ISCA Chartered Accountant JOURNAL

OCTOBER 2022

The Metaverse Is Here

Impact And Opportunities For Businesses In Asia Pacific

ISCharteredAccountant JOURNAL

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METAVERSE: THE NEXT FRONTIER

Roger Tay
FCA (Singapore)
ISCA Council Member

Dear members,

HUMANKIND HAS ALWAYS BEEN SEEKING NEW FRONTIERS – ON LAND, UNDERWATER, IN SPACE, AS WELL AS IN CYBERSPACE. Today's new frontier is the metaverse, broadly described as the next Internet. The lack of a universally accepted definition notwithstanding, the metaverse is already engaging millions of people as they work, live and play.

For businesses, the metaverse presents immense potential, with Bloomberg Intelligence estimating that the global metaverse revenue opportunity could approach US$800 billion in 2024, up from around US$500 billion in 2020. Given the infancy of the metaverse, now is an ideal time for companies to pilot their projects there, to discover what business models and strategies might work in the longer term. The cover story, "The Metaverse Is Here", has the details.

As businesses ramp up operations in the metaverse, there would be the inevitable questions about business ethics, standards and regulations. For the accountancy profession, whether in the physical or digital world, as long as business is being conducted, accountants are expected to bring the highest level of professionalism and ethics to their roles. In "The Challenges Of Ethics in Accountancy", two Council members explain why ethics is fundamental to what we do.

Elsewhere in this issue are topics that add value to our readers. To support our members' wellbeing, and to mark World Mental Health Day on October 10, "Safeguarding Your Mental Health" offers some useful insights. Developing your unique set of coping mechanisms can go a long way to bolster your holistic wellness, and prepare you for the next frontier – whatever that may be.

ABOUT ROGER TAY

Roger Tay was elected to the ISCA Council in 2017. In addition to serving as a Council member, Mr Tay has also been serving as a member of the Nominations Committee since 2018. Previously, he was ISCA Treasurer, Chairman of the Corporate Finance Committee, and a member of the Investment Committee, as well as Membership Committee.

Mr Tay has over 29 years of experience in the provision of audit services, servicing multinational and publicly listed companies from a wide range of industries. Leveraging his extensive experience in serving public and private companies, Mr Tay has led numerous corporate structuring and financial restructuring work. In addition, he acts as a liquidator, judicial manager, and receiver and manager for several high-profile engagements.

Teo Ser Luck
FCA (Singapore)
ISCA President

THOUGHTS

The requirement of doing well in the profession continues to get more demanding. Accountancy is no longer a single discipline; it requires knowledge across multiple disciplines. New regulations, management trends and current issues of the day impact the demand, scale and scope of our profession. More than just reporting and validating, there would be the further need to advise and implement strategies to drive businesses.

We are in a derived-demand situation – we're responding and reacting to every new requirement and trend – which is not ideal. We need a better sense of where the trends would be and how they can be handled. This would require a deeper understanding as well as being better informed.

ISCA signed Memorandums of Understanding (MOUs) with Singapore Manufacturers Federation and SGListCos Association to build additional platforms to share knowledge and best practices. These MOUs have different deliverables. More than gaining knowledge through leadership exchanges and seminars, creating demand is a key component of these arrangements. Thus, we can expect more networking and mission trips to explore new opportunities. There will be more such partnerships with different organisations in the near future. ☺

As we deepen our knowledge and specialisation, going international would be next. Our Reciprocal Membership Agreements (RMAs) with overseas counterparts should deliver more outcomes and meet the objectives of both sides. We need these RMAs to be productive and serve a purpose. This will be one of the steps we'll be taking to help firms and members operate internationally. (There will be more agreements as we learn to build such partnerships to meet common objectives for both our counterparts and us.)

So little time, so much to do, and lots more to come. Exciting, isn't it? 😂

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CONTENTS

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Priority Skills For The Singapore Workforce

CONTINUOUS LEARNING IS A CRITICAL CORE REQUIREMENT THAT SITS HIGH ON THE MUST-HAVE LIST FOR NEW HIRES. Especially as digital technologies and megatrends like climate change are forcing rapid changes in economies, workers must keep up in order to remain relevant.

In the "Skills Demand For The Future Economy Report"[1] released in December 2021 by SkillsFuture Singapore (SSG) – a report that is focused on helping Singaporeans identify priority skills to capitalise on opportunities in growth areas of the Singapore economy over the next three years – three economic growth areas were highlighted, namely the digital economy, the green economy and the care economy.

In the digital economy, although Singapore registered a high mobile penetration rate of between 149% to 158% annually from 2011 and 2021[2], it does not appear to translate to workplace digital skills readiness. A study of 19 countries conducted by Salesforce[3] found that only 36% of Singapore respondents felt "very prepared with workplace digital skills", compared to India (76%), Thailand (51%) and, further afield, Mexico (52%) and the US (44%). On a positive note, in Singapore, the public and private sectors, as well as industry bodies, are all doing their parts to boost the digital skill sets of the workforce.

Much is also happening in the green economy, especially after the Glasgow Climate Pact inked at the UN Climate Change Conference 2021. In Singapore, the momentum has picked up with the launch of the Singapore Green Plan 2030 – the whole-of-nation movement to advance Singapore's national agenda on sustainable development.

The care economy is the third economic growth area. While the specialist domain skills pertaining to "care" are not required of accountants, accountants can contribute by introducing and integrating digital and green elements into the care economy while serving through their professional capacities.

PHOTO SHUTTERSTOCK

Accountants can also help raise standards, particularly in the non-profit sector which often has fewer resources, by introducing proper governance structures including regulatory and ethical requirements.

Critical generic skills

In addition to core domain skills which require workers to constantly reskill and upskill, placement agencies and employers alike emphasise soft skills. As defined by SSG, these are the common, transferable skills that enable individuals to be employable and employed, facilitate career mobility, and enable the acquisition of technical skills and competencies relevant for specific job roles[4]. Employers believe that soft skills demonstrate that the would-be hires can handle whatever is thrown their way.

Here are 10 soft skills that are often cited as being critical. While some have been around for a long time and are self-explanatory, self-care is relatively new. It has made the list as more attention is being paid to mental wellbeing as part of holistic wellness.

1. Critical thinking: cognitive skills to think broadly and creatively in order to see connections and opportunities; cognitive skills are the root of technical skills development and progression
2. Interacting/Collaborating: learning from others is an effective way to acquire new skills; the ability to exchange ideas and work with others facilitate teamwork, combining different technical skills to find viable solutions
3. Lifelong/Continuous learning
4. Digital literacy
5. Organisation/Time management
6. Flexibility/Adaptability
7. Emotional intelligence (EQ)/Communication: EQ encompasses self-awareness, self-regulation, motivation, empathy and people skills[5] – all essential for the workplace. When facing an external audience, as more companies prefer to sell "experiences" (versus "products"), EQ and communication skills are important to convey the "message" in the most convincing way
8. Leadership/Being proactive
9. Resilience
10. Self-care: this critical skill has been creeping into the national consciousness; self-care promotes physical, mental and emotional wellness, which in turn enables workers to function at their optimum

Accountants: Going Digital And Green

The digital economy

As technology will likely advance faster than the skills of the workforce, there is urgency for accountants to continue to acquire new digital skills. The tech-lite priority skills[6] listed by SSG that would affect accountants include data analytics (application of data in research or business), technology application (skills to effectively utilise new technology), and market research/trend (skills to make informed decisions on business).

Already, automation has taken over many repetitive and mundane tasks within the finance function. While this has freed up time for accountants to take on higher-value tasks, the affected staff may require training to equip them to perform the more challenging work. Also, as technology is integrated into the work processes, staff training will be required to optimise the workflow.

For companies considering intelligent automation, a joint study by ISCA, "The State Of Play Of Intelligent Automation In The Finance Function"[7] provides useful insights.

The green economy

Sustainability has been the key theme for many ISCA events including, most recently, the PAIB Conference in August. The Institute's commitment continues to be backed by action and strategy. A recent joint study by ISCA, "Sustainability: Jobs And Skills For The Accountancy Profession"[8], highlights three key trends in sustainability that will expand the current job roles and skills required of accountancy and finance professionals, namely decarbonisation of the environment, more companies are participating in sustainability reporting, and expansion of green finance. Given these sustainability trends, accountancy and finance professionals must arm themselves with sustainability and environmental, social and governance (ESG)-related knowledge and skills to meet the increasing demands. The study also reveals new job roles that accountants are well placed to take on.

[1] https://www.skillsfuture.gov.sg/skillsreport
[2] https://www.imda.gov.sg/infocomm-media-landscape/research-and-statistics/telecommunications
[3] https://www.salesforce.com/news/stories/salesforce-digital-skills-index-details-major-gaps-across-19-countries/
[4] https://www.skillsfuture.gov.sg/SKILLS-FRAMEWORK/CRITICALCORESKILLS#HOWDOESITWORK
[5] https://www.the-future-of-commerce.com/2020/03/10/emotional-intelligence-in-business/
[6] https://www.skillsfuture.gov.sg/skillsreport
[7] https://isca.org.sg/resource-library/digitalisation/state-of-play-of-intelligent-automation-in-the-finance-function
[8] https://www.isca.org.sg/resource-library/sustainability/sustainability-jobs-and-skills

IN TUNE ISCA NEWS

Disciplinary Finding

UPON FINDING THAT MR YEO CHIEW KHIANG, DAVID, CA (SINGAPORE) had contravened Rule 64.1 read with Rule 64.4 of the Institute (Membership & Fees) Rules read with Section 150.1, 150.2 and Section 250.2 of the Code of Professional Conduct and Ethics under the Third Schedule of the Institute (Membership & Fees) Rules in that he had made disparaging references or unsubstantiated adverse comparisons about the work of another company and his professional colleagues, the Disciplinary Committee ordered:

That he be required to complete a refresher course on ethics at his own expense, so as to familiarise himself with the Code of Professional Conduct and Ethics and the requirements therein relating to professional behaviour. In addition, he would also be required to demonstrate his remorse by sending a formal letter of apology to the Complainant (with the Institute included in copy) and make the necessary arrangements to meet with and personally apologise to the Complainant.

(From left) Tan Seng Choon, Assurance Partner, Ernst & Young LLP; Sherry Quark, Director of Professional Oversight Department, ACRA; Siew Wun Mui, Head of Whistleblowing Office, SGX RegCo; Lee Xiang Zheng, Senior Investigation Officer of the STRO, Singapore Police Force; Eng Chin Chin, Chairperson of ISCA's Ethics Committee; Khong Yew Cheong, Senior Vice President, Corporate Controller, DFS Group

ISCA Mini Conference Series: Ethics

ETHICS IS ONE OF THE MAJOR TENETS OF THE ACCOUNTANCY PROFESSION. As such, the fifth instalment of the ISCA Mini Conference Series on July 20 was titled "Ethics". Delegates learnt about the latest developments in ethical standards and gained valuable insights into dealing with whistleblowing allegations and suspicious transaction reports filed by accounting entities. ISCA's Ethics Committee (EC) Chairperson Eng Chin Chin delivered the welcome address at the two-hour event organised by the ISCA EC.

Corporate Responsibility: Dealing With Whistleblowing Allegations

Siew Wun Mui, Head of Whistleblowing Office, Singapore Exchange Regulation (SGX RegCo), provided delegates with an overview of how the Whistleblowing Office (WBO) acts as a separate office within SGX RegCo to independently assess all whistleblowing concerns raised. The audit committees, internal and external auditors, and finance heads or authorised representatives of listed issuers may be approached to address relevant concerns raised by whistleblowers.

Ms Siew also covered the new Rules[1] for all listed issuers to establish and maintain a robust whistleblowing policy. Following the introduction of this mandatory requirement, WBO has referred relevant whistleblowing reports to the issuer's audit committee to deal with the concerns in accordance with the issuer's whistleblowing policy, and will continue to do so where appropriate. Ms Siew also emphasised the importance of whistleblower protection in order to encourage whistleblowers to come forward without fear. Hence, if "we (WBO) receive any complaints from whistleblowers arising from their reporting, for example, termination or discriminatory treatment, we will take it up with the listed issuer as we are serious about how listed issuers manage this aspect of ensuring confidentiality and protection of whistleblowers".

Insights On Suspicious Transaction Reports Filed By Accounting Entities

"Accounting entities play a major role in the AML/CFT regime in Singapore," said Lee Xiang Zheng, Senior Investigation Officer of the Suspicious Transaction Reporting Office (STRO), Singapore Police Force, at the conference.

In this segment, Mr Lee shared on the importance and statutory obligations of filing Suspicious Transaction Reports (STRs) as well as the trends and observations noted from the STRs filed by accounting entities from 2016 to 2020.

In conclusion, Mr Lee said, "We would like to emphasise the importance of the role each of us plays in staying vigilant by identifying and filing STRs on suspicious activities as we continue to keep Singapore safe and secure."

(From left) Panellists Balasubramaniam Janamanchi, Managing Director, JBS Practice Public Accounting Corporation; moderator Tan Seng Choon, Assurance Partner, Ernst & Young LLP; Khong Yew Cheong, Senior Vice President, Corporate Controller, DFS Group

Adoption Of IESBA's Revised Non-Assurance Services And Fee-Related Provisions In Singapore

Sherry Quark, ACRA's Director of Professional Oversight Department, shared about the proposed changes to the ACRA Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code), following revisions to the non-assurance services (NAS) and fee-related provisions issued by the International Ethics Standards Board for Accountants (IESBA). In her presentation, Ms Quark mentioned that ACRA works closely with ISCA's EC in the review of the international standards for adoption in Singapore.

Ms Quark highlighted that under the extant Singapore (SG) provision in the ACRA Code and ISCA Ethics Pronouncement 100 *Code of Professional Conduct and Ethics* (ISCA Code), audit firms are to communicate with those charged with governance (TCWG) of a listed or public company audit client and discuss the relevant safeguards to apply to reduce the threat to independence when the total fees from non-audit services received by the firm or its network firms exceed 50% of the total annual audit fees from the audit client. She explained that the 50% threshold was not a strict prohibition, but serves as a trigger for firms to engage TCWG.

Ms Quark outlined the key revisions to IESBA's NAS and fee-related provisions, and updated that ACRA was currently considering proposed amendments to the extant SG provision, taking into account feedback from stakeholder groups. The proposed amendments are expected to take effect in the revised ACRA Code and ISCA Code from 15 December 2022.

