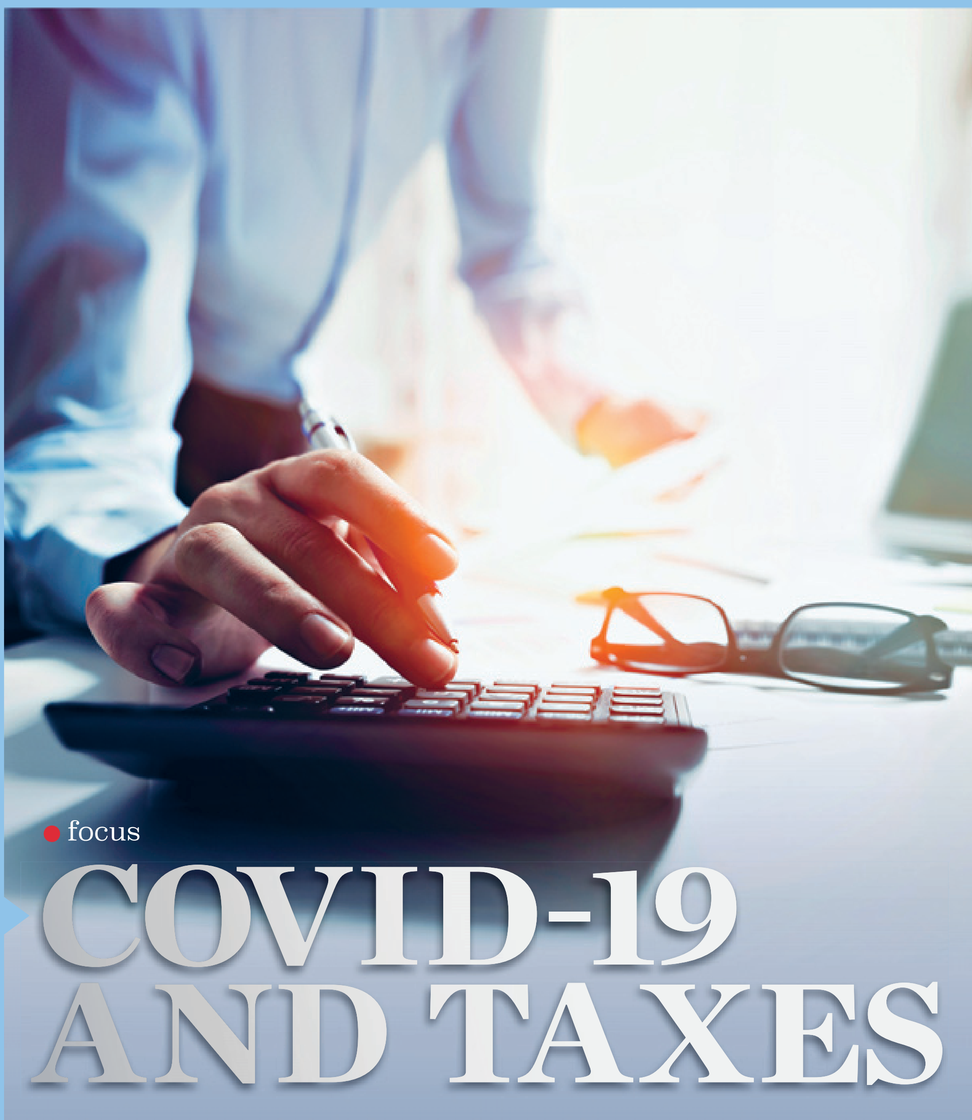
IS Chartered Accountant Journal
JULY 2020

IS Chartered Accountant Journal

JULY 2020



ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

The "New" Normal, And Business As Usual

Dear members,

I AM SURE YOU HAVE HEARD THE MANY VARIANTS OF THE PHRASE, "NOTHING IS CERTAIN EXCEPT DEATH AND TAXES". Well, in every economy and organisation, and also for the accountancy profession, taxes definitely play a prominent role. And in the third and last edition of our Covid-19 Special, we continue to delve into how the pandemic is impacting businesses and individuals, this time, from a tax perspective.

The Covid-19 pandemic has resulted in lockdowns and travel restrictions. Key executives and directors have been unable to travel to another country or return to their home country. These disruptions have given rise to questions relating to corporate tax residency status, permanent establishment and individual tax status. The article, "Covid-19 And Taxes", examines the concerns and highlights the key considerations that businesses and their employees should take note of.

Even though there is a "new" normal for taxpayers and the tax community, as well as for individuals and businesses both in Singapore and abroad, continuing to perform their roles judiciously with the highest standard of professionalism is very much business as usual for accountants. I am confident that our members have the skills and experience to step up and continue to provide value to their organisations and clients, including taking on additional responsibilities as the Covid-19 situation evolves. Keep up the good work!

In these tough times, it is inevitable that some businesses will struggle to keep afloat, but they have not gone under yet. For both accounting and auditing purposes, it may be challenging to assess if such entities will be able to continue as a going concern. The Technical article, "Impact Of Covid-19 On Going Concern Assessments", provides useful guidance from the auditor's perspective.

The pandemic and ensuing recession pose a significant challenge to assessing the impairment of assets. If not carried out correctly, it could result in serious consequences where the valuation might indicate no impairment is required when there is in fact impairment – which is likely in the current depressed market conditions. The article, "Goodwill Valuation For Impairment Testing During Recession", offers a quick walkthrough of some of the major pitfalls in goodwill valuation for impairment testing purposes. This article will be a good read for auditors, and accountancy and finance professionals.

It is widely acknowledged that accountants bring immense value to an organisation and in this month's Member Profile column, we see it being played out. During the 2008 global financial crisis, Sandeep Seth, then Vice President of Finance for Goltens Worldwide, had persuaded his employer to hand over the reins of an overseas site that was headed for closure to him. Although he had crunched the numbers and agreed that it should be shut down from a business standpoint, he nonetheless visited the site and spoke to the people on the ground – and identified addressable gaps. Nine months under his leadership, the unit was back in the black and was the company's most profitable one for the last seven years. Today, Sandeep's leadership – he is President of Goltens Worldwide – is needed more than ever as he navigates the 1,000-strong organisation through the turmoil caused by Covid-19.

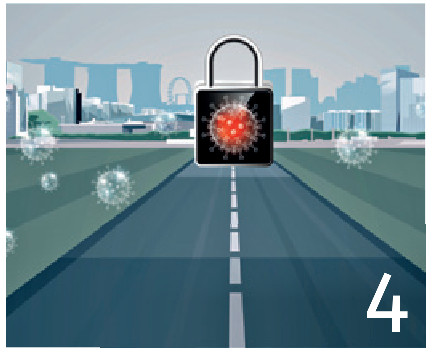
Leadership is a combination of heart and head, and we have personally encountered or heard stories of how employers go out of their way to take care of their employees, particularly in times of need. For such leaders, business as usual in the "new" normal is a delicate balancing act, supported, of course, by the acumen of the Finance team.

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

contents

focus

in tune



viewpoint

technical excellence

PUBLISHER
Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709
Tel: (65) 6749-8060 **Fax:** (65) 6749-8061
Email: isca@isca.org.sg **Website:** www.isca.org.sg

PUBLISHING & DESIGN CONSULTANT
mediacorp
MCI (P) 049/03/2020
PPS 709/09/2012 (022807)
ISSN 2010-1864

ADVERTISING
Bold Ink Magazines Pte Ltd
Jacqueline Wong
Tel: 6223-4258
Hp: 9790-0905
Email: jacqueline@boldink.com.sg

PRINTING COMPANY
KHL Printing Co Pte Ltd

Effective Cybersecurity Leadership In A Post-Covid World

COVID-19 IS FORCING BUSINESS LEADERS TO ADAPT OPERATING MODELS FASTER THAN EVER BEFORE TO ENSURE EXISTENTIAL SURVIVAL. With large-scale adoption of work-from-home technologies, greater use of cloud services and explosion of connectivity that enable companies to continue operations, there is intense pressure on cybersecurity operations due to the increased exposure to cyber threats.

Yet, organisations must strike a balance between security and privacy, time to operations and market, cost and convenience. Within organisations, cybersecurity leaders, particularly Chief Information Security Officers (CISOs), need to take a stronger and more strategic leadership role. They need to move beyond being compliance monitors and enforcers to better integrate with the business, manage information risks more strategically, and work toward a culture of shared cyber-risk ownership across the enterprise.

To ensure that cybersecurity is a fundamental component of the business operating model and culture, there should be effective conversations between management and CISOs. The questions asked could revolve around the following:

- Have roles and responsibilities related to cybersecurity been clearly defined and communicated at every level of the organisation up to the CEO and Board?
- Do business leaders understand the cybersecurity risks they are accepting?
- Are technology solutions designed, integrated and operated with security and privacy in mind?
- Does the business incentivise the adoption of secure-by-design and default practices on the businesses and products in which it invests?
- Are third-party risks managed effectively?

In a recent report, "Cybersecurity Leadership Principles: Lessons Learnt During The Covid-19 Pandemic To Prepare For The New Normal", the World Economic Forum aims to guide cybersecurity and business leaders as they shape a responsible course of action that balances short-term goals against medium- to longer-term imperatives. The proposals centre on the five effective principles to:

(1) Foster a culture of cyber resilience;
(2) Focus on protecting the organisation's critical assets and services;
(3) Balance risk-informed decisions during the crisis and beyond;
(4) Update and practise the organisation's response and business continuity plans as business transitions to the "new normal";
(5) Strengthen ecosystem-wide collaboration.

The role of the CISO is to support the mission of the organisation by ensuring that cyber risks are managed at a level acceptable to the organisation. No organisation today can expect the CISO to achieve faultless security in the current context. Effective cyber-risk management can, however, help businesses achieve smarter and faster transformation, and stay ahead in these uncertain times. The end goal is resilience.

Covid-19 has generated unprecedented challenges for companies, forcing everyone to juggle professional responsibilities with important personal ones. The coming weeks and months are likely to bring more uncertainty. With the support of management, CISOs can better adhere to these cybersecurity principles, thus enabling the information security team to uphold the organisation's security – and maintain the all-important business continuity in these uncertain times.

PHOTO SHUTTERSTOCK

> As more people are working from home during the Covid-19 pandemic, cybersecurity operations are facing tremendous new challenges.

Leadership In A Time Of Crisis

DURING A TIME OF CRISIS SUCH AS THE COVID-19 PANDEMIC, workers naturally look to their management for stability and direction in navigating the company into the future. More than that, they look to the leadership for hope, compassion and care. Resilient leaders are the ones who demonstrate both "head" and "heart" as they steer their organisations through the maze while taking care of their people. They own the narrative at the outset by being transparent about current realities – including what they don't know – while painting a compelling picture of the future that inspires others to persevere, says Deloitte Global CEO Punit Renjen, in a guide for senior executives responding to Covid-19[1].

While a cool business head is essential in a crisis, research shows the critical role of soft skills such as empathy. As described by Mr Renjen, resilient leaders "design from the heart... and the head". They are "genuinely, sincerely empathetic, walking compassionately in the shoes of employees, customers, and their broader ecosystems". Yet, they must "simultaneously take a hard, rational line to protect financial performance from the invariable softness that accompanies such disruptions". Finance professionals who are adept at analysing the numbers are indispensable at such times, when management is in dire need of timely, accurate information and forecasts.

Successful leaders who show transparency and honesty, understanding, caring and clear communications distinguish themselves from others as they guide their organisations through upheavals. Here are eight effective action steps.

1) CREATE A CENTRAL AND CLEAR LIST OF PRIORITIES

Be very specific and clear about what needs to be done first, second, third and so on. Over-centralising decision-making hobbles the organisation's ability to respond quickly and effectively. Instead, empower managers to make the best decisions they can under the circumstances, advises Gartner[2].

2) GO FOR SPEED OVER ELEGANCE

The situation is dynamic. Resilient leaders take decisive, considered action, even if it's based on imperfect information. Expediency is essential, says Mr Renjen.

3) DEVELOP A MULTIDISCIPLINARY PLAN OF ACTION[3]

Listen to all areas of the organisation and across all job roles. Gather feedback on what's happening and what needs to be done. Put together a team of your best strategists to develop a feasible, realistic plan of action.

4) RIGHT PEOPLE, RIGHT PLACES

Relieve people from roles that are not critical at this moment. Reorganise departments and job functions. Focus on optimising your resources so that job losses can be minimised.

5) TELECOMMUTING

Telecommuting – the practice of working from home and making use of the Internet, email and other communication tools – is an easy and straightforward way to reduce costs. Accenture's workforce research shows that pre-Covid-19, less than one-third of all workers were able to make full use of their technology to effectively do their jobs. Now is the time to accelerate human-and-machine collaboration and support workers as they transition to digital ways of working[4].

6) KEEP THE COMMUNICATIONS GOING; BE CONSISTENT

Share the company's strategies, where appropriate, to reassure people that management has things under control. To ensure that the key messages are consistent, the company should establish a communication protocol with guiding principles regarding the who, what, when, where and how regarding dissemination of information.

A Gallup meta-analysis[5] reveals that during high-stress times, management approaches need to "go back to the basics" of clarifying expectations, reviewing resources, and adjusting roles so that people's strengths can be leveraged in new ways. Engage employees and help them see how they fit into the bigger picture of the organisation vis-à-vis its mission and purpose.

PHOTOS SHUTTERSTOCK

7) ELEVATE YOUR MOST VISIBLE LEADERS BASED ON COMPASSION AND CARING

Workers will remember the faces and voices you empower to lead the charge during times of crisis, so be sure that those voices are not only wise, they are compassionate and caring, advises Accenture.

A pandemic creates all kinds of unprecedented stress on employees' health and well-being. To get back to a balanced state of "low worry and high confidence", employees need to believe that the organisation is looking out for their best interests[6].

8) KEEP MOVING

While grappling with the present, it's important to think about and plan for the future. In his guide, Mr Renjen outlines the three timeframes that a typical crisis will play out, for management's attention. (i) Respond: deal with the present and manage continuity; (ii) recover – learn and emerge stronger; (iii) thrive – prepare for the next normal. "CEOs have the substantial and added responsibility to nimbly consider all three timeframes concurrently and allocate resources accordingly," he says.

[1] "The Heart Of Resilient Leadership: Responding To Covid-19", Punit Renjen, Deloitte Global CEO; https://www2.deloitte.com/us/en/insights/economy/covid-19/heart-of-resilient-leadership-responding-to-covid-19.html

[2] "4 Actions To Be A Strong Leader During Covid-19 Disruption", Gartner; https://www.gartner.com/smarterwithgartner/4-actions-to-be-a-good-leader-during-covid-19-disruption/

[3] "Human Resilience: What Your People Need During Covid-19", Accenture; https://www.accenture.com/us-en/about/company/leadership-during-coronavirus

[4] Ibid, Accenture

[5] "Covid-19: Leading Through Disruption", Gallup; https://www.gallup.com/298523/covid-19.aspx?g_source=link_WWWV9&g_medium=speedbump

[6] Ibid, Gallup

isca breakfast talk

Get The Corporate Tax Issues Right

DID YOU KNOW that the Inland Revenue Authority of Singapore (IRAS) audited and investigated some 10,301 cases and recovered about S$389 million in taxes and penalties in financial year 2018/19? These were the mind-boggling figures that kicked off the first ISCA Breakfast Talk webinar this year.

Organised in partnership with Singapore Chartered Tax Professionals, the webinar was helmed by Accredited Tax Advisor (Income Tax & GST) Chung-Sim Siew Moon, Asia-Pacific Tax Policy and Controversy Leader and Partner, and Accredited Tax Advisor (Income Tax) Chai Wai Fook, ASEAN Government and Public Sector Tax Leader and Partner, both from Ernst & Young Solutions LLP. The hour-long session was packed with heaps of information for both accounting professionals in business and in practice.

Mrs Chung-Sim started the session with a walk-through of various corporate tax areas businesses should be mindful of, including withholding tax, foreign dividend income, foreign tax credit claims, interest expense adjustment and research and development claims. Special attention was also drawn to transfer pricing, which has become an area of focus for tax authorities – particularly against the backdrop of increased tax transparency and frequent exchange of information between tax authorities across the globe.

For GST, risk areas are just as varied. Errors may occur in the accounting and tax systems in the form of incorrect tax code, in cross-border transactions such as insufficient export documents to support zero-rating of exported goods, and in GST returns where input tax apportionment is not done, to name a few.

The heightened risk of tax controversies means it is critical for businesses to have the right people and the right systems. These would allow businesses to obtain a global overview of their tax framework and ensure that it is in tandem with their respective business strategy.

A good way to start is to adopt a tax corporate governance framework. Successful implementation often hinges on the tone from the top – at the board level where the tax strategy is set. The supporting policies and procedures will then be implemented by management. This encompasses both direct and indirect tax.

