IS Chartered Accountant Journal

NOVEMBER 2020

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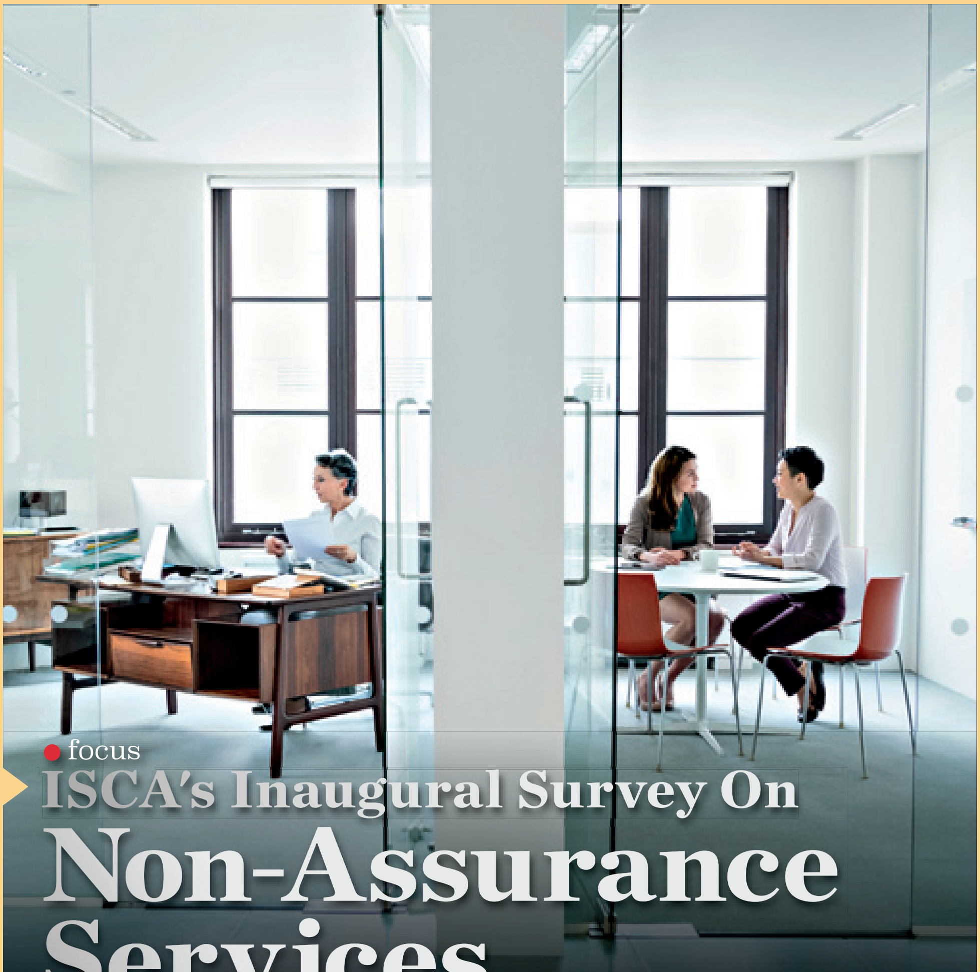

● focus

ISCA's Inaugural Survey On Non-Assurance Services

ISCA's Recommendations Garner Audit Committee Members' Support

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

NOVEMBER 2020

A Moving Snowball, A Rolling Stone; Taking Action Where It Matters

Dear members,

THE YEAR-END IS TRADITIONALLY THE FAVOURITE TIME FOR PEOPLE TO CATCH UP WITH FRIENDS, go festive shopping or hop on a plane for their overseas holidays. This year, the Covid-19 pandemic has put a brake on many activities that we used to take for granted. While companies and workers are busy scrambling to restore some semblance of normalcy and continuity, I urge members to spare a thought for the underprivileged in our midst. Crisis or no crisis, they continue to need our support.

ISCA Cares is a charity platform for the accountancy profession to give back to society. Since its inception in 2015, an increasing number of members have been contributing to this collective effort to help those in need. This year, the National Day Awards had acknowledged 62 of our members for their service to Singapore. In addition to them, there are many more members who volunteer their knowledge and skills to make things better at the community level. Keep up the good work!

December 5 is International Volunteer Day and in our Member Profile column for November and December, we are featuring a few of our active volunteers. In the article "Small Acts, Big Hearts", Lim Fang Sung, Director of Unity Assurance, shares how charity work has opened his eyes to the plight of the underprivileged, and why he decided to assimilate charity work into the office culture. Bryan Zhao, Founding Partner of Harvest Accounting, credits the financial assistance he received, when he was in school, for his education and the opportunity to pursue his dream of becoming an accountant. Although both Fang Sung and Bryan are involved in ISCA Cares and other charity initiatives, they will be the first to assure you that volunteering does not mean having to give up all your evenings and weekends; instead, their advice is to do what you can, as every little bit helps. Much like a newly formed, fist-sized snowball, the more it is rolled (as you collaborate with others), the bigger it becomes and the more significant the impact.

In the area of work, the Institute continues to encourage members to upgrade and upskill so that you can add value to your clients and also to your own organisations. As the saying goes, a rolling stone gathers no moss. To facilitate every member's continuous professional learning journey, ISCA has launched many e-courses and online resources that are accessible 24/7. When the circuit-breaker measures limited physical events, the Institute went virtual, such as the recent Practitioners Conference on October 22. Themed "Strategising For A Resilient Tomorrow", this ISCA flagship event aimed to help audit firms find clarity amid a world of chaos. A highlight of the event was the launch of ISCA's inaugural survey on non-assurance services (NAS).

To put things in context, ISCA's Ethics Committee had received feedback indicating the diversities in interpretations and practices in applying certain NAS and fee-related provisions in EP 100 *Code of Professional Conduct and Ethics*. As ethics is a cornerstone of the accountancy profession, it is important to address the concerns raised. A survey of audit committee members revealed that they largely support ISCA's directional recommendations to strengthen auditor independence in the provision of NAS and fee-related provisions in the EP. Their feedback will be taken into consideration as ISCA moves towards enhancing the relevant sections of EP 100.

Small and medium-sized enterprises (SMEs), given their lean resources, tend to be slower than large organisations when it comes to technology adoption. Yet, as a key part of Singapore's economy, it is crucial for SMEs to keep up with the times. In "Data Analytics Adoption", we share the findings of a survey of SMEs, unveiling the challenges they face in data analytics adoption, and what can be done to transform them into the proverbial rolling stone(s) that gather(s) no moss.

Snowball or stone? Either one is fine, as long as you take action where it matters. Have an enjoyable read!

Kon Yin Tong
FCA (Singapore)
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WINNER / GRAND AWARD, APEX 2020

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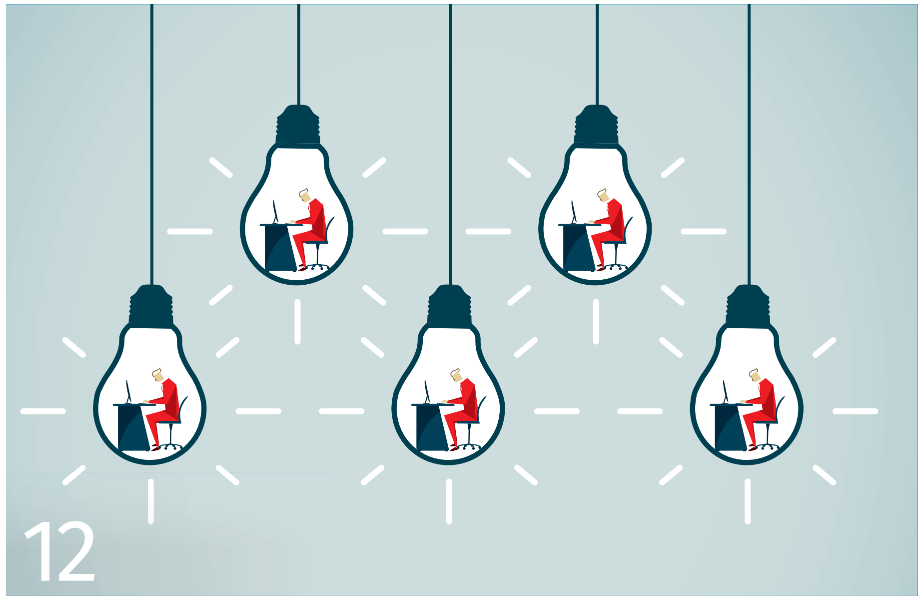

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Singapore Retains Second Most Digitally Competitive Place In Global Ranking

PHOTO SHUTTERSTOCK

AT A TIME WHEN COVID-19 IS PUSHING TECHNOLOGY TO THE FOREFRONT, Singapore demonstrates that it is actively embracing the use of IT in every aspect of life. The little red dot has retained its second placing in the 2020 IMD World Digital Competitiveness Ranking. The United States (US) was placed first (keeping its top position from 2019) and Denmark, third (up one place from 2019), in the huge compilation of data that economists said could help predict how well economies would weather the pandemic.

Now in its fourth year, the ranking is produced by the IMD World Competitiveness Center, which uses an array of data to understand how 63 economies employ digital technologies. "Digitalisation is no longer an option; it is a necessity," says economist Mariana Mazzucato, Director of the Institute for Innovation and Public Purpose at University College, London. "Setting bold national targets – including digitalising public services – creates a dynamic process by which the private sector can scale up through servicing bold procurement programmes. Europe's recovery will depend on it," she adds.

2020 Overall rankings		2019
1	US	=
2	Singapore	=
3	Denmark	+1
4	Sweden	-1
5	Hong Kong	+3
6	Switzerland	-1
7	The Netherlands	-1
8	Korea	+2
9	Norway	=
10	Finland	-3

Knowledge

Economies that top our ranking are focusing on **building their talent** and thus **promoting the knowledge infrastructure necessary to use digital technology.**

TOP 5

1. US
2. Singapore
3. Hong Kong
4. Sweden
5. Canada

Technology

Others are focusing on **improving regulatory framework** to better enable innovation and the **development of new technologies.**

TOP 5

1. Singapore
2. Hong Kong
3. Korea
4. UAE
5. Taiwan

Future readiness

Our 2020 ranking has shown that improvements in **adaptive attitudes** and **business agility** have allowed economies to make big leaps.

TOP 5

1. Denmark
2. US
3. Korea
4. The Netherlands
5. Switzerland

Knowledge, advanced technology and quick adoption

Economies adept at maintaining efficient use of digital talent, have effective regulatory frameworks and are quick adopters of new technologies (termed "future readiness" in the research) were able to top the chart.

Singapore ranks first in the talent and regulatory framework indicators while the US tops the education and R&D indicators; Sweden and Denmark stand out for their excellent scores in knowledge building. Among geographic areas, Eastern Asia, Western Europe and North America are the most digitally progressive regions.

Resilience and recovery

Covid-19 has shown the importance of digitalisation as one way to increase resilience, and an economy's ability to adapt new technologies quickly in response to the changing landscape that the pandemic has brought about will affect its recovery speed. But digitalisation does not happen overnight – "it needs to be the product of long-term strategies and intra-organisational capabilities in both the public and private sectors. Indeed, without an ecosystem approach, digitalisation will not happen," says Ms Mazzucato.

Also crucial to the post-pandemic recovery are the "flexibility and adaptability of both individuals and the private sector", says Christos Cabolis, referring to them as "a large part of the puzzle for countries trying to rebuild their economies from Covid's battering". Mr Cabolis is Chief Economist of the IMD World Competitiveness Center.

While the results this year show few changes to the "Top 10" from last year, there are three clear trends in 2020 that run through the higher-ranking economies – the efficient use of digital talent, a reflection of having the technological infrastructure in place, and using the technology available.

Sustainability Reporting Positively Linked to Brand Value

A STUDY OF 100 LEADING BRANDS IN SINGAPORE[1] revealed that sustainability reporting is positively linked to their brand value. However, one-fifth of these brands do not engage in sustainability reporting. While greater disclosure leads to higher brand value, many brands inadequately report on the social and environmental aspects of their business. There is also a lagged effect as public perceptions take time to shape.

The study, centred on the impact of sustainability reporting on brand value, was co-authored by Associate Professor Lawrence Loh, Director at the Centre for Governance, Institutions and Organisations, National University of Singapore (NUS) Business School, and Sharmine Tan, a graduate from the NUS Master of Science (Environmental Management) programme. The paper, "Impact of Sustainability Reporting on Brand Value: An Examination of 100 Leading Brands in Singapore", was published in the peer-reviewed journal *Sustainability* in September 2020, in a special issue titled "Customer Relationship Marketing and Brand Management for Business Sustainability".

"Since the Singapore Exchange introduced a new 'comply or explain' listing rule in 2017 for listed companies to produce an annual sustainability report, the number of reporting companies had increased from 186 in 2017 to 327 in 2018. Still, this was fewer than half of all the listed companies in Singapore. This could mean that companies do not fully understand the potential value of sustainability reporting. Hence, we embarked on this study to examine the link between sustainability and brand value, and if more disclosures lead to higher brand value," explains Assoc Prof Loh.

PHOTO SHUTTERSTOCK

Key findings

Among the 100 brands surveyed, the five least disclosed indicators were, in ascending order of disclosure, with 1 being the least disclosed, (1) biodiversity; (2) product and service stewardship (the journey from cradle to grave); (3) human rights; (4) economic impact from climate change; and (5) labour practices and industrial relations.

The analysis showed that reports of higher quality garnered a higher brand value. "A higher quality report has detailed disclosures which are substantiated with performance measurements and targets," says Ms Tan. "When a company can say concretely how it intends to bring down its carbon footprint or counters its operational risks, for example, consumers and investors will trust it more." This trust may not be immediately apparent though. Among the leading brands that produced sustainability reports in both 2016 and 2018, numbering 63 out of 100 brands, it was found that the quality of the report has a lagged effect of a few years on its brand value.

According to Ms Tan, one of the reasons companies are not focusing on sustainability reporting could be because they cannot see its effect and benefits now. "But if they don't meet stakeholders' demand for fair practices today, they may miss out on building future brand value." She proposes that companies take "progressive steps" to address their environmental and social impact, including that of their supply chain, in order to increase investors and stakeholders' trust.

"Ultimately, a company needs to internalise its sustainability vision by consulting its various stakeholders. Many companies now have one department or just one employee being responsible for sustainability, but this should shift towards a shared responsibility across all levels and departments," says Assoc Prof Loh. "We also recommend companies to develop meaningful metrics to demonstrate success in their sustainability efforts, such that investors and consumers recall their brand in a favourable way. It will pay off in the long run."

[1] The study looked at 100 leading companies in Singapore by brand value in 2016 and 2018, as ranked by Brand Finance, an international brand valuation consultancy.

isca breakfast talk

Setting The Next Generation Of Sustainability Goals

ISCA BT2009: ISCA Breakfast Talk – Setting the Next Generation of Sustainability Goals (Live Webinar) 9 September 2020

OVER THE COURSE OF THE LAST FEW YEARS, external sustainability reporting has gone from a compliance requirement to a business norm. The process of sustainability reporting disclosures has not only provided greater transparency on corporate behaviour, it has integrated sustainability as part of business strategy. At the ISCA Breakfast Talk titled "Setting the Next Generation of Sustainability Goals" on September 9, Mohit Grover, Sustainability Leader of Deloitte Southeast Asia, shared on the best practices for companies in Singapore to define the material issues, define their goals, and set meaningful targets.

Organisations must reconceptualise sustainability to not only understand its impact but also leverage it for transformation. Using a three-step process, Mr Grover explained how companies could set impactful and transformative sustainability goals:

1) Engage & Identify Material Issues
Through horizon scanning and stakeholder engagements, companies will be able to gather market and stakeholder sentiment of a topic and the company's performance. The materiality assessment will allow companies to identify material issues and ensure alignment with the purpose of the organisation.

2) Explore & Define Purpose-led Goals
Equipped with information from the materiality assessment, organisations should aim to set goals that will aid them to deliver value to customers, invest in employees, deal fairly with suppliers, and support the communities in which they operate.

3) Set & Monitor Meaningful Targets
Companies can turn to various standards and initiatives to guide the setting and alignment of their goals and targets to the global agenda. These include reporting standards such as Global Reporting Initiative (GRI) and Integrated Reporting <IR>, global initiatives such as the Sustainable Development Goals (SDGs), Task Force on Climate-related Financial Disclosures (TCFD), and specific climate/carbon-related guidance such as the Greenhouse Gas Protocol, Science Based Target initiative (SBTi) and the concept of carbon neutrality.

Mr Grover further shared that it is essential for organisations to begin embracing sustainability as a strategic imperative instead of simply an operational choice. Sustainability issues such as climate change are globally recognised to be a top priority and a high-risk topic. Business leaders must acknowledge that the goal of carbon neutrality serves as a capstone for other climate-related actions, and understand the need to embed climate-related initiatives and efforts in the company's business strategy and risk-management processes. This would place companies in an optimal position to capture and mitigate climate-related opportunities and risks respectively.

Concluding the session, Mr Grover shared good practice examples across various industries for setting environmental, social and governance goals for external reporting. He also shared that beyond annual reporting, companies can produce supplementary publications that would allow companies to transparently disclose their sustainability-related strategy and progress to date to stakeholders.