Fireside Chat: Responsibilities Of Professional Accountants In Serving The Public Interest

Tan Seng Choon, Assurance Partner, Ernst & Young LLP and immediate-past Chairman of ISCA's EC, kicked off the final segment of the Conference by saying, "without public interest and trust in the accounting profession, the value of what a practising accountant and a professional accountant in business do will be severely eroded".

The fireside chat, moderated by Mr Tan, featured panellists Khong Yew Cheong, Senior Vice President, Corporate Controller, DFS Group, and Balasubramaniam Janamanchi, Managing Director, JBS Practice Public Accounting Corporation.

The panellists engaged in a lively discussion on issues relating to auditor independence, specifically on non-audit services fees and the concept of audit-related services. They acknowledged that the new requirements on NAS and fees in the revised ACRA Code and ISCA Code (which are expected to be effective 15 December 2022) could be challenging but are important to ensure that auditor independence is not compromised.

"The requirement to obtain pre-approval on provision of NAS might mean more work for the auditors, but it will help TCWG to discharge their duties by ensuring that they have the relevant information to provide effective oversight," said Mr Khong.

Mr Janamanchi echoed Mr Khong's views and added, "As practitioners, there is definitely going to be more work and pressure in terms of the timeline. Moving forward, we need our clients to understand that auditors would not be able to provide NAS without obtaining pre-approval from TCWG, which means they need to give us sufficient time. The entire ecosystem needs to work together."

The segment ended with the panellists sharing how they could enhance public confidence in the accounting profession in their respective roles.

[1] SGX Rulebooks, Rule 1207(18A) and 1207(18B) of the Mainboard Rules and Rule 1204(18A) and 1204(18B) of the Catalist Rules

isca breakfast talk

Sustainability Impact On Accountants

A ROBUST ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AGENDA is a compelling source of competitive advantage which empowers companies to explore new markets and expand into existing ones. In the September instalment of ISCA Breakfast Talk, KPMG ESG Partners Pamela Fan and Cherine Fok provided key insights into how organisations can leverage the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards to unlock new avenues of value creation in climate-related financial reporting.

Launched in March 2022 by the International Sustainability Standards Board (ISSB), IFRS' two exposure drafts – IFRS S1 and IFRS S2 – provide the first global baseline for sustainability reporting. Aimed at increasing the consistency of climate-related financial reporting globally, they outline frameworks companies can adopt when disclosing sustainability-related financial information across four key areas, namely governance, strategy, risk management, and metrics and targets.

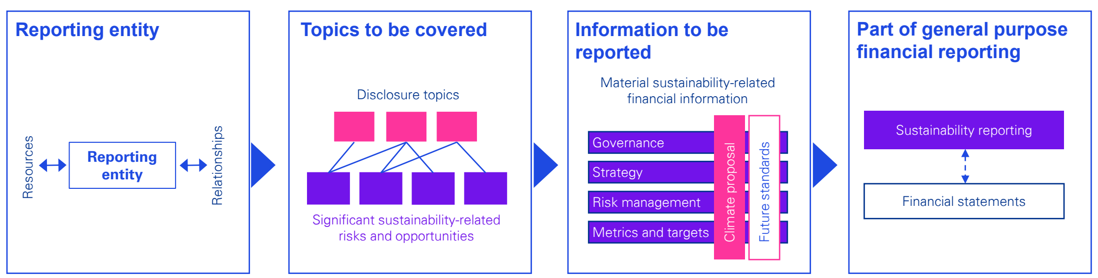
To illustrate the impact of the new guidelines, Ms Fan and Ms Fok discussed key highlights from the proposals including their applicability and relationship with financial statements, and how they will affect existing sustainability frameworks. They also delved into how climate-related risks and opportunities can have a direct impact on an organisation's enterprise value. For example, accountants will need to pay heed to potential impacts to revenue, insurance premiums, operating costs, tax write-offs and asset impairments.

With growing public scrutiny over ESG reporting, companies will need to ensure that their sustainability reporting frameworks can keep pace with industry standards.

During the session, the speakers also shared key perspectives on the IFRS' climate proposal (the first additional standard proposal) which details climate-specific reporting requirements like transition plans and the management of climate-related risks and opportunities.

Accountants are the key proponents of an organisation's ESG agenda. The speakers reiterated the important role that they play in helping to establish accurate and transparent sustainability reporting practices – a critical benchmark for clients and communities.

The Proposals at a Glance



- The reporting entity is the same for **sustainability reporting as for the financial statements**.
- However, sustainability reporting also reflects information about broader **resources and relationships** across the **value chain**.
- E.g., employment practices of suppliers, wastage related packaging of its products

- Companies would report on **all significant sustainability-related risks and opportunities.**
- Information on **disclosure topics** is material if it would influence investors' assessments of **enterprise value** (i.e., equity plus debt).

- Companies would report material information across **four content areas**, consistent with TCFD.
- Topic – and industry-specific requirements will **build on the general requirements proposal** – **climate** is the first additional standard proposed.

- Sustainability reporting would be **connected** to and **complement** the financial statements.
- Together they would be part of **general purpose financial reporting** – supporting investors to assess the **enterprise value** of the reporting entity.

MARK YOUR CALENDAR

12 NOV

Auditors' Consideration of Client Internal Controls (Code: ADT039v)

This course provides audit professionals with guidance on identifying and evaluating internal controls relevant to an audit of financial statements with a view to designing appropriate audit procedures to collect sufficient appropriate audit evidence. It also covers reporting requirements relating to deficiencies in internal control identified during an audit to those charged with governance and management.

14 NOV

Financial Reporting for Listed Companies (IFRS-Identical FRSs: Equivalent of IAS 1, IAS 33, IAS 34 & IFRS 8) (Code: A155v)

The seminar explains how to compute the necessary financial information in accordance with the relevant SFRS(I)s and to present such information in the most effective manner.

21 & 22 NOV

Enable Strategic Business Decisions via Scientific Business Analytics and Data Visualization (Code: DGT036v)

This program aims to provide an introductory 101 understanding on how scientific use of data analysis and data visualization could lead to improved decision making and problem solving.

21 NOV

Understanding Risks and Frauds in International Trade (Code: BF171v)

Understand what the risks and fraud are, the involvement of various parties and to mitigate risks and frauds in relation to international trade as well as a brief insight into the development on trade.

22 NOV

Moving CFOs from Back-Office to Forward-Thinking (Code: TECHT021)

From dealing with global pandemics to arming against political upheaval, building financial resilience is more important than ever before. McKinsey puts it best: "A strong cash culture starts at the top. CEOs and CFOs need to set the tone by making cash a top priority." It's no secret that to stay agile and reactive, every business needs to focus on high-value tasks that deliver immediate benefit. Automating your Accounts Receivable (AR) is one way to do this.

Find out how and get your back office to work for you.

23 NOV

The Impact of Climate Change on Businesses and Accountants (Code: BT2211)

The science and effects of climate change are conclusive – without action on the part of businesses, we will see global temperatures rise, resulting in negative impacts to our daily life. At the same time, regulations and reporting requirements on our carbon footprint are on the rise, which in turn increases our compliance efforts.

What are some of the steps we can take to prepare for a more climate-centric future, while also safeguarding our business operations?

25 & 26 NOV

Statistical Analysis - A Primer with Excel, R and Python (Code: IT090v)

This course covers the basics of Excel/VBA, R and Python to empower the participant with a strong foundation in the application of statistics working through the exercises to provide ideas and solutions to workplace problems.

Dates and events are subjected to change without prior notice.
For more details, visit isca.org.sg/learn-connect

ISCA And SGListCos Sign MOU To Collaborate On Areas Of Common Interest

The MOU paves the way for SGListCos and ISCA to collaborate on areas of common interest; (from left) Chew Sutat, ProTem Chairman of SGListCos, and ISCA President Teo Ser Luck at the signing ceremony

ISCA MEMBERS CAN LOOK FORWARD TO EVEN MORE RESOURCES to support their career development, with the signing of a Memorandum of Understanding (MOU) between ISCA and the Association of Singapore Listed Companies (SGListCos) on 3 October 2022.

With the MOU, ISCA and SGListCos – representing companies listed on the Mainboard and Catalist of the Singapore Exchange Group – will collaborate on areas of common interest. These areas include advocacy and thought leadership exchanges, professional development initiatives and joint events which are of relevance to members of ISCA and SGListCos.

The MOU is part of the Institute's efforts to expand our professional and business networks to bring value to the profession and community, by working closely and effectively with all key stakeholders. Through this agreement with SGListCos, ISCA will be the conduit to connect our members to those who work very closely to support Singapore's capital market.

Kickstarting the collaboration was a panel discussion on "The Good, Bad And Ugly Of Investor Relations". The session, which took place after the signing ceremony, featured a Board member, Chief Financial Officer, Investor Relations Officer and consultant. ISCA members and other guests heard about the differences between investor relations and public relations, and how companies could leverage strong investor relations to close the gaps with key stakeholder groups such as investors, analysts and regulators.

To the accountancy community that was present, it was music to the ears when it was acknowledged that professional accountants, with their savvy in financial reporting and analytics, coupled with strong interpersonal and communication skills, are well positioned to "double-up" and/or even "pivot to" the investor relations career path.

ISCA Run 2022: Run For A Good Cause

Ⓐ ISCA Cares Chairman Max Loh thanked the runners for doing their part to contribute to ISCA Cares

Ⓐ Warming up before the run

AFTER A TWO-YEAR HIATUS, the ISCA Run was back for the seventh time to overwhelming support from the accountancy profession.

On Saturday, October 15, more than 1,300 participants gathered at OCBC Square bright and early, and ready to give their all in the five-kilometre run. ISCA Cares Chairman Max Loh, in a heartfelt address, thanked the participants for their time and effort to give back to the accountancy profession, as net proceeds from the event will go towards supporting ISCA Cares beneficiaries.

Guest of Honour Eric Chua, Senior Parliamentary Secretary, Ministry of Culture, Community and Youth, and Ministry of Social and Family Development, flagged off the runners.

We look forward to gathering, running and connecting with everyone at ISCA Run 2023!

Ⓐ ISCA CEO Fann Kor (left) presented the first prize (female category) to Teo Kay Lynn

Ⓐ Ms Kor presented the first prize (male category) to Laurence Kearney

Marking Seven Years With Seven Winners

To mark the seventh year of ISCA Run and to ramp up support for the event, the Institute held a Facebook contest.

Open only to people who followed ISCA on Facebook, participants had to post their ISCA Run photos on the social media platform with the hashtag #ISCARUN. Those with the top seven highest number of 'Likes' would be featured in this ***IS Chartered Accountant** Journal*, and here they are!

Top seven with the highest number of Likes for their #ISCARUN Facebook posts

FOCUS

TEXT BY


Duleesha Kulasooriya


Michelle Khoo

PHOTO SHUTTERSTOCK

The Metaverse Is Here

Impact And Opportunities For Businesses In Asia Pacific

TAKE AWAYS

- Businesses play an indispensable role in the development of a responsible metaverse – a metaverse that is human-centric, inclusive, and ethical.
- Early movers will have a disproportionate influence over the ethos and values of our future digital lives and the virtual environment we will live, work and play in.
- Companies can start by focusing on low-investment, high-growth-potential opportunities or "edges", with fundamentally different business practices that can ultimately transform the core of the organisation.

THE METAVERSE IS ALREADY HERE

Neal Stephenson's novel *Snow Crash*, novel-turned-Hollywood movie *Ready Player One*, and Facebook's rebranding to Meta, have all embedded the term "metaverse" in the public consciousness. We see the metaverse as a facet of the "next Internet" – the next significant paradigm entailing a highly immersive virtual world where we will interact, work and play. Its primary features mark a distinct leap from the two-dimensional Internet (Figure 1).

However, there is not yet a universally accepted definition of what the metaverse is. The extent to which the metaverse will be user-generated, interoperable and decentralised is still evolving.

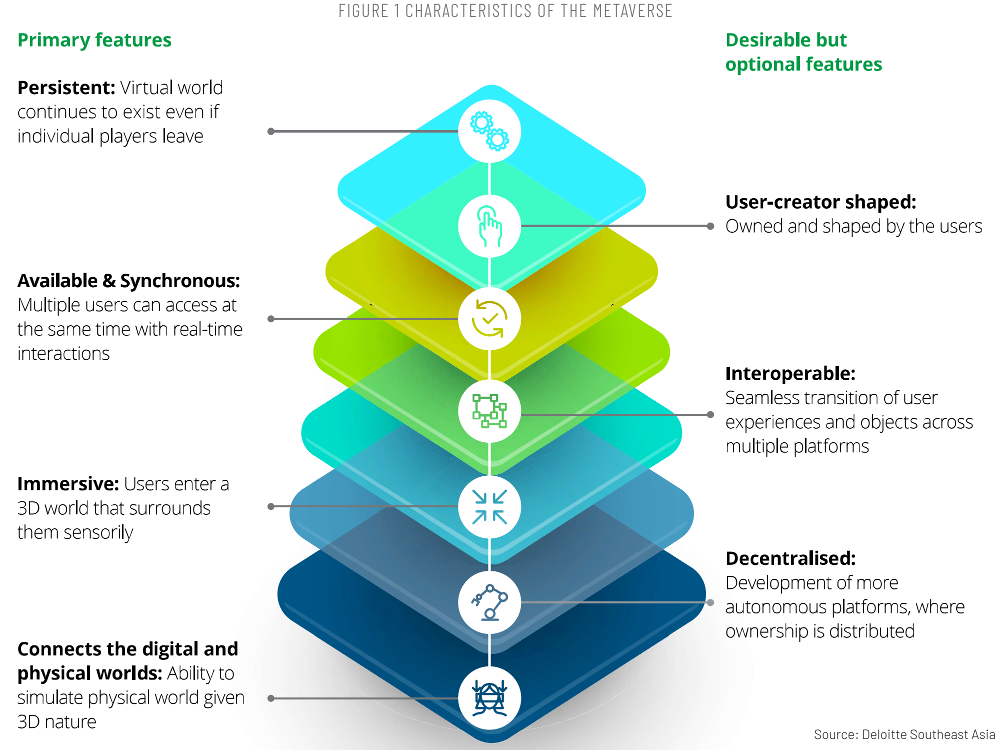
Even as the definition evolves, it is clear that the metaverse is no longer science fiction. Early versions are already being used by millions. In Asia Pacific, many are gaming, socialising, attending concerts, and purchasing items in immersive virtual platforms such as Roblox, Decentraland, Fortnite, and Asia's very own Zepeto. Industries and businesses are experimenting with metaverse technologies. Several governments in the region, including China, South Korea, Japan, and Indonesia, have also featured the metaverse in their economic plans.

