IS Chartered Accountant Journal

FEBRUARY 2022

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Recover And Refocus; Get Ready For The Future

Dear members,

JUST AS EVERYONE HAS A ROLE TO PLAY IN THE FIGHT AGAINST COVID-19 – including curtailing activities during Chinese New Year, observing safe management measures – everyone also has a role to play at the workplace, supporting their organisation's business recovery and growth.

While the omicron wave continues to cause uncertainties, Singapore is progressively opening its borders and allowing the resumption of travel, albeit to selected countries. The advance estimates released by the Ministry of Trade and Industry (MTI) on January 3 showed that the Singapore economy grew by 7.2% in 2021, rebounding from the 5.4% contraction in 2020. Barring any unexpected events, Singapore's GDP growth is expected to come in at 3% to 5% in 2022. Prime Minister Lee Hsien Loong has also shared that he was "cautiously optimistic" about the year ahead.

As Singapore moves closer to an endemic COVID-19, both the ISCA Pre-Budget Roundtable 2022 (held on January 14) and ISCA Pre-Budget 2022 Survey (carried out from 1 to 29 September last year) – while reflecting the members' "cautiously optimistic" outlook – highlighted the importance for businesses and individuals alike to recover and refocus on growth. Some 47% of all Survey respondents expected the business outlook of their organisations to improve, while 23% expected it to worsen. This is a distinct shift compared to a year ago when businesses were focused on survival; it is made possible because the accountancy profession has kept in step by being agile in its adaptation to the new normal, with close to 90% of all Survey respondents indicating that they have begun adapting to new ways of working and doing business. Although businesses will continue to face hurdles as they navigate the increasingly complex business environment, my advice to businesses and individuals would be to stay agile and nimble.

At the Institute's signature ISCA Pre-Budget Roundtable, a panel of 15 participants, including Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, and Trade and Industry) and myself as co-chairs, discussed how Budget 2022 can enable a smoother economic recovery with business-friendly support measures and assistance, to help businesses focus on new growth opportunities. As Mr Liang points out, "Our tasks in 2022 must go beyond managing the pandemic to preparing Singapore for the structural shifts ahead." Clearly, many businesses are ready to move forward and they are looking to Budget 2022 to provide them with the much-needed impetus. Find out what transpired at the Roundtable in the cover story, "ISCA Pre-Budget Roundtable 2022". Also read "ISCA Pre-Budget 2022 Survey" for a better understanding of the issues facing the auditors, and accountancy and finance professionals.

While the Roundtable and Survey have unveiled some challenges, they have also highlighted new growth opportunities, such as in sustainability. This resonates with CA (Singapore) Audra Low, who is featured in the Member Profile column. Audra is Chief Executive Officer and Executive Director of Clifford Capital, a company set up with the support of the government to provide an alternative source of capital for Singapore companies venturing overseas. As she explains it, "When sources of capital start paying attention to the issue (sustainable practices), businesses will be steered towards greater sustainability." She also notes that accountants are well placed to guide their organisations towards sustainable practices, such as by leveraging environmental, social and governance (ESG) evaluation metrics to quantify the ESG impact on the bottom line. Audra, who is a co-chair of the ISCA Infrastructure & Project Finance Oversight Committee, helped to develop the ISCA Infrastructure & Project Finance Qualification (IPFQ) – a specialisation pathway to meet the growing demand for expertise in infrastructure development. A veteran in the area of project finance, she shares her experiences in these pages.

Now is the time to shift gears and prepare for a brighter future, if you haven't already done so. And, the Institute has the resources to support you all the way.

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PUBLISHING & DESIGN CONSULTANT
mediacorp
MCI (P) 048/03/2021
PPS 709/09/2012 (022807)
ISSN 2010-1864

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

PRINTING COMPANY
KHL Printing Co Pte Ltd

Room For Improvement In The Quality Of Financial Statements Prepared By Singapore-listed Companies For Audits

THE LATEST STUDY COMMISSIONED BY THE ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA) reveals that there is room for improvement in the quality of financial statements prepared by some Singapore-listed companies for audits.

The study, "Audit Adjustments Matter: What they reveal about companies' financial reporting", analysed the proposed audit adjustments made by auditors to the financial statements of 412 Singapore-listed companies from 2018 to 2020. In addition, it surveyed close to 280 audit committee chairs and heads of finance of these companies to gather their views on the effectiveness of their companies' finance functions.

Responsibility for the preparation of financial statements lies with the company. Under the Companies Act, company directors are responsible to table a set of audited financial statements to shareholders at the annual general meeting. Commonly referred to as a financial statements audit, the auditor is to carry out an objective examination of the company's financial statements and express an opinion as to whether the financial statements are prepared in all material aspects, in accordance with the relevant accounting standards. As part of the financial statements audit, audit adjustments may be proposed by the auditor to correct misstatements in the financial statements. Analysing the proposed audit adjustments thus provides insights into the quality of financial statements prepared by the company, allowing the company's directors, management and finance team to identify gaps and ways to improve their financial reporting process.

Some of the key findings of the study on 1,236 financial statements of 412 Singapore-listed companies over the three years are as follows:

PHOTOS SHUTTERSTOCK

1) Auditors continue to play a key role in upholding financial reporting quality

Between 2018 to 2020, auditors proposed 22,051 audit adjustments amounting to $78,670 million for the 412 listed companies in the study. About $67,079 million or 85% of these proposed adjustments were primarily to correct factual or misclassification errors in the financial statements. These proposed adjustments also amounted to an overall reduction in net income of $1,148 million in the financial statements over the three years.

The extent and impact of the audit adjustments proposed to correct the financial statements underscores the key role that auditors continue to play in upholding financial reporting quality. Nevertheless, the high occurrence of factual and misclassification errors highlights the need for companies to review the financial reporting process and controls with the objective of improving the quality of financial statements.

2) Some companies have issues finalising their accounts for audit; more than one-third of proposed audit adjustments were "late client adjustments"

Over one-third (36%) of proposed audit adjustments were "late client adjustments", that is, they were identified by the companies themselves during the course of the audit. About 80% of these late client adjustments relate to factual or misclassification adjustments. This suggests a weakness in the financial statements preparation process.

Companies should consider investments in digital solutions and automation of financial processes to minimise errors and improve the efficiency of financial year-end reporting processes.

3) A minority of companies accounted for most of the proposed audit adjustments, some with persistently high level of adjustments each year

Over the three-year period, there were 165 sets of financial statements from 87 companies with more than $100 million worth of audit adjustments proposed by the auditors. Collectively, these financial statements accounted for $62,262 million (or close to 80%) of the proposed audit adjustments in this study. Out of these 165 financial statements, 28 companies had over $100 million of proposed adjustments every year during the three-year period, accounting for nearly 50% of the total proposed audit adjustments.

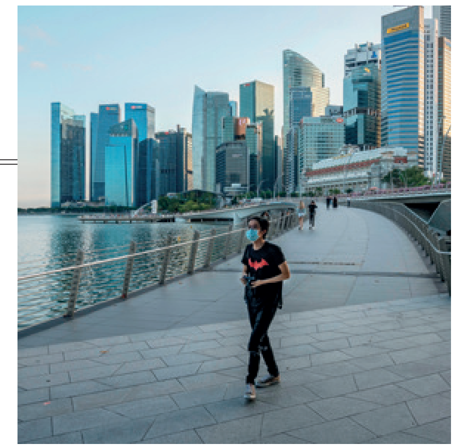
The persistently high level of adjustments each year is indicative of an over-reliance by these companies on the auditor to produce a proper set of financial statements. Audit committees and management of these companies should place greater scrutiny over these audit adjustments and take prompt actions to address their root causes.

"The study shows that there is room to further strengthen the finance functions of companies in Singapore to improve the preparation of financial statements," says ACRA Chief Executive Ong Khiaw Hong. "ACRA will work with professional bodies and other stakeholders in the financial reporting ecosystem to help companies raise their accounting capabilities and provide guidance on areas they should pay attention to. We will also continue to focus our monitoring and enforcement efforts on companies with higher risks of financial misstatements."

"This study provides analysis of audit adjustments from multiple dimensions. It highlights the efforts involved in upholding financial reporting integrity," says Associate Professor Themin Suwardy, Singapore Management University, and Dr Lim Chu Yeong, Nanyang Technological University, who jointly conducted the study. "We are pleased to have contributed to this study that provides beneficial insights to all financial reporting stakeholders."

The report is available for download via the ACRA website.

Singapore Economy To Grow 3% To 5% In 2022



THE SINGAPORE ECONOMY IS EXPECTED TO GROW 3% TO 5% THIS YEAR AS THE COUNTRY MAKES STEADY RECOVERY FROM THE PANDEMIC, said Prime Minister Lee Hsien Loong in his New Year Message. In his statement on 31 December 2021, he said that the year ahead will continue to be a time of transition, and the economy is expected to grow in tandem with global recovery, barring fresh disruptions.

As an open economy, Singapore's economic development is affected by events around the world. According to the Ministry of Trade and Industry, this year, the GDP growth in most advanced economies is expected to moderate as compared to 2021, but remain above pre-COVID-19 trend rates. By contrast, key Southeast Asian economies are projected to see faster growth in 2022 as they progressively resume more economic activities. Meanwhile, supply bottlenecks and disruptions could continue to weigh on industrial production in some external economies in the near term.

In Asia, China's growth is projected to slow due to its property market downturn, constraints imposed on energy use, and adherence to a zero-COVID-19 policy, which could dampen consumption growth. Meanwhile, GDP growth in the key Southeast Asian economies of Malaysia, Thailand and Indonesia is expected to pick up alongside improvements in domestic demand, following the decline in COVID-19 infections in recent months and further progress in vaccine deployment, as well as sustained external demand.

In the US, economic growth is projected to moderate in 2022, although remaining above its pre-COVID-19 trend rate. Stronger labour market conditions, along with elevated savings from previous fiscal stimulus packages, are expected to bolster consumer spending. Nonetheless, a reduction in the amount of fiscal stimulus likely to be disbursed in 2022 as compared to 2021, as well as lingering supply disruptions, could pose a drag on growth. Similarly, GDP growth is expected to moderate but remain above-trend in the Eurozone. Sustained improvements in labour market conditions and firm consumer confidence will continue to support domestic demand, even though industrial production is likely to be weighed down by supply bottlenecks in early 2022.

At the same time, downside risks in the global economy remain, including the trajectory of the pandemic, global supply chain disruptions becoming more protracted, and continued geopolitical uncertainties involving the major economies.

Regional CFOs Slow To Transform Finance Function For Frontline Roles

OPERATIONAL AND BUSINESS CONTINUITY ISSUES CONTINUE TO BE AMONG THE TOP CONCERNS OF COMPANIES IN THE REGION AS THEY COMBAT THE EFFECTS OF COVID-19. But "as the pandemic continues to demand fundamental shifts to their businesses, it is imperative for Chief Financial Officers (CFOs) and their finance function to pivot from operational finance to financial insights and turn their attention to developing new finance roles and the accompanying skill sets required for the future," says Timonthy Ho, Deloitte Southeast Asia CFO Programme Leader. "Specifically, they will need to take on more frontline roles and become the ultimate owner of data within the organisation."

PHOTO SHUTTERSTOCK

Mr Ho made the remarks in relation to a recent study by Deloitte. The study, "Southeast Asia CFO Agenda 2021: Reimagining the future of finance", suggests that while an overwhelming majority of CFOs in Southeast Asia recognise the need to transform key areas of their finance functions to navigate the complexities of the new normal, many have yet to begin their transformation journey, specifically in the areas of business finance (38%), risk monitoring and compliance (46%), and data analytics and management (44%).

From the responses, it was clear that remote working is here to stay – 73% of respondents said their organisations will continue remote working, and potentially use remote work as a means to supplement talent to the finance team. "A key driver for remote working is a skills shortage," Mr Ho points out, and CFOs will need to "consider how their finance teams can develop or acquire more diverse skill sets – and fundamentally reimagine the future role of finance in their organisation".

Deloitte postulates that there are three priorities on the CFOs' to-do list in order for their teams to deliver next-generation finance that is defined by remote work and their increasingly frontline role:

1) Craft the finance transformation vision

CFOs need to understand the mix of human and technology required to meet changing expectations, update roles and job descriptions and, importantly, ensure that their talent is ready. This requires an ambitious but realistic finance transformation vision that articulates which technology investments to prioritise, defines the talent that will thrive, and decides how best to upskill them.

2) Define future roles

Future finance roles will likely fall into three main categories – storytellers, interpreters and machine managers – and these roles are likely to differ in terms of the skills required, and also in the human-machine mix. Even if these roles depend heavily on machines, they are unlikely to be fully automated. The finance talent will thus be required to operate with creativity, intuition and judgement.

3) Decide whether to build, borrow or buy

While upskilling should be part of any future workforce plan, it may not always be sufficient to meet all future talent needs. As the capabilities may already exist within the organisation or finance team, CFOs can consider borrowing or sharing employees with transferable skill sets from other functions.

The study was conducted between the second and third quarters of 2021, with 105 Southeast Asia-based CFOs and finance leaders across a wide range of industries and finance team sizes, to understand their key concerns and priorities.

Enhancing Customer Journey And Security Key Priorities For APAC Businesses In 2022

DESPITE THE COVID-19 PANDEMIC CAUSING A SURGE IN ONLINE ACTIVITY ACROSS ASIA PACIFIC (APAC), new research from Experian has found that this initial jump has stabilised, as consumers across the region in India, Japan, Singapore and Australia focus more on the overall digital experience, and practise caution around fraud and security risks.

Experian interviewed 3,000 consumers and 900 businesses across 10 countries globally including India, Japan, Singapore and Australia in the APAC region to uncover insights related to consumer and business economic outlooks, financial wellbeing, online behaviour and more.

Although higher than pre-pandemic levels, the levelling of online activity since Experian's "Global Insights Report – Wave 2" (mid-September 2020) means businesses need to shift their focus to address these changing consumer needs, and establish trust when it comes to communicating how they utilise personal information and data protection. This is especially critical in the wake of increasing cyber crime and phishing incidents.

As industries grapple with pandemic recovery, the report uncovered numerous findings to help businesses improve the digital experience for consumers:

1) Rise of digital payments

Mobile wallets have become the most popular payment form in the APAC region, with the highest levels of online activity found among consumers in India (80%) and Singapore (69%). In Japan, the use of mobile wallets is also strong, but particularly for 63% of consumers with a higher household income (greater than US$100,000) – significantly above the 39% for the general population.

Retail apps are the second most used digital payment method across the four APAC countries, led by India (64%) and Singapore (60%) consumers.

However, concerns around fraud and security remain high as consumers become more reliant on digital payment methods. Globally, top concerns are stolen credit card information (33%), online privacy (32%), identity theft (32%), and fake/phishing scams (31%). Regionally, security is the most important factor when it comes to consumer online experience – this is especially high in Japan (89%), Australia (83%) and Singapore (82%).

PHOTOS SHUTTERSTOCK

2) Safeguarding personal information

Consumers care about high levels of security and data protection when transacting online. More than half across APAC would like to be informed about how their personal data is being protected and stored. In fact, consumers in India (79%) and Singapore (70%) have the highest need to know why their data is being requested than prior to COVID-19. As such, consumer trust will be won by businesses that can successfully deliver against consumer privacy protection and get access to a wider range of personal consumer data. As long as they trust the business, 56% of consumers globally will share their contact information and 42% will share their personal information – a rise from the 52% and 40% for both, respectively, from the previous study. The need to establish trust is high so that businesses can turn this information into actionable insights, growing their business while meeting changing customer needs.

"In the wake of the widespread shift to digital banking and commerce, organisations around the world have seen a sharp increase in cyber crime," says Ben Elliott, Chief Executive Officer of Experian Asia Pacific. As consumers become more worried about their wider digital footprint which comes with greater exposure to security risks, businesses have to instil confidence in how they are protecting customer data and how it is being used. "The key remains in finding the balance between ensuring the appropriate security measures are inserted into the process, without impacting customer experience," he acknowledges.

3) Best practices in the digital age

APAC businesses recognise the importance of the customer journey as more turn to technology to generate positive customer outcomes and experience. Today, 70% of global businesses say they are talking about advanced analytics and customer credit frequently, and investment in advanced analytics to reduce friction during the digital customer experience is a top priority for the Singapore market (45%).

