IS Chartered Accountant JOURNAL

JANUARY 2023

What's Happening In 2023

The Silver Lining Amid The Gloom

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JANUARY 2023

READY, GET SET, GO!

Lai Chin Yee
FCA (Singapore)
ISCA Council Member

Dear members,

I HOPE YOU HAD A LOVELY FESTIVE SEASON WITH YOUR LOVED ONES, and that you are now recharged and ready to embrace all the possibilities of a brand new year.

This year, businesses will continue to face challenges and disruptions, with geopolitical events and climate change affecting every part of the business value chain. Statistics from organisations such as the International Monetary Fund and Asian Development Bank all point to a poor economic growth prognosis globally, as recession looms its ugly head. The cover story, "What's Happening In 2023", provides an overview of what to expect in the months ahead.

The silver lining for us is that accountancy is recession-proof, so in good times and in bad, organisations will require our specialised knowledge for strategic planning. Given that we are only as good as what we can bring to the table, we will need constant upskilling to keep up with a rapidly changing business environment, and to continue to add value to our clients and organisations. This is certainly what our featured member this month, Member of Parliament Derrick Goh, Managing Director and Head of Group Audit at DBS, advocates.

A firm believer in continuous self-enrichment, he shares that this practice puts him in the position to seize opportunities as they arise. His experiences are certainly proof of that.

This new year, my wish is that we can "ready" ourselves by shoring up on the in-demand and other essential skills, "get set" for emerging opportunities and, when the time comes, push off and "go" towards success.

Have a fruitful and successful 2023.

ABOUT LAI CHIN YEE

Ms Lai Chin Yee has been a Council member since 2018. She is the Chairperson of the Continuing Professional Education Committee as well as a member of the Membership Committee. She also chairs the Singapore Chartered Accountant Qualification (SCAQ) Advisory Panel which ISCA has set up to provide recommendations to enhance, strengthen and update the SCAQ programme. She served previously on the CFO Committee and the Corporate Governance and Risk Management Committee.

Ms Lai has been the Finance Director of Qian Hu Corporation Limited since 2004. She was an auditor with international accounting firms prior to joining Qian Hu as its Group Financial Controller in 2000. She has more than 30 years of experience in areas including auditing, finance and accounting, taxation and treasury.

Ms Lai is a member of the Singapore Institute of Directors. She is the Non-Executive Chairman of Singapore Paincare Holdings Limited and an independent director of Micro Mechanics (Holdings) Ltd. She was appointed by the Ministry of Finance (MOF) as a member of the Tax Advisory Committee from 2004 to 2006, and served as a Council member of the Council on Corporate Disclosure and Governance from 2006 to 2007. She has been a board member of ACRA since being appointed by MOF in 2019.

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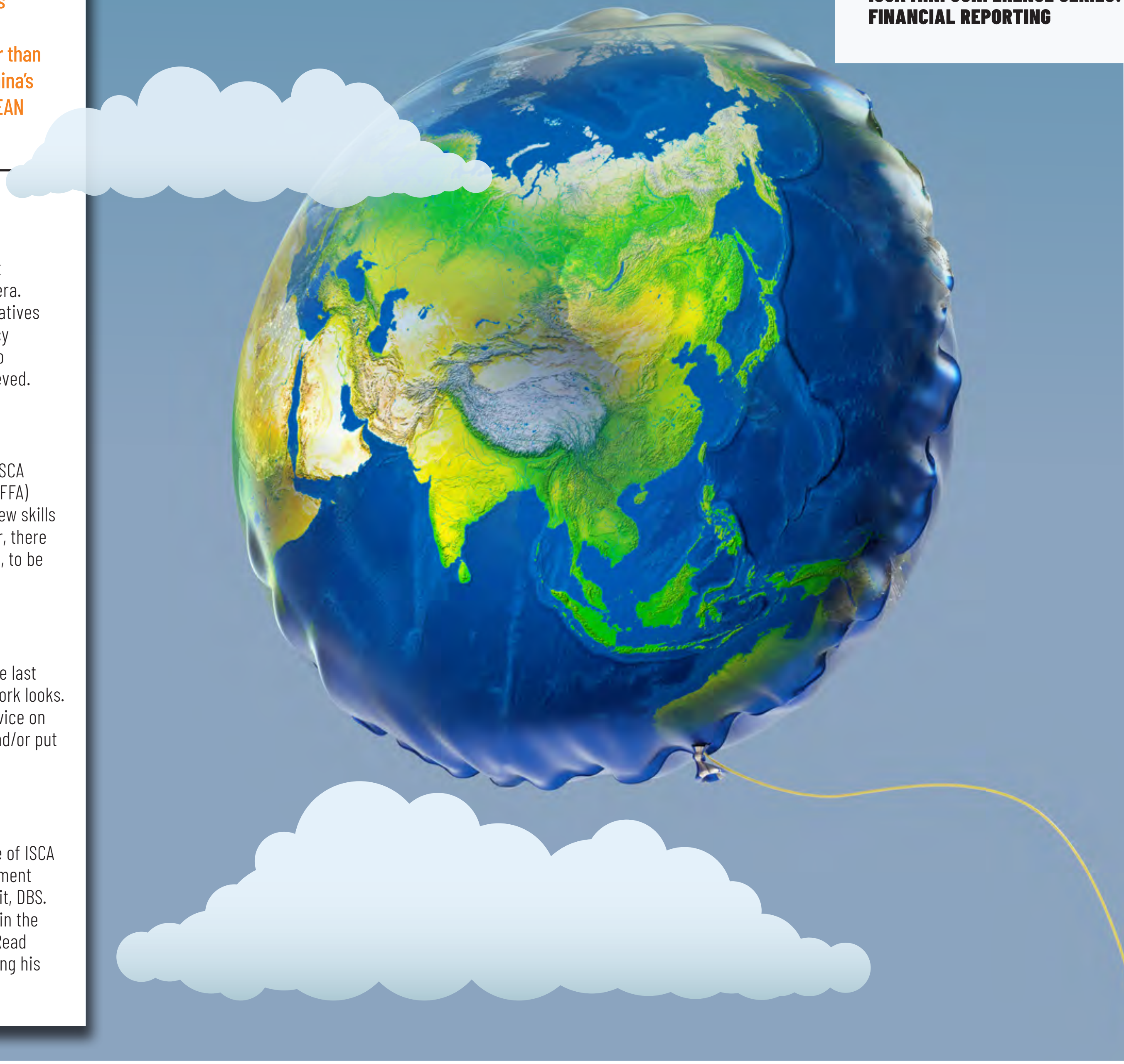