Figure 1

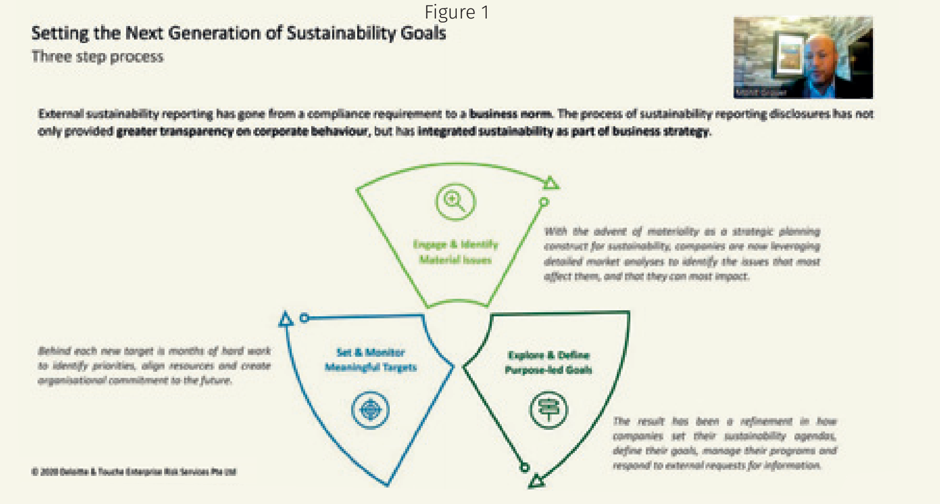
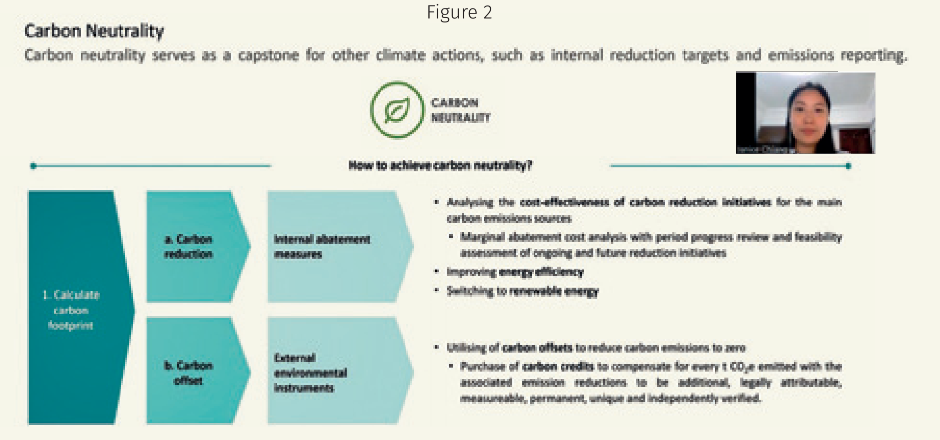


Figure 2



MARK YOUR CALENDAR

17 NOV

Fundamental Art of War Thinking for Auditors & Accountants

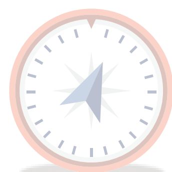
A unique programme through which auditors and accountants will gain insights to how fundamental concepts in the Art of War--- by China's greatest strategist, Sun Zi. Sun Zi created this reflective, powerful work of strategic thinking. Through participating in this programme, auditors and accountants will be enabled to think through the minds of the very best Eastern and Western strategists.

26 NOV

ISCA Career Pathway Talk: Navigating Your Career in the Midst of a Crisis (Season 3) (Live Webinar)

In this Career Pathway Talk session, hear from our esteemed panelists on the new normal for businesses and Chartered Accountants, as well as tips to impress prospective employers. Join us to find out more!

An initiative brought to you by the ISCA Young Professionals Advisory Committee (YPAC).



30 NOV

Business Mandarin: Application of Chinese Accounting Vocabulary

This seminar emphasizes on the classifications, characteristics and applications of the Chinese Accounting vocabulary.

09 DEC

ISCA Breakfast Talk: Managing Risk in a Digital World (Live Webinar)

The COVID-19 pandemic has increased the likelihood and impact of digital threats- cyber security, data security and the risk in an organisation's transformation agenda are not things that are 'good to' consider anymore, but a 'must' consider. There is now a larger focus looming on addressing these risks than ever before to ensure digital trust and build resilience for the future.

23 24 & 26 NOV

PDPA – Risks, Compliance and Ethics (Live Webinar) NEW!

This course provides learners with a good overview and understanding of the Personal Data Protection Act (PDPA) and how it may be applied to the organisations for compliance. This course is part of the ISCA Compliance Certificate Series.

Enjoy 30% further discount when you sign up for November session! Key in at checkout: **LS039v-58890**

30 NOV

Redefining the Finance Function: The CFO's guide to Job Redesign (Live Webinar)

ISCA, Lee Kuan Yew Centre for Innovative Cities at SUTD and EY Advisory collaborated in a study to investigate how job roles in finance functions in Singapore can evolve to optimise collaboration between humans and machines and what new skill sets accountants may need going forward.

Join us in this fireside chat as we share key points for the study including how job roles in finance functions can be redesigned to meet the challenges of technology disruption, how accountants can prepare for what is likely to come and discuss the key takeaways and practical steps that CFOs can take to adapt their finance department to the new normal.

Buddy up this November! Bring a buddy* to experience the ISCA learning journey together and enjoy cost savings!

Buddy system encourages you and your friend to develop a community of learners and embark on a lifelong learning journey together. So why not begin the learning journey with a friend, invite your clique, associate and peer* to attend CPE courses together to enjoy further savings of 30% on the course fees.

*Terms and Conditions apply.

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

Disciplinary Findings

UPON FINDING THAT MR LIAW KOK FENG, CA (Singapore) had contravened Rule 64.1 read with Rule 65.1 of the Institute (Membership and Fees) Rules in that he was guilty of misconduct and/or that he had been represented to be guilty of an act or omission likely to bring discredit to himself, the Institute or the accountancy profession and Rule 64.4 of the Institute (Membership and Fees) Rules read with Section 130.1(b) and 130.5, of the Code of Professional Conduct and Ethics under the Third Schedule of the Institute (Membership & Fees) Rules.

It is hereby ordered:

1) That pursuant to Rule 137.1.1 of the Institute (Membership and Fees) Rules, he be removed from the register and that he shall cease to be a Member of the Institute with immediate effect.
2) That pursuant to Rule 167 of the Institute (Membership and Fees) Rules, he shall pay to the Institute the sum of S$6,078.80 (inclusive of 7% GST), being the costs and expenses of and incidental to the investigation and disciplinary proceedings undertaken against him within 28 days from the date of this order.



BY LIM JU MAY, ALICE TAN AND NG SHI ZHEN

ISCA'S INAUGURAL SURVEY ON NON-ASSURANCE SERVICES

ISCA's Recommendations Garner Audit Committee Members' Support

THE INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS ETHICS COMMITTEE (ISCA EC) received feedback indicating diversities in interpretations and practices in applying certain non-assurance services (NAS) and fee-related provisions in ISCA's EP 100 *Code of Professional Conduct and Ethics* (EP 100). There was also no empirical evidence to ascertain what information is relevant to those charged with governance (TCWG) in assessing the independence of audit firms.

This article outlines findings from a survey conducted of audit committee members to obtain views on matters concerning auditor independence when providing NAS to audit clients and on certain recommendations to address NAS independence concerns.

EXISTING PRINCIPLES AND GUIDANCE ON NAS

There are existing principles and guidance in both EP 100 (Revised on 14 August 2020) and Companies Regulations relating to the proportion of NAS that an audit firm can provide as compared to the audit fees.

Paragraph SG410.4A[1] of EP 100 (Revised on 14 August 2020) states:

Where an audit client is a listed entity or a public company and the **amount of annual fees received for non-audit services compared to the total annual audit fees from the audit client is 50% or more**, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represents 50% or more of total annual audit fees received by the firm and discuss the safeguards it will apply to reduce the threat to an acceptable level. Examples of safeguards that could be considered and applied include: (a) Independent internal or external quality control reviews of the engagement, and (b) Consulting a third party, such as a professional regulatory body or other professional accountant, on key audit judgements. key audit judgements.

$$\% = \frac{\text{NAS fees received from audit client and its related entities}}{\text{Audit fees from audit client}}$$

ISCA NAS WG proposes to introduce the concept of "audit-related services" for application in Singapore. All (100%) of the directors surveyed supported developing the concept of "audit-related services" and 97% agreed to exclude "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee.

[1] Equivalent to para SG290.219A of the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by the Accounting and Corporate Regulatory Authority (ACRA)

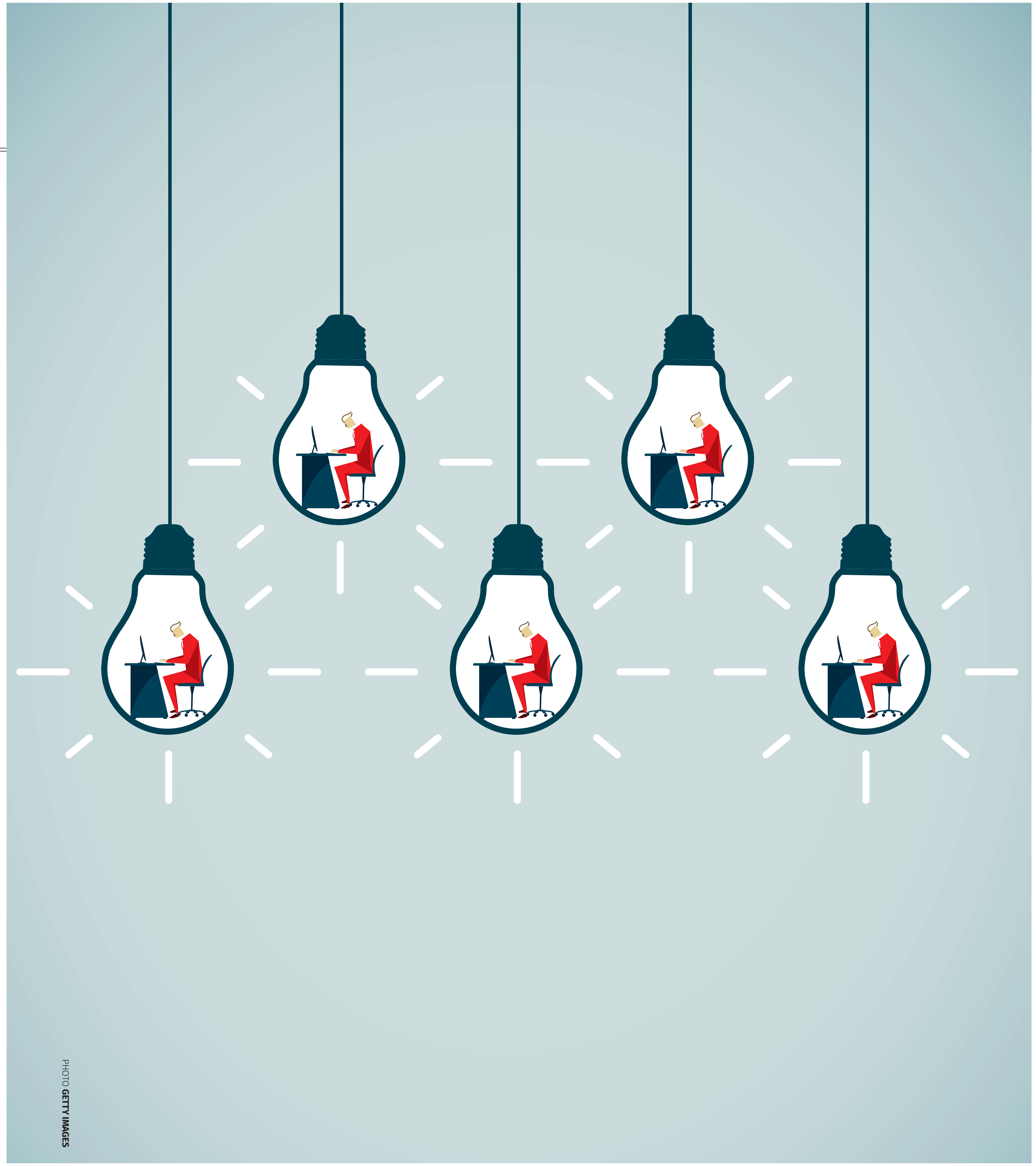


PHOTO GETTY IMAGES

The following is extracted from the Glossary of EP 100 (Revised on 14 August 2020):

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.

Related entity

An entity that has any of the following relationships with the client:

(a) An entity that has direct or indirect control over the client if the client is material to such entity;
(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
(c) An entity over which the client has direct or indirect control;
(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c), and
(e) An entity which is under common control with the client (sister entity) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

The current wordings in paragraph SG410.4A of EP 100 (Revised on 14 August 2020) resulted in diversities in interpretations and practices in applying certain NAS and fee-related provisions in ISCA's EP 100. There are also misalignments between SG410.4A and Regulation 12 of Companies Regulations.

Regulation 12 of Companies Regulations states:

For the purposes of section 206(1A) of the Companies Act, a review of the fees, expenses and emoluments of an auditor of a public company shall be undertaken if the **total amount of the fees paid to the auditor for non-audit services** in any financial year of the company **exceeds 50% of the total amount of the fees paid to the auditor** in that financial year.

$$\% = \frac{\text{NAS fees paid to the auditor (which opine on the financial statements)}}{\text{Total fees paid to the auditor}}$$

OBTAINING VIEWS ON MATTERS CONCERNING AUDITOR INDEPENDENCE WHEN AUDIT FIRMS PROVIDE NAS TO AUDIT CLIENTS

To consider inputs across all stakeholders, ISCA EC formed a working group[2] (ISCA NAS WG) to deep-dive into the local concerns in applying NAS and fee-related provisions in ISCA's EP 100 and to recommend practices that are relevant and practical to strengthen auditor independence.

The ISCA NAS WG's activities included:

- Performing research to understand and obtain an overview of the relevant NAS and fee-related provisions in United Kingdom and United States;
- Reaching out to stakeholders to obtain their perspectives about auditor independence relating to the provision of NAS;
- Deliberating feedback obtained from stakeholders, and
- Reporting feedback obtained and providing recommendations for ISCA EC's consideration.

ISCA invited approximately 400 audit committee members to participate in the online survey to share their views regarding the recommendations as well as matters which impact auditor independence when offering NAS. The findings of this inaugural survey were unveiled at ISCA's Practitioners Conference on 22 October 2020.

Tan Seng Choon, Chairman of the ISCA EC, said during his presentation at the conference, "As far as we know, this is the first such survey where we hear directly from directors on what they think about auditor independence vis-a-vis NAS. We want to see how best to reform EP 100 in relation to SG410.4A requirements and obtaining audit committee members' feedback is important because they are the stakeholder group which will be using the NAS information in their assessment of auditor independence. It is a user-needs analysis."

"We will be developing our recommendations for changes to NAS requirements and will put forward this to ACRA PAOC EC[3] for its due consideration. Our overarching principle is to enhance public confidence in the profession and public trust, balanced with cost and practicality of implementation," said Mr Tan.

Based on ISCA NAS WG's recommendations, participants were surveyed on the following six areas:

- Scope of entities to be considered for communication of NAS to TCWG;
- Definition of "audit-related services";
- Approach to trigger TCWG's review and approval on provision of NAS;
- TCWG's elevated approval on provision of NAS;
- TCWG's pre-approval on provision of NAS;
- Communication to TCWG and public disclosure of audit fees.

PHOTO GETTY IMAGES

> "The (Survey of Directors) findings show that audit committee members of Singapore companies are supportive of ISCA's recommendations to strengthen auditor independence in relation to the provision of non-assurance services."
>
> **LEE FOOK CHIEW**, Chief Executive Officer, ISCA

The survey comprises 19 questions relating to matters concerning auditor independence and recommendations made by the ISCA NAS WG. The questions are grouped into six different areas to facilitate ease of understanding. The survey has a "skip logic" feature. Hence, depending on the individual responses, each respondent answered only applicable questions in the survey.

The participants of the survey were mostly directors (who are audit committee members) of Singapore-incorporated companies or organisations. Eighty-three per cent of the respondents are independent audit committee members of mainboard-listed companies on the Singapore Exchange (SGX) while the remaining 17% are independent audit committee members of Catalist-listed companies on SGX. The respondents have an average of 14 years of experience as a director.

SURVEY ANALYSES AND FINDINGS

This Survey of Directors was conducted from March to May 2020. From the survey results, it was observed that the majority of respondents supported the directional recommendations to address NAS-related concerns in EP 100.

Lee Fook Chiew, ISCA Chief Executive Officer, said, "The survey findings show that audit committee members of Singapore companies are supportive of ISCA's recommendations to strengthen auditor independence in relation to the provision of non-assurance services. We will take the feedback into consideration when we work on enhancing the non-assurance services and fee-related provisions in ISCA's *Code of Professional Conduct and Ethics* to address the diversity in the interpretation and application of such provisions."