Additionally, the adoption of artificial intelligence (AI) and machine learning has significantly increased on a global scale. AI adoption has gone up to 74% (from 69% in 2020), and machine learning, 73% (from 68% in 2020). Across the globe, India is currently leading with the most businesses implementing AI (87%) and machine learning solutions (83%). However, businesses may struggle to find the funds for additional investment, as more say they need better access to loans and credit, compared to a year ago. Globally, about two-thirds (64%) of businesses say they have applied for new loans or extended credit of less than 10%.

As the consumer landscape continues to evolve, it is clear that digital investment is going to be the key differentiator for businesses, and those that lag behind today may lose future customers and opportunities to win their trust.

2022: The Year The Future Returns For The CIO

Worldwide IT spending is projected to total US$4.5 trillion in 2022, an increase of 5.1% from 2021, according to a recent forecast by Gartner, Inc. Despite the potential impacts of the Omicron variant, economic recovery with high expectations for digital market prosperity will continue to boost technology investments.

"2022 is the year that the future returns for the CIO," says John-David Lovelock, distinguished research vice president at Gartner. He explains that they are now in a position to move beyond the critical, short-term projects over the past two years and focus on the long term. Simultaneously, staff skills gaps, wage inflation and the war for talent will push CIOs to rely more on consultancies and managed service firms to pursue their digital strategies. Gartner forecasts that the IT services segment, which includes consulting and managed services, is expected to have the second highest spending growth in 2022, reaching US$1.3 trillion, up 7.9% from 2021. Business and technology consulting spending, specifically, is expected to grow 10% in 2022.

From now through 2025, organisations will increase their reliance on external consultants, as the greater urgency and accelerated pace of change widen the gap between organisations' digital business ambitions and their internal resources and capabilities, according to Gartner. "This will be particularly poignant with cloud as it serves as a key element in achieving digital ambitions and supporting hybrid work," says Mr Lovelock.

In 2020, within the enterprise application software market, the cloud market became larger than non-cloud market for the first time, due in part to the coronavirus pandemic. By 2025, Gartner expects it to be double the size of the non-cloud market. Cloud is responsible for nearly all of the 11% spending growth within the enterprise software segment in 2022 as organisations focus on upgrading their software stack to software-as-a-service (SaaS), to support continued flexibility and agility.

Bridging The Cyber Perception Gap Between Business And Security Leaders

THE GLOBAL DIGITAL ECONOMY HAS SURGED OFF THE BACK OF THE COVID-19 PANDEMIC, BUT SO HAS CYBER CRIME. Ransomware attacks rose 151% in 2021 – there were on average 270 cyber attacks per organisation during 2021, a 31% increase on 2020, with each successful cyber breach costing a company US$3.6 million. After a breach becomes public, the average share price of the hacked company underperforms the NASDAQ, going under by 3% even six months after the event.

According to a new annual report, "The Global Cybersecurity Outlook 2022" from the World Economic Forum (WEF), 80% of cyber leaders now consider ransomware a "danger" and "threat" to public safety, but there is a large perception gap between business executives who think their companies are secure and security leaders who disagree.

Some 92% of business executives surveyed agree that cyber resilience is integrated into enterprise risk management strategies while only 55% of cyber leaders surveyed agree.

This gap between leaders can leave firms vulnerable to attacks as a direct result of incongruous security priorities and policies.

Even after a threat is detected, the survey, written in collaboration with Accenture, found that nearly two-thirds would find it challenging to respond to a cybersecurity incident due to the shortage of skills within their team. Perhaps even more troubling is the growing trend that companies need 280 days on average to identify and respond to a cyber attack. To put this in perspective, an incident which occurs on January 1 may not be fully contained until October 8.

"Companies must now embrace cyber resilience – not only defending against cyber attacks but also preparing for swift and timely incident response and recovery when an attack does occur," says Jeremy Jurgens, Managing Director, WEF.

"Organisations need to work more closely with ecosystem partners and other third parties to make cybersecurity part of an organisation's ecosystem DNA, so they can be resilient and promote customer trust," explains Julie Sweet, Chair and CEO, Accenture. She adds that the report underscores the "key challenges leaders face – collaborating with ecosystem partners and retaining and recruiting talent".

- A new survey reveals a wide perception gap between business executives, who think their companies are cyber resilient, and security leaders, half of whom disagree.
- The accelerating pace of digitalisation, fuelled by COVID-19, has led to a record-breaking year for cyber crime.
- Ransomware attacks were up some 150% in 2021; more than 80% of experts say it is becoming a threat to public safety.
- The report's key insight is that cybersecurity is no longer a sufficient tactic – building resilience needs to be integrated into an organisation's strategy, especially since it can take 10 months to detect a security breach.

PHOTO SHUTTERSTOCK

Cyber leaders' top concerns

Less than one-fifth of cyber leaders feel confident their organisations are cyber resilient. The three major concerns that keep them awake at night are:

1) They don't feel consulted on business decisions, and they struggle to gain the support of decision-makers in prioritising cyber risks; seven in 10 see cyber resilience featuring prominently in corporate risk management;
2) Recruiting and retaining the right talent is their greatest concern; six in 10 think it would be challenging to respond to a cybersecurity incident because they lack the skills within their team;
3) Nearly nine in 10 see small and medium-sized companies as the weakest link in the supply chain; 40% of respondents have been negatively affected by a supply chain cybersecurity incident.

Bridging the perception gaps

Closing the cyber gap requires concerted effort on the part of organisations. Solutions include employee cyber training, offline backups, cyber insurance and platform-based cybersecurity solutions that stop known ransomware threats across all attack vectors.

Above all, there is an urgent need to close the gap of understanding between business and security leaders. It is impossible to attain complete cybersecurity, so the key objective must be to reinforce cyber resilience. Including cyber leaders in the corporate governance process will help close this gap.

Insights for this inaugural "The Global Cybersecurity Outlook 2022" were gathered from four sources, namely, a survey of global cyber leaders, Cyber Outlook Series sessions conducted by WEF throughout 2021, multiple interviews with experts and bilateral meetings, and data collected from reports, research and articles published by WEF and reputable third parties. Combining all these efforts, the WEF team has consulted with 120 global cyber leaders over the past year.

Source: "The Global Cybersecurity Outlook 2022", World Economic Forum

Build Resilience Against Perpetual Global Risks

While anecdotal evidence shows the high human and economic costs of COVID-19, the latest WEF "Global Risks Report 2021: Fractured Futures" quantifies the disruption and destruction arising from the pandemic over the short, medium and longer terms. The 16th edition of the report analyses the risks from societal fractures, manifested through persistent and emerging risks to human health, rising unemployment, widening digital divides, youth disillusionment and geopolitical fragmentation.

Despite the challenges, there is also space for building resilience. Here are some cross-cutting capabilities and systemic approaches that can potentially strengthen the overall resilience of countries, businesses and the international community, according to the report:

- **Frameworks**
  Formulate detailed analytical frameworks that take a holistic and systems-based view of risk impacts will help to surface potential dependencies at a fitting moment, spill-over consequences, vulnerabilities and blind spots.
- **Risk champions**
  Invest in high-profile "risk champions" who can bring together different stakeholders to spur innovation in risk analysis, financing and response capabilities, and improve relationships between scientific experts and political leaders.
- **Communication**
  Improve the clarity and consistency of risk communications and combat misinformation. Most crises require all-of-society responses – and there is enormous goodwill and energy to leverage – but confusion and frustration can undermine efforts to build trust and align responsibilities between the public sector, private sector and communities.
- **Public-private partnerships**
  Explore new forms of public-private partnership on risk preparedness in technology, logistics and manufacturing. The pandemic has shown that innovation can be sparked when governments engage the private sector to respond to large-scale challenges, if risks and rewards are shared fairly and appropriate governance is in place.

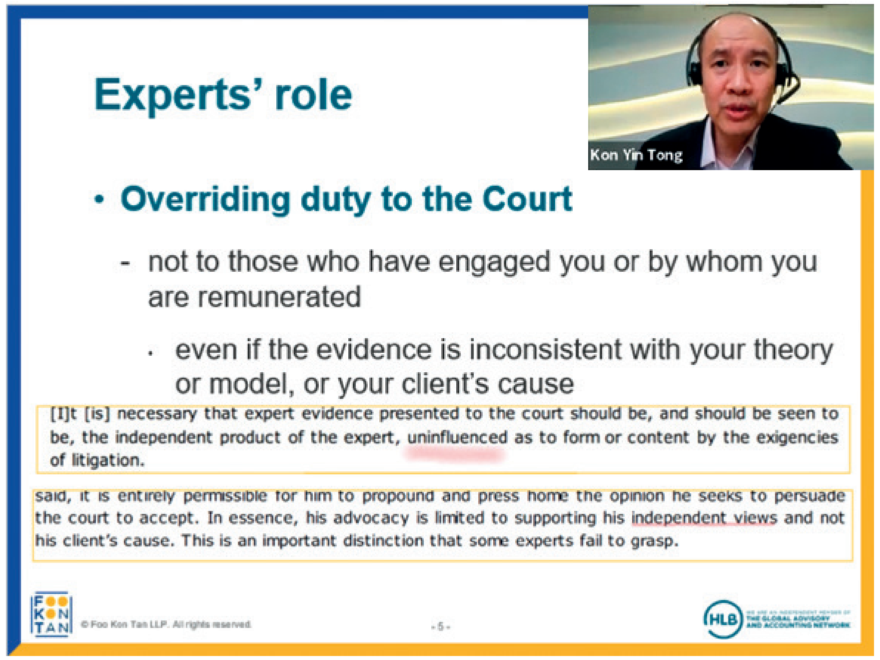
ISCA Professional Qualifications Talk: How Can Forensic Accountants Extend Litigation Support In Financial Crime Investigations?

AS DESCRIBED BY KON YIN TONG, MANAGING PARTNER OF FOO KON TAN LLP DURING THE ISCA PROFESSIONAL QUALIFICATIONS (PQ) TALK ON 9 DECEMBER 2021, an expert witness is a person whose "level of specialised knowledge or skill in a particular field qualifies him to present his opinion about the facts of a case during legal proceedings". The live webinar was attended by more than 430 attendees, including our ISCA Financial Forensic Accounting (FFA) Qualification candidates and graduates, ISCA Financial Forensic Professional (FFP) credential holders, as well as members from The Law Society of Singapore and Association of Certified Fraud Examiners.

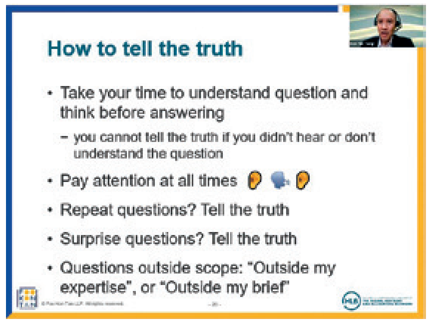
White-collar crimes and corporate disputes have been increasingly contentious and challenging as opportunistic fraudsters become more sophisticated in the changing business landscape. To tackle such crimes and successfully indict the perpetrator, qualified forensic accountants are often required to step in to give professional opinions based on their investigative accounting knowhow, evidence-gathering skills and detailed analysis and documentation. As an ISCA FFP credential holder with robust experience as an expert witness in financial crime cases, Mr Kon delivered an enlightening session on how forensic accountants can extend reliable litigation support to solicitors and play their part in upholding justice.

Mr Kon emphasised that an expert witness should always stand by two fundamental rules – maintain his overriding duty to the Court instead of his clients, and always tell the truth.

The primary duty of an expert witness is to the Court, and this overrides any obligation he has to his client or paying party. An expert is expected to be independent, objective, and unbiased. In determining the admissibility of an expert witness, the Court will review the credentials and qualifications of the expert to ensure that he is qualified to offer an opinion on the issues involved. Possessing recent related experience and being in touch with the law and regulations also render an expert fit and favoured by lawyers and counsels. In addition to these credentials, personal qualities such as professional bearing and demeanour, as well as mannerisms, are equally significant as these will allow the expert to speak in a composed and confident manner, demonstrating his credibility to the Court.



It is important to always tell the truth because one untruthful answer can sink the expert's credibility and entire testimony as the Court may decide that the expert who has falsely testified on a matter can be regarded as having falsely testified on other matters as well. An expert should not hesitate to answer "I don't know" when that is the truth, as he is not required to know everything.



To close the PQ Talk session, attendees were encouraged to share their opinions, via a live word share platform, about the challenges facing expert witnesses; their views were collectively used to create a mind map.

Do keep a lookout for future PQ Talk sessions, which provide insights into specialised topics relevant to accounting professionals.

isca breakfast talk

State Of Play Of Intelligent Automation In The Finance Function

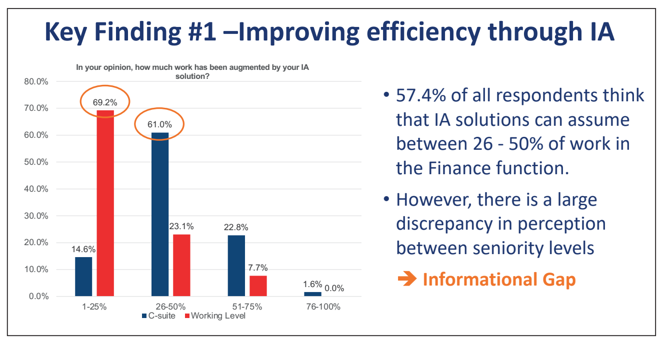
HOW SHOULD ORGANISATIONS LEVERAGE INTELLIGENT AUTOMATION (IA) TO GAIN A COMPETITIVE ADVANTAGE? This was the key topic at the ISCA Breakfast Talk session on January 12. The live webinar explored IA implementation with Dr Hanny Kusnadi, Deputy Academic Director of MSc (Accounting) programme and Senior Lecturer, Department of Accounting, National University of Singapore (NUS) Business School and Ken Soh, software architect, TagUI RPA, AI Singapore.

IA is an enhanced form of automation that combines elements of robotic process automation (RPA) and artificial intelligence (AI). IA can learn from data to augment processes and improve efficiency.

IA is used in the finance function to extract information across different systems to perform tasks, such as billings. It can learn from data to identify discrepancies and duplicate invoices. IA can also use AI abilities like natural language processing to read sales and lease documents to analyse trends and identify outliers.

The live webinar also shared four key findings of the joint research project, "State Of Play Of Intelligent Automation In The Finance Function", conducted by ISCA, AI Singapore and NUS Business School on IA adoption by organisations in Singapore.

Dr Kusnadi said that first, the research discovered an informational gap between C-suite and working-level respondents on how much work is augmented by IA. Nurturing an open environment with honest and positive feedback is key to bridging this informational gap and enhancing the overall productivity and efficiency of the IA solution.



Second, less than half of C-suite respondents report that they did not modify key performance indicators (KPIs) to capture productivity and efficiency gains. This suggests that the return on investment for IA is not captured. KPIs should be modified to measure the value of IA.

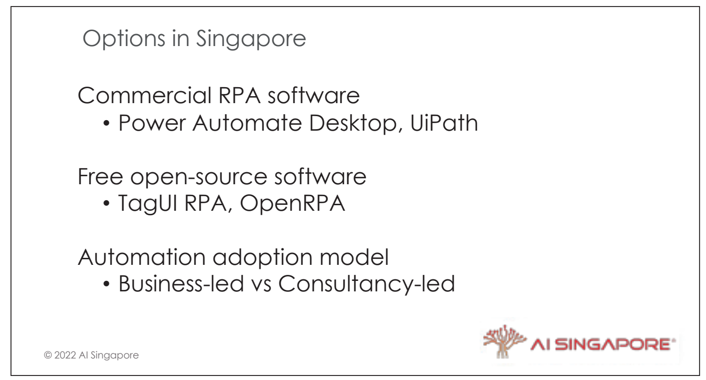
Third, data-driven insights are not shared across departments, resulting in missed opportunities for synergy. These are wasted opportunities. The C-suite should strategise and find synergies to promote better integration of processes. This could, in turn, reflect a better return on investment of the IA solution.

Fourth, efficiency and compliance, and financial costs are the top two priorities when C-suite respondents consider adopting IA solutions. IA adoption often acts as a gateway for further digitalisation.

In the next presentation, Mr Soh described two broad categories of workflows for RPA and IA – enterprise workflows and ad hoc workflows. He explained that companies usually leverage IA by first focusing on enterprise workflows, which spurs ad hoc workflows among employees.

