition for eyeballs. A key selling point that distinguishes ISCA's training from others is the inclusion of application-based contents, which we developed in partnership with industry practitioners and organisations that are leading experts in their fields.

With Singapore entering Phase Three of Covid-19 reopening on 28 December 2020, we are planning for the Singapore Accountancy and Audit Convention 2021 Series to take on a hybrid model with both physical and virtual platforms, subject to the prevailing conditions. This will enable ISCA to cast the net wider across the market by catering to different preferences.

ISCA Cares

The ensuing recession caused by the pandemic is affecting the more vulnerable in society disproportionately. It heightens the risk of them falling into poverty and becoming the "new poor". Recognising that the low-income will be hardest hit when times are bad, ISCA Cares, the charity arm of the Institute, had

PHOTO: GETTY IMAGES

stepped up to offer timely support to youths from financially vulnerable families last year. We brought forward the disbursement dates of the bursary awards, and awarded bursaries to more beneficiaries. In total, ISCA Cares disbursed a record $164,000 to 83 ISCA Cares Ambassadors in 2020. More will need help in such times of uncertainty. I sincerely appeal to the accountancy community for your continued support for our accountancy student-beneficiaries who are financially challenged. With your help, ISCA Cares would be able to provide more youths with access to quality education through financial assistance as well as mentorship and internship opportunities.

While businesses face challenging times, charities may have it worse. ISCA has entered into a partnership with the Ministry of Culture, Community and Youth – Office of the Commissioner of Charities, to have our members provide training sessions and guidance on finance and the relevant accounting standards to the charities in Singapore. This is an opportunity for our members to leverage their skills, expertise and experience to serve and give back to society. We will be organising outreach sessions in 2021. If you wish to volunteer for this initiative, please write in to volunteer@iscacares.org.sg and we will keep you posted on the details.

With this partnership, the Institute and our members can play a part in supporting charities to develop their finance and accounting expertise as they continue to serve their beneficiaries. I urge you to share your time and volunteer your skills in helping to uplift the charity sector.

CONCLUSION

There is a need to adapt and innovate in adversity as current business models are being challenged. Innovation is more than technology, though it is clear that technology is here to stay. Those who disregard its ubiquitous presence or do not upgrade their skills in tandem will find themselves stuck in the proverbial hamster wheel – working hard, running furiously, but going nowhere.

Covid-19 has all but completely wrecked many countries, economies, businesses and people's lives. That Singapore, and Singaporeans, would be facing a challenging time ahead was acknowledged by Prime Minister Lee Hsien Loong when he said, "Now, we have to prepare for a very different future... The next few years will be a disruptive and difficult time for all of us."[5]

My response to life's curveballs is best captured by the saying, "When life gives you lemons, make lemonade." When the going gets tough, just keep going. Let's keep our spirits high, remain optimistic and build resilience. In the meantime, the profession must be frugal yet flexible in its outlook, and be innovative and agile in its response to the needs of the market, on the back of building stronger foundations. In this way, we can develop into a more resilient profession poised for a better future. The profession has an enduring value. It will outlast Covid-19. We will bounce back.

I wish you best of health, success and a very Happy New Year! ISCA

> **"Moving forward with fortitude – as we stay united as one people, remain resilient in the face of adversity, and stand in solidarity with one another."**
> **Deputy Prime Minister and Finance Minister Heng Swee Keat in Parliament, 26 May 2020, delivering the Fortitude Budget**

Kon Yin Tong is President, Institute of Singapore Chartered Accountants.

[5] Hsien Loong, Lee. "Overcoming the crisis of a generation". 6 June 2020; https://www.pmo.gov.sg/Newsroom/National-Broadcast-PM-Lee-Hsien-Loong-COVID-19

ISCA PRACTITIONERS CONFERENCE 2020

Strategising For A Resilient Tomorrow

"IN THE MIDST OF CHAOS, THERE IS ALSO OPPORTUNITY." This oft-quoted proclamation by the great Chinese general Sun Tzu provides a fitting thought for a world wreaked by the Covid-19 pandemic; it was also the theme of the ISCA Practitioners Conference 2020. With the focus on "Strategising for a Resilient Tomorrow", the final instalment of ISCA's signature Singapore Accountancy and Audit Convention Series, which took place on 22 October 2020, assembled over 800 practitioners and audit professionals. The virtual event was supported by ISCA's strategic partners, namely, Accounting and Corporate Regulatory Authority (ACRA), ASEAN Federation of Accountants and Singapore Accountancy Commission.

> "We must rebuild and grow by responding to the changing environment with adaptability and agility. The alternative is to do nothing, change nothing and be nothing."
>
> **KON YIN TONG, President, ISCA**

ISCA President Kon Yin Tong introducing the theme of the ISCA Practitioners Conference

ISCA President Kon Yin Tong kicked off the Conference with a sneak peek into the event proceedings and an overview of the effects of the pandemic on the audit profession. He acknowledged that the road ahead would be challenging but asserted that it also held untapped opportunities. He encouraged firms to seize new opportunities and draw lessons from the pandemic to improve the value of the profession and transform the industry. This would place the profession in good stead for recovery and growth, especially post-pandemic, as firms capitalise on agile processes or frugal innovations.

BUILDING UP OURSELVES, MASTERING THE FUTURE

Delivering the keynote address was Permanent Secretary for Finance Tan Ching Yee. Mrs Tan highlighted two specific trends that would have an impact on the accountancy profession and industry – the premium placed on resilience, and the constraint posed by declining growth in the local labour force. She suggested that local firms could plug into the wider regional network as businesses build resilience across borders, with Singapore as a key node. Firms could also master technology so they can do more, even with fewer people.

Guest-of-Honour Tan Ching Yee, Permanent Secretary for Finance, spoke about the pertinent trends affecting the accountancy profession and industry

STRATEGISING FOR A RESILIENT TOMORROW

The panel discussion featured (from left) Michael Heng, Managing Partner, Heng Lee Seng LLP (moderator); Philip Yuen, Chief Executive Officer, Deloitte SEA and Chairman, Deloitte Singapore; Kuldip Gill, Divisional Director, Public Accountancy Division, ACRA; Tan Kuang Hui, CEO and Managing Partner, Crowe Horwath First Trust LLP, and Kevin Fitzgerald, Managing Director, Asia, Xero

ACRA's Ms Gill was a panellist for the "Strategising for a Resilient Tomorrow" session, and a speaker for "Raising Audit Quality through Challenging Times"

The first panel discussion carried the Conference theme, "Strategising for a Resilient Tomorrow". Participants heard different perspectives from the panel session moderated by Michael Heng, Managing Partner, Heng Lee Seng LLP, and featured panellists Philip Yuen, Chief Executive Officer, Deloitte SEA and Chairman, Deloitte Singapore; Kuldip Gill, Divisional Director, Public Accountancy Division, ACRA; Tan Kuang Hui, CEO and Managing Partner, Crowe Horwath First Trust LLP, and Kevin Fitzgerald, Managing Director, Asia, Xero. They discussed the megatrends that have been accentuated due to the pandemic and also shared insights into the three-pronged approach in responding, recovering, and thriving through the crisis.

There was strong emphasis on digitalisation as the panel advised firms to leave the laborious paperwork behind and acclimatise to the new norm. Responses to the poll question, "Has Covid-19 accelerated your firm's digitalisation agenda?" was encouraging, with 97% of the respondents saying, "Yes".

Donning the ISCA Council hat, Mr Tan shared the ISCA Quality Assurance Framework that guides the Institute in conceptualising initiatives to support firms, especially the small and medium-sized audit practices, in building digital and business capabilities, to thrive in a post-pandemic world. He also urged the audit practitioners to tap on the various schemes available, especially the offerings from the virtual SMP Centre (https://smpcentre.org.sg/).

ACRA's Ms Gill presented on the key observations from ACRA's Practice Monitoring Programme and shared best practices in raising audit quality.

... Mr Tan shared the ISCA Quality Assurance Framework that guides the Institute in conceptualising initiatives to support firms, especially the small and medium-sized audit practices, in building digital and business capabilities, to thrive in a post-pandemic world.

THE FUTURE OF STANDARD-SETTING

Hans Koopmans, Chairman of ISCA Auditing and Assurance Standards Committee, highlighted ISCA's ongoing efforts to narrow the gap between stakeholder expectations and auditor responsibilities, among other updates in the auditing profession

Hans Koopmans, Chairman of ISCA Auditing and Assurance Standards Committee, shared with participants the strategic objectives and drivers behind standard-setting initiatives on the international and local fronts, to respond to stakeholder needs and challenges faced by the auditing profession.

In light of changing stakeholder expectations and recent high-profile corporate failures, Mr Koopmans drew the participants' attention to the importance of public confidence in audits. In this regard, he shared that the International Auditing and Assurance Standards Board (IAASB) has recently issued a discussion paper titled "Fraud and Going Concern in an Audit of Financial Statements – Exploring the Differences between Public Perceptions about the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit". To support this important initiative, ISCA will be conducting stakeholder engagement activities to obtain the perspectives of stakeholders in Singapore about the expectation gap, and how the auditing standards can meaningfully narrow the gap.