This region will have a major influence on the metaverse. Over 60% of the world's youth aged between 15 and 24 live in Asia Pacific. Over 80% of the total value of cellphones[1] and over 75% of integrated circuits[2] globally are exported from this region. South Korea and China are leading the world in 5G deployment. These are bolstered by the high level of awareness and support populations in this region have for metaverse technologies[3].

THE IMPACT OF THE METAVERSE ON BUSINESSES

The metaverse will open up new marketplaces and business models, particularly for digital assets and content. Since its launch in 2018, over 2.4 billion paid items have reportedly been exchanged on South Korean app Zepeto; the app allows users to create their own virtual fashion items[4]. Blockchain technologies have enabled new forms of value transfer. Non-fungible tokens provide new ways for digital artists to generate royalties from their digital

FIGURE 1 CHARACTERISTICS OF THE METAVERSE



Source: Deloitte Southeast Asia

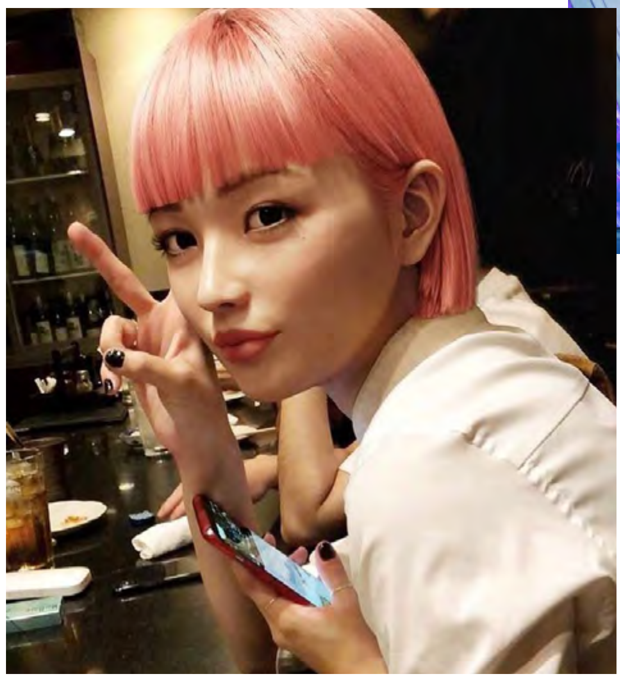
[1] The Observatory of Economic Complexity. (OEC). Telephones for cellular networks or for other wireless networks. https://oec.world/en/profile/hs/telephones-for-cellular-networks-or-for-other-wireless-networks; accessed 25 Aug 2022.
[2] OEC. Integrated circuits. https://oec.world/en/profile/hs/integrated-circuits; accessed 25 Aug 2022.
[3] In a survey by Ipsos, awareness of the term "metaverse" exceeded the global average in India (80%), China (73%), South Korea (71%), and Singapore (58%). These economies also have an overwhelmingly positive view of the potential impact of augmented and virtual reality on their daily lives (China 78%, India 75%, South Korea 63%, Singapore 58%). Ipsos. (2022). How the world sees the metaverse and extended reality. https://www.ipsos.com/sites/default/files/ct/news/documents/2022-05/Global Advisor - WEF - Metaverse - May 2022 - Graphic Report.pdf
[4] Joo-Wan, Kim. (4 Mar 2022). Metaverse platform Zepeto user base exceeds 300 million. *The Korea Economic Daily*. https://www.kedglobal.com/metaverse/newsView/ked202203040009

While there is still time before the metaverse becomes widely adopted, this is a good time for companies to start with small-scale pilots to familiarise themselves with the possibilities presented by the metaverse.

creations, and brands to monetise their brand value. Even traditional bourses like the Stock Exchange of Thailand are experimenting with a new digital marketplace to facilitate trading of investment and utility digital tokens.

Early applications of the metaverse are starting to take shape in the retail sector. One interesting trend is the rise of virtual influencers. Imma, the first computer-generated influencer in Japan, has been featured at the 2022 Paris Fashion Week, and has previously collaborated with brands like Dior, Puma, Nike, and Valentino. These photo-realistic virtual models are emerging as the face of brands in the physical and digital worlds.

PHOTO SHUTTERSTOCK



Source: Virtual Humans

Imma, the first computer-generated influencer in Japan

In the industrial space, metaverse technologies could lead to better real-time monitoring of supply chains, operational effectiveness, and collaboration between different stakeholders. For example, the Hong Kong International Airport is also developing a digital twin replica to facilitate holistic airport management and predictive decision making. South Korean auto giant Hyundai Motors is teaming up with leading real-time 3D content developer Unity to build a digital twin factory, with plans to deploy this technology to test run their new centre in Singapore remotely[5].

In the industrial space, metaverse technologies could lead to better real-time monitoring of supply chains, operational effectiveness, and collaboration between different stakeholders

Technological innovations in healthcare and education serve both a social and an economic function. Two major Southeast Asian hospital operators, IHH Healthcare and Siloam International Hospitals, have accelerated investments in virtual reality (VR), augmented reality (AR) and metaverse environments to improve telemedicine services[6]. South Korean startup Looxid Labs uses a VR sensory headset to measure working memory, attention level, and spatial perception of the elderly in Seoul and Busan[7]. Singapore's National University Health System (NUHS) is investing in holographic technology, including using mixed reality to teach medical and nursing students[8], researching on applications in brain surgery, and developing real-time volumetric rendering and positioning of ultrasound scans[9]. In education, several universities across the region have started experimenting with metaverse classrooms, including Thammasat University in Thailand, Singapore University of Social Sciences, The Hong Kong University of Science and Technology's Guangzhou campus, and several South Korean universities.

FINDING ONE'S EDGE IN THE METAVERSE

With opportunities aplenty, how and when should businesses approach the metaverse?

All disruptions emerge from an edge, from the boundaries of what is normal or "core" today. The metaverse is one such edge. This paradigm shift to a more immersive Internet is already happening, even as some of the more advanced use cases are several technological breakthroughs away.

The adoption of these technologies need not start with a multimillion-dollar investment. While there is still time before the metaverse becomes widely adopted, this is a good time for companies to start with small-scale pilots to familiarise themselves with the possibilities presented by

[5] Pulse by Maeil Business News Korea. (7 Jan 2022). Hyundai Motor teams up with unity on metaverse factory to innovate productivity. https://m.pulsenews.co.kr/view.php?year=2022&no=20281
[6] Maulia, Erwida. (21 Jan 2022). Southeast Asian hospitals look to high-tech future in metaverse. *Nikkei Asia*. https://asia.nikkei.com/Business/Health-Care/Southeast-Asian-hospitals-look-to-high-tech-future-in-metaverse
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[8] Microsoft News Center. (11 Jan 2022). Medical education goes holographic with mixed reality from Microsoft. https://news.microsoft.com/en-sg/2022/01/11/medical-education-goes-holographic-with-mixed-reality-from-microsoft/
[9] National University Health System. (12 Aug 2021). NUHS embarks on holomedicine research in Singapore, using mixed reality technology to enhance diagnosis, education and patient care. https://www.nuhs.edu.sg/research/research-stories/Pages/nuhs-embarks-on-holomedicine-research-in-singapore-using-mixed-reality-technology-to-enhance-patient-care.aspx

As businesses step into the metaverse, they will need to tread wisely on issues relating to climate and sustainability, mental health and online harms, interoperability, equitable access and inclusion.

PHOTO SHUTTERSTOCK

the metaverse. Today, metaverse consumers are early adopters who are open to new experiences and are generally more forgiving of less-polished experiences. Businesses can take the time to figure out not only new products or process innovations, but what their identity in the next Internet will be.

To get started, companies can keep in mind three design principles for scaling edges (Figure 2):

1. Focus on edges, not the core
Companies can scale these edges by first identifying potential metaverse opportunities that require minimal initial investment, align with long-term disruptive shifts and have the potential to scale. Focus on low-investment, high-growth-potential opportunities or "edges", with fundamentally different business practices that can ultimately transform the core of the organisation.

FIGURE 2 SCALING EDGES METHODOLOGY

Design Principles

How do you start finding your edge?

LEVERS

Focus: Maximise upside	**Leverage:** Minimise investments required	**Accelerate:** Compress lead times
Focus on edges, and not the core	*Look externally, not internally*	*Learn faster to move faster*

Focus on edges, and not the core

- Identify an edge based on four key characteristics:
  - Short term:
    - An edge requires minimal investments to initiate
    - An edge has the ability to grow the pie
  - Long term:
    - An edge aligns with the long-term disruptive shifts in the market
    - An edge has the potential to transform the core
- Select an edge by:
  - Looking internally at existing initiatives that are on the edge
  - Scanning the broader marketplace for edge ideas
  - Avoiding large-scale acquisitions

Look externally, not internally

- Identify edge obstacles to scale:
  - Lack of capacity
  - Lack of expertise
  - Lack of resources
  - Conflict with core incentives
- Create or select an "edge-type" external ecosystem to address obstacles based on three key characteristics:
  - Level of engagement
  - Scope of interaction
  - Benefits to participants

Learn faster to move faster

- Iterate in 6-12 month windows, not in 2-3 year cycles
- Determine the minimum level of effort required to test the edge
- Engage ecosystems, edge participants, and customers to rapidly gather feedback

Source: Deloitte Southeast Asia

2. Look externally, not internally
Rather than going back to the core for support, an edge can instead look outside the organisation by joining an external ecosystem. Ecosystems help an edge improve by leveraging the assets of others. Ecosystems are easier to join and grow than ever before. And, for the metaverse, collaborations are the name of the game. Ralph Lauren's first venture into the metaverse was a collaboration with Zepeto, selling its virtual clothing line to the 200 million users that use the app. In a few weeks, it sold over 100,000 units. Metaverse industry alliances are emerging in China, South Korea and other countries in the region.

→ Ecosystems help an edge improve by leveraging the assets of others
→ For the metaverse, collaborations are the name of the game

The ecosystem of collaborators or curious minds can become a valuable feedback loop to drive rapid and continuous improvement and learning

3. Learn faster to move faster
Rather than waiting until an idea is fully baked, companies should test concepts early in the development cycle. Stage edge initiatives to facilitate fast, iterative cycles of experimentation. The ecosystem of collaborators or curious minds now becomes a valuable feedback loop to drive rapid and continuous improvement and learning. Keenly tuning in to the sentiments of current and future customers and stakeholders can help businesses stay alert to potential risks and missteps.

CO-CREATING A RESPONSIBLE METAVERSE

Businesses play an indispensable role in the development of a responsible metaverse – a metaverse that is human-centric, inclusive, and ethical. Early movers will have a disproportionate influence over the ethos and values of our future digital lives and the virtual environment we will live, work and play in. As businesses step into the metaverse, they will need to tread wisely on issues relating to climate and sustainability, mental health and online harms, interoperability, equitable access and inclusion. These could be more complex as more of our lives are immersed in online worlds and intertwined with others at an unprecedented scale. Creating alliances is one way to share learnings, test ideas and align values. For example, government-led metaverse industry alliances in South Korea and China also serve as consultative platforms to discuss ethical issues related to the metaverse. At the core, it is about putting people first.

CONCLUSION

Businesses should not underestimate the potential of the metaverse. Sociocultural and business trends indicate that the metaverse is already here in its early forms and is poised to disrupt many industries. Now is a good time for businesses to experiment, find their edge in the metaverse, and identify opportunities to scale these edges. ISCA

Duleesha Kulasooriya is Leader, and Michelle Khoo is Director, Deloitte Southeast Asia Center for the Edge. This article is adapted from a Deloitte Southeast Asia Center for the Edge report on the topic slated for release by November 2022.

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The Challenges Of Ethics In Accountancy

Global Ethics Day is celebrated annually on the third Wednesday of October. To mark Global Ethics Day, two ISCA Council members who have served on the Institute's Ethics Committee share the challenges of upholding ethics in the accountancy profession.

TAKE AWAYS

- Chartered Accountants, who play a very important role in the ecosystem of every business, should uphold the highest standards of ethics and professionalism.
- Be proactive: take steps to avoid getting into conflict situations.
- Leaders should exemplify strong ethics, and help their organisations understand that ethics must come before profits.
- Keep in tune with the latest developments through continuing professional education or volunteer for committees like ISCA's Ethics Committee.

GLOBAL ETHICS DAY, WHICH WAS OBSERVED ON OCTOBER 19 THIS YEAR, is an annual movement started by the Carnegie Council to empower ethics through the actions of individuals and organisations.

Accountancy is one profession that is respected for its adherence to truth and integrity. To this end, a Chartered Accountant in Singapore has to abide by the financial reporting standards and the Companies Act. Additionally, ISCA members must adhere to the Institute's Code of Professional Conduct and Ethics. Ethics Pronouncement (EP) 100 states, "Every member shall conduct himself in a manner consistent with the good reputation of the accountancy profession and refrain from any act or default, which is likely to bring discredit to the profession or to himself."

EP 100 and EP 200 (enhanced mandatory requirements on implementing controls and procedures for anti-money laundering and countering the financing of terrorism) serve to guide accountants in their decision making. However, upholding the rules and regulations are often challenging in actual practice due to a variety of reasons; these include cultural differences to a different understanding of what constitutes "common practice". Sometimes, clients may have expectations that challenge the rules and regulations.

Here, two experienced accountancy professionals share their experiences and dispense wisdom on how to avoid getting into ethically questionable situations.

So what should an accountant do to stay above board? "Stick to the common principles; you cannot flout basic rules and regulations."

Keeping To The Straight And Narrow

Balasubramaniam Janamanchi, FCA (Singapore), Managing Partner/Director, JBS Practice PAC

"THE CHARTERED ACCOUNTANT PLAYS A VERY IMPORTANT ROLE IN THE ECOSYSTEM OF EVERY BUSINESS," says Balasubramaniam Janamanchi, Founder and Managing Director of JBS Practice Public Accounting Corporation. "So if their ethics are in doubt, there will be great upheaval."