Scope of entities to be considered for communication of NAS to TCWG

Ninety-two per cent of the directors surveyed were of the view that information on NAS provided by network firms[4] (of the audit firm) to upstream and sister entities[5] is important but it is practically difficult for an audit firm to obtain such information.

Hence, to mitigate any perceived or real independence threats, ISCA NAS WG recommends an audit firm obtains a confirmation from each network firm, that the NAS fees earned by the network firm from the parent and sister entities of the audit client, do not exceed 1% of the network firm's revenue. This was supported by 94% of the directors surveyed.

Should the NAS fees earned by the network firm from the parent and sister entities of the audit client exceed 1% of the network firm's revenue, ISCA NAS WG recommends either of the following safeguards:

- A confirmation from the audit firm that there is no undue influence from its network firms on the audit firm for the execution of audit, or
- A confirmation from the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from its network firms on the audit firm for its execution of audit.

The above recommendation was supported by 94% of the respondents.

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[2] The ISCA NAS WG comprises Mr Tan Seng Choon (Chairman), Mr G. Arull, Associate Professor El'fred Boo, Ms Lorraine Chay Yeow Mei, Ms Caroline Lee, Mr Amos Ng, Ms Ong Bee Yen, Ms Sherry Quark, Ms Serene Teo, Ms Andrea Yap and Mr Gerald Yeo.

[3] ACRA PAOC EC refers to the Ethics Sub-Committee of the ACRA Public Accountants Oversight Committee.

[4] Network firm refers to a firm that belongs to a network.

[5] Sister entity refers to an entity which is under common control with the audit client.

Definition of "audit-related services"

The Revised Ethical Standard 2019 issued by the UK Financial Reporting Council defines "audit-related services" as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

ISCA NAS WG's view is that services such as reporting required by laws and regulations, Economic Development Board grant certifications and agreed upon procedures on turnover rental would be considered as "audit-related services" as the work is (i) closely related to the work performed in the audit engagement and (ii) usually carried out by audit engagement team members who are required to comply with the independence requirements. Accordingly, ISCA NAS WG proposes to introduce the concept of "audit-related services" for application in Singapore.

All (100%) of the directors surveyed supported developing the concept of "audit-related services" and 97% agreed to exclude "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee.

Approach to trigger TCWG's review and approval on provision of NAS

Some 91% of the directors surveyed supported having a threshold to trigger TCWG's review of provision of NAS by the audit firm and 87% of the respondents viewed that the computation of such threshold should cover only controlled entities, that is, downstream entities of the audited entity.

PHOTO GETTY IMAGES

TCWG's elevated approval on provision of NAS

Only 44% of the directors supported the recommendation to have a higher threshold to trigger TCWG's enhanced approval process. Those who were not supportive of this recommendation viewed that one threshold would be sufficient for monitoring and easier administration. They were also concerned that having another threshold could potentially lead to higher fees.

TCWG's pre-approval on provision of NAS

It is important for the audit firm to have timely communication with TCWG regarding NAS. ISCA NAS WG noted that some NAS were only reviewed and approved by TCWG after the services were provided. To address such concerns, ISCA NAS WG recommends that audit firm should obtain pre-approval from TCWG on the provision of NAS, that is, audit firm to obtain concurrence from TCWG prior to the provision of NAS to audit client. Some 69% of the directors surveyed agreed with this recommendation.

For directors who supported audit firms obtaining pre-approval from TCWG, 91% of them agreed that such approval should be restricted to the audit client and its unlisted downstream entities.

With reference to SEC Regulation S-X (17 Code of Federal Regulations Part 210), ISCA NAS WG recommends that blanket approval, that is, consent given to an audit firm to carry out NAS without requiring approval from TCWG, should be applied for NAS that are recurring in nature, subject to certain threshold. If the NAS is not within the list of services for blanket approval, it is recommended for audit firm to initiate discussion with TCWG.

> "As far as we know, this is the first such survey where we hear directly from directors on what they think about auditor independence vis-a-vis NAS. We want to see how best to reform EP 100 in relation to SG410.4A requirements and obtaining audit committee members' feedback is important because they are the stakeholder group which will be using the NAS information in their assessment of auditor independence. It is a user-needs analysis."
>
> **TAN SENG CHOON**, Chairman of the ISCA Ethics Committee and ISCA NAS WG

All the directors surveyed supported this recommendation.

Communication to TCWG and public disclosure of audit fees

In January 2020, the International Ethics Standards Board for Accountants (IESBA) issued two exposure drafts (EDs) to strengthen the NAS and fee-related independence provisions of the *International Code of Ethics for Professional Accountants* (including International Independence Standards) (the Code).

- Proposed Revisions to the Non-Assurance Services Provisions of the Code (NAS ED), and
- Proposed Revisions to the Fee-Related Provisions of the Code (Fees ED).

The Fees ED proposed disclosure of the fee for the audit of the financial statements, comprising (i) fees paid or payable to the audit firm and network firms (of the audit firm), and (ii) actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement. This is to enable TCWG and the public to assess the independence of the audit firm.

Some 87% of the directors agreed that audit fees paid or payable to firms other than the audit firm and network firms (of the audit firm) should be disclosed to enable TCWG and the public to assess the independence of the firm.

CONCLUSION

The outcomes of the survey reflect support from directors on recommendations to address auditor independence when providing NAS to audit clients in three broad areas:

(1) Scope of entities to be considered for communication of NAS to TCWG

92% Information on NAS provided by network firms (of the audit firm) to parent, penultimate parent, ultimate parent ("upstream entities") and sister entities of the audit client is important for TCWG's assessment on auditors' independence.

94% To mitigate any perceived or real independence threats, we recommend that the audit firm obtains confirmation from each network firm that the NAS fees earned by the network firm from the upstream and sister entities of the audit client do not exceed 1% of the network firm's revenue.

94% If the amount exceeds 1%, audit firm to apply safeguards:

- A confirmation from the audit firm, or
- A confirmation from the audit firm's ethics and independence partner (or equivalent).

(2) Definition of audit-related services

100% Develop a concept of "audit-related services".

97% Exclude "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee.

(3) TCWG's pre-approval on provision of NAS

69% To obtain pre-approval from TCWG for provision of NAS to the audit client by the audit firm and its network firms.

100% Blanket approval, that is,

- Consent given to an audit firm to carry out NAS without requiring approval from TCWG;
- For NAS that are recurring in nature, subject to certain threshold.

91% Restrict pre-approval from TCWG to unlisted downstream entities.

ISCA has also highlighted the above key recommendations to IESBA for consideration in its revision of the *International Code of Ethics for Professional Accountants.*

The Survey of Directors is available at https://isca.org.sg/ethics/resources/articles-publications/articles-publications/2020/october/auditor-independence-when-providing-non-assurance-services-findings-from-survey-of-audit-committee-members/ ISCA

Lim Ju May is Deputy Director, Alice Tan is Senior Manager, and Ng Shi Zhen is Manager, Technical, ISCA.

PHOTO SHUTTERSTOCK

BY KOH SZE KEE, ARIF PERDANA, DESI ARISANDI AND LEE HWEE HOON

DATA ANALYTICS ADOPTION

How Singapore SMEs Fare

THE BUSINESS WORLD IS FACING TECHNOLOGY DISRUPTIONS THAT WILL REDEFINE BUSINESS MODELS AND STRATEGIES. To remain relevant, businesses have been encouraged to embrace digitalisation and transform their business models to utilise technological advancements. Among these innovations are data and analytics, which have become the heart of technological advancement applications. Digitalisation transforms the scale, quality and processing of data. This transformation then produces vast quantities of data that businesses can use to implement data analytics to optimise decision-making processes. Therefore, businesses need to understand generated data and know the ways to utilise advanced technologies to convert data into powerful business strategies.

In Singapore, small and medium-sized enterprises (SMEs) are a vital part of the economy, contributing to about half of the GDP and two-thirds of employment. SMEs are also an integral part of the vibrant ecosystem of Singapore's industries. With digitalisation transformation, SMEs in Singapore are expected to implement data analytics to gain a strong position in the market.

To support digital transformation among SMEs, the Singapore government has put in place various supportive measures, such as the SMEs Go Digital programme, to help SMEs accessing global markets to transform themselves digitally. Despite these supportive measures, SMEs still seem to lag behind the large companies in big data analytics adoption.

SMEs often encounter challenges in choosing the appropriate technology or getting their staff involved in implementation. SMEs also face certain limitations, such as a lack of understanding of data analytics, cultural barriers and intrinsic conservatism, and a lack of inhouse expertise. While SMEs support the country's economy through stimulating economic growth, increasing employment, and expanding exports, their adoption rate of data analytics remains lower than that of the large companies.

We (Singapore Institute of Technology), together with RSM Singapore and Institute of Singapore Chartered Accountants, conducted a study to understand the adoption of data analytics among Singapore SMEs. We examined their readiness and technological capability to adopt data analytics, the extent of analytics tasks embraced, the perceived "usefulness" of data analytics, and their reasons for adopting or rejecting data analytics.

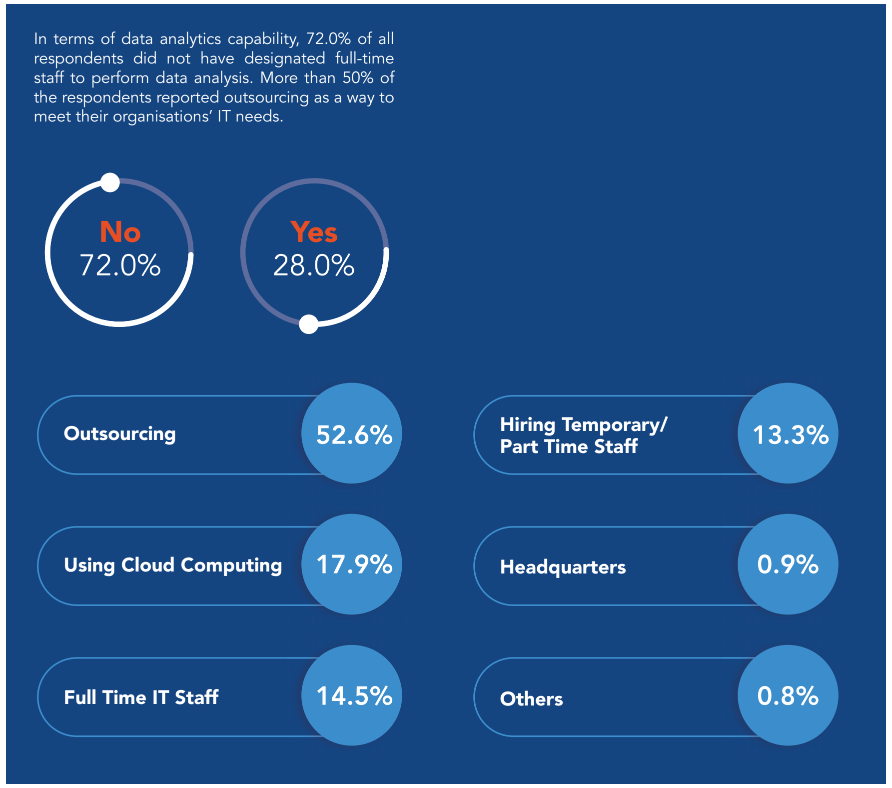
> "Despite agreeing that implementing data analytics might provide some business value, especially in the area of enhancing staff productivity, (non-data analytics adopters) ... **were sceptical that data analytics would generate real monetary savings for their organisations.**"

RESPONDENT DEMOGRAPHICS AND FINDINGS

A total of 575 SMEs, spanning commercial and professional services, engineering services, and food and beverage services, took part in a questionnaire survey conducted between November 2018 and April 2020. Over 60% of the respondents held senior leadership positions (for example, C-suite, director, manager, head of department, financial controller) in their respective organisations. The majority of the SMEs surveyed had less than S$25 million in annual turnover, and staff strength of fewer than 50.

Of the SMEs surveyed, 72% did not have designated full-time staff to perform data analysis. More than 50% reported having outsourced this function to meet their organisations' IT needs, while 45% did not have the intention to send staff for data analytics training due to the cost and time required for such training (Figure 1).

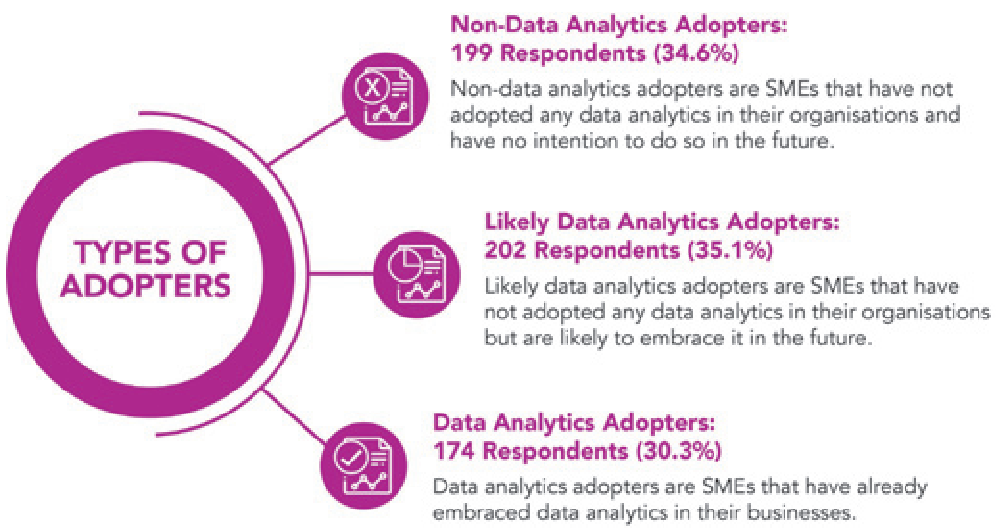
Figure 1 Respondent demographics



Non-data analytics adopters

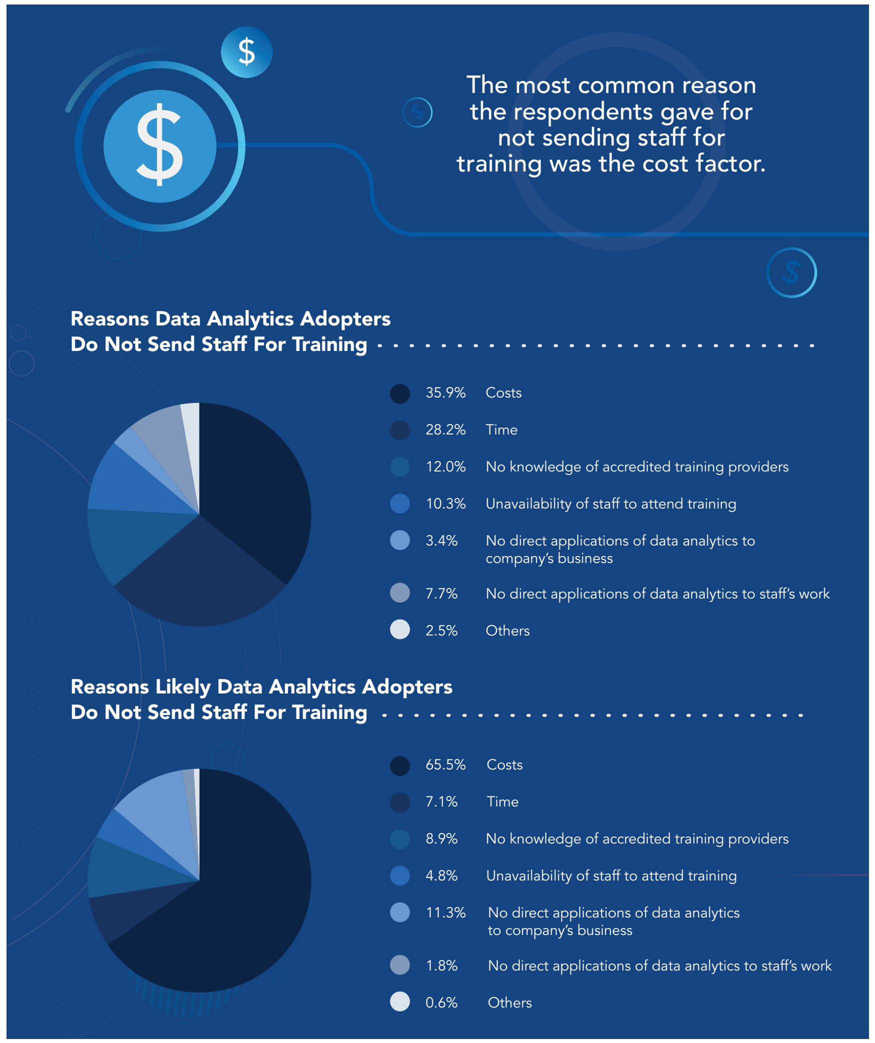
From the survey responses, 34.6% of the SMEs were classified as non-data analytics adopters as they had not adopted any data analytics in their organisations and had no intention to do so in the future (Figure 2).

