IS Chartered Accountant Journal

DECEMBER 2020

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● focus

AUDIT HOT SPOTS 2020

How Auditors Can Step Up During Uncertain Times

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Conviction, Commitment, Community; Making A Meaningful Difference

Dear members,

THE YEAR END IS USUALLY ASSOCIATED WITH FESTIVE SHOPPING, overseas holidays and joyous celebrations. But with the pall cast by the coronavirus, this traditional period of good cheer and gift giving has been a muted one. Despite the gloom, many of our members have continued their charity endeavours, lending a helping hand and making a meaningful difference.

While we would like to acknowledge the social and community efforts of all our members to mark International Volunteer Day on December 5, it's not practicable to do so. Instead, we can only showcase a few of our members in a two-part series in our Member Profile column. In the November issue, we caught up with two members, who dispel the myth that volunteering requires a lot of time. In this December issue, we feature ISCA Council Member Don Wee, CA (Singapore), Senior Vice President at United Overseas Bank, and Member of Parliament for Chua Chu Kang GRC.

Don's first foray into volunteerism and social work was motivated in part by self-interest. In his early 20s, when he was serving National Service, his grandmother had passed on. He had sought solace by accompanying a group of elderly folks on an excursion. This healing experience prompted him to continue helping out in activities involving the elderly. Don believes that the family is the nucleus of society, and if one cannot take care of oneself and the family, one cannot go on to take care of the bigger community and country. With this conviction, he has, over the years, committed to strengthening the family, for the good of the community. Read about his multiple volunteer roles while simultaneously holding down a full-time job. To members who are contemplating ways to contribute to the underprivileged, Don recommends looking no further than ISCA Cares, the Institute's charity arm.

ISCA Cares was set up in 2015 as a collective effort of the accountancy profession to give back to society. Thanks to the generous support of our members, corporates and other donors, this year, ISCA Cares disbursed a record $164,000 to 83 accountancy students in the local tertiary institutes. This is the highest amount of bursary disbursements – awarded to the largest number of beneficiaries – in a year, since inception. To provide timely assistance, the Institute also brought forward the disbursement date. As ISCA Cares Chairman Mrs Lim Hwee Hua acknowledges, "In times of crisis, the low-income families are one of the hardest-hit groups."

In many ways, the Institute fits the description of a family nucleus, as defined by Don. As the national accountancy body, ISCA takes care of our existing and future members, adding value to them as well as to the profession and wider community. In addition to the slew of initiatives aimed at helping members achieve their professional aspirations, the Institute supported members with a $3.6-million assistance package to help them through the current crisis. Through this package, we hope members would continue in their upskilling and upgrading efforts so that they are better able to thrive in an uncertain future. Read about the Institute's main initiatives in the article "2020: Year In Review".

The start of the year usually marks the beginning of the audit season, especially for companies with a 31 December 2020 year end. The audit industry, already subjected to increased scrutiny in recent years to uphold audit quality and public interest, is expected to face even more challenges due to the pandemic. The cover story, "Audit Hot Spots 2020", spotlights some of the key audit challenges and implications arising from Covid-19 which auditors should take note of in the upcoming audit peak season.

2020 has been a year like no other but some things remain constant – like our members' conviction and commitment to help the less fortunate in the community. While we cannot control the external circumstances, we can decide on how we respond to them. In work and outside work, how can you make a meaningful difference?

Looking ahead, let's welcome the new year with renewed hope and vigour. On behalf of the ISCA Council, management team and staff, I wish you a fruitful 2021!

Kon Yin Tong
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Cybersecurity Comes Of Age

DECADES AFTER EMERGING FROM UNDER INFORMATION TECHNOLOGY (IT)'S WING, THE CYBERSECURITY PROFESSION HAS MATURED. Armed with the insight and foresight that only experience can provide, cybersecurity stands at a pivotal point for industry, organisations and people it serves. Amid the backdrop of Covid-19, the PwC report, "Global Digital Trust Insights 2021: Cybersecurity comes of age", provides insights into the evolving trends in cybersecurity. The report, gathered from a survey of 3,249 business and technology executives from around the world, focuses on five key areas: updating cyber strategy, future-proofing cyber teams, getting the most out of cyber budgets, investing to level the playing field against attackers, and building resilience.

As for the threat outlook for 2021, the Internet of Things (IoT) and cloud service providers top the list of "very likely" threats (mentioned by 33%), while cyber attacks on cloud services top the list of threats that will have "significantly negative impact" (reported by 24%).

Updating cyber strategy

An overwhelming 96% of respondents say they will shift their cybersecurity strategy due to Covid-19, with 50% saying they are more likely now to consider cybersecurity in every business decision (up from 25% last year). In addition, 51% of CEOs say they are more likely to have frequent interactions with the Chief Information Security Officer. In the pandemic's first three months, according to the CEOs, their organisations accelerated digitisation at a surprising speed, advancing to year two or three of their five-year plans.

Future-proofing cyber teams

With 3.5 million cybersecurity jobs to be filled in 2021, the one problem plaguing the industry is a lack of skilled workers. Fifty-one per cent of respondents say they plan to add full-time cybersecurity personnel over the next year, with more than 22% saying they will increase staffing by 5% or more. The top roles they are looking to fill centre on cloud solutions architects (43%), security intelligence (40%), and data analysis (37%). Many organisations are hiring from within, offering upskilling to enhance existing workers' skills in the same areas they are hiring for, namely, digital skills, business acumen, and social skills.

Rethinking cyber budgets

More than half of the respondents (55%) say they are likely to increase their cyber budget in 2021, though 55% lack the confidence that their cyber spending is allocated towards the most significant risks to the organisation. Forty-four per cent say that they are thinking about changing their budgeting process, and 37% strongly agree that quantification of cyber risks can significantly improve the way they manage their risk spending. More than one-third strongly agree that organisations can strengthen their cyber posture while containing costs, thanks to automation and rationalisation of technology.

Levelling the playing field against cyber attackers

Innovation and technology are changing the way organisations are levelling the playing field against cyber attackers, with 43% saying they have improved customer experiences, and are responding more quickly to incidents and disruptions. The top-ranked outcomes desired in the next two to three years are increased prevention of successful attacks, faster response times to disruptions, improved confidence of leaders in the ability to manage threats, and improved customer experience.

Building resilience

The year has been marked by a surge in intrusions, ransomware, data breaches in health and educational institutions, and phishing. As a result, 40% of the respondents plan to increase resilience testing to ensure that critical business services will function even if a disruptive cyber event occurs.

PHOTO SHUTTERSTOCK

Singaporeans Recognise Importance Of Reskilling And Upskilling To Stay Competitive

PHOTO SHUTTERSTOCK

IN AN INCREASINGLY UNCERTAIN JOB MARKET, nine in 10 Singapore employees (90%) see the need to reskill or to upskill to stay relevant in the post-pandemic world, according to the results of the "UOB ASEAN Consumer Sentiment Study".

The findings come as Singaporeans expect that securing a new role in the current job market will be tough due to the economic recession. Close to nine in 10 of Singapore respondents (88%) believe that companies will prefer candidates who can perform multiple roles or choose not to hire; instead, they will digitalise as means to reduce costs (87%). The majority of Singapore respondents also expect that companies will use retrenchment as a tool to cut costs (88%).

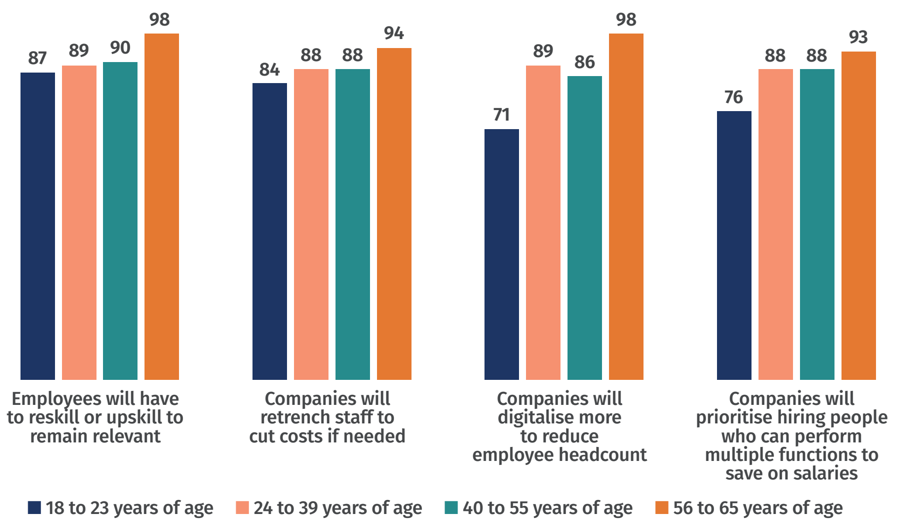
Among the different age groups, the concerns around job security are felt most strongly by Singaporeans between 56 to 65 years of age. Ninety-eight per cent of respondents in this age band are focused on reskilling or upskilling to stay competitive. Among those aged 24 to 55, about nine in 10 share the same view.

The Covid-19 pandemic has reaffirmed the importance of adaptability and continual learning to ensure that people are ready to take on changing job demands and to seize future opportunities, says Dean Tong, Head of Group Human Resources, UOB. As the digitalisation trend accelerates, it is imperative that employees are developing the skills needed for a future of work dominated by digital technology and data, he adds.

The same study reveals that flexible work arrangements are welcomed by respondents as a way to achieve work-life balance post-Covid-19. Some 70% believe their productivity would improve if they have more freedom over how they manage their working hours.

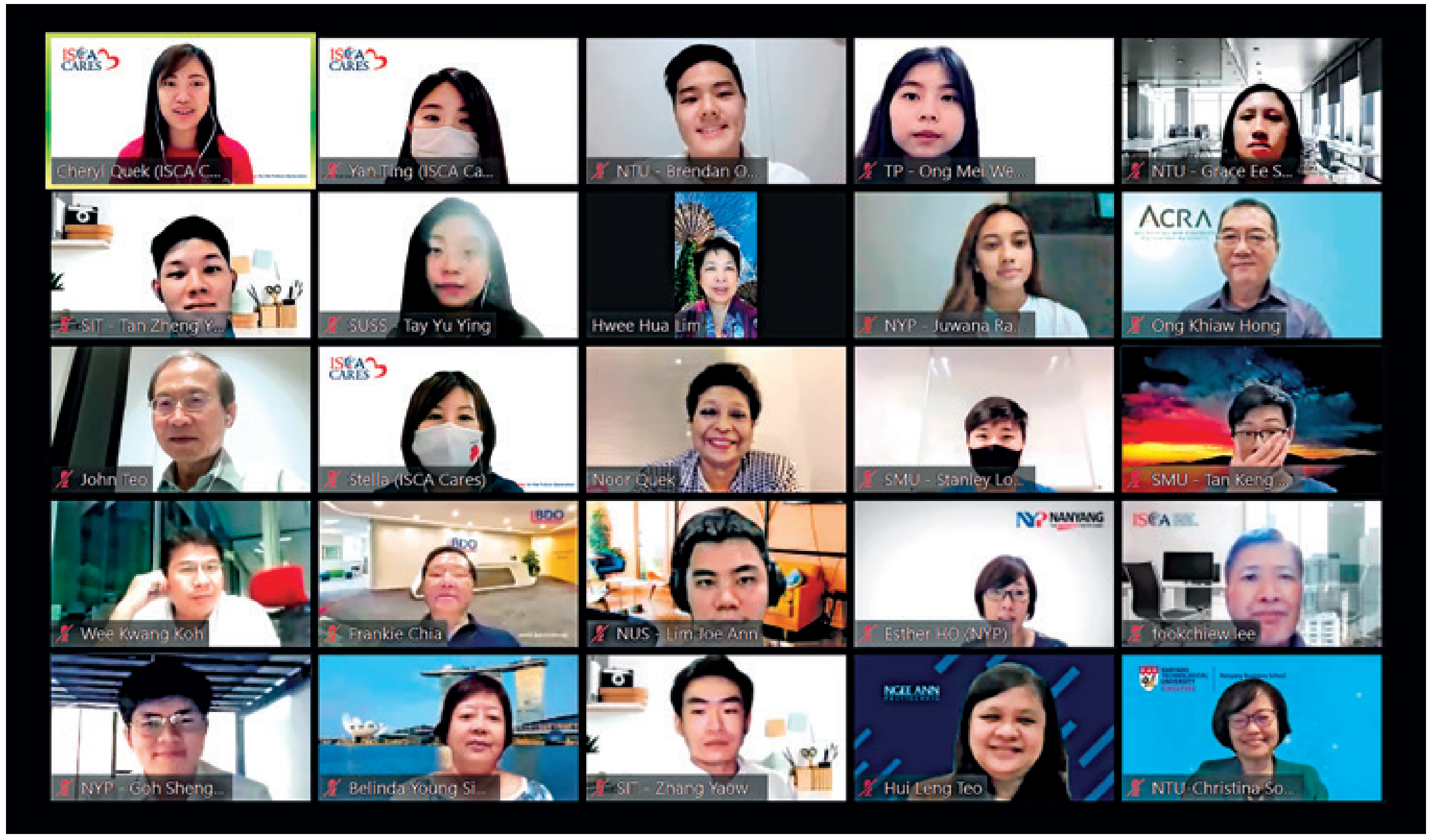
The survey was conducted by UOB and Blackbox in July 2020 among 3,510 people aged between 18 and 65 years of age. Respondents are from five ASEAN markets including 1,030 from Singapore, and 2,480 across Indonesia, Malaysia, Thailand and Vietnam. Similar to Singapore, the majority of employees in Indonesia (93%), Malaysia (90%), Thailand (93%) and Vietnam (92%) see the need to reskill or upskill as key to staying competitive.

Singapore employees' sentiment towards employment



Source: UOB ASEAN Consumer Sentiment Study

ISCA Cares Delivers More Financial Assistance To Record Number Of Beneficiaries



AT 21 YEARS OF AGE, SINGAPORE UNIVERSITY OF SOCIAL SCIENCES (SUSS) ACCOUNTANCY STUDENT TAY YU YING already boasts an arsenal of work experiences under her belt. Having worked since she was 16, she had gone from waitressing at a confectionary to working as an events crew member, bartending at a Japanese restaurant and now, holding an administrative job at a wholesale trading company. During the circuit-breaker period, she worked at a community centre to help distribute masks and answer residents' queries about government grants and relief funds.

Sharing her story candidly with the interview panel for the ISCA Cares Bursary Awards 2020, Yu Ying let on that she started working part-time to help with household expenses and to lighten her mother's financial burden. Since Yu Ying's father passed away a few years ago, her mother had been singlehandedly supporting her and her 18-year-old sister.

Mature and sensible beyond her years, Yu Ying recounted, "My father's passing took a toll on us. My family's lifestyle changed drastically and initially, it was extremely challenging mentally and emotionally. I am grateful to my mom for selflessly caring for me and my sister. It made all the difference."

Unfortunately, the Covid-19 crisis exacerbated their troubles when Yu Ying's mother lost her job as a sushi chef, leaving the family without a stable income and throwing the family into greater uncertainty.

