# IS Chartered Accountant

August 2017

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

## PREPARING FOR FULL IFRS CONVERGENCE IN 2018
**Essential Notes For SGX-listed Companies**

## THE CFO'S EVOLVING ROLE
**Beyond Traditional Financial Stewardship**

## THE COMPLEX FUTURE TAX LANDSCAPE FOR MNCS
**Practical Considerations Around BEPS In A Multinational Group**

# ACCOUNTANTS: BEYOND BEAN COUNTING
## WHITE-COLLAR CRIME BUSTERS

# SQUARE PEG, ROUND HOLE: NEW PERSPECTIVES AND POSSIBILITIES

**Dear members,**

It's Singapore's 52nd birthday and on behalf of ISCA, let me wish you a happy National Day.

Singapore's success story, from a small fishing village to a modern metropolis, is a familiar one. The journey – characterised by vision, a stoic determination and an adaptive mindset – has enabled the city-state to make the transition from third- to first-world economy in record time. Armed with similar fortitude and focus, the Institute is advancing towards our 2020 vision to be a globally-recognised professional accountancy body, bringing value to our members, the profession and the wider community.

Unlike in the early years of Singapore, today's business landscape is in a constant flux. What had worked well before may not be applicable today, so it is crucial for our members to keep up with what's happening. As the national accountancy body, ISCA supports our members by keeping them updated on the latest developments, and equipping them with the skills and know-how to navigate the dynamic business environment.

Members, too, must commit to self-advancement, by participating in the myriad of seminars, events and continuing professional education, and tapping into the insights and resources available. Don't be the proverbial square peg that cannot fit into the round hole. Be nimble and flexible; open your mind to new perspectives and embrace exciting, upcoming possibilities.

Today's accountants are no longer the bean counters of yesteryear; they now add tremendous value in specialised fields such as valuation, risk management and corporate governance, corporate finance and financial forensics. Our cover story delves into forensic accounting, the skills required of a forensic accountant and the accountants' responsibility in the fight against money laundering and terrorist financing. Co-written by Lem Chin Kok, a forensic accountant who was featured in the July "Member Profile" column, the modern-day Sherlock Holmes gives a first-hand account of how forensic accounting came into the public eye, and what the role entails.

To provide more depth into this niche area, ISCA is organising a regional white-collar crime investigation conference that brings together experts in the field. Do sign up for "ISCA Financial Forensic Conference – Fortifying Your Business" on September 28, to find out more.

Much like accountants, the CFO's role has also evolved with the times. Influenced by factors spanning social and economic shifts, technological breakthroughs and the growing significance of the triple bottom line – all of which impact the business environment – the modern CFO has become the co-driver of corporate strategy and advisor to the CEO. Read about the broad range of responsibilities under his ambit and the requisite skills to excel in this role.

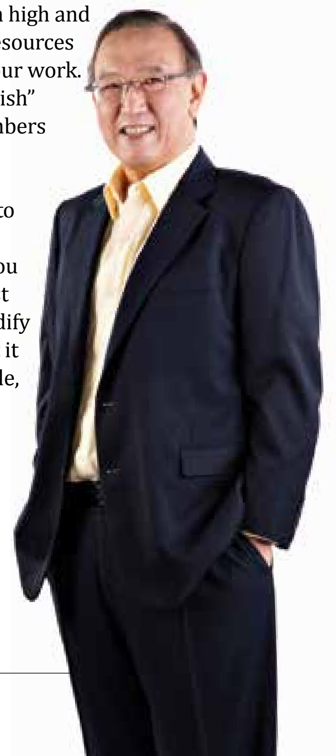
The establishment of the ASEAN Economic Community in 2015 has further broadened the possibilities for our ISCA members. Under the Mutual Recognition Arrangement on Accountancy Services, *ASEAN Chartered Professional Accountants* (*ASEAN CPAs*) can provide a range of accountancy services in the 10 ASEAN member markets without having to undergo extensive re-training or re-qualification procedures. If you meet the qualifying criteria, I urge you to apply to be an *ASEAN CPA*, a designation that will provide you with access to one of the highest growth economic regions in the world. A step-by-step guide of the application process is published within.

It may be Singapore's birthday month but it's the Institute that has received a present. I am pleased to share that this ***IS Chartered Accountant*** journal has clinched the Award of Excellence in the global "APEX Award for Publication Excellence", for the second year running. The award is testament to the journal's quality – its topnotch graphic design, editorial content and success in achieving overall communications effectiveness and excellence. With your support, we will continue to aim high and produce relevant resources that add value to your work.

My "birthday wish" is for our ISCA members to keep upgrading themselves and be adaptable in order to thrive. Don't be the square peg, but if you must be one, at least be innovative – modify the material so that it is sufficiently flexible, to fit into the round hole.

Enjoy your award-winning journal.

**Gerard Ee**
*FCA (Singapore)*
president@isca.org.sg



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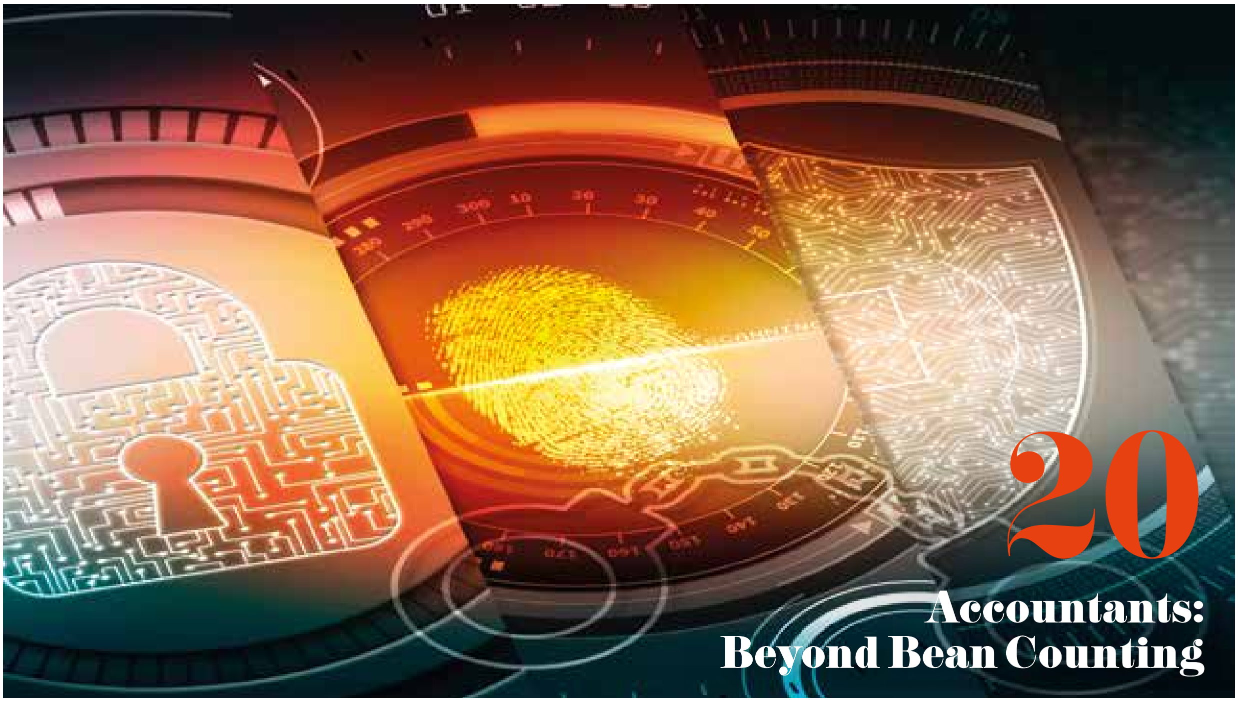
## FOCUS






## IN TUNE




## VIEWPOINT





## TECHNICAL EXCELLENCE




## FIRST LOOK



**ERRATUM**

In the article "ACCA-ISCA Joint Pathway Programme: Your Pathway to Greater Heights", published in the July 2017 issue of this journal, the wrong version of paragraphs 4 and 5 was inadvertently published. The correct version should read:

"The JPP adds value through its extensive initiatives including scholarships and awards, regional internship opportunities, practical work experience and career guidance to help you chart a pathway for a fulfilling career in this interconnected world.

In addition, upon completing the JPP, you will earn the ACCA-ISCA Advanced Diploma in Accounting and Business – which is equivalent to a Bachelor's degree in the UK education framework."

We are sorry for the error.

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**PUBLISHER**
Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709

**Tel:** (65) 6749-8060
**Fax:** (65) 6749-8061
**Email:** isca@isca.org.sg
**Website:** www.isca.org.sg

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**Hp:** 9829-6905
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trevor@multi9.com.sg

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# IN TUNE

## INDUSTRY NEWS

# Most Singapore CEOs Express Confidence in Global Economy

**KPMG** International has released its 2017 "Global CEO Outlook", which reveals that many CEOs are still broadly confident about global economic prospects. However, this optimism has dipped from 80% last year to 65% this year. While this optimism was similarly shared among ASEAN CEOs (65%), Singapore CEOs were slightly more confident (73%).

Featuring interviews with almost 1,300 CEOs of the world's largest companies, the 2017 "Global CEO Outlook" finds that globally, 65% of CEOs see disruptive forces as an opportunity rather than a threat to their business. Among Singapore and ASEAN CEOs, this figure was even higher, at 96% and 92% respectively.

"Disruption has become a fact of life for CEOs and their businesses as they respond to heightened uncertainty," says John Veihmeyer, Global Chairman of KPMG. "But importantly, most see disruption as an opportunity to transform their business model, develop new products and services, and reshape their business so it is more successful than ever before. In the face of new challenges and uncertainties, CEOs are feeling urgency to 'disrupt and grow'."

The report provides insights into global CEOs' expectations for business growth, the challenges they face and their strategies to chart organisational success over the next three years. Key findings include:

- In 2017, 83% of CEOs, when looking within their own businesses, describe themselves as confident of their company's growth prospects over the next three years. Singapore and ASEAN CEOs were even more confident, at 96% and 98% respectively.
- Globally, 74% of CEOs say their business is aiming to be the disruptor in their sector. Similar numbers were seen for Singapore (77%) and ASEAN (83%).

ASEAN CEOs surveyed generally had higher-than-global-average intentions to invest in new technologies and use digital to connect with customers. Intentions to invest in robotic processes over the next three years averaged about 45% higher than among CEOs outside the region. "Greater digital investments offer CEOs and their companies more opportunities to find competitive advantage in an increasingly uncertain global geopolitical environment," says Ong Pang Thye, Managing Partner, KPMG in Singapore. "Comparing our results across ASEAN with the rest of the world, we see a greater confidence among ASEAN business leaders that should translate into an economically positive year for the region."

### The evolving risk landscape

A striking change this year is the rise in the number of CEOs who cite "reputational" and "brand risk" as a top current concern. Not featuring in the top 10 concerns in 2016, it is now the third most important risk (out of 16 in total) this year. Singapore and ASEAN CEOs ranked it similarly.

CEOs also see reputation and brand risk as having the second biggest potential impact on growth over the next three years (rising from seventh place in 2016). Singapore CEOs ranked it third, and ASEAN CEOs ranked it fifth.

Cyber security, ranked as the top risk in 2016, has this year fallen to fifth position globally, seventh in Singapore and ninth across ASEAN. This may reflect CEO views of progress made in cyber risk management. Globally, 42% (Singapore 50% and ASEAN 46%) say they feel adequately prepared for a cyber event – up from 25% in 2016. "The WannaCry ransomware incident occurred after this survey was completed. This suggests that companies must never become complacent about cyber security," says Mr Ong. "While it may be impossible to fully prepare for unknown cyber threats, strengthening cyber security practices is a continuous and evolving journey in protecting their brand reputation."

Additional information about the study is available at kpmg.com/CEOoutlook.

PHOTO SHUTTERSTOCK

# IN TUNE

## INDUSTRY NEWS

# Asia Ahead of Global Peers in Digital Engagement

Asian economies are more digitally engaged relative to their global peers at similar stages of development, according to Deloitte's "Voice of Asia" series. Deloitte's digital engagement indices for government, businesses and consumers show that Asian economies are leveraging digital technologies to help them leapfrog development hurdles, resulting in them winning the race on connectivity.

"Digital technologies have been synonymous with rapid and evolving change over the past four decades," explains Ric Simes, Deloitte Australia Economist. "While we have made significant progress, we are only at the tip of the digital iceberg when it comes to what's possible in the future. When applied on a global scale, we can see that Asian economies and societies are at the forefront of this revolution. Asia is leading the way in how digital developments can enable individuals, businesses and governments to do things differently and, often, more efficiently."

According to the indices, in terms of digital engagement, almost all Asian countries score above the world average. The index measures each country's Networked Readiness Index (NRI) against GDP per capita, and every country in Asia apart from Myanmar has above-average levels of digital engagement for the level of their economic development.

Singapore and Hong Kong are world leaders, while the large population bases in countries such as China, India, Indonesia and Vietnam have considerable opportunities for the future. In middle-income countries in Asia, governments have been able to maintain strong growth agendas based on policies in areas such as trade, infrastructure and savings. Today, these countries are pursuing growth agendas with digital taking a leading role.

Additional information is available at https://www2.deloitte.com/au/en/pages/economics/articles/voice-of-asia.html.

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# National Day Greetings

“Happy 52nd Birthday, Singapore, and Happy National Day to all Singaporeans! Here’s wishing that all Singaporeans will stay united as one people and continue to do our best to make Singapore a strong, prosperous and harmonious country for many years to come. There is no better place to call home!”

GOH KAI YI,
Audit Manager,
KPMG

“Happy 52nd Birthday, Singapore! Thank you for the beautiful and safe environment which we all treasure. It feels great to be part of this harmonious society where people are highly driven with ambition and perseverance. May Singapore continue to prosper and scale new heights in the many years to come.”

CA Practice PAC


“Happy Birthday, Singapore! Wishing you a peaceful and prosperous future filled with hope, happiness and progress. Here’s to the spirit of Singapore!”

Natarajan & Swaminathan

“Happy Birthday, Singapore! I am really proud to call this little island our home! May we maintain our relevance, realise our dreams and leave our footprints for many years ahead!”

GOH SIEW MIN,
Business Development Analyst,
SIA Engineering Company

**"Happy 52nd Birthday. Being a home-grown business, we have seen Singapore blossom over the years to the prosperous nation it is today. We are proud and excited to be a part of its continued growth. Challenges are a given, but there isn't one the people cannot overcome. Onward Singapore!"**

Helmi Talib Corporate Pte Ltd

**"Happy Birthday, Singapore! Thank you for a prosperous, safe and inclusive society. May we continue to be humble, thirsting for knowledge and striving for excellence. The best is yet to be!"**

WANG GUANGZHAO,
Financial Controller, Decathlon

**"Happy Birthday, Singapore! As we celebrate our 52nd National Day, my wish is for us to remember the work ethic that helped build the Singapore that I am so proud to call home, and to continue to grow as an inclusive, caring and vibrant society as we strive towards a bright and prosperous future together."**

DAVID LIM,
Investment Management,
Goldman Sachs

**"One united nation we will stand**

**Regardless of race, language or religion we will band**

**To work together with a united determination**

**To ensure happiness, prosperity and progress for our nation**

**Happy 52nd Birthday, Singapore!"**

Kong, Lim & Partners LLP

▲ Participants listening intently to the speakers

▲ (From left) Caroline Lee, member of IESBA and Head of Quality and Risk Management, KPMG Asia Pacific Limited; Patrick Ang, member of ISCA EC and Deputy Managing Partner of Rajah & Tann Singapore LLP; Eng Chin Chin, member of ISCA EC and Head of Quality and Risk Management, KPMG Singapore; Kwok Wui San, Chairman of ISCA EC and Head of Regulatory Advisory Services, PwC Singapore

ISCA ETHICS SEMINAR

## Do the Right Thing: Get in Tune with the Latest Ethics Standards

On June 28, ISCA held the ISCA Ethics Seminar titled "Do the Right Thing: Get in Tune with the Latest Ethics Standards" at Fairmont Singapore. The event was attended by about 260 participants. In his opening address, ISCA CEO Lee Fook Chiew stressed the importance of ethics, which is the cornerstone of the accountancy profession.