Figure 2 Types of adopters



Despite agreeing that implementing data analytics might provide some business value, especially in the area of enhancing staff productivity, these SMEs were sceptical that data analytics would generate real monetary savings for their organisations. They also reported the lack of IT infrastructure support, limited financial resources, and concern over data protection and privacy, as top potential deterrents for their organisations to adopt data analytics (Figure 3). Many of them were familiar with only spreadsheet and database as tools of data analytics, suggesting a lack of understanding and awareness of more advanced data analytics tools.

Figure 3 Why SMEs do not send staff for training



Likely data analytics adopters

A second group among the respondents, at 35.1%, were classified as likely data analytics adopters (Figure 2). They have not adopted data analytics in their organisations but had indicated that they were likely to embrace the technology in future. Compared to the non-data analytics adopters, this group appeared to be better equipped with technological capabilities and the knowhow to utilise more advanced database management systems and basic programming languages to manipulate data in uncovering trends and insights, as well as provide reports and interpret findings.

When asked what factors would eventually persuade them to implement data analytics (Figure 3), the group reported that performance expectations, effort expectancies, management support and government support would increase their intention to implement data analytics. Individual attributes of user experience, task usefulness and technological capabilities did not appear to influence their intention to adopt data analytics.

Data analytics adopters

A third, and final, group of respondents, at 30.3%, were classified as data analytics adopters (Figure 2) as they have already embraced data analytics in their businesses, using varied tools from basic software such as MS Excel to intermediate and advanced software such as SAS and Tableau. However, this group had not explored more advanced techniques such as text analysis, social media analysis, global positioning systems analysis and location tracking analysis (Figure 3). These SMEs saw business value in adopting data analytics to reduce their operating costs, enhance staff productivity, and provide better customer service.

INSIGHTS AND NEXT STEPS

It was found that adopting and implementing data analytics presented a challenge to all three groups of SMEs. For the non-data analytics adopters and likely data analytics adopters, besides government financial support, more needs to be done to entice them to consider adopting data analytics. One possible idea is the sharing of success stories and real-life examples about how potential monetary benefits can be achieved with data analytics adoption. As success stories spread among the SMEs, more of them may be encouraged to consider embracing data analytics as part of their business model.

Another idea is the setting up of a streamlined funding-support framework. Although government financial support is readily available – a crucial catalyst to encourage data analytics implementation and minimise the implementation cost burden – SMEs face difficulty tapping on these grants. For some financial assistance schemes, SMEs may need to provide upfront funds to implement digitalisation transformation before they are able to take advantage of the schemes. Resource-scarce SMEs, therefore, could benefit from a streamlined funding-support framework.

Other key drivers that would encourage SMEs to adopt data analytics include having a good and easy adoption implementation plan, and a high certainty of realising better firm performance after implementing data analytics for their organisations.

As these SMEs are open to learning about how data analytics can benefit their organisations, having a shared services platform that these SMEs can tap into could be very useful in keeping costs down. Such a platform can be set up with consultants, professional bodies, government agencies or institutes of higher learning, to provide different levels of data analytics capabilities ranging from basic to advanced.

Basic implementation refers to the use of databases and spreadsheets to arrange the vast quantities of data that businesses can use to conduct decision-making optimisation analyses. Intermediate implementation refers to the ability to produce data visualisation and reporting. Advanced implementation refers to the ability to use advanced analysis tools such as social media analysis, text analysis, location tracking analysis and global positioning systems analysis. SMEs can select the appropriate level of implementation to suit their needs.

The data analytics adopters, too, faced challenges to adopt more advanced data analytics tools. They believed that data analytics business values could be realised through a good system design that suited their business structure and model, as well as through quality data analytics software. However, their lack of understanding of the benefits of advanced technology and their inability to manage the potential uncertainty that may occur when implementing such technology might result in hesitation to adopt more advanced data analytics tools and techniques.

In addition, given their limited IT resources and skills, they were concerned about data security and privacy. While a data analytics environment was starting to emerge in their organisations, the respondents felt that data analytics might not support cross-functional or company-wide decision processes. Hence, a lack of synchronisation or a missing systematic data analytics framework within their organisations is apparent.

A supporting platform to help SMEs design a data framework to ensure seamless analysis flow will increase the chance of realising the business value brought about by data analytics and eventually, monetary benefits for the organisations. Supporting platforms to enhance knowledge and skills could include awareness seminars on compliance with the Personal Data and Protection Act, as well as technical workshops on the use of advanced data analytics tools.

CONCLUSION

In conclusion, our study's findings suggest that more can, and should, be done to boost data analytics adoption among SMEs in Singapore. This study is timely, as Singapore seeks to involve more SMEs to make the most of digital technologies to improve operations and generate new revenue.

The full report, titled "Data Analytics Adoption in Singapore SMEs 2020", is available at https://isca.org.sg/media/2825093/data-analytics-adoption-in-singapore-smes-final.pdf. ISCA

A supporting platform to help SMEs design a data framework to ensure seamless analysis flow will increase the chance of realising the business value brought about by data analytics and eventually, monetary benefits for the organisations.

Associate Professor Koh Sze Kee (Principal Investigator) and Assistant Professors Arif Perdana, Desi Arisandi and Lee Hwee Hoon are members of the Singapore Institute of Technology research team for this project.
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LIM FANG SUNG
CA (Singapore), Director,
Unity Assurance PAC

BRYAN ZHAO
CA (Singapore), Founding Partner,
Harvest Accounting Pte Ltd

SMALL ACTS BIG HEARTS

In conjunction with the upcoming International Volunteer Day on December 5, we shine the spotlight on two big-hearted members who are paying it forward through ISCA Cares.

WINSTON CHURCHILL ONCE SAID, "We make a living by what we get, but we make a life by what we give." At the Institute of Singapore Chartered Accountants (ISCA), we recognise the power and purpose of giving and, to this end, set up ISCA Cares in 2015. A charity platform for the accountancy profession as a collective, ISCA Cares gives back to society, and invests in the future generation at the same time.

Our ISCA Cares Education Programme complements existing government assistance schemes to finance tertiary-level accountancy education for academically-inclined youths from disadvantaged backgrounds. To date, approximately $510,000 have been awarded to our bursary recipients. While donations serve as financial aid for the recipients, our members lend something even more invaluable: their insights and guidance, in their capacity as mentors to the youths, and the opportunities to gain accountancy work experience through internships.

Here, two of our members who are actively involved in charity work, and also contributing their time and expertise as mentors in the ISCA Cares Mentorship Programme, share their thoughts about the joys of giving, as well as what keeps them going.

INTERNATIONAL VOLUNTEER DAY

International Volunteer Day, mandated by the United Nations (UN) General Assembly, is held annually on December 5. It is viewed as a unique opportunity for volunteers and organisations to celebrate their efforts, share their values, and promote their work among their communities, non-governmental organisations, UN agencies, government authorities and the private sector.

Apart from mobilising thousands of volunteers every year, the UN Volunteers programme contributes to peace and development by advocating for the recognition of volunteers and working with partners to integrate volunteerism into development programming.

CHARITY BEGINS AT HOME… AND EXTENDS BEYOND

Lim Fang Sung, CA (Singapore), Director, Unity Assurance PAC

For many well-to-do Singaporeans, year-end family holidays are luxe affairs with shopping sprees and five-star hotel accommodation. However, for his son's last holiday before commencing National Service about four years ago, Lim Fang Sung brought his wife and son to a village in Laos, where living conditions were so poor that the children did not have access to optometry care. "Oh, he complained! 'Why couldn't you just let me enjoy my holiday?'" chuckles Mr Lim, as he recollects his son's initial reaction. Yet, by the end of the trip, the youngster had found it to be a meaningful experience.

The "holiday" was actually part of the Gift of Sight initiative by the Lions Club of Singapore Bedok, of which Mr Lim has been a member since 2015. With the objective of helping school children see better, the group of volunteers, which included opticians, had flown to Laos specially to organise eye examinations. "It's something that we take for granted; we can just walk into a mall and get our eyesight tested at a shop. But these kids can't even afford eye-testing, let alone a pair of glasses. One student had myopia of 1,500 degrees and couldn't even see the blackboard clearly!" recounts Mr Lim. The prescriptions were sent back to Singapore where the glasses were made, then shipped to Laos to be distributed to the children. "Seeing the joy of the students when they received their glasses gave my son great satisfaction, and he was glad that he came along," says Mr Lim.

CAREER HIGHLIGHTS

2015 to present
Director, Unity Assurance PAC

The 53-year-old shared this as an example of how he integrates volunteerism into his busy life, and how he gets those around him to join him in charity work as well. In his firm, he also intends to assimilate charity work into the company culture, such as by organising orphanage visits during festive seasons. "It's all about exposing more people to the joys of charity work – one that can only be experienced though participation." Unfortunately, this has been delayed due to the Covid-19 pandemic.

"Many people regard volunteer work as a huge commitment, but it's all about balancing your time. Just like how I turned the volunteer project into a family-bonding experience, there are many ways to integrate it into your life," says Mr Lim, who also contributes his time and expertise as Vice President of a social services organisation. He was recently invited to join the ISCA Cares Mentorship Programme, and has since been providing guidance to youths. "I felt that it would be good to share my life experiences with youths who are at different stages of their personal or professional journeys. While this helps them to improve their lives, I get to discover the issues the youths might have, and learn from their ways of thinking." Indeed, while those who give never think about having their efforts repaid, what they receive in return is often invaluable.

> "Accountants often get to build a network of connections with people from different trades through our work. This allows us to reach out to a wider audience and rope in others to contribute to different causes."

DIFFERENT WAYS OF GIVING

Like many others, Mr Lim's giving journey started with monetary donations. His perspective of social work changed when he was given the opportunity to take a more hands-on approach through the Lions Club. "At that point, I felt that I had worked hard to get to a certain place in life, and it was time to give back to the needy in Singapore and in the region," he recalls. "Once I started, seeing the joy on the faces of those I helped spur me on."

Doing charity work, which opened Mr Lim's eyes to the plight of the underprivileged, has also been a humbling experience. "During the circuit breaker, I bought necessities for needy families and saw the living conditions of those living in the rental flats. I was surprised to see the number of people cramped into these tiny apartments, and my heart truly went out to them," shares Mr Lim. He has come to realise that although Singapore is an affluent country, there are many who still need help, and it is not always about donating money. Sometimes, all it takes is for one to be a good listener, learn about the issues of the needy, and leverage one's resources to help them. "And hopefully, those we help will one day be in a position to give back to society too."

Mr Lim feels that his professional background bestows some advantages on his volunteering efforts. "Accountants often get to build a network of connections with people from different trades through our work. This allows us to reach out to a wider audience and rope in others to contribute to different causes," he says. "With our own network of chartered accountants, we can also contribute by kickstarting our own initiatives, such as what is being done through ISCA Cares. I hope that ISCA Cares might be able to expand to different areas, such as adopting an orphanage, or organising visits to old folks' homes. No project is too small. Every bit helps."

FROM RECEIVING TO GIVING

Bryan Zhao, CA (Singapore), Founding Partner, Harvest Accounting Pte Ltd

Having co-founded technologically forward-looking firm Harvest Accounting when he was just 28 years of age, Bryan Zhao epitomises the business-savvy accountant of tomorrow. Yet, his life might have been very different had it not been for the financial assistance and scholarships he received as a student. "I come from a humble background, and my parents never had the chance to pursue higher education. Growing up, I relied on scholarships, without which I wouldn't have been able to pursue quality education all the way, follow my dreams, and be where I am today," says Bryan.

Today, Bryan is giving back to society by supporting youths as they embark on their own journeys towards becoming professional accountants – the same way he had been supported. "One of the revelations when it comes to giving back is discovering causes that are meaningful to you. It is important to get educated on the various social topics that you are interested in – which can span from tackling inequality and helping the vulnerable, to protecting the environment – and understand the issues deeply," shares Bryan. He dispels the notion that giving back is a very intensive and exhausting endeavour. "Many have the perception that doing charity work takes a lot of time and effort. However, if you are working on something driven by passion, the commitment wouldn't be a pain point."

For Bryan, nurturing future generations stands out as a cause – and the work of ISCA Cares resonates with him. "It is meaningful to enable disadvantaged Singaporean students to pursue a finance and/or accountancy education at the tertiary level," he maintains. To put his support for ISCA Cares into action, he ran a fundraising campaign on Giving.sg for ISCA Cares in August this year, successfully raising $5,000. "I had just turned 30 on National Day, and I thought a meaningful way to commemorate it would be to rally everybody to contribute to a good cause, rather than spend money on gifts for myself. It was also a celebration of the SGUnited spirit at a time when the country was working as one to steer through the Covid-19 pandemic," he relates. Given the government's dollar-for-dollar matching for qualifying donations, Bryan felt that everything was in place for him to start his very first fundraising initiative for a cause that he was passionate about. "It was now or never!" he says.

On top of the monetary donations, Bryan also volunteers his time as a mentor with ISCA Cares. "The ability to impact youths positively, beyond lending monetary support, was what made me choose ISCA Cares as the beneficiary of my fundraiser," he explains. As someone who believes that businesses should exist for a social purpose, Bryan also hopes that offering internship opportunities in his company, through ISCA Cares and SGUnited Traineeships Programme, will give his staff and associates a chance to positively impact those around them.

"(By adopting a giving mentality) our company becomes a platform to support people. I see that the interns who had joined us through the different programmes have managed to learn a lot within just a few months. Being able to contribute to their professional development is my way of positively impacting their lives," asserts Bryan. "I may be just one person, but if I can inspire others – be it those who work with me or our beneficiaries – to pay it forward, the ripple effect could be great. That is something I find amazing about charity work."

CAREER HIGHLIGHTS

2015 to 2016
Product Accountant, Bunge Asia Pte Ltd

2016 to 2018
Senior Credit Analyst, Corporate Banking and Trade Finance, KBC Bank

2018 to present
Founding Partner, Harvest Accounting Pte Ltd

NEVER A BAD TIME TO GIVE

While the entrepreneurial drive for many people is solely powered by the desire to "get ahead", starting a business was in fact what inspired Bryan to think about charity work seriously.

"At Harvest, we help small businesses digitalise their accounting efforts and I realised that I was improving the livelihoods of the people behind those businesses. This brought my co-founder Matthew Phua and I a lot of joy and we started thinking about what we could do for the community," he reveals.

While Bryan, as a young entrepreneur and business owner, might be in a seemingly better position to do charity work than others, he emphasises that everyone can give back. He first started volunteering in school, helping with local and overseas projects on an ad hoc basis, and continued to take part in charity work in different ways – from helping out in community homes to doing coastal cleanups. "I have come to learn that charity work and volunteering can happen anywhere and at any time; everyone has something to offer. Some may feel like they don't have enough resources nor experience to contribute, but you are never too young to give back. You don't have to be a director to mentor; you can also do peer-to-peer mentoring, or even be a sounding board for somebody older."

"It's about being a good steward of your resources, skill sets and experiences. For example, an accountant can share his knowledge on tax deductions, or even initiatives such as donation-matching schemes by the government, to help with fundraising efforts," advises Bryan on how those in the finance and accountancy industry can give back.

By leveraging what he has and giving in a sustainable manner, Bryan also puts himself in better stead to continue his charity work. Apart from joining the ISCA Cares Mentorship Programme, he hopes to run a similar Giving.sg fundraising initiative next year, and is also dedicated to promoting a giving culture within his company. "I grew up worrying that I wouldn't have enough and always thinking that I needed more," admits Bryan. "However, the mindset of abundance, rather than scarcity, will change your perspective, and you will realise that everybody has something to give." ISCA

"I may be just one person, but if I can inspire others – be it those who work with me or our beneficiaries – to pay it forward, the ripple effect could be great. That is something I find amazing about charity work."

BY RACHAEL NOYES

HOW RESILIENT LEADERS THINK

Emerging Stronger From Adverse Circumstances

"FOR THERE IS NOTHING EITHER GOOD OR BAD, BUT THINKING MAKES IT SO." – Hamlet, in the play *Hamlet* by William Shakespeare.

Resilience as a career concept is having a kind of heyday, with good reason. Flung into new ways of working, both at home and in newly dangerous roles, people all over the world have been forced into adapting to the Covid-19 pandemic and economic crisis while doing their jobs.

Confronted with the continued flow of bad news, some kept a bit more of themselves intact. The concept of resilience isn't just about being knocked down and getting back up again. In a recent "Navigating the Turbulence of Covid-19" webinar, INSEAD Professor of Management Practice Narayan Pant spoke about how leadership resilience is the ability to emerge stronger from inevitable adverse circumstances.

Describing a former colleague who had weathered many organisational storms and might be seen as a kind of "comeback kid" because he lost job after job while engaging in unhealthy behaviour, Pant said of this man, "This isn't resilience; this is barely survival." Getting back up again without having learned anything from that knock is survival, not resilience.

For Pant, leadership resilience starts with the self. He said, "The truth is, leadership has three domains to it. First, you lead yourself. Then you lead teams. And then you lead organisations. The right way to think about this, I believe, is in the form of an inverted pyramid with leading yourself at the bottom of that pyramid. If you're not able to lead yourself, then you can throw away the idea of leading teams and leading other people."