Yu Ying was just one of many youths from disadvantaged families who received the ISCA Cares Bursary Award.

▲ Close to 80 student beneficiaries and their family members, donors, ISCA Council members, ISCA Cares Board members and distinguished guests attended the ISCA Cares Bursary Awards Ceremony on October 16

A total of $54,000 were presented to 28 bursary recipients at the annual ISCA Cares Bursary Awards Ceremony on October 16. This was in addition to the 55 bursaries awarded in May to offer timely help to a group of beneficiaries earlier; beneficiaries are now known as ISCA Cares Ambassadors.

Held for the fifth year running, the ceremony, which was conducted virtually, was attended by close to 80 student beneficiaries and their family members, donors, ISCA Council members, ISCA Cares Board members and distinguished guests.

ISCA Cares, the charity arm of the Institute of Singapore Chartered Accountants (ISCA), is a collective effort of the accountancy profession to give back to society. The ISCA Cares Bursary goes towards subsidising beneficiaries' tuition fees and basic living expenses. It is part of the ISCA Cares Education Programme, which aims to provide needy youths with access to quality accountancy education at the local polytechnics and universities.

To render timely help to financially distressed youths in view of the difficult economic climate arising from the Covid-19 crisis, ISCA Cares awarded a record $164,000 to 83 ISCA Cares Ambassadors this year. This is the highest amount of bursary disbursements and the largest number of beneficiaries in a year, since ISCA Cares' inception in 2015. In 2019, ISCA Cares disbursed $110,000 in bursaries to 36 beneficiaries.

"In times of crisis, low-income families are one of the hardest-hit groups. This makes it more vital for ISCA Cares to step in and help youths from disadvantaged families tide through this challenging period," said ISCA Cares Chairman Mrs Lim Hwee Hua. "Recognising that many such families need urgent financial assistance, we brought forward the disbursement date of the bursaries, and gave bursaries to more beneficiaries."

Similar to previous years, bursaries were awarded to accountancy students from tertiary institutions including Nanyang Technological University, National University of Singapore, Singapore Institute of Technology, Singapore Management University, SUSS, Nanyang Polytechnic, Ngee Ann Polytechnic (NP), Singapore Polytechnic and Temasek Polytechnic.

▲ New ISCA Cares Ambassador Tay Yu Ying

"Our youths represent the future and, with the uncertain economic outlook, we remain committed to investing in them to ensure that no one is left behind. We would like to thank all ISCA Cares donors for their generous support. Their contributions have made it possible for ISCA Cares to reach out to some of those who have been the most financially impacted by the pandemic," acknowledged Mrs Lim.

Apart from awarding bursaries, ISCA Cares runs mentorship programmes where ISCA Cares Ambassadors are mentored by experienced accountancy professionals for a year. ISCA Cares also connects them to internship programmes at the offices of corporate donors, where they can gain valuable accountancy work experience.

New ISCA Cares Ambassador Yu Ying, when accepting the bursary, said, "I would like to sincerely thank ISCA Cares and the donors for this award. This award will be very helpful to me and my family in tiding over this tough financial period. I am very grateful." She looks forward to participating in the mentorship programme and is keen to learn new ways to improve herself.

Even as Yu Ying straddles work and studies to supplement the family's income, she finds opportunity in her predicament. She sees her numerous work experiences as good exposure to gain insights into different industries. Through this, she hopes to chart a clearer career path. For starters, Yu Ying aspires to work in one of the major accountancy firms upon graduation. In the meantime, she wants to accumulate more work experience while focusing on her studies, and in so doing, get a good head start when she enters the workforce in a few years' time.

Beneath her petite frame and sweet voice is a steely resolve. "Simply escaping from problems will only make matters worse. When you can embrace the challenges you face with grace, you will emerge stronger and grow as an individual too," Yu Ying shared.

Another ISCA Cares Ambassador, Nur Suhaila, a Year 3 accountancy student at NP, was recently featured in an article "Bursaries lighten the burden of students from difficult families" in *Berita Harian* on 27 October 2020. The article is available at https://isca.org.sg/isca-cares/news-events/news-events-media-releases/.

career insights talk

Accountancy Career Opportunities In The New Normal

BY Audrey Theodora, Sim Yu Kang And William Sudirgo

TO SHOWCASE THE DIVERSITY OF TALENT IN THE ACCOUNTANCY PROFESSION and broaden awareness of the multiple career pathways that accountancy undergraduates can embark on after graduation, ISCA organised a virtual Career Insights Talk titled "Accountancy Career Opportunities in the New Normal" for ISCA Youth Associates on September 26.

The interactive session featured a panel of three young ISCA members, namely Goh Xin Ying, Founder, The Angle Co and Managing Partner, LSG Capital; Christine Soon, Senior Manager, Forensic Services, PwC Singapore, and Willy Tai, Project Manager and Business Analyst, Ops and Tech, Special Duties, Hong Leong Finance, who shared their perspectives with ISCA Youth Associates.

The session, moderated by three ISCA Youth Ambassadors, opened with a segment led by Audrey Theodora, a final-year accountancy undergraduate from National University of Singapore, who prompted the panellists to share their career journeys, aspirations as well as motivations behind their various career shifts. As the panellists shared their stories, it became evident that regardless of the industry sectors that they were in, they continually learnt to become better at what they did. Their curiosity and willingness to upskill helped them discover their interests and strengths, reorganised their priorities and gained new opportunities to advance further in their careers. Willy, in his current position as Project Manager, shared that his strong fundamentals in accountancy allows him to identify emerging risks, controls, and mitigating factors effectively even with limited resources and time.

Next, William Sudirgo, a final-year accountancy undergraduate from Singapore University of Social Sciences (SUSS), took over and steered the discussion towards how students can prepare themselves for the future workplace by cultivating and developing valuable skill sets. With the uptrend of businesses using digital tools and software more extensively, there is rising demand for technology-focused capabilities such as data analytics skills and experience in robotic process automation, artificial intelligence (AI) and blockchain, in addition to industry knowledge, critical thinking and communication skills. The panellists emphasised the importance of internship experiences to acquire industry knowledge, and encouraged students to continuously equip themselves with new skill sets through various avenues, such as courses organised by ISCA, or through the massive open online courses (MOOC) platforms. They were in agreement about the value of lifelong learning and how there is always knowledge to be gained in every situation.

The spotlight of the conversation then turned to the future economy. During the exchange led by Sim Yu Kang, also a final-year accountancy undergraduate from SUSS, the concerns among students regarding digitalisation within the industry, further exacerbated by the Covid-19 pandemic, were raised. While technological disruptions would inevitably impact the way accountancy and finance professionals work, the panellists shared that technology should be viewed as an enabler. Until the state of AI becomes synonymous with that of the human mind, skilled individuals with an eye for detail, and the ability to interpret findings with their in-depth knowledge, experience and due diligence would still be critical in the accountancy sector.

PHOTOS SHUTTERSTOCK

Ⓐ Panellists (from left) Goh Xin Ying, Christine Soon and Willy Tai

Christine added that it was therefore up to accountancy professionals to make good use of the technology available through efficient applications.

It was a fulfilling and insightful discussion for both the students and panellists. "It was fun and meaningful to share my experience with the ISCA Youth Associates. I am glad to see them leveraging platforms like ISCA to excel in the new norm," shared Xin Ying. William described the session as being "very interactive, useful and motivating especially during these trying times", as it provided students with an idea of what they might encounter when they join the workforce, and how they could start preparing for the future now. Audrey, who was initially worried about how digitalisation might replace the jobs of accountancy professionals, added, "It was fruitful and reassuring to hear how technology can help us to achieve better results and increase efficiency instead of replace us."

As part of ISCA's efforts to prepare students for the ever-changing business environment while in school, accountancy undergraduates can apply to become ISCA Youth Associates and gain access to similar events, workshops and resources. Find out more at isca.org.sg/Youth Associates. ISCA

Audrey Theodora is a final-year accountancy undergraduate from National University of Singapore; Sim Yu Kang and William Sudirgo are both final-year accountancy undergraduates from Singapore University of Social Sciences.

Governance Matters: Delivering Business Innovation And Growth Through Diversity

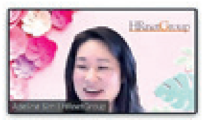
IN THE NEW NORMAL, it has become increasingly crucial for organisations to have a diverse workforce and company culture to navigate the challenges ahead. To discuss this topic in greater detail, the second and final breakfast talk in the ISCA-Singapore Management University Breakfast Talk series, titled "Governance Matters: Delivering Business Innovation and Growth Through Diversity", was held on October 14 via a live webinar attended by more than 260 participants.

What is diversity and inclusion?

Diversity in a workplace usually makes reference to culture, race, gender, age, disability and nationality. Seah Gek Choo, Talent Leader, Deloitte Southeast Asia and Southeast Asia Leader for Deloitte's Centre for Corporate Governance, highlighted that even if all factors of diversity are present, it still requires a seamless integration to be effective. Therefore, an organisation should practise inclusion in the workplace.

Inclusion is a set of behaviour that can be governed. From a business perspective, organisations have to ensure that respect and inclusivity are enforced at the workplace, and that employees are comfortable so that they can connect and work with their colleagues and contribute positively to the team's common goals. Ms Seah advised that organisations need to take active steps to ensure that diversity and inclusion are embraced by everyone, and embed the mindset of inclusion in the company culture. Furthermore, leaders of the organisation should also set an example for employees to follow and instil the culture of inclusion.

Ms Seah urged organisations to consider all the factors of their potential candidates when hiring while being mindful of bias; decisions should be made based solely on how candidates can add value to the team. She shared that workplace experience is now the key to driving performance, and implementing initiatives to engage employees and fostering a community spirit could be a way to let employees know that their mental and physical well-being are being valued by the organisation.



TIPS TO PROMOTE DIVERSITY:

Widen your channels for sourcing

Relying on 1 or 2 "usual suspect" sources of candidates are likely to yield uniform profiles. Consider adjacent industries and all possibilities, and get the word out that you are hiring.

Importance of diversity and inclusion

Adeline Sim, Executive Director and Chief Legal Officer of HRnetGroup Limited, gave her insights into the challenges of promoting diversity at the workplace. For one, diversity is not a performance measure for most companies and management. To address this issue, there should be a metric for diversity, decided by top-level management or the Board of Directors. It should be studied together with the current company culture to measure where the company stands on diversity and inclusion, to determine which areas may require more work.

Ms Sim reinforced the importance of diversity and how it could affect the competitiveness and profitability of a business or product, and cited various examples. Education, she stressed, is very important for both leaders and the organisation to understand the benefits of a diverse workforce and workplace culture. As Covid-19 has irreparably changed how business is done, having a diverse and inclusive team can make a significant difference in helping companies move ahead in the new normal.

Ms Sim concluded her presentation by offering a few tips for promoting diversity in the workplace, such as establishing mentoring opportunities, building relationships among employees, and widening hiring channels.

MARK YOUR CALENDAR

18 DEC

GST Treatment for Transfer Pricing (TP) Adjustments (Live Webinar)

IRAS has recently issued a new GST e-tax guide on Transfer Pricing Adjustments on 9 November 2020. For past TP adjustments, GST-registered businesses will need to review these transactions to ascertain if the correct GST adjustments have been adopted.

During this workshop, we will look at the GST adjustments to be made by GST-registered businesses for TP adjustments.

29 DEC

Eighth Discipline: Managing Projects & Sun Tzu Leadership

This workshop fosters a wiser, novel, multi-cultural, deep thinking approach towards managing projects. The themes revolve around the art of strategic project management thinking with leadership grounded on Sun Tzu's philosophy.

11 JAN

Insightful Decisions using Informative Dashboards – Data Visualization through Power BI (Live Webinar)

The program will enable participants to learn important features of Power BI to prepare and present insightful reports for management using complex calculations, presentations and visualization techniques. These set of services are used by business users to present data and create interactive reports for senior management.

13 JAN

Framework for Resolving Ethical Issues and Conflicts (Live Webinar)

This course is aimed at creating a basic framework for accountants and auditors to resolve potential and actual ethical conflicts in work.

28 &29 DEC

Financial Reporting & Analysis (Live Webinar)

This workshop will give you an immediate, working knowledge of the three primary financial statements – the Balance Sheet, the Income Statement and the Statement of Cash Flows. It will help you master the useful tools of finance.

05 JAN

IFRS 9/FRS 109: Financial Instruments - Practical Insights on Post Implementation Issues

This seminar will focus on issues that are emerging in the post implementation period in relation to critical concepts including how the expected loss model is to be applied to non-financial institution credit exposures, changes to the hedge accounting requirements and how to account for the financial instruments that are common to corporates and SMEs.

As Singapore's economy gradually picks up amid the ongoing Covid-19 pandemic, what are the accounting implications from businesses, and what lessons can businesses learn from navigating a crisis? How will Budget 2021 help businesses in the short and long term?

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BY NG KIAN HUI

AUDIT HOT SPOTS 2020

How Auditors Can Step Up During Uncertain Times

THE AUDIT INDUSTRY HAS BEEN SUBJECTED TO INCREASED SCRUTINY IN RECENT YEARS TO UPHOLD AUDIT QUALITY AND PUBLIC INTEREST. The 2019 Novel Coronavirus Outbreak (Covid-19) has further increased the challenges for auditors in performing their audits, not only in complying with the auditing standards but also in managing the expectations of the various stakeholders.

The Covid-19 situation poses a serious public health threat and has interrupted the movement of people and goods throughout the world. Governments the world over are instituting restrictions on individuals and businesses which may likely leave a lasting impact on financial reporting for the financial year 2020 and beyond. On top of those financial implications faced by the business, all these measures have further imposed challenges for auditors in the financial statements audit.

In this article, we will bring you through some of the key audit challenges and implications from Covid-19, and share how auditors can navigate through the upcoming audit peak season. We will go through the journey together from audit planning through to audit execution and reporting.

In forming an opinion, the auditors should ensure that issues arising from the Covid-19 outbreak have been sufficiently addressed, and appropriate sufficient audit evidence has been obtained.

AUDIT PLANNING

SSA 315 (Revised) *Identifying And Assessing The Risks Of Material Misstatement Through Understanding The Entity And Its Environment* requires auditors to identify and assess the risks of material misstatement (RMM), whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed RMM.

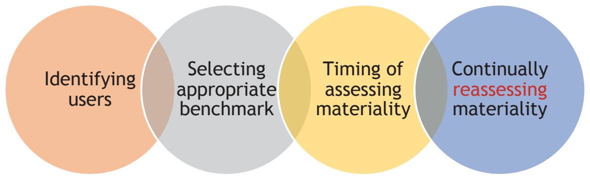
Given the uncertain economic and business environment, auditors must assess the impact to their risk assessments critically and consider whether any additional risk areas need to be included. Areas of RMM which require continuous updates may include but are not limited to the following:

- Changes to management's processes, systems and controls;
- Management's override and bias;
- Going concern assessment;
- Impairment of assets;
- Expected credit loss allowance for financial assets at amortised cost;
- Breach or modification in revenue contracts with customers and its financial impacts; or
- Breach of loan covenants.