JBS Practice offers audit and assurance services to a diverse range of clients from across geographies. Beyond Singapore, these clients are based out of North America, Europe and India. Mr Bala is a Chartered Accountant in India, the US and Singapore. His career has taken him to many cities worldwide, where he experienced the different ways of doing business.

Abiding by ethics, no matter where one is located, is non-negotiable, states Mr Bala firmly. "The chief thing is to follow the rules that are in place (in that country). Accountants have to uphold ethical standards as their credibility and honesty form the foundation of their position. In Singapore, a Chartered Accountant has to abide by the financial reporting standards and the Companies Act."

WHEN PINCIPLES FALL INTO QUESTION

Mr Bala is keenly aware that not all cultures are like Singapore's. When he did an audit for a bank in another country years ago, "the same asset was pledged in multiple accounts. When I brought it up to the bank manager, he said, 'Let's go for lunch'. About 16 bank employees went with my manager and I to a five-star restaurant, which was very expensive in those days. After lunch, we discussed the issue of the collateralised asset, which the client wanted us not to report. That was a red flag, and it opened our eyes to the magnitude of the issue. At that level (a single branch of a bank), if we had agreed not to report the problem, it would have snowballed into a much bigger problem further down the line."

There are ways to avoid getting into such conflict situations, says Mr Bala, such as doing the homework before onboarding the client. However, things may sometimes fall outside the norm. He cites an example where a Singapore company wanted to enter into a partnership with a Nepalese entity, but one of the shareholders was politically exposed in Nepal. "We refused to onboard the client until we could certify that the client and the source of funds were not conflicted, and that there was no instance of money laundering," he explains. Their advice was for the partnership to not proceed. "But the Singapore client insisted that we onboard this partner, so we had to take proper steps and carry out the process to ascertain conflict of interest. That's what the systems and processes are in place for."

How can an accountant tell if a situation fails ethically? "You need a lot of knowledge to figure out if your client is trying to blindside you," he states plainly. "If he is, don't sign off on the accounts." The most common tactics that clients employ, he adds, are playing with numbers, fudging projections and trying to gloss over income that is potentially not recoverable. "In such cases, you need to qualify these items, but usually, they will have a thousand and one reasons why you shouldn't!"

Issuing a qualified opinion may face resistance from clients, because it may look as if they are "hiding" something. But as Mr Bala explains, "I tell the directors that I am protecting their business by qualifying, because by putting it there, they're adhering to the Companies Act."

SAFEGUARDING AGAINST TROUBLE

Mr Bala's approach is strict and straightforward when it comes to ethical considerations. "Being upfront with the client is one way to avoid any grey areas," he says. "Don't be wishy-washy, or give the impression you can be persuaded. Yes, there are genuine cases where documentation is really missing, but there are ways to ascertain that."

He recognises, however, that even if an accountant senses that what he sees is not all there in to the picture, there is no way to report a client "unless we can point a finger and say for certain they are not telling the truth". Often, judgement is also based on one's past history with the client – does he routinely try to get around declaring conflict of interest, or is he by and large honest? But if there is any sign at all that rules have been broken, Mr Bala's advice is to take appropriate action. "If you suspect the client has not been honest, you should file an STR (suspicious transaction report), even if you have resigned," he says. "You have to manage the process, though your client may try to bulldoze his way through."

Losing a client is sometimes a necessary move as "we have to weigh the pros and cons of keeping a client". Explaining that he has "no qualms losing clients", he shares that he has had to resign from some privately held MNC clients that were looking for ways to get around complying with the rules and regulations.

He notes that as much as Singapore works hard to keep itself ethical and above reproach, the same cannot be said for all jurisdictions. For example, in some places, "a 'commission' (cash gift) is considered part of the 'cost of doing business' but in Singapore, it is viewed as a kickback". He names the case of Keppel Offshore & Marine Ltd's deep-sea mining project in Brazil, in which the company pled guilty to charges that bribes were paid to Brazilian officials. "At that point in time when they had first signed the deal, they may have thought it was 'normal' to do so," he notes. "While it's important to uphold high ethical standards, it can be quite a challenge to impose your standards in a different jurisdiction."

WORDS OF ADVICE

"Chartered Accountants in Singapore, whether in practice or in business, are highly respected as the custodians of financial information, and a lot of stakeholders depend on them," says Mr Bala. So what should an accountant do to stay above board? "Stick to the common principles; you cannot flout basic rules and regulations."

If the situation is too complex, "don't keep it to yourself; get a second opinion from an independent accountant", he advises.

It is imperative for all accountants to keep up their knowledge of ethics and governance through continuing professional education (CPE). "There is no shortcut," he states. "All accountants should subscribe to ISCA's CPE. You have to keep up with the discussions and impending changes affecting ethics."

Another way to stay in tune with the developments in ethics is to volunteer for committees. "Get involved so that you can understand the latest developments. Share and learn – that's the only way to be upskilled and upgraded." Mr Bala himself served on ISCA's Ethics Committee for six years. "The committee bridges the gap between IESBA (International Ethics Standards Board for Accountants) and the local requirements," he explains. "It has working groups that gather feedback from stakeholders, including ACRA (Accounting and Corporate Regulatory Authority) and Singapore Exchange. This committee gives us a great platform to debate topics such as the recent EP 100 revision on non-assurance services and fees, which was quite a difficult subject to resolve. We also deliberated at length on what would be the definition of PIE (public interest entities) in the Singapore context based on IESBA's exposure draft issued in January 2021."

Ultimately, ethics is the honesty and integrity of an accountant, says Mr Bala. "Once you compromise on a basic thing in your life, you put yourself at risk. For example, littering. You might get away with it two, three times. Then you get caught; you pay a fine. Some people may say, 'I'm okay with the fine', and continue to litter." But is this the right or ethical thing to do?

For budding accountants, the accountancy veteran's advice is to set the bar high from the start. "The best thing is to be ethical from day one. Don't compromise."

"Do The Right Thing"

Tan Kuang Hui, FCA (Singapore), CEO and Managing Partner, Crowe Singapore

"ONCE, AN ENGAGEMENT CLIENT PUSHED A STACK OF CURRENCY TO ME IN THE HOPE OF RECEIVING A MORE 'LENIENT' AUDIT OF ITS FINANCIAL STATEMENTS. I politely refused. It was a good test for me – my first reaction was 'No'."

That was not the only time Tan Kuang Hui, CEO and Managing Partner of Crowe Singapore, experienced such an ethical conflict, but he has reacted the same way each time. "Accountants are the guardians of the business and financial sectors," he stresses. "Ethics is a fundamental precept we must uphold as a profession." Mr Tan ought to know, given his more-than-27 years of experience in audit and business advisory services. "There is a general expectation to uphold good ethical behaviour in a country like Singapore, which is known to be very clean and free from corruption," he states. "And that's referring to the general population; what more as a Chartered Accountant?"

For Singapore's talent economy, it is essential to maintain and protect the trust it inspires. "We are showing the world that our ecosystem is clean and ethical," explains Mr Tan, who served on ISCA's Ethics Committee from 2017 to earlier this year.

STEERING CLEAR OF TROUBLE

But ethics is not a straightforward science as what is acceptable in one culture may not be acceptable in another. "The biggest challenge we face is upholding our ethical standards while operating business in certain countries," Mr Tan shares, adding that he has dealt with clients from various Asian countries which have different ways of doing business. "When you go there, you'll get a culture shock at the way business is conducted. For instance, while they may not outrightly demand 'gifts', there is an expectation that they will receive something for doing business with you. So where do you draw the line?"

Mr Tan has some pro tips for avoiding trouble. "First, don't get involved in these tricky situations," he says. He then elaborates on how to keep from being cornered into making a moral or ethical compromise. "For example, if I know that I am going to be pressured to give something, I will seek the views of my fellow partners and/or some external advisors." What if there is no way to avoid getting cornered? "Ultimately, you have to ask yourself, 'Is this the right and ethical thing to do?' You can have all the guidelines but eventually, it still falls back on how you choose to respond to the dilemma. Ask yourself, 'Should I take a step back and rethink the situation?'"

He shares that he has had to stand up for what he believes in. "Yes, I have been in some ethical conflicts before, where people pressured me to issue certain documents," he says. "But I refused because of the ethical issues involved. As a professional, I cannot do it as it goes against the fundamental principle of integrity as a Chartered Accountant." That said, Mr Tan recognises that every individual has his own moral standard of right and wrong. He highlights that the Singapore Standards on Auditing (SSA) specifically require auditors, in exercising professional judgement, to take into account not only the accounting and auditing standards but also the *ethical* standards. While ethics guidelines exist for accountancy professionals – EP 100 *Code of Professional Conduct and Ethics* and EP 200 *Anti-Money Laundering and Countering the Financing of Terrorism*, issued by ISCA – these do not provide detailed guidance for grey areas which accountants may encounter from time to time. He also recognises that it may be easier for him to make a stand "because I am a leader and my fellow partners are very supportive of me; but it's more difficult for middle management to make a hard call". Hence, he advocates for leaders to exemplify strong ethics, and to help their organisation understand that ethics comes before financial performance. "The tone must come from the top that this is the way we represent ourselves. Losing one client doesn't mean anything, but losing your reputation – that is the end of your professional career," he states plainly. "You can do a hundred good deeds, but one wrong thing will cost you everything."

The role of a leader in encouraging a strong sense of ethics in his staff cannot be underestimated. It was precisely from watching how his former superiors handled what seemed like an innocuous situation that sealed Mr Tan's conviction to always do the right thing. "Over 20 years ago, I was working in a Big Five (it was Big Five at that time) firm that helped to take a client successfully through to IPO," he recalls. "The client was very happy, and decided to buy the whole team that worked on the IPO the then-latest Motorola flip phone each, as a token of appreciation. That phone was over $1,000! But my ex-boss said to the client, 'We cannot accept them. You can buy us a meal, but we cannot accept the phones.'" That experience has followed Mr Tan throughout his career, as he learned to keep relationships professional and not allow even something seemingly small to compromise the reputation of the Chartered Accountant and his firm. It is not a value that is taught, but caught, he states. "I don't know how to inculcate ethics; I learned from my ex-bosses and through experiences. Most important of all, I have to lead by example. As a leader, you must believe in upholding high ethical standards yourself, or it will never happen in your organisation."

WHAT ETHICS LOOKS LIKE NOW AND IN FUTURE

Over the course of his career, Mr Tan has worked with businesses across a wide spectrum of industries. While the details of ethical considerations may differ, the broad principles apply. "By and large, they're the same," he says. "Once it comes to ethical conflicts, avoid them as much as you can. If you allow yourself to get into a situation once, you will find yourself on a slippery slope. So, whether it's a potentially big situation or a small one, it's better to take early steps to avoid any conflicts." In this regard, Mr Tan reminds that it is always helpful to revisit the five cardinal ethical principles enshrined in the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by ACRA (also known as the ACRA Code), viz, integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. He shares that, among these ethical tenets, he is most concerned with two of them – (i) "integrity", which is generally understood to mean being straightforward and honest in all professional and business relationships, and (ii) "professional behaviour", which is to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or ought to know might discredit the profession. He adds that one "should not forget the five potential threats to compliance with the five ethical principles (that is, self-interest, self-review, advocacy, familiarity, and intimidation threats)".

Ethics also evolves as society does, taking into account fresh concerns that come about with new financial opportunities. Hence, it is imperative for an accountant to stay up to date with developments, such as environmental, social and governance (ESG) guidelines. Highlighting the recent issues surrounding green loans and whether they meet their environmental objectives, Mr Tan asks, "Can a financial instrument really be classified as green? What are the criteria? What if your client gives you incentives to look the other way when it comes to green standards? Therefore, training must be provided in our sector, because ESG is still pretty new and the guidelines are only just emerging." He forecasts that the International Ethics Standards Board for Accountants will likely come together – "in the next one or two years" – and set the ethical standards for ESG. "Climate change is a key issue for the world and for businesses. In the future, we may be required to provide audit or assurance services on ESG-related matters," he says.

The profession makes available as many rules and guidelines as it can to help the accountant carry out his job with as much integrity as he can, but it boils down to the individual's value system and character in situations where even existing guidelines cannot address. "Generally, I would tell my staff, if the client presents such a situation as their way of doing business, find out if it is a 'common practice'. If it is not, then it's very likely to be wrong," Mr Tan explains. "Ask, even it is a 'common practice', if there is any evidence to show that it is 'common practice', such as ratification of certain payments by the board of directors and/or executive committee of the company with domestic legal advice. Notwithstanding this, is it legal and ethical in the Singapore context?"

For his firm, determining if new staff possess the necessary ethical standards begins at the hiring stage, though "we can't be 100% certain how this person will handle a conflict of interest" until he is actually faced with one. But every precaution is taken, from the interview process to the employee handbook which spells out the standards of ethics that staff must adhere to. For young accountants, Mr Tan's advice is that, first and foremost, they must fully understand the requirements of ethical standards and guidelines as set out in the ACRA Code. Then, in tricky situations, "ask yourself, 'Is this the right thing to do?' Often, you will have the gut feeling that something is not right. And, if you are still unsure or in doubt, approach and consult your superiors". ISCA

TEXT BY

Fann Kor

Updates From The CEO

A Refreshed ISCA House That Connects ISCA And Members

TAKE AWAYS

- Members can look forward to the new members lounge, café-style pantry, publication lounge and meeting spaces.
- Meeting rooms featuring different sizes and facilities cater to a variety of requirements including event sizes (from 16 to more than 100 people); types (private discussions, classroom sessions, seminars), and modes (on-site, virtual, hybrid).
- The consolidation of workspaces (for ISCA staff) frees up approximately 10,000 square feet for members in the repurposed ISCA House.

The refreshed ISCA House is designed to meet the needs of the new normal, which demands flexibility as it caters to both physical and virtual modes of engagement as and when required.

IN MY PREVIOUS INSTALMENT OF THE "UPDATES FROM THE CEO" COLUMN, I described some of the challenges in the current training landscape and what ISCA is doing to support you in your Continuing Professional Development (CPD) journey by catering to your different learning needs and preferences.

While we continue to enhance and support our members' learning experience, the extended periods of social distancing measures during the peak of the COVID-19 pandemic had highlighted not just the changing preference for online learning but also emphasised the importance of physical interaction and networking as an irreplaceable aspect of our lives, especially post-COVID in the new normal. The pandemic has changed many business operating models, including the way we work. Like many organisations, ISCA has adopted a hybrid work arrangement. With this, we have taken the opportunity to review the use of space at ISCA House and are actively exploring how we can better optimise the real estate to bring about greater value for our members and staff. To do so, ISCA House will be repurposed.