RESILIENCE, CHOICE AND GETTING OUT OF YOUR OWN WAY

We need resilience because adverse circumstances aren't rare occurrences. Pant cited Black Monday, the 1997 Asian financial crisis, 9/11, the dot-com bubble, SARS and the 2008 financial crisis as examples of how often these moments of utter turmoil can shake us.

According to Pant, our mental preparation for crises boils down to two responses: "If you're like a lot of the leaders I meet, you do one of two things. One, you try really hard to stop this bad stuff from happening. In fact, many of the people I know consider this their job description: 'to make sure I minimise the impact of bad stuff happening by planning for all the bad stuff that can happen'. The second thing people do is, they try to ignore what might happen if they don't manage to stop the crisis."

"**The truth is, leadership has three domains to it.** First, you lead yourself. Then you lead teams. And then you lead organisations."

PHOTO SHUTTERSTOCK

PHOTO **SHUTTERSTOCK**

Of course, stopping the pandemic or pretending it's not there is not leadership. This is where resilience comes in – dealing with negative thoughts. Pant took the webinar participants through several exercises to help them "get to a place where you're able and willing to work on raising your own resilience". He didn't promise resilience; instead, he described a process.

Negative thoughts and the way we react to them are within our control. Also, our more exuberant responses to positive thoughts need to be addressed with a modicum of neutrality. Understanding this is important in the practice Pant described. The biggest obstacle, he explained, is ourselves and our own deeply established patterns of thinking and behaving.

"It's quite likely that you will get in your own way," he said. "One of the first things that psychotherapists do when they work with their patients who are displaying, say, unproductive or dysfunctional behaviours, is they try and find out how those behaviours are helping their patients."

The unproductive behaviour was useful at one time but isn't any longer. To practise resilience, Pant suggested that we stop the mental hamster wheel and be open to a new process.

PRACTISE, PRACTISE, PRACTISE

Mindfulness is key to creating resilience, not only mindfulness meditation *per se*, but an awareness of thoughts. Pant explained that "meditation has relevance to building resilience".

Citing Hamlet, Pant said that the understanding that there is nothing inherently good or bad about thoughts "gives us a lever and that lever is our thoughts, and the choice in how we see them".

Traditional cognitive behavioural approaches to managing thoughts look at the thoughts and beliefs that intervene between an external stimulus and our reactions. For example, an external stimulus may be the discovery that we won't make our numbers this quarter. This creates anxiety and dysfunctional behaviour. However, the anxiety arises not because of the numbers alone but the thoughts that intervene in between.

Examples of thoughts include, "What will my colleagues think of me if I don't make my numbers?"; "If I don't make my numbers, I could be at risk of losing my job"; or "If I lose my job, it will be a disaster". Having identified these thoughts, you can reduce their validity, thereby reducing their effect. However, this works best when you have time and the help of a therapist who helps you with it.

> "**Practise developing a productive attitude when things don't turn out the way you expect...** That's the core of resilience building – an attitude that comes from the ability to manage and regulate the way your thoughts impact you."

An alternative is to just watch the thoughts. See them as objects created by the mind and view them as if they were projected on a screen in front of you. One way to do this is to imagine your thoughts were (someone else's) quarrelling kids. You just observe them, without getting attached to any single thought.

Pant said, "It's important to be cognisant of the cacophony inside because it's those thoughts, even though you may not be aware of them, that are driving your reactions. When you make your thoughts salient, you reduce their power over you – defusing them – by observing them as if they were a separate entity." This isn't natural and takes practice, but with practice comes rewards. "It's a bit of an exponential curve. You struggle with it for a little bit but then, it's quite easy to see thoughts as something that are external to you."

Pant described a recent personal example of resilience building during the recent "circuit breaker" in Singapore. Gyms were not allowed to open so he started running, which he generally doesn't enjoy. "As I run, the thought very quickly comes into my head that says, 'Okay, so this is good. You've run enough.' However, I learned to pay attention to my breath and my muscles and discovered that they were not stressed at all. So, it was only my mind that was talking to me, for some unfathomable reason."

Each run was an opportunity for Pant to practise observing his thoughts and being present. That practice, in turn, enhances the ability to apply resilient, detached thinking to other occasions. "If you're going to have difficult conversations about things of considerable salience or significance, you can apply habits developed in other contexts, because you've practised them."

One way to rethink the way you think about thoughts is how you express them. "Instead of saying, 'I think we might miss our numbers this quarter', articulate it as, 'I'm having the thought that we might miss our numbers'. This might sound artificial, but it has a very powerful effect. It articulates the fact that this thought is a thing – it's not you."

Of course none of this means we should not act in the external world. Rather, putting some distance between your thoughts and your response improves your decision making by making it more rational. Pant said, "Of course we must try and control our circumstances the best that we can... In addition, we must regulate ourselves when sh*t happens, as it inevitably will."

CONTINUING RESILIENCE BUILDING

"Practise developing a productive attitude when things don't turn out the way you expect," Pant said. "That's the core of resilience building – an attitude that comes from the ability to manage and regulate the way your thoughts impact you." Further exercises are available on Pant's website.

Developing a leadership resilience practice allows managers to model resilience for their teams, even in times of crises. "If you can demonstrate that sense that you're comfortable with yourself, others will be comfortable with themselves," he said. ISCA

Rachael Noyes is Senior Editor, INSEAD Knowledge.

PHOTO SHUTTERSTOCK

BY DR ANG HAK SENG

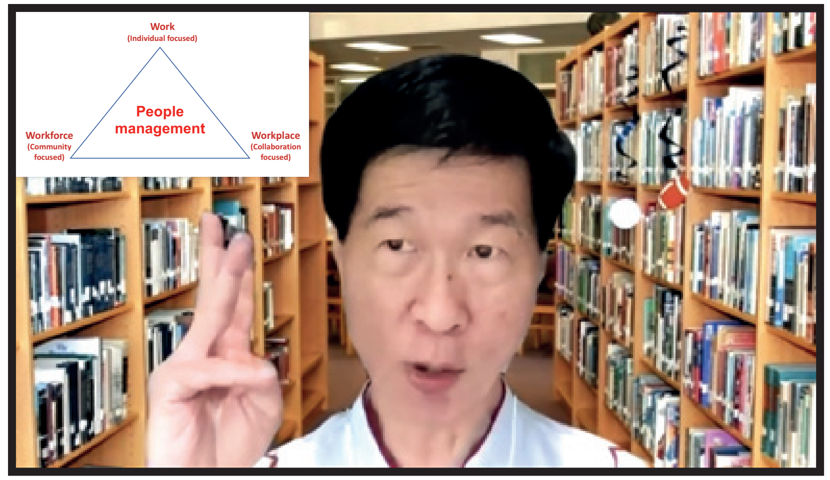
PEOPLE MANAGEMENT IN THE NON-PROFIT SECTOR

How To Nurture Sector's Work, Workforce And Workplace

NON-PROFIT ORGANISATIONS (NPOS) play a very important role in society by building resilience and ensuring that no one is left behind. NPOs also serve as platforms for people to show care and concern, bringing the 3Ps (people, private, public sectors) together, and play an essential role in nation building.

At the centre of all the good work done by NPOs are the people. People in NPOs include (i) the Board (ii) the management team, and (iii) the volunteers. Since people play such an important role in NPOs, how can we nurture them? We can do so by focusing on (i) work, (ii) workforce, and (iii) workplace.

"Work" focuses on the individual – you and me, and in particular, why individuals choose to work in the non-profit sector (Figure 1). "Workforce" focuses on the you and me, as well as the community, making a difference together (Figure 2). "Workplace" is about how NPOs can collaborate and create more value in NPOs' work (Figure 3).

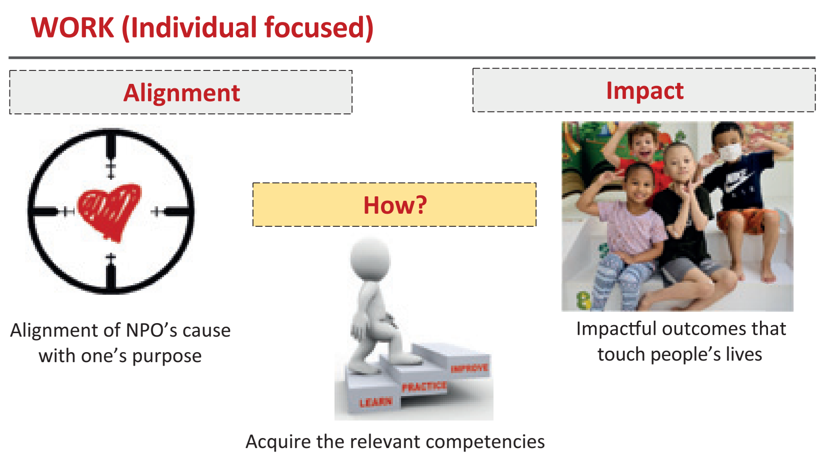


A Dr Ang Hak Seng sharing on "Work, Workforce and Workplace" at a webinar for charities on July 29; it was co-organised by the Commissioner of Charities and Singapore University of Social Sciences

WORK (INDIVIDUAL FOCUSED)

"Work" focuses on the individual – you and me, and in particular, why individuals choose to work in the non-profit sector.

Figure 1



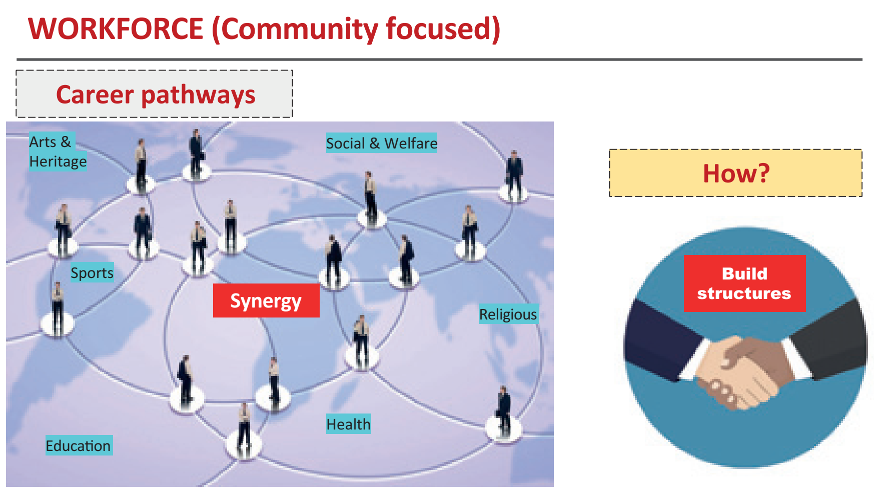
Different individuals work for different reasons. Therefore, to understand how to manage people, we first need to understand why people are doing what they are doing, and why people want to serve in an NPO.

Alignment of purpose

Why do people want to join the non-profit sector? Most people choose to serve in NPOs because their inner compass is aligned to the cause of the NPO. For example, youths who are passionate about nature and environmental conservation would like to serve in the Nature Society (Singapore), an NPO dedicated to the appreciation, conservation, study and enjoyment of the natural heritage in Singapore. On the other hand, people who are interested in providing humanitarian aid may like to serve in the Singapore Red Cross.

In managing work for people, we

Figure 2



need to ensure that the NPO's work is aligned to the individual's purpose. Once this is aligned, one's passion will continue to burn. On the contrary, if one's purpose is not aligned to the NPO's work, passion will diminish and one will no longer feel motivated nor inspired at work. To achieve this alignment, NPOs must ensure that their work remains meaningful and purposeful. Every activity by the NPO must be seen to be supporting the NPO's mission. NPOs must not lose sight of their mission and what they were set up to do.

Impact

No matter why someone decides to work or volunteer in an NPO, the bottom line is, everyone would like to see their work and contribution as being meaningful and impactful. They want to see their efforts and time produce meaningful outcomes. To produce good outcomes, NPOs need to be strategic, and should not run activities in an episodic manner. NPOs need a plan to ensure that their work delivers the greatest impact. For example, besides offering free tuition to children from low-income families, how can we train these children to help others? Besides helping these children with financial issues, how can we also offer opportunities for them to feel valued and dignified? We need to put greater thought into how we design and implement more impactful programmes for our beneficiaries. The biggest impact we are looking to achieve is to preserve the dignity of our beneficiaries. An example of this is found in SPD's mission statement, which states that SPD does not only help persons with disabilities, it empowers them by "develop(ing) their potential to the fullest so that they can be self-reliant and independent".

How to do that

How can NPOs organise their work such that it is aligned to their mission and is impactful? NPOs need to train their people, including getting them back to school so as to ensure that they acquire the relevent competencies to shape the NPO. Such skills include system thinking, design thinking and process re-engineering that can help people deeply understand their stakeholders and develop a strong purpose for their work.

> **We need to put greater thought into how we design and implement more impactful programmes for our beneficiaries.** The biggest impact we are looking to achieve is to preserve the dignity of our beneficiaries.

WORKFORCE (COMMUNITY FOCUSED)

"Workforce" focuses on you and me, as well as the community. While work focuses on the needs of the individual contributor, the workforce represents the gathering of like-minded people to form a community that is focused on making a collective difference.

Career pathways

For a workforce to work effectively, we need to create career pathways within the sector so that people and talent can be developed and grown. For example, how can an executive who has worked in a small NPO for a few years move to a larger NPO? – the same goes for a volunteer. Could a dedicated volunteer who provides ad hoc befriending services to the elderly take on a more strategic role as a Board member in the same NPO or other NPOs?

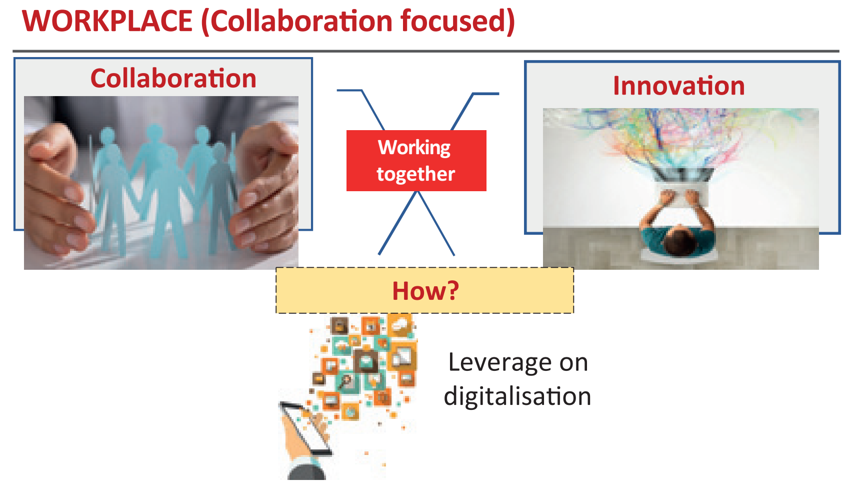
How to do that

It is challenging for one NPO alone to create economies of scale and to implement such a growth structure. We cannot leave it to chance, and we need to synergise and achieve this together as a community of NPOs. We need to implement structures and processes to make it happen. We cannot see each NPO as a separate community or entity. Rather, all NPOs are part of one big family. We need to get a consensus among NPOs in order to move people around and build structures to enable things to move fast for the management and people to visualise retention and growth opportunities.

WORKPLACE (COLLABORATION FOCUSED)

We often think of the workplace as a physical setting such as an office building. However, we should challenge this thought. The workplace should not be defined by its physical or even digital boundaries. Instead, a workplace should be viewed as the domain where services are provided and impact is delivered. This can be done by working together. To deliver the best service and to make the strongest impact, the workplace should be about managing people to embrace collaborations and innovations.

Figure 3



Collaboration

The workplace of the future must anchor and encourage collaboration and connectivity. We need to create space and opportunities for people (as mentioned in the 3Ps earlier) to come together, such as forming communities of practices and NPO alliances. For example, an elderly senior discharged from hospital requires a group of NPOs working together to provide holistic community care that spans medical escort to rehabilitation, physical and mental health support. This should be done with a "beneficiary in the centre" mindset.

Innovation

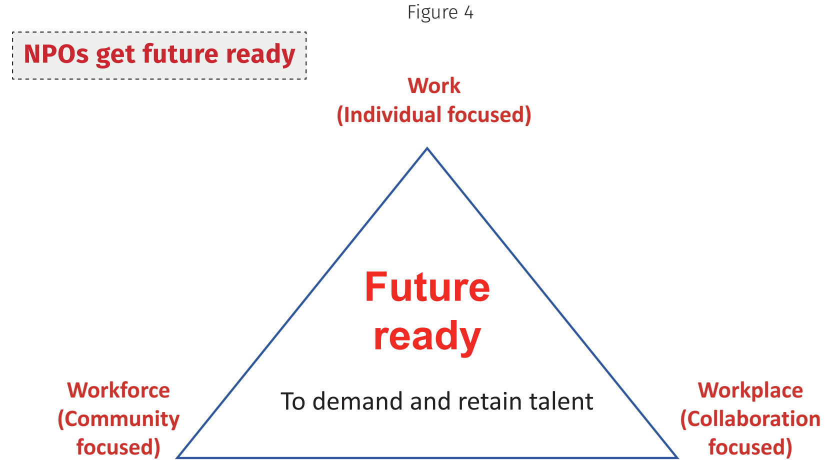
To achieve this, we need to create collaborative spaces. We need to rethink how our offices could look like; how to bring the volunteers, Board and management team together to build relationships, and share ideas. While Covid-19 has disrupted our lives and how we do things, it also presented us with opportunities to explore new methods of doing things. Covid-19 has shown that we do not need to work in offices; we can still work effectively from home, if we use the right digital tools. We have also moved from physical meeting rooms to online meeting platforms.