PUBLISHER
Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709

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Email: isca@isca.org.sg **Website:** www.isca.org.sg

PUBLISHING & DESIGN CONSULTANT
mediacorp
MCI (P) 086/10/2022
PPS 709/09/2012 (022807)
ISSN 2010-1864

ADVERTISING
Bold Ink Magazines Pte Ltd
Jacqueline Wong
Tel: 6223-4258
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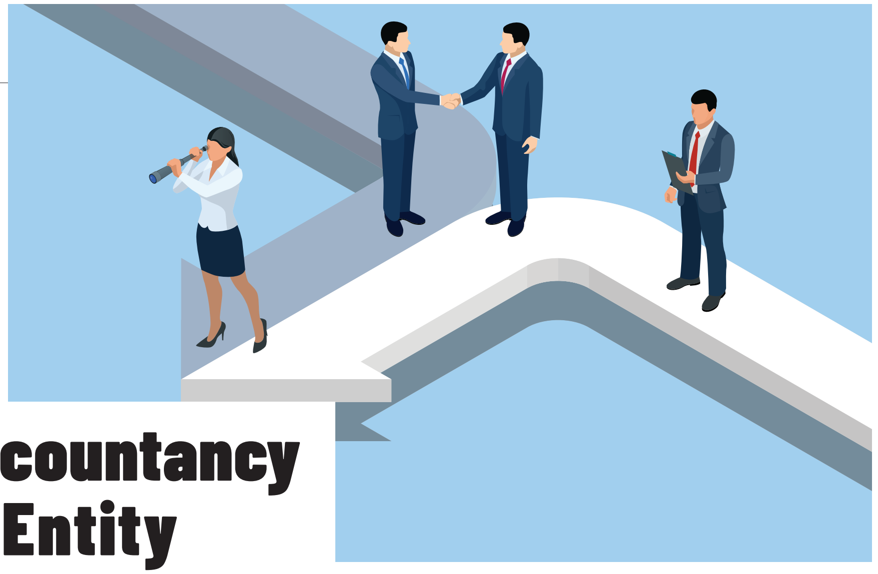
PRINTING COMPANY
Oxford Graphic Printers Pte Ltd



Serving The Accountancy Sector As One Entity

THE ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA) WILL HAVE MORE RESPONSIBILITIES COME 1 APRIL 2023, following the passing of the Accountancy Functions (Consolidation) Bill in Parliament on 9 November 2022.

The Bill merges ACRA, Accounting Standards Council (ASC), and Singapore Accountancy Commission (SAC) under one entity, to be named ACRA. The merger, first announced in July 2021, aims to better serve the accountancy sector and enhance Singapore's pro-business and trusted regulatory environment.

In her Second Reading Speech on the Bill in Parliament on November 9[1], Second Minister for Finance Indranee Rajah outlined the functions of each entity:

- **ACRA**, formed in 2004, consolidated the functions of the Registry of Companies and Businesses, and Public Accountants Board. ACRA currently registers and regulates public accountants, business entities and corporate service providers.
- **ASC** was formed in 2007 to set accounting standards that would apply to companies and non-corporate entities such as charities, societies and cooperative societies.
- **SAC** was set up in 2013, following a recommendation by the Committee to Develop the Accountancy Sector (CDAS). SAC's key function is to grow the accountancy sector and related fields in Singapore, including the development of the Singapore Chartered Accountant Qualification (SCAQ) which leads to the conferment of the Chartered Accountant of Singapore designation.

Given that the government's accountancy-related functions have evolved over the years, there is value in consolidating them within one entity, while preserving the strengths of each constituent part. For one, "it will strengthen the effectiveness of regulation, standards setting, and sector development by harnessing synergies across complementary functions", Ms Rajah said in her Second Reading Speech. She cited the example of sustainability reporting. ACRA has set up a sustainability reporting office and is taking the lead to monitor global reporting developments on this front. ACRA is also working with industry stakeholders to develop an implementation roadmap. "For the roadmap to be feasible, our accounting firms and professionals need to be equipped with the necessary knowledge. Such capability building and sector development initiatives are currently overseen by SAC."

The Minister also pointed out that the merger will allow for closer partnership and forge a stronger feedback loop between regulatory and sector development matters, which would enable ACRA to "respond more nimbly". There are expectations of "more such cross-cutting issues in the future, such as in the valuation of intangible assets and implications on financial reporting standards". Thus, a merger of these entities is "timely", said Ms Rajah.

The merger will also strengthen the entity's ability to develop and manage talent in a sustained manner, as well as provide better career development opportunities to officers. Currently, the SAC and ASC secretariats are both small organisations, with a staff strength of fewer than 30 officers. The merger with ACRA, which has a wider range of responsibilities and larger staff strength of about 200 officers, will provide more opportunities for existing SAC and ASC secretariat officers to be cross-deployed, cross-trained and move forward in their careers.

Ms Rajah said that with emerging trends such as sustainability, the accountancy sector will continue to evolve further. "We are committed to supporting the industry on this transformation journey and the merger will better serve the accountancy sector. This will in turn enhance Singapore's pro-business and trusted regulatory environment."

[1] https://www.acra.gov.sg/news-events/news-details/id/684

PHOTOS: SHUTTERSTOCK

Cyber As An Essential Enabler For Business

IN A RECENT REPORT RELEASED BY DELOITTE, cyber was found to be more than just technology-focused – it is the foundation of an organisation's growth strategy. The 2023 Global Future Of Cyber survey[1] polled over 1,000 leaders across 20 countries to get a clearer picture of where cyber stands and where it is going.