Other than the continuous and iterative risk assessment process, another key audit planning challenge arising from Covid-19 would be the ***determination of audit materiality*** in accordance with SSA 320 *Materiality In Planning And Performing An Audit.*

PHOTO SHUTTERSTOCK

Figure 1 Determining appropriate audit materiality



- **Identifying users**

In view of the changing environment and the higher level of uncertainty associated with Covid-19, auditors need to identify whether there are new users or whether the needs of the existing users have changed. Auditors of the financial statements need to exercise professional judgements to understand the characteristics of the primary users of the financial statements and the decisions they make.

- **Selecting appropriate benchmark**

An appropriate benchmark is selected when setting materiality, which is based on what is important to the financial statement users (for example, profit before taxes, revenue, total assets, or net assets). Auditors need to consider, during the Covid-19 period, whether current users still look at the same items for their decision-making purposes (for example, are the operations of the entity so negatively impacted that liquidity is a more critical concern?)

Once a benchmark is selected, auditors may consider:

– Whether there is a need to normalise or average the benchmark;
– Whether a specific materiality is required for certain balances, transactions or disclosures that are of particular importance to users, or
– Whether there is a need to reassess the materiality as circumstances evolve.

In addition, SSA 330 *The Auditor's Responses To Assessed Risks* requires auditors to respond to assessed risks by obtaining sufficient appropriate audit evidence regarding the assessed risk of material misstatement, through designing and implementing appropriate responses to those risks. The ***planned audit approach*** may be significantly different from the past; auditors need to revisit the planned audit approach due to work-from-home (WFH) arrangements, or the internal controls system of the client may not be operating as usual.

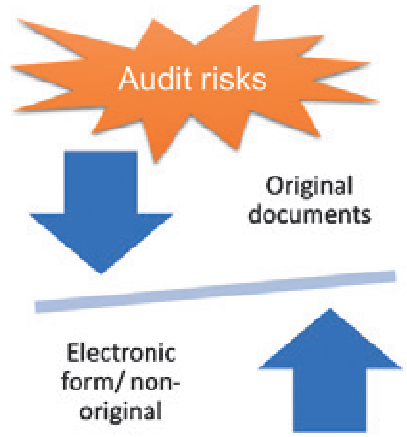
Greater focus or emphasis should be placed on the following but they are not limited to the response to the assessed RMM:

- The financial statement closing process (particularly journal entries and other adjustments made as they are more susceptible to RMM due to fraud and management's bias);
- The auditor's evaluation of the overall presentation of financial statements, including consideration of whether adequate disclosure has been made (going concern, financial risk management, impairment etc).

Depending on circumstances, auditors may consider it necessary to draw users' attention to certain matters relating to Covid-19 even though sufficient appropriate audit evidence has been obtained.

AUDIT EXECUTION

Figure 2 Audit risks



Due to the WFH arrangements and greater reliance being placed on ***electronic form of documents***, audit risks are higher as the volume of electronic form or non-original documents used in an audit increases (Figure 2). Even though electronic form of documents could increase the audit effectiveness and efficiency, auditors should bear in mind that the quality of audit evidence cannot be compromised.

Additional procedures (for example, authentication, remaining alert to possible unauthorised signatories or modification) should be considered when electronic form or non-original documents are used and form part of audit evidence. In addition, auditors are reminded to ensure consistency of electronic audit evidence with other evidence obtained during the course of audit.

Auditing accounting estimates has always been a key focus of auditors. The uncertainty in light of Covid-19 poses greater challenges for management when making such accounting estimates. Auditors are reminded to remain sceptical when assessing management's judgements and estimates. Some areas that require greater focus could include whether assumptions, such as discount rate or growth rate used by management, remain appropriate; whether data used by management is relevant and reliable, as well as any changes in regulatory factors that may affect management's estimates.

Due to the adverse impact of the Covid-19 pandemic on the profitability, asset values and market capitalisation of many companies, the indicators for impairment are more present now than before.

The case study below illustrates some of the key areas of focus auditors should bear in mind in reviewing the impairment assessment of non-financial assets by management.

Case study 1: Impairment assessment of non-financial assets

- Sense Co. is a retailer specialising in low-cost but fashionable clothing for youth. They have a 31 December year-end and Sense Co. adopted SFRS(I) 16 on 1 January 2019.
- Sense Co. has operations in over 26 countries and leases all of its retail space from various landlords.
- Sense Co. also has a head office in Singapore, from where all the administrative and IT staff work.
- Management has identified indicators of impairment (reduced sales and foot traffic at all stores), so they are preparing to provide impairment calculations (value in use or VIU) in accordance with SFRS(I) 1-36 to their auditors for 31 December 2020 year-end.

What should auditors focus on, in reviewing the impairment assessment of management?

- **Discount rate**

The discount rate must reflect the current market assessment of the time value of money and the risk specific to the assets. The risks and uncertainties arising from Covid-19 will generally increase the rate of return that a market participant would require. This

Where significant uncertainties surround the outcome of future events, it may be appropriate for management to model multiple scenarios and weigh their likelihood of achieving the "worst case" scenario included in an assessment.

is particularly true in industries most impacted by the effects of Covid-19, such as retail, as in the case of Sense Co. As such, it is unlikely that the discount rate used in the prior year's impairment test would be acceptable for use in the 31 December 2020 impairment test.

- **Multiple cash flow scenarios**

In normal circumstances, a single best estimate of cash flows will be used for VIU calculation in the assessment for impairment of non-financial assets. However, significant uncertainties may exist as at 31 December 2020 as the cash flow model is impacted by uncertainty concerning future customer behaviour, effects of global supply chain, store operation and government regulations, etc. Hence, it may not be possible to use a single best estimate to reflect all the uncertainties in a single discount rate. Management may need to have multiple cash flow scenarios and apply probability weighting to determine the VIU amount.

- **Lease period versus forecast period**

Existing lease term for respective store might be shorter than the forecast period. Sense Co. should forecast market rental costs and include those cash flows, as operating the store requires a leased space. The inclusion of these cash flows is, in substance, similar to capital expenditure or maintenance cash flows as they are required for the cash generating unit (CGU) to operate.

- **Identification of CGU**

One of the common errors in accounting for impairment of non-financial assets is not testing impairment at the correct "unit of account". When there is an indicator that an asset or group of assets is impaired, that asset (or group of assets) must be tested for impairment. Determining the level at which impairment testing takes place (the "unit of account") involves significant judgement.

- **Allocation of corporate assets**

Sense Co. has central corporate functions at their head office in Singapore. This includes a portion of the head office (including right-of-use assets), other assets and the servers used to administer the IT function for all of the various store locations. The stores cannot function without these assets as they provide payroll, IT and other necessary functions. Therefore, these corporate assets need to be allocated to respective store's CGU.

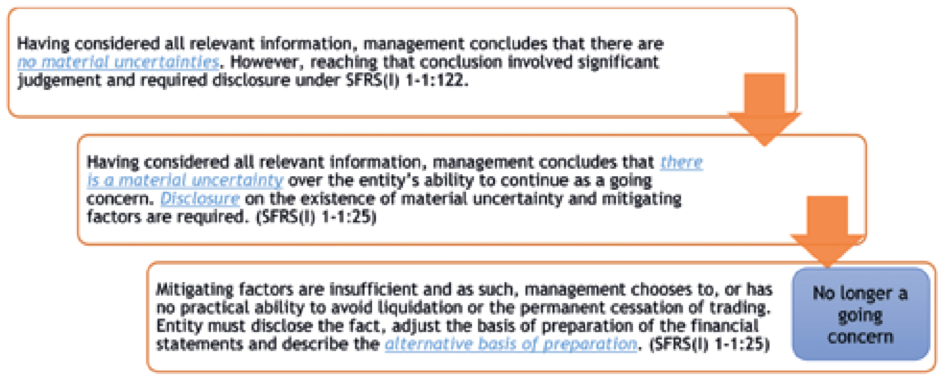
Case study 2: Expected credit loss of trade receivables

Similar challenges will be faced by management in relation to determining the expected credit loss of financial assets under SFRS(I) 9 *Financial Instruments*. To illustrate using an example, assume the entity is in the business of selling bottled drinks to restaurants and supermarkets, with 30-day credit terms. SFRS(I) 9 *Financial Instruments* requires loss allowance for lifetime expected credit losses (simplified method) to be provided for all its trade receivables as at reporting date.

Figure 3 Trade receivables balance, aging and loss allowance as at 30 June 2020

	Current	31-60 days	61-90 days	> 90 days	Total
Cafes & restaurants	$2,000	$1,300	$1,500	$1,700	$6,500
Supermarkets	$19,500	$4,500	$2,500	$500	$27,000
Total	$21,500	$5,800	$4,000	$2,200	$33,500
Historical loss rate	-	1.95%	5.00%	20.00%	1.60%
Adjusted loss rate	-	21.62%	33.80%	68.57%	20.00%

Figure 4 Possible outcomes on management's going concern assessment



Management has used its historical loss provision data in prior years and adjusted them to reflect its current and future conditions in order to derive the expected credit loss allowance for its trade receivables as at 30 June 2020. Auditors are reminded to challenge management's basis of the expected credit loss rate applied as restaurant customers are likely to be more severely impacted by Covid-19 as compared to supermarket customers.

Therefore, further segmentation is required, based on the industries in which the customers operate, since certain industries may be more impacted as compared to others (that is, higher loss allowance is expected for restaurant customers as compared to supermarket customers).

GOING CONCERN CONSIDERATION

In reviewing the management's going concern assessment in accordance with SSA 570 *Going Concern*, auditors should critically evaluate that management's use of going concern assumption remains appropriate by understanding the impacts of Covid-19 on the entity's operations and forecasts including liquidity.

Where significant uncertainties surround the outcome of future events, it may be appropriate for management to model multiple scenarios and weigh their likelihood of achieving the "worst case" scenario included in an assessment. It may have to consider little to no revenue for extended periods of time if the entity is required to cease or suspend trading operations. "Negative" or "worst case" scenarios may also need to be weighted quite heavily. Auditors should be alert to changes in conditions up to the date of the audit report when performing the evaluation of management's assessment on the entity's ability to continue as a going concern.

AUDIT COMPLETION AND REPORTING

In this rapidly changing and uncertain environment, auditors should continue to maintain professional scepticism throughout the audit and engage its client as early as possible to understand the possible impacts from Covid-19. It is expected that more time and effort will be required by auditors to complete the upcoming audit and ensure sufficient documentation of the work done. It will also be important to consider involvement of experts in auditing management's estimates, and ensure sufficient time is catered to address key issues and to finalise audit opinion.

In forming an opinion, the auditors should ensure that issues arising from the Covid-19 outbreak have been sufficiently addressed, and appropriate sufficient audit evidence has been obtained. If auditors are unable to obtain sufficient audit evidence surrounding the financial statements, the audit report would need to be modified accordingly. Depending on circumstances, auditors may consider it necessary to draw users' attention to certain matters relating to Covid-19 even though sufficient appropriate audit evidence has been obtained.

It is pertinent for auditors to step up and remain relevant during these uncertain times by delivering quality audit and continuing to contribute positively to the financial ecosystem. ISCA

Ng Kian Hui is Audit Partner, Head of Audit & Assurance, BDO Singapore.

PHOTO SHUTTERSTOCK

2020: YEAR IN REVIEW

Supporting Members, Profession And Industry

2020 WILL BE REMEMBERED AS THE YEAR COVID-19 WREAKED HAVOC AROUND THE WORLD. Borders were closed, supply chains were disrupted, and for many industry sectors, business slowed to a trickle or even stopped entirely. To support Singaporeans and businesses, the government had progressively unveiled a comprehensive suite of measures through four Budgets and two Ministerial Statements, providing broad-based as well as targeted assistance. As the national accountancy body, ISCA rolled out a myriad of initiatives including an assistance package worth up to $3.6 million to help our members through this crisis. The initiatives, some of which are mentioned in the subsequent paragraphs of this article, fall into the three main categories of career support, resources and virtual learning support. ISCA has also rendered financial support to members who need help in three areas: firstly, by rolling out a continuing professional development (CPD) support scheme to support members in upskilling for the future, where every ISCA member is given a $100 CPD voucher to offset their ISCA course fees; secondly, by granting a 50% reduction in membership subscription fees upon request, or a fee waiver in exceptional circumstances; and lastly, by offering a financial deferment scheme for members who would like to enrol in ISCA courses and qualification programmes which will enable them to defer payment of course fees till 31 December 2020, by up to 80% of the fees.

This year marked the final lap in the Institute's 10-year strategic roadmap. Over the last 12 months, ISCA's strategies had been aligned to the six strategic priorities designed to steer ISCA to 2020 and beyond. These strategies are, broadly, to enable members to achieve their professional aspirations, serve the public interest by upholding professional conduct and ethical standards, share business insights and uphold technical excellence, be a major influencer of key components of the ecosystem, elevate the ISCA brand, and raise ISCA's global prominence. The Institute's programmes and activities served to heighten our members' professional standing and advance their career mobility, furnish them with the competencies to enter emerging areas of demand, and prepare them for a different business reality shaped by the coronavirus. Here are some of our key initiatives this past year.

The Institute's prompt and focused responses to the crisis – from the immediate actions that members could take to preparing them for a drastically different post-Covid-19 future – bore testimony to our commitment to bring value to our members, profession and the wider community.

STEERING THROUGH COVID-19 COMPLEXITIES

ISCA Covid-19 Resource Centre

The Covid-19 pandemic's impact on the profession has been wide-ranging. To address the varied challenges faced by members and their organisations, the Institute created a virtual Covid-19 Resource Centre, with regularly updated contents curated for accountancy and finance professionals. This includes the ISCA Covid-19 Navigator, which provides a summary of the assistance schemes and resources from the government and ISCA to support individuals and businesses affected by the pandemic. The resources are categorised for employees, business owners and key decision makers in organisations, so that users can easily identify the schemes relevant to them.

The Covid-19 Resource Centre also features Technical Guidance on accounting and auditing issues arising from the Covid-19 situation, as well as government announcements, such as advisories and clarifications on firms' operations. These are further elaborated in the sections below.

ISCA Journal special series

In a three-part Covid-19 Special that was published in the May, June and July issues of the ***IS Chartered Accountant Journal* (ISCA Journal),** the Institute provided members with relevant information and advice, equipping them with timely insights from the business, tax and technical perspectives. For instance, the Special shared the implications of Covid-19 on businesses, how businesses can respond to the crisis and how businesses can reposition for the new normal.

A ISCA published a three-part Covid-19 Special to provide members with timely, relevant insights from the business, tax and technical perspectives

Accounting and auditing issues

In view of the far-reaching accounting and auditing implications of the coronavirus, the ISCA Auditing and Assurance Standards Committee and Financial Reporting Committee (FRC), in collaboration with the Accounting and Corporate Regulatory Authority (ACRA), formed a joint Covid-19 working group to address the issues facing the accountancy profession. The working group published guidance in the form of FAQs, which address a range of accounting and auditing issues arising from Covid-19 and various Covid-19 government relief measures; they also highlight internal controls and financial reporting areas that professional accountants in business (PAIBs) should look out for in the current environment. To date, 33 **Covid-19 Technical FAQs** have been published.