While we cannot gather physically in large groups, we should be thankful that technology has allowed us to connect with one another remotely. With the safe-distancing measures in place, NPOs should rethink how they can engage their people. With large physical gatherings disallowed, NPOs should implement new ways for small-group engagements, such as gathering a small group of five volunteers either online or offline to conduct activities for beneficiaries, as opposed to mobilising large groups of volunteers. If small-group programming is implemented strategically, it can be a more effective tool in connecting people. NPOs should continue to adopt digital solutions and online engagement methods to connect people; foster collaborations among people, corporates and community, and co-create more efficient ways of doing things so that we can do more, with lesser time.

How to do that

Collaboration and innovation involve change and organisations should leverage on digitalisation to make this change happen. Change does not happen naturally. On top of having training on design thinking and process re-engingeering, leadership is equally important. We need leaders who dare to change and encourage everyone to innovate and collaborate. This will help foster a deeper sense of "social entrepreneurship" among all staff.

Figure 4



CONCLUSION

People management in NPOs is about ensuring that the NPO's work is purposeful and impactful, its workforce has a structure for growth, and its workplace is conducive for collaboration and innovation (Figure 4). Only when we are future ready with these in place will we be able to demand our fair share of talent and continue to retain people in the non-profit sector. ISCA

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

BY PRADEEP VARAKANTHAM

DEPLOYING ARTIFICIAL INTELLIGENCE FOR DYNAMIC RESOURCE MANAGEMENT

Closing The Data-Decisions Loop

FOR BUSINESSES EVERYWHERE, THIS IS THE EPOCH OF ARTIFICIAL INTELLIGENCE (AI). Major advances in deep learning and machine learning mean that machines can now dissect, evaluate and interpret data in ways that were inconceivable just a decade ago. As a result, companies across all industries are harnessing AI to become more productive, to predict better and to market better. While we have been using computers for over six decades to help with business decision making, today, we find that AI systems are demonstrably delivering state-of-the-art performance for enabling business decisions, notably in resource planning, deployment and management.

THE CHALLENGE OF RESOURCE MANAGEMENT

Every business is faced with the most basic and also the most complex decision of optimally allocating its limited resources, both human and non-human, to meet multiple demands in a way that brings maximum benefit to stakeholders. On the factory floor, this takes the form of scheduling labour and allocating raw materials to achieve the target output in the most efficient manner. In the warehouse, this calls for arrangements that optimise space and time while reducing errors and improving flexibility. Similarly, the transportation and logistics sphere requires the optimal allocation of vehicles to ensure the fastest and cheapest ways to get products to market. At the last mile, sales and service delivery personnel also need to be deployed in a similar way, regardless of whether they are working for a brick-and-mortar store or an online business.

In the real world, this optimisation of resource allocation takes place in a dynamic setting, where the volume of resources (that is, supply of labour, machines, raw materials, warehouse space, trucks and service delivery personnel) and the demand for the goods and services they produce is constantly changing. Such dynamic deployment requires a configuration that can anticipate these changes and continuously adapt to them. Even this optimisation sequence that takes into account uncertainty in supply and demand is based on *ceteris paribus*, and can be disrupted by the emergence of new products, markets, competitors, business models as well as new environment, health and governance mandates. Such adversarial influences can throw off even the best-laid plan and hence, they require an immediate response to that particular incident. Such disruptions range from the "uberisation" of the taxi industry to the recent outbreak of the coronavirus.

While the challenge of resource management is not new to business, its scale and response time have significantly altered in recent times with the advent of e-commerce players, e-marketplaces, and social media. The scale at which companies like Amazon and Alibaba operate entails planning, scheduling and deployment of tens of thousands of people, along with their supporting physical assets. The number of cars managed by Uber in the US today far exceeds that of any taxi company. The move towards omnichannel retailing further adds to the complexities of seamless delivery in the online and offline spaces, and this is even more so for services that combine both, where the online order is collected in-store or store shopping is delivered.

Furthermore, time horizons are getting shorter as businesses compete to delight customers who are demanding ever higher levels of service. Amazon Prime is now delivering groceries within two hours, with many other companies scurrying to compete. One can only imagine the level of planning that goes into deploying transport

PHOTO SHUTTERSTOCK

BIKE-SHARING IN SINGAPORE

Early bike-sharing systems suffered from two major challenges: first, when the fixed docking stations for bikes were full, riders were forced to drop off bikes at stations far from their destinations and second, in certain locations, demand often exceeded supply due to the movement of bikes by riders. The critical issue then was how to make bikes available to customers at the "right" locations and at the "right" times.

Singapore sought to address these issues when it introduced bike sharing in 2017. The three bike-sharing companies in Singapore – Ofo, oBike, and Mobike – did not use docking stations and allowed for bikes to be dropped off or picked up anywhere using GPS tracking. This addressed the fixed-capacity issue that traditional docking stations could not address. Unfortunately, it gave rise to an even more complex issue – of bikes being left at locations where they posed a hazard, impeded pedestrian traffic or were not easily accessible. Given the thin profit margins, tackling this inefficiency was key to the sustainability of a privately-owned bike-sharing system.

The first way to address such inefficiencies was to employ trucks that take the bikes to places where customers need them the most, at different times of the day. All the bike-sharing systems typically store data on bike usage by customers, and algorithms help to identify customer bike-usage patterns. Truck routes were thus identified based on these usage patterns so that bikes could be collected from areas where there was a surplus, and deposited in areas where there was a shortage. Locations with a similar level of demand were grouped together into regions, and the relocation of bikes was carried out at the level of these regions. While the trucks were useful in relocating bikes, they increased the company's carbon footprint, potentially offsetting the environmental gains that were supposed to come with the bike-sharing systems.

Therefore, the second way was conceived, where the onus was placed on users, instead of intermediaries, to position bikes in the right locations. An incentive-based system in which customers were offered a reward to leave the bikes at the desired locations – meaning, locations where there was likely to be greater demand for bikes – could work. The key challenge in providing such monetary incentives was balancing the tradeoff between being attractive to customers (leaving the bike at a location desired by the bike-sharing company) and being financially feasible for the bike-sharing company.

While data-based prediction methods helped predict consumer demand, they were not sufficient to compel customers to move bikes to desired locations. The AI system – a data-driven decision-making system – could figure out the right financial incentives to use, given the multiple scenarios based on the future demand of rational consumers operating with a fixed budget. By combining data and decisions within one closed loop for bike-sharing systems, performance was significantly improved by up to 40%, compared to methods using multiple real data sets.

Source: Pradeep Varakantham. "Using Big Data To Make Bike Sharing More Efficient". (4 June 2017). *Today online.*

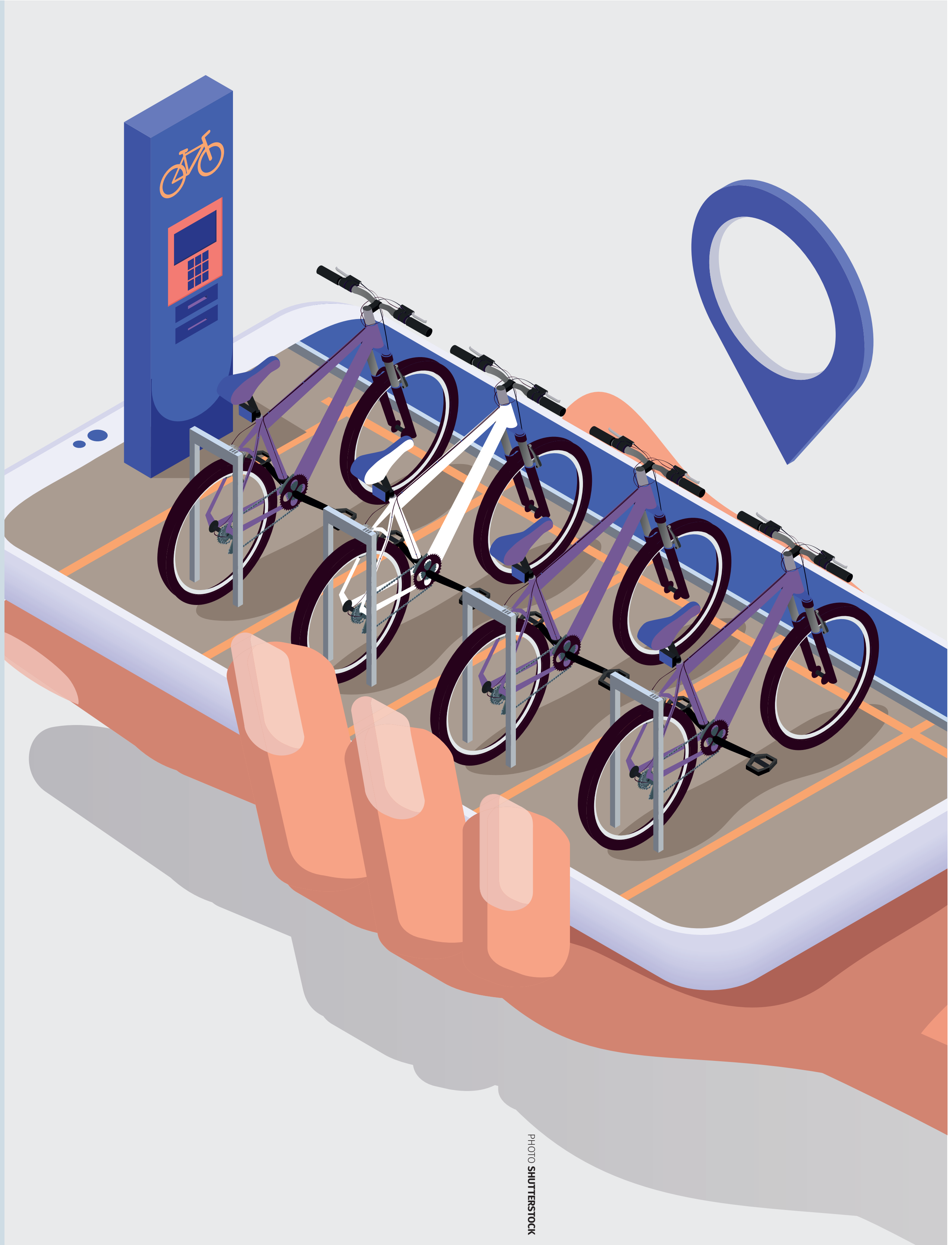


PHOTO SHUTTERSTOCK

... today, we find that AI systems are demonstrably delivering state-of-the-art performance for enabling business decisions, notably in resource planning, deployment and management.

and manpower (for shopping, packing and delivery) to get a full range of fresh and frozen items delivered to one's doorstep in such a short period of time. Meanwhile, any news, especially bad news, goes viral within minutes on social media, even as stakeholders demand that the company acknowledge and produce a response plan in real time. Hence, businesses find themselves planning not only for the reporting month/quarter, but also for the next hour.

While we have considered the example of a merchandise supply chain, the same principles of constrained optimisation amid uncertainty apply when taxis are allocated to passengers; hospital staff and rooms to patients; ground staff and facilities to airport immigration, baggage and other passenger services, and in the deployment of emergency vehicles, security patrols and law enforcement personnel. Hence, the need for efficient resource deployment in businesses in the face of resource constraints, uncertainty and imperfect information, and unforeseen incidences, is pervasive. Businesses that are built to last are quick enough to respond and flexible enough to adapt to such ambiguous situations.

WHERE AI FITS IN

What do AI systems do better? While computers that run optimisation programmes have been around for a while and are being used by businesses across the board, AI-enabled systems are able to (i) deal with scale, process millions of data points within seconds, and provide answers in real time, and (ii) learn from past data to continuously improve decision making. Enhanced intelligence enables simultaneous processing and deployment of tens of thousands of resource segments under hundreds of scenarios – all in real time. They not only help to dynamically optimise the allocation of resources, they allow for short-term and medium-term planning to be done simultaneously.

Closing the loop between data and decisions

In a dynamic environment, demand, supply and adversary patterns are constantly changing. One moment, you think you understand the universe and plan for it and the next moment, the market environment can change dramatically. Business today is all about incident response and incident prevention.

While the use of enterprise software to collect operational data and build robust databases is commonplace today, very few businesses are able to use or leverage that data for better operational performance. AI-enabled tools help to close the loop between data and decisions, that is, they help to make meaningful extrapolations and predictions based on the data, which in turn help in decision making. Once a problem is identified, a model constructed with algorithms that best represents the available data is used to obtain optimal strategies for matching supply with demand. These strategies are then tested out on a fresh set of real-world data (or on simulated data if real-world data is not available). Over time, as the experience set gets larger, the machine learns to further refine decision making by taking into account a wider set of data. Decisions are made through an iterative adaptive process based on the observed data.

AI-enabled technologies can support complex decision-making processes for allocating/deploying resources to meet service delivery requirements through the following tools and processes, as discussed below:

Data-driven decision optimisation

By considering multiple scenarios of potential future demand (sampled from past data) and exploiting key structural properties, large-scale resource management problems (with tens of thousands of resources) can be optimised in near real time.

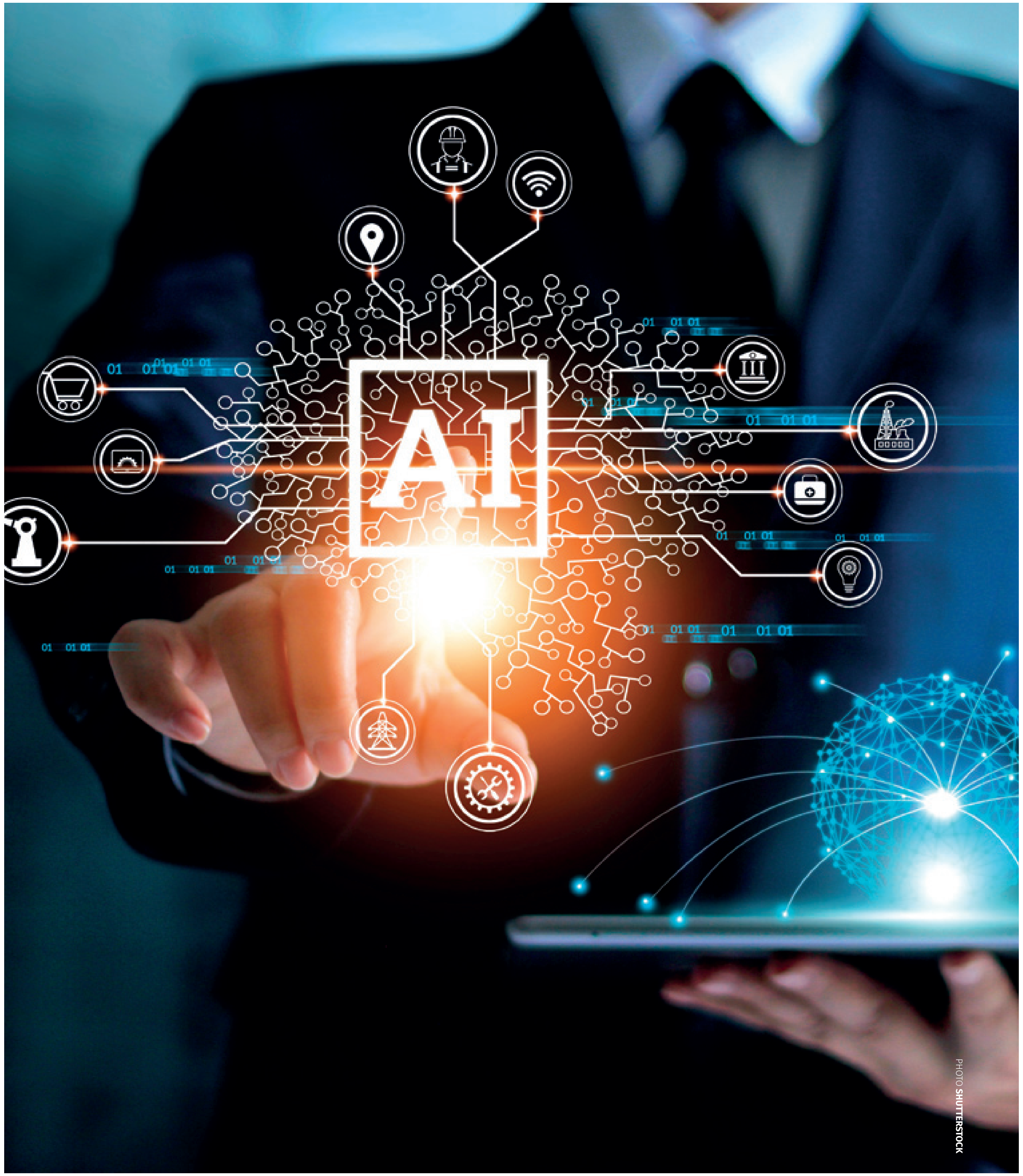


PHOTO SHUTTERSTOCK

AI-enabled tools help to close the loop between data and decisions, that is, they help to make meaningful extrapolations and predictions based on the data, which in turn help in decision making.