With 91% of organisations reporting at least one cyber incident in 2022 (up 3% from 2021), 56% of respondents said they suffered related consequences to a moderate or large extent. However, as the threat grew, so did the case for cyber investment as a growth enabler, with 86% of cyber decision-makers saying their focus on cyber has made a significant, positive contribution to business.

The report reveals how "cyber is now woven more tightly into business operations, outcomes and opportunities", said Emily Mossburg, Deloitte Global Cyber Leader. "Chief Information Security Officers are most successful when they are connectors across their organisation, focused on enabling their organisation's highest business priorities."

"Cyber has become an enabler for business, and embedding it into all business practices has shown nothing but success. Advancing cyber will only become more critical as the global economy faces a potential downturn and businesses navigate a looming recession," Ms Mossburg added.

The key findings of the report exemplify why incorporating cyber initiatives throughout the business processes can enable growth and achieve cyber maturity.

1. Global industries continue to navigate constant disruption, propelling leaders to adjust their priorities and business initiatives to consider the latest technologies, while also working with extended ecosystems to develop solutions, including data protection and privacy, cyber cloud, infrastructure security, and application security.

- Cloud was found to be the Number 1 digital transformation priority for leaders (displacing data analytics)
- 5G, a newcomer, ranked among the Top 5 priorities for businesses
- Highly mature companies saw over 30% more value from third-party cyber services
- 76% of respondents reported the use of automated behaviour capabilities to detect and mitigate cyber risk, compared to 53% in 2021

2. Cyber planning and talent can bring innovative solutions that support future business models and identify unforeseen challenges.

- 87% of highly mature organisations were more likely to have robust plans in place for incident response
- High-cyber-maturity companies (60%) were three times as likely as low-cyber-maturity ones (20%) and twice as likely as medium-cyber-maturity companies to conduct incident-response scenario-planning at the organisation and/or board level
- 70% of respondents said cyber was a regular feature on the board agenda
- A lack of skilled cyber professionals was the top challenge in managing cyber

According to the findings, cyber has now transcended its traditional IT roots and become an essential part of future-proofing businesses. Hence, organisations need to invest in key areas throughout the business to increase cyber efficiency, including hiring and developing the right cyber talent, executing thorough digital planning, and partnering with extended ecosystems, all while incorporating cyber into strategic business initiatives.

[1] http://www.deloitte.com/2023futureofcyber

THE EIGHTH INSTALMENT OF THE ISCA MINI CONFERENCE SERIES, titled Insights Into The Review Of Financial Statements, was held on 9 November 2022.The welcome address for the session was delivered by James Xu, Chairman of ISCA Financial Statements Review Committee (FSRC) and Partner, Deloitte & Touche LLP. At the two-and-a-half-hour session organised by ISCA FSRC, delegates garnered valuable insights and suggestions in complying with the financial reporting standards from subject-matter experts and regulators.

James Xu, Chairman of FSRC and Partner, Deloitte & Touche LLP, delivered the welcome address

The panel discussion featured (from left) moderator Pamela Fan, Partner and ESG Assurance Leader, KPMG LLP; Chia Chey Hui, Chief Financial Officer, FairPrice Group; Bong Yap Kim, Divisional Director, Financial Reporting Division, ACRA; Sue Lightfoot, Head of Group Accounting Policy, United Overseas Bank; and Adrian Loo, member of ISCA FSRC and Partner, KPMG LLP

ISCA Mini Conference Series: Insights Into The Review Of Financial Statements

Kuldip Gill, Assistant Chief Executive (Accounting and Compliance Group), ACRA, urged delegates to take into account the implications arising from ESG considerations on financial reporting

The panel discussion featured (from left) moderator Yong Zen Yun, member of ISCA FSRC and Partner, PricewaterhouseCoopers LLP; Tan Peijun, CFO (Singapore and Southeast Asia), SembCorp Industries Ltd; Tan Wee Khim, Chief Inspector, Financial Reporting and Information Department, ACRA; and Andre Toh, Partner, Ernst & Young Solutions LLP

In the keynote address, Kuldip Gill, Assistant Chief Executive (Accounting and Compliance Group), Accounting and Corporate Regulatory Authority (ACRA), highlighted that despite seeing traces of the global economy picking up from the impact of COVID-19, the pace of recovery is still dampened by geopolitical uncertainties and rising inflation. This gives rise to heightened risk of asset impairment, which Ms Gill encouraged delegates to pay close attention to. She also urged delegates to take into account the implications arising from environmental, social and governance (ESG) considerations on financial reporting. In conclusion, she rallied directors and preparers to stay vigilant in the face of the challenging environment.

Key focus areas for the review of financial statements

Mr Xu provided an overview of the financial reporting areas which may require closer attention by directors, in their review of the financial statements for the financial year ending 2022. These financial reporting areas are highlighted in Financial Reporting Practice Guidance 2022 No. 1 of 2022, issued by ACRA in November 2022. These areas include the auditor's assessment of risk, use of technology in audits, auditor independence, findings from ACRA's audit inspections and audit quality indicators.

Climate risk considerations for financial reporting

Climate-related risks can have a material impact on an entity's business model, cash flows, financial position and financial performance. Many entities are likely to be impacted by climate-related risks.

Adrian Loo, member of ISCA FSRC and Partner, KPMG LLP, started this segment by going through the illustrative case study in ISCA Technical Bulletin 1: Addressing Climate Risks in Financial Statements and Audits of such Financial Statements. Based on the case study, he highlighted the potential implications that climate-related risks might have on a company's financial statements, including impairment of non-financial assets, impact on estimates used in determining useful lives and residual values of property, plant and equipment, etc, and the challenges faced by preparers of financial statements.

Pamela Fan, Partner and ESG Assurance Leader of KPMG LLP, moderated a panel discussion featuring Bong Yap Kim, Divisional Director, Financial Reporting Division, ACRA; Chia Chey Hui, Chief Financial Officer, FairPrice Group; Sue Lightfoot, Head of Group Accounting Policy, United Overseas Bank; and Adrian Loo, member of ISCA FSRC and Partner, KPMG LLP.

Impairment assessment for non-financial assets

Yong Zen Yun, member of ISCA FSRC, kicked off the final segment with a case study that focused on the impairment assessment for non-financial assets. She engaged the delegates throughout her presentation by eliciting their responses via poll questions.