In light of the extraordinary circumstances due to the pandemic, the Institute continued to deliver guidance throughout the year, equipping members with timely know-how to perform their roles. One such guidance was **Audit Guidance Statement (AGS) 12**, which we issued in February, to provide guidance on reliance on the work performed by the component auditor, and other applicable audit considerations. The **Financial Reporting Bulletin (FRB) 2**, issued in March, shared the Institute's views on the accounting implications for entities with 31 December 2019 financial reporting date, and other associated accounting implications.

In addition, the government's Covid-19 Support Packages, including the Property Tax Rebate for Year 2020 and Jobs Support Scheme (JSS), gave rise to uncertainties from the accounting perspective. To dispel the grey areas, ISCA issued two FRBs – **FRB 5 "Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant"** was issued in May; **FRB 6, FRB 6 (Revised)** and **FRB 6 (Revised – Sep 2020) "Accounting for the grant provided by the Singapore Government for wages paid to local employees under the Jobs Support Scheme"** were issued in May, July and September respectively. The revisions incorporated enhancements made to JSS, ensuring that members were apprised of the latest developments.

Sector-specific guidance

In a bid to limit the risk of infection, the government had announced various Covid-19 measures for businesses. ISCA, working with the Singapore Accountancy Commission, had followed up with sector-specific advisories to provide guidance to accountancy practices, to help them plan and put in place appropriate work arrangements for their firms. These advisories were issued in April, May and October.

The Institute's prompt and focused responses to the crisis – from the immediate actions that members could take to preparing them for a drastically different post-Covid-19 future – bore testimony to our commitment to bring value to our members, profession and the wider community. As we shared insights with members, we enabled them to continue providing a high level of professional service to their clients. Our definitive actions in steering the profession and industry in a time of crisis also enhanced our standing among our stakeholders.

The ISCA Budget Update Seminar provided information on the impact and tax implications of the Budget 2020 proposals

SINGAPORE ACCOUNTANCY AND AUDIT CONVENTION SERIES 2020

ISCA's flagship Singapore Accountancy and Audit Convention (SAAC) Series, which targets different member segments, features thought leadership, business insights, technical excellence and pertinent on-trend topics. This year, the foremost concern was the pandemic, and the SAAC Series addressed it in every event.

The Unity Budget, unveiled at a time of slowing global economic growth, was unprecedented in its emphasis on near-term support compared to long-term measures. Consequently, the Institute's **Budget Update Seminar** in March, themed "In It to Ace It", attracted many participants eager for insights into the impact and tax implications of the Budget proposals, and the economic outlook for Singapore.

"Gearing Up to Reboot in a New World" encapsulated the thrust of the **PAIB Conference** in August. Taking a longer-term view, the speakers expressed their views on how finance professionals could reposition themselves now for a post-Covid-19 future, the emerging opportunities as a result of the crisis, and the changing roles of PAIBs. The event presented participants with practical and cautionary information and advice spanning technical reporting standards, ethics, governance, and enterprise risk management.

The **Practitioners Conference** in October centred on "Strategising for a Resilient Tomorrow". The signature event for the audit profession aimed to help audit firms find clarity amid the Covid-19 chaos, and to build resilience as they headed towards an uncertain 2021. Hot-button topics covered included ACRA's findings from its Practice Monitoring Programme, results from ISCA's inaugural survey on the views of audit committee members regarding the provision of non-assurance services (NAS) by auditors, the new quality management standards, interest rate benchmark reform and the future of standard setting.

The SAAC Series aligned with ISCA's strategic priorities by supporting members' career progression through the enhancement of their domain and technical knowledge. The video-conferencing platform, which was used for the first time for the Series, gave the Institute an opportunity to profile the events to accountants around the globe, strengthening our global prominence and the ISCA brand. The ease of access also benefited our members and stakeholders.

ENHANCING TECHNICAL EXCELLENCE

Technical competencies are fundamentally important to accountancy and finance professionals. To this end, the Institute's programmes were directed at broadening and deepening members' domain expertise, to help them fulfil current as well as future work demands. Our initiatives gave them a leg-up to achieve their professional aspirations, and helped them serve the public interest professionally and ethically.

Financial reporting

In the area of financial reporting, the Institute filled the gap in the accounting of cryptoassets when it issued **Financial Reporting Guidance (FRG) 2** in March. FRG 2 provides an understanding of the nature of the various cryptoassets and guidance on their accounting, as well as the classification, measurement and disclosure considerations. Raising the standard of financial reporting continued to be a priority this year as the Institute collaborated with ACRA on its **Financial Reporting Surveillance Programme (FRSP)**, for the sixth year. The FRSP guides companies to meet the requirements in the accounting standards, which in turn provides investors with reliable and meaningful financial statements for decision making. A joint webinar in September disclosed the latest findings from the FRSP, relevant observations such as common pitfalls in valuations, and how to identify red flags in financial statements.

The PAIB Conference focused on how finance professionals could reposition for the longer term

Revised EP 100

A hallmark of the accountancy profession is its commitment to serve the public interest by upholding professional conduct and adhering to the highest ethical standards. ISCA members are required to abide by EP 100 *Code of Professional Conduct and Ethics*, which is modelled after the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA). In August, ISCA revised EP 100, bringing it in line with the final pronouncements relating to the Restructured Code and Revisions to the Code Pertaining to the Offering and Accepting of Inducements issued by IESBA.

BUILDING CAPABILITIES, SUPPORTING PROFESSION AND INDUSTRY

Career support

As the national accountancy body, ISCA brings value to our members, the profession and industry in a variety of ways. In the area of career support initiatives, we partnered Workforce Singapore (WSG) to host a **career placement portal** featuring job roles specific to the accountancy and finance community. The same month, April, the Institute also launched the exclusive members-only **Career Matching Services**. Another career support initiative was the **Virtual Career Fair for Accounting and Finance Professionals** from May 18 to 31, co-organised by ISCA and WSG. Spanning two weeks, the fair attracted more than 11,000 visitors and more than 2,500 job applications. The event featured both chat and video-conferencing functions to connect jobseekers and employers for roles in areas such as finance, accounting, tax and audit. In addition to helping members in their job search, ISCA supports those who aspire to leadership roles like Chief Financial Officer, through the **ISCA Mentoring Programme**. The third run of the nine-month programme ended in May, with 21 pairs of mentors and mentees.

ISCA encourages members to reskill and upskill, to keep ahead of the competition. To support members' efforts, the Institute launched the first track of the **ISCA Compliance Certificate – ISCA Personal Data Protection Act (PDPA) Compliance Certificate** in August. The credential targets accountancy and finance professionals as well as other non-finance professionals who are undertaking data protection roles at work.

Publications provide members with intelligence that adds value to their work

Research insights into the future of the profession

Through our publications which cover a plethora of topics, ISCA provides members with intelligence that adds value to their work. In August, the research report, "**Redefining the Finance Function with Job Redesign**", was launched at the PAIB Conference. A joint project by ISCA, Lee Kuan Yew Centre for Innovative Cities at the Singapore University of Technology and Design, and Ernst & Young Advisory, the research identified and illustrated how job roles in finance functions in Singapore could be redesigned to respond to technological changes in the next three to five years, and how to optimise collaboration between humans and machines. Underlying the research was the Institute's commitment to support accountancy and finance professionals to navigate potential changes to job roles, by recommending possible pathways for job transitions.

While it is widely agreed that technology can enhance efficiency, small and medium-sized enterprises (SMEs) are typically slower than larger organisations to transform their business models, particularly through advanced technology applications such as data analytics. ISCA, in collaboration with the Singapore Institute of Technology and RSM Singapore, researched local SMEs' readiness and attitudes towards adopting data analytics. The findings, published in the report "**Data Analytics Adoption in Singapore SMEs**", provided fodder for the Institute to plan future programmes to encourage the adoption of advanced technology.

Supporting the charity sector

As part of ISCA's efforts to give back to society, ISCA signed a Memorandum of Understanding (MOU) with the Commissioner of Charities. Through this MOU, ISCA members would have a chance to leverage their skills, expertise and experience to serve and give back to society through providing guidance and conducting training sessions on finance and the relevant accounting standards to charities. In this way, ISCA will help to strengthen charities' regulatory compliance and effectiveness.

ADVOCATE FOR THE PROFESSION AND BUSINESS COMMUNITY

Being an advocate for members and the profession enables the Institute to realise our strategic objective to be a major influencer of pivotal components of the ecosystem, such as standard setting. The **ISCA Pre-Budget Roundtable 2020** was a key platform to gather the views and insights of business leaders from trade associations and chambers, and accountancy firms on how Singapore's Budget could be shaped to advance the nation's future. Complementing the January event was the **Post-Budget focus group session** in February. In both instances, ISCA had forwarded the salient points to the government for its consideration. Such events allowed us to play an advocacy role to share the concerns of the finance and business communities with the government.

In the last 12 months, ISCA had **advocated the views of our stakeholders in the areas of financial reporting, auditing and assurance, and ethics** (including feedback from the aforementioned NAS survey findings) via comment letters to the respective international standard-setting bodies. Such

A The annual ISCA Pre-Budget Roundtable is a key platform to gather the views of our stakeholders, which are then forwarded to the government for its consideration, for the Budget

communications ensured that our perspectives were noted, and helped to increase our global stature. At home, ISCA responded to the public consultations initiated by Singapore regulators such as Singapore Exchange Regulation (SGX RegCo) and ACRA. We provided feedback to SGX RegCo on the proposals to raise the reporting standards of property valuation by listed companies, as well as the enhancements to enforcement and whistleblowing frameworks; we also forwarded our comments on ACRA's proposed amendments to the Companies Act. We will continue to do our part to ensure that our voices are heard where it matters.

ELEVATING THE ISCA BRAND

Amid the pandemic, ISCA continued to build on the ISCA brand in different ways. The monthly ISCA Journal is packed with insights and information that are directly relevant to members. This year, it received the **Grand Award** – the highest accolade – at the 32rd Annual Awards for Publication Excellence (APEX). The win at this international contest was a boost for the ISCA brand and an affirmation that we are on the right track in serving our members. We will continue to work hard to support our members' professional aspirations by providing more quality content.

The **ISCA Digital Badges** and **Chartered Accountants Worldwide Network Member Logo**, launched in October 2019, increased the visibility of our members' qualifications in the online world. In particular, the Chartered Accountants Worldwide Network Member Logo shows that our members who are Chartered Accountants are part of a wider global network of leading professional accountancy bodies and enables them to connect with other members in the global network, expand their

B The ISCA Journal was conferred the APEX Grand Award, the highest accolade, this year

As the Institute steps forth into a new era, it is only right that we do so with refreshed vision and mission statements. Our refreshed vision is to be a world-class accountancy body of trusted professionals, contributing towards an innovative and sustainable economy.

professional connections and access resources to keep their skills up to date. The Institute has since added the **ISCA Membership Milestone Digital Badges**, which acknowledge 10, 20, 30 and 40 years of membership, and **Professional Accomplishment Digital Badges**; the latter provides validation of a member's professional qualifications and credentials. Digital Badges have been issued for the ISCA Financial Forensic Professional (FFP) credential, ISCA Financial Forensic Qualification, ISCA Infrastructure and Project Finance Professional (ISCA IPFP) credential, ISCA-SUSS Certificate in Business Analytics, and Practical Audit Workshop. Badges will be issued to more professional qualification programmes and CPE certification courses in due course.

SUPPORTING SMP DEVELOPMENT

ISCA has many initiatives tailored to the unique needs of small and medium-sized practices (SMPs). In the current challenging climate, pushing forward to build digital capabilities has become even more critical as technology will play a key role in business continuity and post-Covid-19 recovery. To this end, ISCA launched the **SMP Programme** to drive digitalisation, upskilling and diversification, and internationalisation of SMPs in Singapore. To get it going, the Institute worked with technology companies to run a series of **Tech Talks** to promote understanding of how sector-specific tools could address some of the profession's pain points, and how these technologies could improve efficiency. The SMP Programme complements the **Virtual SMP Centre** launched in 2019.

As the Institute continues to update and broaden our programmes, we also gathered **feedback from members** about what they want. Participants at an SMP focus group session in October communicated the challenges caused by the pandemic on their business operations, and how the crisis had accelerated their digitalisation agenda. The feedback enabled the Institute to continue to support our SMPs in targeted ways, uplifting them and in turn, also the profession.

RAISING REGIONAL AND GLOBAL PROMINENCE

ISCA works hard to promote the ISCA brand regionally and globally so that our members' professional credentials are recognised wherever they go. Improving our standing with the international accountancy bodies, regulators and standard setters also elevates our global prominence. This year, ISCA President Kon Yin Tong was appointed as Council member to the **Singapore-Jiangsu Cooperation Council (SJCC)** for a three-year term. Formed in 2007, the SJCC was set up to promote bilateral economic relations between Singapore and Jiangsu, and is a platform where both government and enterprises meet annually to discuss key areas for collaboration between the two cities. The appointment was made by Minister Indranee Rajah, Minister in the Prime Minister's Office, Second Minister for Finance and Education, and Co-Chairman of the SJCC.

Another recent achievement in this respect was the selection of ISCA FRC Chair Reinhard Klemmer for the **SME Implementation Group (SMEIG)**, for three years commencing 1 July 2020; SMEIG is the advisory body to the International Accounting Standards Board for the IFRS for SMEs.

ISCA takes a leading role to improve the collective standard of the regional accountancy profession. Our efforts did not go unnoticed; ISCA was invited to join the Jeju Group, a coalition of advanced professional accountancy organisations from Asia Pacific. Our membership in the **Jeju Group**, which would focus on capacity building, knowledge sharing and collaborations to advance the profession in the region, would further raise our brand and prominence, as well as entrench us as a major influencer of key components in the regional accountancy ecosystem.

CONCLUSION

December brings us to the end of our 10-year strategic roadmap spanning 2010 to 2020. As the Institute steps forth into a new era, it is only right that we do so with refreshed vision and mission statements. Our refreshed vision is to be a world-class accountancy body of trusted professionals, contributing towards an innovative and sustainable economy. Our refreshed mission to support the vision comprises four statements – **R**epresent members and profession, **I**nfluence development of profession and ecosystem positively, **S**erve public interest with sound values and ethical standards, and **E**nable members to achieve professional aspirations, or RISE for short. The acronym RISE serves to communicate to members and the profession that ISCA endeavours to ***rise*** above challenges to serve its members and the industry. With the continued support of our members and stakeholders, we are confident that we can realise our refreshed vision, beginning 2021. ISCA

PLACING COMMUNITY BEFORE SELF

Don Wee, CA (Singapore), Senior Vice President at United Overseas Bank, Member of Parliament for Chua Chu Kang GRC

SOME OF US SET ASIDE A FIXED SUM FOR REGULAR CONTRIBUTIONS TO CHARITY ORGANISATIONS. Others might eke out time to do hands-on volunteer work. But for Don Wee, giving back to society is a full-time commitment. As a Member of Parliament (MP), he has raised the issue of bettering the living and learning environment for underprivileged children, by appealing for the creation of a "one-stop" government agency that will look into all their needs. As a member of the Institute of Mental Health's Visitors' Board, he advocates for greater awareness of mental health issues. Mr Wee also chaired the West Coast Citizens' Consultative Committee Community Development Welfare Fund and West Coast Peak Neighbourhood Committee. Beyond all that, the dynamic 44-year-old has also been volunteering his time, resources and accounting expertise as a Court-appointed Deputy at the Ministry of Social and Family Development's Office of the Public Guardian for the last four years. In this role, which he performs pro bono, he helps vulnerable individuals who lack the mental capacity to safeguard and manage their assets and, in turn, their welfare.