Enterprise workflows are routine, single-process automation that cut across different departments. In the early stages of adopting RPA and IA, most companies focus on enterprise workflows. This requires an assessment of organisational processes to identify suitable processes for automation. As organisations become more mature in their RPA and IA journey, their employees would have developed skills to implement ad hoc workflow solutions to augment their work. Ad hoc workflows usually occur within a department or at the individual level to automate multiple minor repetitive processes.

RPA can be business-led or consultancy-led using software that is either commercial or open source (and free). These choices provide companies with a range of options that differ in affordability and functionality.



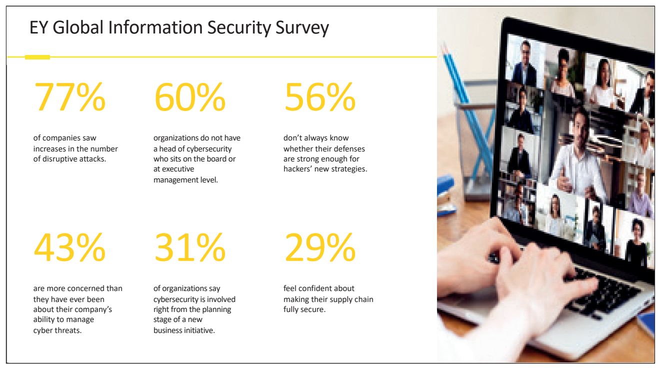
isca breakfast talk

Managing Data Breaches And Reputational Risk In A Pandemic

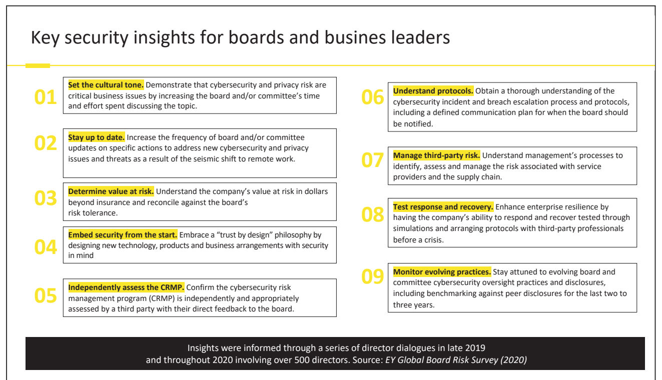
ORGANISATIONS ARE CONSTANTLY CONFRONTED BY THE THREAT OF CYBER ATTACKS TARGETING THEIR IT SYSTEMS AND DATA. Without a strong culture of cyber resiliency, more will fall prey to such attacks. Companies must therefore adopt a mindset that they may be compromised any time, and that data will fall into the wrong hands.

At a recent ISCA Breakfast Talk, Ramesh Moosa, EY ASEAN and Singapore Forensic and Integrity Services Leader, and Francis Choy, Director, Forensic and Integrity Services, Ernst & Young Advisory Pte Ltd, shared insights into the evolving cyber threat landscape, key regulations on cybersecurity and data privacy, and leading practices in cyber incident response.

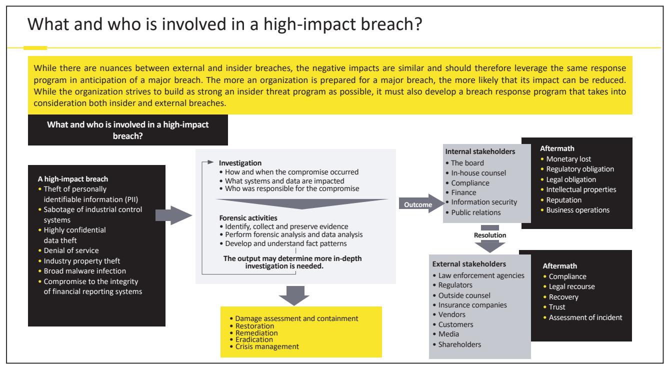
Cyber crimes have risen rapidly during the COVID-19 pandemic as cyber threat actors seek to exploit the disruption caused by the pandemic. Concern about cyber attacks among business leaders is also rising. The "EY Global Board Risk Survey 2021" reveals that 48% of boards believe cyber attacks and data breaches will more than moderately impact their business in the next 12 months. And, only 9% of boards are extremely confident that the cyber attack mitigation measures presented to them can protect the organisation from major cyber attacks.



Mr Moosa also highlighted the more stringent data protection regulations that organisations have to comply with, such as having to report data breaches within 72 hours of identifying a breach.



Nowadays, when an organisation becomes a victim of a cyber incident, there are often visible indicators in the public domain as the heavy reliance on technology means that the incident is likely to disrupt operations including somewhere along the external value chain. How the organisation manages the breach, accounts to its stakeholders and regulators, and recovers its systems and operations will be critically judged and amplified by social media. If it fumbles at managing the cyber incident, such as appearing to be evasive about the loss of personal data or internal control failures, it will be cast in a negative light.



As organisations are in a constant state of possible compromise, they must be ready to handle the worst-case incidents. Here are some key steps to consider:

1) **Know what you are protecting and up against:** Conduct cyber risk assessments and identify key threat scenarios, key data assets and critical systems;
2) **Plan and conduct dress rehearsals:** Develop cyber incident response playbooks for each threat scenario and conduct simulation drills across the organisation;
3) **Be ready to call in the experts:** Establish retainer agreements with IT forensic, legal, and/or public relations experts, in the absence of inhouse expertise;
4) **Assume you have been compromised:** Conduct threat hunting exercises and threat intelligence gathering;
5) **Quantify and insure potential losses:** Assess potential impact and financial losses for key threat scenarios. Consider cyber insurance to offset these losses.

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04 MAR

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SkillsFuture Credit and UTAP Funding approved

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- Increasing awareness of the inherent risk in applying FRSs in practice

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ISCA PRE-BUDGET ROUNDTABLE 2022

Recovery And Refocusing On Growth

(From left) Ivan Chang, Honorary Treasurer, SGTech; Lawrence Pek, Secretary General, Singapore Manufacturing Federation; Lam Yi Young, Chief Executive Officer, Singapore Business Federation; Lee Eng Kian, Managing Partner, PKF-CAP; Fann Kor, ISCA CEO; Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade and Industry); Kon Yin Tong, ISCA President; Max Loh, Managing Partner, Singapore & Brunei, Ernst & Young LLP; Roger Loo, Executive Director, Head of Management Consulting Services, BDO LLP; Ang Yuit, Vice President (Strategies, Development & Digitalisation), Association of Small & Medium Enterprises

THE 13TH ISCA PRE-BUDGET ROUNDTABLE 2022 took place at ISCA House on January 14 to gather on-ground feedback and insights from the business community on how the Singapore Budget 2022 can provide support to drive recovery and growth.

Co-chaired by Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade and Industry) and Kon Yin Tong, ISCA President, the Roundtable gathered 13 representatives from various trade associations and chambers (TACs) and accounting entities. This year, the Roundtable was held in a hybrid format for the first time, with attendees from various government agencies observing the Roundtable virtually.

Themed "Recovery and Refocusing on Growth", panellists and co-chairs at the Roundtable engaged in a lively discussion that focused on ways Budget 2022 can enable a smoother economic recovery with business-friendly support measures and assistance, to help businesses focus on new growth opportunities such as in sustainability.

(From left) Chia Ngiang Hong, President, Real Estate Developers' Association of Singapore; Mayank Parekh, Chief Executive Officer, Institute of Human Resources Professionals; Fann Kor, ISCA CEO; Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade and Industry); Kon Yin Tong, ISCA President; Sam Kok Weng, Markets & Financial Services Leader, PwC Singapore; Suan Teck Kin, Chief Economist, United Overseas Bank

(From left) Prof Sum Yee Loong, Board Member, Singapore Chartered Tax Professionals; Fann Kor, ISCA CEO; Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade and Industry); Kon Yin Tong, ISCA President; Edwin Fong, Executive Director, Restaurant Association of Singapore

KEY SUGGESTION HIGHLIGHTS

	Areas	Suggestions
1	Support SMEs' expansion into new international markets	a. **Through differentiated offerings** – businesses can focus on capturing opportunities and the first-mover advantage in exporting green products and service offerings overseas. b. **Through the PACT programme**[2] – allow a consortium of SMEs that meets necessary capital requirements to bid for large overseas projects to be funded under the programme. This allows more SMEs that may lack financial and capital strength to compete and secure a chance of venturing overseas.
2	Support SMEs with all-round transformation	a. Set up a business transformation centre to provide consultancy to SMEs in formulating business models, pre-packaging of product/service offerings, etc. b. Use of digital readiness diagnostic tool can help companies at different stages of transformation determine next steps of change.
3	More involvement of TACs in working with SMEs on digital transformation	Continue to involve TACs in CTO-as-a-service and in other industry programme rollouts to provide support to SMEs as TACs understand their needs and challenges better.
4	Reframe sustainability as a business opportunity	Companies can benefit from developing green technology solutions and having the first-mover advantage to export this internationally. The government can help by investing in the development of green solutions across industries.
5	Incentivise and support businesses to create new green economy	a. Introducing tax deductions and incentives to companies and individuals can be a key driver for a green economy and help encourage businesses and individuals drive the environmental, social and governance (ESG) agenda. b. Level the playing field by setting standards for green IT procurement to help SMEs compete in the green economy. This can also help SMEs be recognised for green product offerings as currently, only larger companies can afford to invest in disclosure and compliance processes for green IT products/services.
6	Apply differentiated foreign worker quotas by job roles within sector	Avoid a one-size-fits-all approach to managing foreign worker quotas. Instead, engage TACs to study specific sector needs. For instance, in the food and beverage sector, foreign worker quotas can be expanded for frontline service and kitchen operations crew where there are manpower shortages but not for head-office corporate staff.
7	Ensure foreign workers cater to talent gaps with more robust assessment	Have a more robust Employment Pass (EP) assessment process. This can include skills-based assessment other than providing certifications. In addition, companies hiring EP holders must provide a plan for knowledge transfer to local workers.
8	Enhance support to the growing gig economy	Adjust labour laws and policies such as extend CPF contribution policies to gig workers. Help employers source for required skill sets in the gig economy.
9	Introduce training as a KPI in government procurement	Government procurement criteria can be designed to motivate SMEs to focus on training as a priority. In addition to financial strength requirements, introduce training as one of the KPIs to qualify for government tenders. To consider referencing the KPI metrics set out in the United Nations 17 Sustainable Development Goals (SDGs) for talent development as qualifying criteria for government procurement.
10	Allow TACs to tap on training grants offered by the government	This can help employers take more ownership with training and expand their access to training programmes offered by TACs. It can also help TACs to encourage their members to partake in training. a. Allow SkillsFuture credits to be used for TAC training programmes. b. Extend support grants such as digitalisation grants for SMEs to TACs. Support TACs to be better equipped with the right tools and talents to enable enhanced support to businesses.

In Mr Kon's welcome address, he noted that Singapore "experienced an economic recovery" in 2021, as the "economy expanded at its fastest annual pace in over a decade" to grow 7.2%[1]. He also pointed out that "new opportunities have emerged and contributed to the economic recovery".

Mr Liang kicked off the session by outlining priorities for the year. "Our tasks in 2022 must go beyond managing the pandemic, to preparing Singapore for the structural shifts ahead." He highlighted five essential areas of focus – economy and transformation, workforce development, green transition, social compact, and infrastructure and security.

Mr Liang also stressed the importance to ensure "sound and sustainable finances" by ensuring "reliable and sustainable streams of revenues to fund rising expenditures". He said, "Besides the Goods and Services Tax (GST), we should review other taxes including wealth and income taxes to diversify our revenue sources."

The on-ground feedback as well as many innovative ideas and recommendations that arose from the discussion are summarised in this article (also see side bar).

CURRENT GROUND SENTIMENTS

Overall, businesses have a cautiously optimistic outlook for 2022 as they look forward to continued recovery and further growth in 2022. Recovery remains uneven across sectors and companies, and there are also increasing concerns arising from recent developments in the last two months.

Businesses fear a multiple whammy of rising costs including energy, interest rates, rental, wages, carbon tax, raw materials, GST, and general inflation. Manpower and talent shortage continues to be one of the top challenges for businesses across sectors due to continued border restrictions preventing foreign worker entry and strict foreign worker government policies. This has resulted in intense competition for talent and high employee turnover, which have led to rising wages and consequently, an increase in manpower costs for businesses.

There are also structural challenges within the labour market including a mismatch of workforce skill sets to demand, and difficulty in attracting and retaining local talent to work in certain industries such as construction, retail, food and beverage, and tourism.

Additionally, the COVID-19 pandemic has limited mobility and the ability to tap into overseas business opportunities. Businesses also need the knowhow to go about driving sustainability and have a mindset shift from being solely profit-driven to also focus on doing good, and to reframe the sustainability push as a new growth opportunity.

AREAS FOR GOVERNMENT INTERVENTION

Industry and business leaders also suggested for the government to consider supporting businesses in the following areas:

1. Building resilience: managing costs

As some sectors begin on the path to recovery, a key priority is to stabilise growth and build resilience. Businesses hope the government can adjust policies to reduce overall cost pressures. One way is by extending the Temporary Bridging Loan Programme by Enterprise Singapore beyond its current end date on 31 March 2022. To help businesses manage rental costs, the government can also take the lead to reduce rental on commercial properties such as for HDB retail shops and hawker centers. Another way for businesses to build resilience is through deepening capabilities. Extending the various government schemes, such as Productivity Solutions Grant (PSG) and Enterprise Development Grant, beyond 31 March 2022 will help boost businesses and relieve cost pressures to enable businesses to continue pressing ahead with transformation.

A The Roundtable was co-chaired by (from left) Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade and Industry) and Kon Yin Tong, ISCA President

2. Pressing ahead with internationalisation, innovation and productivity

- Support SMEs' expansion into new international markets

Business leaders suggested for more support from the government to help small and medium-sized enterprises (SMEs) expand into international markets. To help smaller SMEs that may lack the financial strength to compete and secure a chance to venturing overseas compared to large enterprises, business leaders recommended allowing a consortium of SMEs that meets necessary capital requirements to bid for large overseas projects funded under the PACT programme by Enterprise Singapore.

- Continue to focus on innovation and drive new areas of growth

The pandemic is a trigger to relook into healthcare investments and spending. The government can consider investing in the development of new sectors such as healthcare technology including medical devices, as well as support the growth and success of fintech startups serving e-commerce and digital banking. Measures can also be implemented to cultivate a healthier workforce, such as by offering tax deductions for activities that focus on improving health, as well as health screening and subscribing to health insurance.

3. Driving all-round transformation

- Support SMEs with all-round transformation

Existing government schemes like the PSG and SMEs Go Digital have well supported SMEs in their digitalisation efforts to generate productivity growth. However, SMEs struggle with adapting

[1] Chen, L. (3 Jan 2022). Singapore's 2021 GDP grows at fastest pace in over a decade. Reuters. https://www.reuters.com/world/asia-pacific/singapore-q4-gdp-expands-59-yy-beating-forecasts-2022-01-03/

[2] The PACT programme encourages mutually beneficial collaborations between companies. The nature of collaboration should go beyond regular business activities. One enterprise should undertake the role of a leader (known as a "Lead Enterprise") in driving projects to benefit the group of companies. https://www.enterprisesg.gov.sg/financial-assistance/grants/for-partners/pact-programme/overview

ISCA PRE-BUDGET ROUNDTABLE 2022 PANELLISTS


(Co-Chair)
LIANG ENG HWA
Chairman
Government Parliamentary Committee
(Finance and Trade and Industry)


(Co-Chair)
KON YIN TONG
President
Institute of Singapore
Chartered Accountants


ANG YUIT
Vice President
(Strategies, Development
& Digitalisation)
Association of Small
& Medium Enterprises


IVAN CHANG
Honorary Treasurer
SGTech


CHIA NGIANG HONG
President
Real Estate Developers'
Association of Singapore


EDWIN FONG
Executive Director
Restaurant Association
of Singapore


LAM YI YOUNG
Chief Executive Officer
Singapore Business
Federation


LEE ENG KIAN
Managing Partner
PKF-CAP


MAX LOH
Managing Partner,
Singapore & Brunei
Ernst & Young LLP


ROGER LOO
Executive Director
Head of Management
Consulting Services
BDO LLP


MAYANK PAREKH
Chief Executive Officer
Institute of Human Resources
Professionals


LAWRENCE PEK
Secretary General
Singapore Manufacturing
Federation


SAM KOK WENG
Markets & Financial
Services Leader
PwC Singapore


SUAN TECK KIN
Chief Economist
United Overseas Bank


PROF SUM YEE LOONG
Board Member
Singapore Chartered
Tax Professionals

to trends and changes in a timely manner due to the lack of resources. SMEs need more help to determine the necessary shifts in business models and set the direction before digital transformation and existing schemes such as CTO-as-a-service can be implemented. To this end, it was suggested that a government-driven business transformation centre can be set up to provide consultancy to SMEs in formulating business models and pre-packaging of product/service offerings, apart from driving adoptionof technology (for example, through SME Centre Business Advisors).