Ms Yong then moderated the panel discussion, which also featured panellists Tan Peijun, CFO (Singapore and Southeast Asia), SembCorp Industries Ltd; Tan Wee Khim, Chief Inspector, Financial Reporting and Information Department, ACRA; and Andre Toh, Partner, Ernst & Young Solutions LLP. The discussion centred on issues relating to impairment assessment for non-financial assets, in particular, the challenges they faced and their responses to these challenges.

ISCA Mini Conference Series: Financial Reporting

Helming the session were (from left) Professor Chua Kim Chiu, member of ISCA FRC Core Sub-Committee and Professor (Practice), NUS; Reinhard Klemmer, Chairman of ISCA FRC and Partner, KPMG Singapore; Chan Yen San, member of ISCA FRC Core Sub-Committee and Partner, KPMG Singapore; Ng Kian Hui, member of ISCA FRC and Partner and Head of Audit, BDO LLP; Wong Yew Chung, member of ISCA FRC and Partner, EY LLP

THE NINTH AND FINAL INSTALMENT OF THE ISCA MINI CONFERENCE SERIES 2022 TOOK PLACE ON NOVEMBER 16, with the theme Financial Reporting. Delegates heard the latest developments and emerging issues in financial reporting, as well as the ISCA Financial Reporting Committee (FRC)'s key initiatives and guidance issued in 2022.

Reinhard Klemmer, ISCA FRC Chairman and Partner, KPMG Singapore, kicked off the session by acknowledging that change is the only constant in the current volatile times of supply chain disruption, labour shortages, rising prices and climate change. Companies would need to adapt their operations, and strive to survive or even grow under such circumstances. He emphasised that quality financial reporting had become more critical than ever to provide relevant and reliable financial information that incorporates the financial impacts arising from these uncertainties to the market and investors.

Mr Klemmer emphasised the role of quality financial reporting in these uncertain times

Real property valuation for financial reporting

A recent survey conducted by ISCA found that many valuation reports were issued based on market value and that insufficient actions were taken to bridge the gap between market value and fair value as required by SFRS(I) 13.

Professor Chua Kim Chiu, member of ISCA FRC Core Sub-Committee and Professor (Practice), NUS, provided an overview of these two concepts, that is, 'market value' under International Valuation Standards and 'fair value' as defined in SFRS(I) 13 *Fair Value Measurement*. He pointed out that one key difference between the two is that fair value measurement requires the consideration of the highest and best use of a non-financial asset while this might not always be the premise adopted for valuations performed using 'market value'. He reminded preparers of financial statements of the need to assess whether market value from a valuation report could be materially different from fair value under SFRS(I) 13.

Prof Chua reminded preparers of financial reports to assess if market value from a valuation report could be materially different from fair value under SFRS(I) 13

Ms Chan provided an overview of the SPAC model and key accounting considerations for SPAC transactions

Mr Ng shared how climate-related risks could affect the application of financial reporting standards

Special purpose acquisition companies in Singapore

Special purpose acquisition companies (SPACs) have gained popularity as an alternative vehicle for a private company to achieve a stock exchange listing without going through its own initial public offering (IPO). In September 2021, the Singapore Exchange (SGX) launched the SGX SPAC Listing Framework for the listing of SPACs in Singapore.

Cognisant that the accounting for SPAC transactions could be more complex than for a traditional IPO, Chan Yen San, member of ISCA FRC Core Sub-Committee and Partner, KPMG Singapore, gave an overview of the SPAC model and shared key accounting considerations from ISCA's Financial Reporting Guidance (FRG) 4 *Accounting Considerations for a Special Purpose Acquisition Company (SPAC) under SGX SPAC Listing Framework*.

Accounting considerations for climate-related risks

Amid the sustainability push, companies are increasingly expected to disclose information about climate-related matters. Aimed at enhancing financial reporting quality, ISCA issued Technical Bulletin 1 *Addressing Climate-Related Risks in Financial Statements and Audits of such Financial Statements* (TB1) in October 2022 to promote the incorporation of climate-related risks in the preparation and audit of financial statements of Singapore companies.

Mr Wong spoke about the key changes to SFRSs effective on 1 January 2022, 2023 and 2024

Ng Kian Hui, member of ISCA FRC and Head of Audit, BDO LLP, shared how climate-related risks could affect the application of financial reporting standards via an illustrative example of a logistics company in Singapore in TB1.

Topical accounting updates

The final presentation of the day saw Wong Yew Chung, member of ISCA FRC and Partner, EY LLP, sharing key changes to the Singapore Financial Reporting Standards that are effective on 1 January 2022, 1 January 2023 and 1 January 2024, and how they might affect the preparation of the financial statements.

The session concluded with a question-and-answer segment moderated by Mr Klemmer. Together with Mr Ng and Mr Wong, the panel addressed queries from the delegates.

TEXT BY

Selena Ling

What's Happening In 2023

The Silver Lining Amid The Gloom

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TAKE AWAYS

- Economies will continue to face challenges in 2023, with rising costs and disruptions throughout the whole value chain.
- Although major economies like the Eurozone and UK are on the brink of recession, ASEAN is likely to fare better on the back of China's recovery, and also given the strengthening China-ASEAN economic ties.
- The Regional Comprehensive Economic Partnership came into effect on 1 January 2022, catalysing regional trade and investment integration.

SINCE MANY ECONOMIES HAVE PIVOTED TO AN ENDEMIC COVID-19 ENVIRONMENT IN THE THIRD YEAR OF THE PANDEMIC, IT BEGS THE QUESTION WHY GLOBAL SUPPLY CHAIN PROBLEMS HAVE NOT FULLY RESOLVED. Approaching the end of 2022 when supply chains should have been gearing up for the peak holiday season, many companies were still fretting about high energy and other raw material costs, union strikes by South Korean truckers, backlogs of maintenance and repair operations for aircrafts, among others. Earlier, there were also threats of a US rail strike and an acute truck driver shortage, as well as uncertainties over OPEC's decision to cut its output quota by two million barrels and the G7 proposal to cap Russian oil prices. Meanwhile, two of China's biggest automakers, namely BYD Co and SAIC Motor Corp, have bought their own ships to avoid supply chain delays. The Shanghai Containerized Freight Index has fallen 77% since it peaked in January 2022, but remains 44% above the 2019 average.