Repurposing ISCA House, a six-storey building, is an exciting endeavour but a challenging one as many considerations must be taken into account. At the core is the creation of an ISCA House that feels like home to our members, and a place where members can feel proud to be associated with the Institute. Driving sustainability practices is a key feature in the overall renovation and, importantly, ISCA House must depict the professionalism of a membership body. We spent months conceptualising and brainstorming the ideas. My special thanks to two Council members, Tan Kuang Hui and Belinda Teo, who both played instrumental roles in the office renovation, sharing of ideas and provision of guidance to the ISCA management. In particular, they offered direction for the renovation works, including injecting a social enterprise element in the design, and creating spaces that would appeal to our younger members.

Artist's impression of the reception area (for illustration only)

ISCA's brand identity colours, used throughout ISCA House, reflects the social, active and confident personality of our ISCA brand

If you have visited ISCA House in the past month, you would probably have noticed that our renovation works are in progress. We have exciting plans ahead for a brand new look and a memorable user experience. Do let me provide you with a sneak peek of what you can look forward to at the repurposed ISCA House.

Ⓐ Isometric view of the Members Lounge and café-style Pantry on level 1

LEVEL 1: RECEPTION, MEMBERS LOUNGE & CAFÉ-STYLE PANTRY

Members will soon be greeted by a warm and friendly reception area upon entering ISCA House. With a nod to ISCA's corporate colours of red and blue, the ISCA logo will continue to be prominently featured at the reception area. While it reflects the identity of the Institute, the logo is also a familiar symbol among members and serves to enhance their sense of belonging. Just as the accountancy sector and profession are dynamic, resilient and professional, the use of strong and bold colours – taken from our recently refreshed ISCA brand identity colour palette – throughout ISCA House will similarly depict the social, active and confident personality of our ISCA brand.

Just past the reception area is an exclusive space conceptualised for members' relaxation – the Members Lounge. The cosy spot is decked out with comfortable seating arrangements that are perfect for reading, getting work done on the go or just a little rest between engagements.

Just round the corner from the Members Lounge is a café-style Pantry. Here, members can catch up with fellow ISCA members or simply sit and chat over coffee or tea.

LEVEL 2: MEMBERS LOUNGE, PUBLICATION LOUNGE & MEETING ROOMS

The Members Lounge extends to level 2, where there are more quiet spaces for reading and for work. For members who prefer physical reference materials over virtual ones, the Publication Lounge is home to a repository of ISCA's publications and guidances. In addition to these technical publications, members will soon enjoy access to resources from other publishers.

Also on level 2 are meeting spaces and rooms available exclusively for members' rental. Featuring different sizes, the rooms cater to the varying requirements of meeting setups and events. They range from simple meeting rooms furnished with essential infrastructure such as a white board and a TV screen, to a larger discussion room for groups of up to eight; there is also a cosy room suitable for private conversations or interviews.

Ⓨ Isometric view of the Members Lounge, Publication Lounge and meeting rooms on level 2

> At the core is the creation of an ISCA House that feels like home to our members, and a place where members can feel proud to be associated with the Institute.

Fully equipped soundproof recording rooms – ideal for livestreaming or pre-recording content – are available to members at preferential rental rates

LEVELS 3 & 4: TRAINING FACILITIES

CPD training and education lies at the heart of ISCA as we strive to empower members with skills that continue to add value, and meet market needs. Levels 3 and 4 of the refreshed ISCA House will be dedicated to this purpose. Training rooms which can accommodate from 16 to more than 100 people will be available for a multitude of diverse events spanning seminars, conferences, classroom sessions and media presentations.

The learning spaces are designed to be comfortable and energising, with improved lighting and facilities. Each training room will be outfitted with ample electrical power outlets and charging stations for members to connect and charge their laptops and mobile devices. This will contribute to our sustainability efforts as we remove the printing of training materials. Breakout areas will also be available for small group discussions. Together, these varied spaces will facilitate discussions and training sessions for different group sizes and intents, thereby enhancing the overall learning and development experience.

Given the prevalence of webinars and virtual events, recording rooms will be set up to provide a soundproof space with the necessary equipment to produce quality recordings for livestreaming or pre-recorded content. As such, moving forward, members can look forward to higher-quality recorded content while trainers can livestream directly from ISCA House. We hope these training facilities will enhance the CPD experience for our members.

For members who are interested to use these training and meeting facilities, we are making them available for rental at preferential rates.

LEVELS 5 & 6: CONSOLIDATED WORKSPACE FOR ISCA STAFF

Just like many organisations, ISCA has fully embraced the hybrid work arrangement for our staff. This means we will require less physical office space, and are able to consolidate the required workspaces for ISCA staff on levels 5 and 6. In the past, our office space spanned levels 2, 4, 5 and 6. The consolidation of our workspaces allows us to free up approximately 10,000 square feet for our members in the repurposed ISCA House.

Our office space on levels 5 and 6 will adopt an open office concept. The layout will emphasise a communal work environment underlined by shared workspaces over segregated cubicles, to facilitate open communication and the exchange of ideas across departments.

CONCLUSION

The refreshed ISCA House is designed to meet the needs of the new normal, which demands flexibility as it caters to both physical and virtual modes of engagement as and when required.

I hope you are as excited as I am with the ongoing renovations, which are expected to be completed by the end of the year. Do stay tuned as we work with our interior design team to transform our existing premises into a member-centric one-stop shop for all your engagement, training, and education needs.

With this, I look forward to meeting many of you personally at the refreshed ISCA House in the near future! ISCA

Fann Kor, CA (Singapore), is Chief Executive Officer, ISCA.

TEXT BY
Kelvin Law, Rony Lim

A sustainability report should not just be a document that is filed away and forgotten; it should include concrete plans for how a company will improve its sustainability performance in the future.

What Makes A Sustainability Report Actually Worth Reading?

Transparency, Clarity And Other Winning Features

TAKE AWAYS

- The best sustainability report contains verifiable, quantitative data on key performance indicators that are accurate, timely and relevant to a company's strategy.
- The report provides clear and well-rounded coverage of the company's sustainability impacts on stakeholders, and features both good and bad news.
- Focusing on topics that are material to the company and its stakeholders, the report fosters accountability by explaining how environmental and social policies are formulated.
- The report should help the reader understand what the company is doing in sustainability, how the company is performing, and where the company can improve.

SUSTAINABILITY REPORTING WAS ONCE A NEW AND INNOVATIVE WAY FOR LISTED COMPANIES TO SHOWCASE THEIR ENVIRONMENTAL COMMITMENT AND SOCIAL RESPONSIBILITY. Today, it has become mainstream, with most large companies releasing sustainability reports every year. However, sustainability reporting has also become increasingly complex and dense, making it difficult for the average person to understand what companies are actually doing in their sustainability efforts.

What makes for a sustainability report that is worth reading? Recently, we had the opportunity to delve into the sustainability reports of listed companies in Singapore as part of the judging panel for the Best Annual Report Award (Best ARA).

To provide some context, the Singapore Corporate Awards (SCA), jointly organised by the Institute of Singapore Chartered Accountants (ISCA), Singapore Institute of Directors and *The Business Times*, was launched in 2005 as the umbrella awards for exemplary corporate governance practices for listed entities in Singapore.

One of the awards, the Best ARA, is managed by ISCA. This award aims to promote excellent corporate reporting and a more extensive scope of disclosure in line with the demand from investors and other stakeholders such as employees, creditors, and the general public. Listed companies' sustainability reports, whether issued separately or included in annual reports, are part of what we judge to award the Best ARA. The winners of the Gold Awards of the Best ARA 2022 are:

- Keppel Corporation (among companies listed on the Singapore Exchange (SGX) with market capitalisation of S$1 billion and above: big-cap firms);
- Tuan Sing Holdings (market cap of S$300 million to less than S$1 billion: mid-cap firms);
- Qian Hu Corporation (market cap of less than S$300 million: small-cap firms), and
- CapitaLand Integrated Commercial Trust (Reits and business trusts).

VIEWPOINT

... with sustainability reporting being a journey and not a destination, continuous improvement is expected if companies aspire to produce reports that are worth reading.

PHOTO SHUTTERSTOCK

So, what are the key takeaways from the winners and other companies in terms of writing an exemplary sustainability report?

DATA-DRIVEN AND ACTIONABLE

The best sustainability report contains quantitative data on key performance indicators (KPIs) that are accurate, timely, and relevant to a company's strategy. The data should help the reader understand what the company is doing in sustainability, how the company is performing, and where the company can improve. In addition, the data should be presented in a way that is easy to understand and, most importantly, actionable.

For example, CapitaLand Integrated Commercial Trust (CICT) clearly articulates how it identifies its KPIs in its sustainability report. Besides producing a long-term strategic plan to align with the recommendations of the Task Force on Climate-Related Financial Disclosures, CICT also highlights the progress made in meeting its sustainability targets.

Companies that do not disclose their sustainability plans and targets risk being perceived as not having a clear sustainability strategy. Performance should be reviewed against targets to demonstrate whether a company made progress in achieving these targets.

Data disclosure without sustainability targets makes it difficult for the readers to gauge whether the company is making progress. A sustainability report should not just be a document that is filed away and forgotten; it should include concrete plans for how a company will improve its sustainability performance in the future.

VERIFIABLE

It has emerged that companies engage in greenwashing, creating the impression of being environmentally friendly while masking their actual eco-green efforts. Volkswagen, for example, claimed for many years that its diesel cars were "clean" when in fact, they emitted far higher levels of pollutants than advertised.

Readers often question data that is not verified because it is difficult to determine if the company is being truthful about its claims. SGX will require internal auditors to review all sustainability reports beginning in 2022, after receiving strong backing following a public consultation to enhance the credibility of sustainability reports. Although external audits on the reports are not mandatory right now, SGX is still keeping an eye on the situation.

Besides having independent assurance, companies should provide details on the methodology used to compile the sustainability data

An excellent sustainability report will focus on the topics that are material and most important to the company and its stakeholders

Companies should verify their sustainability data with an independent third party to ensure the sustainability report is accurate and credible. Verifiability also extends to auditing the promises made in the report. When a company obtains independent assurance over its sustainability report, the opinion should set out the scope of assurance and its limitations.

For example, Keppel Corp's sustainability report clearly describes the roles of its internal audit function and external assurance providers in its governance processes and how they upheld the credibility of its reporting.

Besides having independent assurance, companies should also provide details on the methodology used to compile the sustainability data. This ensures readers understand how the data is collected and processed, and facilitates comparability between companies.

We are glad to note that more and more listed companies have sought external assurance for their sustainability reports. The externally assured reports were common among the big-cap winners – something that other companies can emulate. The independent assurance reports appended in these sustainability reports allowed investors and other stakeholders to better understand how data had been verified, so they can make a more informed judgement on the information contained in the sustainability report. Companies are also encouraged to allocate resources that uphold assurance of sustainability disclosure because of increased expectations of reliability.

COMPREHENSIVE AND BALANCED

A good sustainability report provides clear and well-rounded coverage of the company's sustainability impacts on stakeholders, and features both good and bad news. Such reports generally rise above typical boilerplate statements, with specific instances of sustainability achievements. Besides highlighting achievements, a good report should not ignore negative sustainability consequences or missed targets.

Yoma Strategic Holdings' sustainability report was thoughtful – it was transparent in disclosing and reviewing employee relations and local community engagement targets. In addition, the report contained a comprehensive assessment of the social, environmental and economic value contributed by various sustainability programmes.

ACCOUNTABLE

A company's management should ultimately be accountable for the sustainability report. Award-winning reports foster accountability by explaining how environmental and social policies are formulated. Besides explaining how the sustainability governance system is set up to oversee these policies, a good sustainability report identifies senior management responsible for sustainability issues and explains how management ensures these policies are working.

An excellent sustainability report will focus on the topics that are material and most important to the company and its stakeholders. Reporting on material sustainability issues helps investors and other stakeholders understand how the company manages risks and opportunities that could affect its long-term success.

For example, Qian Hu Corp clearly outlines its sustainability governance structure and identifies who in its senior management ranks oversees sustainability. Besides focusing on issues with the biggest impact on the business, such as water usage and energy intensity, the company provided details of stakeholder engagement in the materiality process, including community and employee engagement practices.

Another good example is Tuan Sing Holdings' sustainability report. It contains a board statement that discloses the board's oversight of sustainability issues and the process of identifying material sustainability issues. Besides highlighting corporate commitment to sustainability concerns, such a move fosters corporate accountability to stakeholders.

Sustainability reporting has undoubtedly come a long way in Singapore. However, more work should be done to match the standards of top-notch reports produced in other developed markets. Moreover, with sustainability reporting being a journey and not a destination, continuous improvement is expected if companies aspire to produce reports that are worth reading. ISCA

Kelvin Law is Associate Professor, and Rony Lim is Lecturer, Nanyang Business School, Nanyang Technological University. Mr Lim was on the judging panel for the Best Annual Report Award at Singapore Corporate Awards 2022. An edited version of this article was first published in *The Business Times* on 2 September 2022.

VIEWPOINT

TEXT BY
Wolters Kluwer

Agile Framework For External Auditors

Game-Changing One-Week Sprints

TAKE AWAYS

- For audits that stretch over a period of time, the agile framework can be a game changer.
- Sprints can be applied to existing audit methodology, with no changes necessary.
- Central to the agile team-level framework are four communication meetings.

PHOTO SHUTTERSTOCK

WHEN DELIVERING AN AUDIT that has the potential to constitute many weeks or months of work in small iterations, managing the team in one-week sprints can be a game changer for many auditors. Let's take a close look at the practicalities of using an agile team-level framework to work in sprints to deliver audits more effectively and efficiently.

THE BENEFITS OF AGILE AUDITING

Deliver an audit in iterations to:

- Deal with unknowns, complexity, uncertainly, or unpredictability by incorporating weekly feedback loops comprising: what have we done?, what have we learned?, and therefore, what should we do next?;
- Tackle the most critical work first;
- Deliver our observations faster to our audit clients (reducing time to value);
- Work in a more coordinated and organised way;
- Communicate and share as we go, not at the end of a stage or the audit itself;
- Get better at what we do, as we do it (not at the end, when it is too late);
- Last but certainly not least, it's an energising, engaging and therefore, more motivating way to work.