He then highlighted some of ISCA's ongoing efforts in helping to narrow the expectation gap. They include the issuance of published materials to dispel misconceptions on the role of auditors, outreach activities, education programmes and advocating the views of the audit community in Singapore through the submission of views to IAASB and other relevant bodies.

PREPARING YOUR FIRM FOR NEW QUALITY MANAGEMENT STANDARDS

Gajendran Vyapuri, Assurance Partner, Ernst & Young LLP, provided insights into the new quality management standards

Gajendran Vyapuri, Assurance Partner of Ernst & Young LLP, updated participants on the upcoming quality management standards which are expected to be adopted locally in the first quarter of 2021, and effective from 15 December 2022. The revised standards, which will replace the current SSQC 1, would bring important changes to the way professional accountancy firms manage quality. This includes a new proactive risk-based approach to an effective system of quality management that underpins consistent engagement quality.

Recognising that the complexity and formality of firms' systems of quality management will vary according to the nature and circumstances of the firm and the engagements performed, the quality management standards promote scalability in their application, to cater to firms of varying size, complexity and circumstances. Firms are reminded not to underestimate the implementation efforts, and to set aside resources to perform the necessary risk assessments and document the process flows to demonstrate that requirements have been met.

Acknowledging that leadership is responsible and accountable for quality, managing partners are encouraged to drive such implementation by providing a strong tone from the top. Firms are also encouraged to participate in the focus groups and public consultation of the exposure drafts to provide their feedback on implementation challenges.

TRANSITION FROM SWAP OFFER RATE (SOR) TO SINGAPORE OVERNIGHT RATE AVERAGE (SORA) – ARE YOU ON TRACK?

The panel discussion featured (from left) Reinhard Klemmer, Chairman of ISCA Financial Reporting Committee (moderator); Chen Voon Hoe, Partner, PricewaterhouseCoopers Risk Services Pte Ltd; Chua Kim Chiu, Chairman of Audit Committee, OCBC Bank, and Mikkel Larsen, Deputy Chair, Accounting and Tax Sub-Group, Steering Committee for SOR Transition to SORA

In line with the global shift away from Interbank Offered Rate and towards alternative risk-free rates, Singapore will transition from the Sing-dollar Swap Offer Rate (SOR) to a new interest rate benchmark – Singapore Overnight Rate Average (SORA) by the end of 2021. This change will likely impact most entities, not just financial institutions. However, smaller entities may not be aware of the implications arising from the transition and the need to commence preparations for it.

Against this backdrop, a panel discussion was convened, moderated by Reinhard Klemmer, Chairman of ISCA Financial Reporting Committee, with featured panellists Chen Voon Hoe, Partner, PricewaterhouseCoopers Risk Services Pte Ltd; Chua Kim Chiu, Chairman of Audit Committee, OCBC Bank, and Mikkel Larsen, Deputy Chair, Accounting and Tax Sub-Group, Steering Committee for SOR Transition to SORA (SC-STS[1]).

As the change to SORA could bring about multiple operational and financial impacts to an entity, the panellists emphasised the need to understand what SORA transition entails, take stock of one's SOR-based financial instruments and perform a self-assessment of the potential impacts. Guidance on this can be taken from various SC-STS publications. The spotlight was also cast on the important role played by auditors – reaching out and creating awareness of the transition among the smaller entities, and also urging them to start preparatory work soonest possible.

DEVELOPMENTS IN ETHICS AND PROFESSIONAL INDEPENDENCE – ENHANCING PUBLIC CONFIDENCE POST-COVID-19

Amid the Covid-19 pandemic, Tan Seng Choon, Chairman of ISCA Ethics Committee, reminded auditors of the importance of ethical behaviour, including compliance with Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics*.

[1] The SC-STS was established by the Monetary Authority of Singapore to oversee the industry-wide interest rate benchmark transition from SOR to SORA, in line with global efforts to phase out IBORs. For more information, please refer to https://www.abs.org.sg/benchmark-rates/about-sc-sts.

Mr Tan illustrated the application of the enhanced three-step conceptual framework approach for an auditor to address threats to compliance with the fundamental principles under the latest EP 100 (revised 14 August 2020).

Singapore has adopted the final pronouncement on Responding to Non-Compliance with Laws and Regulations (NOCLAR) on 1 April 2020. Mr Tan provided an overview of NOCLAR, which guides auditors in dealing with situations involving NOCLAR, in deciding on how best to act in the public interest.

Tan Seng Choon, Chairman of ISCA Ethics Committee, provided an overview of the local and international developments in ethics and independence in 2020

INAUGURAL SURVEY ON NON-ASSURANCE SERVICES

The highlight of Mr Tan's presentation was the launch of ISCA's inaugural survey findings report on non-assurance services (NAS) at the Practitioners Conference. The NAS survey was conducted to obtain views from audit committee members on matters concerning auditor independence when providing NAS to audit clients, and on certain recommendations to address NAS independence concerns. The survey findings showed that audit committee members of Singapore companies are supportive of the following ISCA recommendations to strengthen auditor independence in relation to the provision of NAS:

i) To mitigate any perceived or real independence threat, we recommend that the audit firm obtains confirmation from each network firm that the NAS fees earned by the network firm from the upstream and sister entities of the audit client do not exceed 1% of the network firm's revenue;

ii) Developing a concept of "audit-related services" and to exclude "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee;

iii) Audit firm to obtain pre-approval from those charged with governance on provision of NAS.

Given the unprecedented climate due to the pandemic, there might arise ambiguity for the upcoming audit peak. Ng Kian Hui, Audit Partner, Head of Audit & Assurance, BDO LLP, wrapped up the Conference by sharing key audit challenges arising from Covid-19 and prepared practitioners in navigating the potential complexity from audit planning to audit completion. The salient points were published in the ***IS Chartered Accountant Journal*** in December 2020. Read more about the audit hot spots at https://journal.isca.org.sg/2020/11/29/audit-hot-spots-2020/pugpig_index.html.

Ng Kian Hui, Audit Partner, Head of Audit & Assurance, BDO LLP, alerted participants to potential audit hot spots in light of the upcoming audit peak

The Conference, which highlighted the changing audit and business landscape, and the challenges brought about by the pandemic, also discussed the strategies that practitioners could adopt to build up their resilience for tomorrow. In the brighter future when historians write about the Covid-19 crisis, it will hopefully be, for the audit profession, a tale of human ingenuity and adaptability. ISCA

BY ZECHARIAS CHEE, LAWRENCE LOH AND NIGEL HEE

DISCLOSURES AND RISK MANAGEMENT

Trends, Gaps And Best Practices

THE LATEST SINGAPORE GOVERNANCE AND TRANSPARENCY INDEX (SGTI) STUDY, released in August 2020, showed that although Singapore-listed entities had improved overall, there are still many gaps that require urgent improvement, especially in the area of risk management disclosures. These gaps are particularly stark in light of the ongoing Covid-19 pandemic.

The SGTI, by the Centre for Governance, Institutions and Companies (CGIO), National University of Singapore, is an indicator of corporate governance practices and disclosures by Singapore-listed companies, business trusts and Real Estate Investment Trusts (REITs). It assesses entities on their corporate governance disclosures and practices, as well as the timeliness, accessibility and transparency of their financial results announcements.

Figure 1 SGTI's "BREAD" framework

B.R.E.A.D Base Score (100 points)

- **B**oard Responsibilities (35 points)
- **R**ights of Shareholders (20 points)
- **E**ngagement of Stakeholders (10 points)
- **A**ccountability & Audit (10 points)
- **D**isclosure & Transparency (25 points)

\+

Adjustments for Bonus & Penalty (43 points)

=

Overall SGTI Score (143 points)

In this article, we take a look at the findings of SGTI 2020, including recent trends in corporate governance and risk management disclosures, the importance of having robust and updated risk management disclosures, and best practices that may help close some of the identified gaps.

The strong commitment to risk management assures investors that the business activities will be less impacted and the volatility of earnings will be better managed when uncertainties arise.

RECENT TRENDS

For the purpose of this article, we are focusing only on Singapore-listed companies excluding business trusts and REITs. The study covers a total of 577 Singapore-listed companies, with 181 companies on the Singapore Exchange being excluded for various reasons.

The SGTI's "BREAD" framework has two components: the base score and the adjustment for bonuses and penalties (Figure 1). The base score for companies contains five sections: (1) board responsibilities [35 points]; (2) rights of shareholders [20 points]; (3) engagement of stakeholders

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[10 points]; (4) accountability and audit [10 points] and (5) disclosure and transparency [25 points]. The aggregate of bonuses and penalties is incorporated in the base score to arrive at the company's SGTI total score. The maximum attainable score is 143 points.

Continuing its upward trend since 2011, SGTI 2020 reached an all-time high score of 67.9, registering the largest ever increase of 8.6 points from 59.3 in 2019 (Figure 2). Companies received more bonus points at 11.6 – a 35% increase from 8.6 in 2019 – and were given fewer penalties, which fell by 2.4 points to 8.4. This shows that companies made significant improvements in corporate governance practices and disclosures over the period.