In fact, Federal Reserve Vice Chair Lael Brainard recently warned of the "fragility of global supply chains" while Chair Jerome Powell questioned if we are "going into a situation a little bit like the '70s, where there will be ongoing repeat shocks which would tend to put more upward pressure on inflation over time". To be fair, logistics costs have eased with less congestion and cheaper container rates, but many companies continue to grapple with rising business costs, both on the raw materials, imported intermediate inputs, and also manpower. Contributing factors include geopolitical conflicts, including the Russia-Ukraine war, which have impacted energy and food security and prices. In addition, the ongoing US-China tensions have also seen unilateral technology export control measures for sensitive products like semiconductor chips, albeit there are tentative signs that tech component shortages are gradually being alleviated globally as demand conditions soften. Still, the 2023 outlook may look similar to 2022 in that continued supply chain challenges may still impact economic and corporate health. Once the inflation genie is out, it will be hard to get it back in again. Throw in a potential tech war, and the picture gets even more complicated – China alone accounts for over a quarter of the global annual demand for semiconductor equipment, so US attempts to persuade Japan and the Netherlands to join hands is tricky business, to say the least.

The 2023 outlook may look similar to 2022 in that continued supply chain challenges may still impact economic and corporate health

More importantly, the global growth outlook has also soured of late, and many fear recession is around the corner. The International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB) and World Trade Organization (WTO) have flagged a further broad-based deceleration in 2023, with downside growth risks from multiple headwinds including the tightening of financial conditions, after paring their 2022 growth forecasts. Notably, the IMF tips global GDP growth to slow from 3.2% in 2022 to 2.7% in 2023, albeit warning that countries accounting for a third of the global economy are likely to see a two-quarter growth contraction, and 25% probability that global growth will fall below 2% in 2023 and 10–15% probability

ASEAN is a dynamic market for growth, innovation and entrepreneurship... With ongoing endeavours to facilitate business and investments, ASEAN, especially Singapore, is well-positioned to face the challenges ahead come what may.

PHOTO GETTY IMAGES

Together with ongoing endeavours to facilitate business and investments, ASEAN, especially Singapore, is well-positioned to face the challenges ahead come what may

that it will slip below 1%. The Organisation for Economic Cooperation and Development (OECD) is less upbeat as it expects growth to ease to just 2.2% this year, down from 3.1% in 2022 and a sharp moderation from the 5.9% in 2021. The WTO also projects global merchandise trade volumes will moderate from around 3.5% in 2022 to 1% in 2023, down sharply from the earlier April 2022 estimate of 3.4%, but with downside scenario caveat of as low as 2.8%. At this juncture, the economic growth prognosis is poor.

AN IMMINENT RECESSION?

Is recession an inevitable scenario for 2023? Major economies like the Eurozone and the UK are already registering sharply slower growth and softening demand conditions, although the US is still holding up well for now, with a tight labour market and as consumer spending continues to chug along steadily. That said, an aggressively hawkish US Federal Reserve that warns of bringing the peak Fed Funds rate to higher than what market players have anticipated may still be a rude shock to financial markets. As of 3 January 2023, the futures market pricing reflects current hopes that the peak US Fed Funds rate would top out just shy of the 5% handle and be pared back to approximately 4.5–4.6% by the end of 2023. This could be wishful thinking as hawkish Fed rhetoric suggests a willingness to tolerate slower growth, maybe even a recession, to bring inflation back down to its target level.

Other weak spots in the global economy have also emerged. With the ongoing energy crisis due to the Russia-Ukraine war, the Eurozone and the UK have likely entered into a recession already. However, this may not deter the European Central Bank (ECB) and the Bank of England from continuing to hike interest rates to bring runaway inflation under control. Annual inflation in the Eurozone peaked at 10.6% in October 2022 and retreated slightly to 10.1% in November, but there is a wide variance with Estonia, Latvia and Lithuania running above 21% while that for the industrial powerhouse Germany stood at 8.6% in December. This is a far cry from the ECB's inflation target of 2%. ECB president Christine Lagarde has articulated that the central bank is "not done" with hiking rates and opined that the recession is likely to be short-lived and shallow. Although the risk of a severe shortage in the Eurozone over winter has not fully materialised due to mild weather, the push to reduce dependence on Russian energy and/or the potential for a re-escalation of Russia-Ukraine tensions are still bugbears.

Emerging economies including Asia may also see import demand stall amid the still-high inflation and rising interest rate environment. China remains the elephant in the room for Asia. China's growth forecasts have been pared back significantly to a low 3% handle for 2022 – a far cry from its initial 5% growth target – although there are hopes that 2023 will see a pickup that is closer to the 5% handle low to the low base and amid a greater relaxation of its zero-COVID strategy.

Current leading indicators suggest the near-term outlook remains challenging. The Caixin manufacturing, services and composite PMIs are all mired in the contraction territory below the 50 handle. While the earlier-than-expected COVID policy pivot should bode well for a growth rebound in 2023, it would be prudent to expect that there will be a surge of COVID-19 cases and possibly deaths during the initial reopening phase. The property market weakness, which was potentially its Achilles heel in 2022, is also getting more policy attention. The Central Economic Working Conference in December focused on defusing major economic and financial risks, of which halting the decline in the property market was identified as the most urgent task. China's Vice Premier Liu He also emphasised that housing is a pillar industry and People's Bank of China Deputy Governor echoed that housing must not fluctuate significantly. As such, China is likely to roll out more policy measures to support the housing market.

> The recent COVID policy pivot by China is a silver lining for mitigating some of the downside global and regional growth risks, albeit an anticipated surge in infections may mean near-term growth remains weak before picking up more strongly subsequently.

PHOTO SHUTTERSTOCK

- China-ASEAN economic ties continue to strengthen
- ASEAN has become China's largest trading partner for two straight years

GLIMMERS OF HOPE FOR ASEAN

This is not to say that the outlook is all doom and gloom.