IMPLEMENTING AN AGILE AUDIT FRAMEWORK

Work in sprints from the start of the audit

Do this right from the start, not just in fieldwork, but in planning as well. You'll only achieve all the benefits of working this way if you sprint from the start of planning to the end of the audit (to the final report). Even better, if your audit is small enough to only last four or five sprints, the same rule applies: sprint on the audit right from the start.

Aim to work in one-week sprints

Most external audit teams prefer one-week sprints:

- It's less complex for teams to estimate the amount of available time for the next week, rather than the next two weeks. This brings greater certainty to what can be achieved in the sprint and it also means less carryover. A great sprint is planning out the work and then completing it without any or much carryover into the next sprint.

managing the team in one-week sprints can be a game changer for many auditors

- The four meetings that we'll talk about later in this article are shorter in duration if we work in one-week sprints because there's simply less to cover. Even the busiest stakeholders can usually find 30 minutes every week for a review meeting, especially if you explain that it should help bring down the overall length of the audit.

Apply sprints to your existing audit methodology, with no changes necessary

This might mean you're first sprinting on the planning tasks to create all the planning documents and outputs, followed by sprinting on the fieldwork and testing, and then sprinting on reporting (which is subsequently streamlined by sprinting and sharing as we go, with no surprises at the end).

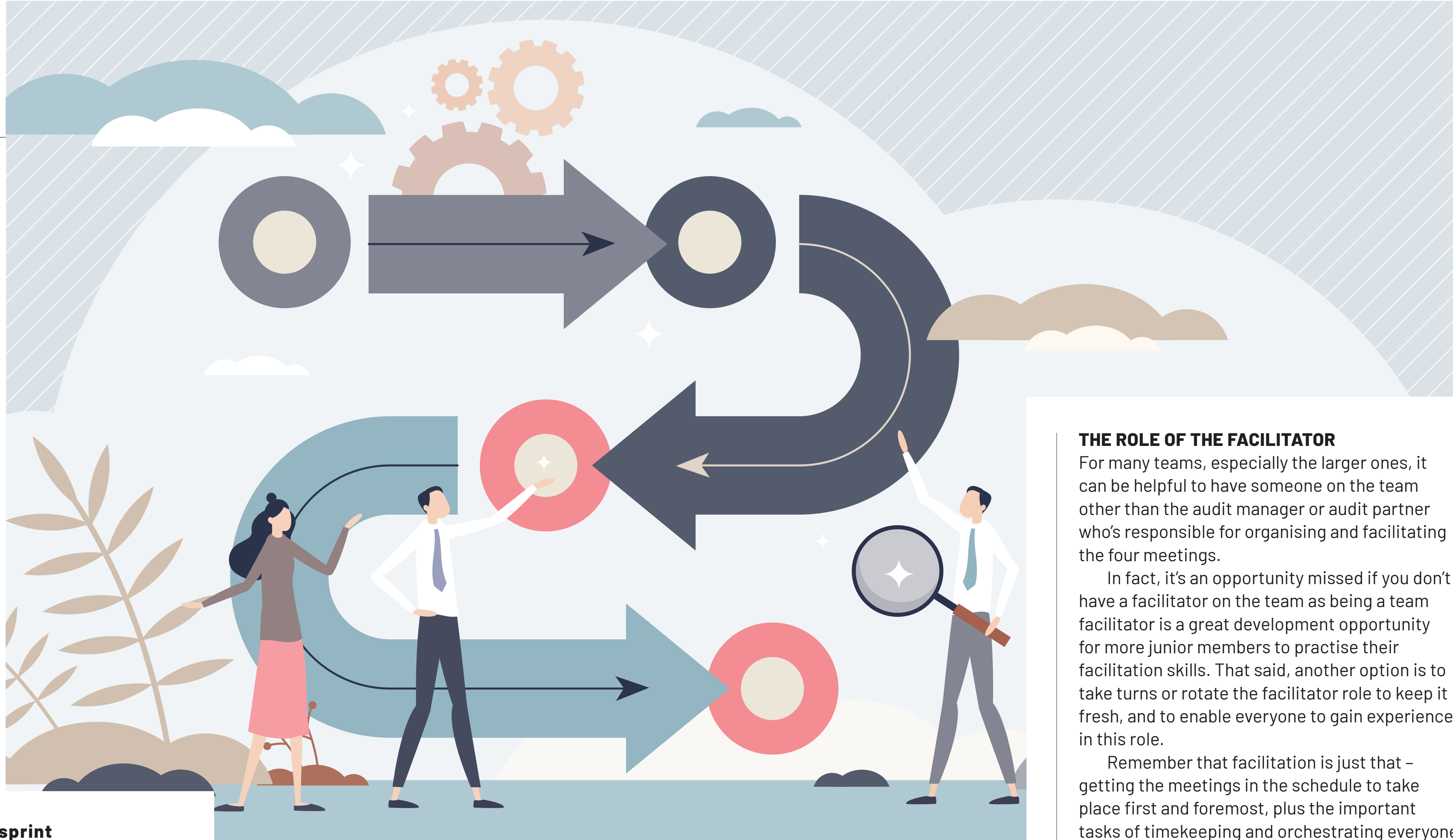


PHOTO SHUTTERSTOCK

Taking an agile approach to managing audit engagements is helping external auditors deliver audits more effectively and fostering great teams.

Four meetings every sprint
Central to the agile team-level framework are four communication meetings. Let's take a close look at those now (see table):

EVERY WEEK	1. Sprint Planning	2. Daily Standup	3. Sprint Review	4. Sprint Retrospective
	START	DURING	END	
Mindset:	Plan as a team	Share progress & challenges as a team	Present findings, gather input	Debrief, get better
Who's involved:	• Audit team	• Audit team • Audit clients (optional)	• Audit team • Audit management & leadership • Audit clients	• Audit team
The ask:	Can you meet every week to plan the next work cycle?	Can you meet daily for 15 minutes to share • What have I done? • What do I need? • What am I going to do today?	Can you meet every week to hear findings and give input?	Can you meet every week to improve the process?

Building blocks of working in a more agile way:
- the right mindset
- fostering great teams

THE ROLE OF THE FACILITATOR
For many teams, especially the larger ones, it can be helpful to have someone on the team other than the audit manager or audit partner who's responsible for organising and facilitating the four meetings.

In fact, it's an opportunity missed if you don't have a facilitator on the team as being a team facilitator is a great development opportunity for more junior members to practise their facilitation skills. That said, another option is to take turns or rotate the facilitator role to keep it fresh, and to enable everyone to gain experience in this role.

Remember that facilitation is just that – getting the meetings in the schedule to take place first and foremost, plus the important tasks of timekeeping and orchestrating everyone around the agenda during them. This role does not have authority over priority or other critical decisions – those remain with the team and appropriate audit leaders.

LEAD A HIGH-PERFORMING TEAM AS AN AUDIT MANAGER
The building blocks of working in a more agile way are the right mindset and fostering great teams. The behaviours of an agile-minded audit leader or manager are:

- **Continuous prioritisation.** Focus on the critical audit matter;
- **Give the team a voice.** Don't take over the agile communication meetings;
- **Be realistic.** Ask the team if the work is achievable. You're only kidding yourself if it's not. Remember that they will improve over the course of a few sprints, which will lead to efficiency and effectiveness gains;
- **Encourage collaboration and sharing within the team.** Help share what's relevant with others in the team;
- **Servant leadership.** Actively helping your team to remove blockers and impediments to speed up the workflow;
- **Provide aircover for the team.** Ensure that the audit client is continuously engaged (perhaps weekly) as required, depending on conclusions;
- **Teamwork and togetherness.** Use the four agile communication meetings to build a close and high-performing team that will continuously improve.

CONCLUSION
Hold all the four agile meetings without fail, even if you feel there's nothing to say. You can always hand back the time.

Rather than combine the meetings, respect the desired outcomes by making sure you signpost the transition from one meeting to the next. One size does not fit all, so adapt this four-meeting agile team-level framework to your needs.

Finally, remember that for audit delivery to be efficient, it requires focused teams. Limit the number of concurrent audits each team is working on. If you don't, the team will have to manage a backlog of work composed of multiple audits, which is fine but harder to do. Best practice is to not split people across multiple teams, because productivity will suffer, for example, from them spending too much time in sprint meetings or an auditor working on five different teams and audits as that's five sets of sprint meetings a week.

You'll only achieve all the benefits of working this way if you sprint from the start of planning to the end of the audit. ISCA

This article was contributed by Wolters Kluwer, which provides tax and accounting software and services.

TEXT BY
Victor Lai

Singapore companies have a strong reputation for good corporate governance standards, but even the best-built houses require regular maintenance.

Effective Corporate Governance

Four Main Parties Playing A Collective Role

TAKE AWAYS

- Strong leaders are needed to ensure that corporate governance structures are functioning properly.
- The four main players for effective corporate governance are the audit committee of the board of directors, executive management, internal auditors, and external auditors.
- A common gap that should be addressed is to deepen the extent of the audit committee's involvement in the company's critical transactions, and the level of detailed information provided to the audit committee for review.

PHOTO SHUTTERSTOCK

ABSCONDING WITH A CHEST OF MONEY TO A TROPICAL ISLAND FOR CAREFREE DAYS SIPPING PINA COLADAS BY THE BEACH IS A COMMON MOVIE TROPE. Yet, disappearing from the face of the earth is no easy feat, even with a chest of money. Nevertheless, it does happen – even in Singapore – at least, until the law catches up with the absconder.

Take for example, the recent high-profile case of former Apple reseller Epicentre Holdings, whose CEO is still at large. In a special audit report on Catalist-listed Epicentre, it was said that Kenneth Lim, who is also the chairman, had arranged for loans with various external parties, some of which bore Epicentre's stamp. However, these loans were neither received nor recorded by the company. Almost S$28 million of such loans were highlighted in the report.

The plot thickened when Epicentre announced that Lim had been uncontactable since May 2019, and his whereabouts were unknown.

A Catalist-listed entity like Epicentre is subject to Catalist Rules and the obligations arising from the Code of Corporate Governance. Part of the intrigue of cases such as Epicentre's is the manner in which such malfeasance escaped the safety net of dutiful regulatory reporting, which should have uncovered such financial irregularities.

Strong leaders must have:

→ indepth finance knowledge and expertise

→ a firm commitment to ethics

There is also the case of Singapore-based Three Arrows Capital, a once-high-flying hedge fund whose collapse bankrupted creditors and caused massive financial distress to investors. Reports have said Three Arrows Capital owes its creditors US$2.8 billion (S$3.9 billion).

According to court documents filed in early July, the whereabouts of co-founders Zhu Su and Kyle Davies were unknown, and they were "rumoured to have left Singapore". After weeks of hiding, the founders told Bloomberg in a telephone interview in late July that they went into hiding because of death threats. Zhu Su reportedly reappeared in Thailand on August 19 to deliver an affidavit in person.

THE MAIN PLAYERS IN EFFECTIVE CORPORATE GOVERNANCE

Often, the problem arises from the assumption that corporate governance structures in the organisation are functioning effectively and collectively. Hence, the cracks are only noticed when the structures fall apart. To prevent such cracks from forming, we must understand the fundamental building blocks of corporate governance.

The four main players required for effective corporate governance are the audit committee of the board of directors, executive management, internal auditors, and external auditors. Together, they establish an ecosystem of controls within companies.

The heart and fail-safe of this ecosystem are strong leaders. They are needed to ensure that processes and structures are properly directed and managed. To do so, these office holders must possess indepth finance knowledge and expertise, and a firm commitment to ethics.

CORPORATE GOVERNANCE GAPS TO BE ADDRESSED

Nevertheless, staying informed and vigilant is also key when it comes to corporate governance. For instance, the special audit uncovered that certain amounts of loans Epicentre took up were not recorded in the group's accounting system; nor were they reflected in the banking records.

The audit committee is expected to apply enhanced vigilance when the board chairman is also the CEO

(The audit committee) ... must assess and challenge, where necessary, the accuracy, completeness and consistency of financial reports (including interim reports) before they are made public.

It was reported that Epicentre's CEO received S$1.2 million from Epicentre Entities as a repayment of loans that he allegedly made to them. However, only S$200,000 of the purported loans were directly from the CEO.

It would appear that the company's processes and structures were intact since its internal mandates required the approval of the board of directors for loans more than or equal to S$500,000. Yet, reports indicate that three loans totalling S$2.69 million were apparently not approved in accordance with the approval requirements.

AUDIT COMMITTEE: THE EYES AND EARS WITHIN THE BUSINESS

In regulated entities, the audit committee is charged with the governance responsibility of ensuring the integrity of financial statements and announcements. It must assess and challenge, where necessary, the accuracy, completeness and consistency of financial reports (including interim reports) before they are made public. They are the eyes and ears that ensure a business' corporate governance structure is intact.

To function effectively, the audit committee relies on assurance provided by the executive management that the financial records are properly maintained. Hence, the audit committee is expected to apply enhanced vigilance when the board chairman is also the CEO.

A common gap that needs to be addressed is the need to deepen the extent of the audit committee's involvement in the company's critical transactions, and the level of detailed information provided to the audit committee for review.

It is not rocket science, but a significant level of judgement is required by the audit committee, which comprises a majority of independent directors, to address the fundamental issue of "how much questioning do I need to do" to ensure that their regulatory and statutory obligations as directors have been dutifully discharged.

Some of the key themes highlighted in the special audit report are cautionary for any company; all companies should be on the lookout for such gaps. They include requirements for companies to announce information on loan agreements, including the breach of any terms, which may impact the company's operations; interested person transactions, and information on material contracts involving the interests of the CEO, and each director or controlling shareholder.

EVEN THE BEST-BUILT HOUSES REQUIRE REGULAR MAINTENANCE

Singapore companies have a strong reputation for good corporate governance standards, but even the best-built houses require regular maintenance.

To ensure that businesses continue to maintain high corporate governance standards, the four players in effective corporate governance must function well and in unison with qualified and ethical business leaders. Corporate boards must be committed to enhancing board effectiveness beyond surface compliance, and push executive management towards higher standards of financial and risk reporting.