Leaders pointed to the importance of ensuring people-centric outcomes in driving overall transformation. The focus must be to ensure that workers are upskilled in tandem with technology adoption and the redesigned jobs. This can reduce worker redundancy and job loss.

A digital readiness diagnostic tool can help companies at different stages of transformation determine their next steps of change. For example, ISCA offers an online self-assessment toolkit to help small and medium-sized practices (SMPs) assess their digital readiness, and identify pre-approved solutions and training required at different stages of their digital development. This can guide businesses in planning their transformation beyond technology solutions procurement, to focus on driving change management across the organisation and garnering buy-in, among other areas.

- **Involve TACs to work with SMEs on digital transformation**
  With the shortage of ICT talent, SMEs can benefit from a centralised ICT support team such as through the Infocomm Media Development Authority's CTO-as-a-service initiative. In addition to having consulting firms, it was suggested for TACs to be involved in providing support to SMEs in their digital transformation plans. TACs are well placed as they have a better understanding of SMEs' needs as well as the issues and challenges on the ground, especially regarding implementation matters.

TACs can also be involved in other industry programme rollouts. With TACs' direct reach to businesses, they are knowledgeable about the on-ground situation and can drive more precise funding allocation and enhance deeper engagement of businesses to programmes.

4. Government policy an important catalyst to drive sustainability

Given that Singapore is in the early stage of the sustainability push, the panellists proposed that government policies can be instrumental to shaping behaviours and in building the green economy.

- **Drive greater awareness and understanding of sustainability among businesses**
  The government and TACs can drive greater awareness of sustainability, beginning with educating businesses on the basic concepts of carbon credits, carbon emissions and carbon taxation, and helping businesses appreciate the costs versus benefits of sustainability.
- **Reframe sustainability as a business opportunity**
  To help businesses shift away from seeing sustainability as a cost would be to reframe sustainability as a business opportunity. If green technology solutions can be developed and made viable, companies can benefit from the first-mover advantage to export this to the region and even globally. The government can consider investing in the development of green solutions across industries.
- **Incentivise businesses to create new green economy**
  Government support is pivotal in driving the green economy and in building sustainability as a business. Tax deductions and incentives to companies and individuals can be a key driver of the green economy and help encourage businesses and individuals drive the environmental, social and governance (ESG) agenda.

  There are several suggestions to move this forward:
  - Provide enhanced tax relief or waive GST for individuals who buy carbon credits or offset their carbon footprint;
  - Allow SMEs to earn carbon credits (rather than buy) through implementing green initiatives and adopting green solutions in line with the United Nations (UN) Sustainable Development Goals (SDGs); and
  - Allow enhanced capital allowances to be claimed by companies that engage in green projects. For example, manufacturers that produce plant-based protein and property developers that undertake green projects.
- **Consider Singapore's export-oriented economy in implementing carbon tax policy**
  Moving towards carbon neutrality must take into consideration the nature of Singapore's economy. As an export-oriented economy, most green products are likely to be exported than consumed locally, thus reducing the impact of implementing carbon tax on local businesses on the carbon footprint in Singapore. Instead, raising carbon taxes may drive up costs for businesses, thereby impacting their competitiveness and also making Singapore less attractive to foreign companies looking to do business here.

5. Facilitating structural shifts in the labour market

- **Adjust manpower and tax policies to move in tandem with new megatrends**
  With the launch of the Jobs Transformation Maps that highlight megatrends reshaping each industry, employers need to stay open to change, adapt to new ways of working and redesign jobs. For example, employers can enhance flexible work arrangements that may help make jobs more appealing to local workers.

  Manpower and tax policies will need to move in tandem, to respond to changing workforce preferences and support more flexibility in employment. For example, the younger workforce seeks challenges and may have more than one career aspiration, such as having a corporate job by day and an unrelated one, for example, a chef by night. Government policies and company employment policies can be structured to encourage this changing expectation, to maximise capabilities of a limited pool of workers. Similarly, companies must be nimble to harness the required skill sets from the gig economy, as the workforce shifts away from a 9-to-5 work routine.
- **Apply differentiated foreign worker quotas by job roles within sector**
  Foreign worker quotas can be differentiated by job roles. For instance, in the food and beverage sector, the manpower shortages lie among the frontline service and kitchen operations crew and not the head-office corporate staff. As such, foreign worker quotas can be expanded for frontline staff. This would greatly ease the manpower shortages in the food and beverage sector where manpower crunch is often in the frontline and operations.
- **Ensure foreign workers cater to talent gaps with more robust assessment**
  To ensure foreign workers are engaged to fill talent gaps, one suggestion was to put in place a more robust Employment Pass (EP) assessment process. This can include skills-based assessment other than providing certifications. In addition, companies hiring EP holders must be required to provide a plan for knowledge transfer to local workers. There can also be checks carried out after one year to ensure that knowhow is passed on to local employees. This can help put the onus on companies to think through their plan before hiring EPs and inculcate a greater emphasis on knowledge transfer over time.

A The Roundtable brought together leaders of trade associations and chambers and accounting firms to discuss and provide recommendations on Singapore Budget 2022

6. Building a future-ready local talent

- **Enhance support to growing gig economy**
There is strong consensus among industry and business leaders that the gig economy is a viable alternative to meet manpower and talent demands. This was also a similar finding from the ISCA Pre-Budget 2022 Survey that surveyed employers from across industries and accountancy firms. Business leaders called for the government to enhance support for the growing gig economy by adjusting its labour laws and policies. For instance, the CPF contribution policies can be extended to gig workers. Employers should also be nimble in sourcing for their required skill sets in the gig economy, and adapt to shifting work preferences among the younger workforce.
- **Bridge mismatch in skill sets**
There could be an existing mismatch in the skill sets needed by companies and the skills possessed by workers. While SkillsFuture has driven an upskilling and training movement of workers, more can be done to focus training on specific skill sets in demand, such as data management, digital marketing, and online business development.
One recommendation is for employers and employees to align on training areas to ensure the right skill sets are developed to meet companies' needs. However, the prevailing concern is that workers are not learning skills that are relevant to their company's transformation needs.
Employers should also ensure trained employees are able to apply learned skill sets in their jobs. Otherwise, employees are likely to seek other job opportunities. Employers should also continually support diversity in the workforce.
- **Provide students and young workforce with opportunities for international work exposure to gradually fill talent gaps and build worldclass workforce**
Building local talent is a critical and urgent task across industries.
A suggestion was for Institutes of Higher Learning (IHLs) to step up training programmes and certifications in relevant areas of study. Another suggestion was to equip students and younger workforce with skill sets that are not found in Singapore through government-sponsored private sector international work exposure. For example, the Global Ready Talent programme by Enterprise Singapore is an important initiative that creates local and overseas internship opportunities for local students. The programme enables students and young workers to gain overseas work exposure and to import global knowhow back to Singapore. This is important in filling talent gaps and building a worldclass workforce.
- **Introduce training as a KPI in government procurement to motivate SMEs**
As one of the largest buyers of products and services including those from the SMEs, government procurement is a big contributor to SME growth. Currently, financial strength requirements are part of the procurement criteria and as these requirements are raised, many SMEs are unable to partake in tenders. Instead, procurement criteria can include training of workers as a qualifying criterion for government tenders. Done over time, this will serve to make staff training a priority for SMEs.
This can be similarly applied with other initiatives targeted at SMEs, such as in driving the development of talent in sustainability. The government can consider referencing the KPIs set out in the UN 17 SDGs for talent development. Similar metrics can be applied as qualifying criteria for government procurement.
- **Expand training grants support at company and TAC levels to encourage training uptake**
The government can also consider extending its training grants support to companies that participate in TAC training courses. One way is to allow SkillsFuture credits to be used for TACs' training programmes. This can help TACs as well as encourage TAC members to partake in training.

7. Empowering TACs

The government has taken active steps towards helping TACs strengthen capabilities and upskill workers. As enablers to the business community, TACs are keen to deliver more support to SMEs to advance overall transformation and address new growth areas. However, TACs face resource challenges, rising wage costs as well as difficulty in attracting and retaining talent.

TACs need support to be better equipped with the right talent and knowledge to deliver enhanced support to businesses. Apart from the Local Enterprise and Association Development (LEAD) programme, support grants such as the digitalisation grants for SMEs can be extended to TACs as well, to support IT hardware and software upgrades that are substantial operating costs for TACs.

The government can also help TACs build competency through secondments from government agencies. This can be mutually beneficial for TAC employees to get up to speed on government initiatives; similarly, it can help government agencies better understand how TACs operate and their associated challenges. It can also help government agency staff better understand ground challenges and issues of the business community that the TAC serves.

CONCLUSION

Industry and business leaders lauded the government for providing critical fiscal support and other measures that helped businesses adapt quickly in the pandemic-stricken economy over the last two years. Moving forward, businesses look to an expansionary Budget 2022 to alleviate cost pressures and facilitate a smoother economic recovery for Singapore with pro-business and targeted support measures. ISCA

ISCA PRE-BUDGET 2022 SURVEY

Ready And Adaptable: Accountancy Sector's Agility In Navigating The New Normal

COVID-19 HAS CHANGED THE FACE OF WORK. Remote working, videoconferencing, and virtual collaboration have become the norm for many workers. In response, the accountancy profession has been agile in its adaptation to the new normal. To better understand the changes on the ground, from 1 to 29 September 2021, ISCA surveyed auditors, accountancy and finance professionals, with four aims:

- Identify the key concerns of businesses and the accountancy sector;
- Understand the perceived effectiveness of Budget 2021 support measures;
- Identify perceived gaps in support measures;
- Contribute to a wish list for the upcoming Budget.

"With Singapore being more prepared for the challenges of COVID-19, the survey findings reinforce the importance for businesses and individuals alike to refocus on growth. I encourage businesses to tap the government grants and press on with their digital transformation journey, and for professionals to upskill and tap new opportunities in sustainability, such as green financing."

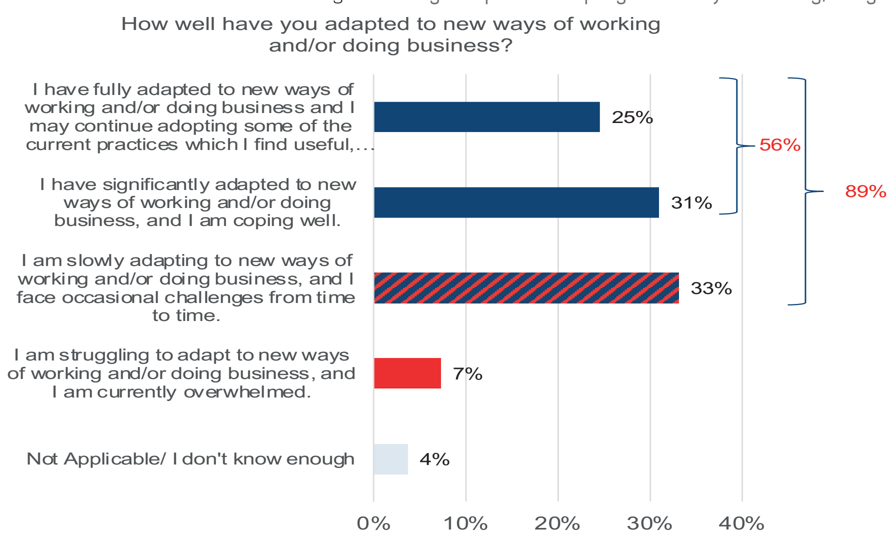
Kon Yin Tong, President, ISCA

The Institute received 483 survey responses in total. Respondents were well distributed across company sizes, industries, and job levels. ISCA posed a unique set of questions to elicit the distinct perspectives of business owners, senior management members and board directors; this group was categorised as "employers"[1]. There were 193 responses in this targeted segment of the survey.

Responses to questions on change adaptation and business outlook reflected a high degree of adaptation and measured optimism (Figure 1).

When asked about adapting to the new normal, 89% of respondents reported that they have begun adapting to new ways of working and doing business. More than half of all respondents (56%) indicated that they have significantly or fully adapted to new challenges. Only 7% reported that they were struggling to adapt to new ways of working and doing business.

Figure 1 Change adaptation: Adapting to new ways of working/doing business



- **89% of respondents** have begun adapting to new ways of working and doing business.
- **56% of respondents** have significantly or fully adapted to new ways of working / doing business

PHOTO **SHUTTERSTOCK**

Figure 2 Business outlook by large and small companies

- 54% of respondents from Large Companies have an optimistic business outlook for the next 6-12 months

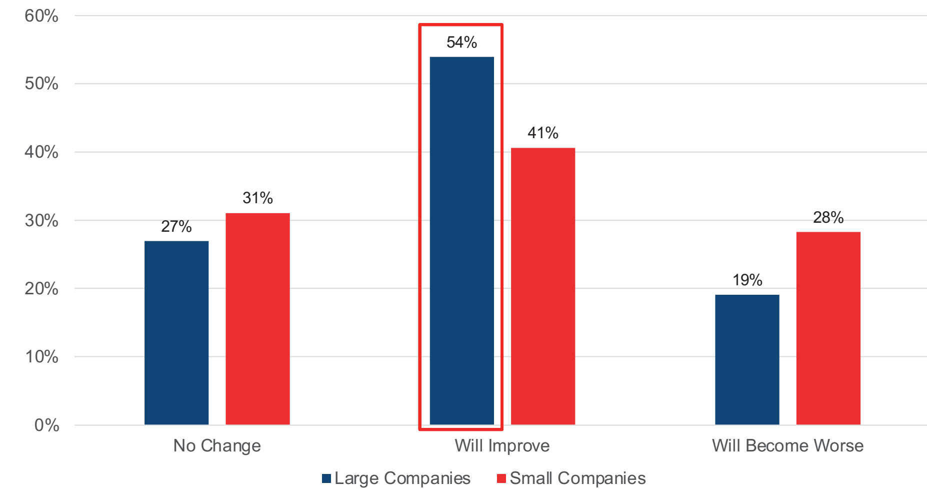
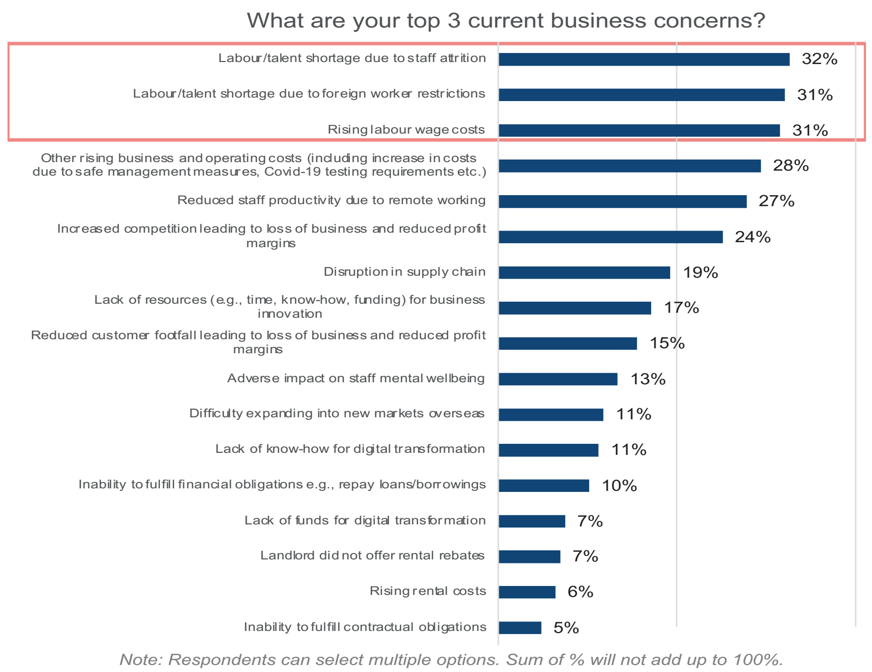


Figure 3 Employers' business concerns



- The top 3 employers' business concerns are labour-related issues. They are:
  1. "**Labour / talent shortage** due to staff attrition"
  2. "Labour / talent shortage due to **foreign worker restrictions**", and
  3. "**Rising labour wage costs**".