Kwok Wui San, Chairman, ISCA Ethics Committee (EC), updated participants on the key changes to Ethics Pronouncement (EP) 200: Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore, covering the practical aspects surrounding identification of politically-exposed persons (PEPs) and screening. He reminded participants of their obligations under the law and cited the recent case of a convicted corporate service provider as an example of the clear need to be vigilant, and conduct proper due diligence on clients.

ISCA EC member Eng Chin Chin spoke about some key recent and upcoming developments to EP 100: Code of Professional Conduct and Ethics. She highlighted the new international pronouncement, Responding to Non-Compliance with Laws and Regulations (NOCLAR), which provides a framework to guide professional accountants in deciding how best to act in the public interest, when they become aware of NOCLAR or suspected NOCLAR.

Another ISCA EC member, Patrick Ang, covered whistleblowing from the perspective of both employee and company, and also discussed whether current legislations accorded protection to whistleblowers.

Caroline Lee, a member of the International Ethics Standards Board for Accountants (IESBA), shared with participants some of the key IESBA projects such as the restructuring of the international ethics code and the revision of provisions for professional accountants in business with respect to inducements.

▲ (From left) ISCA CEO Lee Fook Chiew with Mr Ang, Ms Eng, Ms Lee, and Mr Kwok

Mr Kwok moderated the Q&A session in which all four speakers took turns to respond to questions raised by the floor. One interesting question concerned the beneficial owner's source of wealth and funds. Mr Kwok shared that the purpose of obtaining such information was to assess whether the money was legitimate or tainted; it is also important to corroborate any information obtained from the PEP.

▼ ISCA and NTUC representatives discussing how they can work together to develop programmes that prepare accountants to be future-ready


▲ Present at the MOU signing ceremony were (seated, from left) ISCA President Gerard Ee; ISCA CEO Lee Fook Chiew; NTUC Assistant Director-General Vivek Kumar and NTUC Assistant Secretary-General Patrick Tay; (standing, from left) ISCA Manager for Industry Support Derek Tang; NTUC Lead, U Associate Winnie Ng; ISCA Director, Strategy, Global Alliances, Insights & Intelligence Joyce Tang; ISCA Director, Pathways Development & Qualifications Soh Suat Lay; NTUC Secretary-General Chan Chun Sing; ISCA Executive Director, Corporate Services Janet Tan; ISCA Director, Audit Quality & Standards Development, CPE and Industry Support Fann Kor, and NTUC Deputy Director, U Associate Angeline Lee

# ISCA Signs MOU with NTUC to Become a U Associate

With the signing of a Memorandum of Understanding (MOU) with the National Trades Union Congress (NTUC) on June 29, ISCA is now a part of the NTUC U Associate Ecosystem. The Institute will be working closely with NTUC to develop programmes that prepare accountants to be future-ready. These programmes will be primarily aimed at increasing the talent pool of professionals that specialises in enterprise risk management, facilitating cross-pollination among professionals from different industries, and grooming the next generation of industry leaders.

The signing ceremony was preceded by a dialogue between ISCA and NTUC. Representing the Institute were ISCA President Gerard Ee, Chief Executive Officer Lee Fook Chiew, and the ISCA management team. From NTUC were Secretary-General Chan Chun Sing, Assistant Secretary-General Patrick Tay, Assistant Director-General Vivek Kumar, and the U Associate team.

During the dialogue, several suggestions were brought up among the representatives, including how ISCA and NTUC can work together to help Professionals, Managers and Executives (PMEs) acquire new skills, as well as how the collaboration can ensure the continuous development of Singapore's accountancy sector.

# Disciplinary Findings

UPON FINDING that **Mr Teh Teong Lay**, Associate, had contravened Rule 64.1 read with Rule 65.1, and Rule 64.4 read with Section 110.2 of the Code of Professional Conduct and Ethics under the Third Schedule of the Institute (Membership and Fees) Rules, in that he, at the material time, had knowingly allowed or omitted to correct the "No" answer ("Answer") indicated against the question under paragraph (k), "whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the MAS or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?" of the announcement titled: "Change – Announcement of Appointment" ("Announcement") published on the SGXNet on 4 April 2016; the said Answer is a materially false statement or is misleading or is likely to mislead readers that he had not been the subject of any current or past investigation or disciplinary proceedings, or had not been reprimanded or issued any warning by a professional body in Singapore.

The Disciplinary Committee ordered that he be censured with effect from 31 May 2017.

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# Application for *ASEAN CPA* is Now Open

The goal of the Association of Southeast Asian Nations (ASEAN) is to create, not destroy. That is why the ASEAN Economic Community (AEC) was established in 2015. The AEC aims to transform ASEAN into a single market and production base that will allow the ASEAN member states (AMS) to enjoy free movement of goods, services and investment, as well as benefit from smoother flow of capital and skilled labour.

With business services like accountancy being an important part of economies and trade, the liberalisation of trade in services will help ASEAN to achieve the objective of the AEC sooner. Under the AEC, the mobility of accountants within the region is facilitated by the Mutual Recognition Arrangement on Accountancy Services (MRAA) which was signed by all 10 ASEAN member states in 2014.

The objectives of the MRAA are as follows:

a. Facilitate mobility of accountancy services professionals across ASEAN;
b. Enhance the current regime for the provision of accountancy services in the AMS;
c. Exchange information in order to promote adoption of best practices on standards and qualifications.

Under the MRAA, a professional accountant who is an ASEAN national and possesses the necessary qualifications and experiences that comply with the MRAA may apply to be an *ASEAN Chartered Professional Accountant* (*ASEAN CPA*). *ASEAN CPAs* are legally allowed to provide accountancy services under Central Product Classification (CPC) 862 of the United Nations[1] (except for the signing-off of the independent auditor's report and providing accountancy services that require domestic licensing) in ASEAN markets without having to undergo extensive re-training or re-qualification procedures.

An *ASEAN CPA* who wishes to provide professional accountancy services in another ASEAN country shall apply directly to the National Accountancy Body (NAB) and/or Professional Regulatory Authority (PRA) of that country (also known as Host Country) to be registered as a Registered Foreign Professional Accountant (RFPA). An RFPA will have to work in collaboration with a local professional accountant in the Host Country and agrees to be bound by the domestic laws and regulations of the Host Country. The ASEAN Chartered Professional Accountant Coordinating Committee (ACPACC) is now in discussion on the RFPA registration process and more details will be released soon.

With the *ASEAN CPA* title on your resume and/or name card, it will provide you with market access to the rest of ASEAN, presenting new opportunities in one of the highest growth economic regions in the world.

The *ASEAN CPA* registration is free for one year from April 2017 to April 2018, and renewable[2] every year.

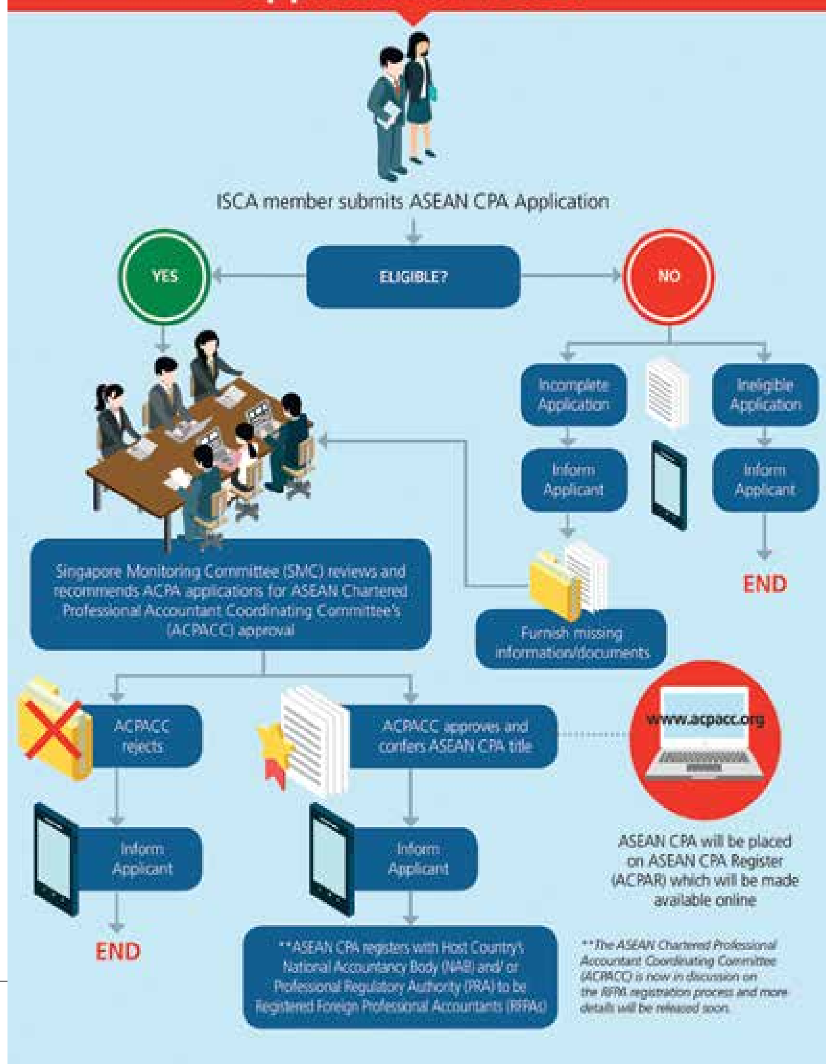
Download the *ASEAN CPA* application form from ISCA's website (https://www.isca.org.sg/member-services/pathways-to-other-professional-qualifications/acpa/), and submit the completed form to aseanmra@isca.org.sg now.

## Who can apply

A professional accountant who meets the following qualifications, practical experience and conditions is eligible to apply to be an *ASEAN CPA*:

- Holds the nationality of an ASEAN country;
- Has completed an accredited accountancy degree, or professional accounting education programme recognised by ISCA;
- Possesses a current and valid ISCA membership (*CA (Singapore)* or *Associate (ISCA)*);
- Has acquired relevant practical experience of minimum three (3) years cumulatively within any five (5)-year period prior to application;
- Has complied with the Continuing Professional Education (CPE) policy of ISCA, and
- Has no record of serious violation of technical, professional or ethical standards.

## Application Process




[1] The list of accountancy services covered under CPC 862 are financial auditing services, accounting review services, compilation of financial statements services, other accounting services and bookkeeping services, except tax returns.

[2] Renewal fee will be announced in due course.

## ISCA CALENDAR OF EVENTS 2017

## AUGUST

**Thursday 17**
ISCA Breakfast Talk
*The Future Economy – Preparing Accountants in the Global Game of Change*

**Thursday 30**
ISCA Mingles
*Celebrating ISCA Toastmasters 30th Anniversary*

## Signature Events



## UPCOMING

**September 13**
ISCA Breakfast Talk
*Stay tuned for more details!*

**September 18**
ISCA Sustainability Reporting Seminar
*The "How to" of implementing SGX Sustainability Reporting Guide*

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

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ISCA

▲ The inaugural ISCA CFO Breakfast Session attracted over 35 CFOs from various industries

# ISCA CFO Breakfast Session

CFOs need to take steps now in order to capitalise on new and emerging digital tools and processes, and ensure that the organisation and their teams can better leverage the opportunities in today's data-rich and fast-changing environment. But how and where should CFOs begin?

On June 1, ISCA held its inaugural CFO Breakfast Session, supported by the Singapore Accountancy Commission (SAC) and SAP. More than 35 CFOs from various industries participated in the two-hour session themed "finance transformation". The session featured subject matter experts from SAP and ISCA CFO Committee coming together to share their expertise on current challenges, emerging digital trends, and best practices that could help CFOs lead their organisation into the world of digital finance. The speakers were:

- Koert Breebaart, Vice President, Digital Leader for Conglomerates, SAP Asia;
- Thomas Zipperle, Chief Financial Officer, Southeast Asia, SAP;
- Kathleen Muller, Head of Analytics and Insight, SAP Asia, and
- Choo Chek Siew, Chief Financial Officer, ComfortDelGro Corporation Limited, and Vice Chairman, ISCA CFO Committee.

**▲ Panellists included (from left) ISCA Director, Audit Quality and Standards Development, Continuing Professional Education, and Industry Support, Fann Kor; CFO, Southeast Asia, SAP, Thomas Zipperle; Head of Analytics and Insight, SAP Asia, Kathleen Muller; CFO, ComfortDelGro Corporation Limited, and Vice Chairman, ISCA CFO Committee, Choo Chek Siew**

The session concluded with a lively panel discussion that centred on the skills and traits needed by CFOs as well as within the finance function.

BGL.

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▲ Abuthahir Abdul Gafoor, Executive Director of RSM Corporate Advisory, drew from his over-25 years of experience to share valuable insights

ISCA BREAKFAST TALK

# An Introduction to Forensic Accounting

On July 12, ISCA held its monthly Breakfast Talk, providing some 80 participants with an overview of forensic accounting, and what is involved in the work of a forensic accountant. Abuthahir Abdul Gafoor, Executive Director of RSM Corporate Advisory, shared deep insights on the role of a forensic accountant, the nature and types of engagements, and emerging trends and challenges facing the role. Participants heard interesting case studies of fraud investigations, and were given a quick introduction to digital forensics.

Members who would like to gain further insights into the field of forensic accounting can register for the inaugural ISCA Financial Forensic Conference, which takes place on September 28. Details are available at www.iscaffc.sg.

▲ More than 80 participants attended the ISCA Breakfast Talk on forensic accounting

# The Finesse of Tax Excellence

In today's tax landscape of increased scrutiny by tax authorities, and constant tax changes coupled with the varying tax regimes across jurisdictions, it is not surprising that business executives and tax professionals may find the pace of change overwhelming at times.

Empowering tax professionals, particularly the accredited tax specialists, to better manage the volatile business and tax landscape, the Singapore Institute of Accredited Tax Professionals (SIATP) focused its recent programmes on the essentials in achieving finesse in tax. The importance of a well-documented and supported decision-making process in areas such as transfer pricing functional analysis was emphasised and illustrated through various case studies by Adriana Calderon, Director at Transfer Pricing Solutions Asia at a recent *Tax Excellence Decoded* session.

Another key factor was that of public trust in tax systems. SIATP's board member, Prof Sum Yee Loong, in a separate discussion forum especially for accredited tax professionals, explained the various elements of Singapore's tax regime that promote public trust in tax, and in turn, contribute to tax excellence.