Figure 3 shows the sectional scores. Overall, there were increases in the scores for three components: board responsibilities, rights of shareholders and engagement of stakeholders. There was a slight dip in accountability and audit from 76% in 2019 to 73% in 2020, while the scores for disclosure and transparency remained almost unchanged at 57% in 2020.

Figure 4 shows that all of the sectional scores were highest for big-cap companies, followed by mid-cap and small-cap companies in that order.[1] More importantly, the fall in the scores for disclosure and transparency appears to be very steep from big-cap companies to small-cap firms compared to the scores in most of the other sections.

As the ongoing Covid-19 pandemic has raised questions about the business continuity of companies, it is timely to examine risk management practices (which are subsumed under disclosure and transparency)

[1] Big-cap companies are defined as companies with a market capitalisation of at least S$1 billion; mid-cap companies are defined as companies with a market capitalisation equal or greater than S$300 million but less than S$1 billion; small-cap companies are defined as companies with a market capitalisation of less than S$300 million.

Figure 2 Mean score trend

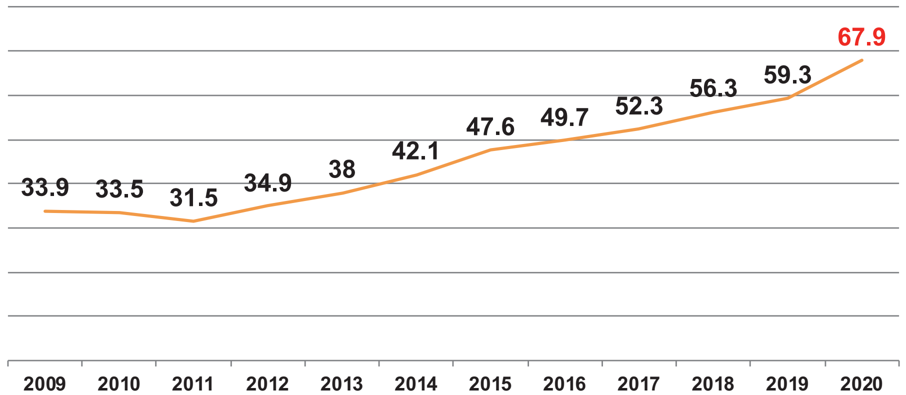


Figure 3 Sectional scores: BREAD score by percentage

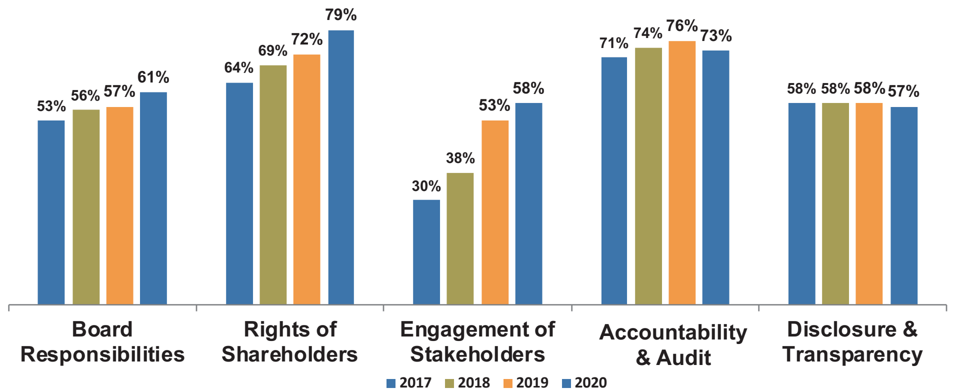


Figure 4 Sectional scores by market capitalisation

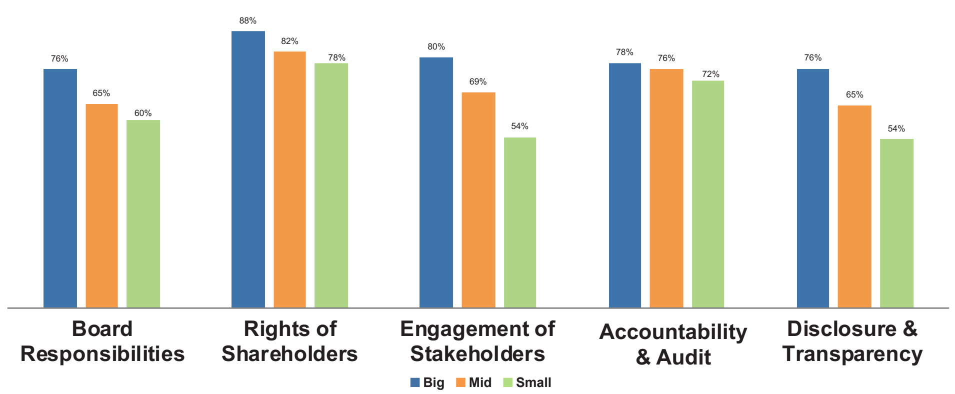


Figure 5 Disclosure and transparency

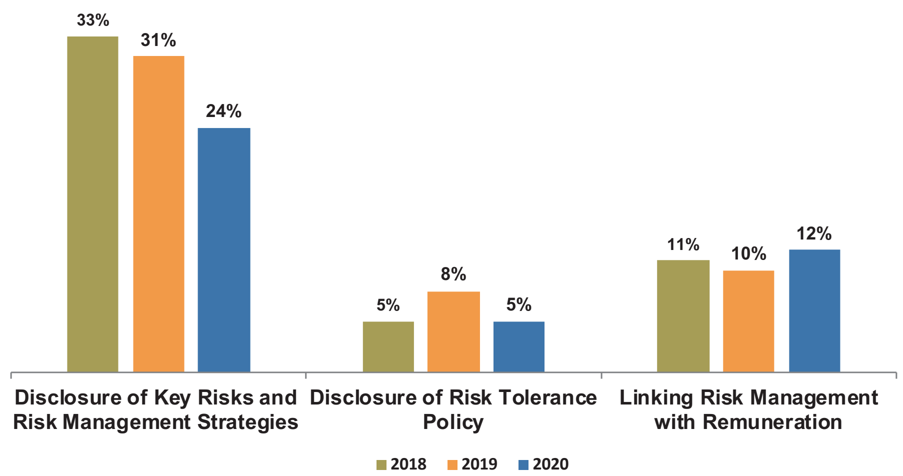
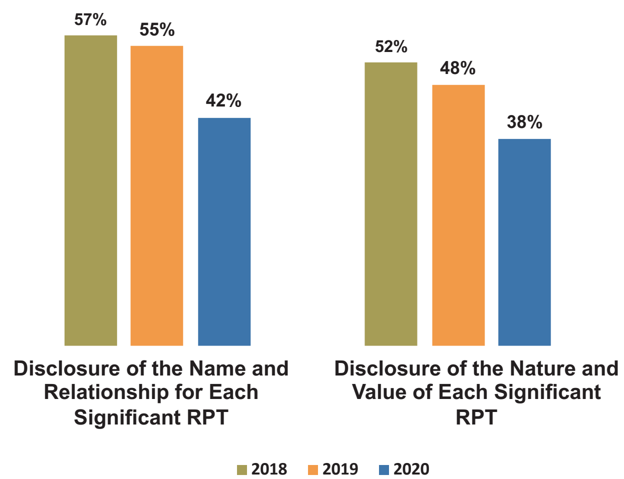


Figure 6 Disclosures of significant related party transactions (RPT)



These trends highlight that many Singapore-listed companies were not making adequate risk management disclosures to inform their stakeholders and, on a more worrying note, some may not even have put in place risk management practices.

in Singapore-listed companies so as to flag the areas of concern. Figure 5 shows that the proportion of companies making disclosures in key risks and risk management strategies has steadily declined from 33% in 2018 to 24% in 2020. Few companies, hovering around 5% of the assessed companies, disclosed their risk tolerance policy in their annual reports. Further to that, only about one in 10 companies linked risk management and remuneration. These trends highlight that many Singapore-listed companies were not making adequate risk management disclosures to inform their stakeholders and, on a more worrying note, some may not even have put in place risk management practices.

Figure 6 shows that there was a decreasing trend in the disclosure of related party transactions (RPT). This does not augur well for raising the level of transparency to the stakeholders. Moving forward, there is an urgent need for more companies to reveal or raise their level of disclosures in risk management practices amid the greater uncertainties in the business environment.

IMPORTANCE OF HAVING ROBUST AND UPDATED RISK MANAGEMENT DISCLOSURES

Studies show that companies with well-established corporate risk management policy and practices achieve better performances compared to their peers that do not have them. With the Covid-19 outbreak, the spotlight is cast on the risk management practices of companies, and there are elevated concerns about the adequacy of such disclosures in the annual reports of publicly listed companies. As mentioned, the findings of the SGTI 2020 study revealed that the disclosures of risk management practices, according to various indicators, were disappointing.