In terms of business outlook, respondents were cautiously optimistic about the future (Figure 2). Fifty-four percent of respondents from large companies[2] and 41% of respondents from small companies[3] expect to see improvements in the business prospects for their organisations in the next six to 12 months.

The top three business concerns of employers were labour-related issues (Figure 3). Some 32% of employers indicated labour or talent shortages due to staff attrition as one of their top three business concerns; 31% of employers selected labour or talent shortages due to foreign worker restrictions, and 31% of employers chose rising labour wage costs as one of their top three current business concerns.

Respondents were asked to elaborate on their concerns through open-ended responses.

They shared that labour or talent shortages due to staff attrition suggest that there is strong competition in the labour market for a limited pool of workers. Employers found it difficult to retain and replace staff and felt that companies with more resources were able to provide better benefits and salary renumeration to attract staff.

[1] All mention of employers in this article is made with reference to this definition.

[2] Examples of large companies are large local enterprises and multinational corporations.

[3] Examples of small companies are micro, small and medium-sized enterprises.

Further, the respondents highlighted that labour or talent shortages due to foreign worker restrictions depicted challenges in meeting labour needs due to policy restrictions and insufficient suitable employees. This is partly due to COVID-19 border restrictions that reduced the flow of the foreign workforce, as well as the tightening of foreign worker quotas and worker levies. Employers also found that some jobs did not appeal to local workers.

The rising labour wage costs also describe a strong demand for manpower. Therefore, workers are in an advantageous position to seek higher salaries or find new jobs with higher salaries.

Respondents were also asked, in open-ended responses, to suggest ways to adequately address their business concerns.

Employers suggested improving work-life balance to better encourage staff retention, to address labour and talent shortages due to staff attrition. They also recommended supporting the gig economy, for instance, by having more freelance workers to meet labour demands. Employers also felt that more training grants could be provided for small and medium-sized enterprises (SMEs).

Employers advocated for technology solutions for productivity gains to reduce labour shortages due to foreign worker restrictions. They also suggested having sector-specific foreign worker restrictions to meet each sector's needs.

Employers felt that rising labour wages needed to be considered in tandem with overall cost of living, to address rising labour wage costs.

As a followup question, the survey asked employers to rank the usefulness of support measures in addressing their business concerns (Figure 4).

The top three schemes ranked useful in addressing employers' concerns were as follows – 82% of employers found the jobs support scheme useful; 77% of employers found the extension of statutory timelines useful, and 73% of employers found the extension of wage credit scheme useful.

The bottom three schemes ranked useful in addressing employers' concerns were as follows – 35% of employers found innovation schemes useful; 27% of employers found internationalisation schemes useful, and 24% of employers found SME Centre Business Advisors useful.

Open-ended responses were posed to employers to better understand the schemes that they found least useful.

Employers felt that the information shared by SME Centre Business Advisors was too general, and would like to have industry-specific advice that would be more useful for their businesses.

On internationalisation schemes, employers reported not having the capacity to internationalise due to more pressing immediate concerns posed by the COVID-19 pandemic. Some also reported that there were fewer global opportunities available due to COVID-19 disruptions and protectionist behaviours by some countries.

On innovation schemes, respondents found it difficult to meet the eligibility criteria; the processes for application were also found to be tedious.

Auditors, accountancy and finance professionals were asked to rank their top three current concerns from our list (Figure 5). At the top of the list, 41% of respondents had reduced income or pay cut as one of their top three current concerns. This was followed by 38% of respondents selecting job loss or retrenchment, and 31% choosing the lack of segregation between work and personal life. One possibility for these concerns, despite positive sentiments on business outlook, could be due to a mismatch in employee skills with the skills in demand.

A followup question was posed to respondents to rate the usefulness of support measures in addressing those concerns (Figure 6).

Fifty-three percent of respondents rated SkillsFuture Singapore Training Grants as useful in addressing their current concerns. This was followed by 42% of respondents that rated COVID-19 Recovery Grant, and 37% of respondents that rated measures for lowering wages or measures for junior workers, as useful in addressing their concerns.

BUDGET 2022 WISH LIST

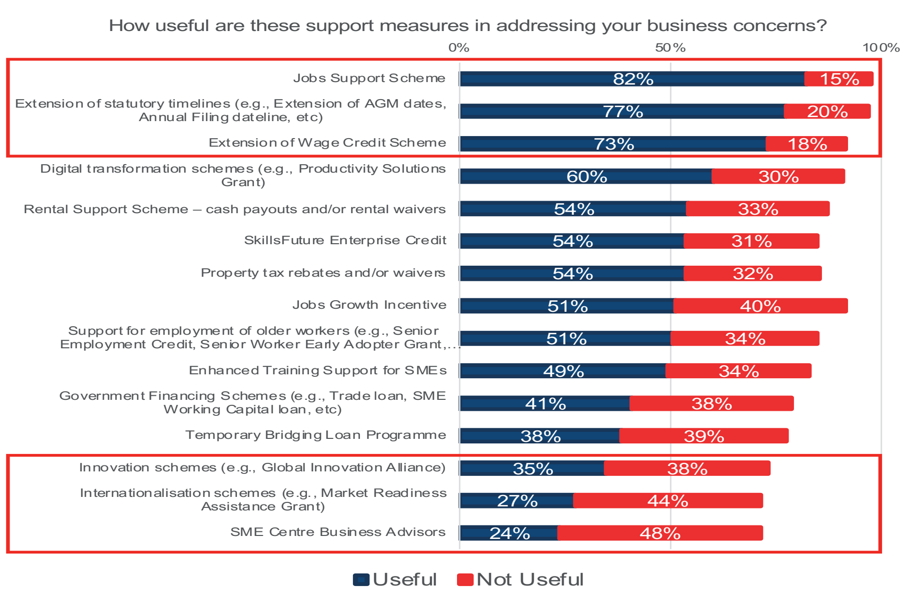
For Budget 2022, 64% of respondents would like to see cash handouts and rebates; 51% of respondents would like to have more job training support, and 43% of respondents would like more digital transformation support (Figure 7).

CONCLUSION

ISCA's Pre-Budget 2022 Survey results were presented at the Pre-Budget Roundtable on January 14. (Please see the cover story, "ISCA Pre-Budget Roundtable 2022", for more details.)

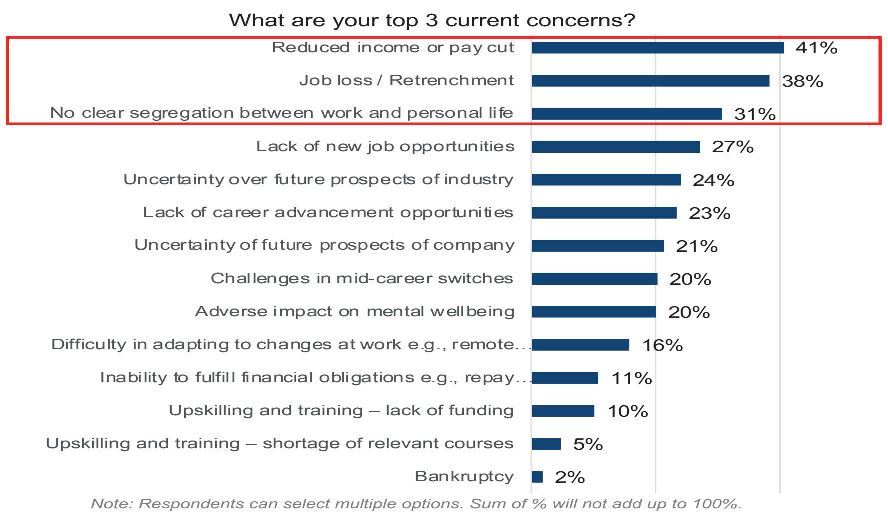
Members can look forward to contributing their views to the ISCA Pre-Budget 2023 Survey in the second half of 2022. ISCA

Figure 4 Employers' views: Usefulness of government support measures



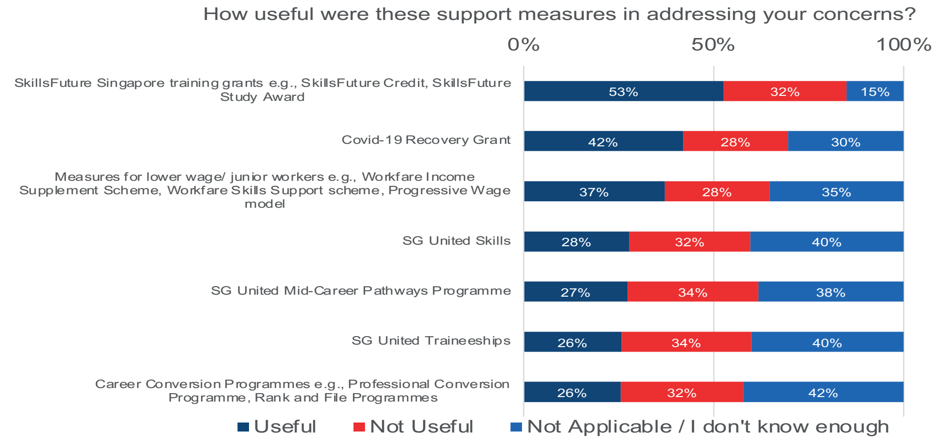
- Employers found the following government support measures useful:
  1. **Jobs Support Scheme** (82% found it useful),
  2. **Extension of Statutory Timelines** (77% found it useful), and
  3. **Extension of Wage Credit Scheme** (73% found it useful).
- Bottom 3 government support measures are:
  A. **Innovation schemes** (35% found it useful),
  B. **Internationalisation Schemes** (27% found it useful), and
  C. **SME Centre Business Advisors** (24% found it useful).

Figure 5 Auditors, accountancy and finance professionals' concerns



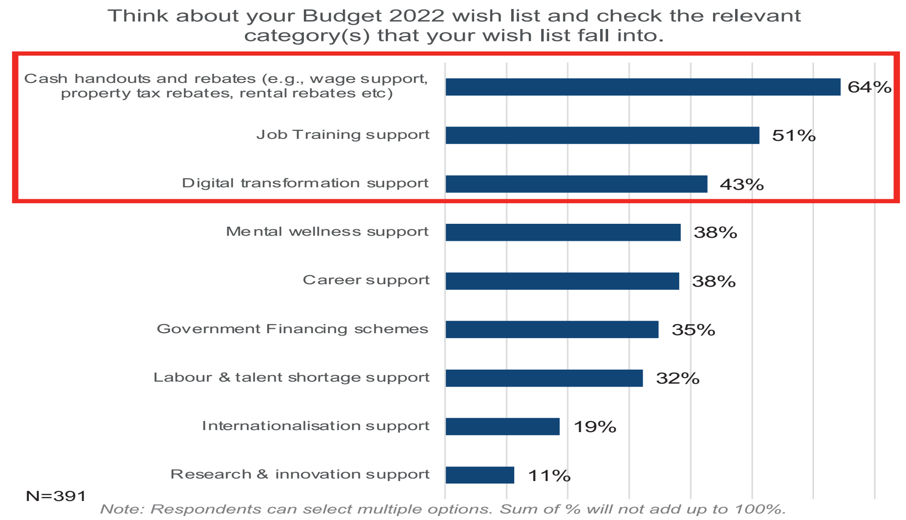
- Auditors, Accountancy and Finance Professionals are most concerned about the following:
  1. **Reduced income or pay cut** (41%),
  2. **Job loss / retrenchment** (38%), and
  3. The **lack of segregation between work and personal life** (31%).

Figure 6 Auditors, accountancy and finance professionals' concerns: Usefulness of support measures



- Auditors, Accountancy and Finance Professionals report these 3 support measures as being most useful:
  1. **SkillsFuture Singapore** Training Grants,
  2. **Covid-19 Recovery Grant** and
  3. Measures for **lower wages/junior workers**.

Figure 7 Budget 2022 wish list: Cash handouts and rebates top the list



- The top 3 wishes from our respondents are:
  1. 64% of respondents would like to see **cash handouts and rebates** in Budget 2022,
  2. 51% of respondents would like to have **more job training support**, and
  3. 43% of respondents would like **more digital transformation support.**

BY KELLOGG INSIGHT

MULLING A CAREER PIVOT?

Three Things To Consider

IF SOMETHING ABOUT YOUR JOB DOESN'T QUITE SEEM TO FIT YOUR LIFE OR AMBITIONS ANYMORE, YOU ARE NOT ALONE. Around the world, employees are rethinking what they want and need at work.

Forty-one percent of the global workforce is likely to consider quitting their job this year, with 46% contemplating a "major pivot or career transition", reports Microsoft. Meanwhile, half of American workers are considering a career change, reports CNBC – while in September, a record-breaking 4.4 million Americans – 3% of the workforce – actually quit their jobs. The so-called "Great Resignation" shows no signs of stopping.

What's going on?

"We're in a moment in time that has staying power," says Ellen Taaffe, Clinical Assistant Professor of Management and Organizations, and Director of Women's Leadership Programs at Kellogg.

COVID-19 has had a huge impact on most of our daily lives. The pandemic has emphasised that life is short and also that, for better or for worse, things once viewed as non-negotiable or intractable – from in-person work and school to busy social calendars – now appear more up for debate. In short, employees are looking at the options available to them with new eyes. And, because companies have retooled everything from strategy to operations, they're still evolving. Which means even more opportunities for employees. "You can stay and redesign, reinvent both yourself and your company, or you can create what you want somewhere else. COVID has accelerated all of this."

Moreover, Taaffe says, thanks to the tight labour market, firms may be more receptive to giving employees what they seek. This makes now a great moment to consider a pivot, whether that is to a new function within your company, or to a new company or industry. "I think there's no better time to take stock of what's important to you, to imagine a new future, and to strategise how to get there," she says.

She explains how to get started.

TAKE STOCK

To figure out your next move forward, you first need to look backwards. Before you delve into your search for a new role, set aside time to consider: What have you learned about yourself in the last two years?

Get concrete and specific, Taaffe advises. Make a list of answers for each question. Write them down.

For example, if you're still working from home, what have you realised about your preferences? It could be that you're more productive, love not having a commute, or are more collaborative with colleagues across geographies. Or maybe you found out that you prefer face-to-face sales calls because developing new leads is harder on Zoom. Perhaps you miss travel.

"A lot depends on where you are in your life stage," Taaffe says. "Some people value flexibility where others may crave social interaction."

For example, a recent survey reports that more than half of employees would like to work from home for three or more days per week, but that working parents with young children are more likely to prefer fully remote work.

You should also take stock of what you have learned about your industry and company. The pandemic drastically changed working conditions in industries such as healthcare and education. And many industries – like hospitality, travel, and retail – are trying to reinvent themselves altogether.

Within your company, look at its trajectory. For example, if the pandemic forced a wave of layoffs or a mass exodus, take note. Perhaps new business units are expanding headcount and can't hire fast enough. How might you fit in?

"Consider the impact COVID-19 has had on your company's business model and which changes are temporary or likely to continue into the future.

> **"The power dynamic has changed. Employees have more leverage now.** Companies are changing so much that they might be more open to something they rejected before."
>
> **Ellen Taaffe, Clinical Assistant Professor of Management and Organizations and Director of Women's Leadership Programs, Kellogg School of Management at Northwestern University**

PHOTO SHUTTERSTOCK

Assess how that may or may not affect future performance, your function, company leadership and resources, and the longer-term outlook for both growth and a satisfying work environment," says Taaffe. "Do your responses to these questions tell you that it may be time to pivot?"

IMAGINE THE FUTURE

As companies figure out how to adapt and retain talent, now is a good time to brainstorm what is important to you. So be bold and imagine your ideal future job. Get actionable. "What do you want to do, drop, delegate, decline, or dare to do?" Taaffe asks.

Employees who have worked in a company for a while and are a known entity with social capital are especially well positioned to negotiate new or expanded roles within their organisations.