To better understand the finesse of tax excellence, email enquiry@siatp.org.sg.


▲ The importance of getting functional analysis right in transfer pricing was reflected in the various small group discussions with Transfer Pricing Solutions Asia Director Adriana Calderon during the tea break

▶ SIATP board member Prof Sum Yee Loong sharing his thoughts on the various factors contributing to trust in tax systems

# *IS Chartered Accountant* Journal awarded APEX Award 2017

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***IS C**hartered **A**ccountant journal* clinched the APEX 2017 Award of Excellence in the "Magazines, Journals & Tabloids - Print +32 Pages" category


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# ACCOUNTANTS: BEYOND BEAN COUNTING

## White-collar Crime Busters

BY
LEM CHIN KOK AND
SOH SUAT LAY

Accountants have come a long way from the archetypal bean counters of the past. Today, they add tremendous value in specialised fields such as valuation, risk management and corporate governance, corporate finance and financial forensics.

Over the past years, the Institute has been provided with various interaction opportunities with students across secondary schools and institutes of higher learning to share and promote accountancy as a profession. Through


these platforms, we seek to engage young minds and instil upon them the varied career options that are available, update them on the steps that have been or are being taken to future-proof the profession, and debunk any impression that accounting is a boring, desk-bound job and a dying trade.

In a similar vein, we gathered from exchanges with the general public that there is a perception that the work of professional accountants is limited to the mundane tasks of collection and payment preparation and processing, and balancing of the trial balance and balance sheet for statutory and management reporting purposes. Their understanding of the specialised nature of the profession would typically extend to external audit, which involves the gathering of evidence to support historical numbers and tedious sample-testing with the objective of expressing an opinion that a set of financial statements is true and fair.

Notwithstanding this, we do note that there is a high degree of interest among the students and aspiring professional accountants when the work of specialists within the profession was shared, especially that of the forensic accountants.

**As financial crimes and fraudulent activities increase in scale and become more complex, forensic accountants with deep financial knowledge are needed to effectively investigate and respond to potential financial crimes.**


PHOTO SHUTTERSTOCK

## WHAT FORENSIC ACCOUNTANTS DO

Today, forensic accountants are more in demand than ever. As financial crimes and fraudulent activities increase in scale and become more complex, forensic accountants with deep financial knowledge are needed to effectively investigate and respond to potential financial crimes. These professionals are highly sought-after in the private sector by financial institutions, credit card companies, big corporations or just any company that could be vulnerable to white-collar crimes, other than accounting and advisory services firms. Within the public sector, law enforcement agencies are staffed by accountants who are trained in financial forensics to analyse and evaluate financial information and develop financial intelligence to help detect financial crime-related activities and transactions.

The role of forensic accountants includes analysing financial information and extends to the gathering and management of evidence and documents to provide litigation support for criminal prosecution, such as those involved in funding illegal activities, money laundering, embezzlement, etc. They are also required to extract financial information from accounting books and records to help parties resolve their financial disputes in court. In the courtroom, the forensic accountants are relied upon for their ability to communicate financial information clearly and concisely to the judge. They also enjoy diverse experiences and challenges; they could be working internally within their organisations or with clients for suspected fraud investigations, strengthening internal control and compliance frameworks or investigating white-collar crimes including misappropriation of funds, money laundering or activities surrounding the funding and financing of terrorism. Alongside this variety of work, forensic accountants have the satisfaction of helping to bring criminals to justice.

Due to the interconnected world we live in, the investigative work of forensic accountants often takes them


**Incorporating data analysis in accounting processes would become a necessity because accounting and operational data are increasingly in electronic form and in vast volumes. If forensic accountants do not catch up with technology, the more tech-savvy criminals would have their way.**

beyond borders, and the number of cross-border investigations has also increased over time. Add the complexities of legal and cultural differences, and we have arguably one of the biggest challenges facing global corporations today. Forensic accountants will have to be acquainted with cultural, legal and regulatory differences within the country they are based in, and the countries where the investigations take place. They must be prepared to address the myriad cultural, linguistic and communication differences that may arise during the course of the investigations.

Going forward, there will be increasing challenges at every step of an investigation, and more so for cross-border investigation. The rate of globalisation is set to escalate. There will also be more rapid and ad hoc regulatory changes. The greatest impact will come from the seismic development in digital technology. This advancement in digital technology, which is already causing disruptions to businesses and industries, will invariably change the way we operate. Forensic accountants will need to be increasingly digitally savvy and possess the ability to leverage technology to interpret large data sets more efficiently and effectively. Incorporating data analysis in accounting processes would become a necessity because accounting and operational data are increasingly in electronic form and in vast volumes. If forensic accountants do not catch up with technology, the more tech-savvy criminals would have their way.

**All ISCA members are required to comply with the requirements in EP 200, and apparent failure to do so may result in disciplinary action.**

PHOTO SHUTTERSTOCK

## BEING ALERT TO WHITE-COLLAR CRIME

In the wake of burgeoning and increasingly complex white-collar crimes such as money laundering, terrorist financing, financial statements fraud and corruption, professional accountants are required to stay vigilant. Forensic accounting skills would be needed more than ever to identify suspicious transactions, and accountants must exercise reasonable judgement in lodging reports on suspicious transactions to the Suspicious Transaction Reporting Office (STRO) at the Commercial Affairs Department of the Singapore Police Force. The reporting of suspicious transactions is a statutory requirement for all professional accountants.

Reporting to STRO is especially crucial if the accountants know or have reasonable grounds to suspect that the transactions are related to money laundering or terrorist financing, as this ensures that they do not end up facilitating such activities. Failure to report such transactions may result in severe consequences for professional accountants as they may face criminal liability for non-compliance, which may result in hefty fines and jail sentences, and perhaps being struck off the professional register. In the "Terrorism Threat Assessment Report 2017"[1] released in June 2017, the terrorism threat to Singapore remains the highest in recent years, with Singapore being specifically targeted in the past year. Hence, professional accountants have an important part to play in contributing to the well-being of Singapore and to the society at large by helping to counter such activities.

The Institute has issued the Ethics Pronouncement (EP) 200: Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore in October 2014, and the updated Pronouncement is effective from 1 June 2017.

EP 200 covers:

(1) the legal obligations of professional accountants under the Singapore legislation, and
(2) requirements and guidelines on anti-money laundering (AML) and countering the financing of terrorism (CFT).

These requirements and guidelines are in line with the standards set by the Financial Action Task Force (FATF)[2]. All ISCA members are required to comply with the requirements in EP 200, and apparent failure to do so may result in disciplinary action.

To support the accountancy profession in implementing the requirements of EP 200, ISCA has developed implementation guidances (IGs). Of note is EP 200 IG 2, which was substantially enhanced and published in June 2017, to provide illustrative

[1] https://www.mha.gov.sg/newsroom/press-releases/Pages/Singapore-Terrorism-Threat-Assessment-Report-2017.aspx

[2] FATF is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions where its objectives are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Singapore is a member of FATF.

[3] http://www.mas.gov.sg/News-and-Publications/Media-Releases/2016/Singapore-Has-Strong-Framework-for-Combatting-Money-Laundering-and-Terrorism-Financing.aspx

customer due diligence flowchart and templates which professional accountants and professional firms can refer to for guidance.

Following the completion of the FATF's assessment of Singapore's AML/CFT framework, the "Mutual Evaluation Report"[3] was issued in September 2016; one of the report recommendations was to strengthen the supervision of the non-financial sector such as legal firms, public accounting firms and corporate service providers. These businesses are in the focus as they tend to be used by money launderers to set up shell companies, which are used to conduct fraudulent activities and/or conceal illicit proceeds. Hence, it is imperative that professional accountants who are working in professional firms are cognisant of their obligations and the measures to be taken in conducting proper customer due diligence.

In another report, entitled "The Accountancy Profession – Playing a Positive Role in Tackling Corruption", issued by the International Federation of Accountants (IFAC) in February 2017, it is shown that professional accountants play a positive role working alongside other professionals and stakeholders to combat corruption. A strong link was drawn between the proportion of professional accountants in the workforce, and the more favourable scores on the main global measures of corruption.

According to Transparency International's 2016 Corruption Perceptions Index (Table 1), Singapore is ranked seventh out of 176 countries, with a consistently high score of between 84 and 87 out of 100, over the past few years. A country with a high ranking and a high score means that it is perceived to be clean, with low instances of corruption. Since 2012, the number of ISCA members has grown from about 25,000 to over 32,000 currently. Singapore's consistent good score and rank correspond with the rise in the number of professional accountants in the city-state, and is congruent with the findings of the IFAC 2017 report.

With increasing sophistication and rise in white-collar crime rates, the specialised field of financial forensics would be a more relevant area than ever for aspiring and existing professional accountants who are working across industries. This also presents opportunities for those who are looking to deepen their skill sets and acquire specialised expertise as businesses and institutions strive to uphold Singapore's reputation as a clean and low-corruption country, and regulations and compliance requirements continue to be tightened for specific industries. ISCA

**Table 1 Corruption Perceptions Index (Singapore's rankings)**

| Year | Score | Rank |
|---|---|---|
| 2016 | 84/100 | 7th out of 176 |
| 2015 | 85/100 | 8th out of 167 |
| 2014 | 84/100 | 7th out of 174 |
| 2013 | 86/100 | 5th out of 175 |
| 2012 | 87/100 | 5th out of 174 |

The Institute is organising a regional white-collar crime investigation conference, ISCA Financial Forensic Conference – Fortifying Your Business, on 28 September 2017, Thursday, at Marina Bay Sands Expo and Convention Centre, Singapore. The Conference seeks to bring together accountants, regulatory and compliance officers and law enforcement agents to address key issues in financial forensics, and explore measures to protect businesses against financial crimes such as money laundering, financial misconduct and cybercrime. Speakers and panellists from accounting firms, financial institutions, financial regulatory authority, law enforcement and other government agencies will share their expertise, and discuss practical challenges in tackling white-collar crime.

**Lem Chin Kok is ASPAC Head of Forensic, KPMG in Singapore, and Soh Suat Lay is Director, Pathways Development & Qualifications, ISCA.** **The writers express their gratitude to Kang Wai Geat, Deputy Director, and Fua Qiulin, Senior Manager, Audit Quality and Standards Development; and Jiang PeiJu, Manager, and Leah Lin, Executive, Pathways Development & Qualifications, ISCA.**

FOCUS

TAX FOR MNCS

# THE COMPLEX FUTURE TAX LANDSCAPE FOR MNCS PART 3

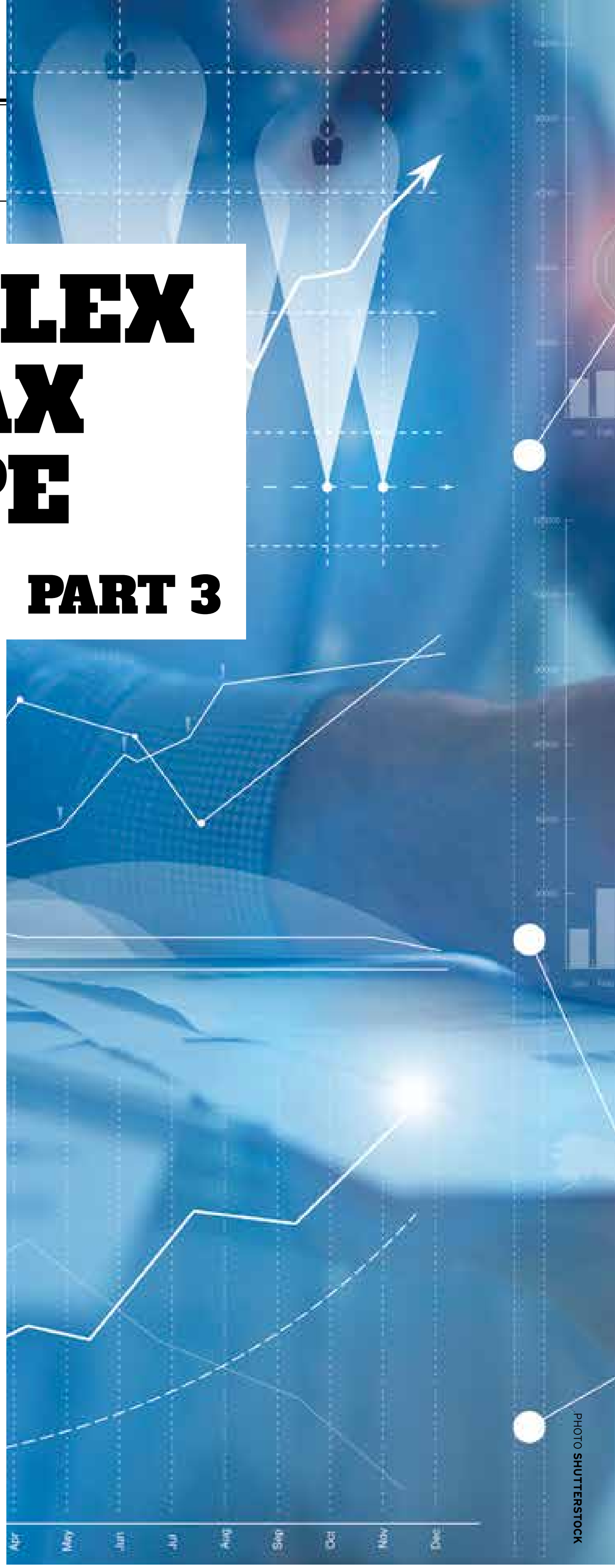



PHOTO SHUTTERSTOCK

## Practical Considerations around BEPS in a Multinational Group

BY
MIKKEL LARSEN AND AARON LEE

A plethora of new tax rules, driven by the Base Erosion and Profit Shifting (BEPS) initiative, combined with significantly increased public interest, has brought tax to the forefront of MNC Board's attention. Reporting requirements like Country-by-Country Reporting (CbCR) make an MNC's tax position much more transparent and potentially subject to further scrutiny. This naturally increases the risk of "getting it wrong" in the eyes of tax authorities or society at large.

In Part 1 of this three-part series, we had discussed the seriousness and impact of the changes arising from BEPS. In Part 2, we delved into the significant BEPS Actions which may have a wide-ranging impact on MNC entities, and the key considerations for


**A well-thought-through policy is worth little if it is poorly executed. Education, as always, starts at the top through a discussion with the Board and senior management around the broader implications of BEPS and the MNC's response.**

tax professionals. In this final part, we explore how Board-level engagement on tax could increase, reflect on tax governance, and share views on how the tax function can add value.

## BEPS: A TOPIC FOR SENIOR MANAGEMENT AND BOARD

Tax professionals at MNCs may have historically considered that tax was not a major area of focus for senior management and the Board. However, recent tax scandals have exponentially increased senior management's attention to tax. Authorities, accounting bodies, and investors have responded in different ways, such as:

- The Australian Tax Office (ATO) recently highlighted that globally, tax risk management should be a part of Board-level corporate governance[1];
- The UK Finance Act 2016 introduced a requirement for large businesses with UK operations to publish a tax strategy online[2];
- The Risk Oversight and Governance Board of the Canadian Institute of Chartered Accountants released a briefing to assist Board directors in understanding tax issues and risks[3];
- The investment arm of Norges Bank, managing more than SG$1 trillion in funds, has published its expectations of multinational investees online[4].