Reinforcement learning
This is a technique typically employed to learn from reinforcements (or reward signals) obtained from the environment. A key advantage of this method is that the technology can be trained offline for different potential scenarios that it has never encountered, and the strategy obtained can be executed in real time. By adapting reinforced learning to deal with large combinatorial action spaces, we can obtain better quality solutions than data-driven decision optimisation within near real time. The only assumption that typically limits applicability for these methods is the requirement for an underlying simulator for the environment.

Adversarial AI
These methods, at the intersection of machine learning and computational game theory, are crucial for addressing large-scale resource management problems in adversarial (example, physical or cybersecurity problems) or competitive (example, multiple companies vying for the same customer demand) domains.

The potential of these technologies is immense, and we are already seeing their widespread application in many areas of business. In finance, AI software is helping to predict stock values, identify important events and calibrate investment strategies. Acting like a crystal ball, AI software is able, for example, to forecast what events are going to cause a major slump in which stocks. In the transportation and logistics sector, AI systems are helping to predict demand and optimise supply to match demand.

Most importantly, by enabling resource management decision making based on data or data-based insights, these methods help close the loop between data and decisions. In other words, this helps people to make decisions that are not only based on past data but also potential future data that will be generated due to the decisions taken.

BEYOND RESOURCE ALLOCATION

As the rules of the game change, AI-enabled technologies are indeed a gamechanger for businesses looking to succeed. Beyond common applications like face recognition and language translation, AI applications can be used in key business processes to conduct the following:

Forecasting
AI systems are proving to be excellent at predicting demand, determining the success of a new product and identifying the best way to source materials. This helps businesses make informed, astute decisions.

Customer assistance
AI systems are being used increasingly as virtual customer service agents. They allow stores to automate checkout and companies to handle round-the-clock customer enquiries. On the home front, digital voice assistants like Siri and Alexa are helping homeowners to do everything from ordering food to turning on lights, adjusting the air-conditioner thermostat and checking the weather.

Optimising
With AI systems, fully-automated smart warehouses are now a possibility, where they can ensure smooth, optimal operations. AI systems are also helping in preventive maintenance so that machineries and equipment are maintained in top-notch condition.

Marketing
AI systems are able to simulate and model consumer behaviour. With their ability to gather customer data in real time and analyse trends in customer behaviour, AI systems can help companies roll out effective marketing campaigns. AI systems also allow for the creation of personalised promotions and individualised website displays for highly targeted marketing.

Indeed, AI-enabled technologies have a wide range of applications. In agriculture, AI systems are allowing farmers to identify issues in crop growth, harvest period and so on. And in law, AI systems are enabling lawyers to uncover gaps in legal documents. A case in point is an AI system that lawyers in Singapore have built to check if non-disclosure agreements are foolproof. While a lawyer would typically take a day to go through 20 agreements, this system sorts through the lot in just a few minutes.

In the medical industry, AI systems are enhancing operations at hospitals, diagnosing conditions and recommending treatments, among other revolutionary developments. Tan Tock Seng Hospital in Singapore, for instance, now draws up operating theatre schedules based on predicted demand. AI systems are also being used to process x-rays and MRI scans to determine whether a patient has cancer or is at risk; they are also being used for treatment. Based on how a patient is reacting to certain kinds of medicine, AI systems can recommend the next step in the treatment of that individual. A team from the Weizmann Institute of Science, Israel, developed an algorithm that can reliably pick out (in the early stages of pregnancy or even before pregnancy) women at high risk of developing gestational diabetes. Also, a research team from the National University of Singapore used big data and predictive analysis of over 30,000 patient-derived biopsies to develop a new personalised tool to detect cancer, predict patient survivability and forecast how well a cancer patient would respond to immunotherapy.

AN INTRIGUING FUTURE FILLED WITH POSSIBILITIES

It is exciting to see how AI for business use is unfolding. With the technologies still in their infancy, businesses will continue to explore the way forward. What is clear though, is that we are at the threshold of a new era of AI-enabled intelligent systems that can contribute towards better business performance in many ways. The key lies in closing the loop – learning from the data by observing what happened, identifying the gap between predictions and observations, and then using that knowledge to improve the model so as to narrow the gap, thereby improving predictions and allocations to determine the optimal matching of demand and supply in a dynamic, uncertain future. ISCA

Pradeep Varakantham is Associate Professor, School of Information Systems, Singapore Management University (SMU). This article was first published in Asian Management Insights, SMU. Reproduced with permission.

TECHNICAL HIGHLIGHTS

PHOTOS SHUTTERSTOCK

AUDITING AND ASSURANCE

ISCA COMMENTS ON IAASB'S ED ON PROPOSED ISA 600 (REVISED)

The revised standard proposes more robust requirements on the group engagement team's identification and assessment of risks of material misstatement of the group financial statements, among others. We have provided comments on areas where more guidance would be helpful, such as in areas of documentation, and highlighted practical challenges including operationalising the revised "top-down" approach to risk identification and assessment, considering the iterative nature of the involvement of component auditors.

For more information, please visit https://isca.org.sg/media/2825057/comment-letter_isa-600-ed-from-isca.pdf

ETHICS

ISCA ISSUES FINDINGS FROM SURVEY OF AUDIT COMMITTEE MEMBERS

ISCA unveiled the findings of its inaugural survey on the views of Singapore company directors regarding the provision of non-assurance services (NAS) by auditors at ISCA's Practitioners Conference on 22 October 2020.

An online survey was sent to Singapore company directors to seek their views on matters concerning auditor independence when providing NAS to audit clients, and on certain ISCA recommendations to address NAS independence concerns.

Currently, there is diversity in the interpretation and application of NAS and fee-related provisions in ISCA's EP 100 *Code of Professional Conduct and Ethics*. It is also unclear what information those charged with governance considered relevant when assessing the independence of audit firms.

For more information, please visit https://isca.org.sg/ethics/resources/articles-publications/articles-publications/2020/october/auditor-independence-when-providing-non-assurance-services-findings-from-survey-of-audit-committee-members/

ISCA ISSUES CLARIFICATION ON FINANCIAL INSTITUTIONS CONSIDERED AS PIES

ISCA has issued EP 100 Implementation Guidance 4 (EP 100 IG 4) to clarify the scope of entities that fall within the definition of financial institutions (FIs) in EP 100 (Revised on 14 August 2020), and hence, are considered as PIEs.

Professional firms auditing public interest entities (PIEs) are subject to higher independence requirements, such as stricter rotation requirements and prohibition from providing certain non-assurance services. FIs are included within the definition of PIEs in EP 100 (Revised on 14 August 2020).

For more information, please visit https://isca.org.sg/ethics/ethics-headlines/ethics-headlines/2020/october/isca-issues-ep-100-ig-4-clarification-on-financial-institutions-considered-as-public-interest-entities/

IESBA REVISES ETHICS CODE TO PROMOTE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

The International Ethics Standards Board for Accountants (IESBA) released in October 2020, Final Pronouncement: Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.

The revisions to the Code reaffirm the profession's responsibility to act in the public interest and the fundamental role of the Code in meeting that responsibility.

For more information, please visit https://www.ethicsboard.org/news-events/2020-10/global-ethics-board-elevates-importance-accountants-societal-role-and-strengthens-mindset

FATF REPORT: VIRTUAL ASSETS – RED FLAG INDICATORS OF MONEY LAUNDERING AND TERRORIST FINANCING

The report will help virtual asset providers, financial institutions and designated non-financial businesses and professions, and other reporting entities in identifying and reporting potential money laundering and terrorism financing activities involving virtual assets, in accordance with their suspicious transaction reporting obligations.

For more information, please visit https://www.fatf-gafi.org/publications/fatfrecommendations/documents/virtual-assets-red-flag-indicators.html

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ON GENERAL PRESENTATION AND DISCLOSURES

We agree with the Board's proposals. However, we recommend that the Board consider requiring the presentation of unrealised revenue and unrealised income/loss as a separate performance measure as such information reflects the quality of an entity's earnings and is relevant for investors. Our other key suggestions are for the Board to consider (i) aligning the categorisations in the statement of profit or loss and the statement of cash flows, (ii) prohibiting the use of Management Performance Measures in the financial statements, and (iii) not requiring the split of associates and joint ventures into integral and non-integral.

For more information, please visit https://isca.org.sg/media/2825047/isca-comment-letter-for-iasbs-ed-on-general-presentation-and-disclosures.pdf

IASB ISSUES IBOR REFORM – PHASE 2 AMENDMENTS TO IFRS STANDARDS

The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces the existing IBOR rate with an alternative benchmark rate because of the reform.

Areas covered by the amendments are (i) changes to contractual cash flows, (ii) hedge accounting and (iii) disclosures required. The amendments are effective for annual reporting periods beginning on or after 1 January 2021, with early adoption permitted.

For more information, please visit https://www.ifrs.org/news-and-events/2020/08/iasb-completes-response-to-ibor-reform/

IFRS FOUNDATION PUBLISHES REVISED DUE PROCESS HANDBOOK

The revised Handbook further enhances stakeholder confidence in the outcomes of the work of IASB and the IFRS Interpretations Committee (IC). The main changes are: clarifying the authority of agenda decisions published by IFRS IC and its role in supporting consistent application of IFRS Standards, and enhancing the related due process by formally involving IASB in their finalisation, and reflecting recent developments in IASB's analysis process of a new or amended IFRS Standard.

For more information, please visit https://www.ifrs.org/news-and-events/2020/08/ifrs-foundation-publishes-revised-due-process-handbook/

NEW TWO-PART WEBCAST ON AMENDMENTS TO IFRS 17

To support the implementation of IFRS 17, IASB has issued a two-part series webcast comprising Part 1: Amendments to the requirements other than transition, and Part 2: Amendments to the transition requirements. These, along with other webcasts and further educational materials, can be found on IASB's IFRS 17 supporting materials page.

For more information, please visit https://www.ifrs.org/news-and-events/2020/07/new-webcast-amendments-to-ifrs-17/

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BY LOH ENG KIAT

SINGAPORE'S JOBS SUPPORT SCHEME

Addressing The Tax Riddles

JOB-RETENTION POLICIES HAVE BEEN USED BY MANY GOVERNMENTS DURING THIS DIFFICULT PANDEMIC PERIOD TO LIMIT SOCIAL AND ECONOMIC HARDSHIP. A recent study suggests that as of June 12, at least 75% of OECD countries had some form of job-retention scheme.[1]

In Singapore, the Jobs Support Scheme (JSS) is meant to help enterprises retain their local employees during this period of grave economic uncertainty. Through the JSS, the government will provide cash subsidies to fund between 10% and 75% of the first S$4,600 (approximately US$3,300) of gross monthly wages that an employer pays each local employee for a stipulated period.

The JSS probably served as a lifeline for many businesses during the so-called circuit-breaker period – that is, the period during which the government mandated, *inter alia*, full home-based learning for schools and the closure of most physical workplace premises to prevent the spread of Covid-19[2] – when the JSS provided exceptional support. In April and May, the wage support topped up to 75% for all firms, regardless of sector.

An additional sweetener for eligible businesses is the automatic nature of periodic JSS payouts – no application is necessary. This contrasts with some countries in the region where wage support can only be obtained after cutting through a good bit of red tape.

With over 140,000 employers benefiting from the wage support[3], the scheme obviously has a very wide reach, and it can affect beneficiaries of differing profiles in different ways.

In the field of taxation, the JSS can potentially result in some awkward outcomes when its design elements interact with long-standing local tax principles. The earliest set of final corporate income tax returns affected by the JSS will not be due before the end of November 2021. To avoid leaving a bitter aftertaste, I urge the relevant authorities to consider the issues raised below with greater granularity, particularly with the recently announced extension of the JSS scheme.[4]

At the outset, it is important to note that at the time of this writing (August), the Ministry of Finance (MOF) is in the process of proposing amendments to the Income Tax Act that would, *inter alia*, clarify the tax treatment of the Covid-19 support measures for businesses. Whether the final amendments will address all of the concerns raised in this article, and whether they will do so thoroughly, remains to be seen. The schedule called for a period of consultation from July 20 to August 7, and MOF is expected to publish a summary of the comments received and its responses by the end of September.[5] (Writer's update in October: It may be useful to make reference to point 3 of Annex A of the published summary, since there is direct relevance to this article.[6])

This article reflects some of the feedback that I have provided in response to the consultation.

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[1] OECD. "Flattening the Unemployment Curve Policies to Support Workers' Income and Promote a Speedy Labour Market Recovery". 12 June 2020.

[2] Ministry of Health (Singapore). "Circuit Breaker to Minimise Further Spread of Covid-19". 3 Apr 2020.

[3] Inland Revenue Authority of Singapore (IRAS). "Over 140,000 Employers to Receive $4 Billion in Next Jobs Support Scheme Payout from 28 May". 17 May 2020.

[4] Tang See Kit. "Extension of Jobs Support Scheme among S$8 Billion Worth of Measures Announced by Heng Swee Keat". Channel NewsAsia. 17 Aug 2020.

[5] Ministry of Finance. "Summary of Responses to Public Consultation on the Draft Income Tax (Amendment) Bill 2020". 2 Oct 2020.

[6] Point 3 of Annex A – Feedback: The tax exemption for payouts under the JSS may cause doubt as to the tax deductibility of wage expenses supported by the JSS. Response: Accepted. Clarifications will be provided on IRAS' website to explain that employers will be allowed tax deductions on such wages paid to employees which are funded out of JSS payouts.

THE TAX-EXEMPTION BASELINE

From a tax practitioner's standpoint, a somewhat unexpected piece of the JSS is that the payouts will be tax exempt, according to a recent clarification from the Inland Revenue Authority of Singapore (IRAS). It is surprising when juxtaposed with the IRAS' "general guiding principles" which state that grants or payouts will typically be taxable when they are given to help defray operating expenses.[7]

If the authorities see fit to give legislative force to IRAS' stated position, I believe that the baseline plan of tax-exempting JSS payouts may give rise to some tax-related difficulties, which I hope future legislation and guidance materials will address.

There is a need for further IRAS clarification to be provided along the lines of allowing (and, hopefully, also confirming) the full tax deductibility of the underlying wages that are defrayed by the JSS payout. To illustrate this, consider a simplified example: A business with no revenue this year, wages of S$100 and a JSS payout of S$75, will simply not pay income taxes for the year. Some may suggest that such a business should only be entitled to a tax deduction based on the net business outlay of S$25 (that is, S$100 less S$75). However, allowing the S$100 of underlying wages to be claimed in full as a tax deduction can provide tax savings in future years. The higher tax savings from full tax deductibility can potentially enhance the fiscal support that the JSS provides to businesses.

Indeed, if the wages constitute the running costs of a business undertaking, Singapore's tax deductibility rules should not preclude a full tax deduction. Business expenses are generally deductible[8] if they are "wholly and exclusively incurred in the production of income". The fact that the company earns little or no business revenue – or that the tax-exempt JSS payout is (unfortunately) the main income stream – should not alter this basic position.

An accounting presentation method may unwittingly thwart the desired outcome of a full tax deduction for underlying wages linked with tax exemption on JSS income. Under International Financial Reporting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the grant income can either be presented separately as grant income or under "other income", or deducted against salary costs. If businesses adopt the latter accounting option and present JSS grant income in a more opaque manner and deduct the grant income against the salary costs, then they may be more likely to neglect to make a book-tax adjustment to treat the JSS grant income as tax exempt. By doing so, the businesses would indirectly and inadvertently suffer tax on the JSS grant, which is not the government's intent. In other words, the principle of "tax follows accounting" cannot apply in this instance, and IRAS (as the administering body disbursing JSS payouts) should automatically rectify this mistake for the benefit of the taxpayer, based on the information at its disposal. Alternatively, and at the very least, IRAS should provide a simple and penalty-free option allowing the taxpayer to amend its tax returns in this particular situation.

> Business expenses are generally deductible if they are "wholly and exclusively incurred in the production of income". The fact that the company earns little or no business revenue – or that the tax-exempt JSS payout is (unfortunately) the main income stream – should not alter this basic position.

"PASSING ON" THE PAYMENTS

Another tax-related difficulty stems from conflating the intended tax-exempt outcome of JSS amounts with behavioural expectations. Such expectations may arise from both the general public – for example, in recent weeks, numerous comments on the Forum page of *The Straits Times* website have borne titles like "Managing agents should try to pass on JSS payouts where possible", "Condo managing agents should pass on JSS payouts to clients", and "Make firms that don't need wage subsidy payouts return them" – and also from the authorities. As an example of the latter, the Ministry of Manpower (MOM) recently issued an advisory titled "Labour supply companies should pass on the benefits from the Jobs Support Scheme to your clients".[9] The MOM advisory recognises that there are companies involved in labour supply services that contract employees out to work for their clients, and it sets out MOM's general expectation that – with an exception for some outsourced service providers – labour supply companies (LSCs) should pass on the JSS payouts for those employees to the clients that continue to pay full fees for the employees' contracted services. MOM has reached this conclusion because the policy intent of the JSS is to provide wage support for local employment.