It is pertinent to note that having a tax corporate governance framework is already a requirement in some countries, such as Australia, United Kingdom, and the Netherlands. It would be a matter of time before Singapore follows suit. It is thus an opportune time to get a good grasp of tax and not be a statistic in the tax authorities' investigations and penalties lists.

The heightened risk of tax controversies means it is critical for businesses to have the right people and the right systems.

quick facts

IRAS in FY2018/19

10,301 cases audited and investigated

S$389 million in taxes and penalties recovered

PHOTO SHUTTERSTOCK

BY FELIX WONG AND ANGELINA TAN

COVID-19 AND TAXES

Tax Implications Arising From The Pandemic

2020 WILL GO DOWN IN HISTORY AS A TURNING POINT FOR THE WORLD.

Since the start of the Covid-19 outbreak, governments worldwide have scrambled to implement a slew of extraordinary measures, such as lockdowns and travel restrictions, in a determined attempt to stem the spread of the virus. Relief packages have also been rolled out in record time around the world to try to cushion the inevitable economic fallout.

On a personal level, people have changed the way they communicate, the way they purchase, the way they work, and pretty much the way they do just about anything (even the way they stock up their toilet rolls). On a corporate level, businesses have been forced to adapt quickly to the momentous changes to stay in the game.

As the Covid-19 situation evolves and the world adjusts to the new normal, it is timely for businesses to start looking beyond immediate business survival issues and think about the wider implications of Covid-19 – one of the most important being tax implications.

"This unprecedented situation is raising many tax issues, especially where there are cross-border elements in the equation; for example, cross-border workers, or individuals who are stranded in a country that is not their country of residence. These issues have an impact on the right to tax between countries, which is currently governed by international tax treaty rules that delineate taxing rights." In a policy response to Covid-19, Organisation for Economic Co-operation and Development (OECD) issued a guidance, dated 3 April 2020, based on its analysis of the international tax treaty rules[1].

In April, Singapore Chartered Tax Professionals (formerly Singapore Institute of Accredited Tax Professionals) had reached out to Inland Revenue Authority of Singapore (IRAS) and highlighted pertinent tax issues faced by businesses and individuals arising from the Covid-19 situation, to which IRAS has promptly responded to and provided clarity to taxpayers and the tax community.

This article delves into three important tax issues and highlights the key considerations that businesses and their employees should take note of.

A foreign company that is not a Singapore tax resident for YA 2020 but has to hold its Board of Directors meeting in Singapore due to travel restrictions relating to Covid-19 will continue to be considered as a non-resident for YA 2021, provided that there are no other changes to the company's economic circumstances.

(1) CORPORATE TAX RESIDENCY STATUS

Lockdowns and travel disruptions meant that key executives and directors may have been unable to travel to another country, or return to their home country, to attend a Board of Directors meeting in person.

As the tax residency status of a company is typically determined by the location where strategic decisions are made, a company would need to assess whether the inability of key executives and directors to physically attend Board of Directors meetings, during which strategic decisions of the company are made, may lead to a potential change in its "place of effective management". This, in turn, can change its tax residency status under the relevant domestic laws and affect the country where it is regarded as a resident for tax treaty purposes.

In Singapore, a company is a resident for income tax purposes if its control and management is exercised

[1] http://www.oecd.org/coronavirus/policy-responses/oecd-secretariat-analysis-of-tax-treaties-and-the-impact-of-the-covid-19-crisis-947dcb01/

PHOTO GETTY IMAGES

in Singapore. In practice, the location of the company's Board of Directors meetings is generally seen as a key factor in determining whether the control and management is exercised in Singapore.

As a result of travel restrictions to Singapore, a company which would normally convene its Board of Directors meetings in Singapore, may now have to hold its Board of Directors meetings physically outside of Singapore, or via electronic means. The company, which would normally be regarded as a Singapore tax resident for income tax purposes, may now face uncertainty regarding its tax residency status as its control and management may be deemed to be exercised outside of Singapore. There is concern as to whether the company in this scenario will continue to be regarded as a Singapore tax resident, failing which this change can possibly lead to significant tax implications for the company (such as losing access to Singapore's extensive tax treaty network).

In its Covid-19 Support Measures and Tax Guidance on corporate tax residency, IRAS assured businesses that a company can still be regarded as a Singapore tax resident for Year of Assessment (YA) 2021 even if it is unable to hold its Board of Directors meeting in Singapore due to the travel restrictions relating to Covid-19. This is provided that the company is a Singapore tax resident for YA 2020, there are no other changes to the economic circumstances of the company, and that the Board of Directors meeting is held outside Singapore or via electronic means due to the directors being temporarily restricted in their travel as a consequence of Covid-19.

Conversely, a foreign company that is not a Singapore tax resident for YA 2020 but has to hold its Board of Directors meeting in Singapore due to travel restrictions relating to Covid-19 will continue to be considered as a non-resident for YA 2021, provided that there are no other changes to the company's economic circumstances.

As different countries may have different guidance or policy on the corporate tax residency issues arising from Covid-19, companies should remain vigilant and actively monitor developments in countries where their key executives and directors are temporarily located due to the Covid-19 situation, to mitigate their tax risks.

(2) PERMANENT ESTABLISHMENT (PE)

Broadly, the concept of PE is used to determine the right of a jurisdiction to levy tax on the profits of a foreign enterprise. If a foreign enterprise has a PE in Singapore based on the Singapore Income Tax Act, and the PE has income accruing in or derived from Singapore or any foreign income received in Singapore, the foreign enterprise will be, subject to any exceptions, liable to tax in Singapore under Singapore's tax laws.

If the foreign enterprise engaging in cross-border transaction is a resident of a jurisdiction with which Singapore has concluded an Agreement for the Avoidance of Double Taxation (DTA), the relevant DTA will take precedence over Singapore's tax laws and determine the taxing rights on the foreign enterprise's profits.

A PE generally refers to a fixed place of business through which the business of an enterprise is wholly or partly carried on (for example, a branch or an office). Depending on the terms of the relevant DTA, certain activities carried out in a jurisdiction may also constitute a PE, notwithstanding that there is no fixed place of business established in that jurisdiction. Such activities may include services furnished by a company through its employees that


PHOTO GETTY IMAGES

continue for more than a specified period, or the presence of a dependent agent who has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of the enterprise.

The unexpected and prolonged travel disruptions caused by the Covid-19 situation has left many employees stranded, forcing them to work in countries other than their usual country of residence or their home country. This makes it critical for companies to consider whether the presence of their employees (and the activities performed by these employees) will create a PE (and accordingly a taxable presence) for the company in these other countries, thereby triggering new filing requirements and tax obligations for the company.

In Singapore's context, foreign companies would be interested to know if the extended presence of their employees, due to the travel restrictions imposed, may lead to the creation of a PE in Singapore for the company. For example, if a salesperson of a foreign company finds himself in a position to conclude contracts while he is in Singapore (due to the Covid-19 situation), the foreign company would want to know if the salesperson may create a taxable presence for the company in Singapore.

For Singapore domestic tax purposes, IRAS has clarified that the unplanned presence of employees of foreign companies in Singapore due to the travel restrictions relating to Covid-19 would not result in the creation of a PE in Singapore for the foreign company, subject to the company meeting a set of conditions (such as the foreign company must not have a PE in Singapore for YA 2020, and the activities performed by the employees during the unplanned presence would not have been performed in Singapore if not for the travel restrictions).

(3) INDIVIDUAL TAX

Tax residency and related issues

In Singapore, an individual will be treated as a tax resident for a particular YA if he is a Singapore Citizen or Singapore Permanent Resident who resides in Singapore (except for temporary absences), or a foreigner who has stayed or worked in Singapore (excluding a director of a company) for 183 days or more in the year preceding the YA. A non-resident who has exercised employment in Singapore for no more than 60 days in a year would be exempt from tax on his short-term employment income.

Given that the tax residency of an individual may differ depending on the length of his stay in Singapore in a particular YA, travel restrictions arising from the Covid-19 situation can naturally have an impact to the individual's tax position in Singapore. For example, a non-resident foreigner who is exercising overseas employment (and is on a short-term business assignment in Singapore) may face uncertainty over the taxability of his employment income for the period of his extended stay in Singapore.

IRAS has since clarified that a non-resident foreigner exercising overseas employment and on a short-term business assignment in Singapore, but who is now working remotely from Singapore for his overseas employer due to travel restrictions caused by Covid-19, will be treated as not exercising an employment in Singapore for the period of his extended stay if two conditions are met. Firstly, the period of extended stay is not more than 60 days, and secondly, the work done during the extended stay is not connected to the business assignment in Singapore and would have been performed overseas if not for Covid-19. It should be noted that normal tax rules will continue to apply to determine the taxability of the non-resident foreigner's employment income for his short-term assignment (excluding the period of his extended stay).

PHOTO GETTY IMAGES

Individuals under the NOR scheme who are unable to spend at least 90 days outside Singapore for business reasons (as stipulated in the qualifying conditions) will not be able to enjoy the time apportionment concession, notwithstanding that the failure to meet the requirement is resulted from travel restrictions.

For a Singapore Citizen or Singapore Permanent Resident who is exercising overseas employment, but is now working remotely from Singapore during the Covid-19 situation for his overseas employment, he will continue to be considered as not exercising an employment in Singapore for the period from the date of his return to 30 September 2020 (tentatively subject to review as the Covid-19 situation evolves), provided that there is no change in the contractual terms governing his employment overseas before and after his return to Singapore, and that it is a temporary work arrangement due to Covid-19.

Other notable areas

One notable area is the taxability of additional benefits-in-kind provided to employees due to the Covid-19 situation (such as cash allowances or reimbursements to cover additional expenses from working from home). It should be noted that there is currently no special tax treatment for benefits-in-kind provided due to Covid-19 in Singapore; existing tax treatment applies.

Another area relates to the Not Ordinarily Resident (NOR) scheme. Individuals under the NOR scheme who are unable to spend at least 90 days outside Singapore for business reasons (as stipulated in the qualifying conditions) will not be able to enjoy the time apportionment concession, notwithstanding that the failure to meet the requirement is a result of travel restrictions.

CONCLUSION

With countries gradually easing restrictions to restart their economies, governments and businesses alike are moving into uncharted territories and discovering what constitutes the new normal. For example, many companies have turned to telecommuting to keep their businesses going during the lockdown. As the Covid-19 pandemic peters out, it remains to be seen if the bulk of the workforce will transit from telecommuting back to the traditional office setting. If telecommuting becomes the new normal, then surely the tax concepts as we know them will also have to adapt to the times to remain relevant. Maybe one day, the location of the Board of Directors meeting will no longer be a factor in determining the tax residency of a company.

While this article has highlighted some income tax issues to be aware of due to the pandemic, it must also be noted that there are tax issues pertaining to other forms of taxes, such as property tax and GST, that might have implications to businesses. In the wake of the Covid-19 situation, it would be wise for companies to keep abreast of the latest tax developments to maximise the tax benefits from the generous Covid-19 support and relief measures in each country. Being current can also help companies sidestep potential tax pitfalls and avoid contributing back to governments' relief funds right away! ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, Singapore Chartered Tax Professionals.

MARK YOUR CALENDAR

21 JUL

Artificial Intelligence, Machine Learning, and Robotic Process Automation (Live Webinar)

This course provides an introduction to Artificial Intelligence and Machine Learning, with an eye towards utilizing this knowledge to better evaluate the potential of Robotic Process Automation to optimise organisational efficiency.

27 JUL

Business Ethics: Anti-Bribery & Corruption (Live Webinar)

This programme provides an overview of key local and international standards and laws that relate to bribery and corruption. It includes an overview of key policy measures a company can take in safeguarding the organisation – in particular around facilitation of payments, gifts and entertainment.

12 AUG

ISCA Breakfast Talk – Prepare, Respond and Emerge Stronger from the Evolving Fraud Risk Landscape (Live Webinar)

Join us as we share the Singapore findings of PwC's Global Economic Crime and Fraud Survey 2020 and explore the shifts changing the profile and dynamics of frauds as a result of Covid-19 crisis and what organisations can do to reduce fraud risks.

16 & 17 JUL

Deferred Tax Accounting: A Deeper Dive (Live Webinar)

SkillsFuture Credit and UTAP approved

Learn the underlying principles of deferred tax and applying their understanding of the principles to account for deferred tax in the financial statements.

03 AUG

Be a Self-Actualized Accountant – A Mindfulness Approach (Live Webinar)

The accountant's mind is kept busy processing endless stream of facts and figures, in addition to that, the minds also manages the constant demands from different stakeholders.

Gain insights to the behaviour of our mind, how it affects our daily lives and understand the concept of mindfulness.

Online Training Package 2020

To prepare for the challenges of tomorrow, the Institute encourages you to keep your professional development continuous through our online training package – that gives you everything you need to get started.

At only $650 (before GST) for ISCA members and $900 (before GST) for non-members, you will get 21 hours of online training organised in a single purchase. More than *150 courses for you to choose from! Access our live webinars and e-learning modules at any location at the ease of your fingertips.

25 AUG

ISCA PAIB Virtual Conference 2020

With 2020 being an unprecedented year for Singapore (and the rest of the world), this year's virtual conference aims to reposition accountants to rebound from COVID-19 whilst reiterating the changing role the sector will play as we gear up to reboot in the new world. In a condensed half day live stream, it is an action-packed conference covering hot topics including technical reporting standards, ethics, governance, and enterprise risk management.

Join us in the first ever Virtual PAIB Conference to be part of the largest chartered accountants community in Singapore.

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


BY LIM JU MAY AND WANG ZHUMEI

IMPACT OF COVID-19 ON GOING CONCERN ASSESSMENTS

Audit Considerations And Implications to Auditor's Report

BEFORE THE ONSET OF COVID-19, high-profile corporate collapses have already put the spotlight on going concern assessments of companies, underscoring the challenges of making and evaluating such assessments under "normal circumstances". With the advent of the unprecedented Covid-19 and the uncertainties it brings, such challenges are further exacerbated.

GOING CONCERN REQUIREMENTS UNDER FINANCIAL REPORTING STANDARDS[1]

Financial statements are typically prepared on a going concern basis, that is, assuming that the entity will continue in operation for the foreseeable future (which is at least, but not limited to, 12 months from the end of the reporting period).

SFRS(I) 1-1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

SFRS(I) 1-1 further elaborates that in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

AUDITOR'S RESPONSIBILITIES OVER GOING CONCERN UNDER AUDITING STANDARDS[2]

SSA 570 *Going Concern* states that the auditor is responsible to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of financial statements, and to conclude, based on the evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

However, as described in SSA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

... the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

[1] SFRS(I) 1-1 *Presentation of Financial Statements*
[2] SSA 570 (Revised) *Going Concern*

PHOTO SHUTTERSTOCK

AUDIT CONSIDERATIONS OF THE IMPACT OF COVID-19 ON GOING CONCERN ASSESSMENTS

Lockdowns and closure of operations arising from various government-enforced measures are causing unprecedented disruptions in supply chains and negatively impacting demand and revenue. All these can cause a domino effect of negative implications, including liquidity issues, onerous contracts and contravention of bank covenants due to inability to repay loans, putting the going concern of businesses into question.

While some businesses are more significantly affected than others, the implications of Covid-19 are so far-reaching that it is hard to name any business that is not affected in one way or another.

The uncertainties arising from Covid-19 and pervasive effect on multiple aspects of a business make it difficult to estimate the impact on going concern, aggravating the challenges surrounding going concern assessments.

In view of this, the Covid-19 working group[3] discussed this subject at length and published FAQ 10 to provide guidance on the audit considerations of the impact of Covid-19 on going concern assessments.

FAQ 10 [Auditing] – What are the audit considerations of the impact of Covid-19 on going concern assessments?[4]

Evaluate management's assessment

The auditor shall evaluate management's assessment on whether the current events and conditions cast significant doubt over the entity's ability to continue as a going concern, and in severe cases, if the use of going concern basis of accounting remains appropriate. The auditor assesses the adequacy of audit evidence obtained regarding management's assumption of going concern and considers the implications on the auditor's report.

In doing so, the auditor needs to understand the impact of the current events and conditions on the entity's operations or forecasts, and cashflow requirements of the entity's investing and financing activities. This would include assessing the ability of the entity to comply with debt/contract covenants throughout the period of assessment.

Access to liquidity

With business closures taking place and the possibility of an economic downturn, the auditor will also need to evaluate if the entity has access to sufficient liquidity to meet its obligations when due. For instance, while an entity may be granted deferral of payments (such as rental or loan instalments), the auditor needs to assess the entity's ability to meet these obligations after the deferment period.

Evaluate management's plans

The auditor needs to understand management's strategy in sustaining the business through the looming economic downturn, which may include its plans to conserve cash, cost-cutting measures, seeking new credit facilities and disposal of assets. The auditor may also consider the potential benefits from government support measures which may be applicable to the entity.

The auditor also evaluates whether management's plan appropriately considers the length of time that the Covid-19 situation will affect the entity, including both the immediate effects and the likely recovery period. This will vary depending on the industry, business model and other relevant circumstances. For example, once safe distancing measures are eased and people are permitted to travel freely, there may still be other social or economic factors that might delay the recovery of entities in the tourism industry.