This section seeks to explain why a robust risk management policy and programme is critical to the long-term survival of companies. It further elucidates why such disclosures in the public domain, particularly through the annual report, help to promote transparency to and instil confidence in the stakeholders; more importantly, it shows how both short-term and long-term strategies and solutions in risk management practices can improve shareholder value.

The Covid-19 pandemic has triggered some significant adverse effects, some of which will have long rippling effects into the future. Due to the stringent measures implemented by the Singapore government as well as many of the country's trading partners in a bid to curb the spread of infection, companies in trade-dependent Singapore have experienced a "quadruple whammy", namely, abrupt changes in consumer demand trends, disruption in global supply chains, employee absenteeism, and increasing financial distress for firms and households.

Robust and adequate disclosures in risk management practices by companies can provide assurance to shareholders that any huge impacts arising from black swan events on the stakeholders – including suppliers, business partners and customers – are being closely, duly and tactically considered and managed via relevant strategies. Such disclosures also demonstrate to stakeholders that companies are cognisant of the risks their businesses are confronted with,

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and that they are well prepared to respond swiftly and decisively to an unexpected crisis like Covid-19.

A risk management policy, which includes a business continuity plan, helps prepare companies to execute their strategies in times of urgent need. This is because it signals that the companies have identified their corporate risks and readied the mitigating strategies to manage or contain the risks. From the standpoint of investors, conveying such information in the annual reports reduces information asymmetry, which may enhance their investment decision making.

Additionally, such disclosures reveal a well-established risk management programme in publicly listed companies, with oversight by a board-level risk committee or a C-suite senior executive. The strong commitment to risk management assures investors that the business activities will be less impacted and the volatility of earnings will be better managed when uncertainties arise.

Companies with a risk management plan are certainly able to respond quicker to risk events like the Covid-19 crisis than those without one. As such, the problem of "quadruple whammy" can be alleviated and managed to a large degree.

ADAPTING RISK MANAGEMENT STRATEGIES FOR THE POST-COVID-19 ERA

What, then, can companies do to handle these new risks, as well as close the gaps revealed in the SGTI 2020 study? Companies should consider taking this opportunity to rethink their risk management strategies from the ground up, adapting not just their current strategies but revise how they understand, interpret and handle risks.

Climate change and environmental sustainability are becoming important items for corporate boards to consider, particularly in how they affect business strategy and performance.

The Wharton School of the University of Pennsylvania suggests five risk mitigation strategies for the current pandemic: (1) readiness assessments, (2) risk management plan, (3) business impact analysis,(4) policy management and (5) incident management.[2]

(1) Completing readiness assessments

Readiness assessments allow a company to evaluate its business continuity programme against best practices standards; this will also reveal any existing gaps.

(2) Completing a risk management plan

It is critical that companies complete a risk management plan to identify and prioritise any new risks and gaps in their current controls. Frontline staff may be most suitably positioned to assess and explain how these risks and gaps impact their job tasks and responsibilities.

(3) Performing a business impact analysis

Once the risks have been identified, the company needs to understand the potential impact of these risks. A business impact analysis will point to the parts of the company that are the most critical to maintain operations continuity.

(4) Updating and communicating policy management

Uncertainty is the name of the game in this pandemic, with new information pouring in at any time. Thus, policies will need to be revisited by relevant departments, updated and communicated to staff. One such example would be the need to work remotely within a short period of time – this meant that processes had to be adapted on the fly.

(5) Embedding incident management plans

Appropriate incident management plans, including escalation and reporting mechanisms, need to be embedded within processes and across the company. This would allow the company to evaluate the effectiveness of any implemented mitigation and policy activities, along with identifying exceptions and weaknesses.

MOVING FORWARD

Aside from understanding and enhancing the depth and breadth of their risk management disclosures, and adopting some best practices in risk management to close any gaps, there are two other areas that companies should also take into account.

First, a study released in October 2020 by CGIO and ASEAN CSR Network showed that Singapore lagged behind Malaysia and Thailand in terms of corporate disclosures of business integrity practices.[3] Malaysia-listed companies had the highest disclosure rate of 74%, Thailand was second at 71% while Singapore came in third at 64%. This lack of disclosure stands in stark contrast to Singapore's reputation as one of the world's least corrupt countries.[4] To increase the transparency of how corporates are mitigating corruption risk, there should be more disclosures of such business integrity practices.

Second, another major development is that climate change, and correspondingly environmental sustainability, is making its way into the agendas of many business leaders, such as Unilever CEO Alan Jope,[5] and publications, ranging from *Time*[6] to the *Financial Times*.[7]

Climate change and environmental sustainability are becoming important items for corporate boards to consider, particularly in how they affect business strategy and performance. The impacts can range from financial to material and would affect multiple areas of a business.[8] This has led to renewed calls for corporate governance models to be updated to meet emerging challenges; the Action Plan on Financing Sustainable Growth presented by the European Commission[9] is one such response. Companies would do well to enhance their disclosures in this area.

CONCLUSION

Risk management is an ongoing process. However, the pandemic has exposed and exploited the numerous gaps and loopholes across risk management strategies the world over. The SGTI 2020 study revealed the extent of these gaps in Singapore-listed companies, underscoring the need to review risk management policies in a different way. Furthermore, the disconnect between Singapore's reputation as one of the world's least corrupt countries and the reality of business integrity disclosure practices needs to be addressed for Singapore to remain competitive. Climate change exacerbates the breadth of the issue, with business leaders and society at large calling for greater cooperation to reduce its potential impact. Risk management is not just a corporate matter; it is now an issue that everyone needs to think about. ISCA

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ON THE CASE

Maria Teo has a real nose for numbers. The Associate Director for Forensic and Litigation Support at Nexia TS likes to get to the bottom of things, which suits her role at the firm to a tee. But this is more than just a reflection of her professional skills. "Fundamentally, I'm a problem solver and I love finding out how things work," says Ms Teo, 33. "Using data and information to piece together the big picture really appeals to me." This was perhaps the reason why – although she began her career at Nexia TS in audit – she jumped at the opportunity to move to the forensic and litigation support team. A fan of Sir Arthur Conan Doyle's *Sherlock Holmes* series of books and short stories, financial forensics was a natural fit for her.

From the start, Ms Teo has been a pragmatist. After securing her degree in accountancy, she wanted to build her professional career on a firm foundation and found herself having to decide between joining the broader commercial sector or an accounting firm where one would spend at least a few years in audit. An internship spent in an accounting firm made the decision an easy one. "I discovered that there was a lot more to learn in the field of accounting. Where else but in audit can you learn about the inner workings of companies large and small, in all manner of industries?" Ms Teo asks, rhetorically. "With my degree in accountancy, I had a solid base from which to start."

Eventually however, Ms Teo's passion for rooting out problems drew her to financial forensics, where she has spent the last four years honing her skills. "Back then, forensics wasn't a very well-known area of focus but I decided to take up the opportunity (at Nexia) because it fits into what motivates me as a person." Ms Teo made the decision to move into this field after a short stint at the Nexia headquarters in London. She stressed that her experiences over a few years in audit helped her to make this move. Knowledge of financial reporting standards, laws and regulations, and the mechanics of how companies are run all provided on-the-job training for Ms Teo's future role in the forensics team. "This is very important because when it comes investigating a financial forensics case, essentially, the criminals are trying to misinterpret or misapply the laws and standards. As a financial forensics professional, if you are not able to flag out these discrepancies, you may be missing out on several red flags," explains Ms Teo. As an auditor, Ms Teo had learnt the ins and outs of how to spot

Maria Teo, CA (Singapore), Associate Director Forensic And Litigation Support, Nexia TS Public Accounting Corporation

> "I discovered that there was a lot more to learn in the field of accounting. Where else but in audit can you learn about the inner workings of companies large and small, in all manner of industries?... With my degree in accountancy, I had a solid base from which to start."

CAREER HIGHLIGHTS

2009 to 2011
Audit Associate, Nexia TS

2012 to 2014
Senior Auditor, Nexia TS

2014 to 2016
Assistant Manager, Nexia TS

2017 to 2019
Manager, Nexia TS

2019 to Present
Associate Director, Nexia TS

> **"We take financial literacy for granted in Singapore. I found (from meeting accountants around the world) that I had quite a myopic view of my own field. What the (One Young World Summit 2019) brought to the table ... was that there are matters in the world where accountants are going to play a very big role, because accountants are managing the purse strings."**

irregularities and how to correct them – essential skills and knowledge that are proving invaluable to her in her current role at Nexia TS.

STAYING AHEAD OF THE BAD GUYS

According to Ms Teo, the challenges facing financial forensics investigators can be considered an arms race of sorts, with such professionals always "striving to stay one step ahead of the bad guys". Just as law enforcers are using technology to improve their efficiency and effectiveness, so too are the criminals. Such a dynamic situation can lead to surprises, as Ms Teo discovered during the circuit-breaker period in Singapore. She shared that her firm logged an uptick in ransomware and phishing attacks in Singapore; ransomware is malware that targets users' data, either threatening to make such data public or blocking access to it, unless payment is made to the criminals who deployed it, while phishing refers to criminal attempts to trick users into divulging sensitive data, especially user names and passwords. Ms Teo highlighted that while criminals quickly recognised the work-from-home situation as a weak link that they could exploit, employers were slower to bridge the gaps.