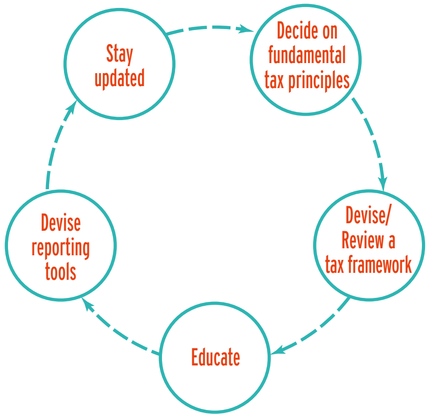
[1] ATO tax risk management and governance review guide; https://www.ato.gov.au/business/large-business/in-detail/key-products-and-resources/tax-risk-management-and-governance-review-guide/

[2] UK government guidance: Large businesses: Publish your tax strategy; https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy

[3] Director's Briefing: Board oversight of tax risk; https://www.cpacanada.ca/-/media/site/business-and-accounting-resources/docs/directors-briefing--board-oversight-of-tax-risk--questions-for-directors-to-ask.pdf

[4] Norges Bank: Tax and transparency; https://www.nbim.no/en/responsibility/risk-management/tax-and-transparency/

Figure 1 Example of tax governance life cycle




In view of the increased interest, tax managers may wish to establish a formal structure that supports the growing spotlight on tax. Figure 1 illustrates the possible elements in this structure.

## Decide on Fundamental Tax Principles

Given the focus on tax governance and global principles, tax functions may be well served by agreement on fundamental tax conduct principles with the Board. Such principles would, for example, clarify issues like:

1. To what extent tax optimisation is acceptable, and the distinction between "tax planning" and "tax avoidance" in the specific context of the MNC's activities;
2. How the MNC will deal with customers (prospective and existing) that may engage in tax avoidance or tax evasion;
3. What level of investigation should the MNC undertake when doubts arise on the customers' motivation for a transaction;
4. The accepted level of reputational risk from adopting tax positions and preparedness for queries from tax authorities or other stakeholders;
5. The code of conduct in terms of sharing information with tax authorities.

## Devise a Tax Framework

BEPS mandatorily requires the preparation of transfer pricing (TP) documentation for tax authorities. In addition to this, MNCs may find it useful to agree upfront on a "tax framework" which articulates:

- **Tax governance and management** structures;
- Guidelines for managing **reputational impact and tax-sensitive matters**;
- Processes for **managing tax authority interactions**;
- **Fundamental tax principles** for conduct and policy-setting;
- **Specific policies** to address all areas of BEPS;
- The operational **implementation** of the policies.

## Sensitive Transactions

A critical element of a comprehensive tax framework relates to "tax-sensitive transactions" (TST).

The purpose of a policy for TST is to delineate transactions (both an MNC's own and/or customer transactions) that in the view of the MNC are considered tax sensitive.

For example, a transaction could be sensitive even when the MNC operates fully within the tax rules but could be perceived as being "aggressive" by the public and not in the "spirit" of the tax regulations.

Being labelled as a "tax avoider" in the headlines of the newspaper – regardless of the credibility of that newspaper – can be crippling to the MNC's public image.

The MNC's policy aim would be to distinguish and address the types of transactions, as shown in Table 1.

## Devise Reporting Tools

The combination of onerous external reporting requirements (example, CbCR and TP documentation) and increased sensitivity suggests the need for a flexible and robust reporting tool that can serve the following purposes:

1) Analytics of tax paid in various geographical locations for central oversight and analysis;
2) Internal reporting of tax positions to senior management, and
3) External disclosures to multiple tax authorities on an ongoing basis.

This requires robust automated systems, and existing off-the-shelf systems are often expensive and may not cover all elements that the MNC requires. Whether the MNC chooses to utilise an inhouse-built or a vendor solution clearly depends on the MNC's principles around outsourcing critical systems and the level of complexity of the business. What is important is that the valuable functionality of such a tool is not underestimated and that planning starts early.

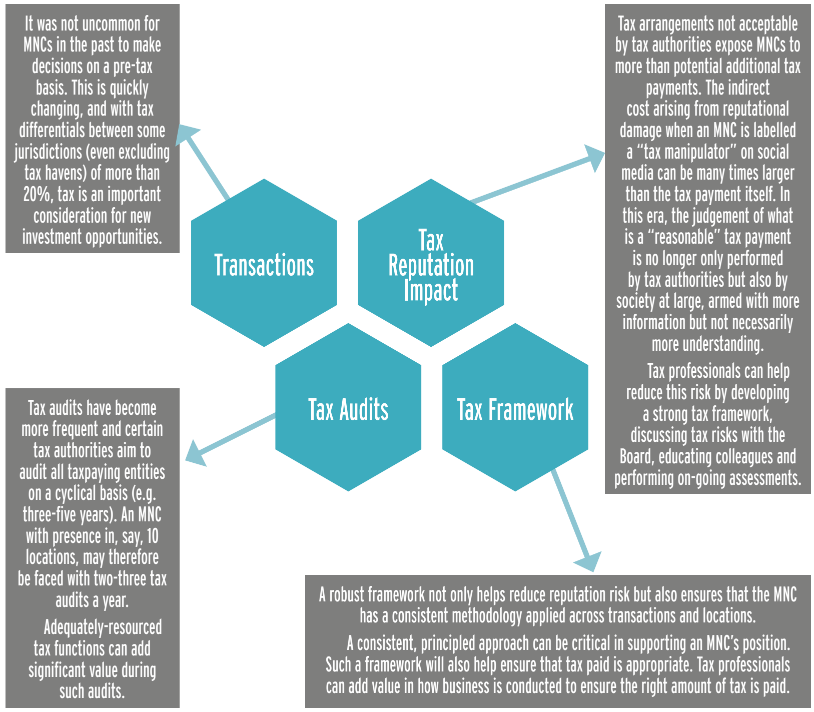
The level of external disclosures by

Table 1 Example: Categorisation of potentially tax-sensitive transactions

| | | |
|---|---|---|
| Tax Planning | ✔ | Acceptable tax planning in accordance with clearly-defined tax rules |
| Tax Avoidance/ Aggressive Tax Planning | ? | Activities that may be questioned by tax regulators or the public and where further consideration and escalation may be required |
| Tax Evasion | ✘ | Criminal activities that the MNC should not engage in |

**BEPS does raise the bar for tax professionals, and tax risks for MNCs. However, with change often comes opportunity, and the work of tax professionals and the value they can bring to the MNC is becoming more obvious and visible.**

Table 2 Some areas where the tax function can add value




MNCs diverge widely. The British company Vodaphone is an example of a company providing a high level of disclosure – not only disclosures required by CbCR, but also discussion on its tax principles and how it views its tax payments in the context of giving back to society.

## Educate

A well-thought-through policy is worth little if it is poorly executed. Education, as always, starts at the top through a discussion with the Board and senior management around the broader implications of BEPS and the MNC's response.

After this follows the wider education and discussion with those employees in the MNC who may be impacted by BEPS. The stakeholders to engage are surprisingly diverse, including direct sales staff (that may face Permanent Establishment and tax-sensitive transaction issues) and support units or local management teams that will be involved with elements of TP.

## Stay Updated

The BEPS Actions are being implemented at different speeds around the world, with tax authorities focusing on prioritising different Actions. This makes it very difficult to stay updated on new tax rules, and most MNCs rely on representations/ updates from global advisors such as the Big Four accounting firms.

While this may be the most effective solution, it does not absolve the responsibility of the MNC teams to keep up-to-date and form their own internal views on these changes. As the tax rules remain subject to significant interpretation, MNCs must make their own decisions about the tax approach they should take.

## TAX FUNCTIONS CAN ADD VALUE

BEPS does raise the bar for tax professionals, and tax risks for MNCs. However, with change often comes opportunity, and the work of tax professionals and the value they can bring to the MNC is becoming more obvious and visible. Some suggestions of where the tax function can add value are shown in Table 2.

## CONCLUDING REMARKS

There is little doubt that the implementation of BEPS will have a significant impact on MNCs. At a foundational level, MNCs should secure sufficient qualified tax professionals to meet mandatory requirements and filings in a clear and consistent manner.

More than this, the global focus on BEPS re-emphasises the need for senior management (and Board)'s attention on tax and TP. The establishment of fundamental tax principles, approach to tax audits, and management of the potential reputational fallout from negative media attention require foresight and adept navigation.

MNCs would do well to have consistent and properly-documented TP policies based on solid evidence of business facts. At the same time, as both tax regulations and public sentiment may change, the ability to stay agile and refine policies when required can help MNCs to navigate the changes arising from implementation of the BEPS initiative globally. ISCA

**Mikkel Larsen is Managing Director and Group Head of Tax and Accounting Policy, and Aaron Lee is Vice President and a Transfer Pricing Specialist at Tax and Accounting Policy, DBS Group. All opinions published in this article are the writers' personal views.**

# INTERNATIONALISING CHINA'S CAPITAL MARKETS PART 2

## Recent Developments and Future Trends

BY
REN-EN LIM

The first article of this series, published in the July issue of ***IS** Chartered Accountant*, discussed efforts to forge primary market connections to China's stock markets, including proposals for (i) an IPO Connect between Hong Kong (HK) and Mainland China (Mainland), (ii) the listing of D-Shares on the China Europe International Exchange and (iii) the listing of foreign companies on China's A-share market.

Notwithstanding the above, recent developments in the Chinese capital markets have focused primarily on cross-border secondary market investment schemes (with Stock Connect being the centrepiece). These developments are addressed below.

### STOCK CONNECT PROGRAMME

Stock Connect is a mutual market access programme which allows (i) HK-based investors to trade certain Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE)-listed A-shares[1] (Northbound Trading) and (ii) Mainland investors to trade certain Hong Kong Stock Exchange (HKSE)-listed shares.

Hong Kong, China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**Stock Connect is a mutual market access programme which allows (i) HK-based investors to trade certain Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE)-listed A-shares (Northbound Trading) and (ii) Mainland investors to trade certain Hong Kong Stock Exchange (HKSE)-listed shares.**

It provides any investor in the world (whether institutional or retail) with the opportunity to access a broad and diverse range of Chinese A-shares, ranging from state-owned enterprises on the SSE to technology-led firms (which are expected to grow in importance as a result of China's new "Made in China 2025" initiative[2]) on the SZSE. These comprise:

(i) constituent stocks of the SSE 180 Index and the SSE 380 Index[3];
(ii) constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index that have a market capitalisation of at least renminbi (RMB) 6 billion, and
(iii) all other SSE or SZSE-listed A-shares which are dual-listed (as H-shares[4]) on the HKSE.

Notwithstanding the above, stocks which are not traded in RMB or which are placed under a "risk alert"[5] by the SSE/SZSE are excluded from Northbound Trading.

[1] A-shares refer to shares of companies incorporated in Mainland China and traded in Shanghai or Shenzhen. Such shares are quoted in RMB and, prior to Stock Connect, were limited to domestic investors or foreign institutional investors with QFII (Qualified Foreign Institutional Investor) and RQFII (Renminbi Qualified Foreign Institutional Investor) quotas.

[2] The "Made in China 2025" initiative (which draws inspiration from Germany's "Industrial 4.0" blueprint) is the first phase of China's long-term plan to transform China into a world-leading manufacturing power by the year 2049. Its aims for the manufacturing industry include (i) promoting information technology and advanced technology, (ii) improving innovation and (iii) integrating technological advancement and industrial development.

[3] Stocks in the SSE 180 Index are large-cap stocks, while stocks in the SSE 380 Index are mid-cap stocks (which represent the segment of emerging blue chips outside the SSE 180 Index).

[4] This refers to shares of China-incorporated companies that are denominated in HKD and traded on the HKSE.

[5] These include shares which are subject to delisting under the SSE or SZSE rules.

**Talks on the Proposed London Stock Connect are now reportedly in the second phase, where details of regulatory and other issues are expected to be examined.**

There is, however, a daily quota of RMB13 billion for each of SSE and SZSE Northbound Trading, which cumulatively adds up to a total Northbound Trading daily quota of RMB26 billion. Notwithstanding the above, the daily quotas apply on a "net buy" basis; in other words, investors are always allowed to sell their cross-boundary securities regardless of the quota balance.

In order to trade A-shares via Stock Connect, HK-based investors must purchase offshore RMB (CNH) in HK or have their brokers arrange a purchase on their behalf.[6] When such investors subsequently sell their A-shares through Stock Connect, the RMB proceeds are delivered in HK. Stock Connect thus forms a "closed loop", segregating RMB used to buy Chinese shares from the rest of the Chinese economy.[7] This is necessary in light of the ongoing restrictions on China's capital account, which prohibit foreign investors from freely transferring money into and out of the Mainland. Stock Connect thus represents a significant innovation

London, United Kingdom

which allows Mainland authorities to continue monitoring the transfer of monies into and out of shares because all Stock Connect capital flows through this single conduit.

## PROPOSED LONDON CONNECT

In September 2015, Britain and China agreed to carry out a feasibility study for a stock exchange connect scheme (Proposed London Stock Connect) between the London Stock Exchange (LSE) and the SSE. Nonetheless, there are several difficulties which have to be resolved prior to the establishment of the Proposed London Stock Connect, which include:

- different trading hours between the LSE and the SSE (since London and Shanghai have a time gap of seven or eight hours, and the LSE opens after the SSE closes with no overlap in trading hours);
- the different investor profiles in London and Shanghai, with the latter being dominated by retail investors while the former comprises a larger proportion of sophisticated institutional investors (which in turn raises the question of which stocks will attract Chinese retail investors to buy into the London market and vice versa), and

[6] ChinaClear and Hong Kong Securities Clearing Corporation (which are the designated Mainland and HK exchange and clearing houses) are responsible for the cross-boundary fund flows and currency exchange. It is a key feature of Stock Connect that all RMB-HKD foreign exchange trades must be done offshore in Hong Kong.

[7] As explained by Yu Xiangrong and Hong Liang (of the Chinese International Capital Corporation) in their article titled "FX implications of Stock Connect flows" (which was published in October 2016), money put into Stock Connect by investors will be locked in the securities market and cannot be used for other purposes. Capital gained from the sale of securities cannot remain in the local market but will return to its originating account.

[8] Please refer to the July 2017 issue of ***IS Chartered Accountant*** for an explanation of the IPO Connect Scheme.

[9] Please refer to Xavier Rolet's November 2016 interview with the "South China Morning Post".

[10] Please refer to KPMG China's report (jointly sponsored by the UK's Department for International Trade and the PBOC's China Foreign Exchange Trade System) titled "Going Global – Trends and Implications in the internationalization of China's currency", which was published in January 2017.


PHOTO SHUTTERSTOCK

- information asymmetry arising from language and cultural differences between London and Shanghai, which may in turn deter Chinese investors from trading LSE stocks; similarly, London-based investors may be hesitant to invest directly in Chinese stocks from London (which not only lacks a large pool of Mandarin-English bilingual professionals, but also trails HK in know-how and expertise pertaining to Chinese capital markets).

Talks on the Proposed London Stock Connect are now reportedly in the second phase, where details of regulatory and other issues are expected to be examined. Nonetheless, it appears that the broad parameters of the Proposed London Stock Connect have been fixed. In a November 2016 interview with the "South China Morning Post", Xavier Rolet, Chief Executive Officer of the LSE , revealed that the Proposed London Stock Connect will use a system of specifically-designated brokers (who will act as market makers) to enable Chinese investors to buy and sell shares listed on the LSE outside its trading hours and vice versa. As for the stocks which can be traded, the LSE and the SSE will each select a group of stocks for participation in the Proposed London Stock Connect.