Credit facilities

Where management has considered the entity's credit facilities in its assessment, the auditor may need to evaluate if these credit facilities will be available throughout the period of assessment and whether there is continued support from the bank/lender.

Financial support

Where an entity relies on financial support from another party, it is critical for the auditor to carefully evaluate whether the other party has the intent and ability to provide such support. The auditor should be mindful that the other party's business plans and/or financial strength may also be adversely impacted in the current environment.

Stress testing

Given the uncertainties arising from the Covid-19 situation, the auditor may consider requesting management to perform a variety of analyses (example, scenario analysis, stress tests, break-even analysis).

The auditor may request for an assessment of the impact of multiple scenarios, including, for example, a prolonged suspension of business due to a further extension of the circuit breaker period and the number of months the entity can sustain before triggering going concern issues.

Considerations of the risks and probabilities of these scenarios may aid in the auditor's evaluation of management's assessment. As part of the evaluation of management's assessment, the auditor may also perform independent stress tests or break-even analysis.

Extend beyond 12 months

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* paragraphs 25 and 26.

Where the Covid-19 situation results in events or conditions that trigger the need for an assessment by management beyond 12 months from the end of the reporting period, the auditor will need to critically evaluate the quality of any audit evidence obtained in support of management's assessment as the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future.

[3] The ISCA Auditing & Assurance Standards Committee (AASC) and Financial Reporting Committee (FRC), in collaboration with ACRA, have formed a joint Covid-19 Working Group to support the accountancy profession in dealing with accounting and auditing implications of Covid-19. The Working Group publishes guidance in the form of FAQs to share its deliberations on the accounting and auditing issues faced by the profession.

[4] ISCA Covid-19 Technical FAQ 10

Table 1 Possible scenarios and implications to auditor's report

Scenario when events or conditions are identified	Implications to the auditor's report
Use of going concern assumption is inappropriate	<u>If financial statements are prepared on going concern basis</u> - The auditor shall express an adverse opinion, regardless of whether or not the financial statements include disclosures on the inappropriateness of the use of the going concern basis of preparation. <u>If financial statements prepared on another basis such as liquidation basis</u> - The auditor may be able to express an unmodified opinion if there are adequate disclosures regarding the use of the alternative basis in the financial statements. - The auditor may consider it appropriate or necessary to include an Emphasis of Matter paragraph to draw attention to the alternative basis of accounting and the reasons for its use.
Use of the going concern assumption is appropriate, but material uncertainty exists[1]	<u>If adequate disclosures are made in the financial statements</u> - The auditor shall • express an unmodified opinion; and • include a separate 'Material Uncertainty Related to Going Concern' section in the auditor's report. <u>If there are inadequate disclosures in the financial statements</u> - The auditor shall issue a modified opinion
Where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists (a "close-call" situation)	<u>If adequate disclosures are made in the financial statements</u> - The auditor shall express an unmodified opinion - The auditor may consider highlighting this as a Key Audit Matter (where SSA 701 applies, or include an Emphasis of Matter paragraph for audits where SSA 701 does not apply.) <u>If there are inadequate disclosures in the financial statements</u> - The auditor shall issue a modified opinion
Where the auditor is unable to form a conclusion on the appropriateness of management's assessment (for example, where there is lack of evidence available to support management's forecasts)	The auditor shall express a disclaimer of opinion when the auditor concludes that the effects on the financial statements could be both material and pervasive.

[1] Where management's use of the going concern basis of accounting has been assessed to remain appropriate, the auditor is required to assess and conclude whether a material uncertainty exists about the entity's ability to continue as a going concern. In situations involving multiple material uncertainties, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion.

Where the entity is listed on the Singapore Stock Exchange and an adverse opinion, disclaimer of opinion, qualified opinion, emphasis of matter (or a material uncertainty relating to going concern) is included in the auditor's report of
- the entity; or
- any of its subsidiaries or associated companies (if the adverse opinion, disclaimer of opinion, qualified opinion or emphasis of a matter has a material impact on the issuer's consolidated financial statements or the group's financial position),

the entity will need to immediately announce this fact in accordance with SGX Rule 704 (5).

Alert to changes in conditions

As the Covid-19 situation is fast evolving, the auditor should be alert to changes in conditions up to the date of the auditor's report when performing the evaluation of management's assessment on the entity's going concern assumption.

Disclosures

During such uncertain times where the situation is fluid, disclosures are ever more critical to enable users of financial statements to understand the basis of management's assessment. The auditor should critically evaluate the adequacy of the disclosures surrounding going concern.

Table 1 sets out the implications to the auditor's report for the possible scenarios which the auditor may face when there are events or conditions identified that may cast significant doubt on an entity's ability to continue as a going concern.

CLOSING REMARKS

For the entire suite of ISCA Covid-19 technical resources, please refer to https://isca.org.sg/covid-19-series/resources/technical-resources/.

We encourage and welcome members to share technical issues relating to Covid-19 developments as well as any other implementation/application issues through ISCA Technical Helpdesk. In the meantime, we will continue to issue technical guidance to support the accountancy profession through these challenging times. ISCA

Lim Ju May is Deputy Director, and Wang Zhumei is Manager, Technical, Institute of Singapore Chartered Accountants.

BY PERRINE OH

THE FORTITUDE BUDGET

Helping Businesses And Individuals Adapt And Build Resilience

A NEW S$33-BILLION FORTITUDE BUDGET WAS UNVEILED IN PARLIAMENT BY DEPUTY PRIME MINISTER (DPM) AND FINANCE MINISTER HENG SWEE KEAT ON 26 MAY 2020. Amid the Covid-19 pandemic, the Fortitude Budget builds on the earlier Unity, Resilience and Solidarity Budgets. It aims to help businesses and individuals adapt and build resilience. This is the fourth Budget in fewer than four months, which is truly unprecedented.

On the same day, the Ministry of Trade and Industry downgraded its full-year growth forecast for Singapore for 2020 to between -7% and -4%, down from an initial projection of -4% to -1% in March. With the word "jobs" appearing 56 times in the Fortitude Budget Statement delivered by DPM Heng, the focus of this Budget is clearly on jobs. In anticipation of the challenging times ahead, he shared that while the government cannot protect every job, it will protect every worker.

With these four Budgets, the total sum set aside to fight Covid-19 will add up to $92.9 billion, or 19.2% of Singapore's gross domestic product (GDP). The projected deficit of $74.3 billion will amount to 15.4% of GDP. This is the largest overall budget deficit in Singapore's history since its independence in 1965.

The government will draw $31 billion from past reserves to fund the measures in the Fortitude Budget, with a larger sum set aside for contingencies. Altogether, the government is looking at drawing up to a total of $52 billion from past reserves this financial year. This will enable Singaporeans to tide through this crisis and emerge stronger.

The fourth stimulus package has been named the "Fortitude" Budget as it would count on Singaporeans' courage in adversity. As the road ahead will be uncertain, fiscal measures aside, the government is rallying and counting on this generation, in the words of DPM Heng, to have "the fortitude to persevere, to adapt and emerge stronger, just like our founding generation".

A summary of the key enhancements is as follows.

ENHANCING SUPPORT FOR BUSINESSES AND WORKERS

Jobs Support Scheme (JSS)

JSS was first announced at the Unity Budget 2020, and further enhanced at the Resilience, Solidarity and Fortitude Budgets. JSS will provide wage support to employers, helping enterprises retain their local employees (Singapore Citizens and Permanent Residents) during this uncertain time.

The three enhancements to JSS amounting to $2.9 billion are:

- JSS will be extended by one more month to cover wages in August 2020, which will be paid out in October 2020;
- For firms that cannot resume operations immediately after the circuit breaker, the government will continue to provide wage support at 75% on gross monthly wages for the first $4,600 of each local employee until August 2020, or when they are allowed to re-open (whichever is earlier);
- Increased support for specific affected sectors, for example, aerospace sector (including those in Maintenance, Repair, and Overhaul), retail, marine and offshore – an increase from the previous 25% to either 50% or 75%.

Foreign Worker Levy and Waiver Rebate

This will be extended by up to two months for businesses that are not allowed to resume on-site operations after the circuit breaker. There will be a 100% waiver and $750 rebate in June 2020, and a 50% waiver and $375 rebate in July 2020.

Higher CPF contribution rates will be deferred

The increase in CPF contribution rates for senior workers will be deferred by one year, from 1 January 2021 to 1 January 2022.

Businesses should tap on these measures and seize this window of opportunity to transform, particularly through digitalisation. Similarly, individuals will have to reskill and upskill to bridge the gap between jobs and skills in the new economy.

PHOTO: SHUTTERSTOCK

INCREASED WAGE SUPPORT FOR SPECIFIC SECTORS AFFECTED BY COVID-19

Cash grants to help SMEs with rental

There will be $2 billion in cash grants to help SME tenants with rental costs. Including the property tax rebate for 2020, the government will:

- Offset another two months' rental for qualifying SME tenants of commercial properties;
- Offset one month's rental for qualifying SME tenants of industrial and office properties.

There will also be additional rental waivers for commercial and other non-residential tenants of government properties, including stallholders of hawker centres and markets, tenants of commercial buildings and industrial, office and agricultural tenants.

Financial support for promising startups

This includes $4.5 billion of loans through government financial schemes like the Temporary Bridging Loan programme and Enterprise Financing Scheme, and $285 million additional financing support for promising startups by co-investing with the private sector.

Accelerating digital transformation

- *Encouraging e-payments*
  There will be a bonus of $300 per month over five months to spur the adoption of e-payments by stallholders in hawker centres, wet markets, coffee shops and industrial canteens.
- *Digital resilience bonus*
  Starting with food services and retail sectors, a payout of up to $5,000 will help businesses digitalise with PayNow Corporate, e-invoicing, business process or e-commerce solutions. There will be an additional payout of $5,000 for businesses that use advance solutions.
- *Helping businesses digitalise in partnership*
  There will be $250 million to help businesses digitalise in partnership with platform solution providers and industry champions. For example, businesses can develop offline-to-online business models to access new domestic revenue streams and international demand, in order to mitigate the impact of Covid-19 on their revenue.
- *National Innovation Challenges*
  To encourage partnerships with the private sector for industry-led solutions to re-open Singapore safely, there will be a set of National Innovation Challenges.

SGUnited Jobs & Skills Package

A $2-billion SGUnited Jobs & Skills Package will create close to 100,000 opportunities in three areas, namely, jobs, traineeships and skills training.

- *Aim to create 40,000 jobs by end-2020*
  This is an initiative to create about 15,000 jobs in the public sector and 11,000 jobs in the private sector. The remaining 14,000 places will come from the expanded career conversion programmes, such as the Place-and-Train conversion programmes under the Adapt and Grow Initiative, and Company-Led Training programmes under the TechSkills Accelerator (TeSA) initiative.
- *SGUnited Traineeships*
  The SGUnited Traineeships programme will provide 21,000 traineeships for local first-time jobseekers. Applications were open from June 1. A new SGUnited Mid-Career Traineeships scheme will be created to provide 4,000 traineeships for mid-career jobseekers.
- *SGUnited Skills*
  Training courses will be available for about 30,000 jobseekers to upgrade their skills while looking for a job. A training allowance of $1,200 per month for a course duration of between six to 12 months, will cover basic expenses. This will be rolled out progressively from July.
- *Incentives to hire local workers*
  There will be hiring incentives for employers who hire local workers who have completed eligible traineeship and training programmes. The hiring incentive that was first introduced under the SkillsFuture Mid-Career Support Package in the Unity Budget will now be expanded to cover workers of all ages.

  For those aged 40 and above, the incentive will be doubled to cover 40% of the monthly salary for six months, capped at $12,000 in total. For eligible workers under the age of 40, the incentive will cover 20% of the monthly salary for six months. The total incentive will be capped at $6,000.

Covid-19 support grant

An additional $800 million will be set aside for the Covid-19 support grant to support Singaporeans and PRs who need help. This includes those who have lost their jobs, are placed on no-pay leave or face significantly reduced salaries. The eligible recipients will receive up to $800 per month for three months.

STRENGTHENING SOCIAL RESILIENCE FOR THE COMMUNITY

Amid the challenging times ahead, there will be more help with household expenses and the building of a stronger social service sector.

Solidarity Utilities Credit

There will be a one-off $100 Solidarity Utilities Credit for each household with at least one Singapore Citizen. This covers all property types and will be credited in the households' July or August 2020 utilities bills with SP Group. This comes on top of the Solidarity Payment and Care & Support Package previously announced.

Fostering digital inclusion

There will be an accelerated timeline for all secondary school students to own a digital learning device. For seniors, a Seniors Go Digital movement will be launched to build digital literacy through one-to-one coaching and small-group learning. There will be financial support for lower-income seniors to own digital devices.

Support for charities and social service agencies

An Enhanced Fund-Raising Programme will provide dollar-for-dollar matching on eligible donations raised between 1 April 2020 to 31 March 2021, capped at $250,000 matching per charity. The Invictus Fund will provide an $18-million top-up to help social service agencies maintain services, retain staff and adopt technology.

MOVING FORWARD

While it is still a big question mark how Covid-19 will evolve, the pandemic is already creating unprecedented disruptions in the economies and societies around the world. As a small and open economy, Singapore's economic outlook is closely intertwined with that of the global economy.

The government has pulled out all the stops to protect livelihoods and support businesses, including dipping significantly into Singapore's reserves. However, the generous JSS and other support measures announced in the four 2020 Budgets cannot continue indefinitely. In the words of philosopher Heraclitus, "Change is the only constant in life". Businesses should tap on these measures and seize this window of opportunity to transform, particularly through digitalisation. Similarly, individuals will have to reskill and upskill to bridge the gap between jobs and skills in the new economy. **ISCA**

For ***IS Chartered Accountant Journal's*** coverage of Budget 2020, please refer to:
- ISCA Pre-Budget Roundtable 2020
  https://journal.isca.org.sg/2020/01/29/isca-pre-budget-roundtable-2020/pugpig_index.html
- Budget 2020 (Unity Budget)
  https://journal.isca.org.sg/2020/03/02/budget-2020/pugpig_index.html
- Supplementary Budget 2020: The Resilience Budget
  https://journal.isca.org.sg/2020/04/02/supplementary-budget-2020-the-resilience-budget/pugpig_index.html
- A Third Stimulus: The Solidarity Budget
  https://journal.isca.org.sg/2020/04/29/a-third-stimulus-the-solidarity-budget/pugpig_index.html

For more information on the Fortitude Budget, please refer to:
- Fortitude Budget Statement
  https://www.singaporebudget.gov.sg/budget_2020/fortitude-budget/fortitude-budget-statement
- Fortitude Budget Summary
  https://www.singaporebudget.gov.sg/docs/default-source/budget_2020/download/pdf/fy2020_fortitude_budget_summary.pdf

For the Singapore Budget 2020 website including all four Budget 2020 Statements and relevant documents, please refer to:
https://www.singaporebudget.gov.sg/budget_2020/

ISCA's Covid-19 Navigator
ISCA has put together the Covid-19 Navigator (**https://isca.org.sg/covid-19-series/resources/business-support/**) that provides an overview of the schemes announced in the government's support packages, industry transformation and development programmes, as well as ISCA's initiatives.

It is designed to help members better understand how these schemes can be relevant to them, and how they can access these schemes for themselves, their organisations and/or their clients.

Perrine Oh is Senior Manager, Insights & Publications, Institute of Singapore Chartered Accountants.

SHREWD RISK-TAKER, EXCELLENT COMMUNICATOR

Sandeep Seth, FCA (Singapore), President, Goltens Worldwide

THE YEAR WAS 2002. For many people, in Asia especially, it was a time synonymous with the first major viral outbreak of the 21st century – the severe acute respiratory syndrome (SARS). The disease eventually took over 770[1] lives in about 30 countries, including China (and Hong Kong in particular), Canada, Vietnam and Singapore. SARS also cost the world economy about US$40 billion[2]. It was against this backdrop of destruction that a then-32-year-old executive named Sandeep Seth joined Goltens Worldwide, a global ship repair and maintenance company with a 62-year legacy and operations in 14 countries worldwide.

Fast forward six years and the world was plunged into the 2008 global financial crisis. Like many organisations at that time, Goltens was reorganising and restructuring the business. The leadership was in talks to shut down a particular site. Mr Seth crunched the numbers to validate the decision, and on the face of it, closing down the site made the most business sense. But when he visited the site and spoke to employees on the ground, he identified addressable gaps and persuaded the board to hand the reins over to him – with a significant amount at stake. Within nine months, the business was back in the black. For the last seven years, it has been the company's most profitable unit. "What I learned from our people on the ground was not what I would ever have known sitting at my desk thousands of miles away," he says. Looking back, he counts the ability to listen, the gumption to take risks and top-flight communication skills to win stakeholder buy-in as critical to create transformative changes.