Investigating forensics cases is not limited to these cyber threats in Singapore, Ms Teo notes. She pointed out that one of the principal challenges financial forensics teams face locally is evidence decay. "In my experience, in Singapore, the trend is for firms to sweep things under the carpet and ignore (warning signs) until they cannot be ignored anymore. That is when they consult a financial forensics expert." This leads to scenarios where suspicious activities might have taken place for as long as 10 years ago, so there may not be enough documentary evidence, or the trail may have simply gone cold. Ms Teo added that clients also sometimes bring their own biases to investigations, already having a pre-conceived culprit in mind. Depending on what the investigation finds, she and her team may then have to disabuse them of such notions.

Of course, all this implies that being a financial forensics professional requires picking up new skills. This is precisely what Ms Teo did when she undertook the ISCA Financial Forensics Professional (FFP) accreditation. As this would require quite a significant investment in terms of time, she advised anyone considering getting this accreditation to seek the advice of someone already in the field, if possible. "Talk to them about what a day in their profession is like, and how someone might succeed in this area," recommends Ms Teo. She also felt that because there are new skills involved, it is worth making the time – prior to making the decision to embark on the accreditation journey – to go through the various modules such as digital forensics, because accountants might not have encountered them before.

A YEARNING TO LEARN

In Ms Teo's case in particular, an impressive and deep passion for learning has facilitated more than just her decision to take up the FFP accreditation and to move from audit to forensic accounting. "I like to develop different parts of my brain," she reveals. "I see the value in learning different things (unrelated to professional work) and enriching yourself based on your own interests because you never know when it could add value to your career." Ms Teo cited a specific personal example, where her efforts to learn Japanese yielded an unexpected professional benefit. She picked up the language because she appreciates Japanese culture and loves visiting the country. However, it so happened she actually managed to win jobs with Japanese multinational companies when they discovered her proficiency in the language.

Not surprisingly, Ms Teo feels strongly about the value of education both professional and personal. This is partly why she was excited about the One Young World Summit 2019 – she was selected from a group of interested participants to represent ISCA and Chartered Accountants Worldwide at the prestigious summit. "We take financial literacy for granted in Singapore. I found (from meeting accountants around the world) that I had quite a myopic view of my own field. What the Summit brought to the table (for me) was that there are matters in the world where accountants are going to play a very big role, because accountants are managing the purse strings."

This feeds into Ms Teo's belief that accountants can actually do more to change perceptions of their profession, to move beyond considering themselves as just bookkeepers. Referring again to financial literacy, she is of the view that there are plenty of people in a variety of trades who do not know how to keep a proper set of financial accounts, and who might benefit from the value that understanding the financial reporting standards brings. In her view, by bringing their skills as accountants to the table, and advising companies to make financial decisions that contribute to society, accountants will be able to position themselves as pivotal change makers. ISCA

BY CHINA BUSINESS KNOWLEDGE@CUHK

CAN ROBOTS SAVE THE SERVICE INDUSTRY FROM COVID-19?

Impact On The Perceived Risk Of Viral Infection

JUST HOW MUCH OF THE GLOBAL SERVICE INDUSTRY WILL BE LEFT STANDING by the time Covid-19 is brought under control is anybody's guess. In the US, an industry association says restaurants across the country are on track to lose US$240 billion in revenues by the year end. Most hotels stand empty. But rest assured that all is not lost. A recent research study by The Chinese University of Hong Kong (CUHK) suggests that robots – which are not generally known for their personal touch – may be able to help the stricken hospitality industry weather and recover from Covid-19.

The study found that the use of robotics in a tourism and hospitality industry setting could help to draw customers back into restaurants and hotels, at a time when people are concerned about the risk of viral transmission from people-to-people interactions. Among the two countries studied, this was more pronounced in China than in the US.

"Our results show that with the pandemic dominating people's awareness, service robots could signal low interpersonal contact, reduce the perceived risk of virus transmission and, in turn, increase visit intention," says study author Lisa Wan, Associate Professor at the School of Hotel and Tourism Management and Department of Marketing at CUHK Business School.

Titled "Robots Come to the Rescue: How to Reduce Perceived Risk of Infectious Disease in Covid-19 Stricken Consumers", the study was co-conducted by Prof Elisa Chan at New York Institute of Technology, Vancouver, and Xiaoyan Luo, a PhD student at CUHK Business School.

> **"Our results show that with the pandemic dominating people's awareness,** service robots could signal low interpersonal contact, reduce the perceived risk of virus transmission and, in turn, increase visit intention."

SAVING HUMANS FROM THE APOCALYPSE?

For the struggling restaurants sector, the US Centers for Disease Control and Prevention has maintained that the risk of getting Covid-19 from eating out is very low. However, some outbreaks have been linked to restaurant employees and customers. This has led some restaurants to increase automation in a bid to alleviate concerns.

For example, a subsidiary of Chinese property developer Country Garden opened the world's first restaurant complex in Shunde, Guangdong province, in June, completely staffed and operated by robotics. The facility, which can accommodate 600 customers, is equipped with 20 robots that can cook over 200 dishes ranging from Chinese food to hotpot and fast food. The food is said to be available within just 20 seconds of ordering. When ready, the food is delivered directly to the customer's table by a skyrail system or on trays by robots.

Elsewhere in the world, the US burger chain White Castle is testing "Flippy", a robotic chef arm that can cook French fries and other foods. In Russia, KFC has opened a store that uses a fully automated fried chicken preparation system.

In a hotel setting, robots are being put into applications including front-desk operations, concierge and room service delivery.


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PHOTO SHUTTERSTOCK

While the technology to build at least rudimentary robots in service-sector settings has existed for some years now, they never really caught on pre-Covid-19 (outside of a handful of gimmick applications). Not only did they require a heavy upfront investment and were prone to frequent breakdowns, they were also – to use a clinical term – "useless".

For example, guests at the robot-augmented Henn Na Hotel in Japan complained that AI-room assistants mistook snoring as voice commands and would wake them up throughout the night. Its robotic front desk was reportedly unable to answer the most basic questions and its luggage robots broke down whenever it got wet going outside. All these created more work for their human counterparts.

Meanwhile, Chinese restaurant chain Heweilai, an early robotics-use catering pioneer, told *Worker's Daily* in 2016 that it was forced to stop using a fleet of robots it purchased to serve customers because of their limited capabilities. The robotic waiters had trouble carrying something as simple as soup, kept crashing into each other because they could only move along fixed routes, could not take orders nor top up water glasses, and were both unlikely and unable to strike up a two-sided conversation with customers.

"Ironically, in the face of a pandemic, it is exactly the lack of interpersonal touch characterised by service robots that makes potential customers perceive a lower risk of contracting viruses and in turn, increase their intention to visit," comments Prof Wan, who is also Director for the school's Centre for Hospitality and Real Estate Research. "Businesses, especially for the hard-hit tourism industry, need to prepare for pandemics as a constant in the business environment. The research suggests that service robots could be a long-term solution, and sheds new light on the robot-customer dynamic specific to the tourism industry."

CONSUMER REACTION TO ROBOTS

The research was divided into two studies. In the first study, the researchers conducted a survey in early April that asks if the respondents would visit a restaurant if robots are used. A total of 496 responses were received. The results show that respondents would visit a restaurant if robots are used; they also considered that using robots would reduce interpersonal interactions, which would effectively reduce the risk of contracting an infectious disease.

In the second study, the researchers recruited American and Chinese respondents via two online platforms. A total of 1,062 respondents took part in the survey. The questions were identical to those in the first study, with an added hotel scenario. Again, the results show that the respondents would visit both restaurant and hotel due to the reduced interpersonal interaction via the use of robots. Interestingly, Chinese respondents indicated a higher intention to visit hotels and restaurants when robots are used than American respondents. According to the results, the Chinese respondents also believed, to a greater extent, that reduced interpersonal interaction due to robots would effectively reduce the risk of viral infection.

"Tangential to the core predictions, our findings suggest that the use of service robots to reduce perceived risk of virus transmission and encourage visits could be more salient in collectivistic cultures such as China," Prof Wan comments. "This could be attributed to more reliance on interpersonal cues in decision making for collectivists. Future research may explore the cultural impacts which will have significant theoretical and practical implications for the successful infusion of service robots in the tourism industry across cultures."

In addition, Prof Wan says more research on intelligent automation and how consumers perceive and react to service robots in the tourism industry is needed. While governments and health authorities are devising reopening plans that centre around public health and businesses establishing stricter guidelines for operations, Prof Wan emphasises that the measures may not adequately soothe pandemic-stricken consumers.

"Every effort to ensure a safe and fast recovery is imperative to revive the tourism industry," Prof Wan says. "This research proposes and tests how the psychological impacts from a prolonged (and possibly recurring) period of social distancing may play a role in business recovery, especially that in the tourism sector. We believe that this psychological perspective complements the mainstream focus on health and economic measures to combat Covid-19 and similar pandemics which may come to pass." ISCA

"Tangential to the core predictions, our findings suggest that the use of service robots to reduce perceived risk of virus transmission and encourage visits could be more salient in collectivistic cultures such as China."