As with Stock Connect, the Proposed London Stock Connect will expand foreign investors' access to A-shares, which should in turn further improve the liquidity of onshore capital markets. In the longer term, the Proposed London Stock Connect may be further expanded to allow SSE and LSE-listed companies to directly raise funds in each other's markets (which would go further than the IPO Connect[8] scheme proposed by the HKSE).[9]

## CONCLUSION

The Stock Connect and the Proposed London Stock Connect schemes represent major milestones in the internationalisation of China's capital markets. This has taken on added importance given the status of the RMB as an official reserve currency of the International Monetary Fund (IMF) (via its inclusion in the IMF's Special Drawing Rights basket) since October 2016. As noted by KPMG China in a recent publication[10], RMB-denominated assets currently only account for approximately 1.4% of global investors' portfolios, despite the fact that (i) the capitalisation of Chinese capital markets already accounts for around 9% of the global total and (ii) China's Gross Domestic Product (GDP) constitutes over 14% of the world's GDP. Such under-allocation of RMB by global investors may be attributed to past difficulties associated with the availability and accessibility of RMB-denominated assets, which in turn resulted in RMB-denominated assets having a minimal presence in global investment portfolios. This will hopefully change with greater access to the Chinese capital markets via the Connect schemes and the upcoming inclusion of A-shares in the MSCI Emerging Markets Index. ISCA

**Ren-En Lim is a lawyer who has written on developments relating to China's capital markets.**

# THE CFO'S EVOLVING ROLE

## Beyond Traditional Financial Stewardship

BY
IAN HONG

Sustainability has become an economic and strategic imperative that poses both opportunities and risks for businesses. Global megatrends such as demographic and social change, shift in global economic power and technological breakthroughs are influencing today's business environment. Following these megatrends, businesses need to understand how sustainability can create business value as well as deliver positive impacts to society.

The evolution of a triple bottom line concept further validates that investors, customers and other stakeholders are showing a growing interest in a company's holistic performance. They are seeking transparency over the environmental, social and governance (ESG) arenas of companies, which are essentially the elements of the triple bottom line covering the three pillars of sustainability: people, profits and planet.

The public at large are also becoming more aware of environmental issues which are intricately linked to sustainability that businesses need to embrace. With pressure building from the public, businesses are forced to relook at their business practices and incorporate sustainability into their strategy formulation.


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## THE TRADITIONAL CFO

The primary responsibility of the Chief Financial Officer (CFO) is managing financial risks of the organisation to drive growth for the business. The CFO is responsible for areas of financial stewardship such as financial planning and record-keeping, that ensure assets are preserved and risks are minimised. The CFO supervises the finance unit and runs a tight finance operation that is efficient and effective. Traditionally, a CFO is viewed as a financial gatekeeper.

## THE MODERN CFO

Over the last decade, the CFO's role has shifted from number crunching to co-driver of corporate strategy focusing on long-term growth strategies. These strategies are closely linked to ESG issues. A large portion of the CFO's role deals with planning the company's resources wisely to ensure its viability in the decades to come. This makes sustainability part of a CFO's remit.

In today's fast-paced environment, CFOs are gradually becoming more involved in the management, measurement and reporting of sustainability efforts of their companies. They are playing an increasingly vital role in overall business strategy, integrating financial and non-financial performance dimensions into managerial decision-making.

As stewards of capital, CFOs are in a unique position to engage in value creation beyond economic imperatives that will improve their company's ESG profile and their financial bottom line.

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**Over the last decade, the CFO's role has shifted from number crunching to co-driver of corporate strategy focusing on long-term growth strategies.**


★ **Looking through a sustainability lens presents a refreshing way of identifying potential risks and preparing strategies to meet long-term forecasts.**

## UNDERSTANDING SUSTAINABILITY RISKS

One important part of a CFO's role is to assess and reduce long-term risks of the company. Looking through a sustainability lens presents a refreshing way of identifying potential risks and preparing strategies to meet long-term forecasts. Each company will have different sustainability issues that affect it, from water scarcity to climate change. Understanding these issues would enable the CFO to plan and prepare for such risks.

### Compliance risk

Regulatory requirements around sustainability issues pose an area of risk that CFOs need to constantly be aware of. The new wave of regulations will provide a significant challenge for the CFO who helps define corporate business strategy. With the emergence of various legislations, companies need to assess and relook at their operations that have an environmental impact to ensure compliance with regulations.

Governments and regulators increasingly require or encourage companies to disclose sustainability information. As the sustainability report can be presented as part of the annual report – which the CFO is heavily involved in preparing – it is important that the CFO takes on a central role in managing the company's business performance; how it is measured, evaluated, communicated, and perceived by stakeholders. In Singapore, the Singapore Exchange (SGX) has mandated that SGX-listed companies produce a sustainability report from 2018, which creates a growing reporting pressure to include sustainability criteria.

### Shareholder preferences

Another area that CFOs have to pay attention to is socially responsible investing, which is growing fast as compared with overall investments. Investors are looking for companies with responsible business practices that have a long-term perspective and at the same time reduce risks. They are starting to view financial and non-financial performance as a whole as they begin to understand the correlation between a company's environmental and social practices with its financial performance.

Investors consider how companies carry out their businesses in terms of the ethical, environmental and community goals in addition to making profits. Non-financial information that contains ESG factors are becoming more important in the decision-making of investors. This growing trend makes shareholder preference an area of risk that CFOs need to address in order to continue attracting investments and satisfy the stakeholders. Forward-thinking CFOs will reassess how they allocate shareholder capital and strategise their business models to manage the risks associated with the material ESG factors. As a result, CFOs must stay up-to-date on their companies' sustainability policies to address shareholder concerns.

### Changing labour market

Strong sustainability values also take into account an employee's safety, welfare, development and retention. Millennials are starting to dominate the workplace, bringing a new attitude with them which is causing talent retention issues for many companies. Understanding what employees want is important

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to attract and retain the best talent. Many employees today not only consider the traditional benefits but are starting to look at the moral perspective, taking into account the company's environmental, social and ethical values when they choose their employer.

As a financial steward, the CFO has to consider investments in human resource and has significant influence over a company's talent strategy. High staff turnover can be expensive, stifles innovation and impedes company growth. Talent retention is critical for companies to remain competitive for the longer term. These considerations are important to CFOs as they can limit costs associated with finding and training new employees or losing talented ones.

## UNLOCKING SUSTAINABILITY OPPORTUNITIES

More importantly, the CFO should embrace sustainability and its risks, turning these into business opportunities for the organisation. The environmental and social risks that arise from sustainability can help organisations identify market demands for new products and services that address environmental and social sustainability. With a wealth of data, CFOs have the ability to visualise the bigger picture, make truer forecasts and pave a clearer path to value by connecting the company's financial performance to its environmental and social impacts.

### Innovation

Sustainability can drive innovation in products and services, facilitating business processes and cost efficiency. Already, consumer behaviour is evolving as consumers begin to seek products and services of companies that incorporate responsible business practices.

With global trends such as urbanisation and digitalisation, the relationship between consumers and businesses is also fast changing. As consumers become more aware of various sustainability issues such as human rights, product origin, and other social and environmental matters, they play a vital role in influencing business models and, to a large extent, drive business behaviours. The changing consumer demand will have a direct impact on revenue and profitability which CFOs oversee.

Environmentalism is rooted in using resources wisely, which translates to cost reduction and improvement in efficiency. To the CFO, efficiency is paramount. The changing consumer behaviour has a direct impact on a company's supply chain management. Supply chain is one area that the CFO turns to for cost savings as the CFO has oversight in planning for efficient and productive use of resources. To achieve an effective supply chain management, CFOs need to collaborate closely with other internal functions and supply chain leaders, shifting their roles beyond the traditional financial remit. The synergies between CFOs and supply chain leaders can create alignment among operations, strategies, finance and tax, unlocking hidden value and strengthening financial performance. This could help to boost the company's brand which will provide a competitive advantage that translates to growth for the company.

## TAKING THE NEXT STEPS

It is vital for CFOs to understand the sustainability issues that affect their company, identify the roots of the issues and manage them in a way that creates value. CFOs can only achieve this by working closely with stakeholders and other internal functions. These additional responsibilities are shaping the CFO's role to move beyond the traditional financial roles.

While sustainability creates risks from almost every angle, CFOs have the power to transform these risks into opportunities and value creation for the company. With the right strategy formulation, cost efficiencies can improve, thereby increasing profits and ensuring the viability of the company in the future.

Although sustainability issues and financial performance are intricately linked, managing these issues can prove to be beneficial for the company in the long run. They need to identify and create value across the broader enterprise and provide insights that will help the rest of the company improve performance and manage risks. CFOs can continue to deliver on their company's brand promise, and achieve their ultimate goal for the company which is financial viability. With the increasing trend of sustainability, CFOs will play a more multifunctional role and become surprising champions of corporate sustainability. ISCA

**Ian Hong is Partner, Sustainability Advisory & Assurance, KPMG in Singapore.**

# WILL ROBOTS REPLACE ACCOUNTANTS?

## Humans and the Value-adding Interface

 

BY
LEE FOOK CHIEW AND
LOKE HOE YEONG

It is perhaps hard to blame the students of today for feeling added angst over their future careers. They constantly read reports about the prospect of automation putting jobs at risk in the near future. For some, this conjures up dystopian scenarios from science fiction movies of machines conquering and mastering the human race.

We certainly do need to prepare for the future workplace, in which the impact of digital disruption will be deeply felt. But rather than dwell on the fears of robots stealing jobs, professionals such as accountants should look instead to the opportunities afforded by the latest digital developments.

### TECHNOLOGY OPENS UP NEW OPPORTUNITIES

Just consider for a moment how dramatically the accountancy profession has changed since the days of pen-and-paper bookkeeping; yet, accountants are far from becoming obsolete since the birth of professional accounting in 15th-century Venice. This is because the profession has continually transformed itself, and continues to do so to keep up with changing times.

The American economist Philip Auerswald underscored in his book, *The Coming Prosperity*, that in the course of history, whenever machine and tools substituted one type of human capability, new human experiences and capabilities actually emerged. This happened when humans made the transition from hunter-gatherers to farmers, and then from farming to more industrial modes of work.

Likewise, the boundaries of the accountancy profession are shifting, and the skills which it calls for are evolving. In fact, technology is blurring the boundaries of the profession and this has widened the scope of work that accountants can perform, thus offering accountants new opportunities. For example, the power of data analytics has led to a new service line sprouting up in the advisory arm of professional accounting firms. Auditors can use data analytics to carry out more comprehensive audits by interrogating complete sets of data, rather than just testing samples. Accountants in business can use data analytics to understand and discover patterns

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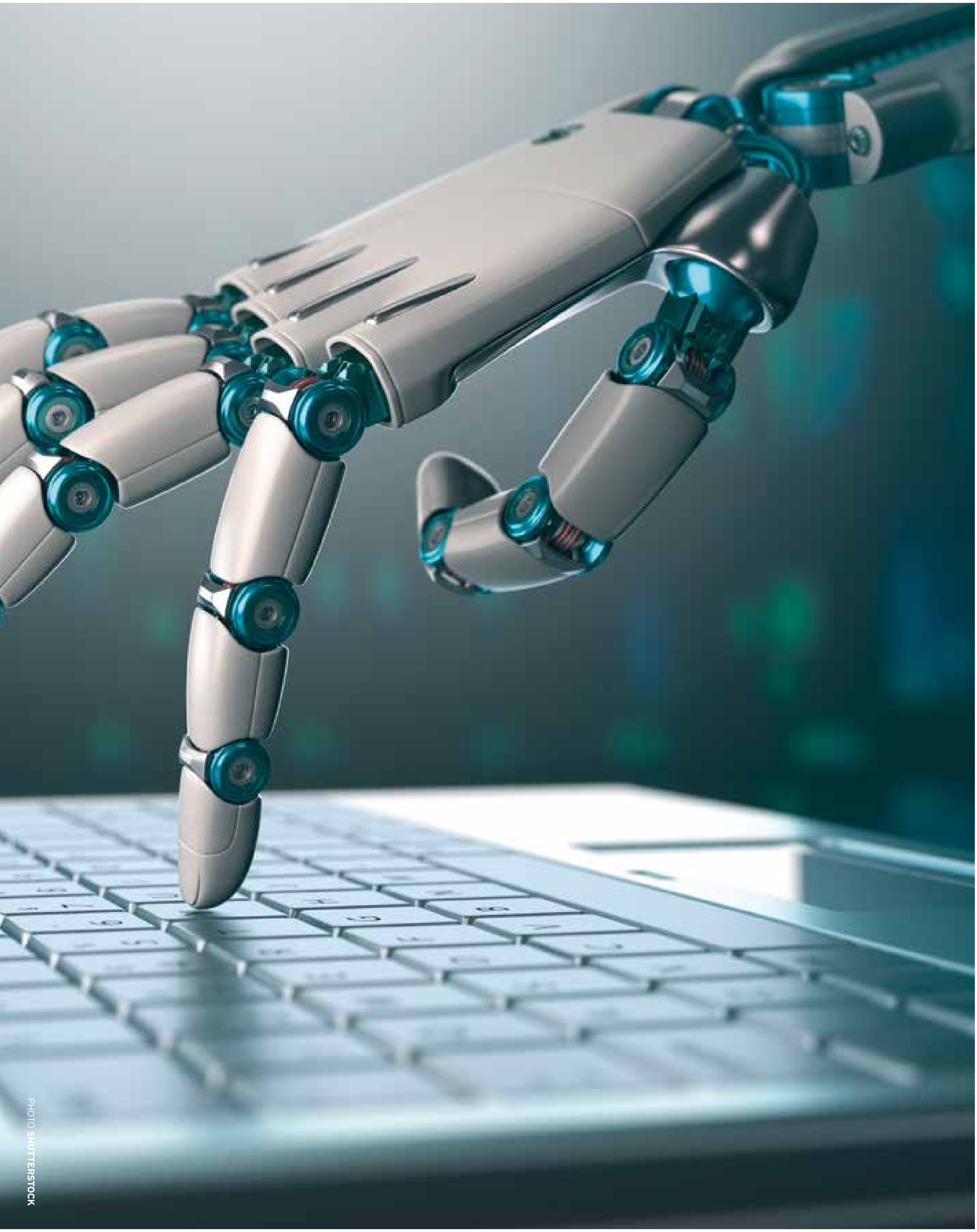
**Given the current state of technology and its impact on the accountancy profession, human accountants are still needed for the kind of multifaceted, human relations role that advisory services call for.**



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> ★ **When the accountant analyses, applies judgement, and then explains the issues relating to quality financial management to their clients or employers, they are actually assuming a role akin to an educator... identified as among the most highly resistant to automation in the foreseeable future.**

in customer behaviours and advise businesses on the best course of action in a competitive market.

In time to come, accountants may be involved in the design of the systems and machines that will do jobs that are currently done by accountants. Auditors would need to be trained to audit the reliability, rigour and accuracy of these systems and machines.

At the end of the day, it is no longer just about what profession one belongs to, but what skills he or she possesses, to get the work done. The impact of digital disruption will be keenly felt in all professions and jobs, not just in the accountancy profession.