A little over a decade later, these qualities will be the same ones Mr Seth counts on as he navigates the 1,000-strong organisation through even more turbulent waters. Less than a year after Mr Seth was appointed President in August 2019, Covid-19 struck. He shared about his trip in early March this year to New York, where he briefed the owners of Goltens about the changes that had to be made immediately to shore up on-going operations. This ranged from managing

[1] https://www.moh.gov.sg/docs/librariesprovider5/resources-statistics/reports/special_feature_sars.pdf
[2] https://www.ncbi.nlm.nih.gov/books/NBK92473/

... he counts the ability to listen, the gumption to take risks and top-flight communication skills to win stakeholder buy-in as critical to create transformative changes.

CAREER HIGHLIGHTS

1991 to 1994
PricewaterhouseCoopers India

1994 to 2002
Various managerial and finance positions in Asia, including Operations Head Far East and Chief Financial Officer for Global Operations of a large financial research organisation

2002 to 2006
Regional Controller Asia, Goltens Worldwide
Advisory Board Member, Goltens Worldwide

2007 to 2010
Vice President Finance, Goltens Worldwide
Group IT Head, Goltens Worldwide
Advisory Board Member, Goltens Worldwide
Director, Goltens Worldwide Board

2010 to 2017
Vice President Asia Pacific, Goltens Worldwide
Advisory Board Member, Goltens Worldwide
Director of Goltens Worldwide Board

2017 to Aug 2019
Vice President Asia Pacific and UAE, Goltens Worldwide
Advisory Board Member, Goltens Worldwide
Director, Goltens Worldwide Board

Aug 2019 to present
President, Goltens Worldwide
Advisory Board Member, Goltens Worldwide
Director, Goltens Worldwide Board

the logistics of safe disembarkation for stranded crew members to shifting growth plans from long-term to mid-term, and retooling ground operations in order to maintain business continuity and customer confidence. "Overnight, we went from running an international operation to being a local player at all our sites, pitted against well-resourced competitors with existing local servicing infrastructure," he recounts. Amid the uncertainty, Mr Seth knows that crystal-clear communication with all levels of his staff will be key in getting everybody to adapt and move in the right direction.

What does he envision the "new" normal to be in the near future? "The industry pre-Covid-19 had already been dealing with multiple challenges including low charterage fees due to oversupply and the slow adoption of technology. Going forward, I feel there will be technology acceleration especially in our sector, in various forms such as the use of data or information technology, augmented reality with remote access, unmanned vessels and drones," predicts Mr Seth. Green technology, in particular, will be a priority as vessel owners face increasing regulatory pressures to improve environmental sustainability by reducing emissions, better managing waste and leveraging alternative fuels.

ALWAYS EXCITING

Prior to his current role, Mr Seth served as Goltens' Vice President Asia Pacific and Vice President Finance, overseeing all business units in the Asia Pacific. Of note, he spearheaded the reorganisation of the United Arab Emirates (UAE) business units to improve results and implemented strategies for long-term growth. He was also instrumental in opening strategic workshops in the Middle East and Asia.

His own professional development parallels that of the company. In the last 20 years, Goltens has grown from nine to 26 service stations worldwide – no mean feat if one factors in the 2008 global financial crisis and the 2014 collapse in oil prices which triggered a devastating downturn in the marine and offshore industry.

For one who thrives on challenges – and values the learning experience that comes with it – it is not surprising that the past 18 years have gone by in a flash. "I've never had a dull moment any day in the last 18 years working here. Each morning I come in, there are different problems to solve and different opportunities to pursue. It really hasn't felt that long at all!" he laughs.

STRETCHING THE LIMITS

A Fellow Chartered Accountant of Singapore of ISCA, Mr Seth holds an MBA from Nanyang Technological University. He began his career as an auditor at PricewaterhouseCoopers India, before moving on to various managerial and finance positions in Asia, including serving as the Operations Head Far East and Chief Financial Officer for Global Operations of a large financial research organisation.

When asked about the most surprising element of his entire career, he says, "The offshore and marine sector is very technical. It's not customary for accountants to be in a position of top leadership in this field. But my accountancy background gave me a firm grasp of analysing a company's fundamentals, and more than that, an understanding of the numbers from stakeholders' perspective. This is crucial for decision-making regarding expansion, closure or cost alignment. More important than cutting costs is knowing where to do so in a way that helps instead of hampers growth."

The professional recognition one gets with the ISCA membership is helpful, acknowledges Mr Seth, while the technical resources and expertise – which help broaden his thinking – are what he deems as critically valuable to his role as a business leader.

In an increasingly fast-paced world, continuous learning is a key survival skill. "The accountancy profession is here to stay. But in order to stay relevant, we must keep up with emerging technologies. The key one is artificial intelligence which will impact how compliance, forensics and risk functions are operated. Consulting and advisory skills will become increasingly important. Ethics and compliance will take centre stage," he advises young accountancy professionals. "We should not be afraid to explore our boundaries.

I don't believe in failure, only learnings to be had. I've seen a lot of finance professionals eventually becoming CEOs. If our young accountants are able to explore their boundaries, like I did, they might be surprised at where their skills can bring them."

How does he define career success? "If my passions and beliefs are aligned to what I do, I will have a fulfilling career, and fulfilment is success. What if we don't catch that break in our dream job or industry or role? Does that mean we give up? Not at all. It will take hard work for sure, but I have come across so many people who found their dream careers, albeit later than they expected," he posits. The father of two teenagers knows a thing or two about passion, perseverance – and delayed dreams. A former cricketeer who represented Singapore in the World Cup qualifiers in 2001, Mr Seth, 50, has set his sights on completing all six marathons in the Abbott World Marathon Majors which comprises the world's largest and most renowned marathons. Fewer than 100 people have completed the entire series in Singapore and he is determined to be among the first 250 to do so. He picked the marathon as it "resonates with the life cycle and one's career; there are ups and downs but you must persevere to achieve your goals," he explains.

Since 2018, he has finished three marathons. His plans to complete another two in New York and London this year have been shelved due to Covid-19, but until he can don an actual bib, he is content to participate in virtual runs – an increasingly popular trend whereby runners can sign up on an online race registration platform and track their timings from a GPS watch or an in-app tracker, so that even while they are running alone in any location in the world, they still feel like they are part of a larger group. For Mr Seth, it is this feeling of camaraderie and togetherness that makes it fun, be it finishing a race or leading a global service organisation. ISCA

> "**We should not be afraid to explore our boundaries. I don't believe in failure, only learnings to be had. I've seen a lot of finance professionals eventually becoming CEOs.** If our young accountants are able to explore their boundaries, like I did, they might be surprised at where their skills can bring them."

BY NIGEL HEE

BUSINESS CONTINUITY PLANS

Why Businesses Cannot Do Without Them

FIRES. PANDEMICS. RANSOMWARE. These are just three examples of unexpected events that may hit a business at any time. No firm big or small, listed or unlisted, is immune to unexpected events; of note is the current Covid-19 pandemic that was first recorded in Wuhan, China, that has since gone on to affect the global economy.

Many businesses in Singapore and the region, having experienced the SARS epidemic in 2002-4, should have Business Continuity Plans (BCPs) in their business strategies arsenal. These BCPs are meant to address the disruptions to business caused by unexpected events such as the current pandemic, and government guidelines on social distancing. But what constitutes a BCP? What aspects should be considered? What should you do once you have a BCP in place?

In this article, we outline why having a BCP is critical, what it constitutes, and the basic steps to creating one.

WHY HAVING A BCP IS IMPORTANT

Any disruption in routine business operations may have a severe impact on multiple aspects of the business. When the Covid-19 epidemic grew to pandemic proportions, the Singapore government announced social distancing measures for workplaces, among other venues. A "circuit breaker" was put in place from April 7 to May 4 to stem the spread of the virus. This was later extended to June 1.

This simple-sounding measure of keeping a minimum distance from the next person has far-reaching implications on business operations when viewed from an operational perspective: some offices are just not physically big enough to seat employees far enough from each other. This would also mean that face-to-face discussions and meetings are no longer feasible, and even taking public transport to work becomes an exercise in risk management on a personal level.

Such disruptions can lead businesses to re-examine how they need to adapt to continue operations. Businesses that rely on physical interactions, such as restaurants and cafes, had to switch to an online delivery model quickly. Factories had to reduce the number of people on the production lines at any one time, affecting production capacity and schedules. Two potential impacts from these changes are financial and reputational losses arising from an inability to maintain expected sales and service delivery standards.

Some organisations, such as banks and public transportation companies, may face pressures from regulatory bodies to maintain certain minimum benchmarks of delivery standards, while the need to sustain customer confidence and market value are perpetually present. One may even argue that the latter two are even more critical in times of sustained and widespread disruptions.

To contend with these pressures and mitigate the risks, businesses must therefore have reliable infrastructure – physical and information technology (IT) – and processes that are able to transition seamlessly. This is where having a BCP will allow the organisation to weather the disruptions and maintain its competitiveness.

"While we don't expect full-scale BCP to be done very frequently, a broad-based organisation-wide BCP, including the overseas units, would be very useful in most cases," recommends Willy Leow, Partner and Head of Risk Advisory Services, BDO LLP. Mr Leow is a Chartered Accountant of Singapore, or CA (Singapore), and a member of ISCA's Corporate Governance and Risk Management Committee.

WHAT A BCP IS, AND CREATING ONE

In general, a BCP specifies how an organisation will continue its operations during an unexpected period of disruption to its normal routines.

"BCPs have always been about being prepared. Predicting the actual scenario is not the end goal. It is more about being prepared to react, whatever the situation. A good BCP has the steps in place to guide the management team navigate through the crisis," explains Ang Fui Siong, CA (Singapore). Mr Ang is also a member of ISCA's Corporate Governance and Risk Management Committee.

A typical BCP has the following three key components:

(1) Business impact analysis;
(2) Identification of critical functions and dependencies between business areas, and
(3) Maintaining operations and recovery strategies during the disruption.

> **"... (a business impact analysis) is not about having a precise financial impact number.** An organisation should focus on the top few plausible disruption scenarios and not all the possible scenarios."
>
> **ANG FUI SIONG,** CA (Singapore), member of ISCA's Corporate Governance and Risk Management Committee

PHOTO GETTY IMAGES

(1) Business impact analysis[1]

A business impact analysis identifies the impact of a sudden loss of business functions and is typically quantified into a cost. This is fundamentally a process of determining which business processes and activities are critical, and which areas are vulnerable to disruption. The next step is to uncover the resources required to support these processes and activities. Finally, the business impact analysis should also quantify the impact of disruptions on service delivery, and the time and resources required for affected operations to recover.

For example, a business impact analysis for a factory would identify its supply chain of raw materials together with its manufacturing capabilities as two of its critical functions. The logistics to transport the finished goods, manpower to run the machines and IT resources to coordinate its machines and manpower are also critical to this factory. A major disruption to its supply chain could be costed at $10,000 a day due to a lack of raw materials to produce finished goods, while having to cap manpower at 50% on its production lines could then cost another $5,000 since it would be unable to run at full capacity. Other costs, direct and indirect, should also be factored into the calculations.

"The analysis can be done across the 'likelihood' and 'impact' categories. They can be based on estimates but should include both financial and non-financial impacts. BCP managers will need to consult their internal subject matter experts and clear the business impact analysis with the organisation's management and Board of Directors. However, it is not about having a precise financial impact number. An organisation should focus on the top few plausible disruption scenarios and not all the possible scenarios," elaborates Mr Ang.

(2) Identifying critical functions[2]

The next step in crafting a BCP is to identify critical business functions and the dependencies across these areas. To achieve this, a Business Continuity Manager should first be appointed, with the primary role to ensure that the BCP is executed and adhered to.

PHOTO SHUTTERSTOCK

This individual would monitor the situation and work with management to disseminate information and instructions to employees. The Business Continuity Manager may also be a point of contact for external stakeholders such as any regulatory or licensing bodies or concerned clients and vendors.

Typical critical business functions within any organisation include human resource management, vendor and customer management and communications. Human resource management will begin with the Business Continuity Manager working with senior management to develop a detailed plan for the continuity of leadership and decision-making. For rank-and-file staff, provisions in the BCP such as remote working, scaling down of work events and staggering of work hours will have to be communicated to them. It will also be vital to inform all staff of any additional assistance available to them during the disruption.

Managing vendors and clients is also an essential part of the BCP. The organisation must attempt to diversify their vendors to ensure a constant supply of resources, and work with them to establish alternative delivery modes. Essential customers should be identified, and their needs factored into the BCP, such as catering for alternative service delivery modes. For example, farmers in Malaysia did not have any means to transport their produce because of a Movement Control Order and thus had to throw away much of their produce. This is a direct contrast to shortages seen in supermarkets across the world[3].

Communications is of paramount importance in the BCP. No amount of planning would be sufficient if the lines of communications are non-existent or constantly clogged. As part of an efficient BCP, organisations should appoint a Communications Manager – separate from the Business Continuity Manager – whose responsibility is to ensure that staff understand the lines of communications in the BCP. For certain events where the personal safety of staff may be threatened or if staff need to be isolated, the Communications Manager must set up a channel for staff to report their status or to make relevant enquiries. Key messages for stakeholders such as vendors and clients should also be communicated as soon as it is practical to do so.

(3) Maintaining operations and recovery strategies

Thus far, the BCP discussion has been focusing on *coping* with the disruption. We now move to the next section of the BCP which centres on plotting out various recovery strategies. The goal of these recovery strategies is to restore business operations to a minimum acceptable level, factoring in the time and resources identified in the business impact analysis.

Designing, implementing and successfully testing the BCP is not the be-all and end-all of it. It is imperative that buy-in is obtained from *all* levels of staff – from the C-suite and senior partners to the junior executives.

Recovery strategies must include people, equipment, IT resources and facilities. Take the same factory example mentioned earlier. The recovery strategy should identify how much time it would need to re-establish its supply chain and reallocate its manpower and other resources to run at full capacity. This step should also include identifying and obtaining other resources required to support each process. In the case of the Covid-19 pandemic, this may mean obtaining personal protective equipment, ensuring that staff are sufficiently distanced from one another and that cleaning supplies required to disinfect the surfaces are available.

It is important to remember that these steps are not aimed to achieve full capacity but to attain a minimum acceptable level of productivity while adhering to the safety and social distancing requirements. However, certain activities may have to be scaled down or stopped temporarily to provide resources for other processes. For example, if it is vital that staff be physically segregated, then remote working options and automated technologies must come into play. These recovery strategies can also take the form of entering into partnerships or contracting with third parties.

Once these have been included in the BCP, the BCP should be tested in a controlled environment. This can be in the form of a tabletop exercise, a structured walkthrough of the processes in the BCP, or an all-out simulation. "It is important for frequent tests or drills to be carried out for key areas such as data backup or alternate data storage sites," emphasises Mr Leow.

No matter the format, scenarios should be plausible and attempt to, in a sense, "break" the BCP. During testing, objectives should be measurable, and the organisation should be honest with itself. Acknowledge where the weak spots are while spotting the strengths in the plan. It is also a good idea to test the plan a few times a year. Each test should include new staff members with "fresh eyes", to spot the gaps or any lapses that experienced staff may have overlooked. The BCP should then be refreshed to plug these gaps.

BEYOND THE BCP

"Businesses should look into details of their insurance coverage, particularly for key assets. Escalation processes, especially for overseas units, should also be built into the BCP," suggests Mr Leow.

Designing, implementing and successfully testing the BCP is not the be-all and end-all of it. It is imperative that buy-in is obtained from *all* levels of staff – from the C-suite and senior partners to the junior executives. All levels have to be represented at every stage of the BCP to capture every single concern, no matter how small. This also helps to build staff awareness of the BCP and most importantly, when to trigger it.

CONCLUSION

It is critical to remember that a BCP is, in a sense, never complete. It is a task that needs to be re-examined at regular intervals by senior management and other stakeholders. Being ready for disruption requires constant vigilance. ISCA

Nigel Hee is Manager, Insights and Publications, Institute of Singapore Chartered Accountants.

[1] https://www.cio.com/article/2381021/best-practices-how-to-create-an-effective-business-continuity-plan.html

[2] https://www.enterprisesg.gov.sg/-/media/esg/files/covid-19/guide-on-business-continuity-planning-for-covid-edition-3-15-april-2020final.pdf?la=en

[3] https://www.channelnewsasia.com/news/singapore/big-read-covid19-global-supply-chain-shock-food-shortages-12655836

PHOTO SHUTTERSTOCK

BY DINA GERDEMAN

OPEN YOUR ORGANISATION TO HONEST CONVERSATIONS

Proven Way Of Avoiding Serious Strategic Mistakes

AFTER PROSPERING FOR MORE THAN 100 YEARS, General Electric (GE) found itself in trouble in the early 2000s, facing the double wallop of a depressed energy sector and the financial crisis of 2008.