SEEKING SOLACE IN SOCIAL WORK

Given his wide-ranging commitments, it is almost too easy to forget that this Chartered Accountant has a day job as an employee in a bank. One might say that serving the community is the core mission of all MPs, but Mr Wee has been involved in community welfare work decades before his election as MP in July 2020. And while he fits the description of a selfless bleeding heart to a T, Mr Wee unabashedly reveals that his foray into volunteerism and social work was partly motivated by an element of self-interest – in his case, it served as a form of "therapy". He was a teenager serving National Service when his maternal grandmother – a stoic, principled lady who brought him up – passed on. "Shortly after her death, I had my first social work stint with the Community Chest, helping to bring a group of elderly out for an excursion," he recalls. "I wanted to seek solace through their company."

It was a healing experience that prompted him to continue helping out at various charity events organised for the elderly. The work resonated with his personal values. "My grandmother wasn't educated. She wasn't one to push me to become a doctor, lawyer or accountant for that matter, but through her teachings, I learnt filial piety and to care for my family – the bedrock of a good person," explains the father of two sons. "The family is the basic nucleus of society. If you can't take care of yourself and your family, you cannot go on to contribute to the bigger community."

Given his soft spot for the elderly, Mr Wee focused his energies on serving causes that benefit older people and their families. "I have interacted with senior citizens whose children are successful professionals but have no time for them. I've also seen family

> "And it doesn't matter what your motivation is – whether it is to chalk up a number of social work hours for school or work, to gain recognition, or even to seek solace, as was the case for myself – what is important is to start somewhere."

CAREER HIGHLIGHTS

2006 to 2010
Vice President, OCBC

2010 to 2018
Senior Vice President – Head Finance, HSBC

2011 to 2015
School Advisory Committee Member, Tanglin Secondary School

2015 to present
Alma Mater School Advisory Committee Member, Nan Hua High School

2017 to present
Court-appointed Deputy, Office of the Public Guardian

2018 to present
Senior Vice President, UOB

2018 to present
Institute of Mental Health Visitors' Board Member, Ministry of Health Singapore

2019 to present
Council Member, Institute of Singapore Chartered Accountants

2020 to present
Member of Parliament, Choa Chu Kang GRC

violence and families breaking up; all these serve as reminders and lessons for me, and make me a better son, husband and father," shares Mr Wee. His drive and commitment have since led him to bigger roles. The way he sees it, joining politics is simply an extension of his volunteerism, and a means to raise the concerns and needs of the underprivileged to policymakers. "When you bring an elderly person out for an excursion, you benefit that one individual. But with policymaking, we can impact a much bigger group. With life expectancy going up in Singapore, we will need to allocate more resources to eldercare facilities, hospices and various programmes for dignified and sustainable retirement," postulates Mr Wee.

MAKING IT COUNT

But one does not have to be a politician to create social impact. Mr Wee highlights that Chartered Accountants have much to offer society given their professional expertise. "Chartered Accountants can offer their service as treasurers with non-governmental organisations – charity organisations need credible people to do bookkeeping and maintain accountability," he points out. Mr Wee also facilitated workshops for the Singapore Chartered Accountant Qualification programme. "Through such facilitation, I shared my industry experiences – which cannot be learnt from textbooks – with graduates who aspire to become Chartered Accountants. This is also a form of volunteerism." In addition, as a Court-appointed Deputy at the Office of the Public Guardian, he helps the elderly without the mental capacity to discharge their obligations by putting their assets into accounts with Special Needs Trust Co – the only non-profit trust company in Singapore set up to provide trust services for the benefit of persons with special needs. "I volunteered my services four years ago, after learning that they were in need of lawyers and accountants – professionals who could help with their trust work, and who could be granted the court order to follow the very robust process," he recounts. "And just a few months back, I completed a case for a dementia patient in her 80s who had lost her children. Her remaining family members did not really provide care, and a 'boyfriend' had also entered the picture. To protect her interests, we stepped in after a social worker contacted us." Over the last two years, Mr Wee, together with another Deputy who is a lawyer, met with her to explain what was needed to manage her finances and support her own welfare. He also engaged a cleaning contractor to spruce up her house, so that she could sell it at a better price. "You have to own the situation like it is yours, for we have a fiduciary duty to them," explains Mr Wee.

But one does not have to be a politician to create social impact. Mr Wee highlights that Chartered Accountants have much to offer society given their professional expertise.

But he also went above and beyond his duties to go through the lady's belongings with her. "Even though she suffered from dementia, seeing the old photos, jewellery and belongings triggered her memories and she cried; it was a very touching moment for me."

For those who are contemplating ways to give back, he recommends looking no further than ISCA. "Serve in a committee, or support ISCA Cares – these are all ways of giving back," he suggests. Indeed, one doesn't have to be an MP or a C-suite executive to be in the position to serve others. "But be it through lending professional expertise to those in need, or even just peeling cabbages and cutting fruits in a community kitchen, everyone can volunteer," he stresses. "And it doesn't matter what your motivation is – whether it is to chalk up a number of social work hours for school or work, to gain recognition, or even to seek solace, as was the case for myself – what is important is to start somewhere."

Going forward, Mr Wee hopes to develop and groom more volunteers. To him, there is only so much an individual could do to help others. Therefore, he hopes to spread the joy and value of volunteerism to a larger group of people, so that they, too, can pay it forward and give back to society. Mr Wee has taken steps to achieve this. He is encouraging organisations which he is involved in to set up volunteer bodies to introduce and cultivate the mindset of volunteerism within the organisations. It will be most heartening if more people like Mr Wee can step forward and play an active role in helping the underprivileged. ISCA

BY SEAH GEK CHOO

BOARD DIVERSITY

Why It Matters At This Time

STUDIES HAVE REPEATEDLY SHOWN THAT INCREASING DIVERSITY IS NOT ONLY THE RIGHT THING TO DO FOR AN ORGANISATION'S CULTURE, it also leads to better business outcomes. In this article, we explore three key thrusts that are powering the boardroom diversity agenda, particularly in the midst of the current uncertainties brought on by the Covid-19 pandemic.

KEY THRUST 1

The expanded scope of Board diversity in three broad domains: Professional, Positional, Perspective

In the wise words of Henry Kissinger, "The historic challenge for leaders is to manage the crisis while building the future." Board leadership is no exception. In order for Boards to excel in their role of strategic planning and oversight, the Board members must represent independent and diverse perspectives. Figure 1 details the three broad domains – Professional, Positional, Perspective – that make up a Board, and it is evident that a diverse Board means it will have the skills, qualifications and experience needed to connect to trends shaping the business, including technology, globalisation, consumer preferences and business strategy.

Figure 1

A primer on Board diversity

DOMAINS	PROFESSIONAL	POSITIONAL	PERSPECTIVE
	Technical expertise	Authority and stature	Culture (across different generations, geographies, ethnicity)
	Leadership and management styles	Network and affiliations	Fields of discipline (arts, science, technology, linguistics, psychology, education)
	Business acumen	Commercial influence	Education and interests
	Functional and sector knowledge	Personal brand and connections	Philosophy and beliefs
WHO	Industry veterans valued for their foresight and leadership experience	Thought leaders, eminent figures in the public/private spheres, influencers	Futurists, technologists, environmental advocates
HOW	Guide with clarity of purpose in the midst of uncertainty	Provide stability and assurance to external stakeholders	Explore new frontiers of market engagement and innovation

Source: Deloitte Southeast Asia

Boards play a proactive and leading role in steering organisations through crises. They are expected to demonstrate a deep understanding and fluency of the broader market context and assess how multiple risks are intertwined. In this current Covid-19 environment, there is a need for Boards to safeguard corporate reputation and be guided by an ethical framework as they devise response and recovery strategies. In short, for the organisation to earn the licence to operate under more stringent conditions, it will have to depend on how its Board portrays stability and commitment towards its key stakeholders during this period

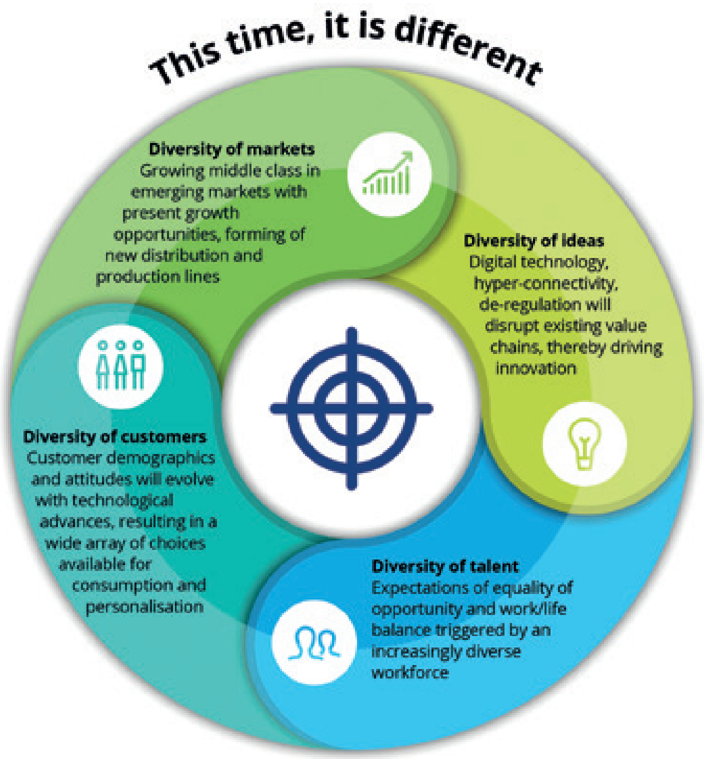
... a diverse Board means it will have the skills, qualifications and experience needed to connect to trends shaping the business, including technology, globalisation, consumer preferences and business strategy.

by asking and addressing the right questions (Figure 2).

Figure 2

Source: Deloitte Southeast Asia

Figure 3



Source: Deloitte Southeast Asia

KEY THRUST 2

Board diversity is no longer a moral debate but a key differentiator for organisations pursuing long-term growth and sustainability

Figure 3 shows the diversity of the business ecosystem where there are simultaneously shifts happening constantly. For leaders who have perfected their craft in a more homogeneous environment, rapid adjustment is in order. Of course, the core aspects of leadership, such as setting direction and influencing others, are timeless, but there are new capabilities that have become vital to the way leadership is executed to address the changes that are relevant today.

One major change is in relation to the social contract. Societal expectations of corporations are being reframed to ensure the viability of all stakeholders. The Covid-19 pandemic has lifted the veil further on what the future of work will look like, and in the implicit "future of work" contract, remote work may be both more productive for the organisation and more desirable for employees. However, successful work-from-home arrangements are premised on having sufficient technological and cybersecurity capabilities for business continuity, and employee productivity in the home environment.

To mitigate this change, leaders are expected to expand their knowledge on emerging human capital trends – there are new considerations around work-life balance, job fluidity, and employee well-being. These factors are reshaping how, where and when we work, and a diverse Board that embraces inclusive leadership can hold the organisation accountable for workforce management actions, including implementing appropriate measures to ensure the health, safety and welfare of its employees.

Another change is the disruption of markets with the advent of new business models. The Covid-19 crisis has had a profound impact on customer behaviour and has hastened a new wave of technological advances.

The imperative for the Board in this case is to anticipate if and how the pandemic has permanently altered behaviours, experiences and expectations, and the role of digital engagement. Boards that embrace diversity and inclusivity will be better positioned to address these challenges from a holistic perspective by considering the wider social implications of any corporate action or policy. For example, a broad, diverse representation on the Board will ensure that minority views are considered, minimising exclusionary policies from occurring, and a Board with a global perspective will also ensure organisational policies are adapted to emerging social issues like anti-discrimination and environmentalism.

... it is vital to effectively communicate externally how Board-level diversity and composition efforts support the organisation's strategy and innovation planning, as well as help protect its business model against disruptive threats.

KEY THRUST 3

Board strategies that are driven by a robust diversity and inclusion agenda

A multi-stakeholder process of governance is integral to sustaining business recovery in the wake of a crisis. In this Covid-19 pandemic, there are three obvious strategic considerations that will guide businesses to recover and thrive.

Firstly, where accelerating digital transformation is concerned, leaders should prioritise the most important digital investments and potentially rethink the technical architecture of the organisation. The ultimate challenge may be around funding these investments to keep up with the pace of change.

From a Board perspective, a diverse one composed of members with strong ethics can advocate for responsible human-machine collaboration. As technology becomes more embedded into work, its design and use need to be assessed for fairness and equity. Boards should consider probing questions such as whether applications of technology decrease or increase discriminatory bias; what procedures there are to protect the privacy of worker data; whether technology-made decisions are transparent and explainable, and what policies they have in place to hold humans responsible for those decisions' outputs.

The second consideration is how the social contract with workers has changed, and if this change is permanent. New regulations such as social distancing have impacted labour dynamics (for instance, the rise of the gig economy) and it is important to consider the safety and well-being of employees as the business recovers, and whether there is the right and sufficient infrastructure in place to ensure business continuity.

A culturally diverse Board will recognise that the alternative workforce may experience lopsided treatment in this situation from issues such as access to fair pay, healthcare and training benefits. To ensure that this critical source of talent is not side-lined, the Board should take the lead in making decisions through an empathetic lens and guide management on sensitive labour issues with far-reaching impact.

Thirdly, managing the changes in stakeholders' expectations is important. Boards need to be acutely aware of their responsibilities, and also of their contributions to the financial, physical, emotional, and digital well-being of management, employees, investors, and other stakeholders. In this Covid-19 crisis, environmental, social and governance (ESG) responsibilities have come to the fore, and expectations should be set for the range and measurement of organisations' ongoing ESG efforts as they move to recover and thrive.

In this regard, a Board with diverse disciplines will be equipped to advise management on the areas where trust needs to be nurtured and where confidence needs to be restored, including areas of executive remuneration and ESG strategies which can stand up to public scrutiny.

CONCLUSION

In order to have effective Board diversity, the nominating and governance committee, as well as individual directors, must be willing to go beyond existing relationships to consider integrating less familiar candidates. Directors can also gain first-hand knowledge of women and minority talent by sponsoring and mentoring diverse leaders both within the companies they serve and within their extended networks.