"Companies are losing talented individuals, and they're worried about it," Taaffe says. "So if you take stock in the company and think, 'We have a chance to grow. I'm still developing here, and I can make a difference', you should consider staying."

But of course, just because you want something doesn't mean you'll get it. Whether your current company won't make the necessary changes or whether they simply can't, it may be time to look elsewhere. "You owe it to yourself to look and to understand your options," says Taaffe.

And don't rule out opportunities or working arrangements that were a no-go in prior years.

"The power dynamic has changed. Employees have more leverage now," Taaffe says. "Companies are changing so much that they might be more open to something they rejected before."

As you explore opportunities, you will need to translate your wants and needs in ways that are beneficial to the company that is considering you. As companies' value propositions for employees evolve, you should position your priorities as part of their solution, she says.

"Be prepared to explain, 'Here's what I'm really good at, this is what I want to do that can add value, and here's how we can shape it'," she says. "For example, if you are interviewing to lead a major initiative, now is the time to negotiate for how you want to lead it. This could mean focusing on your strengths: your strategy, your ability to achieve cross-functional alignment, and your skill at communicating to senior management. Then let them know that leading the initiative well requires a strong project manager. Then ask for what you need to succeed."

PHOTO SHUTTERSTOCK

So be bold and imagine your ideal future job. Get actionable. "What do you want to do, drop, delegate, decline, or dare to do?" Taaffe asks.

FIND WHERE YOU WANT TO BE

Finally, it's time to investigate if a company's values match yours.

Taaffe notes that even prior to the pandemic, the "Me Too" and "BLM" movements cast a spotlight on the dissonance between what companies say they value and their actions. The pandemic has only increased the pressure on companies to walk the talk on key issues like racial and gender equality and climate change. Employees, especially under-represented minorities, Generation Z, and Millennials, are fed up with companies whose ethics do not carry through to daily operations.

So interested employees should seize this moment to find a role or organisation that is consistent with the impact they want to have on the world. "Ask yourself whether the values you have match the values of this company," Taaffe says. "How do they show up in behaviours and not simply signs in the lobby?"

While you are zeroing in on the type of work you want to be doing – and the right company to do it – don't forget to prioritise your own wellbeing. In the wake of the pandemic, employee mental-health issues are escalating. With lots of employees feeling anxious, isolated, or burnt out – or grieving lost loved ones – it is important to consider whether employee mental health and wellbeing is a priority at these companies. What do they offer for support?

And while it is good to inquire about the benefits package, it helps to realise that a company's stance on mental health extends beyond benefits. "Find out whether the company recognises what people have been through," Taaffe recommends.

Just as many companies put policies in place for physical safety – from COVID-19 protocols to fire drills – employees also want psychological safety, Taaffe says. Leaders can best create this by being authentic, humble, and inclusive themselves, and expecting this as the norm across their company. This allows employees to feel safe, take risks, and think in more innovative ways.

"A silver lining of the pandemic is that we got a bigger window into our colleagues," Taaffe says, "whether that was seeing their make-shift office at the kitchen table, their kids or pets, or the anxiety and uncertainty we all feel about the future. We learned that it's okay to not be okay."

Part of taking stock is asking whether this cultural shift holds true in a company.

Taaffe recommends that, as you meet people through the interview process, ask the same questions to each person about the culture, the leadership, and their outlook on work-from-home, hybrid, or in-office expectations. Then consider the refrains you may hear in those responses, especially those that reveal more than a robotic company message.

"Listen for vulnerability and transparency as they talk about the challenges the company has been through over the last two years," she says. "No company had all of the answers, especially in the pandemic. If they respond like they do, you know you aren't talking to a learning organisation where it is safe to say, 'I don't know'."

She suggests asking about how the company handled failures or mistakes. Does the organisation debrief on what worked and what insights it can apply next time? What happens to those who were involved with a failed initiative or product launch?

"You can tell that psychological safety is strong when employees can bring their whole selves to work," Taaffe says. "If the company combines diversity of styles and approaches with consistency of their values and work ethic, you may have found the right place for you to thrive." ISCA

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BY CLAUDIA ZEISBERGER

CAN PRIVATE EQUITY MAKE MONEY WHILE DOING GOOD?

Some Important Considerations

DEMANDS ON PRIVATE EQUITY (PE) AND VENTURE CAPITAL FUNDS HAVE GONE FROM "FINANCIAL RETURNS-ONLY" TO INCLUDE MANDATES TO DO GOOD. If these ambitions are achievable, then limited partners (LPs) need to keep a close eye on the promised outcomes and adjust their risk management processes to this new paradigm. Only then can LPs confidently say that they're earning a profit and making the world a better place.

In a recent Fireside Chat, *Wall Street Journal* reporter Simon Clark described the problem covered in his recent book[1]: "When companies and investors sign up for this broader stakeholder capitalism mission, big problems can emerge."

Co-authored by Will Louch, Clark's book chronicles how Arif Naqvi, CEO of Abraaj Group – the world's then-largest emerging markets fund – raised billions in impact investment dollars from governments and institutional investors as he swindled more than US$660 million. Naqvi was one of the most prominent voices in the impact investing world who promised that there's "no tradeoff between doing good and making money".

In 2017, Abraaj oversaw approximately US$14 billion in assets under management as Naqvi raised money for a US$6-billion healthcare fund from investors like the Bill & Melinda Gates Foundation, Bank of America, the International Finance Corporation and the CDC Group. A short time later, the Gates Foundation couldn't account for a huge sum of its investments. Abraaj filed for liquidation in the Cayman Islands in 2018. A year later, Naqvi was arrested in London based on a warrant from the United States Justice Department. He now awaits extradition to the US where he is facing up to 291 years in prison, if convicted.

The Abraaj story, albeit extreme and rare, requires soul searching from all PE stakeholders. How can investors who trust their capital to PE funds with environmental, social and governance (ESG) mandates avoid disappointing outcomes?

ESG IS GROWING IN PE, AS IS THE RELATED RISK

Impact investing is becoming mainstream in PE. In 2020, PE firms raised more than US$370 billion in funds with ESG commitments, according to Preqin.

Research from INSEAD's Global Private Equity Initiative on the changing ESG landscape in PE[2] found that 89% of LPs consider ESG criteria in investment decisions. But interviews also revealed that LPs have trouble differentiating greenwashing from actual impact. And they're not alone. Regulators are also concerned.

Last April, the US Securities and Exchange Commission issued a Risk Alert which flagged problems like weak internal controls, compliance issues and misleading marketing among funds that promote impact investing and sustainability. I expect further announcements this quarter.

STRUCTURAL CHANGE

To mitigate risks and prevent fraud, LPs must drive structural change in three areas – due diligence, standardising ESG metrics and shared learning.

1) Due diligence must be ongoing

As part of risk management, LPs conduct due diligence prior to investing in a fund. They analyse a fund's finances, operations, strategy and overall ability to deliver their investment thesis. Yet the Abraaj case exposes due diligence's weaknesses. It's shocking how long Naqvi was able to cultivate trust and hide fraud from the world's most experienced investors.

An anonymous whistleblower

To reduce fraud risks, limited partners must redesign due diligence to be continuous. They must monitor a fund's financials and KPIs *throughout* the fund life cycle, until they exit.

PHOTO SHUTTERSTOCK

[1] Clark, S. & Louch. W. (2021). *The key man: The true story of how the global elite was duped by a capitalist fairy tale.* Harper Business. New York, USA.

[2] INSEAD The Global Private Equity Initiative. (Oct 2020). Green shoots: Can private equity firms meet the responsible investing expectations of their investors?. https://www.insead.edu/sites/default/files/assets/dept/centres/gpei/docs/green-shoots-can-private-equity-firms-meet-the-responsible-investing-expectations-of-their-investors.pdf

PHOTO SHUTTERSTOCK

emailed the healthcare fund investors: "Don't believe what the partners send you." The message also gave explicit instructions to analyse the "primary source data" to "find the truth". Yet, these major investors ignored it. Later, a Gates Foundation executive questioned suspicious requests for money and found that US$200 million was missing.

"Investors usually think they know where their money is in private equity funds because in all of private equity, there is an extraordinary amount of secrecy," Clark warned.

To reduce fraud risks, LPs must redesign due diligence to be continuous. They must monitor a fund's financials and KPIs *throughout* the fund life cycle, until they exit. We need fintech solutions that provide LPs access to online, real-time bank statements. Otherwise, quarterly reports and intermittent balance sheets can conceal fraud.

2) Standardise impact measurement metrics and build inhouse ESG expertise for accountability

In 2020, the Global Impact Investing Network's annual survey[3] reported that although the sophistication in impact measurement and management has been the industry's greatest progress over the past decade, it also remains its greatest challenge.

... 45% of LPs said that general partners report only high-level metrics; 35% said that ESG reports only focus on positive stories, and only 11% agreed that data are granular enough to track a fund's ESG performance against targets.

Currently, investors choose among multiple frameworks with varying metrics, resulting in what Greenbiz referred to as an "alphabet soup of reporting standards". Divergence in usage among LPs is broad. Our survey of LPs found that the top three ESG frameworks are:

- United Nations Principles for Responsible Investment (47%);
- Sustainable Development Goals (32%);
- Sustainability Accounting Standards Board (16%).

Yet, LPs only use these metrics to screen investments, not to track impact throughout the fund life cycle. In our survey, 45% of LPs said that general partners (GPs) report only high-level metrics; 35% said that ESG reports only focus on positive stories, and only 11% agreed that data are granular enough to track a fund's ESG performance against targets.

The good news is that industry experts and investors are working to standardise metrics. Work is nascent, but significant progress was made over the past year. In the next 12 months, convergence on a single standard is expected. For example, during COP26, the IFRS Foundation announced the formation of the International Sustainability Standards Board. It will create global sustainability disclosure standards to help investors assess "sustainability-related risks and opportunities" to make informed decisions.

Another project, led by CalPERS and Carlyle, with resources from Institutional Limited Partners Association, is the ESG Data Convergence Project. This LP-GP industry-led effort aligns investors on six metrics adapted from existing frameworks to collect "a critical mass of meaningful, performance-based, comparable ESG data". To date, a group of LPs and GPs with over US$4 trillion in combined assets under management have committed to the project, with more expected to join this month.

As metrics evolve, LPs must not only insist that GPs provide annual ESG scorecards on portfolio performance, but also ensure that the metrics are meaningful and do not distract from the urgent task of reducing companies' environmental impact.

Finally, LPs must train and hire full-time experts. Each LP needs an ESG champion with a laser-sharp focus on standards, KPIs and industry developments. Metrics will fall short without people who hold funds accountable.

3) Prioritise and share learnings

ESG in PE is a work in progress, steeped in challenges. As Clark said, "It's great that capitalism is taking on this broader mandate, but it's complicated. It's hard to make money. It's hard to end poverty. It's very hard to do those two things at the same time."

As LPs test and adapt ESG metrics and processes, the industry must adopt a collaborative, learning mindset to impact investing that holds us accountable to the original goal – to reduce businesses' negative environmental and social impacts. LPs need a secure way to raise concerns, share information and compare notes as we learn. For example, a number of GPs who first built internal capabilities are now adding external perspectives, like KKR's Sustainability Expert Advisory Council, of which I am a member.

Expect that we will make mistakes along the way, but let's talk about them. ISCA

Claudia Zeisberger is a Senior Affiliate Professor of Entrepreneurship & Family Enterprise, INSEAD, and Founder & Academic Co-Director of the school's Global Private Equity Initiative.

[3] Global Impact Investing Network. (June 2020). 2020 Annual impact investor survey. https://thegiin.org/research/publication/impinv-survey-2020

BY BEN SHNEIDERMAN

RESPONSIBLE AI

Bridging From Ethics To Practice

THE HIGH EXPECTATIONS OF ARTIFICIAL INTELLIGENCE (AI) HAVE TRIGGERED WORLDWIDE INTEREST AND CONCERN, generating more than 400 policy documents on responsible AI. Intense discussions over the ethical issues lay a helpful foundation, preparing researchers, managers, policymakers and educators for constructive discussions that will lead to clear recommendations for building the reliable, safe, and trustworthy systems[1] that will be commercially successful. This viewpoint focuses on four themes that lead to 15 recommendations for moving forward. The four themes combine AI thinking with human-centred User Experience Design (UXD).

Ethics and design

Ethical discussions are a vital foundation, but raising the edifice of responsible AI requires design decisions to guide software engineering teams, business managers, industry leaders, and government policymakers. Ethical concerns are catalogued in the Berkman Klein Center report[2] that offers ethical principles in eight categories: privacy, accountability, safety and security, transparency and explainability, fairness and non-discrimination, human control of technology, professional responsibility, and promotion of human values. These important ethical foundations can be strengthened with actionable design guidelines.

Autonomous algorithms and human control

The recent CRA report[3] on "Assured Autonomy" and the IEEE's influential report[4] on "Ethically Aligned Design" are strongly devoted to "autonomous and intelligent systems". The reports emphasise machine autonomy, which becomes safer when human control can be exercised to prevent damage. I share the desire for autonomy by way of elegant and efficient algorithms, while adding well-designed control panels for users and supervisors to ensure safer outcomes. Autonomous aerial drones become more effective as remotely piloted aircraft and NASA's Mars Rovers can make autonomous movements, but there is a whole control room of operators managing the larger picture of what is happening.

Combining AI with UXD will enable rapid progress to the goals of reliable, safe, and trustworthy systems.

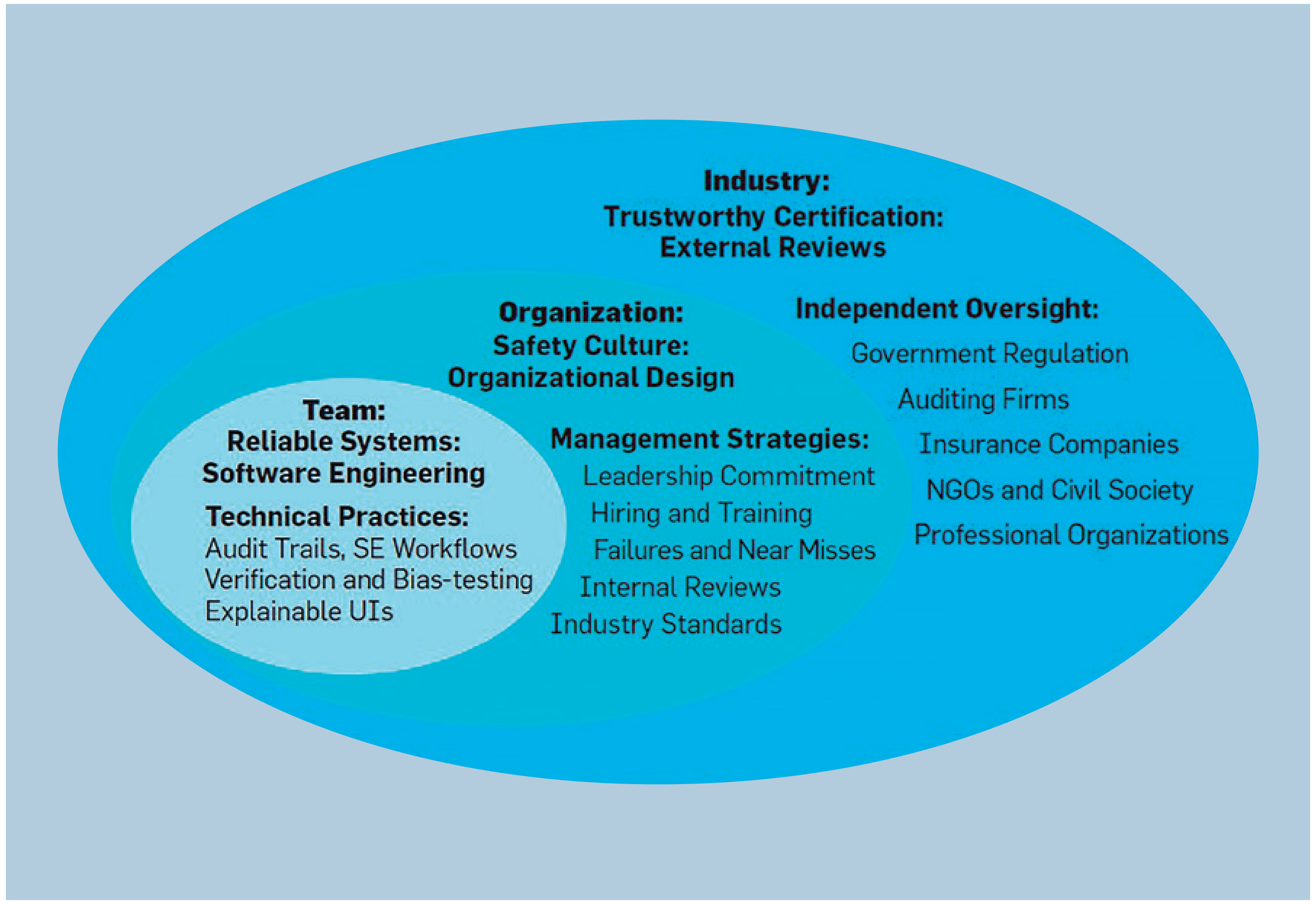
[1] Landwehr, C. (2015). We need a building code for building code. *Communications of the ACM*, 58(2). https://dl.acm.org/doi/10.1145/2700341

[2] Fjeld, J. et al. (2020–1). Principled artificial intelligence: Mapping consensus in ethical and rights-based approaches to principles for AI. Berkman Klein Center Research. https://bit.ly/358NYfN

[3] Computing Research Association. (2020). Assured autonomy: Path toward living with autonomous systems we can trust. Washington, DC. https://bit.ly/3weGL9W

[4] IEEE Global Initiative on Ethics of Autonomous and Intelligent Systems. (2019). Ethically aligned design: A vision for prioritizing human well-being with autonomous and intelligent systems (first edition). IEEE. https://bit.ly/3gaBrig

Figure 1 Governance structures to guide teams, organisations, and industry leaders



Humans in the group; computers in the loop

While people are instinctively social, they benefit from well-designed computers. Some designers favour developing computers as collaborators, teammates, and partners, when adding control panels and status displays would make them comprehensible appliances. Machine and deep learning strategies will be more widely used if they are integrated in visual user interfaces, as they are in counterterrorism centres, financial trading rooms, and transportation or utility control centres.