CEO Jeff Immelt tried to revive the company by buying Alstom, GE's chief energy competitor, but ignored warnings from wary Board Directors and senior executives who claimed Alstom had made bad deals and otherwise performed poorly. Since the acquisition, Alstom has struggled and today, it's considered one of the main reasons investors have lost faith in GE, spurring the company's stock price to dive from a high of US$55 in 2002 to a dismal US$12 in early 2020.

Most companies fail in their efforts to transform, and the GE example shows the main underlying reason why: leaders often get stuck in echo chambers that merely reinforce their own ideas, says Harvard Business School Professor Michael Beer. Meanwhile, lower-level employees are often fully aware of the problems that plague a company or the reasons a particular strategy won't work, but they tend to remain silent, fearful that speaking up could put their careers at risk.

"A CEO might be trying to execute this corporate strategy and everybody in the organisation knows it's off the rails, but no one wants to be the bearer of bad news or be seen as a complainer or a non-team player," says Beer, the Cahners-Rabb Professor of Business Administration, Emeritus. "So there's this organisational silence, where no one feels comfortable speaking truth to power."

AVOIDING A CYNICAL ORGANISATION

This silence is not only a morale killer, it can also lead companies to make serious strategic mistakes, says Beer in his new book, *Fit To Compete: Why Honest Conversations About Your Company's Capabilities Are The Key To A Winning Strategy*. Beer, who has spent 45 years working with hundreds of companies to execute organisational change, says mental weariness among employees can cause them to lose hope in their organisation and become cynical and passive.

"People who are this discouraged stop bothering to collaborate with others to improve the organisation," he says.

The antidote? Organisations need to allow critical information to be shared freely from the bottom to the top, Beer says. But he's not talking about the typical ways companies gather input, such as through employee surveys, interviews by external consultants, or even one-on-one conversations between key managers and the CEO. These seldom move an organisation forward.

Instead, Beer and his colleague Russ Eisenstat developed what they

It's important for leaders to make clear to employees that they listened to their feedback by sharing the transformative changes that will result from the information gathered.

... CEOs should make themselves vulnerable by asking lower levels for the truth about what is and is not working, even if the problems involve the leadership...

PHOTO SHUTTERSTOCK

call the "strategic fitness process", which has been used by more than 800 organisations and allows leaders to hear the raw but necessary truth from employees about "the good, the bad, and the ugly" to help shape effective business strategies.

"We created this process simply because business leaders came to us over and over to say, 'We have a cultural problem and an inability to perform. How can we create a more effective organisation?'" Beer says. "We've seen this process work."

GETTING THE BALL ROLLING

To start, a senior team should appoint a task force of up to eight of its best managers who send a clear message from the top that the company is serious about seeking frank feedback to make organisational changes. The managers should interview people in all parts of the company who know what is and isn't working, asking them to share their honest observations.

To encourage fruitful conversations, according to Beer and Eisenstat, leaders should:

- **Focus the conversation on the issues that matter most.** Develop questions for workers that tap into the heart of the strategic and cultural problems that are getting in the way of the organisation's ability to deliver on its value proposition and create a competitive advantage. Managers don't often take this diagnostic step to understand the systemic issues, in many cases because they're afraid to make themselves vulnerable.

"Leaders often feel like they need to come across as decisive, but if they always act strong and know-it-all, they won't get anywhere," Beer says. "People at the top have more decision rights, and that gives them a sense of distance and sometimes a false sense of confidence that they have the answers to everything. But they don't. Nobody does."

So, CEOs should make themselves vulnerable by asking lower levels for the truth about what is and is not working, even if the problems involve the leadership, by posing questions like: Help me understand. Why are we unable to achieve and execute our strategy? Why are we underperforming? "When they do this, they instantly create trust," Beer says.

- **Iterate between advocacy and inquiry.** Leaders should start these honest, public, and collective conversations with employees by advocating where they want to take the organisation, then ask for input on the strategic plans.

"Leaders should be the guiding mechanism, outlining a broad vision and direction," Beer says. "But they should say, 'This is what we want to do.' Then ask, 'What are the barriers?' You can't find out what stands in the way after the fact as well as you can beforehand."

- **Make it safe to share the whole truth.** The goal is to encourage honest feedback, so managers should be careful to avoid saying things that might inhibit input. When an employee complains about a problem, for example, managers should resist the urge to correct the record or say things like, "That's not true", because it's the kind of thing that can shut down a conversation fast.

"Managers often put up a defence against hearing the truth because it's hard to have your assumptions and practices disconfirmed," Beer says. "But it's important to listen."

- **Reflect, diagnose, and develop a plan.** The leadership team needs to reflect on the truth, diagnose the root causes of problems in the organisation, and develop a systemic plan for change that will realign the company with the new strategy and cultural values.

"This isn't a vote," Beer emphasises. "Leaders are still the ones making the decisions, but they're getting valid and compelling data to help them diagnose the problems, decide what to do about them, and move in the right direction."

- **Make yourself and the rest of the leadership team accountable.** It's important for leaders to make clear to employees that they listened to their feedback by sharing the transformative changes that will result from the information gathered. And, in advocating for the action plan, they should again ask for input about the pros and cons.

This helps employees feel as if they own the plan which, in turn, motivates them to do their part to help it succeed.

- **Repeat the process periodically.** Talking to the staff just once is not enough. Encouraging regular conversations elicits the information needed to continuously improve the organisation.

"If you're a responsible car owner, you don't go more than a year without having it in for maintenance, to have it diagnosed and checked over," Beer says. "You need to have honest conversations over and over again to find out if your changes are working."

BELIEVING IN THE PROCESS

In the book, Beer describes how the carefully designed strategic fitness process has helped companies bring their problems into the light. It has been applied by numerous CEOs, and research has confirmed its effectiveness. But its success depends on the leader's willingness to embrace both the practice and spirit of the process, Beer says.

Years ago, for example, Beer was approached by HR executive Jody Edwards of Hewlett-Packard, who confessed that a division of the company was suffering from low morale and was failing to meet its profit and growth goals.

In working with the company, Beer discovered that HP employees believed a lack of honest communication was a big impediment to surfacing deep underlying problems. As one employee put it, "You read about these bad marriages, where the wife and the husband both know what's wrong. They just can't find a way to talk to each other about it. And I think that's what was going on. We all knew the problems were there, and I think we could not find a way to discuss it with each other in a constructive way."

After seeking the unvarnished opinions of workers through a series of discussions, business leaders got serious about addressing the problems, and the reorganisation that resulted energised the staff and led to a dramatic turnaround in performance.

"We lost a lot of employee satisfaction and commitment as a result of our problems, but regained it and more," Edwards said in the book. "People from other divisions now want to come to work here, and they cite that interesting process – honest conversation – that we now conduct annually as one of the reasons." ISCA

Dina Gerdeman is a senior writer at Working Knowledge, Harvard Business School. This article was first published in Working Knowledge. Reproduced with permission.

BY DR ANG HAK SENG

FINANCIAL RESILIENCE FOR CHARITIES

Practical Steps In Uncertain Times

THE COVID-19 GLOBAL PANDEMIC HAS CREATED NEW RISKS AND CHALLENGES FOR ALL ORGANISATIONS, INCLUDING CHARITIES. This uncertainty can serve as an impetus for charities to be nimble and resourceful to keep their programmes sustainable and tide them through the pandemic and beyond. Having the discipline to be financially resilient is a necessary way forward to navigate through uncharted waters with calculated judgement.

RISKS DURING COVID-19

Amid the uncertainty and evolving change, our charities face cash flow and liquidity risks. We have received feedback that some of them have insufficient cash and reserves to continue running essential programmes. Some have also shared that their flagship fundraising events have been deferred due to the safe distancing measures and this is affecting their income streams.

Table 1 summarises the top three risks that charities could face in a time of crisis, such as the current Covid-19 pandemic.

Risks should not be solely seen as trade-offs to be taken by the charity. Instead, risks can be viewed as avenues for opportunities and pathways for improvements.

Charities play a critical role in serving the needs of the community. This is amplified during the Covid-19 situation which reinforces the importance of building resilience together. The Covid-19 situation has reinforced the crucial need for charities to have a risk management matrix, mitigate risks where necessary and have a strategic plan to ensure they emerge stronger from this pandemic.

Charities are most concerned about financial risk. To mitigate and manage financial risk, charities need to have a strong funding model to enable a variety of reliable and sustainable funding. It is also important to keep track of the charity's financial health by monitoring income, liquidity, leverage and efficiency ratios.

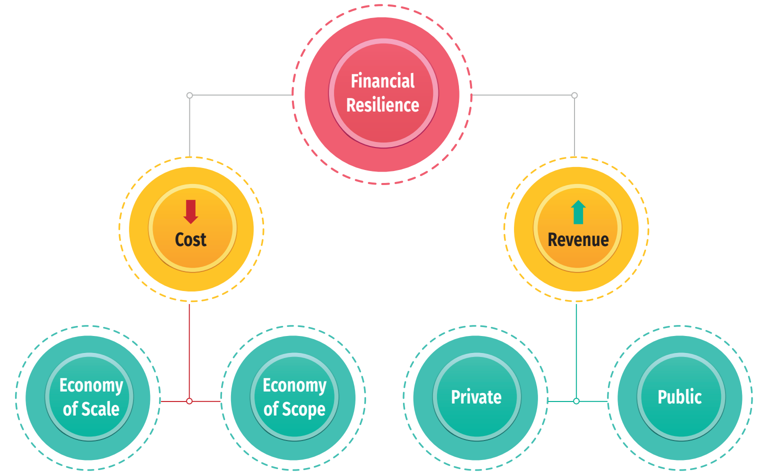
However, just keeping an eye on the financial ratios is not enough. The best way to deal with financial risks is to take quick and sustainable actions to keep cost low and maintain a high revenue. In doing so, financial resilience will be built.

Table 1 Top three risks charities may face during crisis

Risk	Description
Financial risk	• Cessation of certain charity programmes leading to decrease in revenue sources • Insufficient reserves to cover operating expenses for a prolonged period (for example, six months) • Decrease in donations that are normally solicited through fundraising events such as gala dinners, flag days, etc
Operational risk	• Inability to carry out certain programmes and services to beneficiaries which can only be done physically • Drop-in service standards to beneficiaries • Struggle between doing what's logical (building up systems, processes, etc) and what's urgent (serve beneficiaries)
Manpower risk	• Only essential services can be provided; for programmes that are non-essential services, staff and volunteers may be disengaged • Decrease in number of volunteers due to concerns over own health and safety • Staff less willing to be involved or travel out due to concerns relating to health and safety

PHOTO SHUTTERSTOCK

Figure 1 Building financial resilience



To guide and raise awareness of financial resilience to charities, the Commissioner of Charities (COC) co-organised a complimentary webinar session on 8 May 2020 with RSM Singapore; the event was attended by 100 charity participants.

HOW TO BUILD FINANCIAL RESILIENCE?

Financial resilience can be achieved by sustainably reducing cost and increasing revenue.

To bring cost down, the concept of economy of scale and economy of scope can be brought to mind (Figure 1). To increase revenue, charities can turn to private funds – defined as donations, or increase public funds – defined as grants from government agencies.

DRIVING COST DOWN

(1) Economy of scale: Do what you do best, outsource the rest

An avenue to reduce cost is to do things with economy of scale in mind. While larger charities can easily tap on the benefits of economy of scale, smaller charities can also benefit. This can be done by (a) tapping on common resources, (b) increasing productivity, and (c) improving capability. In essence, smaller charities can tap on economy of scale by being focused on what they do best and to collectively outsource the rest, resulting in higher bargaining power and operating efficiency that drives down cost.

(a) Tapping on common resources: Harness the shared services initiative

The COC has shared services initiatives that pool commonly required resources together and provides them at low bono rates to charities. For example, if you assess that information technology (IT) is not your core competency, you should not be attempting to build an IT system from scratch. Instead, leverage on a shared service such as iShine, as it is designed for "build once, use many" for a multiplier effect.

(b) Increasing productivity: Remove waste, have an agile cost structure

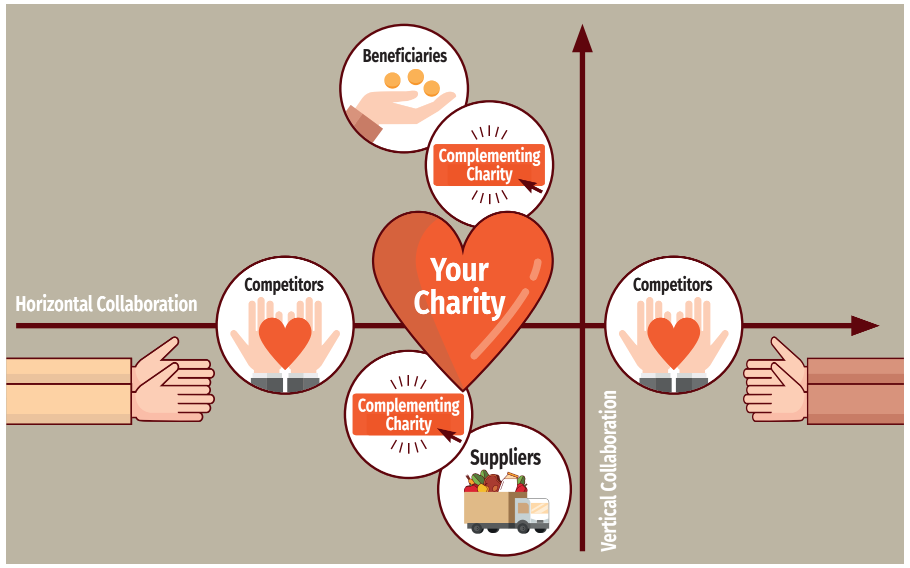
This translates into being "asset-light, programme-heavy". Covid-19 serves as an impetus for charities to relook and rethink some processes. Are there any steps that can be replaced or removed? Streamlining will help charities be leaner in the provision of services and thus provide "cheap, good and fast" services and programmes to beneficiaries.

Charities could also take this opportunity to relook whether some fixed costs could be moved to variable costs. This will help to lighten the burden during a crisis. Furthermore, it provides agility and flexibility to scale up when times are good, and scale down when times are not so good.

(c) Improving capability: Job restructuring

Manpower management is critical in running the operations of charities. Hence, to utilise manpower efficiently, charities should relook the job scopes of full-time staff, to see if there are areas to be restructured and areas which can be implemented by volunteers instead. The objective of such restructuring is not to reduce the number of full-time staff. Instead, with proper job redesigning, some tasks can be performed by volunteers which in turn, frees up manpower resources to focus on areas that require specialised knowledge. This is also a way for charities to expand ownership to a larger group and create more purposeful and meaningful volunteering opportunities.

Figure 2 Economy of scope



(2) Economy of scope: Forming collaborations

Another avenue to reduce cost is to leverage on economy of scope (Figure 2). This suggests that charities should collaborate with one another and work together as an ecosystem. Through collaborations, synergies can be achieved that will result in the reduction of duplicate work and an increase in operational efficiency and service delivery. This will in turn lead to a lowering of cost.

Economy of scope comprises vertical collaboration which is above and below the value chain, as well as horizontal collaboration which sees competitors as an opportunity for collaboration as well.

(a) Vertical collaboration: Work with people or organisations that are above and below the value or supply chain

For example, if a charity is assisting seniors at an elderly day care centre, that charity could work with an organisation that aids elders by providing home-based care. After the elderly has recovered sufficiently, he/she can be referred to the day care centre to continue receiving assistance and care from the community, including social interaction with other elderly.

The charity could also work with organisations that provide meals to elderly through meal delivery. This collaboration promotes higher operational efficiency through the reduction of overlapping or duplicate services.

(b) Horizontal collaboration: Work with organisations involved in a similar cause

Charity organisations that provide similar services are sometimes seen as competitors. While the competitor may not be situated in the same geographical location, some collaboration is still encouraged. For example, a nursing home located in the northern region of Singapore could collaborate with another nursing home situated in the western part of Singapore. Having similar services and types of beneficiaries could enable organisations to gather and share best practices, generic standard operating procedures, and also learn from each other's mistakes.

By building an ecosystem of collaboration and friendship, charities can serve the public better and ensure that no one gets left behind.

DRIVING REVENUE UP

(1) Increase private revenue: Efficient fundraising

To increase revenue, one of the sources of income that charities depend on is donation income (that is, private revenue). Due to the Covid-19 situation and social distancing measures, street fundraising has been restricted and fundraising prohibited. This has caused many charities to postpone flagship fundraising events. However, this does not mean that charities do not get any donations. Instead, it is strongly encouraged for charities to be innovative and go digital in their fundraising campaigns (Figure 3). Going digital is not only preferred but necessary. As Singapore progresses towards becoming a Smart Nation, the charity sector cannot be left behind.

Going online is an economical and good way for fundraising. This is especially the case given that the crowdfunding platforms that are subscribed to the COC's Code of Practice for Online Charitable Appeals do not charge platform fees. Some of them also go the extra mile to absorb third-party fees such as payment gateway fees. Online fundraising, if done well, can expand a charity's pool of donors, including donors that a charity will not reach on the streets.