## WHAT REALLY IS THE VALUE OF (HUMAN) PROFESSIONALS?

Whenever the fear of machines taking over human jobs arises, the following hypothetical question from the medical profession is typically raised – would you like your doctor to be replaced by a robot? Most people, we would hazard a guess, would answer "no".

This is not in any way to belittle the tremendous progress that has been made in research on the role of artificial intelligence in the medical industry. With the possibility of voluminous medical research knowledge being fed into a machine, the robot can realistically diagnose a patient much more accurately than a human doctor can.

However, that interface with a human professional is important for a number of reasons. The human doctor provides the person-to-person context of psychological care in which to solicit a patient's concerns, which would enable the best diagnosis to be made. In other words, the "clinical" approach by a robot could solicit a different set of concerns and issues from the patient compared to the "softer" approach of the human doctor, who is better placed to empathise with and understand the patient's condition.

Furthermore, Professor Richard Lilford, the University of Warwick's Chair in Public Health, highlighted the importance of human intuition where "you've (often) got to act in medicine before you've got any certainty and that sort of thing the doctor will have to do". He concluded that a computer "may become a second opinion, or perhaps even a first opinion, but the doctor will still make the final call".

Then there are the issues of ethics, in medicine as in other professions, including accountancy. In a joint report released in 2016 on "The Future of Professional Learning and Entrepreneurship" by ISCA and the Institute of Chartered Accountants in England and Wales, borne out of conversations with a range of professionals, there was unanimous consensus that the real value of the accounting profession lies in the integrity and ethics of its members. Some of the participants in that conversation pointed out that clients would have more trust in audit opinions issued by a human auditor, compared to audit opinions issued by a robot.

So rather than for the robot to replace the medical or accounting professional, they need to work hand in hand with the robot, to continue raising the value of work within the profession.

## IMPACT OF TECHNOLOGY TODAY AND IN THE NEAR FUTURE

Let us consider the scale at which technology is impacting and transforming the accounting profession, at the present time, to get a realistic sense of what technology can do and how accountancy professionals are harnessing it to increase the value of their work.

Technology is boosting corporate capacity, rather than replacing human accountants. The advancement of technology has freed accountants from the drudgery of menial and mundane tasks, such as the manual data entry of invoices, to pursue higher-value work that may bring in higher incomes. That includes accountants harnessing technology to provide more in-depth and timely financial expertise to help their business outfits navigate today's volatile business landscape, such as with the use of data analytics tools.

To give a simple example, records of point-of-sale transactions can be used to project future patterns of consumer behaviour. Accountants can move from having a "hindsight view" to having more "predictive foresight". One of the possible outcomes of predictive foresight is that companies know what inventories to hold, which frees up capital and lowers costs such as rental – since less storage space is now required – and obsolescence.

Organisations like ISCA have stressed the need for professional accountants to be the strategic business advisors for the companies for which they work. Again, this is where

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accountants are the ideal candidates, because they have finance and operations knowledge, underpinned by the rigorous training they have undergone. This is also reflected by the global trend of medium-sized international accountancy networks and small and medium-sized practices moving away from audit in favour of advisory, including cyber security and data analytics.

Given the current state of technology and its impact on the accountancy profession, human accountants are still needed for the kind of multifaceted, human relations role that advisory services call for. It might well be that these additional services can also be tackled by artificial intelligence and machine learning in the future, but the point here is clear – the accounting profession has had the knack for constantly upskilling its work, whenever new technological developments have helped relieve humans of some tasks.

According to a study of over 2,000 work activities in more than 800 occupations by the McKinsey Global Institute released in 2017, the easiest jobs to automate are those involving predictable physical activities such as assembly line work in manufacturing. The next easiest jobs to automate include data collection and processing activities.

At the other end of the spectrum, the hardest activities to automate are those that involve managing and developing people or those which require deep expertise in decision-making, and planning.

Rather than being a monolithic role, the accountancy profession similarly covers a spectrum of activities from routine ones such as data entry to analysis and judgement. Routine activities can be and already are being automated with accounting software like Xero accounting and Quickbooks. The implication of this would be job losses especially for accountants doing mainly routine accounting work, unless they can move on to higher-value roles.

When the accountant analyses, applies judgement, and then explains the issues relating to quality financial management to their clients or employers, they are actually assuming a role akin to an educator – an activity which the McKinsey study identified as among the most highly resistant to automation in the foreseeable future.

## OPPORTUNITIES IN ASEAN MARKETS

For now, the Association of Southeast Asian Nations (ASEAN) market is big and growing rapidly. Businesses in the region will need accountants and finance professionals to support their growth, and most emerging markets are short of these professionals. Singapore accountants are well-equipped to take on these assignments. This will also give some leeway to those who may need more time to upgrade their skills to take advantage of new technologies to take on higher-value jobs.

The designation, *ASEAN Chartered Professional Accountant* (*ACPA*), created under the ASEAN Mutual Recognition Agreement (MRA) on Accountancy Services signed in November 2014, will enhance mobility into some markets which hitherto have been closed to foreign accountants. This means that *Chartered Accountant of Singapore* (*CA (Singapore)*) members who satisfy the criteria of the MRA may apply for *ACPA* which will be recognised in the other nine ASEAN member states. *ACPAs* would be allowed to provide accountancy services (excluding signing-off of the independent auditor's report and providing services that require domestic licensing) across the ASEAN region, without having to undergo extensive re-training or re-qualification procedures.

## ACCOUNTANCY PROFESSION WILL TRANSFORM, NOT VANISH

The accountancy profession involves more than bookkeeping roles today. The core competencies and skills of an accountant provide a strong foundation to go into many other high-growth fields of specialisation and trades, and even as entrepreneurs. The use of analytics, as discussed earlier, is but one example of how the accounting professional can work hand-in-hand with technology to raise the value of their work in the near term.

There is little reason to believe that the accounting profession will die out as a result of technological disruption, just as how the profession has not only survived but also transformed itself since the onset of the digital revolution. This is because the profession has continually transformed itself, and will continue to do so.

Tellingly, Martin Ford, one of the key progenitors today of the idea that machines can one day replace workers, nevertheless admitted in the conclusion of his book, *The Rise of Robots*, that "there is no question that the economy will remain heavily dependent on human labour for the foreseeable future". **ISCA**

**Lee Fook Chiew is CEO, and Loke Hoe Yeong is Manager, Insights and Intelligence, ISCA.**
**An edited version of this article was first published in *The Straits Times* on 24 June 2017.**

# TECHNICAL HIGHLIGHTS


FINANCIAL REPORTING

## IASB BEGINS IFRS 13 REVIEW WITH CALL FOR INFORMATION

IASB requests stakeholders to tell them about their experience with the accounting standard that explains how to measure the "fair value" of assets and liabilities, IFRS 13. The aim is to check whether the standard meets its objectives.

This is part of the IASB's Post-implementation Review (PIR) of IFRS 13: Fair Value Measurement. The objective of a PIR is to assess whether an accounting standard works as intended and achieves its objectives. This assessment involves analysing how the requirements in the standard affect investors, companies and auditors. The PIR also helps detect areas of a standard that may present challenges that could result in inconsistent application of the requirements. Comments are due to IASB on 22 September 2017.

For more information, please visit www.ifrs.org/news-and-events/2017/05/iasb-begins-second-phase-of-ifrs-13-review-with-call-for-information/

## IASB PROPOSES AMENDMENTS TO IAS 16

The proposed amendments would prohibit deducting sales proceeds from the cost of an item of property, plant and equipment while that asset is being made available for use. Instead, the company would recognise those sales proceeds and related costs in profit or loss. Comments are due to IASB on 19 October 2017.

For more information, please visit www.ifrs.org/projects/work-plan/property-plant-and-equipment-proceeds-before-intended-use/comment-letters-projects/ed-property-plant-and-equipment/

## IASB ISSUES IFRIC 23 ON IAS 12: INCOME TAXES

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. The Interpretation is effective from 1 January 2019.

For more information, please visit www.ifrs.org/news-and-events/2017/06/international-accounting-standards-board-issues-interpretation-on-ias-12-income-taxes/

## IASB ISSUES TENTATIVE DECISIONS FOR NEW CONCEPTUAL FRAMEWORK

IASB has completed the redeliberations of the ED: Conceptual Framework for Financial Reporting and of the ED: Updating References to the Conceptual Framework. This project aims to provide a more complete, clear and updated set of concepts for IFRS Standards.

For more information, please visit www.ifrs.org/news-and-events/2017/06/summary-of-tentative-decisions-on-the-conceptual-framework/

ETHICS

## ISCA COMMENTS ON IESBA ED TO IMPROVE STRUCTURE OF CODE (PHASE 2)

The ED on Improving the Structure of the Code – Phase 2 includes the restructured text of the remaining extant Code not included in Phase 1 and other projects, such as Part C of the Code, Responding to NOCLAR and Long Association. ISCA proposed some edits to enhance the consistency of the restructured Code.

For more information, please visit http://isca.org.sg/media/2238063/comment-letter-improving-the-structure-of-the-code.pdf

## AMENDED EP 200 IG 2 ILLUSTRATIVE CDD TEMPLATES

EP 200 Implementation Guidance 2 was developed to provide illustrative customer due diligence templates which professional accountants and professional firms can refer to for guidance. The templates have been amended to incorporate new requirements, enhance clarity and make the forms more user-friendly.

For more information, please visit http://isca.org.sg/ethics/ethics-headlines/ethics-headlines/2017/june/amended-ep-200-ig-2-illustrative-customer-due-diligence-templates/

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Stone Forest IT

# Enhance Manual Processes with Effective Automation

## CHALLENGE

Based in Singapore, the client is a leading industry player that manages its portfolio of luxury resorts in the Indian Ocean, offering guests and other stakeholders a choice of popular destinations. Updating its multitude of daily transactions from many resorts into its accounting system has been a constant challenge for the client.

Traditionally, the client's Front Office system in each resort manages the front-of-house operations, back-office operations and restaurants, while the Material Control system manages purchasing, inventory and costing information in daily operations.

Every day, the finance team has to manually update each resort's daily transaction figures into the Sage 300 (formerly Sage ERP Accpac) accounting system to analyse them and generate monthly management reports including profit & loss, balance sheet and cash flow statements. Due to the voluminous incoming transaction records from multiple resorts – such as billing, purchasing and inventory – the daily updating process is tedious, time-consuming and prone to human errors.

Seeking a solution that would enable seamless updating of transactions, the client turned to Stone Forest IT (SFIT) to review its processes for automation opportunities.

## SOLUTION

With an understanding of the client's work processes and pain points, SFIT proposed for the Front Office and Material Control systems to generate daily transactions in a ".csv" file format that are saved in the client's File Transfer Protocol (FTP) server. In addition, an automation tool is introduced to upload these transaction files directly into the Sage 300 Accounts Payable and General Ledger modules at a specified time. This solution has significantly reduced man-hours spent by 50% and improved resource utilisation.

## RESULTS

With the improved system in place, the finance team only has to verify the transactions once in the morning. Typographical errors have also been greatly reduced, allowing the client to realise significant time and cost savings.

The successful deployment is a result of SFIT's extensive experience in providing customised solutions for Sage 300 to match organisations' business needs and improve work productivity.

## HIGHLIGHTS

**Industry:**
Hospitality

**Location:**
Singapore

**Solution:**
Automation tool to upload transaction files into Sage 300

**Results:**
- Significant time and cost savings

**Stone Forest IT Pte Ltd**
8 Wilkie Road, #03-08, Wilkie Edge, Singapore 228095
T +65 6594 7594 | ITSales@StoneForestIT.com.sg | www.StoneForestIT.com.sg

# PREPARING FOR FULL IFRS CONVERGENCE IN 2018

## Essential Notes for SGX-listed Companies

BY
NG KIAN HUI

On 29 May 2014, the Singapore Accounting Standards Council (ASC) announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will move to a new financial reporting framework identical to International Financial Reporting Standards (IFRS) for annual periods beginning on or after 1 January 2018. Non-listed Singapore-incorporated companies will be able to adopt this framework on a voluntary basis.

While the new framework (which we call "SG-IFRS" in this article) has not yet been released by the ASC,

> ... **SGX-listed companies are expected to provide IFRS-compliant comparatives and disclosures about the transition in their 2018 quarterly and half-yearly announcements.**


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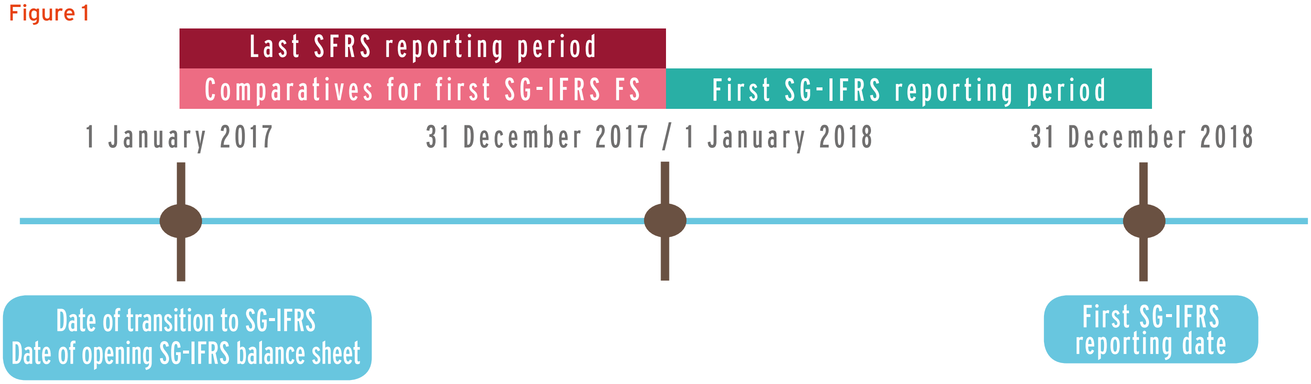
the transition will involve application of IFRS 1: First-time Adoption of International Financial Reporting Standards (IFRS 1). In order to report 31 December 2018 financial statements under SG-IFRS, IFRS 1 requires presentation of comparative information for 2017 and an opening balance sheet as at 1 January 2017 that comply with SG-IFRS, as illustrated in Figure 1. The basic principle in IFRS 1 is that the *latest version of each IFRS must be applied retrospectively*, unless a specific exemption or relief is provided in IFRS 1.

It is important to note that IFRS 1 also applies to any interim financial statements prepared under IAS 34: Interim Financial Reporting for a period covered by those first financial statements that are prepared under IFRSs, and SGX-listed companies are expected to provide *IFRS-compliant comparatives and disclosures about the transition in their 2018 quarterly* and half-yearly announcements. Companies need to be ready to articulate the impact by the first-quarter announcement or half-year announcement, whichever is applicable.

A key part of the convergence process involves identification of the *differences between Singapore FRS and IFRS* that may affect the company's financial statements, and understanding *how to apply IFRS 1*, which may result in restatements to the financial statements even if existing accounting policies under Singapore FRS are consistent with IFRS.

Figure 1




## DIFFERENCES BETWEEN SINGAPORE FRS AND IFRS

Although Singapore FRS have been substantially aligned with IFRS, there are certain differences. Certain standards were adopted as part of Singapore FRS with a different effective date (example, IFRS 2, 7, 10, 11 and 12) and some localisation amendments were also made to certain standards at the time when they were initially adopted as part of Singapore FRS. Table 1 shows two examples of the differences that could affect transition.