Despite that, there are some among us who still think that all this maintenance work sounds too expensive, but that usually changes when they receive the bill for corporate governance lapses. ISCA

Victor Lai is a member of ISCA's Corporate Governance and Risk Management Committee, and Principal Consultant of CitadelCorp.
An edited version of this commentary was first published on CNA on 13 September 2022.

VIEWPOINT

TEXT BY
Claire Leong

Safeguarding Your Mental Health

When And Where To Seek Help

TAKE AWAYS

- Research shows that many accountants experience stress and burnout.
- It is important to build psychological resilience: learn to identify your warning signs and develop coping skills; they can enhance your ability to "bounce back" after distressing experiences.
- Seek intervention early.

AS A COUNSELLOR, I HAVE SEEN SEVERAL CLIENTS WHO ARE FACING ISSUES such as a lack of motivation, low mood, loss of interest in activities they used to enjoy, and anxiety attacks. Many of them come with a sense of hopelessness and sometimes, even shame, but are soon able to regain meaning and satisfaction in life through therapy and the learning of new coping skills.

Against the backdrop of the "quiet quitting" phenomenon that has been making the news, these cases reflect a deeper concern about the relationship between mental health and work. According to Mercer's 2022 Global Talent Trends Study[1], 85% of employees in Singapore feel that they are at risk of burning out this year, and only 44% of employees here feel "energised"– that is, they are motivated to do well and learn new skills, feel satisfied at work, and are less likely to leave the company. By comparison, the study reveals that some of our neighbours like China and India have more than 80% of employees reporting that they feel energised. Worryingly, these statistics hit closer to home when it comes to those in the financial services sector, to which the accountancy profession belongs. The Mercer study reveals that the financial services sector has 68% of employees feeling motivated at work and, the sector has the second-highest percentage of unmotivated, un-energised employees. A UK study conducted by CABA[2] found that more than half the accountants polled were suffering from stress and burnout. Citing long hours, complex work, high workloads, and the feeling like there was no room for error, eight out of 10 accountants expressed their belief that poor mental health is a common problem in the profession.

In an industry associated with high demands and low tolerance for mistakes, knowing when and where to seek help for mental health is thus crucial.

PHOTO GETTYIMAGES

[1] https://www.mercer.com/our-thinking/career/global-talent-hr-trends.html
[2] https://www.accountancydaily.co/one-three-accountants-feel-stressed-every-day
[3] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8061188/

> I tell my clients that early intervention is the best predictor of a good treatment outcome – this means that the sooner something is done, the higher the possibility of getting better faster.

A study reveals that eight out of 10 accountants expressed their belief that poor mental health is a common problem in the profession

WHEN TO SEEK HELP

An epidemiological study in Singapore discloses that one in seven people have a mood, anxiety, or alcohol use disorder at least once in their lifetime[3]. However, 78.6% of people with mental disorders wait at least one year before seeking help, with not knowing where to seek help as an often-cited reason. I tell my clients that early intervention is the best predictor of a good treatment outcome – this means that the sooner something is done, the higher the possibility of getting better faster.

Stress and anxiety are part of everyday life for many of us. It becomes a problem when it causes what we call "socio-occupational dysfunction", that is, it affects your functioning socially and at work. For example, John (not his real name), a client of mine, reaches home at 11pm every night after work. Because of how stressed he has been all day, he often ends up arguing with his family members, taking out his frustrations on them. He then cannot sleep at night because he feels lousy about mistreating his loved ones, and this makes it even more difficult for him to concentrate at work the next day. On weekends, John is so exhausted that he cancels his plans with friends and stays in bed. John begins to feel like his life has no purpose and he does not find joy in anything anymore.

> Intervention does not necessarily constitute seeking professional help… it could mean talking to your supervisor or colleagues…

PHOTO GETTYIMAGES

You can alleviate stress by allocating time daily for self-care, for example, meditate, go for a stroll or listen to music

When it comes to mental health, counsellors or psychologists can help you build psychological resilience

John's relationships are deteriorating and his performance at work is dropping. On top of this, John has found himself stuck in a downward spiral – he is so stressed that he cannot sleep and the fatigue makes it difficult for him to concentrate at work, leading to even more stress. This damaging lifestyle can result in burnout and may even develop into a mood or anxiety disorder, and/or physical health conditions like heart problems.

Each of us has different "warning signs" when it comes to our mental health, and these can typically be grouped according to the acronym SPIES – Social, Physical, Intellectual, Emotional, Spiritual. John might have noticed that he was fighting with his family members more often and cancelling on his friends, which are social indicators. His physical indicators, meanwhile, would include fatigue and poor sleep. Intellectually, he has difficulty concentrating at work. Emotionally, he feels drained and stressed, which leads to irritability. Spirituality (not in terms of religion) is about the meaning and purpose one feels about life, including a sense of hope and value. John has lost sight of his purpose in life, and this is a spiritual indicator that his mental health is declining.

Once we notice our warning signs, there needs to be some form of "intervention". Intervention here refers to doing something to counter the problem; it does not necessarily constitute seeking professional help. For example, it could mean talking to your supervisor or colleagues, because when it comes to work-related stressors, their support is invaluable as they are best placed to understand the demands you face. Meanwhile, you can start alleviating stress by allocating time daily for self-care. This could be something as simple as taking 15 minutes a day to meditate, go for a stroll or listen to music. If you find that talking to your peers does not help or there is significant socio-occupational dysfunction, then you can consider seeking professional help.

THERAPISTS

The commonly used term "therapist" is an ambiguous one, because it refers to someone who practises therapy; it could include both physiotherapists and occupational therapists. When it comes to mental health, you would want to look for counsellors or psychologists. Both are trained to conduct therapy for mental health issues, with the key difference being, psychologists are able to conduct formal assessments of mental states and illnesses. In other words, if receiving a diagnosis is important to you, you should look for a psychologist. If you are seeking help for stress, a counsellor would be able to help you. A counsellor can work with you to identify your warning signs and develop coping skills that boost your ability to "bounce back" after distressing experiences. Put another way, a counsellor can help you build psychological resilience. A counsellor can also direct you to a psychiatrist if your condition does not improve.

Both the therapist's competency and the working relationship you share are vital to the therapy outcomes – you need to be able to connect and feel comfortable with your therapist. The first therapist that you work with may not be the right one for you, and that is okay. Discuss with your therapist if you feel that his/her approach is not right for you so that the therapist can realign to match your needs, or refer you to another therapist.

Many private clinics publish the profiles of their clinicians online, and you can begin looking for a therapist there. Non-profit organisations typically conduct an "intake session" and then pair you with a suitable counsellor. Some polyclinics in Singapore also provide psychology services.

PSYCHIATRISTS AND GENERAL PRACTITIONERS

A psychiatrist is a medical doctor who can diagnose mental illness and prescribe medication. For the majority of people, medication is not meant to be a long-term solution. I advise my clients on the importance of continuing their therapy while on medication. It is vital to learn coping skills and understand their triggers so that they can regulate themselves without medication.

You can consult a psychiatrist at a government hospital or polyclinic, or in private practice. As of 2020, more than 220 general practitioners (GPs) have been trained to diagnose and treat mental illness, which means that you may be able to receive psychiatric treatment from a GP without having to see a psychiatrist. ISCA

Claire Leong is a counsellor at Sofia Wellness Clinic. She holds a Master of Counselling from Monash University and a Bachelor of Arts in Psychology (Minor in Organisational Behaviour) from Murdoch University.

Technical Highlights

FINANCIAL REPORTING

ISCA Invites Comments On IASB's Exposure Draft Third Edition Of *IFRS For SMEs* Accounting Standard

IASB has published proposals to update the *IFRS for SMEs* Accounting Standard to reflect improvements made to the full IFRS Accounting Standards, while keeping the Standard suitable for small and medium-sized entities.

The proposals in the ED reflect feedback on the Request for Information published in 2020 as part of its Second Comprehensive Review of the Standard and the advice from IASB's SME Implementation Group. Stakeholders provided input on the framework for updating the Standard, together with their views on whether and how IASB should propose amendments to the Standard.

ISCA is seeking feedback on this ED. Comments should be sent, in writing, to professionalstandards@isca.org.sg, no later than 9 December 2022.

For more information, please visit
https://isca.org.sg/content-item?id=d3fe8868-8d22-4ffc-ab95-84914d596070

July 2022 Accounting Standards Advisory Forum Meeting Summary Available

The meeting was held on 11 and 12 July 2022, and topics discussed include Goodwill and Impairment, Post-Implementation Review of IFRS 9 – Classification and Measurement, and Financial Instruments with Characteristics of Equity.

For more information, please visit
https://www.ifrs.org/news-and-events/calendar/2022/july/accounting-standards-advisory-forum/

IASB Sets Out Its 2022-2026 Priorities

IASB has published its Third Agenda Consultation Feedback Statement and Snapshot outlining its priorities for the next five years. The Feedback Statement explains the reasons for IASB's decisions and shows how IASB responded to the extensive feedback from its diverse stakeholders.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/07/iasb-sets-out-its-2022-2026-priorities/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=daily

SUSTAINABILITY & CLIMATE CHANGE

First Episode Of ISSB Podcast Available

In this podcast, International Sustainability Standards Board (ISSB) Chair Emmanuel Faber and Vice-Chair Sue Lloyd share on ISSB's discussions at its July meeting. Topics discussed include the background on ISSB; a reaction to the first board meeting and highlights from the discussions, and impressions of initial responses to the EDs. The recording can be found on the IFRS Foundation's website and YouTube Channel.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/07/first-episode-of-the-issb-podcast-now-available/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=daily

ISSB Receives Global Response On Proposed Sustainability Disclosure Standards

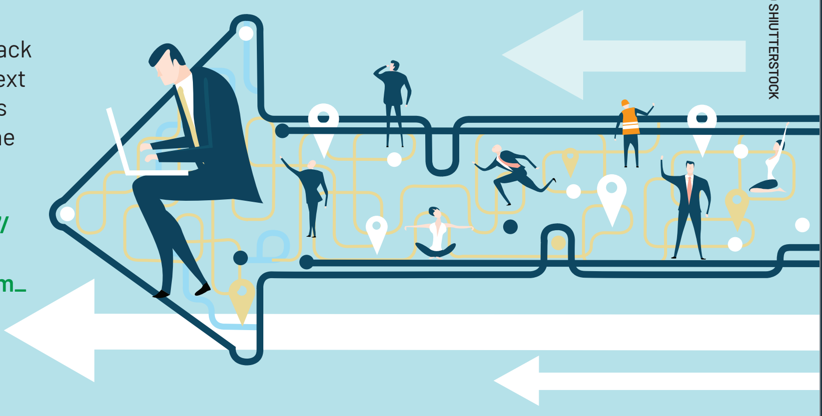
ISSB has received more than 1,300 comment letters on its two proposed sustainability disclosure standards. In accordance with IFRS Foundation's due process, ISSB will now assess and discuss the comments in its board meetings.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/08/issb-receives-global-response-on-proposed-sustainability-disclosure-standards/

July 2022 ISSB Jurisdictional Working Group Meeting Summary Available

The meeting was held on 18 July 2022. Topics discussed include feedback from stakeholders on the ISSB EDs on general requirements for disclosure of sustainability-related financial information and climate-related disclosures; ongoing bilateral engagements between participants to identify differences between current proposals with a view to achieving greater interoperability, and next steps for the working group.

For more information, please visit
https://www.ifrs.org/news-and-events/calendar/2022/july/jurisdictional-working-group/



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TEXT BY


Felix Wong


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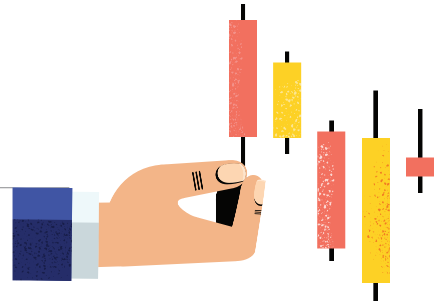
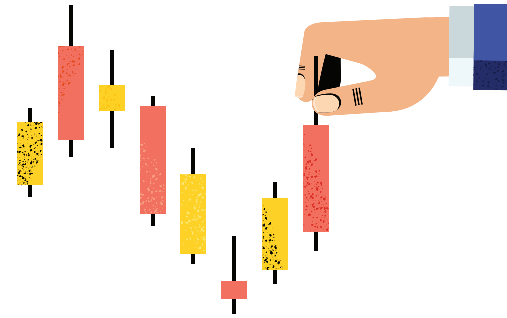


Tax should be on the boardroom agenda. Effective tax governance starts with the tone from the top; the board needs to provide leadership on the company's overall approach towards tax governance and tax risk management.



Tax Governance

Adopting Tax Governance And Managing Tax Risks

TAKE AWAYS

- Documentation provides the basis to defend the organisation's tax position in the event of a tax audit.
- Companies awarded the TGF, CTRM or ACAP status are accorded certain benefits, such as an extended grace period for voluntary disclosure.
- The deployment of fit-for-purpose technology can enhance tax governance and improve the tax risk management processes.

THE OECD'S BASE EROSION AND PROFIT SHIFTING (BEPS) FRAMEWORK AND LOCAL TAX REFORMS, the rising transparency measures and real-time reporting requirements, and the application of big data to identify taxpayers for audits have pressured corporates to rethink their tax strategy.

Increasingly, tax governance will take up more airtime in the boardroom as global companies take a more active stance in adopting tax governance and managing their tax risks. Real-time reporting is expected now and soon, companies will need to manage the implementation of BEPS Pillar Two as well.

TAX GOVERNANCE IN SINGAPORE

In Singapore, the Inland Revenue Authority of Singapore (IRAS) has put in place three major voluntary compliance initiatives – the Tax Governance Framework (TGF), the Tax Risk Management and Control Framework for Corporate Income Tax (CTRM) and the GST Assisted Compliance Assurance Programme (ACAP) – to allow companies to demonstrate good tax governance and compliance processes within their organisation.

TGF is an overarching principles-based framework providing guiding principles and key practices which a company can adopt in its tax governance policy as part of overall good corporate governance. The framework is about setting the tone from the top and centres around three building blocks:

i The company is committed to comply with relevant tax laws and regulations;
ii The board is apprised of the governance structure for managing tax risks; and
iii The company makes efforts to cultivate a collaborative and transparent relationship with tax authorities.

CTRM and ACAP go beyond the tax governance policy and are designed to establish robust internal control and systematic risk management processes to identify, mitigate and monitor key tax risks for corporate tax and GST matters respectively.