Online fundraising is a sophisticated process which requires a new outreach approach with digital marketing. To enable charities and uplift capabilities for online fundraising, the COC partnered with the Singapore University of Social Sciences (SUSS) to conduct two webinars on 18 April and 29 May 2020.

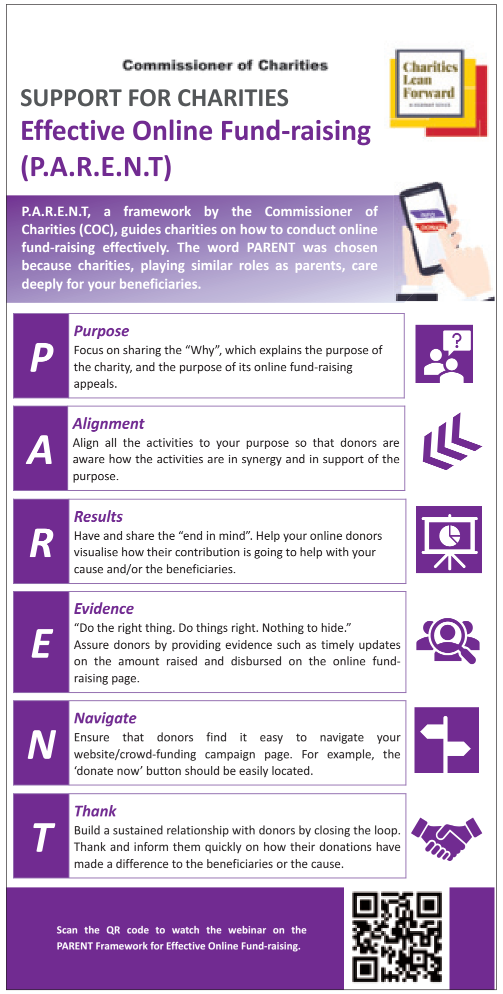
(2) Increase public revenue: Tap on government grants

Another source of income for charities is grants from government agencies (that is, public revenue). To support organisations and their employees during Covid-19, the government has rolled out multiple assistance schemes and grants (Figure 4). The COC has consolidated the key assistance schemes and grants available which are relevant and useful for charities.

For example, Ministry of Finance has given rental waivers to tenants who are renting their premises from government agencies. Charities that are eligible will automatically be granted up to four months of rental waivers. The Bicentennial Community Fund, meant for Institutions of a Public Character, has also extended its qualifying period for eligible donations to 31 December 2020. During the Covid-19 pandemic, many organisations and employees had to operate from home. Hence, the COC expanded the VWO-Charities Capability Fund (VCF) to provide funding for small charities to purchase subscription plans for video-conferencing applications. The training grant was also extended to subsidise online training courses on governance and management for charities.

The Charity Portal has regular updates on the support initiatives and resources that are developed by the COC, such as infographics, webinars relevant to charities, and many more (Figure 5).

Figure 3 COC's PARENT Framework for online fundraising



Commissioner of Charities

SUPPORT FOR CHARITIES

Effective Online Fund-raising (P.A.R.E.N.T)

P.A.R.E.N.T, a framework by the Commissioner of Charities (COC), guides charities on how to conduct online fund-raising effectively. The word PARENT was chosen because charities, playing similar roles as parents, care deeply for your beneficiaries.

P — *Purpose* — Focus on sharing the "Why", which explains the purpose of the charity, and the purpose of its online fund-raising appeals.

A — *Alignment* — Align all the activities to your purpose so that donors are aware how the activities are in synergy and in support of the purpose.

R — *Results* — Have and share the "end in mind". Help your online donors visualise how their contribution is going to help with your cause and/or the beneficiaries.

E — *Evidence* — "Do the right thing. Do things right. Nothing to hide." Assure donors by providing evidence such as timely updates on the amount raised and disbursed on the online fund-raising page.

N — *Navigate* — Ensure that donors find it easy to navigate your website/crowd-funding campaign page. For example, the 'donate now' button should be easily located.

T — *Thank* — Build a sustained relationship with donors by closing the loop. Thank and inform them quickly on how their donations have made a difference to the beneficiaries or the cause.

Scan the QR code to watch the webinar on the PARENT Framework for Effective Online Fund-raising.

Dr Ang conducting a webinar on Online Fundraising for Charities in April 2020

Figure 4 Assistance schemes and grants for charities during Covid-19

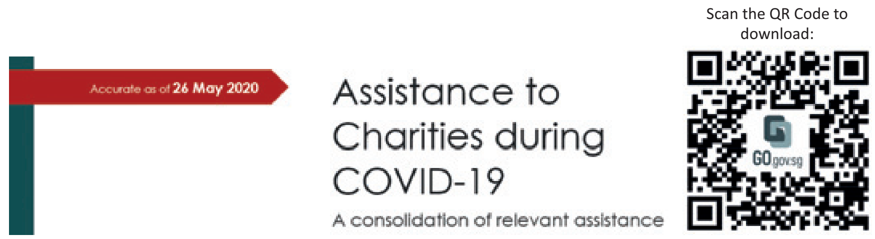
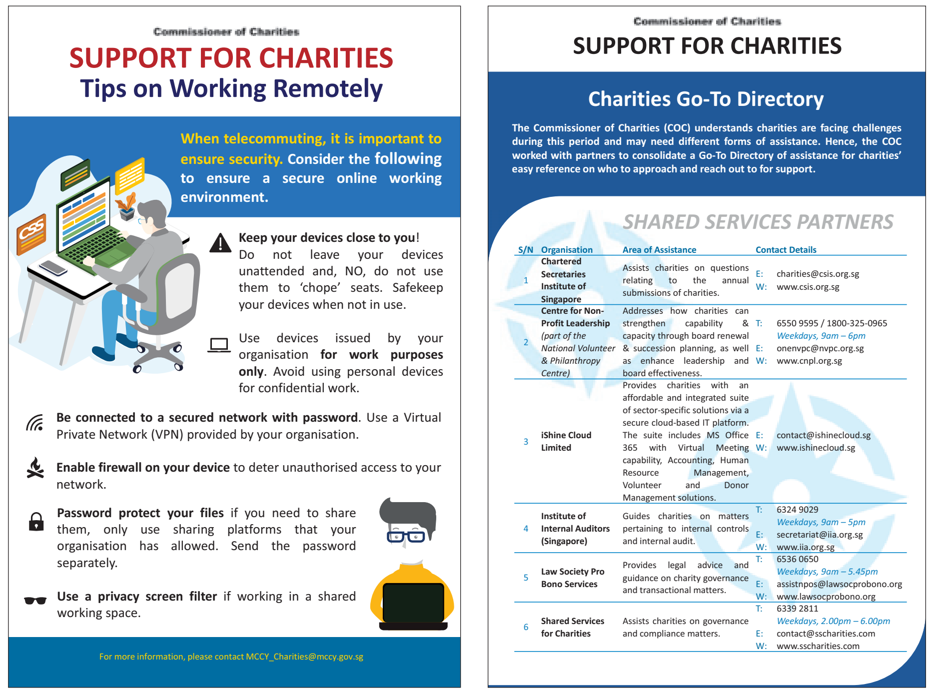


Figure 5 Support initiatives and resources for charities



Commissioner of Charities

SUPPORT FOR CHARITIES

Tips on Working Remotely

When telecommuting, it is important to ensure security. Consider the following to ensure a secure online working environment.

Keep your devices close to you! Do not leave your devices unattended and, NO, do not use them to 'chope' seats. Safekeep your devices when not in use.

Use devices issued by your organisation **for work purposes only**. Avoid using personal devices for confidential work.

Be connected to a secured network with password. Use a Virtual Private Network (VPN) provided by your organisation.

Enable firewall on your device to deter unauthorised access to your network.

Password protect your files if you need to share them, only use sharing platforms that your organisation has allowed. Send the password separately.

Use a privacy screen filter if working in a shared working space.

For more information, please contact MCCY_Charities@mccy.gov.sg

Commissioner of Charities

SUPPORT FOR CHARITIES

Charities Go-To Directory

The Commissioner of Charities (COC) understands charities are facing challenges during this period and may need different forms of assistance. Hence, the COC worked with partners to consolidate a Go-To Directory of assistance for charities' easy reference on who to approach and reach out to for support.

SHARED SERVICES PARTNERS

S/N	Organisation	Area of Assistance	Contact Details
1	Chartered Secretaries Institute of Singapore	Assists charities on questions relating to the annual submissions of charities.	E: charities@csis.org.sg W: www.csis.org.sg
2	Centre for Non-Profit Leadership *(part of the National Volunteer & Philanthropy Centre)*	Addresses how charities can strengthen capability & capacity through board renewal & succession planning, as well as enhance leadership and board effectiveness.	T: 6550 9595 / 1800-325-0965 *Weekdays, 9am – 6pm* E: onenvpc@nvpc.org.sg W: www.cnpl.org.sg
3	iShine Cloud Limited	Provides charities with an affordable and integrated suite of sector-specific solutions via a secure cloud-based IT platform. The suite includes MS Office 365 with Virtual Meeting capability, Accounting, Human Resource Management, Volunteer and Donor Management solutions.	E: contact@ishinecloud.sg W: www.ishinecloud.sg
4	Institute of Internal Auditors (Singapore)	Guides charities on matters pertaining to internal controls and internal audit.	T: 6324 9029 *Weekdays, 9am – 5pm* E: secretariat@iia.org.sg W: www.iia.org.sg
5	Law Society Pro Bono Services	Provides legal advice and guidance on charity governance and transactional matters.	T: 6536 0650 *Weekdays, 9am – 5.45pm* E: assistnpos@lawsocprobono.org W: www.lawsocprobono.org
6	Shared Services for Charities	Assists charities on governance and compliance matters.	T: 6339 2811 *Weekdays, 2.00pm – 6.00pm* E: contact@sscharities.com W: www.sscharities.com

CONCLUSION

The COC will continue to walk this journey with charities as they navigate the challenges and uncertainties. At the time of writing this article, Singapore has come out of the circuit breaker period and is at the first phase of resuming activities safely. The gradual easing of restrictions will mean that working from home still takes up a portion of the organisation's working hours as selected safe distancing measures are still in place. The COC will continue to listen and provide assistance and support as far as possible.

Financial resilience is not only to address the immediate problems that Covid-19 has brought about, but the crisis is providing another push for the charity sector to relook and re-evaluate areas for improvement.

Together as one united charity ecosystem, we will emerge stronger than before. ISCA

Dr Ang Hak Seng, FCA (Singapore), is Deputy Secretary (Singapore Cares), Ministry of Culture, Community and Youth; Commissioner of Charities, and Adjunct Professor, Nanyang Technological University.

PHOTO GETTY IMAGES

BY STANISLAV SHEKSHNIA, VERONIKA ZAGIEVA AND VICTORIA ZIMINA

PUTTING MORE WOMEN AT THE HELM OF CORPORATE BOARDS

Four Practical Strategies

WOMEN MAKE GREAT BOARD CHAIRS. If only there were more of them.

Since 2010, we have witnessed a sharp rise in the number of female directors in many developed economies[1]. Yet, the number of female board chairs has remained very low (Figure 1). Even in Sweden, which leads the world in this aspect, a mere 15% of the largest public companies were chaired by women. These low percentages are intriguing, for our earlier research[2] shows that women often outperform men in such critical board-leader competencies as listening and questioning, and personal attributes such as restraint and patience. We decided to find out why female representation was so low and to identify some potential remedies. Our latest research indicates that the reasons for the scarcity of female chairs is more nuanced than what gender discrimination on its own might suggest.

In the first stage of our research, we interviewed 30 incumbent board chairs – 15 women and 15 men – as well as 20 shareholders and nomination committee members from Australia, Denmark, Finland, France, Japan, Spain, the United Kingdom (UK), and United States (US). Five partners from leading executive search companies were also interviewed. The interviewees provided two answers to the question of why there are so few female chairs.

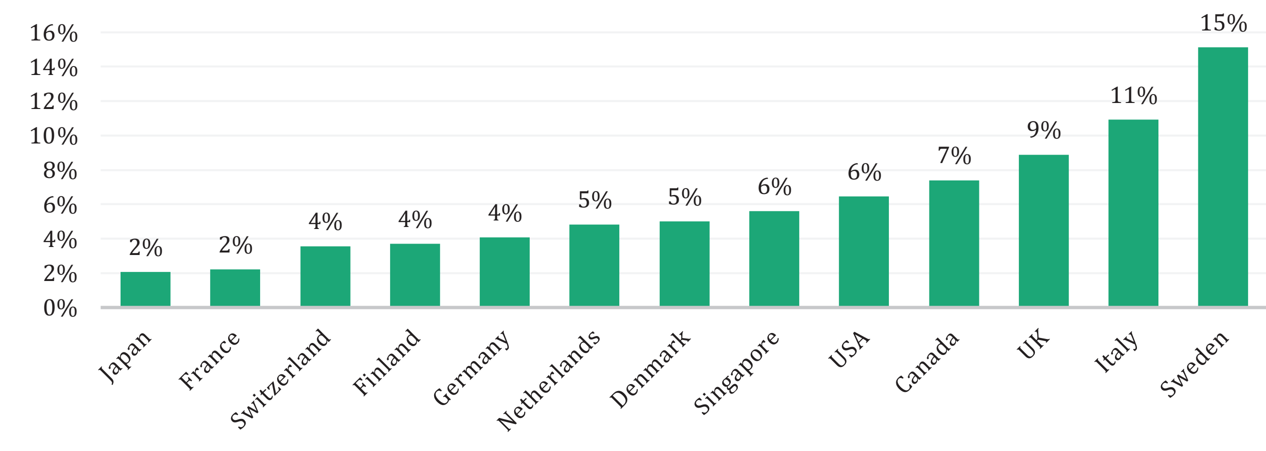
The first hypothesis was that women are sometimes discriminated against – mainly subconsciously – by the people who make nomination decisions: shareholders, incumbent board chairs and members of nomination committees, who are mostly men. The second hypothesis was that women are less willing than men to take on the role of chair due to modesty, education and upbringing, cultural stereotypes and family duties.

We tested both hypotheses in the second stage of our research. Using data from business intelligence service BoardEx, we studied 1,084 chairs (1,019 men and 65 women) at the largest public companies in 13 developed economies: Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Singapore, Sweden, Switzerland, the UK and US.

[1] https://stats.oecd.org/index.aspx?queryid=54753

[2] https://www.springer.com/gp/book/9789811331961?utm_campaign=3_pier05_buy_print&utm_content=en_08082017&utm_medium=referral&utm_source=google_books#otherversion=9789811331978

Figure 1 Female chairs in selected developed economies in 2018 (%)



Source: BoardEx

DISCRIMINATION OR SOMETHING ELSE?

First, we examined the leadership and social capital of both female and male chairs (Figure 2). If the first hypothesis was true, female chairs would on average have greater leadership and social capital than men. We defined such capital as having been a Chief Executive Officer (CEO), having experience as a director and chair of a board committee, having an advanced degree and having attended a top university. Further, if it was more difficult for a woman to become a chair, those who did so should become chairs at a later age than their male counterparts.

We found no statistically significant difference between female and male chairs when it comes to CEO experience, advanced degrees or education at elite universities. Female chairs were also younger than their male counterparts by four years on average.

The problem, we concluded, is not that women are discriminated against when it comes to chair appointments; the problem is that there are too few women who possess what is considered the key attribute of a board chair – CEO experience. Among S&P 500 companies, less than 7% had a female CEO in 2018.

INTEREST OR INCLINATION?

For the second hypothesis – women are less interested in leading boards than men – we examined the career paths of former CEOs whose tenure occurred between 1994 and 2018 in France, Sweden, the UK and US. Although these are countries with a relatively high percentage of female CEOs and chairs, women still represented only 4% of the total sample of former CEOs (73 out of 1,760). Only 46% of the female ex-CEOs had become board chairs compared to 80% of their male counterparts.

However, different countries have very different dynamics. In the US, a greater number of former CEOs – 14 out of 20 women and 635 out of 662 men – had become the chairs of their companies either during their executive tenures (reflecting the American tradition of combined chair-CEO appointments) or right after leaving the CEO position. In France, where the double appointment is also common but declining, 217 out of 285 male CEOs had become chairs, compared to only eight out of 21 female CEOs. In the UK, where the positions of chair and CEO are usually held by different people, a higher percentage of male CEOs had not become board chairs, but the percentage of women was even lower. In Sweden, the situation was reversed: a slightly higher percentage of female CEOs had become chairs.

It would be a stretch to conclude that women are *less willing* to become board leaders than men. However, our study does indicate that women CEOs use their executive experience to advance their careers *less frequently* than men.