Leaving aside the naturally difficult issues of honourable behaviour and the like, it is far from straightforward to figure out the impact of JSS payouts being tax exempt when the benefits are

[7] IRAS. "Tax Treatment of Grants/Payouts Commonly Received by Companies". Last accessed 6 Aug 2020.

[8] There may be some exceptions to this rule, such as when the expenses are a contingent liability, capital in nature, specifically prohibited, or incurred before the commencement of business.

[9] Since the original version of this article was first published, additional lines of FAQ response have been added to the IRAS website. For example, one such additional line states: "If an employer passes on the JSS payout in the form of monetary payment to another party, that monetary payment is taxable in the hands of the recipient." It must be emphasised that because these additional lines were added just prior to the original print version published in Tax Notes, its full tax consequences have not been analysed.

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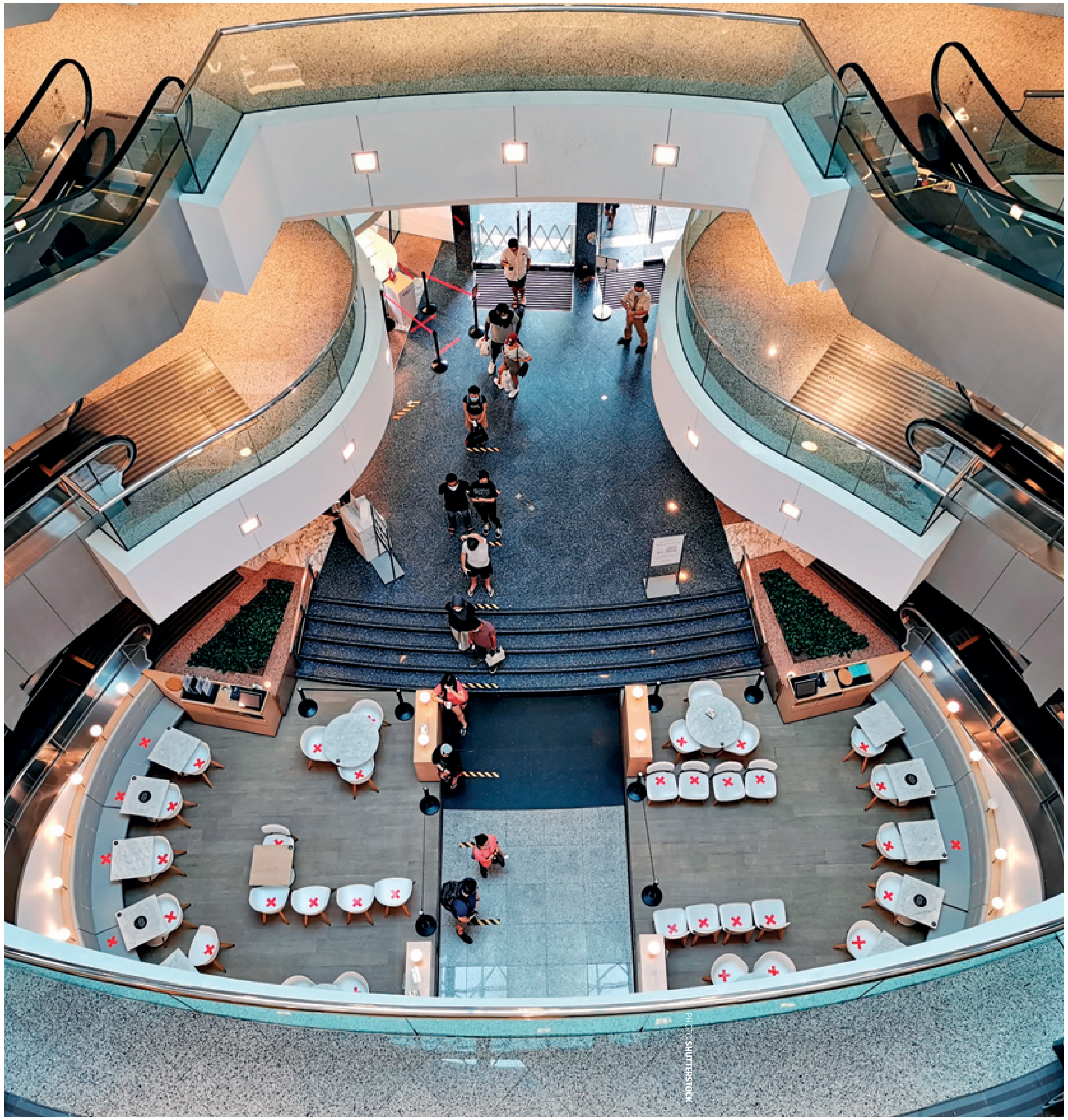
passed on. To my knowledge, under the rules in effect as accessed on 20 August 2020, the tax-exemption outcome would be found in a one-line response to FAQ 10 in the IRAS website section that contains JSS-related information: "The JSS payout will be exempt from income tax in the hands of employers."[10] While the brevity and sweeping nature of this statement is unambiguous – and it is certainly helpful in many general situations – it is clearly an insufficient answer to the tax questions presented when the JSS benefits are passed on. For example, assuming adherence to the MOM advisory, the LSCs' clients will not be receiving JSS payouts *per se*; instead, they may be receiving service-fee rebates from the labour suppliers. Even if the service-fee rebates can be causally linked and traced to the underlying JSS payout, the fact that the existing rule only mentions JSS payouts (that is, it does not mention any derivative amount) and suggests a legal employer-employee relationship is necessary, may cause the tax-exemption outcome to be effectively denied – or, at the very least, made contentious – for both the clients and the labour suppliers.

MOM's general expectation regarding LSCs give rise to at least three other potential concerns:

- Passing on JSS benefits within this model framework invariably means that LSCs must be prepared to be almost fully transparent with their clients regarding the profit margins they earn on the local employees involved (at least on those earning less than S$4,600 of gross monthly wages). It is unclear to me whether transparency on the profit margins of LSCs constitutes market practice, although admittedly, this goes beyond the scope of my professional expertise.
- An LSC with greater tax acumen and a strong desire to maintain privacy regarding its profit margins may be disinclined to continue traditional employer-employee relationships. By shifting to independent consultant contracts – that is, the use of contract *for* service, rather than contract *of* service – the LSC can practically eliminate its entitlement to JSS payouts, and therefore, it may have no benefits to pass on to its clients. To prevent an (otherwise noble) attempt by the Singapore government to support businesses and protect local employment from being thwarted in this manner, it may be necessary to scrutinise independent consultant contracts more critically, even when the context is purely domestic. For example, the concept of an independent agent exclusion in the permanent establishment context typically requires that the agent is independent in both a legal and an economic sense, and this line of inquiry can be extended to the LSC situation as well.
- If an LSC recognises both the JSS payouts and the exact amount being passed on to the client in the income statement, then the tax deductibility of the latter expense can – based on local tax principles – be unwieldy. This is because the amount cannot be said to be "wholly and exclusively incurred in the production of income" when the chronology suggests that it is incurred after the income is earned. For that expense to be tax-deductible, the LSC may need to rely on section 14X of the ITA, a specific provision covering deductions for expenditures incurred to comply with statutory and regulatory requirements. If, however, the MOM advisory pertaining to passing on of the JSS benefits simply represents "soft law" or a moral suggestion, then incurring the expense might not fall squarely within the specific provision focused on compliance with statutory and regulatory requirements. Be that as it may, this may largely be academic because JSS payouts are meant to be tax exempt; in other words, both the JSS payments and the amount passed on should be disregarded for Singapore tax purposes.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> "The JSS payout will be exempt from income tax in the hands of employers." While the brevity and sweeping nature of this statement is unambiguous – and it is certainly helpful in many general situations – it is clearly an insufficient answer to the tax questions presented when JSS benefits are passed on.

A FINAL POINT ON PHILANTHROPY

In my previous article,[11] I touched on numerous news reports highlighting the return or donation of JSS payouts by a few large companies in Singapore.

In the case of donations, it is worth mentioning that some donations in Singapore can in fact generate 250% tax-deduction value. Donors can carry forward unutilised deductions resulting from qualifying donations for five years.

When unused capital allowances and trade losses can be carried forward indefinitely (if the requisite conditions are met), there appears to be no compelling reason why there needs to be a five-year limit for unused donations. This issue is magnified since the JSS-linked donations can be sizeable, with the amount based on a percentage of wages rather than nominal amounts.

If the 250% tax-deduction rate for qualifying donations reflects a desire to encourage greater charitable efforts, then this period of extreme economic downturn should give policymakers the incentive to strengthen the tax code's support of philanthropy and remove the five-year time limit – introduced nearly two decades ago – once and for all. ISCA

[10] IRAS. Jobs Support Scheme (JSS).

[11] Eng Kiat Loh. "Today's Taxes, Yesterday's Terms: Reimagining Old Concepts to Understand a New Normal," Tax Notes Int'l. 27 July 2020, p513.

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BY FELIX WONG AND ANGELINA TAN

COVID-19 AND TAX UPDATES

Overview Of Covid-19 Tax Guidance

IT HAS BEEN ALMOST A YEAR SINCE THE BEGINNING OF THE COVID-19 PANDEMIC, yet the world is still in the thick of the ensuing global economic fallout. To stabilise economic activities during this difficult period and position Singapore for recovery, the Singapore government had decisively rolled out numerous relief packages over a record four Budgets in 2020. Meanwhile, Inland Revenue Authority of Singapore (IRAS) has also dished out various guidances to provide clarity on the tax implications arising from the Covid-19 situation.

In the July 2020 issue of this ***IS Chartered Accountant Journal***, Singapore Chartered Tax Professionals published an article "Covid-19 and Taxes" to highlight three key tax implications arising from Covid-19 that businesses and their employees should take note of. Since then, additional guidances on the various tax types have been made available. This article focuses on these new guidances.

INDIVIDUAL TAX

Tax residency and related issues

A Singapore citizen or Singapore Permanent Resident who is exercising overseas employment, but is now working remotely from Singapore for his overseas employment due to the Covid-19 situation, will continue to be considered as not exercising an employment in Singapore for the period from the date of his return to 31 December 2020 (extended from the previous deadline of 30 September 2020). This is 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.

The updated deadline is subject to review as the Covid-19 situation evolves.

Employment and related benefits

Employers may provide accommodation and other related benefits to employees affected by movement restrictions imposed within and across borders due to Covid-19. Recognising that employees receive these benefits only as the result of the extraordinary circumstance arising from the Covid-19 pandemic (such as Malaysia's Movement Control Order or MCO), a tax exemption has been granted on qualifying benefits (including accommodation in Singapore, as well as food, transport and daily necessities for consumption in Singapore) given to employees in the calendar year 2020, subject to conditions and a cap on the amount of exemption.

GOODS AND SERVICES TAX (GST)

As employees are encouraged to work from home (WFH) during this period, many businesses have incurred additional expenses to support such new work arrangements. IRAS has, in its GST guidance, clarified the rules on input tax claim for certain Covid-19-related costs.

Office equipment for home use to facilitate WFH

Where businesses have purchased office equipment (such as printer and chairs)

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for their employees' home use to facilitate WFH during the Covid-19 period, input tax is claimable on such purchases if the company owns the equipment. Conversely, input tax is not claimable if the company does not own the equipment on the basis that the purchase is primarily incurred for private purposes.

Utility and telephone bills, monthly subscription fees for mobile phones and broadband incurred while employees WFH during Covid-19 period

Input tax is claimable on the business portion of the expenses incurred during the Covid-19 period. For the input tax to be claimable, it is important to ensure that the supply is contracted in the employee's name, and not any other person living in the same household.

Covid-19 tests and hospitalisation charges for employees

GST incurred on Covid-19 tests and hospitalisation charges for employees are regarded as medical expenses and accordingly, disallowed under Regulation 26 of the GST (General) Regulations Act.

Personal protective equipment for employees

Unlike Covid-19 tests and hospitalisation charges for employees, input tax is claimable on personal protective equipment (including masks, thermometers, and hand sanitisers) provided to employees on the basis that they are incurred for the purpose of the business.

Costs incurred for employees on stay-home notice

GST incurred on accommodation, food, transport to and from testing facilities, and thermometers for an employee who is required to serve a stay-home notice (SHN) upon returning from his overseas business trip is generally claimable (with certain exceptions). On the contrary, GST incurred on such costs for an employee returning from a personal trip overseas is not claimable, as they are incurred primarily for the employee's personal benefits.

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The disrupted global supply chain caused by the Covid-19 pandemic is expected to have an impact on businesses' operations and consequently, on their transfer pricing positions.

SHN expenses and accommodation provided to Malaysian workers

GST incurred on accommodation provided to a Malaysian worker in light of the MCO, where the Malaysian worker normally resides overseas and is required to remain in Singapore for business continuity purposes during the MCO period, is considered to be incurred for business purposes and accordingly, is claimable.

In contrast, GST incurred on SHN expenses and accommodation provided to Malaysian workers under the Periodic Commuting Arrangement (PCA) scheme is not claimable on the basis that such expenses are primarily incurred for the personal benefit of the employee; the SHN expenses need not have been incurred had the employee not returned to Malaysia for personal reasons.

TRANSFER PRICING

The disrupted global supply chain caused by the Covid-19 pandemic is expected to have an impact on businesses' operations and consequently, on their transfer pricing (TP) positions. Businesses face uncertainties on how one may realign existing supply chain arrangements and undertake comparability or benchmarking analysis in the absence of data to determine the arm's length prices for TP purposes.

Recognising businesses' desire for more certainty, IRAS has issued a TP guidance to address some commonly asked questions by taxpayers whose supply chains and daily operations have been disrupted by Covid-19.

Documenting impact of Covid-19

To substantiate the arm's length nature of their TP outcome, taxpayers are expected to provide the following information in their TP documentation:

- A broad analysis of how the company has been affected by Covid-19 and the direct impact of Covid-19 on the company;
- Documentation of who and which entity within the group made decisions relating to management of risks relating to Covid-19; the information would help to indicate which entities are in control of the decisions and accordingly, should bear the related risks;
- The functional analysis of the company and its related parties before and after Covid-19, including any re-allocation of functions, assets and risks, as well as any re-characterisation;
- The contractual arrangements between the company and its related parties; any obligations or material terms and conditions that have been varied, amended or terminated in light of Covid-19 should be highlighted;
- A comparison of the budgeted (pre-Covid-19) and actual results of the profit and loss analysis of the company, with explanation and evidence to support the variances;
- Reasons and supporting evidence to justify how the company's profitability has been negatively impacted by Covid-19;
- Details relating to Covid-19 specific government assistance that the company has received, or government regulations imposed on the company which has an impact on its operations.

The above information request demonstrates IRAS' willingness to work with businesses to better understand the broader facts and circumstances that they face during these exceptional economic situations.

At the same time, it highlights once again the importance of contemporaneous documentation in substantiating the arm's length nature of businesses' TP outcomes.

Flexibility in conducting economic analysis

Under usual circumstances, companies are required to consult IRAS if they wish to test related party transactions over a multiple-year period. However, in view of the exceptional Covid-19 situation, companies are now allowed to apply term testing for Year of Assessment (YA) 2021 (that is, financial year 2020) without prior consultation with IRAS, if they are of the view that annual testing may result in volatile results due to the impact of Covid-19. Companies would be expected to explain clearly in the TP documentation how the term testing was applied and highlight that this is a once-off event.

When considering to perform term testing, it is important for companies to take into account the corresponding impact of this approach on its related parties in other jurisdictions. Potential disputes may arise if term testing is not allowed in the other jurisdictions.

Considerations for Advance Pricing Agreements

Companies with existing Advance Pricing Agreements (APAs) with IRAS should consider whether there is any breach of the terms and conditions in the existing agreement due to Covid-19. If there is a breach, the company should inform IRAS, provide an analysis of the impact as a result of Covid-19, explain why the terms and conditions have been breached, and suggest the next course of action.

Companies with APA applications under review would need to assess whether there are Covid-19-related TP implications that would impact the APA application (for example, if there are any changes in the functional profile of the covered entities), and if so, provide relevant details to IRAS. Where significant uncertainties are involved or anticipated, it is possible that the APA process will be put on hold or even terminated.

Companies looking to file a new APA application or renew its existing APA may do so if their business operations and economic performance are not significantly impacted by Covid-19. Otherwise, it may be worth considering to do so only when there is a greater level of certainty on the factors which may affect the determination of arm's length transfer prices between related parties.

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GST incurred on Covid-19 tests and hospitalisation charges for employees are regarded as medical expenses and accordingly, disallowed under Regulation 26 of the GST (General) Regulations Act.

While it may be tempting for businesses to focus on their immediate survival during an economic downturn, staying disciplined and ensuring that tax implications are considered when making business decisions will definitely pay off in the long run. The importance of maintaining contemporaneous documentation, particularly to substantiate the TP outcomes during exceptional economic situations, cannot be further emphasised. ISCA

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