A skills assessment is worth considering as long as it provides a robust and objective evaluation of each director and the collective skills of the full Board. The exercise can include comparables with directors in the same and related sectors to see, for example, whether international or deep industry experience might be an important addition to the Board. Matrices that provide a full view of an entire Board's skills and experiences are also helpful tools, especially to jumpstart the evaluation process, depending on the organisation and industry. Developing such matrices can be more efficient than conducting assessments of individual director's skills. Some companies publish director skills matrices (either individual or collective) in their corporate governance reports, offering transparency and establishing an important baseline to measure future progress.

Also, it is vital to effectively communicate externally how Board-level diversity and composition efforts support the organisation's strategy and innovation planning, as well as help protect its business model against disruptive threats. Activist investors are clearly scrutinising Board composition, and other investors need to know how the Board influences and monitors a company's performance objectives in addition to, and in support of, the Board's more traditional governance oversight duties. Such transparency shows how directors contribute uniquely to the success and prosperity of the organisation, an important goal for any Board.

Lastly, cultivating inclusion is key, and this can be done through articulating the current state of the Board's approach to inclusion governance, assessing that approach against leading practices, identifying what can be done to achieve inclusive governance goals, and implementing the change necessary to accomplish those goals.

Clearly, Board diversity requires Board-level interventions. ISCA

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PHOTO **SHUTTERSTOCK**

BY CHARLES TILLEY AND STATHIS GOULD

THE ROLE OF BUSINESS IN ACCELERATING SUSTAINABILITY AND INCLUSIVENESS

A G20 Call To Action

THE COVID-19 PANDEMIC IS A WAKE-UP CALL to accelerate the transition to a more sustainable and inclusive global economy that can achieve the United Nations' Sustainable Development Goals (SDGs). The SDGs provide a common framework of goals, targets, and indicators for governments, business, and others to address systemic, interconnected development challenges. These include many definitive issues of our time, including poverty, inequality, climate change and peace and justice.

Leaders from the business community have started rising to the occasion by aligning their purpose to serving the long-term goals of society and investors; this has to continue around the world and enabled by governments through the right policies and regulatory environment. Covid-19 has brought greater urgency, given it is a huge setback for sustainable development. Significant parts of the SDG agenda are in danger of becoming out of reach with a global recession looming and many countries experiencing significant reductions in GDP and tax revenues, and facing issues of inequality, unemployment, and escalating poverty. For example, the United Nations estimates that close to 1.5 billion worker livelihoods and income-earning abilities are currently at risk with low- and middle-income countries disproportionately bearing the socio-economic impacts of the pandemic.

Calls for "building back better" and delivering a green and just post-crisis agenda are being made against the backdrop of significant value destruction caused by the pandemic, particularly to ensure the well-being and prosperity of individuals at the same time as respecting planetary boundaries.

Those at the forefront of this agenda in the private sector are responding by connecting their strategies and activities to sustainable development and value creation, developing business-led solutions, and enhancing corporate sustainability. This involves thinking more deeply about the nature of private-sector value creation in the context of a rapidly changing world characterised by digital transformation and innovation, as well as heightened expectations on socio-economic and environmental responsibility.

To be resilient and successful, business needs to continue to provide the goods and services that people demand while it meets the needs of employees, suppliers, partners and environmental protection.

Integrated governance[1] and thinking[2] provide the pathway to comprehensively understanding and communicating how a business creates value for different constituents, and how an organisation is managing current and future opportunities and risks. This involves a clear purpose beyond delivering wealth to shareholders and to the company: businesses are increasingly identifying and promoting measures to track progress and steer the organisation towards more effective risk management and better reporting to provide investors and others with the relevant information about the prospects for long-term value creation. It is helping to build greater trust in the information that is reported.

Calls for "building back better" and delivering a green and just post-crisis agenda are being made against the backdrop of significant value destruction caused by the pandemic, particularly to ensure the well-being and prosperity of individuals at the same time as respecting planetary boundaries.

PURPOSEFUL BUSINESS IS THE STARTING POINT

Greater trust in business flows from business being seen as a force for good. The private sector can accomplish this by helping to solve the most intractable social and economic problems, including inequality, fraud and corruption[3], and systemic risks to our economic system such as climate change and biodiversity loss[4]. These issues will be with us long after the threat of Covid-19 dissipates. Conceiving of business and finance as a force for good requires a change of mindset and leadership that leads to changes in the way we measure and report on success.

[1] World Economic Forum. "Integrated Corporate Governance: A Practical Guide To Stakeholder Capitalism For Boards Of Directors". White Paper. 18 June 2020.

[2] Integrated Reporting. 2020. Integrated Thinking & Strategy Group.

[3] IFAC. 2020. Fighting Corruption And Money laundering. IFAC's Points Of View.

[4] IFAC. 2020. Climate Action. IFAC's Point Of View.

PHOTO SHUTTERSTOCK

"Purposeful business" involves profitably solving the problems of people and planet by integrating relevant issues into governance and decision making. Corporate purpose and the outcomes of business activity can be guided by the SDGs, given that they provide the roadmap to 2030 to achieving sustainable and inclusive capitalism. For example, an increasing number of companies have broadened their stated purpose so that they specifically focus on delivering value to customers, stakeholders and society through their products and services. Connecting purpose to stakeholders and their desired outcomes provides a basis for defining value through the eyes of other stakeholders and, ultimately, for measuring success beyond financials.

WE BECOME WHAT WE MEASURE

The right kind of purposeful business requires a paradigm shift in which financial information and returns to shareholders are not the primary measure of performance and success but rather, the outcomes of delivering a positive contribution to stakeholders and to society.

To help businesses as they rethink value creation, IFAC, the International Integrated Reporting Council (IIRC), and the Association of International Certified Professional Accountants issued guidance for Chief Financial Officers (CFOs) and finance teams to lead their organisations toward long-term value creation.[5]

Evidence demonstrates that the CFO and finance function need to help navigate, measure and communicate what matters to long-term success while delivering short-term resilience and performance. In the current crisis, this has involved applying the traditional financial skill set to immediate business resilience needs (for example, shoring up balance sheets and ensuring access to funding), pivoting their business and operating models more quickly than

Connecting purpose to stakeholders and their desired outcomes provides a basis for defining value through the eyes of other stakeholders and, ultimately, for measuring success beyond financials.

ever to digital, and being more attuned to ongoing stakeholder needs such as employee safety, customer value delivery, and partnering more closely with suppliers, governments and communities.

By providing relevant and integrated insights on all material aspects of value creation, CFOs and their teams are helping to shift the corporate mindset from short-term shareholder value creation to long-term stakeholder value creation and protection. Through integrated thinking and reporting, they are better placed to deliver those insights to Boards, CEOs, managers, investors and others. They can prepare their organisations for long-term success in the process.

RISK MANAGEMENT NEEDS TO BE FIT FOR PURPOSE

The risk landscape is changing quickly. Risk management has taken on new meaning – and organisations need to evolve their enterprise risk management (ERM) to focus on interconnected external events that potentially have significant consequences for value erosion and financial performance. The accountant's primary role in ERM cannot be solely to mitigate risk; accountants must also promote and facilitate effective risk and opportunity management in support of value creation. The new mindset described in "Enabling the Accountant's Role in Effective Enterprise Risk Management"[6] fundamentally involves enabling the organisation to make decisions amid uncertainty.

For many systemic issues, such as climate change, this means dealing with significant uncertainty with big implications. The management of such risks requires better approaches to ERM that incorporate different scenarios, including plausible events in which current business models require significant transitions. For example, regulatory changes, such as carbon taxation to deal with climate risk, would lead to a more rapid transition to a low-carbon economy. Such tail risks can quickly have financially material impacts on asset values and make legacy business models redundant.

BETTER REPORTING NEEDED

High-quality and integrated information is critical for both internal and external stakeholders: companies cannot manage what they do not measure, and markets cannot allocate capital and price risk with what they do not understand.

To ensure corporate reporting is fit for purpose in the future, we need a global solution[7] to reporting relevant, reliable and comparable information about value creation, sustainability and environmental, social and governance factors.

We also need to proactively push the widespread adoption of integrated reporting principles for the benefit of investors and others – learning from the 2,000-plus organisations already on this journey. This will help to ensure multifaceted value drivers are interconnected and that this information is placed in a strategic context covering purpose, governance, strategy and plans, risks and opportunities, resources and relationships, and business models. This approach enables companies to understand and communicate what is driving value creation over time, their prospects for resilience, and their contribution to more sustainable outcomes for business and society.

TRUST IN INFORMATION AND DISCLOSURE

Trust in organisations is nurtured through robust governance that incorporates effective reporting processes, controls and oversight. Although reporting on value creation is gaining momentum, investors and other users often question the credibility, reliability and balance of information presented.

Strong governance is underpinned by an over-riding culture that fosters transparency and accountability, overseen by those charged with governance and executed by management. Trust flows from securing confidence in reporting, and this ultimately arises from high-quality reporting based on checks and balances within the organisation, as well as from assurance.

The demand for assurance of non-financial information is growing as much as the need for reliable, consistent and comparable data. Companies that obtain assurance provide greater confidence in their reports and disclosures, and typically benefit from enhancing maturity in their internal processes and controls around relevant data.

THE PATHWAY TO SUSTAINABILITY AND INCLUSIVITY

Through their actions, business has a big part to play – with the support of the accountancy profession – to enable economic and social progress. The SDGs cannot be achieved if there is low trust in business and capital markets, and the societies in which they operate. Weak financial markets and economic development are characterised by fraud and corruption, lack of transparency and accountability, and a singular view of success based on financial capital.

The leadership accountants provide in government and in business in the Covid-19 era starts with clarity of purpose focused on how a business – through its governance, strategy and business model – can generate broad and sustainable prosperity while respecting communities and the environment for generations to come.

Fundamentally, we believe that for companies to play an active role in building a more inclusive and sustainable capitalism, they need an integrated, multi-stakeholder approach to the way they operate and govern themselves, with a focus on long-term value creation.

To achieve broad-based sustainable development by 2030, for their part, all accountants need to learn to account for the indivisible and integrated dimensions of the economy, society and the environment. ISCA

Charles Tilley is Chief Executive Officer, International Integrated Reporting Council, and Stathis Gould is Director, Advocacy, International Federation of Accountants (IFAC).

[5] IFAC. "Understanding and Communicating Value Creation: The Role Of The CFO And Finance Function". 25 June 2020.

[6] IFAC. 2019. "Enabling The Accountant's Role In Effective Enterprise Risk Management".

[7] IFAC. 2020. Enhancing Corporate Reporting.

BY STANISLAV SHEKSHNIA, VERONIKA ZAGIEVA AND MARIA NAZAROVA

A CHECKLIST FOR BOARDS IN THE NEW NORMAL

The "3PSC" Approach

BOARDS MAKE DECISIONS THAT HAVE A LONG-TERM IMPACT ON COMPANIES. In a survey of 266 Chairs, directors and CEOs in 23 countries between May and June 2020 to assess how Boards have adapted to the coronavirus pandemic, we found that the pandemic had cemented some long-existing best practices and also birthed a few innovative approaches.

We crunched through the responses using a model of effective Boards we had developed based on previous research. This model, which we call "3PSC", defines five factors critical for Board effectiveness: Purpose, People, Process, Stakeholder relationships and Chair. The following explains in detail our analysis, which we hope might serve as a checklist for better Boards in the new normal.

PURPOSE

Regularly articulate, discuss and adjust the Board's purpose. This is an essential practice that unifies directors, focuses their collective attention, maintains the Board's place in the corporate governance system and ultimately leads to the right decisions. Survey participants whose Boards regularly discussed or adjusted their purpose said they made better decisions.

One director recalled, "During the early days of the pandemic, the Chair reminded us of our Board's purpose: 'to create a company that we can be proud of in any context and that will outlive all of us'. The whole Board felt more confident and focused. We knew what to do and what not to do."

PEOPLE

The collective competence of many Boards has been found wanting as Covid-19 spread like wildfire. Few had epidemiological or health and safety expertise. Governance rules prevented them from quickly electing new directors who would fill the skill gap.

One remedy is to regularly assess, at least once a year, the collective skills and knowledge of directors. They should reflect the Board's purpose as well as the company's strategy, its risk exposure and other elements of the context in which it operates. The Board should then devise a plan to address the gaps.

The second solution comes from external resources. Draw up a list of institutions and individual experts, periodicals and online resources and set aside a "knowledge budget" to pay for this external expertise whenever needed. Our survey shows that digital competency, and agile and crisis management skills are in high demand among directors.

Another important issue is the CEO's and senior management's fitness to run the company and succession planning. Boards should regularly assess the CEO's fitness to manage the business and ensure that there are at least two backups ready to take over at any one time. As one Chair of a nomination and remuneration committee admitted, "The pandemic made us take a hard look at the existing CEO succession plan and realise that the company is overly dependent on three people. If something happens to them, we are in big trouble. We are re-examining our approach."

On a similar note, Board members with more than four other directorships (a Board Chair or a CEO position in another company equals two directorships) should be considered a serious risk to the smooth running of the Board. Responsible nomination committees should replace such members or ensure that they reduce their external commitments.

PROCESS

Our research shows that virtual meetings work well for urgent decisions, information exchange and even emotional support. They work less well for indepth discussions, intensive exchanges, personal feedback to the CEO and the development of trust.

Technology presents other opportunities to enhance Board effectiveness and each Board needs to develop a plan in this area. The most promising avenues are specialised software to support the whole Board process (not only the meetings); real-time access to operational and financial data to reduce the information gap with management, and regular industry updates to keep Board members in the loop.

> " **During the early days of the pandemic, the Chair reminded us of our Board's purpose:** 'to create a company that we can be proud of in any context and that will outlive all of us'. The whole Board felt more confident and focused. We knew what to do and what not to do."


PHOTO SHUTTERSTOCK

The Covid-19 crisis also reminds Boards what should be on their agenda and what should not. Effective Boards should treat business strategy as an ongoing conversation rather than a done deal, and engage the CEO and management in frequent strategic discussions. One Board Chair said, "We have been re-examining and readjusting our strategy at every meeting since March and we intend to continue doing so."

Many Boards realised that they needed to re-examine their whole risk management strategy. They must focus less on identifying specific risks – and designing strategies for mitigating the most significant or probable – and more on dealing with unknown risks as they emerge. Such a shift will require Boards to develop new monitoring capabilities and companies to build up resilience and adaptability. A Board member acknowledged, "We realised that lean is not always great and that slack sometimes is useful. We are rethinking our business strategy to make the company more robust."

STAKEHOLDER RELATIONSHIPS

The pandemic highlighted the critical importance of productive Board-CEO relationships. Boards described as effective by our survey respondents increased the intensity of their interactions without stepping into executive territory. They supported their CEOs by listening attentively, providing advice, mentoring and approving necessary investments and divestitures.

The best Boards also challenged the CEO and the management by questioning their assumptions, asking questions, setting short-term objectives and taking a long-term perspective. They treated senior executives fairly, even if they had to make some tough decisions such as cutting pay. Many reduced their own compensation in solidarity.