## APPLYING IFRS 1: MANDATORY EXCEPTIONS TO RETROSPECTIVE RESTATEMENT

In order to prevent companies from using hindsight in their transition adjustments, IFRS 1 *restricts retrospective application* and provides specific guidance in certain situations, including the following:

- Accounting estimates;
- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Classification and measurement of financial assets;
- Impairment of financial assets, and
- Non-controlling interests.

Table 1 **Singapore FRS and IFRS: Examples of differences and possible impact**

| Standard | Difference | Possible impact and considerations for transition to SG-IFRS |
|---|---|---|
| SFRS 12/IAS 12 *Income Tax* | SFRS 12 is supplemented by Recommended Accounting Practice (RAP) 8: Foreign Income Not Remitted to Singapore, which recommends that no deferred tax should be recognised on foreign-sourced income not remitted to Singapore if an entity is able to control the timing of remittance and it is probable that the income will not be remitted to Singapore in the foreseeable future. This is similar to the IAS 12 treatment for temporary differences on investments in subsidiaries; however, IAS 12 does not specify this exception for unremitted foreign income. | On transition to SG-IFRS, a deferred tax liability may need to be recognised for such foreign-sourced income not remitted to Singapore. |
| SFRS 16/IAS 16 *Property, Plant and Equipment* | SFRS 16 has a transitional provision permitting one-off revaluations of assets performed between 1984 and 1996, and revaluation of assets prior to 1984 without the ongoing use of the revaluation model, as required by IAS 16. | On transition to SG-IFRS, any such past revaluations may need to be reversed. Alternatively, exploring the optional IFRS 1 exemptions for deemed cost may allow fair value at the transition date to be used instead. |

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**For companies expecting or hoping for minimal adjustments to their Singapore FRS financial statements, it may in some cases be necessary to take up some of the (optional) exemptions to reduce the impact of transition.**

Companies will need to familiarise themselves with the specific guidance on these areas, as relevant to them, in order to fully comply with IFRS 1. In the case of financial instruments, these requirements also interact with the specific transition provisions under IFRS 1 for IFRS 9: Financial Instruments (see below).

## APPLYING IFRS 1: OPTIONAL EXEMPTIONS

IFRS 1 also includes a large number of optional exemptions from full retrospective restatement. Although it is not mandatory to apply any of these exemptions, it is important for companies to *assess these carefully in order to decide* whether electing any of them would be worthwhile in their circumstances.

For companies expecting or hoping for minimal adjustments to their Singapore FRS financial statements, it may in some cases be necessary to take up some of the exemptions to reduce the impact of transition. On the other hand, other companies may be able to achieve a more favourable financial outcome by applying these exemptions. Table 2 are examples of the choices available.

## NEW STANDARDS EFFECTIVE IN 2018; DIFFERENCES IN TRANSITIONAL PROVISIONS FOR FIRST-TIME ADOPTERS

Two of the major new IFRSs, IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments also have the same effective date (1 January 2018) as convergence with IFRS. Additionally, although IFRS 16: Leases is effective in 2019, it is available for early adoption. Some listed companies may consider adopting IFRS 16 at the time of transition to IFRS to avoid further changes in accounting policies in the second year of IFRS reporting.

Each of these new IFRSs contains detailed transition provisions, including choices between different methods of transition, reliefs and practical expedients. However, it is important for listed companies moving to SG-IFRS in 2018 to note that they have to apply the transition provisions in IFRS 1 instead of those in the respective new IFRSs. IFRS 1 includes specific transition guidance in the Appendices for each of the major new IFRSs, but the effect is not exactly the same. For example, IFRS 15 allows a choice between a fully retrospective approach and a modified retrospective approach with various practical expedients, whereas under IFRS 1, only retrospective restatement following IFRS 15 is allowed but certain reliefs are available.

## ACTION REQUIRED BEFORE 2018

In order to achieve a smooth transition to SG-IFRS, companies should prepare early for convergence, including taking the following steps and considerations:

- Understand IFRS 1, including the basic rules, mandatory exceptions and optional exemptions relevant to the company;
- Evaluate the transition choices available and model the impact of each option;
- Identify any required changes to systems or processes resulting from the approach chosen;
- Consider compliance with loan covenants and remuneration arrangements;
- Consider potential tax implications of transition choices and adjustments and look out for any pronouncements that may be made by IRAS about the tax treatment;
- Consider implications for distributable reserves and dividend payments;
- Seek Board of Directors and Audit Committee input and approval;
- Gather information required for transition adjustments and calculate final adjustments;
- Communicate the impact with all stakeholders. ISCA

Table 2 Examples of optional exemptions and considerations

| | Nature of exemption | Considerations |
|---|---|---|
| Business combinations | An election is available to not restate past business combinations before the date of transition or any chosen date prior to transition, and apply a simplified recognition and measurement approach at the date of transition. | If not adopted, all past business combinations need to be restated applying the latest version of IFRS 3 and the definition of control under IFRS 10. This is potentially useful for companies with material business combinations in the past originally accounted for under earlier versions of SFRS 27 and SFRS 103. |
| Cumulative translation differences | Choice to reset cumulative translation differences recorded in the foreign currency translation reserve to nil and transfer the balance to retained earnings at the date of transition; must be applied to all foreign operations consistently. | The alternative is to apply IAS 21 retrospectively to each subsidiary. For Singapore companies, adjustments to the translation may arise on transition if business combinations are restated (see above). The choice will affect the level of future gains or losses on disposal of subsidiaries as such cumulative translation differences are recycled to profit or loss on disposal of the subsidiary. |

Ng Kian Hui is Audit & Assurance Partner, BDO LLP. This article was adapted from the "BDO Connect" Q3 newsletter published in October 2016.

# DEMYSTIFY INCOME TAX DEDUCTIBILITY

## Get a Firm Grip on Tax Deductibility and Prohibitions

BY
FELIX WONG AND
ANGELINA TAN

Business expenses may either be deductible or non-deductible for income tax purposes. Deductible business expenses can reduce a taxpayer's taxable income, lowering its income tax payable. As such, getting a firm grip on sections 14 and 15 of the Income Tax Act (ITA), which govern the deductibility and prohibitions against certain business expenses, is important to a taxpayer.

Conversely, if the taxpayer is unfamiliar with such tax rules, it may under-claim eligible tax deductions or over-claim tax deductions without legal basis, resulting in a higher tax payable or even penalties for the taxpayer.

At a recent *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals, Liu Hern Kuan, tax lawyer at Tan Peng Chin LLC, shared his insights on key deductibility issues enunciated in notable tax cases he was personally involved in, such as *JD v CIT* [2005], *T Ltd v CIT* [2006] and *IA v CIT* [2006], as well as developments in interest deductibility issues following these cases.

### DEDUCTIBILITY AND PROHIBITIONS

Singapore's legal basis on deductibility


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**Liu Hern Kuan, tax lawyer at Tan Peng Chin LLC, shared his insights on key tax deductibility issues enunciated in recent tax cases.**

and prohibitions against business expenses are provided in sections 14 and 15 of the ITA.

## Section 14

Section 14(1) provides the general deduction formula. Expenses that fulfil the conditions are deductible for income tax purposes. The deduction formula is:

"… there shall be deducted all outgoings and expenses wholly and exclusively incurred during that period by that person in the production of the income, including…"

★

**If a loan is taken for the purpose of acquiring or enhancing the permanent structure of a business (for example, if the loan is taken to purchase capital asset such as land or machinery), it is capital in nature. However, if the loan is taken to acquire trading stock, it is revenue in nature.**

Section 14 also contains specific deduction provisions under sections 14(1)(a) to (h), which specifically allow tax deduction for certain expenses (that would not normally qualify under the general deduction formula), and sections 14A to 14ZB, which provide for deduction for various tax incentives or special treatment.

The word, "including" in section 14(1) suggests that the specific deductions in sections 14(1)(a) to (h) are not subject to the requirements in the deduction formula above.

## Section 15

Unlike section 14, section 15 prescribes a negative test on deductibility. Theoretically, expenses caught under section 15 would not be deductible even though they may satisfy the general deduction formula under section 14(1). Section 15(1) states that:

"Notwithstanding the provisions of this Act, for the purpose of ascertaining the income of any persons, no deduction shall be allowed in respect of…" (emphasis added)

The sentence "notwithstanding the provisions of this Act" would seem to suggest that section 15 would take precedence over section 14, but the question remains on how an expense should be treated if it is both specifically allowed and disallowed under sections 14(1)(a) to (h) and 15 respectively.

## INTERACTION BETWEEN SECTIONS 14, 14(1)(A) AND 15(1)(C)

The answer to this question can be found in several Singapore tax cases that dealt with the interaction between sections 14, 14(1)(a) and 15(1)(c) on the deductibility of borrowing costs, including *T Ltd v CIT* [2006], *IA v CIT* [2006] and *BFC v CIT* [2014]. The leading case on borrowing expenses is the Court of Appeal case of *BFC v CIT* [2014]:

## BFC v CIT [2014]

The taxpayer, BFC, was in the business of hospitality, investment holding and property investment. It also owned and operated a hotel.

BFC issued bonds in 1995 and 1996. Each bond issue was for a five-year term and was issued at a discount. In addition, the bonds issued in 1995 also carried a premium on redemption.

The CIT did not dispute the taxpayer's deduction claim on its interest expenses, but disallowed its claim on the discounts and redemption premiums. After unsuccessful appeals to the Income Tax Board of Review (ITBR) and the Singapore High Court (SGHC) respectively, BFC further appealed to the highest court in Singapore, the Court of Appeal (CA).

The ultimate question was whether the discounts and redemption premiums were tax deductible. In arriving at the conclusion, the CA set out the order of its analysis of the relevant issues:

i. Whether the discounts and redemption premiums were capital expenditure and therefore prohibited from deduction under section 15(1)(c);
ii. Whether the discounts and redemption premiums were "outgoings and expenses wholly and exclusively incurred" in the production of income in the context of section 14(1), and
iii. Whether the discounts and redemption premiums were "interest" under section 14(1)(a).

## Analytical framework

The CA chose to first address whether the discounts and redemption premium were prohibited from deduction under Section 15(1)(c), as its determination could make it unnecessary to consider the second issue. In addressing the first issue, the CA endorsed the analytical framework laid down in earlier decisions in *T Ltd v CIT* [2006] and *IA v CIT* [2006] to determine whether expenses incurred in connection with a loan is revenue or capital in nature.

Essentially, the nature of borrowing costs is derived from the nature of the underlying loan, which in turn depends on the purpose of the loan. So if a loan is taken for the purpose of acquiring or enhancing the permanent structure of a business (for example, if the loan is taken to purchase capital asset such as land or machinery), it is capital in nature. However, if the loan is taken to acquire trading stock, it is revenue in nature.

It should also be noted that the sole purpose of the loan is to be assumed as capital in nature if there is insufficient linkage between the loan and the transaction for which the loan is taken (for example, if the loan is taken up without any stipulation as to what it is to be used for).

## The CA's analysis and decision

BFC issued the bonds for three purposes – first, to finance the renovation of the hotel (which is a capital asset); second, to refinance the existing borrowing (which is assumed to be capital in nature due to lack of information on the purpose of the existing loans), and third, as

Section 14(1)(a) is also an exception to section 15(1)(c); in other words, even though interest payable on capital employed in acquiring the income is capital, the interest may be deductible under section 14(1)(a).

working capital for its day-to-day operations (which is assumed to be capital in nature since it is taken without stipulation as to what the loan was to be used for). As the bonds were issued for capital purposes, the discounts and redemption premiums in respect of the bonds should likewise be regarded as capital expenditure under section 15(1)(c).

Since section 15(1)(c) applies, it was unnecessary to consider the second issue as section 15 takes precedence to the general deduction formula under section 14(1). The issue then was whether the discounts and redemption premiums were "interest" under section 14(1)(a), a specific deduction provision.

Being a specific deduction provision, the CA adopted a less liberal interpretation of the term "interest" under section 14(1)(a). Notwithstanding that discounts and redemption premiums may have the same economic effect as interests, the CA opined that the discounts and redemption premiums were not "interest" under section 14(1)(a) on the basis they do not bear the fundamental feature of accrual with time (as with interest). As such, the CA held that section 14(1)(a) does not apply in this case and the discounts and redemption premiums were not tax deductible.

The order of analysis set out by the CA affirmed that section 14(1)(a) is an exception to section 15(1)(c). The same view was held in subsequent tax cases such as *GBK v CIT* [2016].

## GBK v CIT [2016]

The taxpayer, GBK, was in the business of owning and operating a mall. In 2004, it assigned its rights to the rental income from the mall to a special purpose vehicle as security for a loan. Thereupon, the taxpayer issued bonds to shareholders and returned capital to shareholders. GBK's deduction claim on the interest expenses incurred on the bonds to shareholders was disallowed by the CIT on the basis that the interest is capital expenditure. GBK appealed to the ITBR.

The issue before the ITBR was whether there was a direct link between the rental income and the interest expense.

On the basis that the mall was already generating sufficient rental income to operate prior to the securitisation transaction, and as the capital restructuring exercise was undertaken as a result of the abolition of the imputation system to allow shareholders to obtain a return in the form of interest and not for the purpose of deriving income, the ITBR upheld the CIT's decision (that the interest was non-deductible) as it was unable to find any "direct link" between the interest expense and rental income for section 14(1)(a) purposes.

Subsequent to the session, on 5 June 2017, the High Court issued a judgement (*BML v CIT* [2017] SGHC 118) affirming the ITBR's decision that the interest was not deductible.

When determining whether an expense is deductible for income tax purposes, one should first look at the prohibitions under section 15 of the ITA, followed by specific deduction provisions under section 14(1)(a) to (h), which are exceptions to the prohibitions. If the expense does not fall under either, one should then look at whether it may qualify for tax deduction under the general deduction formula in section 14(1) of the ITA. Section 14(1)(a) is also an exception to section 15(1)(c); in other words, even though interest payable on capital employed in acquiring the income is capital, the interest may be deductible under section 14(1)(a). ISCA

**Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Liu Hern Kuan, tax lawyer at Tan Peng Chin LLC. For more tax insights, please visit www.siatp.org.sg.**

# THERE'S NO SUBSTITUTE FOR QUALITY

## Essential Elements of Quality Control Framework

BY
SARAH BECKETT FERENCE

WITH ADDITIONAL REPORTING BY
SHERYL HON

"Quality is not an act, it is a habit." This quote, often mistakenly attributed to Aristotle, sums it up well. Quality is something that can only be embedded through a professional firm's people and culture. It is not something on a checklist to be completed prior to the issuance of a professional firm's report. Quality is a fundamental value and way of life for a true professional.

### IMPORTANCE OF A QUALITY CONTROL SYSTEM THAT COMPLIES WITH SSQC 1

The Singapore Standard on Quality Control (SSQC) 1 puts in place a quality control system that results in properly-performed engagements and helps reduce the possibility of errors in financial statements. SSQC 1 is essential because it provides a structure and consistency for the manner in which engagements should be conducted and reports are issued in order to avoid costly mistakes.