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Companies awarded the TGF, CTRM or ACAP status are accorded certain benefits

Companies awarded the TGF, CTRM or ACAP status are accorded certain benefits, such as an extended grace period for voluntary disclosure under the TGF, a one-time waiver of penalties for voluntary disclosure of prior years' errors under the CTRM, and a step down of compliance activities under the ACAP.

In practice, most multinational companies (MNCs) would have established their own corporate governance framework of which tax is a part of. Accordingly, they should have a certain level of tax governance and controls already in place. It is then about bridging the gap, if any, between the company's level of tax governance and controls and the specific requirements for each voluntary compliance initiative, as well as ensuring that the company has sufficient documentation to support its case.

THE CONSTRUCT – HOW A TAX GOVERNANCE FRAMEWORK MAY LOOK LIKE

A tax governance framework generally consists of several documents, such as the tax strategy statement and the process and operating manual, and should be viewed from a people, process, data and technology perspective.

Tax strategy statement
At the centre of the tax governance framework is the tax strategy statement which defines the governance standards for managing tax risks. It sets the overall tone from the top and the company's approach toward tax risk management. A sample tax governance policy[1] has also been provided by IRAS.

Tax policy and risk management framework
The tax policy and risk management framework defines the guiding principles of sustainable tax governance across various tax types. It sets the critical policies and controls posture – what the tax risk appetite should be, what type of matters should be escalated to the board or audit committee, and how new and significant transactions should be handled.

Process charts with risk and controls
The process charts document the specific roles and responsibilities of the relevant personnel as well as the controls set up to manage the identified risks. It ensures

[1] https://www.iras.gov.sg/media/docs/default-source/uploadedfiles/gst/tax-policy-publication.pdf

continuity as new personnel can simply refer to the process charts and take over the process seamlessly. Review and testing of the controls in the process charts should be carried out on a periodic basis to ensure that the controls remain effective.

Process and operating manual
The process and operating manual is essentially a set of standard operating procedures for tax processes and tax operations. It allows proper transfer of knowledge regarding the systems and documents used in specific tax processes and operations.

Risk-based assurance measures
Internal audit and independent reviews may be performed periodically to review the tax processes and test the existing controls. In light of the rapidly changing business and tax landscape, such periodic audits and reviews are paramount to the continual relevance and effectiveness of the tax governance framework.

TOP 10 LIST FOR TAX GOVERNANCE READINESS

For a start, organisations may consider the following to assess their overall tax governance readiness.

Foundation

i Tax is on the boardroom agenda
Tax should be on the boardroom agenda. Effective tax governance starts with the tone from the top; the board needs to provide leadership on the company's overall approach towards tax governance and tax risk management.

ii Guiding principles of TGF
A company embarking on its tax governance journey should consider the three guiding principles of TGF. Essentially, the company should be committed to comply with relevant tax laws and regulations, the board should be apprised of the governance structure, and there should be a collaborative and transparent relationship with tax authorities.

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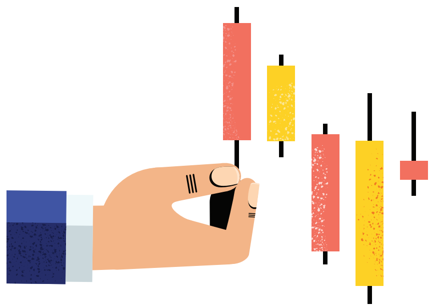
- Global companies are taking a more active stance in adopting tax governance and managing their tax risks
- Increasingly, tax governance will take up more airtime in the boardroom



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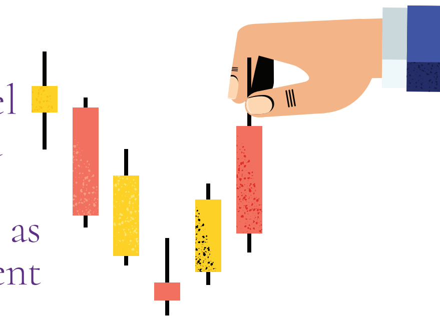

iii Take stock
Periodic check-ins with the finance and operations teams can provide the tax team a better understanding of the company's tax governance readiness and identify any gaps in controls. Accordingly, these would give the tax team a chance to address specific tax risk areas in a timely manner.

Intermediate

iv Documentation
Documentation provides the basis to defend the organisation's tax position in the event of a tax audit. Organisations looking to align themselves to IRAS' voluntary compliance initiatives should also ensure that they have adequate documentation to support their applications.

v Stakeholder management and buy-in
Successful implementation of tax governance hinges heavily on stakeholder management. It is crucial for the tax team to obtain the buy-in from key personnel from other departments to ensure cooperation and collaboration during the tax governance rollout.

vi Let technology do the walking for you
The deployment of fit-for-purpose technology can enhance tax governance and improve the tax risk management processes. With the help of technology, the tax team may be relieved of certain tasks and, accordingly, would be able to focus their attention on the critical issues instead.

vii Review and reflect every three years
Companies should implement a "maintenance programme" to regularly review the existing controls and ensure that the organisation's tax risks are reflected upon and managed effectively.

Advanced

viii Application to overseas entities
The same tax governance system and standards that apply to the Singapore headquarters should similarly be applied to the overseas subsidiaries and, where necessary, with an appropriate level of localisation to take into account the different tax regulatory environment.

ix Add a readiness place holder for future Pillar Two reporting
While the effective date for the adoption of BEPS Pillar Two reporting has not been confirmed, companies should consider the relevance of Pillar Two to their respective organisation and, where applicable, start preparing for future Pillar Two reporting.

x Achieve optimal tax risk management ecosystem
Tax governance and tax risk management cannot be carried out by the tax team alone. It requires the entire ecosystem – end-to-end stakeholders, process owners and supporters – to form an optimal environment.

The global tax reform, growing scrutiny by tax authorities and increasing tax complexity create a perfect storm for corporates to grapple with. Tax governance and tax risk management can no longer be an afterthought. It is now time for the board to set the tone and provide the tax team with the support they need to incorporate tax governance into the organisation's natural business processes, and actively manage the organisation's tax risks. ISCA

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TECHNICAL EXCELLENCE

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Jian Ming


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don's column

IAS 37

What Lies On The Horizon?

TAKE AWAYS

- Stakeholders find it difficult to reconcile the apparent contradictions in IAS 37.
- The IASB Provisions–Targeted Improvements project aims to eliminate some diversity by providing more clarity and guidance in the areas of recognition, measurement (costs to be included) and measurement (discount rate).
- In areas where guidance remains unclear, companies could provide more voluntary disclosures to enhance the usefulness of financial statements to stakeholders.

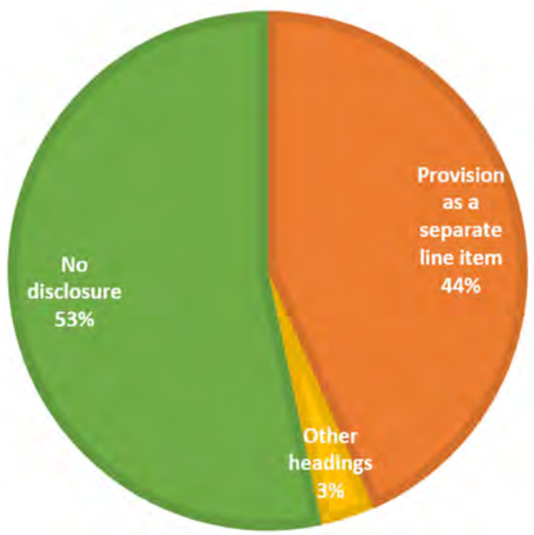
Adequate disclosure becomes more critical when there is diversity in practice on the recognition, measurement and reporting of provision

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specifies the accounting for and disclosure of provision, contingent liabilities and contingent assets that are not within the scope of another IAS/IFRS, for example, IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*. Provision is defined therein as a liability of uncertain timing or amount.

Based on the existing IAS 37 requirements, we examined the provision-related disclosure in the latest annual reports of the 30 Straits Times Index (STI) Constituents firms. Of the 14 companies which disclosed IAS 37 provisions, 13 reported "Provision(s)" as a separate line item in the Statement of Financial Position, and one under the heading "Other payables and accrued expenses" (Figure 1).

For firms which disclosed IAS 37 provisions, the provisions amounted to a relatively small percentage (maximum 3.54%) of the firm's total assets.

FIGURE 1 PRESENTATION OF IAS 37 PROVISIONS IN THE STATEMENT OF FINANCIAL POSITION OF STI FIRMS



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In 12 out of 14 companies, the provisions also included non-IAS 37 liabilities, for example, those arising from employee benefits and/or financial guarantee (Figure 2).

Disclosure practices differ with regard to whether provisions include employee benefits. Of the 15 STI companies that presented employee benefits, five companies presented employee benefits under "Provisions" (see Figure 2) while 10 companies disclosed them as a separate line item in Statement of Financial Position.

Virtually all companies reproduced the general recognition criteria of IAS 37 in their notes to the financial statements. In general, companies provided inadequate descriptions regarding the nature of certain provisions recognised (for example, provisions for off-balance sheet credit exposure) and the specific accounting policies used in the recognition and measurement of provisions, for example, the costs included and discount rate used.

Adequate disclosure becomes more critical when there is diversity in practice on the recognition, measurement and reporting of provision. Lack of clear guidance in IAS 37 contributes in part to such diversity. For example, IAS 37 discusses how entities should identify the "best estimate" of a liability with a range of possible future cash flows and specifies the use of the "expected value" approach to measure provision that involves a large population of items. However, the guidance fails to specify how the cash flows should be measured for single obligations. Companies may adopt different approaches in practice. As it is not part of the disclosure requirement, none of the STI companies elaborated on which approach was used in identifying the best estimate in measuring the provisions, which could impede comparability.

FIGURE 2 NUMBER OF FIRMS WHICH REPORTED NON-IAS-37 LIABILITIES (IN ORANGE) UNDER "PROVISIONS"

Feedback to IASB showed that stakeholders (including users, preparers and auditors of financial statements) find it difficult to reconcile the apparent contradictions in IAS 37 recognition criteria for provisions. Besides being less specific than those in other IFRSs, as discussed earlier, the measurement requirements of provision as a liability in IAS 37 are also inconsistent. For instance, IAS 37:36, which requires an entity to measure a provision at the best estimate of the expenditure required to *settle the present obligation* at the end of the reporting period, implies a *fulfilment value* measurement objective. However, IAS 37:37, which states that this best estimate is the amount that the entity would rationally pay to settle the obligation at the end of the reporting period or to *transfer it to a third party* at that time, suggests an estimate which could be based on an amount payable by the entity to *transfer* the liability to another party.

The IASB Provisions–Targeted Improvements project aims to eliminate some diversity by providing more clarity and guidance in the following three areas:

1. Recognition

IAS 37 recognition criteria for liabilities appear contradictory and inconsistent. On the one hand, IAS 37:19 states that only obligations arising from past events existing "independently of an entity's future actions", that is, the future conduct of its business are recognised as provisions. The paragraph is interpreted to mean that the entity has no liability for obligations if it can avoid the transfer through its future actions, regardless of whether these actions are realistic or not. On the other hand, IAS 37:10 defines an obligating event as an event that creates a legal or constructive obligation that "results in an entity having no realistic alternative to settling that obligation". Some have interpreted this definition to mean that the entity has a liability for obligations that could only be avoided through its future unrealistic actions. Hence, it is unclear as to how unavoidable an obligation must be in order for it not to be recognised as a liability.

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The proposed improvement seeks to align the definition of liability in IAS 37 with the definition and supporting concepts in the latest Conceptual Framework for Financial Reporting (CF). The CF elaborates that an obligation is "a responsibility that the entity had no practical ability to avoid", and CF Chapter 4, paragraph 32 spells out that the entity has an obligation "if it has no practical ability to avoid the action".

2. Measurement: Costs to be included in measuring the provision

IAS 37 has been silent on what it means by "expenditure" required to settle a provision. Should it include only the incremental costs of fulfilling the obligation, or should it also include the following:

a) other directly related costs (for example, production overheads), and/or
b) costs payable to third parties (for example, legal costs)?

This leaves scope for diversity in practice.

In response to stakeholder feedback that IAS 37 provided limited guidance on the cost issue, IASB, in May 2020, approved a narrow-scope amendment that clarified all costs that relate directly to the contract, consisting of both incremental costs and an allocation of other costs, should be considered when assessing whether a contract is deemed as onerous.

However, at this stage, it is uncertain

a) whether the costs to assess whether contract is onerous should also be included in measuring any resulting onerous contract provision, and
b) whether this amendment applies to measurement of all provisions.

This uncertainty could be resolved by clarifying which costs to include in measuring a provision and by specifying that the expenditure required to settle an obligation includes all costs that relate directly to settling that obligation.

... none of the STI companies elaborated on which approach was used in identifying the best estimate in measuring the provisions, which could impede comparability.

3. Measurement: Discount rate

In our sample of STI firms, long-term provisions amounted to a maximum of 2.45% of total assets. IAS 37:45 specifies that, where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. IAS 37:47 further specifies that the discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

However, it is silent about whether the discount rate used should reflect the entity's own credit risk. Hence, it is not surprising that none of the STI companies specified whether the discount rate, if used to calculate provisions, included or excluded their own credit risks.

Including own credit risk in the discount rate leads to reporting of smaller liabilities such as environmental provisions. Therefore, the diversity in discount rates used can have a substantial effect on the reported financial position and performance of entities with large, long-term provisions, leading to significant loss of comparability between entities.

Specifying whether the rate to discount a provision should reflect the entity's own credit risk would resolve the perceived problem. Feedback from stakeholders suggest that including own credit risk in the discount rate, besides impairing comparability, would create volatility, produce counter-intuitive results when higher-risk entities would recognise smaller provisions while not providing users with useful information if an entity is a going concern.

CONCLUSION

Diversity in practice, together with insufficient disclosure, undermines the usefulness of financial information. While IASB has made narrow-scope amendments to clarify some grey areas in IAS 37, they are currently working on the three targeted improvements mentioned above in the hope of providing more clarity and guidance. This would leave less scope for diversity in practice, which should improve comparability. In areas where guidance remains unclear, more voluntary disclosures would be helpful to enhance the usefulness of financial statements to various stakeholders. ISCA

where guidance remains unclear, more voluntary disclosures would be helpful

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