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BY ODED KOENIGSBERG

A SHARPER FOCUS ON THE CUSTOMER

Convert Value To Customer To Value For The Business

YOU WOULD STRUGGLE TO FIND A COMPANY THAT DOESN'T TALK ABOUT CUSTOMER FOCUS, backed up with boasts about how much attention it pays to its clients. But how many companies pay any attention to customers when thinking about *how* to earn revenue from them?

This is because customer focus hasn't made that final step to connect what the customer is actually looking for to the value the company receives. This oversight shrinks opportunity in the market. What does it really mean to make that connection and what does an organisation that has made the leap look like?

On one level, it is about knowing, in detail, what people pay your organisation for. This question can be answered by data, and many companies are collecting and applying insights from data on a vast scale. This is important, but it's only part of the story.

WHAT IS CUSTOMER SATISFACTION?

If you go a little deeper, you could ask what impact the customer is looking for in your product or service. You should be asking yourself: What makes them satisfied with what you have provided?

After all, people want the impact the product creates, not the product itself. For example, not everyone wants to own a car, but everyone wants mobility and convenience. The problem is that in the past, companies couldn't sell mobility and convenience, but they could sell cars and the promise it works.

Marketing guru Theodore Levitt hinted at this misalignment between organisations and customers when he famously observed that people "don't want to buy a quarter-inch drill, they want a quarter-inch hole".

Technology offers the opportunity to unravel the mystery, take customer focus full circle and consequently, address much of the waste that exists in commerce.

Consider car club schemes like Zipcar or Ubeeqo. Their business model is closer to selling you the ability to go to different places. You don't own the car or pay upfront for the car. The value the customer receives in journeys is closer to the value the company receives.

For many businesses, customer focus has not reached this point. The final piece of the puzzle is the process by which organisations convert value to the customer into value for the business. It is a trend that is reshaping markets and changing public discourse, whether your business is on board or not.

EVEN GOOD COMPANIES CAN FAIL TO MAKE THE CONNECTION

Why might a business not see this change? An organisation might not appreciate the importance of aligning the revenue model with how customers derive value from their purchases. Somewhere after ideation and new product or service development, many companies forget the promises made to customers and fret over internal constraints.

If your business is focusing on questions like, "What did it cost us to bring this solution to market? How much risk are we willing to tolerate? What is the desired return on our investment?", then your business could be in this category.

Your organisation needs to see that there is a tension between how it creates better outcomes for customers through its products and services (the solutions it brings to market) and how it creates better outcomes for itself (the revenue model). The greater the quality in the solutions you are providing, the greater the temptation will be for you to blindly adhere to the same tried-and-true ownership model.

Your organisation needs to see that there is a tension between how it creates better outcomes for customers through its products and services (the solutions it brings to market) and how it creates better outcomes for itself (the revenue model).

Sticking to established revenue models leads to inertia, which can manifest itself as risk aversion, myopia, and a certain degree of hubris. The more companies are accustomed to perpetuating the past by projecting it into the future, the more likely they are to respond reactively to trends in their market instead of initiating them.

Implementing a revenue model that holds the firm accountable to its customers may in fact trigger a flight to quality. However, the companies most likely to benefit from implementing a better revenue model are those that are most likely to cling to existing models.

TECHNOLOGY AND DATA

Until relatively recently, companies had no meaningful information on how customers interact with and derive value from their purchases. While it is hard to imagine taking a customer-focused approach to the task of generating revenue when you have no visibility beyond the moment of purchase, it is also true that the importance of gathering information on consumption and performance was largely ignored or dismissed in the past.

Prior to the 21st century, companies could not observe post-purchase behaviour directly, completely, and in real time. Think of the difference between selling music on CDs and selling music via an online streaming subscription. From the moment a CD is purchased, the music publisher has no idea what happens to the product. By contrast, a 21st-century subscription music service can observe every play, pause and download. In the case of the car club, sensors can tell the business how often customers use its vehicles, for how long, how fast and so on.

Now, through technology, companies can close the loop on customer focus. But subscription-revenue models, like car clubs and streaming services, are only one possible response to the trends I explore in my new book, *The Ends Game: How Smart Companies Stop Selling Products and Start Delivering Value*. Subscriptions may only be a transitional step as companies understand, through data, how they contribute towards a desirable outcome for the customer.

OUTCOMES

The Australian company Orica, the world's largest provider of commercial explosives to mining companies, exemplifies how a smart choice of revenue model is critical to sustained success.

PHOTO SHUTTERSTOCK

Many companies in many industries around the world are using impact data, skills, experience, and creativity to shift their revenue models away from traditional, inefficient ownership schemes and toward agreements that come closer to reflecting the underlying value that customers derive in an exchange.

Orica makes a living based on the quality of the "broken rock" it delivers. This outcome-based model, which it refers to as Rock-on-Ground contracts, has become a defining characteristic of how Orica manages the business, both internally in terms of innovation and product development, and externally in terms of its ongoing relationships with customers and positioning in the market.

The size of the broken rock that results from a blast appears to correlate well with the value mining companies derive from using explosives, as smaller rocks are easier and cheaper to dispose of.

If Orica were to sell its explosives, advisory services, and other blasting materials under a traditional ownership model, or even under a subscription model, it would risk generating all forms of waste.

For a success-dependent fee, Orica takes care of the necessary planning, provides the appropriate materials, and manages the blast.

Just as important is Orica's steadfast focus on adopting new technologies to continually optimise how it integrates and performs these tasks. In late 2018, the company released the next generation of its digital platform, BlastIQ, which integrates data and insights from digitally-connected technologies across the drill-and-blast process. Orica claims that the solutions powered by BlastIQ "can deliver predictable and sustainable improvements that can reduce the overall cost of drill-and-blast operations, improve productivity and safety, and facilitate regulatory compliance".

In other words, BlastIQ "will enable our customers to make better decisions more rapidly, and deliver improved blast outcomes across their operations". It does that by providing "near real-time, hole-by-hole, blast-related data visually to the multiple users across the drill-and-blast process".

Orica has reconfigured blast operations in mining around the idea of lean commerce. The adoption of Rock-on-Ground contracts creates opportunities for optimisation that are inconceivable under the local, manual, highly variable ownership models that prevailed to that point.

The difference is that the quality of the outcomes is now not only more quantifiable and verifiable, it is also more predictable. Mining companies can make better decisions on how to conduct any given project, save a considerable amount of time and money, and capitalise on opportunities that might have otherwise been uneconomical.

Orica is not alone. Many companies in many industries around the world are using impact data, skills, experience, and creativity to shift their revenue models away from traditional, inefficient ownership schemes and toward agreements that come closer to reflecting the underlying value that customers derive in an exchange. How can organisations responsibly and effectively achieve this in different market contexts? This is the essence of *The Ends Game*. ISCA

The Ends Game: How Smart Companies Stop Selling Products and Start Delivering Value by Marco Bertini and Oded Koenigsberg is out now.

BY PERSPECTIVES@SMU

COVID-19: AN OPPORTUNITY TO ELEVATE YOUR BRAND

Dream, Dare And Do

WHEN LVMH, THE WORLD'S LARGEST LUXURY GOODS COMPANY, announced in March 2020 that it would convert three of its perfume manufacturing plants to make hand sanitisers, JP Kuehlwein did a double take. "It's a bit risky for a luxury brand to make hand sanitisers because it's such a utilitarian product," explains Kuehlwein, Co-Founder and Principal of marketing consultancy Ueber-Brands. "But it's important because it signals empathy: we're luxury but we're not snobbish and arrogant. It's about lives here, we need to pull together."

"If in that situation, Louis Vuitton had said, 'We have to plan our next fashion show', that would have been bad. It would also have been bad if they had started to sell Louis Vuitton hand sanitisers for $99 in a chic leather holder. That would have (played into the criticism) that high-end luxury is arrogant and condescending." Instead, LVMH has done what Kuehlwein calls "elevating" its brand during a crisis.

"Good brands can harness emerging sociocultural forces that come to the fore in a crisis. And if these brands can make their action fit their DNA, they can elevate themselves and make the brand stronger."

ELEVATING IN TIMES OF CRISIS

Kuehlwein, who had served as Brand Director and Global Director of Strategy at Procter & Gamble, made those observations at the SMU Centre for Marketing Excellence (CME) Luxury Marketing Series webinar, "The New Prestige: From Myth Making to Manifesting a Higher Mission – Particularly in a Crisis!", on 17 November 2020.

Besides LVMH, Kuehlwein also cited Airbnb's Online Experiences ("Find unique activities led by one-of-a-kind hosts – all without leaving home.") initiative as an example of an action that fits the brand's DNA, and thus elevating it during the Covid-19 crisis.