First, the Chinese economy is in a transition or even an important transformation phase, and accepting lower GDP growth may be part and parcel of rebalancing its economic model. Through balancing security and development priorities, including environmental sustainability and regional equity, it should hopefully result in more sustainable growth. A decisive shift away from growth at all costs is likely better for its long-term health and stability. Even with 3–5% growth for the large Chinese economy in the next few years, it can still be a formidable engine of growth and demand for the Asian region. The ongoing China+1 diversification and also friend-shoring strategy should also work to ASEAN's favour. China-ASEAN economic ties continue to strengthen. ASEAN has become China's largest trading partner for two straight years. Bilateral trade reached CNY5.26 trillion (US$753.758 billion) in the first 10 months of 2022, amounting to 15.2% of China's total foreign trade. Foreign direct investment (FDI) from China surged 96% to US$13.6 billion in 2021, mostly in manufacturing, electric vehicle (EV)-related activities, the digital economy, infrastructure and real estate. With China's reopening theme, we are likely to see some uplift to the regional economies through the improved domestic demand and the welcome return of Chinese tourists.

Second, multilateralism is not dead by any means. The Regional Comprehensive Economic Partnership (RCEP), which is the world's biggest free trade agreement involving 15 countries including Singapore, came into effect on 1 January 2022. The RCEP member states account for 30% of global GDP, exports, and FDI flows. Notably, RCEP has the potential to lift 27 million additional people to middle-class status by 2035, boost wages and partially mitigate the negative economic impacts of COVID-19 in East Asia and the Pacific region, according to a World Bank paper[1]. RCEP has acted as a catalyst for regional trade and investment integration.

Third, ASEAN is a dynamic market for growth, innovation and entrepreneurship. The ASEAN Investment Report 2022 highlighted strong investments in the manufacturing, finance, and services industries associated with high-growth areas like the digital economy and Industry 4.0 activities. Key industries like EVs, electronics, the digital economy and green technologies are seen as potential drivers for continued FDI growth over the next few years, despite the worsening global macro outlook. In particular, ASEAN has a healthy ecosystem of startups and unicorns which is fuelling private equity and venture capital funds growth in the region. The number of startups in ASEAN that raised more than US$1 million in funding almost tripled between 2015 and 2021 – from 652 to 1,920 – while the number of unicorns went from two in 2014 to 46 in 2021. Concomitantly, private equity and venture capital firms with total assets under management has grown from US$36 billion in 2017 to US$66 billion in 2021. Together with ongoing endeavours to facilitate business and investments, ASEAN, especially Singapore, is well-positioned to face the challenges ahead come what may. ISCA

Selena Ling is Chief Economist & Head of Treasury Research & Strategy, OCBC Bank.

[1] Estrades, C.; Maliszewska, M.; Osorio-Rodarte, I.; Pereira, M. S. (Feb 2022). Estimating the economic and distributional impacts of the Regional Comprehensive Economic Partnership. Policy Research Working Paper 9939. World Bank. http://hdl.handle.net/10986/37012

TEXT BY

Fann Kor

Updates From The CEO

Highlights Of An Eventful 2022

TAKE AWAYS

- To keep the accountancy pipeline healthy, our outreach programmes targeted the younger cohorts, namely those in school or already enrolled in accountancy courses at the institutes of higher learning. The #bringISCAbacktoschool campaign is still on; I encourage all members to help ISCA make the case and spread the word that our profession is a home for purpose.
- To improve the CPD learning experience, the Institute has unveiled several new initiatives to meet members' expectations for greater accessibility, affordability and easier-to-digest bite-size content. With the launch of the new LMS, it got us thinking: can we leverage this platform to further enrich members' learning experience in a 'Spotify' way? What this means is that, after paying one price, you will get to enjoy curated content depending on your profile and also be able to access training content anytime, anywhere. The team spent the past year working on the content, pricing mechanism, and the ISCA version of Spotify.
- Home is where the heart is, as the saying goes. For some of us, ISCA House is our home away from home. With the 'new normal' now a part of everyday life, and ISCA having adopted a hybrid work arrangement, we need a space that reflects this new normal. Thus, it was decided to repurpose ISCA House to cater to both physical and virtual modes of engagement as and when required.

VERY QUICKLY, WE'VE COME TO THE BEGINNING OF A BRAND NEW YEAR. Here's wishing you and your loved ones a very happy 2023!

Like many people, I've asked myself where the last 12 months had gone. Time does indeed fly, especially when one is occupied with making things happen. In this update, I would like to provide you with an overview of the key events and initiatives that took place last year.

Much of what we did in 2022 was aimed at regaining momentum in the post-pandemic era. From 2020 to early 2022, it was all about supporting our members and the profession through the uncertainties and restrictions brought about by the COVID-19 global pandemic. Now, with the worst of the pandemic behind us, it is time to lead ISCA and the profession into this new era of recovery.

Every year, we work to continually improve our offerings and create value for our members, the accountancy profession, and the business community. As with any organisation, there are milestones and KPIs that we work towards. Last year, we certainly hit the significant milestones, which are summarised in Figure 1.

Kudos to everyone involved for their dedication and tenacity in making things happen. Overall, it has been an interesting year to look back on. Without further ado, let's get into the yearly roundup.

MANPOWER SHORTAGES

In my first Updates From The CEO in April, I talked about the priorities for ISCA going forward, to address an acute situation: the shortage of manpower in our sector.

The reality is, the manpower issues in the accountancy sector didn't happen overnight; likewise, to address them, we've got to start by examining the root causes.

TACKLING INDUSTRY ISSUES WITH THE SCAQ ADVISORY PANEL

The Chartered Accountant of Singapore or CA (Singapore) professional designation is ISCA's anchor product. You can only be a CA (Singapore) if you have completed the Singapore Chartered Accountant Qualification (SCAQ). To enhance the SCAQ and ensure that it continues to stay relevant, the SCAQ Advisory Panel was established in June 2022, with its inaugural meeting in August 2022. The Panel comprises industry leaders from business, practice and academia, as well as government representatives. Three subgroups were formed to support the Panel, comprising the Learning Contents subgroup, Practical Experience subgroup and Outreach subgroup. Together, they have worked diligently to identify the issues in our profession, and develop recommendations to enhance the SCAQ. These recommendations will be presented to the government.