Some interesting examples of Board-management collaboration that emerged in the past months are worth emulating. Groups comprising Board and management members were formed to bring the company's medical, health and safety expertise up to speed. Audit committees actively advised Chief Financial Officers and finance teams on cash-flow management and other issues. Remuneration committees collaborated with HR executives on adjusting compensation packages and managing headcounts.

When it comes to shareholders, effective Boards balanced attention with independence. Interesting practices included CEOs and Board Chairs hosting calls with investors and, in companies with complex stakeholder structures, Board members divvying up engagement duties. In one such organisation, the Chair communicated with two significant shareholders, the Chair of the audit committee with minority shareholders, the Chair of the nomination and remuneration committee with employees, and an independent director engaged with the regulators.

PHOTO SHUTTERSTOCK

Board leaders could draw several lessons from the pandemic. One is that good decisions can be made quickly when all directors are engaged and prepared.

CHAIR

Board leaders could draw several lessons from the pandemic. One is that good decisions can be made quickly when all directors are engaged and prepared. One Chair observed, "Online meetings were very productive and efficient because everybody felt a sense of urgency and cared. There were no ego matches. I will need to recreate this spirit for face-to-face meetings."

It is also the Chairs' responsibility to ensure that directors stay abreast of the latest trends and developments. They could do so by working with nomination committees and shareholders to ensure that the Board has the skills mix it needs or has access to knowledge when required.

KNOW THYSELF

Given that every Board is unique, we recommend that all Chairs organise a Board session to dissect their work and insights gained in the recent months. The meeting should also evaluate the CEO and senior management performance. Use the 3PSC to structure the discussion, as follows:

- **Purpose:** Did our purpose guide us through the rough times? Do we need to finetune it?
- **People:** What competencies helped us navigate the crisis? What competencies were missing? How do we ensure that we acquire them? Do we need to change anything in our succession planning?
- **Process:** What worked well for us? What did not? What do we need to add to or remove from the Board agenda? How can we use technology to make the Board more effective?
- **Stakeholder relationships:**
  - *CEO and management:* How effective was the framework that we created for the CEO and management team? Did we manage to maintain a healthy balance between challenge and support? What should we do differently in the future?
  - *Shareholders:* Did we listen to our shareholders? Did we communicate effectively with all of them? Did we leave anybody unhappy? What should we change in our relationships with shareholders?
  - *Other stakeholders:* What important stakeholders do we have? Did we interact with them effectively? What could we improve based on the pandemic experience?
- **Chair:** How did the Chair lead the Board through the crisis? What worked well? What was missing? What should the Chair stop doing, start doing or continue doing? How can directors help the Chair to lead the Board effectively? ISCA

This is the second of our two-article analysis of Boards' response to Covid-19 and our recommendation on how they could stay effective in the new normal. Read the first part on why corporate Boards prefer to maintain the status quo in the face of the Covid-19 upheaval at https://knowledge.insead.edu/leadership-organisations/pandemic-or-no-its-business-as-usual-for-boards-15066.

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Photo: SHUTTERSTOCK

BY BUSINESS THINK

TECHNOLOGY AND MENTAL HEALTH

The Dos And Don'ts Of Working From Home During Covid-19

AS MANY EMPLOYEES CONTINUE TO WORK FROM HOME DURING COVID-19, the boundaries between work and home have become increasingly blurred, and the link between technology and mental health becomes harder to ignore.

When technology is thoughtfully designed and used to consider the impact on how people do their work, then it can help alleviate some of the pressures of work. However, the constant use of technology can also lead to increased employee overload, exhaustion, stress and burnout.

As such, technological advances in the workplace can sometimes be a double-edged sword, says Leona Tan, Research Officer in the Workplace Mental Health Research Program, Black Dog Institute. "Automation of processes like data entry can alleviate workloads, but increased screen time and sedentary behaviour due to prolonged technology use can lead to poorer physical and mental health outcomes, including increased symptoms of depression and anxiety," says Ms Tan.

This is the result of two significant technology-driven changes in the workplace: on how we work, and where and when we work, says Dr Markus Groth, Professor of Organisational Behaviour, School of Management, UNSW Business School. But an understanding of these changes can help tackle some of the adverse effects of technological change and working in a post-Covid-19 world.

INTERVENTIONS AND ACCESS TO ONLINE MENTAL HEALTH TRAINING

Ms Tan and Prof Groth are two co-authors of the peer-reviewed paper, "A review and agenda for examining how technology-driven changes at work will impact workplace mental health and employee well-being", published in the *Australian Journal of Management.* The research explores existing studies of how accelerated technology-driven changes at work impact workplace mental health and employee well-being.

The authors explore the relationship between increased workloads and the impact on employees: stress, burnout and overload. The paper finds many positives to technology changes in the workplace. However, rapid changes can also lead to higher levels of work strain and distress through increased work pace, multi-tasking and interruptions.

"In terms of where we work, the Covid-19 pandemic has obviously also had a huge recent impact," says Prof Groth, who says this also places more responsibility on individual employees to define the boundaries between work and non-work. "It's not going to be done for them anymore by managers or organisations."

The research identifies proven intervention strategies managers can put in place for employees working remotely, as well as the steps employees themselves can take to utilise technology and work more effectively. These steps can take place at three levels: at an individual level, team level or organisation level. Ideally, organisations want to use a mix of these approaches, says Prof Groth.

At an individual level, managers can look to provide employees with resilience training, specific coaching, training in new technology, participative decision making, as well as specific training for managers and leaders, explains Prof Groth.

At the team or organisational level, employees must be encouraged to feel like they are part of the change process, and this will also increase adaptation and acceptance of the change. Another example of a technological initiative that promotes mental health is online mental health training for managers. Managers or supervisors play a unique role with any given organisation where they are not only able to directly impact employee outcomes but are also able to influence the culture of the organisation, explains Ms Tan.

A recent study[1] on online manager mental health training found that participants who received the training increased in their confidence in initiating mental health conversations, as well as improved responsive and preventive behaviours that can support the mental

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>
> **LEONA TAN**, Research Officer, Workplace Mental Health Research Program, Black Dog Institute

[1] Gayed, Aimee; et al. "A Cluster Randomized Controlled Trial to Evaluate Headcoach: An Online Mental Health Training Program for Workplace Managers". *Journal of Occupational and Environmental Medicine.* July 2019, 61(7): 545-551

> **"We need a more interdisciplinary approach where we look at all the evidence:** what are the psychological pros and cons, and how can we make those work effectively."
>
> **DR MARKUS GROTH**, Professor of Organisational Behaviour, School of Management, UNSW Business School

health needs of their direct employees. This means that managers who undergo online mental health training will also be better equipped and more confident to discuss mental health and well-being with employees, says Ms Tan.

TECHNOLOGY TO PROMOTE INTERPERSONAL RELATIONSHIPS

Maintaining quality interpersonal relationships during the Covid-19 pandemic is crucial to employee mental health. "Keeping in regular contact with employees and regular team catchups are a great way to maintain a sense of connection during this time, particularly when many employees are working remotely from different locations," says Ms Tan.

Managers and leaders should also keep an eye out for any changes in behaviour, not just in terms of productivity, but also in terms of demeanour and overall sense of engagement. "If there is a sense that someone needs support, setting up regular one-on-one informal catchups can help to let them know that support is available to them," explains Ms Tan.

But managers and leaders also need to check in with their own mental health needs, and this is where sharing experiences with the broader team can be very beneficial. "Acknowledging difficulties can help staff feel more comfortable about approaching managers and leaders for support if they are leading by example," continues Ms Tan.

It is also essential to schedule in time for social connections and interactions that would typically happen in-person, such as coffee catchups or team gatherings, online or in-person if possible. "Online peer support groups, mentoring, or even more social interactions such as games, trivia or quizzes can encourage interpersonal interactions and help create social connections, especially for those currently feeling isolated due to restrictions," she says.

PRACTICAL STEPS

The researchers suggest four practical steps business leaders can take to ensure technology supports employees:

1) Review current practices involving technology, including flexible and remote working policies to assess the impact on mental health;
2) Establish and communicate expectations on availability during non-working hours and set reasonable boundaries around work-related technology use at home;
3) Seek advice from organisational and mental health professionals who can recommend evidence-based workplace mental health programmes and practices, and encourage employee participation in the design and implementation of any future technologies;
4) Consider how technology can promote social connection and interaction, mainly when employees are working remotely and may feel isolated under current restrictions.

For those seeking to work better individually, the researchers suggest five proven strategies to ensure employees don't deplete personal resources and resilience:

1) Keep on top of how you are feeling from time to time and take note of any changes, including low or anxious feelings;
2) When working from home, set a routine and structure for your day to create boundaries between work and home. Try to stick to a regular start and finish time, and schedule sufficient breaks throughout the day. Go for a walk outside and give your mind and body time and a chance to reset;
3) Create a working setup in your home, even if it is only a specific "work" chair to establish a boundary between work and home. Avoid working in places of rest, such as the bedroom, if possible. This will help you switch off from work and minimise work from intruding into the home and personal time;

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4) Check in with your colleagues and ask them to check in on you. These are unprecedented times, and it is essential to remember that you are not alone in how you feel and that support is always available;
5) Get involved in organisational change. The current pandemic is also a potential opportunity for growth, and many businesses will have to adapt to evolving circumstances. Consider what changes you would like to see happen, and how you might be able to get involved.

CONSIDER THE FUTURE IMPLICATIONS

The authors call for more high-quality research to be able to determine the best use of technology within the workplace and its impact on employee mental health in the future. "Well-designed longitudinal research studies can provide much-needed insight into the long-term impact of various types of technological use, and how best to minimise the risks on employee mental health," says Ms Tan.

"More close collaborations between researchers, mental health professionals, user-experience specialists, industry and government bodies are required to gain a better understanding of the true impacts of technology through multiple perspectives, as well as how technology can be developed and used to mitigate any potential risks to mental health."

To design workplaces that promote significant working and support for employee mental health and well-being, Prof Groth says an evidence-based approach is required, to examine the impact of technology on work.

He says discussions around technological impacts on work have often focused solely on the technical side, in terms of what technology is available, how to implement it, etc. "A lot of the time, organisations and other government bodies take a very compartmentalised approach. They look at some part of the evidence and not necessarily others," he says.

"We need a more interdisciplinary approach where we look at all the evidence: what are the psychological pros and cons, and how we can make those work effectively." ISCA

Dr Markus Groth is Professor of Organisational Behaviour, School of Management, UNSW Business School. Leona Tan is Research Officer, Workplace Mental Health Research Program, Black Dog Institute. **This article was first published in Business Think. Reproduced with permission.**

TECHNICAL HIGHLIGHTS

AUDITING AND ASSURANCE

ISCA ISSUES SSA 250 (REVISED), CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

SSA 250 (Revised) deals with the consideration of laws and regulations in an audit of financial statements. The amendments are in response to the requirements addressing Non-Compliance with Laws and Regulations (NOCLAR) in the revised Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics*. It is effective for audits of financial statements for periods beginning on or after 15 December 2020.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2020/november/ssa-250-revised-consideration-of-laws-and-regulations-in-an-audit-of-financial-statements/

ETHICS

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

The second instalment of the six-month educational series, *Anti-Money Laundering, The Basics*, has been released. *Instalment 2: A Risk-Based Approach* explores the key foundations of a risk-based approach to fighting money laundering for professional accountants.

For more information, please visit https://www.ifac.org/news-events/2020-10/ifac-and-icaew-release-second-installment-six-part-anti-money-laundering-educational-series

UPDATES TO THE TERRORIST ALERT LIST

The Alert List sets out the names and other identification details of persons who are known to have been involved in terrorism or terrorism financing-related activities. The Alert List should be used by professional accountants for the purposes of screening.

For more information, please visit https://www.mas.gov.sg/regulation/anti-money-laundering/targeted-financial-sanctions/lists-of-designated-individuals-and-entities

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FINANCIAL REPORTING

ISCA ISSUES FRB 7 – COVID-19 GOVERNMENT RELIEF MEASURES: ACCOUNTING FOR RENTAL RELIEF FRAMEWORK FOR SMES & NPOS FROM THE PERSPECTIVE OF THE LANDLORD AND THE TENANT

To help affected SMEs and specified non-profit organisations (NPOs) recover from the impact of Covid-19, the Singapore government introduced a Rental Relief Framework for SMEs & NPOs. Under the Framework, eligible SMEs and NPOs would receive up to two months of rental relief and up to two months of additional rental relief.

FRB 7 contains:

- A background of the Framework to aid in the understanding of the amount of rental reliefs that the tenant is entitled to receive and the landlord is required to bear;
- Accounting guidance and key considerations on how to account for the rental reliefs from the perspective of the landlord and the tenant.

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

ISCA ISSUES REVISED FRB 3 ON CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

FRB 3 (Revised), issued on 30 October 2020, was issued to assist members in understanding and applying the amendments to IAS 1 (issued by IASB in January 2020) to certain common scenarios in Singapore such as "long-term loans with callable clauses" and "term loans with rollover facilities".

FRB 3 (Revised) has been updated from FRB 3 (issued on 15 April 2020) to incorporate the following amendments to SFRS(I) 1-1 which resulted from ASC adopting the equivalent amendments to IAS 1:

- Amendments to SFRS(I) 1-1, effective for annual reporting periods beginning on or after 1 January 2022, as announced by the ASC on 29 May 2020, and
- Deferment of the effective date of the amendments to SFRS(I) 1-1 by one year (that is, to annual reporting periods beginning on or after 1 January 2023) as announced by the ASC on 23 July 2020.

There is no change to the views and guidance from those shared in FRB 3 as a result of the above.

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

ASC CONTINUES TO ALIGN THE EFFECTIVE DATES OF SFRS(I) 17 AND FRS 117 WITH IFRS 17

The ASC is aware of the uncertainty among some stakeholders about the effective dates of SFRS(I) 17 *Insurance Contracts* and FRS 117 *Insurance Contracts*. In response, ASC reiterates its policy intent for continuing alignment with the effective date of IFRS 17 *Insurance Contracts*, which has been deferred to 1 January 2023.

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

ASC ISSUES SFRS FOR SMALL ENTITIES – Q&A SECTION 35, ISSUE 1

The Q&A, which provides non-mandatory guidance on applying Singapore Financial Reporting Standard (SFRS) for Small Entities, addresses the issue of the application of the "undue cost or effort exemption" when measuring fair value on transition to SFRS for Small Entities.

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

COMPILATION OF AGENDA DECISIONS – VOLUME 3 PUBLISHED

IFRS Foundation has issued its third Compilation of Agenda Decisions which contains the agenda decisions made by the IFRS Interpretations Committee from April to September 2020. The agenda decisions included in this compilation relate to IFRS 16 *Leases*, IAS 12 *Income Taxes* and IAS 38 *Intangible Assets*.