> **"It's an opportunity to build up a mission, but is this going to last after the crisis? …** Will they, in a typical mass marketing move, abandon it as just a campaign? Or contract it out to an agency and pay the agency to do whatever?"

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"Obviously nobody was travelling in the US, one of Airbnb's biggest markets," he explains. "But they had an engaged host and guest community who came up with Online Experiences: 'Okay, you can't come to France or Napa Valley, let us do a virtual wine tasting together; order wine online and I'll do it with you. I'll walk through Paris with the camera on my phone while you watch because you can't visit me from the United States, etc.' It became so popular that it's now a standing offer."

Brand elevation is not restricted to aspirational or luxury brands. Heinz, perhaps best known for its canned baked beans, garnered plenty of positive coverage by pledging to pay for 12 million meals for underprivileged UK school children. With schools closed during Covid-19, some of these children were denied a school lunch which might be their only full meal for the day.

"It's an opportunity to build up a mission, but is this going to last after the crisis?" asks Kuehlwein. "Will they, in a typical mass marketing move, abandon it as just a campaign? Or contract it out to an agency and pay the agency to do whatever? Or will they be smart enough to integrate this and help elevate Heinz into something more meaningful?"

DREAM, DARE AND DO

The examples Kuehlwein brought up constitute the "Do" element of brand elevation; "Dream" and "Dare" are the other two. Where "Do" is the actual action to elevate, "Dream" is what "makes you want to buy into rather than buy" something.

When buying a piece of clothing from outdoor apparel maker Patagonia, Kuehlwein explains, "You are buying more than just a fleece sweater; you are buying into a whole philosophy of preserving the environment so that everyone can benefit from it." For Ben & Jerry's, one would be buying into its much-documented advocacy for social justice (Yes Pecan! Choc-u-pie Wall Street, etc.) that is very much in line with its tagline of 'Peace, love, and ice cream'".

What about "Dare"?

"It's about tension," says Kuehlwein, "the concept of defining and finding and celebrating your 'ueber target', your muse, as a brand." Kuehlwein relates an exercise involving Harley-Davidson where he shows people a picture of an arm tattoo of the motorcycle-maker's logo.

"I ask them, 'Who is the person with the tattoo? Is it a male or female? Is the person bearded or shaven? Does the person have a gun? Is the person a smoker?' etc. Ninety-nine per cent of the time, the respondent, regardless of race, age or geography, talks about the same person: It's this fantasy person that has been going on forever and ever – the outlaw, the Hell's Angel who is loud and tattooed and doesn't give a damn."

"Some of them actually are like this fantasy person, perhaps 20% of those who buy the bikes, but the buyers of the full-price expensive Harley-Davidson bikes are often doctors, lawyers and middle-aged men who have a mid-life crisis and they aspire to be these outlaws even if it is just for a short weekend. And then they wash off the tattoo and it's over. That is the difference between the ueber target and the reality. That is how you create this tension."

Social media, in particular Instagram, is a prime generator of this tension. "You see the ideal self all the time on Instagram," Kuehlwein comments. "To the extent that your brand can become part of the ideal self, like being in a Gucci changing room where you can pretend to wear this dress even though you cannot yet afford it, you are helping people live this ideal self. But the tension is there; they can't afford it, it's just a picture, you're wearing it just for a minute. It's positive tension."

> **"The majority fail because it doesn't come from within, because it doesn't come from the brand's DNA.** The brand's DNA is not just the desired identity, it's 'what is the organisation about?'"

ELEVATION FAILURE

When asked if any brand in any business, however unglamorous, can be elevated, Kuehlwein revealed that he has been working with recycling companies and firms selling tarmac. He emphasised his point with the example of Fleur de Sel de Guérande, the premium sea salt brand that sells for more than 10 times the price of common salt "by invoking your romanticism about certain locations... and it's hand packed and it's beautiful, and it's elevated!"

However, Kuehlwein cautions against equating those examples with the impossibility of failure. Audi's 2017 Daughter (Super Bowl commercial) proclaiming "Audi of America is committed to equal pay for equal work" backfired spectacularly when it was found shortly after that that most of its senior management were men.

"There are more failures than successes, for sure," Kuehlwein concedes. "The majority fail because it doesn't come from within, because it doesn't come from the brand's DNA. The brand's DNA is not just the desired identity, it's 'what is the organisation about?'"

"What is the manufacturing about? How is the experience at the retail store? Does it fit together? Is it consistent? Or do you discover when you take aside the curtain that it was all just a PR or ad campaign that an ad agency has created? And as soon as the agency changes, it becomes something else?"

"In that case, the organisation or anything else in any manifestation of the product or service would have nothing to do with it. That's when you flop." ISCA

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TECHNICAL HIGHLIGHTS

ETHICS

IFAC AND ICAEW RELEASE THIRD INSTALMENT OF SIX-PART ANTI-MONEY LAUNDERING EDUCATIONAL SERIES

The third instalment of the *Anti-Money Laundering, The Basics* educational series: *Installment 3: Company Formation*, looks at how professional accountants can apply a risk-based approach in the company formation process, identify key red flags, and know when to walk away and/or file a suspicious activity report.

For more information, please visit https://www.ifac.org/news-events/2020-11/ifac-and-icaew-release-third-installment-six-part-anti-money-laundering-educational-series

FINANCIAL REPORTING

IASB BEGINS POST-IMPLEMENTATION REVIEW OF IFRS 9

The Post-implementation Review (PiR) is divided into phases, starting with the review of the classification and measurement requirements. The impairment requirements and hedge accounting requirements will be reviewed later, when more information is available about the application and effects of those requirements. IASB carries out PiRs to assess the effects of a new Standard or major amendment to a Standard on investors, companies and auditors after the requirements have been widely applied for some time.

For more information, please visit https://www.ifrs.org/news-and-events/2020/11/iasb-begins-pir-of-ifrs-9-classification-and-measurement/

IASB WEBINAR: SECOND DISCUSSION PAPER BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT – RECORDINGS AVAILABLE

IASB is seeking feedback on this Discussion Paper. This webinar, which is the second and final in the series, focuses on IASB's preliminary views about improving disclosures about acquisitions. The recording of the webinar, which was held on 21 October 2020, can be found on both the IASB website and IASB YouTube channel.

For more information, please visit https://www.ifrs.org/news-and-events/2020/11/second-webinar-on-dp-recordings-now-available/

NEW IFAC WHITEPAPER EXPLORES ACCOUNTANCY SKILLS EVOLUTION AHEAD OF VIRTUAL GLOBAL SUMMIT

Based on stakeholders' feedback from a series of roundtable discussions on the impact of the pandemic on the profession,

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IFAC published a summary of key themes affecting the future of accountancy and accountancy skills. Key themes include accelerated ways of working, impact of technology, practices that align to new societal demands, and the right balance of skills, which collectively illustrate a roadmap for the professional accountant.

For more information, please visit https://www.ifac.org/news-events/2020-11/new-ifac-whitepaper-explores-accountancy-skills-evolution-ahead-virtual-global-summit

SPEECH: TRUSTEE CHAIR'S KEYNOTE TO UNCTAD ON SUSTAINABILITY REPORTING

At the 37th UNCTAD session, IFRS Foundation Trustees Chair Erkki Liikanen delivered the keynote speech on sustainability reporting and introduced the Trustees' Consultation Paper on Sustainability Reporting.

For more information, please visit https://www.ifrs.org/news-and-events/2020/11/trustee-chairs-keynote-to-unctad-on-sustainability-reporting/

IFRS FOUNDATION PROPOSES CHANGES TO IFRS TAXONOMY 2020

The proposed changes support the high-quality tagging of information presented in primary financial statements which includes (i) new elements reflecting common reporting practice, for example, new line items for disclosures related to earnings per share and the transition to new IFRSs, and (ii) new and amended labels to clarify the accounting meaning and intended use of some existing elements.

For more information, please visit https://www.ifrs.org/news-and-events/2020/10/the-ifrs-foundation-proposes-changes-to-the-ifrs-taxonomy-2020/

IASB PUBLICATION ON APPLYING IFRS STANDARDS IN 2020 – IMPACT OF COVID-19

IASB Board member Mary Tokar and technical staff Sid Kumar provide an overview of the key financial reporting considerations for preparers, auditors, investors and regulators as they tackle the complexities associated with Covid-19. The article draws on views shared during a panel discussion at the IFRS Foundation Virtual Conference on 28 September 2020.

For more information, please visit https://www.ifrs.org/news-and-events/2020/10/applying-ifrs-standards-in-2020-impact-of-covid-19/


BY FELIX WONG AND ANGELINA TAN

THE LINE BETWEEN TAX PLANNING AND TAX AVOIDANCE

Knowing The Distinction And Implications

IN RECENT YEARS, many countries are taking a fresh look at their domestic anti-avoidance provisions amid increasing public interest on tax avoidance and growing fiscal needs. As tax authorities step up enforcement actions, more disputes on whether an arrangement falls within the ambit of tax planning or tax avoidance are expected.

While most people are aware that planning for taxes is permissible under the law but avoidance of taxes is not, it is often difficult to draw a clear line between the two, as the varying fact pattern of each case may lead to a different conclusion.