The Panel has conducted a review of SCAQ. The first tool was a survey sent to undergraduates, SCAQ candidates and graduates, and employers. A total of 600 responses were received. Six focus group sessions were also conducted with young accountants, educators and employers during the months of October and November 2022. Data gathered from both the survey and focus group sessions were analysed and discussed during the regular monthly meetings.

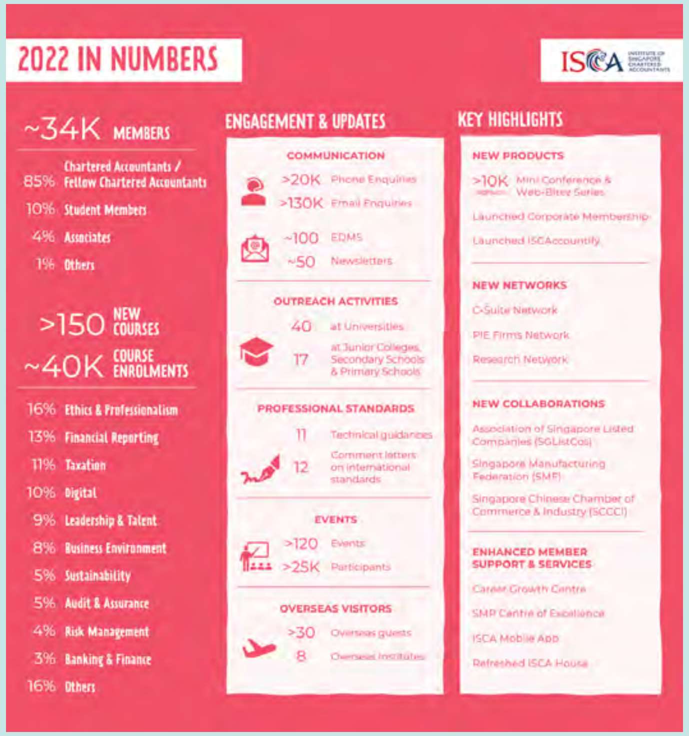
These recommendations will be presented as a report in the first quarter of 2023. I will be providing more updates on this topic in the next Updates From The CEO.

SCHOOL OUTREACH PROGRAMMES

In 2022, ISCA proactively engaged schools to reach out to students from the universities, junior colleges, secondary schools and even primary school. We selected this younger demographic group to ensure that the accountancy students stay on track, and also to debunk the harmful misconceptions that have adversely affected interest in accountancy. Among these misconceptions are that accountancy will soon be replaced by artificial intelligence (AI) – in reality, AI actually makes an accountant's job easier – and that the profession overall promises only low wages and long hours.

I have also talked about the confusion surrounding being an accountant and a CA in a previous Updates From The CEO, with the accompanying unawareness that the term 'accountant' refers to a job role whereas 'CA' is a highly valued professional qualification. We spoke with the youngsters and shed light on these issues, among other muddles, which I will not list for the sake of brevity.

FIGURE 1



To summarise, last year, ISCA participated in 40 outreach activities at the universities and 17 outreach activities at junior colleges, and secondary and primary schools, with some of these sessions conducted in collaboration with Singapore Accountancy Commission (SAC). As for 2023, we have so far written to 11 junior colleges and secondary schools to schedule the talks for this year. The #bringISCAbacktoschool campaign is still on; I encourage all members to help ISCA make the case and spread the word that our profession is a home for purpose.

▲ ISCA's outreach programmes included students from primary school

▲ Updating SUSS accountancy undergraduates about the bright prospects awaiting them

IMPROVING OUR MEMBERSHIP EXPERIENCE

ISCA took into consideration members' needs and preferences and expanded the membership structure, opening it up to students aspiring to be accountants, and experienced professionals with relevant experience. Students now enjoy the benefit of waived membership fees to encourage sign-ups. The importance of involving the young ones and seeding the young minds earlier outweighs the financial return from this group.

In September last year, a new B2B model was introduced: ISCA Corporate Membership. This membership model enables ISCA to cast our net wider to reach out to the employees of our corporate members to be part of the ISCA community and leverage ISCA's resources and connections. We also intend for ISCA Corporate Membership to serve as a platform for reaching out to finance professionals.

As part of our omnichannel member engagement and communication strategy, the Institute announced the launch of the ISCA Mobile App (available on both Android and iOS), intended to keep members abreast of the Institute's offerings while enjoying the convenience of accessing common e-services on the go.

BRINGING ISCA CLOSER TO THE BUSINESS COMMUNITY

ISCA formed the PIE Firms Network, which comprises firms and networks approved to perform audits of listed companies in Singapore. The Network collectively covered more than 80% of audit engagements in Singapore. It was established as a platform for the relevant public-sector entities and PIE Accounting Entities in Singapore to discuss matters and formulate policies that shape the auditing sector.

The launch and inaugural session took place on 27 September 2022. I am pleased that the top 15 accountancy firms in Singapore joined the Network. This was the first time that leaders of PIE Accounting Entities had ever networked in a formal setting, and the feedback received from the attendees was positive and encouraging. I am confident this platform will continue to thrive this year.

Soon after, the launch and inaugural session of our C-Suite Network took place on 31 October 2022. The C-Suite Network aims to foster a closer-knit community of C-suite executives, entrepreneurs and business leaders. They will share their business insights, impart knowledge and expertise to our members, and facilitate discussion to champion change in the business community. The launch was attended by CEOs, CFOs, representatives of government agencies, and others, who enjoyed the networking session as well as the opportunity to discuss topical issues. The sessions are scheduled to take place every quarter in 2023.

STRONGER TOGETHER: ESTABLISHING DIVERSE PARTNERSHIPS

We signed three Memoranda of Understanding (MOUs) in 2022. They were with the Association of Singapore Listed Companies on October 3, Singapore Manufacturing Federation on October 12, and Singapore Chinese Chamber of Commerce and Industry on December 7. With these MOUs, we intend to work closely and collaborate with the respective esteemed organisations on areas of common interest to our members. The areas of collaboration include the sharing of knowledge, training and sustainability expertise, professional development initiatives, thought leadership exchanges, and joint events.