FOUR STRATEGIES FOR IMMEDIATE IMPACT

The most obvious strategy for increasing the number of female board chairs is to increase the number of female CEOs, since CEO experience is considered an important prerequisite for the chair's job and some 20% to 50% of female CEOs in our sample became board chairs. We believe that augmenting female representation among chief executives is good for business, and further research should be conducted to identify the reasons for its current low level (less than 7% at S&P 500 companies in 2018). Specific strategies should be developed and implemented at global, national and company levels, and supported with media campaigns. However, as realists, we realise that it will take years to see a significant number of women in the C-suite. After studying effective female chairs in Sweden, the Netherlands and UK, as well as shareholders and companies in other countries, we propose four strategies which could have immediate impact:

(1) Redefine role requirements and nomination practices

Traditionally, CEO experience is the number one prerequisite for board chair candidates. It does not have to be that way. There is no hard evidence that chairs with CEO experience perform better than those who have not been the chief executive. What our earlier research suggests, however, is that some key attributes of effective chairs – restraint and patience specifically – are not the qualities of a typical CEO. People who select board chairs should prioritise candidates' competencies over their experience. In the book *Leading a Board*[3], based on our research into the work of chairs in nine European countries, we defined five broad attributes that make a chair effective: restraint, patience, availability, specific soft skills (listening, questioning and framing) and specific hard skills (systemic thinking and general business acumen). If decision-makers prioritised these qualities and skills in their selection process, female candidates would stand a better chance.

In the course of our research, we came across a number of effective board leaders (men and women) who had never held the job of CEO but had honed their skills as CFOs, country heads or divisional leaders at large multinational companies. Senior partners from strategy consulting, auditing and legal firms who systematically work with CEOs and board members on complex projects, investment bankers, and senior executives with multi-industry experience usually have high levels of business acumen and systemic thinking. If we include these profiles, the pool of candidates for board chairs becomes significantly larger. In the UK alone, almost 200 women could be added to the pool – there are 44 and 26 female partners in "Big 3" and "Big 4" offices respectively, approximately 100 female senior executives in FTSE 100 companies and 21 female senior partners in "Magic Circle" law firms.

(2) Advertise the female talent pool to decision-makers

Efforts to aggregate and spread information about potential candidates have played an important part in dramatically increasing the number of female directors in France, Norway and the Netherlands. One example is Topvrouwen[4], a Dutch initiative of Jet Bussemaker, former Minister of Education, Culture and Science, and Hans de Boer, Chair of the Confederation of Netherlands Industry and Employers. This is a database that provides profiles of seasoned female professionals to organisations and executive search agencies.

Another initiative is Accelerating Women Chairman in FTSE Board, launched last year in the UK by a group led by Helen Pitcher, Chairwoman of Advanced Boardroom Excellence, a firm which evaluates boards and coaches chairs and CEOs. This initiative aims to discuss a Best Practice guide with stakeholders this year to help boards recruit more women to chair roles. Pitcher and other business leaders will work on putting it into practice at the upcoming Balance in Business event in London. (Ed's note: The event, originally scheduled for March 2020, did not take place due to Covid-19.)

(3) Encourage action at company level

Sweden demonstrates that consistent policy at the shareholder level can bring impressive results. The Swedish state holds significant stakes in seven companies and fully owns 46 enterprises. The government and its advisers nominate board candidates for these organisations, and strive for gender balance at both board and chair levels. As a result, 47% of directors and 54% of chairs at Swedish state-owned companies are female.

A high-profile task force on female chairs modelled on the UK's Cadbury committee on corporate governance could provide effective guidance for decision-makers and spur them to elect more female board chairs.

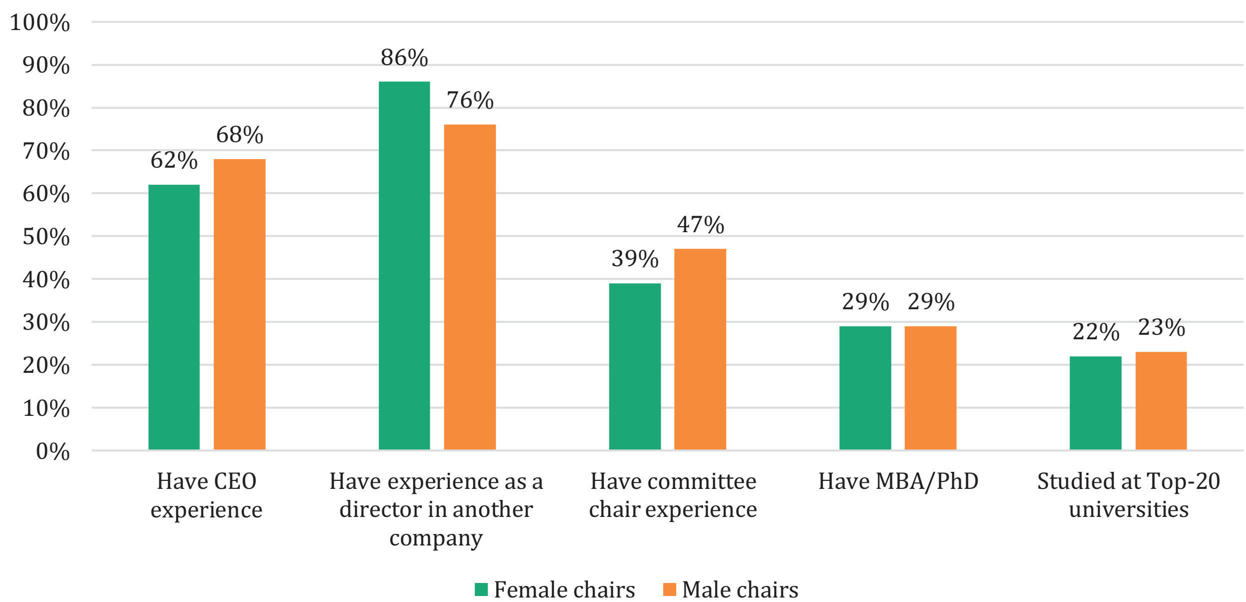
(4) Encourage women to step forward

To help women believe that they can be very good chairs, we need to help them understand what the work of a board leader entails and what makes chairs effective. Twice a year at INSEAD, for example, we run a Leading from the Chair programme with 10 to 15 women participants. Business schools and other institutions need to develop awareness-building programmes, including developing and communicating stories of role models such as Anne-Marie Couderc (Air France-KLM), Teresa Ko (Freshfields Bruckhaus Deringer), and the late Dame Helen Alexander (UBM plc and Port of London Authority).

Mentoring by experienced board leaders, both men and women, would also bolster female high-fliers' confidence in chairing boards. Organisations such as Women on Boards or Catalyst show that such relationships not only prepare mentees for chair positions but also expand their networks to become known to decision-makers.

Increasing the number of chairwomen is a challenging goal which will succeed only if all stakeholders work in tandem. Much remains to be done but the results will be worth it. ISCA

Figure 2 Female vs male chairs



Source: BoardEx

PHOTO GETTY IMAGES

[3,4] https://www.springer.com/gp/book/9789811331961?utm_campaign=3_pier05_buy_print&utm_content=en_08082017&utm_medium=referral&utm_source=google_books#otherversion=9789811331978

Stanislav Shekshnia is Senior Affiliate Professor of Entrepreneurship and Family Enterprise, INSEAD. Veronika Zagieva is a consultant at human capital consulting firm Ward Howell. Victoria Zimina is an analyst at the Talent Equity Institute, an internal research division of Ward Howell.

TECHNICAL HIGHLIGHTS

ISCA ISSUES COVID-19 TECHNICAL FAQS

These new Technical FAQs include guidance on:

- Internal controls and financial reporting areas that Professional Accountants in Business (PAIBs) should look out for in the current environment;
- Audit implications when valuations are subject to significant uncertainties arising from Covid-19 and audit considerations on financial support;
- Issues arising from the accounting of payouts under the Jobs Support Scheme.

For full list of FAQs, please visit https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs/

ETHICS

ISCA COMMENTS ON IESBA'S PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES (NAS) AND FEE-RELATED PROVISIONS OF THE CODE

We are supportive of the following key proposals in relation to the provision of NAS to audit clients which are public interest entities:

- Self-review threat prohibition;
- Withdrawal of the materiality qualifier;
- Concurrence of those charged with governance prior to the provision of NAS to an audit entity and the entities over which the audit client has direct or indirect control.

However, we highlighted certain reservations to IESBA as follows:

- Insufficient clarity within paragraph 600.11 A2 to determine when a self-review threat prohibition is required;
- Proposed paragraph 600.12 A1 on providing advice and recommendations does not provide sufficient clear guidance and does not adequately elevate the importance of management's responsibility for decision-making with regard to the output of the NAS;
- The removal of technical accounting advice from the examples of accounting and bookkeeping services under paragraph 601.2 A3;
- More clarity required on the difference between the definition of "audit process" in paragraph 601.2 A2 and the definition of "accounting and bookkeeping" in paragraph 601.2 A3;
- To develop the concept of "audit-related services" and to scope these out from the existing definition of NAS to better reflect the essence of what NAS is.

For more information, please visit https://isca.org.sg/media/2824657/comment-letter-non-assurance-services-submission.pdf

On the proposed provisions to the fee-related provisions of the Code, we proposed to IESBA the following recommendations:

- To exclude NAS fees earned by network firms from audit client's parent and sister entities in the fee proportion computation in paragraph 410.10 A1;

PHOTO SHUTTERSTOCK

- Alternative safeguard whereby each network firm confirms to the audit firm that the NAS fees earned by the network firm from the audit client's parent and sister entities do not exceed 1% of the network firm's revenue;
- To exclude "audit-related services" from the fee ratio formula and for "audit-related services" to be separately disclosed from other NAS.

We question the appropriateness of paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level before a network firm accepts an engagement to provide a service to the audit client's parent and sister entities, if the audit client is a listed entity.

For more information, please visit https://isca.org.sg/media/2824680/comment-letter-fee-submission.pdf

APPROACHES TO BENEFICIAL OWNERSHIP TRANSPARENCY: THE GLOBAL FRAMEWORK AND VIEWS FROM THE ACCOUNTING PROFESSION

CPA Canada and IFAC have published this report which analyses the best approaches to beneficial ownership transparency. It also provides an insight on the most effective ways to comply with international anti-money laundering standards.

For more information, please visit https://www.ifac.org/news-events/2020-05/financial-crimes-grow-during-pandemic-accounting-groups-address-key-piece-aml-action

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ON CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT (DEFERRAL OF EFFECTIVE DATE)

ISCA agrees with the Board's proposals to defer the effective date of the IAS 1 amendments by one year, in view that entities are allowed to early adopt the IAS 1 amendments.

For more information, please visit https://isca.org.sg/media/2824642/isca-comment-letter-for-iasbs-ed-on-classification-of-liabilities-deferral-date.pdf

ISCA COMMENTS ON IASB'S ED ON INTEREST RATE BENCHMARK REFORM PHASE 2

ISCA agrees with the Board's key proposals on modifications of financial instruments and lease liabilities, hedge accounting and disclosure requirements. However, we recommend that the Board provide further guidance on which type of modifications would meet the "direct consequence of the reform" and "economically equivalent" criteria. Our other key suggestions are for the Board to require disclosure requirements around impact of changing hedge accounting relationships and provide exemptions on certain disclosure requirements for first time adoption of the amendments.

For more information, please visit https://isca.org.sg/media/2824629/isca-comment-letter-for-iasbs-ed-on-ibor-reform-phase-2.pdf

IASB ISSUES AMENDMENT TO IFRS 16 TO HELP LESSEES ACCOUNT FOR COVID-19-RELATED RENT CONCESSIONS

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications, and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021. The amendment is effective 1 June 2020. Earlier application is permitted.

For more information, please visit https://www.ifrs.org/news-and-events/2020/05/iasb-issues-amendment-to-ifrs-standard-on-leases/

IASB ISSUES PACKAGE OF NARROW-SCOPE AMENDMENTS TO IFRS STANDARDS

The package of amendments includes narrow-scope amendments to IFRS 3, IAS 16 and IAS 37 as well as IASB's Annual Improvements to IFRS 1, IFRS 9, IAS 41 and IFRS 16. All amendments are effective 1 January 2022.

For more information, please visit https://www.ifrs.org/news-and-events/2020/05/iasb-issues-package-of-narrow-scope-amendments-to-ifrs-standards/

IASB ARTICLE EXPLAINS REQUIREMENT TO USE ANNUAL COHORTS UNDER IFRS 17

The requirement to use annual cohorts as part of the accounting for insurance contracts has been the cause of much debate since the issuance of IFRS 17. In February 2020, IASB decided to confirm the requirements in IFRS 17 relating to annual cohorts and this article explains the reasons for the decision.

For more information, please visit https://www.ifrs.org/news-and-events/2020/04/ifrs-17-insurance-contracts-why-annual-cohorts/

REGULATORY

ACRA'S AUDIT PRACTICE BULLETIN (APB) NO. 1 OF 2020

This APB guides public accountants in the conduct of audits during the Covid-19 situation. The Bulletin covers key areas of audit that may be impacted arising from the Covid-19 outbreak.

For more information, please visit https://www.acra.gov.sg/news-events/news-details/id/549

ACRA'S FINANCIAL REPORTING PRACTICE GUIDANCE 1 OF 2020

The guidance was published to help directors in their reviews of financial statements during the Covid-19 situation. It highlights areas that may require close attention by directors before approving the company's financial statements.

For more information, please visit https://www.acra.gov.sg/news-events/news-details/id/550

PHOTO SHUTTERSTOCK

BY KOH WEI CHERN

DON'S COLUMN

AMENDMENT TO IFRS 16 *LEASES*

Covid-19-Related Rent Concession

COUNTRIES AFFECTED BY THE COVID-19 PANDEMIC IMPLEMENTED AND/OR ARE IMPLEMENTING LOCKDOWNS, of varying degrees, in the last few months and in the coming months. Due to the imposed lockdowns, some businesses were either able to operate on a reduced scale or unable to operate at all but still had to bear rental and other expenses for their retail or commercial properties. To provide some relief to these lessees over this difficult period, lessors provided or are expected to continue to provide rent concessions to their lessees.

CURRENT TREATMENT UNDER IFRS 16 *LEASES*

There are many factors to consider when accounting for changes in lease payments by the lessees under IFRS 16 *Leases*. IFRS 16 *Leases* requires entities to assess whether such a change in lease payments amounts to a lease modification.

To determine whether there is a lease modification as defined by IFRS 16 Appendix A, the lessee entities must determine that (i) there is a change in scope and/or consideration for a lease and (ii) that these changes must not be part of the original terms and conditions of the lease contract. To assess point (ii), lessee entities should apply IFRS 16 paragraph 2 and consider the terms and conditions of the contract and all relevant facts and circumstances. In practice, this is a process that may require some degree of judgement and in some situations, warrant seeking professional legal advice.

> ... account for the ... rent holiday as variable lease payments under IFRS 16 paragraph 38, with the lease liability derecognised and a corresponding gain recognised in the profit or loss.

If there is a lease modification, a lessee will need to apply IFRS 16 paragraphs 44 to 46 (IASB, 2020). Under IFRS 16 paragraph 44, if there is an increase in scope of the contract with an increase in consideration that commensurate with the standalone price of the increase in scope of the lease contract, then the lessee shall account for this modification as a separate lease.

In other situations when there is a lease modification but the conditions in paragraph 44 are not satisfied, then IFRS 16 paragraph 45 requires the lessee to remeasure the lease liability by discounting the revised lease payments using a revised discount rate at the effective date of the modification. Under IFRS 16 paragraph 46, the lessee shall adjust the lease liability against the carrying amount of the right-of-use asset to reflect lease modifications that decrease the scope of the lease with any differences recognised as profit or loss, and then adjust the lease liability against the right-of-use asset for all remaining lease modifications.

If the lessee entities conclude that there is no change in scope or consideration or if there is a change in scope or consideration and the change is part of the original terms and conditions of the lease contract, then there is no lease modification.

... the amendments can be applied for annual reporting periods beginning on or after 1 June 2020 though earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020.

Such changes in lease payments[1] would be accounted for as variable lease payments under IFRS 16 paragraph 38, with the lease liability derecognised and a corresponding gain or loss recognised in the profit or loss. Hence, when there is a change in lease payments, the assessment process is not straightforward.

RENT CONCESSION: BASIC EXAMPLE

Suppose there is a three-year lease of a retail property between Lessor A and Lessee B. Lessee B is forced to close its business temporarily for two months as a result of the Covid-19 pandemic and receives a rent concession in the form of a two-month rental holiday from Lessor A. Note that pre-amendment to IFRS 16 *Leases*, Lessee B will have to consider (i) whether there is a change in the lease consideration and (ii) whether this change in lease payments is part of the original terms and conditions of the contract to assess whether there is any lease modification before proceeding with the necessary accounting treatment.

For the first point, given that there is a rent holiday of two months, there is a change in lease payments or consideration. For the second point, we have discussed earlier that such an assessment is a process that requires a degree of judgement. Suppose Lessee B is a multinational conglomerate that has leases of retail property in multiple countries, all with different terms and conditions and different government actions and requirements as a result of the pandemic, Lessee B will be required to exercise a lot of judgements in making its assessments.