Singapore's general anti-avoidance provisions are easy to read, but they are not always easy to apply in practice, particularly in complex arrangements where the risks hinge on the facts, circumstances and evidence available. Does an arrangement that results in a more favourable tax outcome than a prior arrangement automatically get into the crosshairs of the tax authorities and are deemed to be tax avoidance? This was one of the issues that was tackled head on by James Choo, Partner, International Tax and Transaction Services, Ernst & Young Solutions LLP, at a webinar organised by the Singapore Chartered Tax Professionals, as he deep dived into Singapore's general anti-avoidance provisions and their application in the recent case of *GCL v Comptroller of Income Tax* (CIT) [2020].

James Choo, Partner, International Tax and Transaction Services, Ernst & Young Solutions LLP, shed light on the latest case involving the application of the general anti-avoidance provisions under Section 33 of the Income Tax Act

SINGAPORE'S GENERAL ANTI-AVOIDANCE PROVISIONS

Singapore's general anti-avoidance provisions are found in Section 33 of the Income Tax Act (ITA). Essentially, Section 33 empowers CIT to disregard and make adjustments to arrangements which are carried out with tax avoidance as one of their main purposes and not for bona fide commercial reasons.

Proposed amendments to Singapore's general anti-avoidance provisions

The recent Income Tax (Amendment) Bill 2020 reaffirms Singapore's position against tax avoidance. It proposed the repeal and re-enactment of the general anti-avoidance provisions and in addition, the introduction of a surcharge to be imposed on adjustments made under the general anti-avoidance provisions[1].

[1] The Income Tax (Amendment) Act 2020 has since been gazetted on 7 December 2020. New Sections 33 and 33A are now in force.

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One key change that the new Section 33 would make is the elimination of CIT's discretion in dealing with tax-avoidance cases. While CIT may choose to disregard or vary an arrangement and make such adjustments as he considers appropriate under the existing legislation, he would be required to disregard or vary the arrangement and make adjustments that he considers appropriate following the proposed change.

Surcharge on adjustments under Section 33

The new Section 33A would impose a surcharge on tax-avoidance arrangements. The surcharge would apply to adjustments made to tax assessments from Year of Assessment (YA) 2023, and would amount to 50% of the income tax or additional income tax to be imposed by CIT as a result of the adjustments made to counteract the advantage obtained or obtainable from the arrangement.

GCL v CIT [2020]

GCL v CIT [2020] (GCL) is the latest tax-avoidance case dealing with the general anti-avoidance provisions in Section 33 of the ITA. In GCL, the taxpayer, a dentist, was employed in an orthodontic clinic (YCO) and derived employment income which was taxed on an individual basis (the "former arrangement").

In 2012, the taxpayer ceased his employment relationship with YCO, and incorporated a company, GCL, where he was the sole shareholder and director. GCL then entered into a service agreement with YCO to provide dental services to YCO as an independent contractor. The services were provided by the taxpayer at YCO's premises. YCO paid service fees to GCL which would then pay director's fees, dividends and salaries to the taxpayer.

CIT's arguments

CIT submitted that GCL was incorporated to receive income from providing dental services at YCO (which was previously received directly by the taxpayer), and that GCL paid an artificially low level of remuneration to the taxpayer, so that most of the remaining profits of GCL could be paid to the taxpayer as tax-exempt dividends. CIT asserted that in doing so, it can be objectively ascertained that the arrangement falls within either Section 33(1)(a) or (c) of the ITA.

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> The new Section 33A would impose a surcharge on tax avoidance arrangements. The surcharge would apply to adjustments made to tax assessments from Year of Assessment (YA) 2023, and would amount to 50% of the income tax or additional income tax to be imposed by CIT as a result of the adjustments made to counteract the advantage obtained or obtainable from the arrangement.

The taxpayer's arguments

The taxpayer submitted that the new arrangement did not fall within the ambit of Section 33(1) and that GCL was incorporated as a business vehicle to operate his own dental practice. He explained that the remuneration paid to him by GCL was determined based on what was adequate for his day-to-day expenditure, and claimed that the remaining profits were intended to be retained in GCL to fund its operations, particularly for the purchase of a medical unit.

The Income Tax Board of Review's decision

In arriving at its decision on whether the arrangement falls within any of the limbs under Section 33(1)(a) to (c) of the ITA, the Income Tax Board of Review (ITBR) applied the three-step framework set out in the landmark case of *AQQ v CIT* [2012]:

- *Step 1: Whether an arrangement prima facie falls within any of the three threshold limbs of Section 33(1)(a) to (c) such that the taxpayer has derived a tax advantage ("objective test" where determination should be made on objective facts and the motive of the taxpayer is irrelevant)*

The ITBR considered the arrangement purported by CIT in two parts – firstly, the incorporation of GCL to receive income for providing dental services, and secondly, the setting of remuneration paid to the taxpayer by GCL, such that there remained profits in GCL to be taxed and thereafter paid to the taxpayer as tax-exempt dividends.

Incorporation of GCL

The ITBR held that the incorporation of GCL to operate a dental business and to receive an income did not fall within Section 33(1) as they were unable to predicate that these steps and their effect were implemented for tax avoidance. The ITBR highlighted that the use of a company to carry out a dental practice is a common and widely used setup, and is not inherently an act to avoid tax.

Remuneration paid by GCL

On CIT's assertion that the remuneration paid by GCL to the taxpayer was "artificially" low, the ITBR noted that the new arrangement objectively led to a reduction of overall tax for the taxpayer.

While the taxpayer had explained that the level of remuneration had been based on what was necessary for his personal upkeep and maintenance, there was a significant difference in the level of remuneration paid to him by GCL compared to the remuneration he had received as an employee of YCO under the former arrangement, even though his personal role had largely remained the same under both arrangements. Accordingly, the ITBR found the arrangement and its effect led to an avoidance of tax, and is not capable of explanation by reference to ordinary business or commercial basis.

- *Step 2: Whether the taxpayer may avail himself of the statutory exception under Section 33(3)(b) ("subjective test" which determines the subjective motive of the taxpayer by drawing inference from the factual evidence)*
The ITBR opined that the appropriate level of remuneration that GCL should have paid the taxpayer under the new arrangement is a question of fact, taking into consideration market pay at comparable skill and experience level. The determination of the taxpayer's remuneration based on personal upkeep and maintenance requirements was neither commercial nor reflective of reasonable remuneration, as evidenced by the significant difference with the income the taxpayer had received as YCO's employee under the former arrangement.
Further, the ITBR noted that for YAs 2013 to 2016, the remaining profits in GCL after paying the remuneration to the taxpayer was consistently and "rather uncannily" around $300,000, which was the level where GCL would maximise exemptions provided under the ITA, namely the start-up tax exemption (SUTE) and partial tax exemption (PTE) respectively.
Accordingly, the ITBR held that the exception under Section 33(3)(b) would not apply.

- *Step 3: Whether the taxpayer has satisfied the court that the tax advantage obtained arose from the use of a specific provision in the Act that was within the intended scope and Parliament's contemplation and purpose, both as a matter of legal form and economic reality within the context of the entire arrangement*
The ITBR noted that the Parliament's intent for SUTE and PTE is to encourage the conduct of an enterprise through a corporate structure. An arrangement that sought to utilise SUTE and PTE for the avoidance of tax does not fall within such intent.

Based on the above, the ITBR found that the taxpayer has not proven that the assessments by CIT are excessive and accordingly, dismissed the taxpayer's appeal[2].

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The ITBR concluded that an arrangement would not fall within the ambit of Section 33(1) merely because its tax outcome was more favourable than a prior arrangement, without considering the reasonableness of the overt acts undertaken.

OTHER POINTERS FROM GCL

Not every transaction resulting in tax benefits amounts to tax avoidance

The ITBR concluded that an arrangement would not fall within the ambit of Section 33(1) merely because its tax outcome was more favourable than a prior arrangement, without considering the reasonableness of the overt acts undertaken. This reaffirms the distinction between tax planning and tax avoidance, and that not every transaction resulting in tax benefits will amount to tax avoidance. If a transaction can be supported by business and commercial reasons, then the transaction may constitute legitimate planning.

Contemporaneous documentation of commercial reasons

To defend against a Section 33 challenge from the tax authorities, taxpayers must satisfy the Courts through an enquiry into the subjective motive for entering into the arrangement and the consequences sought, and the economic realities involved. Contemporaneous documentation (such as minutes of meetings and board's resolutions) is therefore crucial to provide the necessary evidence to substantiate the taxpayer's assertion that an arrangement is supported by legitimate commercial reasons.

Taxpayers need to recognise the changing trend on tax avoidance and be mindful of the thin line between tax planning and tax avoidance. It would be timely to review existing arrangements in view of the proposed amendments to Singapore's general anti-avoidance provisions. ISCA

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

[2] The taxpayer has since appealed to the High Court against the ITBR's decision. In *Wee Teng Yau v CIT and another appeal* [2020], the High Court affirmed the ITBR's decision and dismissed the taxpayer's appeal.

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