For more information, please visit https://www.ifrs.org/news-and-events/2020/10/compilation-of-agenda-decisions-volume-3-published/

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BY FELIX WONG AND ANGELINA TAN

MANAGING TRANSFER PRICING IN FINANCIAL TRANSACTIONS AND LOANS

Getting The Details Right

THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)'S TRANSFER PRICING (TP) Guidance on Financial Transactions released earlier this year has thrust intercompany financial transactions and loans back into the spotlight. In this guidance, OECD emphasised that, besides interest rates, all terms and conditions of the financing transactions (including the volume of debt) should be tested against the arm's length principle.

"Intercompany financial transactions are generally regarded as high-risk transactions by tax authorities. On the income side, tax authorities are concerned that excessive interest income may be allocated to jurisdictions with low (or no) tax, while on the expense side, excessive interest expense deduction may be claimed," shared Adriana Calderon, Director, Transfer Pricing Solutions Asia, at a recent webinar organised by the Singapore Chartered Tax Professionals. "OECD's latest TP guidance makes it clear that the days where a contract with little or no substance is sufficient (in supporting an intercompany financial transaction) is a thing of the past."

MANAGING TP IN FINANCIAL TRANSACTIONS AND LOANS

1) Substance is key

Substance is key when it comes to defending TP positions for financial transactions. Ultimately, the clauses and terms included in an intercompany loan contract should mirror that of a third-party loan contract. In addition, it should also clearly state the obligations of the loan, including the following:

- The presence or absence of a fixed repayment date;
- The right to enforce payment of principal and interest;
- The obligation to pay interest;
- The purpose of the debt;
- The existence of financial covenants and securities;
- The status of the funder in comparison with corporate creditors, and
- The liability should the borrower fail to repay on the due date or seek a postponement.

> "OECD's latest TP guidance makes it clear that the days where a contract with little or no substance is sufficient (in supporting an intercompany financial transaction) is a thing of the past."

Adriana Calderon, Director, Transfer Pricing Solutions Asia, shared her insights on how to manage transfer pricing in intercompany financial transactions and loans

2) Ensure that the transaction is a loan for domestic law purposes

Different countries have different definitions of loans. As such, a financial transaction that exhibits both debt-like and equity-like features may be viewed differently in different countries. To be eligible to claim tax deduction on the interest expense, the borrower must first establish that the financial transaction is considered a loan for its domestic tax purposes based on the clauses and terms in the loan contract.

Besides ascertaining that the financial transaction is indeed a loan, companies should also be cognisant of domestic rules that limit interest deductions, as well as thin capitalisation rules (which typically limit the amount of debt that can give rise to deductible interest expenses, or limit the amount of interest that may be deducted). It should be noted that there is no thin capitalisation regime in Singapore.

3) Consider safe harbours

To reduce compliance and uncertainty on the pricing of intercompany loans, companies should first consider whether they can avail the safe harbours provided by tax authorities, where available.

The Inland Revenue Authority of Singapore publishes indicative margins for related party loans as an alternative for companies (to comply with the arm's length principle for their related party loans without having to perform a detailed TP analysis). Specifically, the indicative margin may be used for an intercompany loan not exceeding S$15 million at the time the loan is obtained or provided.

4) Explore the availability of an internal comparable uncontrolled price

It is important for companies to explore the availability of an internal comparable uncontrolled price (CUP), and where possible, apply the internal CUP method using internal data to determine or support the interest rate of intercompany loans.

In Singapore, the internal CUP method can be applied when a Singapore borrower or lender has loans with third parties. To illustrate, where a Singapore company (SG Co.) who is not in the business of borrowing and lending provides a loan to its foreign subsidiary (Sub Co.), SG Co. can use a loan that it has provided to a third party (if any) as the internal CUP to determine the arm's length rate for its loan to Sub Co. Accordingly, SG Co. may charge Sub Co. using the same interest rate that it charges the third party.

Given that SG Co. is not in the business of lending, the likelier scenario is for SG Co. to rely on a loan that a third-party lender has provided to Sub Co. as the internal CUP and accordingly, charge Sub Co. the same interest that the third-party lender charges Sub Co.

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5) Consider other avenues to price loans

In the absence of comparable uncontrolled transactions, the cost of funds approach could be considered as an alternative to price intercompany loans. This approach starts with the borrowing costs incurred by the lender in raising the funds to lend. The expenses of arranging and servicing the loan, a risk premium (to reflect the various economic factors inherent in the proposed loan), and a profit margin (which would generally include the lender's incremental cost of the equity required to support the loan) are then added on to arrive at the price for the loan.

It should be noted that the cost of funds approach would not be applicable if there are no external borrowings in the multinational enterprise (MNE) group.

6) Perform an external CUP

Where it is not feasible to use the internal CUP method or the cost of funds approach, companies would have to perform a complete TP analysis. This comprises a credit-rating analysis (to establish the credit default risk of the borrower) and a benchmarking analysis (which involves the application of the CUP method using external data) to determine the arm's length interest rate for the loan.

The company would also need to address compliance with Section 34D(1C) of the Income Tax Act, to ensure that it is able to demonstrate that the intercompany loan is entered into for legitimate commercial and financial reasons.

The TP analysis must be performed at the time the loan is entered into. Assuming that there are no key changes to the terms of the loans, the TP analysis can remain valid throughout the tenure of the loan.

> To be eligible to claim tax deduction on the interest expense, the borrower must first establish that the financial transaction is considered a loan for its domestic tax purposes based on the clauses and terms in the loan contract.

KEY TP CONSIDERATIONS FOR CASH POOLING AND FINANCIAL GUARANTEES

Cash pooling

Cash pooling is typically arranged within an MNE group as a mechanism to optimise cash and liquidity management. It can help the MNE group minimise the cost of external funding/borrowing, maximise its return on cash (as better terms could be negotiated with external lenders and banks), centralise monitoring of cash position of the group, and improve administration and centralisation of treasury expertise.

In a cash-pooling arrangement, the global headquarter (or the financing company) of the MNE group would typically act as the cash-pool leader and maintain a master account, while related entities participating in the cash pooling would each maintain a separate bank account. The debit and credit balances in each account would be remunerated by applying an arm's length interest rate. The key TP considerations for cash pooling is the arm's length interest rate used to remunerate the cash-pool leader and the respective cash-pool participants.

The arm's length interest rate for debit and credit balances generally depends on the individual credit rating of each participating company. The remuneration of the cash-pool leader, however, may vary depending on the circumstances of the case. If the cash-pool leader only performs an administrative or intermediary function, its remuneration should reflect the limited function that it performs. Conversely, if the cash-pool leader functions like a third-party bank, where it has the knowhow, bears the significant risks, and has the capacity to bear these risks, it should be adequately remunerated with an arm's length handling fee (covering administrative functions) and a return for its equity at risk (covering risks related to the granting of funds within the cash pooling).

Intercompany financial guarantees

A financial guarantee is a legally binding commitment on the part of the guarantor to assume a specified obligation of the guaranteed debtor if the debtor defaults on that obligation. It can affect the terms of borrowing either by obtaining more favourable terms for borrowing or providing access to a larger amount of borrowing.

A guarantee fee may be chargeable if there is an explicit guarantee and a service contract between the guarantor and the guaranteed debtor. Otherwise, the benefit of such support would be simply regarded as a benefit arising from being part of a group (implicit support), which would not be regarded as a service provision for which a guarantee fee is due.

To effectively manage intercompany financial transactions and loans, companies need to identify their tax risks early and recognise that substance is crucial in defending TP positions for financial transactions. It would also be wise to always check for internal CUPs available as they are particularly important in supporting intercompany loan transactions.

In addition, companies should be mindful of the differences in each country's domestic tax laws, particularly on the limitations on interest deductions and thin capitalisation rules, when considering the lender's interest expense deduction. Lastly, it should be noted that compliance with the arm's length principle does not guarantee a deduction under general tax rules. ISCA

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

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BY KOH WEI CHERN

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ACCOUNTING TREATMENT OF MODIFICATION OF FINANCIAL LIABILITIES

Comparison Of IFRS 9 And IAS 39

CORPORATE DEBTS ISSUED BY THE FIRMS are generally accounted for as financial liabilities under International Financial Reporting Standard (IFRS) 9 *Financial Instruments* and in its predecessor standard, International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*. In view of the Covid-19 pandemic, more and more firms are filing for bankruptcy. Firms in slightly better situations are likely looking to restructure their corporate debts in an attempt to survive the crisis. Hence, it is an appropriate time to discuss the accounting of such financial liabilities in the case of substantial modification and/or exchange of such financial liabilities as well as in the case of less-than-substantial modification and/or exchange of such financial liabilities.

ACCOUNTING TREATMENT OF SUBSTANTIALLY MODIFIED DEBTS UNDER IFRS 9 AND IAS 39

IFRS 9 paragraph 3.3.2 (International Accounting Standards Board (IASB), 2020) currently states that an exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

IFRS 9 Appendix B Application Guidance paragraph B3.3.6 (IASB, 2020) clarified what "substantially different" means. The terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different (10% test) from the discounted present value of the remaining cash flows of the original financial liability.

In these circumstances, under IFRS 9 paragraph 3.3.3 (IASB, 2020), the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

The above treatment carries forward from IAS 39.

ACCOUNTING OF SUBSTANTIALLY MODIFIED DEBTS: AN EXAMPLE

Suppose CD Airlines Limited (CDAL) issued a three-year $1-billion bond, with annual coupon payment of 4%, for $896,916,120 on 1 January 2018. The original effective interest rate is computed to be 8%. At the end of 2019, with fears of the Covid-19 spreading and reduced travel, CDAL looked to restructure these bonds to pay a coupon payment of 2% with effect from 1 January 2020 till maturity, and with the maturity date extended from 31 December 2020 to 31 December 2022. These terms were finalised on 31 December 2019, which is CDAL's financial year end. The bond price on the bond market was $850,000,000.

Table 1 presents the application of the formula for the 10% test required under IFRS 9 (and also IAS 39). The discounted present value of the cash flows under the new terms using the original effective interest rate is computed to be $845,374,181, and the discounted present value of the remaining cash flows of the original financial liability is computed to be $962,962,962. The difference of the two values is computed to be 12% of the former figure. Hence, under the standard(s), the financial liability is considered substantially modified.

Under IFRS 9 paragraphs 3.3.2 and 3.3.3, CDAL would derecognise its original financial liability under the original terms of $962,962,962 and recognise the financial liability at its fair value of $850,000,000 (based on IFRS 9 paragraph 5.1.1), and the difference is a gain credited to the profit or loss statement.

The next question to ask would be the accounting treatment if the modification is not substantially different, that is, for non-substantially modified debts.

ACCOUNTING TREATMENT OF NON-SUBSTANTIALLY MODIFIED DEBTS UNDER IFRS 9 AND IAS 39

It is interesting to note that IAS 39 was silent on this issue. Hence, practice adopted two possible approaches. One approach (A1) was based on paragraph AG8 of IAS 39 (IASB, 2017). The intention of paragraph AG8 was to clarify the use of the effective interest rate and does not relate specifically to the accounting treatment of modified financial liabilities. IAS 39 paragraph AG8 stated that, "If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate... The adjustment is recognised in profit or loss as income or expense."

Another approach (A2), which was also the more common approach used in practice, based on conversations with audit firms, maintained the carrying amount of the restructured debt at restructuring date and adjusted the effective interest rate applied to the modified (but not substantially-modified) debt from restructuring date.

When IFRS 9 was first issued, IASB remained silent on this issue. Subsequently, the IFRS Interpretations Committee (IFRIC) received a request to clarify the accounting treatment on a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. In March 2017, IFRIC "concluded that the principles and requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition", and did not add this to its standard-setting agenda.

IASB concurred that additional standard setting is not required. In the Basis for Conclusions to IFRS 9 (amended in October 2017), IASB "highlighted that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset" (IASB, 2020, Basis of Conclusions to IFRS 9 paragraph BC4.253).

In other words, the non-substantially modified debt will be treated similarly to the modification of a financial asset under IFRS 9 paragraph 5.4.3. The entity shall recalculate the carrying amount of the non-substantially modified financial liability and recognise a modification gain or loss in profit or loss. The adjusted carrying amount of the financial liability shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial liability's original effective interest rate. Hence, instead of allowing an accounting policy choice under IAS 39, IASB now requires the entity to follow A1 under IFRS 9.

Table 1 Determination of present values of financial liabilities on modification date

	Number of entities that included item in operating profit			
Terms	Original Financial Liability	Revised Financial Liability	Absolute Difference	Percentage Difference
Face Value	$1 billion	$1 billion		
Remaining Cash Flows	$40 million per year	$20 million per year		
Remaining Years	1 year	3 years		
Discount Rate	8%	8%		
Present Value	$962,962,962	$845,374,181	$117,588,781	12.2%

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ACCOUNTING OF NON-SUBSTANTIALLY MODIFIED DEBTS: AN EXAMPLE

Let's continue with the CDAL example. However, in this scenario, at the end of 2019, these bonds were restructured to a coupon payment of 3% with effect from 1 January 2020 till maturity, and with the maturity date extended only to 31 December 2021.

Table 2 presents an application of the formula for the 10% test required under IFRS 9 (and also IAS 39). The discounted present value of the cash flows under the new terms using the original effective interest rate is computed to be $910,836,763, and the discounted present value of the remaining cash flows of the original financial liability is computed to be $962,962,962. The difference of the two is computed to be 5%, which is less than 10%. Hence, under the standard(s), the financial liability is considered not substantially modified.

Under IAS 39, the entity could either adjust the carrying amount of the financial liability to $910,836,763 and recognise a gain of $52,126,199 to the income statement under A1 or maintain the carrying amount at $962,962,962 and adjust the effective interest rate to 5% under A2. Note that over the entire term of the financial liability, both approaches have the same financial effect.

However, under A1, CDAL recognises a gain in 2019 and a higher interest expense in 2020 and 2021 relative to A2, while under A2, CDAL does not recognise a gain in 2019, but a lower interest expense in 2020 and 2021 relative to A1. Following IASB's clarification in October 2017, only A1 is allowed under IFRS 9.

Table 2 Determination of present values of financial liabilities on modification date

	Number of entities that included item in operating profit			
Terms	Original Financial Liability	Revised Financial Liability	Absolute Difference	Percentage Difference
Face Value	$1 billion	$1 billion		
Remaining Cash Flows	$40 million per year	$30 million per year		
Remaining Years	1 year	2 years		
Discount Rate	8%	8%		
Present Value	$962,962,962	$910,836,763	$52,126,199	5.4%

CONCLUSION

One unfavourable consequence brought forth by the Covid-19 pandemic was an increase in debt restructuring by firms trying to survive the economic fallout. Discussing the accounting treatment of modified debts is timely.

This article reviews the accounting methods of modified financial liabilities allowed under IAS 39 and IFRS 9. An accounting choice was previously allowed under IAS 39 for the accounting of non-substantially modified debts but this accounting choice is no longer allowed under IFRS 9. Implicitly allowing an accounting choice to the entities under IAS 39 could reduce comparability of financial statements among entities in this respect. Designating one accounting method under IFRS 9 allows consistency in accounting treatment among entities and could potentially enhance comparability of financial statements across firms ISCA

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