Besides reducing the risk of an error or omission in an individual engagement, appropriate quality control also benefits the professional firm's reputation. Nothing speaks stronger about a professional firm and its people than the quality of its work. The users of financial statements will have greater confidence in the reliability of the financial information if the professional firm has a reputation for providing quality services. Unquestionably, good quality work enhances both the firm's external and internal reputations. Providing good quality services will also assist in supporting a quality workplace that employees are proud to be a part of.

### A FIRM'S QUALITY INDICATORS

The following are some of the key characteristics of a firm that is committed to quality:

- **Tone at the top** A professional firm's tone at the top is the most important characteristic of the firm. The actions and behaviours of the partners and senior management set the tone for the entire firm. Management which is committed to quality does not take shortcuts or push the boundaries of the firm's expertise in order to accommodate a client request.

- **Client acceptance and continuance** Strong client acceptance and continuance

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processes demonstrate a firm's commitment to quality. Firms should be willing to terminate clients who place the firm in difficult positions or do not provide complete and open responses to inquiries.

- **Training** A firm should be committed to providing excellent and relevant training to all levels of its professional staff, including partners. Training can be in any form, such as classroom-based training, e-learning, on-the-job training and technical consultation. The training programme should be customised based on the professional level of the staff and the competencies the firm wants the staff to acquire in order to properly discharge their responsibilities.

- **Performance management** The evaluations of the firm's personnel and decisions related to promotion should focus more on the quality of engagement performance than on the amount of revenue generated. Revenue and earnings are important, but they should not dominate quality.

## ENGAGEMENT QUALITY INDICATORS

Quality should extend through all areas of the firm, including the delivery of services. The most

**Tone at the top is by far the most important component of the control environment. It has a trickle-down effect on all employees of the firm. If the leaders of the firm do not lead by example, everything else will fail.**

important quality control procedures for individual audit engagements are:

- **Level of involvement by engagement partner** It is crucial for engagement partners to be actively and continuously involved in all their audit engagements. There should be measures in place to ensure that engagement partners are able to devote sufficient attention to all their engagements, such as setting an upper limit on the total number of engagements or portfolio size of an engagement partner, taking into consideration the risk level and complexity of the engagements, as well as the availability of staff support. For partners holding other functional responsibilities within the firm, their client portfolios should be reduced proportionately to ensure that they have enough time for their audit engagements, in addition to their other management roles.

- **Planning and risk assessment** Proper audit planning includes the development of a robust audit plan encompassing properly-designed audit procedures to detect any material misstatement arising from the risks.

- **Assignment and involvement of team members** Team members should be assigned based on their knowledge of the engagement's issues and not simply availability. When the engagement team requires additional knowledge or skills, the team should have access to resources either internally or externally for consultation.

- **"Cold" review** An important quality control procedure is to have a highly competent person who is independent of the engagement, to review the work papers to ensure compliance and quality. This "cold" quality control review is very effective for all types of engagements.

- **Documentation**
  Documentation is only effective if it exists and supports the conclusions reached. Proper documentation should include memoranda on the judgement applied by the engagement team and the evaluation of how client management has applied its own judgement. All concerns should be documented and put in writing to those charged with governance at the client's organisation.

## COMMON QUALITY CONTROL DEFICIENCIES

The above are some factors that demonstrate a firm's commitment to quality. What about quality control deficiencies? From the ISCA Quality Assurance Review Programme[1], we note that firms commonly struggle in these areas:

- **Weak tone at the top**
  Tone at the top is by far the most important component of the control environment. It has a trickle-down effect on all employees of the firm. If the leaders of the firm do not lead by example, everything else will fail.

- **Low level of awareness of the firm's quality control policies and procedures among professional staff** One of the important aspects of quality is frequent communication on the firm's quality control policies and procedures. A regular refresher is therefore necessary to serve as a reminder for staff. This can be done through formal or informal dialogues, internal training or briefing sessions, and the firm's orientation programme.

- **Accepting engagements outside of firm's expertise**
  Firms are more likely to make an error on an engagement that is beyond the scope of the firm's experience and competency. A well-calibrated client and engagement acceptance and continuance assessment will go a long way towards safeguarding against accepting engagements outside of the firm's expertise or poor-quality clients.

- **Lack of proper planning and risk assessment**
  Inadequate planning and risk assessment results in an audit that is not focused on risk areas and heightens audit risk. Proper planning should always be done before the commencement of fieldwork. Engagement team members should have a planning discussion with the

[1] ISCA Quality Assurance Review (QAR) Programme is a voluntary programme that aims to assist practitioners of small and medium-sized practices improve the quality of their audit practices.

> ★ **Although it is true that a professional firm cannot survive on quality alone, one must recognise that without quality, the firm will eventually face sustainability issues.**

engagement partner to discuss matters that include the audit strategy, important areas of audit and their individual roles and responsibilities for the engagement. Regular information sharing with all firm members who serve the client may sometimes uncover additional risks.

- **Failing to revise approach in response to risks identified** Too often, engagement teams do the same thing as the year before, without questioning why. The audit plan should be tailored to address risks identified during planning, and modified when necessary. For instance, a change in circumstances during the course of audit, such as a revised risk assessment or a discovery of a previously unidentified risk, may require an alteration of the audit plan. In short, planning is a continual process that begins after the completion of the previous audit and continues until the completion of the current audit.

- **Inadequate training**
Inadequate training translates into poor performance and thus, quality suffers. Many quality control deficiencies in a firm can be addressed by having adequate training.

## PROMOTING A CULTURE OF QUALITY

What can firms do to help raise the bar on quality?

Every firm should have a defined quality control structure led by a partner or team responsible for the firm's quality control processes. Individuals charged with this oversight should be given the appropriate time and authority to help ensure that services are delivered and professionals conduct themselves in accordance with the firm's quality control procedures. All partners and staff should feel they are an integral part of the firm's quality control system, noting that the benefits of this collaboration will be evident in the quality of work performed and in the firm's financial results.

Firms should set the right tone at the top and not permit commercial considerations to override professionalism. Firm leaders should "walk the talk" and set a good example for the rest of the firm.

## CONCLUSION

Although it is true that a professional firm cannot survive on quality alone, one must recognise that without quality, the firm will eventually face sustainability issues. A strong quality control system is essential in building a solid foundation for a sustainable practice that can meet or exceed clients' expectations.

All firms, regardless of size, need to have some firm-level quality control policies and procedures. Smaller firms are not expected to implement the same level of sophisticated controls like those in bigger firms. They can adopt those quality control policies and procedures which are relevant and applicable to their operations and size.

If you need support in your SSQC 1 implementation journey, please contact us at auditquality@isca.org.sg. ISCA

**Sarah Beckett Ference is Risk Control Director, CNA. Continental Casualty Company, one of the CNA Insurance companies, is the underwriter of the AICPA Professional Liability Insurance Program. Sheryl Hon is Senior Manager, Audit Quality and Standards Development, ISCA.**
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# MAKING SENSE OF WITHHOLDING TAX

## Understanding the Intricacies and Pitfalls


BY
FELIX WONG AND
ANGELINA TAN

Business models have evolved. Competitive pressures have increased. Global contracting, restructuring of supply chains, centralisation of corporate functions and seeking out relevant expertise internationally have increased cross-border transactions. Inevitably, corporations are exposed to withholding tax (WHT) risks.

Against this backdrop, Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Head of Tax Services, Crowe Horwath Singapore, shared his insights on the intricacies and pitfalls of WHT from a Singapore payer's perspective at a recent *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals.

### UNDERSTANDING WHT

WHT is a collection mechanism by which the tax on certain types of income of a non-resident person that is sourced in Singapore (or deemed to be sourced in Singapore) and subject to tax in Singapore, is deducted at source at a certain rate by the payer and subsequently remitted to the Comptroller of Income Tax within a stipulated deadline.

To ensure WHT compliance, companies should systematically go

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**Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Head of Tax Services, Crowe Horwath Singapore, shed light on the intricacies and pitfalls of withholding tax.**

through the following thought process when making a payment:

1) Is the payment made to a non-resident person? If no, WHT is not applicable.
2) If yes to question 1, is the payment (that is, the non-resident's income) subject to WHT? For this, the following need to be considered:
   (a) Does the income of the non-resident recipient fall within the ambit of the WHT provisions of the ITA such as sections 45A to 45H and section 10N(9)?

★

**The nature and the source of income are two important considerations in determining a payer's withholding tax compliance obligations due to Singapore's territorial basis of taxation and the fact that only certain income of a non-resident, as specified in the withholding tax provisions (example, section 45A), are subject to withholding tax.**

(b) Is the income sourced or deemed to be sourced in Singapore? It is necessary to establish this because the WHT provisions such as section 45 are not charging sections and they merely impose a liability on the payer to deduct tax from income that are taxable under the Income Tax Act (ITA).
(c) Is the income exempt from tax by way of tax incentives or concessions under domestic law?
(d) Is the payer exempted from complying with the WHT provisions in respect of certain payments made to certain non-residents?

3) If the payment is subject to WHT, the next step is to establish the applicable WHT rate. To do this, companies need to consider:
(a) Whether there is an Avoidance of Double Taxation Agreement (DTA) between Singapore and the country in which the recipient of the income is resident. If so, is the rate under the DTA lower than the domestic rate, and can the conditions to avail the lower rate be met?
(b) If there is no DTA between the two countries or there is a DTA but the benefits under the DTA are not available, consider whether:
(i) the non-resident has a permanent establishment (PE) in Singapore under domestic law, since the reduced WHT rates under section 43 of the ITA do not apply if the income derived by the non-resident is effectively connected with a PE in Singapore;
(ii) any concessions are applicable such that the WHT can be applied on the net income of the non-resident so as to reduce the effective WHT rate.

4) In applying the WHT rate determined in step 3, the payer needs to establish if it is required to bear the WHT such that a gross up computation is required.

**Singapore adopts the rights-based approach for characterising payments for software.**

## WHT ANALYSIS

The nature and the source of income are two important considerations in determining a payer's WHT compliance obligations due to Singapore's territorial basis of taxation and the fact that only certain income of a non-resident, as specified in the WHT provisions (example, section 45A), are subject to WHT.

### Nature of Income

Different types of income attract different WHT rates. Take, for example, the various types of income covered in section 12(7) – the WHT rates for royalty and know-how payment is 10%, for rental payment is 15% and for service payment (including management services) is 17% respectively. It is, therefore, important to distinguish the nature of each payment to ensure correct compliance.

Generally, a "substance over form" approach should be taken in determining the nature of income. This means the true character of the income, and not its nomenclature, should decide its nature. For example, if a non-resident supplier charges its Singapore customer a penalty for an overdue trade invoice but the payment is effectively an interest in substance, such payment should be treated as interest and be subject to WHT if the requirements under section 45/45A are met. This is notwithstanding its classification in the accounts of the payer as a penalty.

Sometimes, the legal form of an income may differ from its accounting classification. For example, a redeemable preference share could be equity based on its legal rights and obligations but treated as debt under accounting rules. As such, the distribution to the shareholder will be treated as interest (WHT may apply) for accounting purposes and dividends (no WHT) from a legal perspective. In such cases, generally, the legal form should take precedence[1].

### Source of Income

There is somewhat a relationship between nature and source as the source rules may be different for different types of income. Hence, if the identification of the nature of the income is wrong, then the incorrect source rules may be applied. To illustrate this, let us consider section 12(7) payments made to non-residents that are subject to WHT by virtue of section 45A.

Section 12(7) income is deemed to be derived from Singapore if

[1] For details, refer to the Inland Revenue Authority of Singapore's e-Tax Guide on Income Tax Treatment of Hybrid Instruments; https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/etaxguide_CIT_Income%20Tax%20treatment%20of%20Hybrid%20Instruments_2014-05-19.pdf

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the payment is borne directly or indirectly by a person resident in Singapore or a PE in Singapore (except in respect of any business carried on outside Singapore through a PE outside Singapore), or if the payment is deductible against any income accruing in or derived from Singapore.

If the payment relates to services under section 12(7)(c) or the second limb of section 12(7)(b), there is an exception to the above sourcing rule under section 12(7A) in that services rendered outside Singapore will not be deemed to be derived from Singapore if certain conditions are met.

Consider the application of the above to software payments. Singapore adopts the rights-based approach for characterising payments for software. Essentially, such payments can be for the transfer of a "copyright right" or for the transfer of a "copyrighted article". Payments for copyright right allows the payer to commercially exploit the copyright. On the other hand, payments for a copyrighted article limit the usage to personal consumption or within the business operations only.

As an example, the purchase of accounting software by a company for its internal use is a payment for a copyrighted article. However, if the payment allows the company to modify the accounting software, make copies and on-license the software, it would then be a payment for copyright right.

A payment for copyright right is treated as royalty and the WHT provisions under section 45A will apply if the royalty income is deemed to be derived in Singapore under section 12(7). A payment for a copyrighted article is treated as business income of the non-resident recipient. Hence, it does not fall within the ambit of section 12(7) and WHT is not applicable, unless the payment constitutes income derived from a trade or business carried on by the non-resident recipient in Singapore.

The application of the rights-based approach is premised on the fact that there is either a partial or full transfer of a movable property to enable the payer to use that property. The question then is whether the movable property is a copyright right and whether it is a partial transfer, in order to classify the payment for the use or the right to use that property as a royalty.

Increasingly, businesses are choosing to access data and software over the Internet, which is commonly referred to as "cloud computing". For example, businesses subscribe to software applications that they access over the Internet without downloading and accessing the software on their computers' hard drive. The issue in a cloud computing environment is whether there is a transfer of movable property. If there is no such transfer of property, the rights-based approach may not be the appropriate method for determining the character of the payment. The Inland Revenue Authority of Singapore considers payments for cloud computing as payments for services falling within the ambit of the second limb of section 12(7)(b) and therefore, WHT will apply for such payments made to non-residents if the services are rendered in Singapore. It must be noted that there are differing opinions in relation to the characterisation of payments for cloud computing.

The above shows how the characterisation of an income will impact the application of the appropriate source rules. However, determining what is royalty, rental or service is not straightforward in the digital economy where the lines between the different types of payment may be blurred. In addition, ascertaining where services are rendered for digital transactions adds another layer of complexity to WHT compliance.

As cross-border digital transactions continue to grow, so too the need for businesses to understand the evolving technology and be on top of their WHT obligations. With hefty penalties of up to 20% for late payment, it certainly pays for companies to get their WHT filing in order and on time. ISCA

**Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Head of Tax Services, Crowe Horwath Singapore. For more tax insights, please visit www.siatp.org.sg.**

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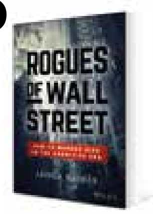


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**JULY QUIZ WINNERS:**

**Teo Eng Siong** Sxxxx013G | **Tan Hong Zhi** Sxxxx355F | **Tan Chee Kheng** Sxxxx488H

Answers for July quiz: (1) A, (2) A, (3) A

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### QUIZ

**1** In "Accountants: Beyond Bean Counting", as technology advances, incorporating data analysis in accounting processes would become a necessity because accounting and operational data are increasingly in electronic form and in vast volumes.

A True
B False

**2** In "Preparing for Full IFRS Convergence in 2018", both SGX-listed Singapore-incorporated companies and non-listed Singapore-incorporated companies must adopt the new financial reporting framework identical to IFRS for annual periods beginning on or after 1 January 2018.

A True
B False

**3** In "The CFO's Evolving Role", today's CFO is the co-driver of corporate strategy focusing on long-term growth strategies.

A True
B False

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