Explainable AI (XAI) and comprehensible AI (CAI)

Many researchers from AI and HCI have turned to the problem of providing explanations of AI decisions, as required by the European General Data Protection Regulation (GDPR) stipulating a "right to explanation".[5] Explanations of why mortgage applications or parole requests are rejected can include local or global descriptions, but a useful complementary approach is to prevent confusion and surprise by making comprehensible user interfaces that enable rapid interactive exploration of decision spaces.

Combining AI with UXD will enable rapid progress to the goals of reliable, safe and trustworthy systems. Software engineers, designers, developers, and their managers are practitioners who need more than ethical discussion. They want clear guidance about what to do today as they work toward deadlines with their limited team resources. They operate in competitive markets that reward speed, clarity and performance.

This viewpoint is a brief introduction to the 15 recommendations in a recent article in the *ACM Transactions on Interactive Intelligent Systems*[6], which bridge the gap between widely discussed ethical principles and practical steps for effective governance that will lead to reliable, safe and trustworthy AI systems. That article offers detailed descriptions and numerous references. The recommendations, grouped into three levels of governance structures, are meant to provoke discussions that could lead to validated, refined and widely implemented practices (Figure 1).

[5] Wachter, S., Mittelstadt, B. & Russell, C. (Oct, 2017). Counterfactual explanations without opening the black box: Automated decisions and the GDPR. *Harvard Journal of Law and Technology*, 31 (2018). http://dx.doi.org/10.2139/ssrn.3063289

[6] Shneiderman, B. (2020). Bridging the gap between ethics and practice: Guidelines for reliable, safe, and trustworthy human-centered AI systems. *ACM Transactions on Interactive Intelligent Systems*, 10(4), Article 26. https://bit.ly/3xisPff

[7] Baeza-Yates, R. (2018). Bias on the web. *Commun. ACM*, 61(6). https://cacm.acm.org/magazines/2018/6/228035-bias-on-the-web/fulltext

[8] Weld, D.S. & Bansal, G. (2019). The challenge of crafting intelligible intelligence. *Commun. ACM*, (62)6. https://cacm.acm.org/magazines/2019/6/237004-the-challenge-of-crafting-intelligible-intelligence/fulltext

[9] von Wangenheim, C.G. et al. (2010). Creating software process capability/maturity models. *IEEE Software*, 27(4). https://doi.org/10.1109/MS.2010.96

[10] Larouzee, J. & Le Coze, J.C. (2020). Good and bad reasons: The Swiss cheese model and its critics. *Safety Science*, 126(104660). https://bit.ly/3izZ8Ca

The key to independent oversight is to support the legal, moral, and ethical principles of human or organisational responsibility and liability for their products and services.

TEAM: Reliable systems based on sound software engineering practices

These practices are intended for software engineering teams of designers, developers, and managers.

(1) Audit trails and analysis tools

Software engineers could emulate the safety of civil aviation by making a "flight data recorder for every robot" to record actions, so that retrospective analyses of failures and near misses could track what happened and how dangers were avoided. Then analysts could make recommendations for improving design and training. Audit trails require upfront effort but, by reducing failures and improving performance, they reduce injuries, damage, and costs.

(2) Software engineering workflows

Proposals for distinctive workflows for machine learning projects require expanded efforts with user requirements gathering, data collection, cleaning, and labelling, with use of visualisation and data analytics to understand abnormal distributions, errors and missing data, clusters, gaps, and anomalies.

(3) Verification and validation testing

The unpredictable performance of machine learning algorithms means that algorithms need careful testing with numerous benchmark tasks. Since machine learning is highly dependent on the training data, different datasets need to be collected for each context to increase accuracy and reduce biases.

(4) Bias testing to enhance fairness

Beyond algorithm correctness and data quality, careful testing will enhance fairness by lessening gender, ethnic, racial, and other biases.[7] Toolkits for fairness testing from researchers and commercial providers can seed the process, but involvement from stakeholders will do much to increase fairness and build connections that could be helpful when problems emerge.

(5) Explainable user interfaces

Software engineers recognise that explainable user interfaces enable more reliable development processes since algorithmic errors and anomalous data can be found more easily when explainability is supported. Exploratory user interfaces, often based on visualisation, are proving to be increasingly valuable in preventing confusion and understanding errors. Weld and Bansal[8] recommend that designers should "make the explanation system interactive so users can drill down until they are satisfied with their understanding".

Critics of these practices believe innovation is happening so quickly that these are luxuries that most software engineering teams cannot afford. Changing from the current practice of releasing partially tested software will yield more reliable and safer products and services.

ORGANISATION: Safety culture through business management strategies

Management investment in an organisational safety culture requires budget and personnel, but the payoff is in reduced injuries, damage, and costs.

(1) Leadership commitment to safety

Leadership commitment is made visible to employees by frequent restatements of that commitment, positive efforts in hiring, repeated training, and dealing openly with failures and near misses. Reviews of incidents, such as monthly hospital review board meetings, can bring much increased patient safety.

(2) Hiring and training oriented to safety

When safety is included in job hiring position statements, that commitment becomes visible to current employees and potential new hires. Safety cultures may need experienced safety professionals from health, human resources, organisational design, ethnography, and forensics. Training exercises take time but the payoff comes when failures can be avoided and recovery made rapid.

(3) Extensive reporting of failures and near misses

Safety-oriented organisations regularly report on their failures (sometimes referred to as "adverse events") and near misses (sometimes referred to as "close calls"). Near misses can be small mistakes that are handled easily or dangerous practices that can be avoided, thereby limiting serious failures. NASA's Aviation Safety Reporting System (https://go.nasa.gov/2TdJhi1) and the Food and Drug Administration's Adverse Event Reporting System (https://bit.ly/3zl1A5B) provide models for public reporting of problems users encounter, while Bugzilla (https://bit.ly/3cRlkUT) is a useful model for technical bug reporting.

(4) Internal review boards for problems and future plans

Commitment to a safety culture is shown by regularly scheduled monthly meetings to discuss failures and near misses, as well as to celebrate resilient efforts in the face of serious challenges. Review boards, such as hospital-based ones, may include managers, staff and others who offer diverse perspectives on how to promote continuous improvement. Google, Microsoft, Facebook, and other leading corporations have established internal review processes for AI systems.

(5) Alignment with industry standard practices

Participation in industry standards groups such as those run by the IEEE, International Standards Organization, or the Robotics Industries Association show organisational commitment to developing good practices. AI-oriented extensions of the software engineering Capability Maturity Model[9] are being developed to enable organisations to develop carefully managed processes and appropriate metrics to improve software quality.

Sceptics worry that organisations are so driven by short-term schedules, budgets, and competitive pressures that the commitment to these safety culture practices will be modest and fleeting.[10] Organisations can respond by issuing annual safety reports with standard measures and independent oversight. It may take years for organisations to mature enough so they make serious commitments to safety.

Changing from the current practice of releasing partially tested software will yield more reliable and safer products and services.

INDUSTRY: Trustworthy certification by independent oversight

The third governance layer brings industry-specific independent oversight to achieve trustworthy systems that receive wide public acceptance. The key to independent oversight is to support the legal, moral, and ethical principles of human or organisational responsibility and liability for their products and services. Responsibility is a complex topic, with nuanced variations such as legal liability, professional accountability, moral responsibility, and ethical bias. Independent oversight is widely used by businesses, government agencies, universities, non-governmental organisations, and civic society to stimulate discussions, review plans, monitor ongoing processes, and analyse failures. The goal of independent oversight is to promote continuous improvements that ensure reliable, safe and trustworthy products and services.

(1) Government interventions and regulation

Many current AI industry leaders and government policymakers fear that government regulation would limit innovation, but when done carefully, regulation can accelerate innovation as it did with automobile safety and fuel efficiency. A US government memorandum for Executive Branch Departments and Agencies offered 10 principles for "stewardship of AI applications"[11, 12], but then backed away by suggesting that "the private sector and other stakeholders may develop voluntary consensus standards that concern AI applications, which provide non-regulatory approaches to manage risks associated with AI applications that are potentially more adaptable to the demands of a rapidly evolving technology".

(2) Accounting firms conduct external audits for AI systems

Independent financial audit firms, which analyse corporate financial statements to certify they are accurate, truthful and complete, could develop reviewing strategies for corporate AI projects. They would also make recommendations to their client companies about what improvements to make. These firms often develop close relationships with internal auditing committees so that there is a good chance that recommendations will be implemented.

(3) Insurance companies compensate for AI failures

The insurance industry is a potential guarantor of trustworthiness, as it is in the building, manufacturing, and medical domains. Insurance companies could specify requirements for insurability of AI systems in manufacturing, medical, transportation, industrial and other domains. They have long played a key role in ensuring building safety by requiring adherence to building codes for structural strength, fire safety, flood protection and many other features. Building codes could be a model for software engineers, as described in Landwehr's proposal for "a building code for building code".[13] He extends historical analogies to plumbing, fire or electrical standards by reviewing software engineering for avionics, medical devices and cybersecurity, but the extension to AI systems seems natural.

(4) Non-governmental and civil society organisations

NGOs have proven to be early leaders in developing new ideas about AI principles and ethics but now, they will need to increase their attention to developing ideas about implementing software engineering practices and business management strategies. An inspiring example is how the Algorithmic Justice League was able to get large technology companies to improve their facial recognition products so as to reduce gender and racial bias within a two-year period. This group's pressure was influential in the Spring 2020 decisions of leading companies to halt their sales to police agencies in the wake of the intense movement to limit police racial bias.

(5) Professional organisations and research institutes

Established and new organisations have been vigorously engaged in international discussions on ethical and practical design principles for responsible AI. However, sceptics caution that industry experts and leaders often dominate professional organisations, so they may push for less restrictive guidelines and standards.[14] Ensuring diverse participation in professional organisations and open reporting, such as the Partnership on AI's Incident Database, can promote meaningful design improvements. Academic research centres have been influential but their resources are often dwarfed by the budgets, systems, and datasets held by leading companies. Industry-supported research centres such as Open AI (https://openai.org) and Partnership on AI (https://partnershiponai.org) could play a role in technology innovation and more effective governance.

These recommendations for teams, organisations, and industries are meant to increase reliability, safety and trustworthiness while increasing the benefits of AI technologies. After all, the stakes are high – the right kinds of technology advance human values and dignity while promoting self-efficacy, creativity, and responsibility. The wrong kinds of technology will increase the dangers from failures and malicious actors. Constructive adoption of these recommendations could do much to improve privacy, security, environmental protection, economic development, healthcare, social justice and human rights. ISCA

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BY BEN M. BENSAOU

INNOVATION IS EVERYONE'S BUSINESS

Committing To The Idea Of Creation

A MANUFACTURER OF THE FABRIC USED TO REINFORCE CAR TYRES MIGHT NOT SEEM AN OBVIOUS SOURCE OF INNOVATION INSPIRATION. But in just a few years, Kordsa, a part of the Turkish industrial conglomerate Sabancı Group, transformed itself from a price-driven maker of commodity products into a provider of innovative solutions to clients across multiple industries.

While there are many reasons for Kordsa's remarkable success, the process began with senior executives giving permission to everyone in the organisation to innovate.

Of course, most organisations recognise the importance of encouraging innovation. Good ideas can streamline production processes, help save money and open up potential new markets. Yet, despite the compelling evidence, it's not always obvious what steps are needed to integrate innovative practices and thinking across an organisation.

A BLUEPRINT FOR INNOVATION

Based on over 20 years of researching, teaching and consulting for some of the world's leading companies, I've attempted to address that shortfall. In my book *Built to Innovate*, I aim to map out a proven system for building constant innovation into your company's DNA. I explain that there are three key processes necessary to build what I term an "innovation engine" into any organisation: Creation, Integration and Reframing.

Integration and reframing are about changing mindsets and implementing innovations across an organisation. These will be dealt with more fully in subsequent articles. Creation is focused on the act of generating the ideas needed for innovation to take place. But it is also about making sure those ideas are being created throughout an organisation, particularly by frontline workers.

As we see in the Kordsa example, for this to work, people need to be able, capable and motivated to create ideas. Put another way, they need the permission to innovate; the time, training and resources to innovate; and the motivation to do so without fear of failure.

DEMOCRATISATION OF IDEA CREATION

Cenk Alper was the executive charged with bringing a culture of innovation to Kordsa. One of the first actions he took was a company-wide survey to identify good innovations already taking place within the firm. He then made sure that these were recognised and rewarded. Alper also invested in a new internal technology centre in a bid to upgrade the organisation's R&D operation. At the same time, he made sure all departments of the business were working on at least one innovation project, helping ensure the concept of creativity was embedded across the organisation.

However, perhaps the biggest step to "democratise innovation" as Alper described it, was the launch of Total Productive Maintenance (TPM). This was an innovation training programme rolled out for all employees from frontline workers through to senior executives across all 12 facilities globally.