DEVELOPMENT OF AMENDMENT TO IFRS 16 *LEASES*

The International Accounting Standards Board (IASB) is aware of the complications and issued an educational material on 10 April 2020 that is "intended to support the consistent application of requirements in IFRS Standards" in view of Covid-19 uncertainty.

Further, in view of the practical difficulties faced by lessees, particularly those with voluminous lease contracts, IASB held a supplementary Board meeting on 17 April 2020 and decided to propose an amendment to IFRS 16 to help companies account for Covid-19-related rent concessions. On 25 April 2020, IASB issued an Exposure Draft of the Amendment to IFRS 16 *Leases* (ED) to make it easier for lessees to account for Covid-19-related rent concessions. The ED was open for public comment for two weeks until 8 May 2020. On 15 May 2020, IASB held a supplementary meeting to consider the feedback received over the comment period and made further amendments to the ED. On 28 May 2020, the amendment to IFRS 16 *Leases* – Covid-19-Related Concessions was issued about one month after the ED.

PRACTICAL EXPEDIENT

With the amendment, a lessee entity may elect not to assess whether a rent concession that meets all the conditions under paragraph 46B is a lease modification. The conditions under paragraph 46B are: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021), and (c) there is no substantive change to other terms and conditions of the lease.


PHOTO SHUTTERSTOCK

Note that the lessee entity could elect to apply the practical expedient to all lease contracts with similar characteristics and in similar circumstances. Where the lessee entity elects to apply the practical expedient, it is required under IFRS 16 to disclose under paragraph 60A that it has done so and to which contracts that it has done so, and the amount recognised in profit or loss as a result of applying the practical expedient.

Further note that the amendments can be applied for annual reporting periods beginning on or after 1 June 2020, though earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020.

Applying the practical expedient to the case of Lessee B, Lessee B "shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification". Lessee B would account for the two-month rent holiday as variable lease payments under IFRS 16 paragraph 38, with the lease liability derecognised and a corresponding gain recognised in the profit or loss.

CONCLUSION

The Covid-19 pandemic was an unexpected event that evolved rapidly in a matter of months. IASB recognised the complications and practical difficulties faced by lessees in the accounting for changes in lease payments arising from various forms of rent concessions received by the lessees from their lessors and acted swiftly in this instance to provide additional guidance and practical relief. ISCA

Koh Wei Chern is Associate Professor, Accountancy Programme, School of Business, Singapore University of Social Sciences.

[1] Note, however, that where there are changes in lease payments due to conditions stated in IFRS 16 paragraph 40 (that is, due to changes in lease term or changes in the option to purchase) or IFRS 16 paragraph 42 (that is, due to changes in the amounts expected to be payable under a residual value guarantee or changes in the future lease payments resulting from a change in an index or a rate used to determine those payments), a reassessment and remeasurement of the lease liability is required and adjusted against the right-of-use asset.


BY CHUA KIM CHIU AND HO YEW KEE

DON'S COLUMN

GOODWILL VALUATION FOR IMPAIRMENT TESTING DURING RECESSION

Pitfalls And Challenges

FOR COMPANIES WITH BUSINESS ACQUISITIONS, goodwill forms a substantial percentage of their total assets and equity. For example, as at 31 March 2020, Singtel has more than $11 billion goodwill balance on its balance sheet, constituting about 25% and 40% of its total assets and equity, respectively. Goodwill is also usually a material item discussed in audit reports under key audit matters.

In this time of unprecedented economic uncertainty, businesses and cash flows have been disrupted. For the first half of 2020, companies should take a hard look at the carrying amount of goodwill and ask whether its recoverable amount (RA) might have fallen below the carrying amount. This is becoming more probable when asset values have declined generally due to the current economic recession.

This article will first provide a brief overview of the accounting for goodwill impairment and then discuss certain pitfalls and challenges in goodwill valuation for impairment testing in the context of the current recession.

IMPAIRMENT AND RECOVERABLE AMOUNT OF GOODWILL

Accounting for goodwill is covered by three financial reporting standards: Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations*, SFRS(I) 1-36 *Impairment of Assets* and SFRS(I) 1-38 *Intangible Assets*.

The acquirer of a business must allocate the acquisition price to the acquiree's identifiable tangible and intangible assets, liabilities and contingent liabilities at their *fair values* at the date of acquisition and the remaining balance to goodwill[1].

An entity must test goodwill for impairment at least annually and whenever there is an indication of impairment[2]. Goodwill is impaired whenever its RA falls below the carrying amount[3]. There is no requirement to assess whether the shortfall is temporary or permanent. Also, goodwill impairment charge cannot be reversed subsequently[4]. Therefore, we may intuitively view the impairment-only approach as an ad hoc allocation of the cost of goodwill to the income statement.

RA is the *higher* of the asset's fair value less costs of disposal (FVLCOD) and its value in use (VIU)[5]. Costs of disposal refer to transaction costs such as advertising or broker's commission[6]. Here, an asset can be either an individual asset item or a business unit known as a "cash generating unit" (CGU)[7].

Fair value of an asset is the price that would be received to sell the asset in an orderly transaction between market participants at a point in time, with reference to assumptions a hypothetical *market participant* would use in valuing the asset[8].

VIU is a valuation from the current *owner's* perspective, based on benefits the owner is capable of generating through its specific use of the assets[9]. VIU may differ from FVLCOD, when the specific use by the owner may be unique.

To summarise:

Impairment loss = Carrying amount – Higher (FVLCOD, VIU)

> Projecting future cash flows in times of great uncertainty is highly subjective and prone to being overly optimistic or pessimistic. In times like this, the corporate governance structure around the valuation process ... will become even more critical in providing the needed checks and balances ...


PHOTO SHUTTERSTOCK

VALUING THE CGU THAT CARRIES THE GOODWILL

Upon acquisition, the acquirer must identify and allocate the total acquired goodwill to the acquirer's various CGUs at the lowest possible level[10]. This is to facilitate subsequent goodwills impairment testing at the CGU level.

Goodwill does not generate cash flows independently of the other assets in the CGU. Instead, it is an economic resource capable of generating future economic benefits in combination with other assets in the CGU that carries the goodwill[11]. Hence to test goodwill for impairment, one must value the CGU[12].

---

1 SFRS(I) 3, paras 18 and 32
2 SFRS(I) 1-36, para 90
3 SFRS(I) 1-36, paras 6 and 8
4 SFRS(I) 1-36, para 124
5 SFRS(I) 1-36, paras 6, 18 and 74
6 SFRS(I) 1-36, para 28
7 SFRS(I) 1-36, para 18
8 SSFRS(I) 1-36, para 6
9 SFRS(I) 1-36, para 30
10 SFRS(I) 1-36, para 80
11 SFRS(I) 1-36, para 81
12 SFRS(I) 1-36, para 90

PHOTO SHUTTERSTOCK

PRACTICAL APPLICATION OF THE DCF VALUATION MODEL

We surveyed the latest financial statements of the 10 largest companies, based on market capitalisation, listed on the Singapore Exchange (SGX) and noted that they used the Discounted Cash Flow (DCF) models to estimate the VIU of the CGU for goodwill impairment testing.

It is a common practice to divide the future cash generating time horizon of a CGU into two phases:

- Phase 1: The CGU usually uses its best estimates of the expected cash flows for the next five years based on budgets, forecasts and projections.
- Phase 2: The CGU usually uses the cash flow for Year 5 (base-year cash flow) to project the cash flows for the remaining years to perpetuity using an estimated growth rate, denoted by g. The present value *at the end of Year 5* representing all subsequent future cash flows beyond Year 5 is called the terminal value (TV). This TV needs to be further discounted to become a present value *at the valuation date* (PVTV).

To summarise, VIU is the sum of two components:

- The present value of the projected cash flows in Phase 1 (PV-Phase 1), and
- The present value of the projected cash flows in Phase 2 (PVTV).

Given its shorter duration compared to the remaining life of a going concern or a long-term project, PV-Phase 1 would normally make up *less than* 50% of the total value of a VIU[13]. Therefore, PVTV, being highly sensitive to the inputs to the model, that is, the base-year cash flow, the risk-adjusted required rate of return or discount rate (k) and the estimated earnings growth rate (g), can significantly affect the VIU of a CGU.

PITFALLS AND CHALLENGES

We will highlight two major pitfalls and challenges in real-life valuation, especially in times of recession. Our intention is to help companies avoid these pitfalls through a better understanding of the assumptions, concepts and application of the DCF model.

Pitfall 1: Mis-estimation of discount rate

The current depressed stock prices reflect the combined effect of lower future cash flows and higher discount rates assumed by market participants due to poorer business prospects and heightened investment risk.

The discount rate is a crucial input to the valuation of a CGU. The 10 largest SGX companies which we surveyed disclosed *pre-tax* discount rates for recent goodwill valuations to be ranging from 5% to 16%. The actual discount rates used in valuation are lower when expressed on a post-tax basis.

The valuation practitioners tend to rely on the one-factor capital asset pricing model (CAPM) to estimate the discount rate for a CGU. CAPM is often misunderstood as a magic formula into which one can input the *historical* values to obtain an estimate of the *current* discount rate. This is fallacious. Whenever we input a historical parameter into the CAPM, we are making an implicit assumption that the historical pattern continues to prevail today. This is difficult to justify when the economy has changed so drastically in the last few months.

Based on our recent observations, we have increasingly seen companies combining current with historical data to derive the discount rate for the CGU. For example, they have been quick to use the current low government bond yield as the proxy for risk-free rate (R_f) together with the same historical market risk premium ($R_m - R_f$) of about 5% to 6% and the same historical beta (β) for the CGU, as inputs into the CAPM below to derive the discount rate, k, for the CGU:

$k = R_f + \beta\,(R_m - R_f)$

As a result, the estimated k is lower than before. Despite deteriorating projected future cash flows, this lower k will result in a sustained VIU and in turn, RA of the CGU. However, this outcome is counterintuitive in a recession and is not in line with a higher market risk premium implied in depressed stock prices. Based on simulated sensitivity analysis, if the unbiased estimate of k is 10%, *ceteris paribus*, a one percentage point estimation error in k would change PVTV by about 13%. The use of low discount rates for CGU and goodwill valuation is not uncommon in practice and the Covid-19-induced economic recession has amplified this issue.

Pitfall 2: Mis-estimation of free cash flows

When estimating free cash flows in the DCF model, a capital expenditure is a cash spending that effectively reduces the valuation and the subsequent depreciation is a cash saving (non-cash expense) that effectively increases the valuation. Under the DCF model, valuation is driven by free cash flows and adjustments must be made to convert the "accrual accounting net profit" (AANP) to an adjusted "cash accounting net profit" (CANP).

Table 1 illustrates this concept with an assumed discount rate of 10% in three scenarios, A, B and C. Row 1 is the AANP for the *next* five years. Row 2 shows the planned capital expenditure and depreciation. Row 3 is the CANP.

In Scenario A, across the five years, a cash capital expenditure is deducted upfront and all the annual depreciations are added back in subsequent years. The total adjustments will self-balance to zero on an undiscounted basis.

Assuming the present value of 739 (A3) to be a more accurate valuation and 758 (A1) is an approximation, the estimation error of 19 is less than 3%, which is hardly material when valuation is inherently a broad estimate. This is in contrast to a big swing in valuation from a small change in one of the inputs like the discount rate or the growth rate. This is also much smaller than the potential distortions from the pitfalls illustrated below.

A common pitfall found in practice is that not all the offsetting cash flow adjustments are captured within the five-year period. This would be the case if the capital expenditure had occurred just before Year 1 (Scenario B) or is projected to occur in Year 4 (Scenario C).

B2 shows how missing a capital expenditure adjustment can artificially increase the valuation by about 13% from 739 to 837 (B3).

C2 shows how missing three depreciation adjustments can artificially decrease the valuation by about 5% from 739 to 705 (C3).

This "cash flow adjustment imbalance" is another common pitfall seen in practice. Often, this valuation distortion is not detected as it is obscured by the combined effects of other valuation inputs.

An extension of the above pitfall is the use of a base-year cash flow to project future free cash flows to infinity. For example, if the base-year AANP, depreciation and CANP resemble that of Year 2 under Scenario A, the positive cash flow effect of the base-year depreciation will be repeated as an annual free cash flow (cash saving), growing exponentially to infinity without any capital expenditure (cash spending). This is a "free cash ever after fallacy" that will inflate the valuation. It is fairly common in practice probably because some textbook examples have unwittingly illustrated this approach.

We have personally observed companies using a current CANP that is materally higher than AANP, with one that is 20% to 30% higher due to a low net profit base coupled with a high annual depreciation/amortisation. The end result is a grossly inflated valuation.

This pitfall can be potentially avoided by using AANP for the year as a proxy for CANP. This is on the condition that the AANP is not affected by significant unusual or exceptional items for the year. Net profits would be a close approximation to free cash flows for the

[13] There could be exceptions for short-term projects or businesses that generate exceptionally high cash flows for a few initial years.

Table 1 Cash accounting net profit adjustments

	Year 1	Year 2	Year 3	Year 4	Year 5	Present value
Scenario A						
A1 Accrual accounting net profit (AANP)	200	200	200	200	200	758
A2 Adjustments for capital expenditure and depreciation	(100)	25	25	25	25	(19)
A3 Cash accounting net profit (CANP)	**100**	**225**	**225**	**225**	**225**	**739**
Scenario B						
B1 Accrual accounting net profit (AANP)	200	200	200	200	200	758
B2 Adjustments for capital expenditure and depreciation	25	25	25	25	-	79
B3 Cash accounting net profit (CANP)	**225**	**225**	**225**	**225**	**200**	**837**
Scenario C						
C1 Accrual accounting net profit (AANP)	200	200	200	200	200	758
C2 Adjustments for capital expenditure and depreciation	-	-	-	(100)	25	(53)
C3 Cash accounting net profit (CANP)	**200**	**200**	**200**	**100**	**225**	**705**

year if it is a group's practice to replace depreciated assets progressively and evenly over time instead of intermittently. In practice, for modelling annual cash flows, it is not uncommon for practitioners to smooth out the erratic pattern on the assumption that the annual depreciation is contemporaneously replaced by capital expenditure. This helps to avoid the pitfall.

The key lesson here is that the base-year cash flow measure for projecting into the future must be a good representation of the CGU's expected future cash flows.

The Covid-19 situation has compounded the free cash flow estimation problem. The pace of recovery is highly uncertain. Projecting future cash flows in times of great uncertainty is highly subjective and prone to being overly optimistic or pessimistic. In times like this, the corporate governance structure around the valuation process, including review by the audit committee, independent directors and external auditors will become even more critical in providing the needed checks and balances to make objective and reliable accounting estimates. Governing authorities need to know it is not business as usual this time for goodwill impairment and they need to have assurance that the assessment is properly carried out.

The Covid-19 pandemic and the ensuing recession pose a significant challenge to accounting for goodwill impairment. For the coming half-yearly reporting season, companies will need to conduct their goodwill impairment testing with more rigour as the likelihood of impairment has risen significantly.

CONCLUDING REMARKS

The Covid-19 pandemic and the ensuing recession pose a significant challenge to accounting for goodwill impairment. For the coming half-yearly reporting season, companies will need to conduct their goodwill impairment testing with more rigour as the likelihood of impairment has risen significantly. It is important to apply a good understanding of the assumptions, valuation concept and good business sense beyond number crunching. This article provides a quick rendition of some of the major pitfalls to avoid. Given the assumptions and judgements around the use of the DCF model, good corporate governance will provide the much-needed checks and balances. ISCA

Chua Kim Chiu is Professor (Practice) of Accounting, NUS Business School, National University of Singapore. Ho Yew Kee is Professor and Associate Provost, Singapore Institute of Technology.

PHOTO SHUTTERSTOCK

INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

LEVEL UP WITH A DIGITAL BADGE

In times of uncertainty, being the best version of ourselves gives us the confidence to forge ahead.

Professional development is one of the most effective ways to prepare for the opportunities that arise when the situation changes for the better. With the Professional Accomplishment digital badges, let the world know about the latest certifications you have earned from the ISCA CPE Certification Courses, Professional Qualification Programmes and Specialisation Pathways.

Upon completion of the courses, programmes, or any modules that are part of a certification track, you will receive a digital badge. With just a few clicks, you can now showcase your badges to employers and peers on professional networks and social media sites.

Digital badges allow you to:

1. **S**howcase your credentials and qualifications on your online profiles and resumes
2. **H**ighlight the competencies and accomplishments you have achieved in your professional fields
3. **I**nspire confidence in employers of your expertise
4. **N**arrate your achievements online in a secure way
5. **E**nhance your professional brand and digital footprint

Start earning your badges today!
Find out more at **isca.org.sg/digitalbadges**.

Learn more at
isca.org.sg/digitalbadges