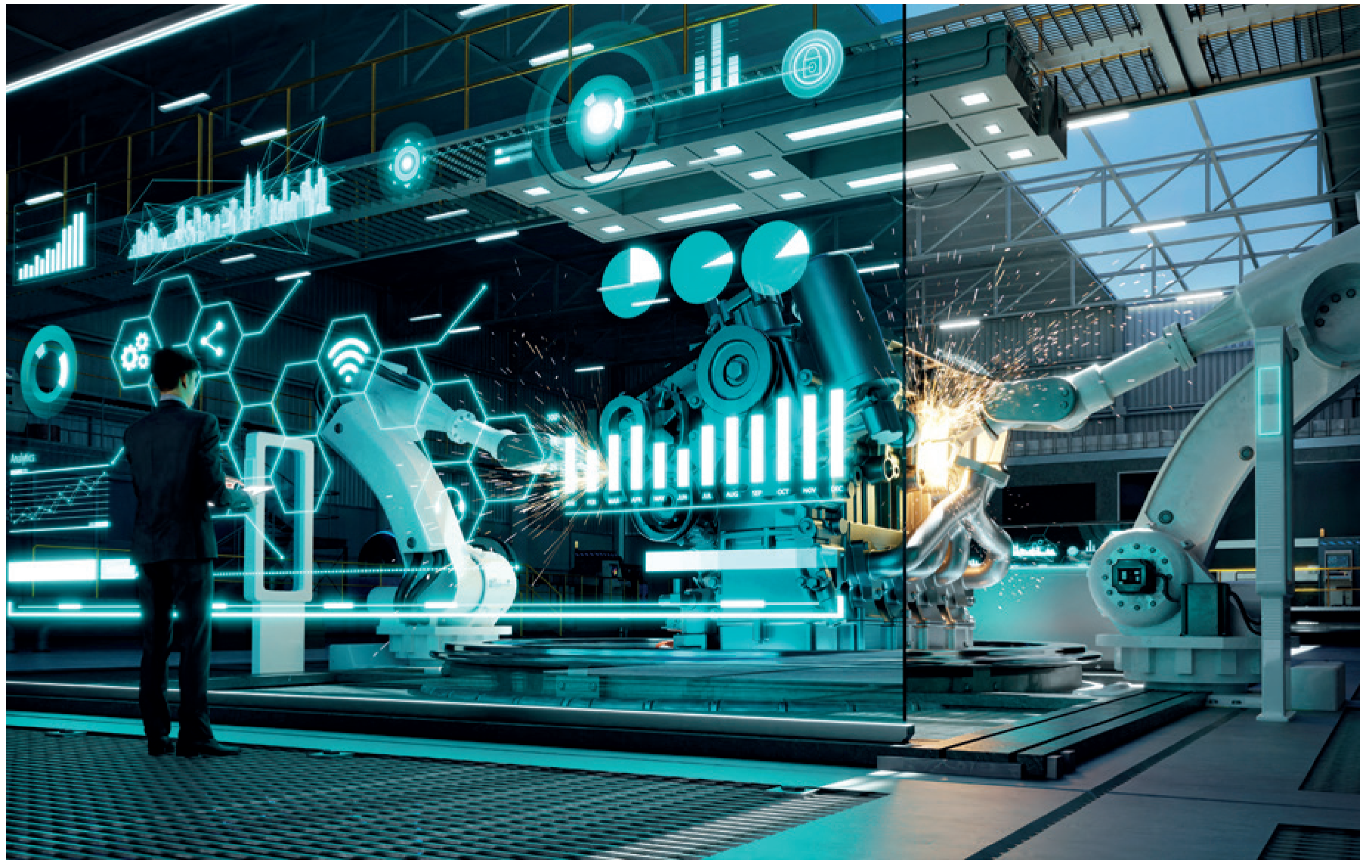
To underline the commitment of senior leaders to TPM, Alper went through the training himself and made sure all middle managers also received the training. As well as giving employees the tools and techniques needed to innovate, TPM showed them that they not only had permission to innovate but they were expected to do so.

The results were impressive and wide-ranging, going far beyond the development of more innovative products, though that also occurred. Innovations included a drastic reduction in the time needed to replace an oil filter on the assembly line. TPM also led to the creation of a buddy system for new starters that eased pressure on the HR department and forged closer ties between employees.

CLOSING THE GAP TO CLIENTS

To further help with the idea creation process, Kordsa also looked to reduce the distance between potential innovators and customers.

... people need to be able, capable and motivated to create ideas. Put another way, they need the permission to innovate; the time, training and resources to innovate; and the motivation to do so without fear of failure



This is something I have identified as key to developing an innovation engine in any organisation.

A state-of-the-art experimental laboratory opened its doors so customers could visit and bring their ideas and challenges to Kordsa's scientists. Meanwhile, cross-functional teams spent time camped in the customers' plants to better understand their unmet needs and challenges.

One new product that came out of this process was the development of a new type of tyre cord fabric. Branded Capmax, it removed the need for several time-consuming and costly stages in the tyre manufacturing process – a common customer complaint.

These new products didn't just help the organisation become recognised as an innovator within the tyre manufacturing industry, they also opened up completely new markets such as aerospace and electronics, where they could license their innovative composite materials.

MOTIVATING CREATIVITY

A final piece of the jigsaw puzzle was motivating employees to create the ideas. One way this was achieved was through the thoughtful design of a stage-gate process

... there are three key processes necessary to build what I term an "innovation engine" into any organisation: Creation, Integration and Reframing.

that innovation ideas. For an idea to pass through to the next stage of development, it had to meet a series of criteria after review by a leadership committee.

However, to protect innovators from the stigma of failure, and to avoid prematurely killing ideas with potential, the process incorporated "positive discrimination". This meant ideas were not bound to the normal commercial pressures and profit requirements for the first five years. This tweak to the system gave the Kordsa teams more time to eliminate any teething troubles or flaws.

Kordsa is a great example of what can be done when a whole organisation commits to the idea of creation. Their numerous innovations have reframed the organisation as a technology innovator that has won numerous awards. It is also now ranked third for R&D capabilities among all Turkish corporations.

The ever-expanding range of innovative materials have allowed the company to grow its business into a raft of previously unconsidered areas, while Alper went on to become CEO of Sabancı Holdings. His belief in the value of empowering all employees remains undimmed and he continues to personally conduct innovation training for employees today – surely, the clearest sign to all his employees that they have his full approval to embrace innovation. ISCA

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TECHNICAL HIGHLIGHTS

AUDITING AND ASSURANCE

NEW TECHNOLOGY-FOCUSED FAQ ISSUED BY IAASB

This publication highlights the impact of technology when applying certain aspects of the International Standards on Auditing (ISAs). It focuses on specific considerations for planning an audit in accordance with ISA 300, *Planning an Audit of Financial Statements*, that may be relevant when using automated tools and techniques.

For more information, please visit https://www.iaasb.org/news-events/2021-12/new-technology-focused-faq-available

FINANCIAL REPORTING

ISSUANCE OF AMENDMENTS TO IFRS 17, SFRS(I) 17 AND FRS 117

IASB has issued a narrow-scope amendment to the transition requirements in IFRS 17 *Insurance Contracts* to provide insurers with an option aimed at improving the usefulness of information to investors on initial application of the Standard. IFRS 17, including the amendment, will be effective for annual reporting periods starting on or after 1 January 2023.

For more information, please visit https://www.ifrs.org/news-and-events/news/2021/12/iasb-provides-transition-option-to-insurers-applying-ifrs-17/

Similarly, ASC has issued Amendment to SFRS(I) 17 *Initial Application of SFRS(I) 17 and SFRS(I) 9 – Comparative Information*, and Amendment to FRS 117 *Initial Application of FRS 117 and FRS 109 – Comparative Information*.

For more information, please visit https://www.asc.gov.sg/news-events/local-news/archives/2021

IASB CHAIR'S SPEECH ON THE FUTURE FOR IFRS ACCOUNTING STANDARDS

At the AICPA and CIMA Conference on 7 December 2021 in Washington, IASB Chair Andreas Barckow spoke on IASB's immediate and future priorities, the growing importance of sustainability issues in financial reporting and convergence with the Financial Accounting Standards Board.

For more information, please visit https://www.ifrs.org/news-and-events/news/2021/12/connectivity-core-work-and-convergence/

DECEMBER 2021 IASB UPDATE AVAILABLE AND WORK PLAN UPDATED

This Update highlights IASB's discussions on topics such as Financial Instruments with Characteristics of Equity, Rate-regulated Activities, Primary Financial Statements and Business Combinations under Common Control. The IASB work plan has also been updated.

For more information, please visit https://www.ifrs.org/news-and-events/updates/iasb/2021/iasb-update-december-2021/

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DECEMBER 2021 MEETING PAPERS AVAILABLE

- Accounting Standards Advisory Forum Meeting
Topics discussed include Intangibles, Strategic/Agenda consultations, Agenda Planning, Goodwill and Impairment and the consultation papers for Disclosure Initiative.
For more information, please visit https://www.ifrs.org/news-and-events/calendar/2021/december/accounting-standards-advisory-forum/
- Emerging Economies Group Meeting
Topics discussed include Disclosure initiative – Subsidiaries without Public Accountability: Disclosures, Equity method, Sustainability-related reporting and Post-implementation review of IFRS 9 – Classification and Measurement.
For more information, please visit https://www.ifrs.org/news-and-events/calendar/2021/december/emerging-economies-group/

SUSTAINABILITY & CLIMATE CHANGE

TECHNICAL READINESS WORKING GROUP: RECOMMENDATIONS FOR CONSIDERATION BY THE ISSB

The IFRS Foundation published a webcast presenting the Technical Readiness Working Group's prototypes and other recommendations for consideration by the International Sustainability Standards Board (ISSB).

For more information, please visit https://www.ifrs.org/news-and-events/news/2021/12/trwg-recommendations-for-consideration-by-the-issb/

IFAC CHARTS THE WAY FORWARD FOR ASSURANCE OF SUSTAINABILITY INFORMATION

This vision addresses the importance of global standards, regulation that supports decision-useful disclosure, and the value of an interconnected approach to sustainability and financial information reporting and assurance.

For more information, please visit https://www.ifac.org/news-events/2021-12/ifac-charts-way-forward-assurance-sustainability-information

BY ANGELINA TAN

DIGITAL TOKENS

Knowing Their Income Tax Treatment

BLOCKCHAIN IS ONE OF THE EMERGING TECHNOLOGIES THAT HAS THE POTENTIAL TO DISRUPT THE WORLD. A blockchain is essentially a digital ledger of transactions that is duplicated and distributed across a decentralised network of computer systems that makes the data on the blockchain almost impossible to be modified. Each transaction or record on the ledger is stored in a "block", with each block linked to the information in a previous block, forming a chronological "chain" of transactions.

The advent of blockchain technology has led to the emergence of the token economy where the need for intermediaries and third parties to authenticate and verify transactions is eliminated, and the exchange of goods and services can be made faster and cheaper without compromising trust and security.

Against this evolution, Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Senior Partner at Crowe Singapore, and officers from Inland Revenue Authority of Singapore (IRAS), in a webinar organised by the Singapore Chartered Tax Professionals, shared their insights on the token economy arising from blockchain technology and accordingly, the income tax treatment of digital tokens in Singapore.

Unlike the current platform economy, where goods and services are sold via intermediaries on an e-commerce platform, the token economy does not require an intermediary. In the token economy, tokens can come in various forms – they can be designed to act as currency (payment tokens), offer the right to a service or product (utility tokens), or represent any underlying asset (security tokens).

The tax treatment for digital tokens is based on the application of existing income tax provisions. Where the digital token falls outside of payment tokens, utility tokens and security tokens as described by IRAS, the nature and use of such tokens would have to be examined to determine the appropriate income tax treatment.

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With blockchain technology and digital assets evolving at a rapid pace, tax advisors and taxpayers would need to first understand the underlying technologies used in these transactions before reconciling them with the prevailing tax legislations to determine the tax implications.

IRAS' GUIDANCE: INCOME TAX TREATMENT OF TRANSACTIONS INVOLVING DIGITAL TOKENS

Based on IRAS' e-Tax Guide on "Income Tax Treatment of Digital Tokens", a digital token is referred to as a digital representation of a token holder's right to receive a benefit or to perform specified functions.

The tax treatment for digital tokens is based on the application of existing income tax provisions. Where the digital token falls outside of payment tokens, utility tokens and security tokens as described by IRAS, the nature and use of such tokens would have to be examined to determine the appropriate income tax treatment.

Payment tokens

A payment token represents a digital right that can be used or is intended to be used as a means of payment for goods and/or services. It has no further function apart from being used as a mode of payment. Common examples of payment tokens include Bitcoin and Ether.

Payment tokens are regarded as intangible properties for tax purposes as they do not have physical forms and are not recognised as fiat currency since they are not legal tender. Transactions involving the use of payment tokens as payment for goods and services are therefore viewed as barter trade.

Tax treatment

Where a business receives payment tokens for the goods or services it has provided, it would be taxed on the value of the underlying goods provided or services performed. Likewise, a business that pays for the goods and services using payment tokens can claim a deduction based on the value of the underlying goods purchased or services received, subject to general tax deduction rules. The value of the goods or services transferred is to be determined at the point of transaction and depending on the contractual terms of the agreement.

On disposal of the payment tokens, the gain or loss from the disposal would be taxable or deductible if they were assessed to be revenue in nature. Conversely, if the tokens were held as capital assets, the gain or loss from the disposal would not be taxable or deductible.

It is useful to note that the purchase of a payment token itself is not a taxable event, although the intention at the point of purchase would have to be considered (through the application of the badges of trade) to determine if subsequent disposal of the payment token is a trading activity and accordingly, whether the resulting gains or losses are revenue in nature.

Mining profits

Mining is the process by which digital token transactions are verified and added to the blockchain, and the means through which new digital tokens are released. When a miner successfully mines for payment tokens, he is rewarded with payment tokens from the system which he may subsequently dispose of or exchange for goods or services.

Upon disposal of the payment tokens, the miner would be taxed on the profits from the disposal and the tax treatment would depend on whether the miner performed the mining as a hobby or with the intention to profit. If it was the former, the disposal gains or losses of the payment tokens would not be taxable or deductible. However, if the mining activity was carried out as a trade or business, the gains or losses from the disposal would be taxable or deductible.

Utility tokens

Utility tokens give the token holder a right (usually a future right) to a good or service. They are typically issued in an Initial Coin Offering (ICO) and come in different forms – akin to a voucher (to entitle the holder to future services from the ICO company), or a key (to entitle the holder to access the ICO company's platform).

Tax treatment

From a token holder's perspective, when a utility token is acquired, it is treated as a prepayment for goods or services to be provided in future. Therefore, a tax deduction will be allowed to the token holder, subject to general tax deduction rules, when the token is used to exchange for the goods or services.

Security tokens

Security tokens give the token holder a stake or rights to an underlying asset, generally with a degree of control or economic entitlements. Common types of security tokens that have been issued are typically accounted for as a form of debt or equity.

It should also be noted that security tokens may also be a tokenised form of traditional securities and as such, they can also take the form of any other security or investment assets or instruments.

Tax treatment

IRAS would examine the legal form of the security token, the rights and obligations tied to the security token, and the nature of the underlying asset to determine the nature of the security token (for example, whether it is debt or equity). This, in turn, determines the nature of the returns derived by the security token holder from the security token (for example, whether it is interest or dividend) and how it should be taxed.

Where the security token is disposed of by the holder, the tax

treatment of the gain or loss on disposal would depend on whether the security token is a capital or revenue asset to the token holder and accordingly, determine whether the gain or loss is capital or revenue in nature.

ICO

ICO refers to the first issue of a digital token to the public. It is commonly used as a method to raise funds for new projects or to make available the means of access to an existing or future specific good or service.

Tax treatment

The taxability of ICO proceeds in the hands of the token issuer depends on the rights and functions of the tokens issued to the investors.

Payment tokens

The issuance of payment tokens may be taxable depending on its specific facts and circumstances. Generally, an ICO company is treated as carrying on a trade of trading in payment tokens and the tokens are treated as its trading stock. Accordingly, the proceeds from the issuance of payment tokens are taxable at the point of issuance.

Utility tokens

The issuance of a utility token comes with an obligation for the issuer to provide a service in the future. In this regard, the proceeds from the issuance are generally regarded as deferred revenue and are taxable at the point when the performance obligation is fulfilled (for example, when the services are performed or the goods delivered).

Security tokens

Proceeds from the issuance of security tokens are akin to those from the issuance of securities or other investment assets and are thus capital in nature and not taxable. The ICO company would not be taxed on the proceeds at the point of issuance.

General income tax rules and withholding tax obligations apply to the dividend, interest and other distributions derived by the investor or token holder.

Founder's tokens

Founder's tokens refer to ICO tokens set aside by the ICO company to be awarded to the founding developers of the ICO in recognition of their hard work in creating and implementing the tokens.

Founder's tokens issued as remuneration are regarded as revenue in nature and taxable on the founder. However, if the tokens were not given as remuneration for services provided (for example, if the founder has contributed capital towards the formation of the company and the tokens were issued to him to confer an ownership right), the founder would not be taxed on the tokens as they will be regarded as his capital assets.

If there is a lock-in period or moratorium, the tokens would be regarded as being accrued to the founder only when the lock-in period ends or when the moratorium is lifted and be taxable then. The amount to be taxed is the value of the tokens when the moratorium ends.

WHAT'S THE FUTURE LIKE?

Blockchain technology, with its interoperability with different technologies (such as artificial intelligence) is revolutionising the way goods and services are provided and opening a whole new world of possibilities.

With blockchain technology and digital assets evolving at a rapid pace, tax advisors and taxpayers would need to first understand the underlying technologies used in these transactions before they can reconcile them with the prevailing tax legislations to determine the tax implications.

While there is currently no specific provision in the Income Tax Act for digital tokens, IRAS is monitoring developments in this area and would continually review the tax rules to ensure they are relevant and robust. ISCA

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