CONTINUING PROFESSIONAL DEVELOPMENT (CPD)

In this new environment, our members' expectations of CPD are to have greater accessibility, affordability and easier-to-digest bite-size content. Under our CPD efforts, ISCA launched the Web-Bitez Learning Series in December 2021. The inaugural session was held on 11 March 2022. As the name suggests, these are bite-size webinars, which easily fit into the tight schedules of busy professionals; they also cover a wide range of curated topics.

Our Mini Conference Series, launched on 8 March 2022, has proven successful with its thought-provoking content on business issues and megatrends, delivered by thought leaders and industry experts. We continued our monthly Breakfast Talk webinars, which discussed a wide range of subjects related to our industry.

Last year, we launched a new Learning Management System (LMS) to provide a better and more convenient learning experience for members' CPD. The LMS is now mobile-friendly, and those logging in will enjoy the modern and intuitive user interface. The LMS also offers more online learning courses, webinar recordings and playbacks, and tracking of CPD hours. Related course materials are also available on the LMS.

With the launch of the new LMS, it got us thinking: can we leverage this platform to further enrich members' learning experience in a 'Spotify' way? What this means is that, after paying one price, you will get to enjoy curated content depending on your profile and also be able to access training content anytime, anywhere. The team spent the past year working on the content, pricing mechanism, and the ISCA version of Spotify. Named ISCAccountify, it was unveiled in December 2022 with a launch price of S$100, if the member subscribes to it during the membership renewal process. ISCAccountify fulfils members' expectations for accessibility and affordability, and has an attractive price during its initial launch. I encourage members to subscribe and share your feedback so that we can work towards improving ISCAccountify.

DRIVING SUSTAINABILITY AS A MATTER OF PRIORITY

In 2022, we made sustainability a matter of priority across the Institute, which is reflected in our publication and research focus and key event themes. Throughout the year, the team behind this ***IS** **C**hartered **A**ccountant Journal* curated a stream of articles on environmental, social, and governance (ESG) matters to keep our members well informed of developments in sustainability. The Institute's focus on sustainability was also reflected in the themes and contents of our key events, such as our inaugural Mini Conference Series event in April, which expounded on climate action and opportunities, and the PAIB Conference, which delivered a broad range of sustainability-related topics.

Given the climate exigency and new requirements for climate reporting introduced by the Singapore Exchange, the Institute published the 'ISCA Climate Disclosure Guide – Taking First Steps Towards Climate-Related Disclosures', to help companies embark on their climate reporting journey. We also issued a Technical Bulletin titled 'Addressing Climate-Related Risks In Financial Statements And Audits Of Such Financial Statements' to provide guidance on climate-related risk considerations in financial reporting and audits of financial statements.

In August, we launched the research report 'Sustainability: Jobs And Skills For The Accountancy Profession'. This joint study by ISCA, EY, Singapore Management University (SMU) and SAC established the state of play of sustainability's impact on jobs and skills across 10 business sectors. The study found that CFOs already play an important role in sustainability. It also found that with upskilling and reskilling in sustainability, accountancy and finance professionals are well poised to take on emerging C-suite roles such as the Chief Financial & Sustainability Officer.

ISCA signed MOUs with, respectively from top, the Association of Singapore Listed Companies, Singapore Manufacturing Federation, and Singapore Chinese Chamber of Commerce, to collaborate on areas that benefit our members

The Institute also ensured that the views of the Singapore accountancy and business communities were heard in the setting of the IFRS Sustainability Disclosure Standards. Therefore, we engaged the International Sustainability Standards Board (ISSB) in a regional outreach session and submitted our comment letters. The Institute reiterated its support for ISSB's work and provided feedback on the ISSB draft standards after soliciting the views of key stakeholders such as accountancy firms, preparers of sustainability reports and C-suite executives.

CAREER ASSISTANCE: THE CAREER GROWTH CENTRE (CGC)

Supporting our members in their existing careers is important, and equally important is providing assistance to those looking to take on accountancy and finance-related roles. The CGC was set up to provide that kind of assistance, while also aiming to attract more candidates into our profession. The CGC hosts a job board in partnership with Workforce Singapore. It also undertakes career-matching services, provides resources for career support, organises mentoring programmes and connects experienced ISCA members with board as well as committee appointments on charities and listed companies. The CGC will be officially launched in January 2023 at ISCA House.

EVENTS

We held over 120 events in 2022 with a total of more than 25,000 participants. In particular, our flagship Singapore Accountancy & Audit Convention (SAAC) Series continued to be well received by our members. We finally brought back in-person conferences and saw over 2,200 sign-ups for the entire series, including the Budget & Tax Conference, PAIB Conference and Practitioners Conference.

REFRESHED ISCA HOUSE

Home is where the heart is, as the saying goes. For some of us, ISCA House is our home away from home. With the 'new normal' now a part of everyday life, and ISCA having adopted a hybrid work arrangement, we need a space that reflects this new normal. Thus, it was decided to repurpose ISCA House to cater to both physical and virtual modes of engagement as and when required. Renovation works are currently underway. Details on what one can expect when visiting our refurbished ISCA House can be found in my October Updates From The CEO. Do drop me a note at ceo@isca.org.sg if you are coming by; I look forward to meeting you.

WELCOMING VISITORS TO ISCA

As travel restrictions ease around the world, we welcomed more than 30 guests from eight overseas professional accountancy bodies to ISCA House. It was great to finally be able to meet in-person as we discussed wide-ranging topics including the sharing of information on the accountancy landscape, updates on developments and challenges facing the profession, and potential opportunities for collaboration to create greater value for our members.

CONCLUSION

2022 has been one of the most exciting years of my professional career. Without fail, I am learning something new every day. I am so thankful to all ISCA staff, or who I like to call my 'ISCA chiongsters', especially the senior management team. Undoubtedly, there are many areas where we may be found lacking as we work towards becoming better versions of ourselves. But thankfully, we have the skill sets that complement each other so that collectively, we make a great team.

The team is fortunate to have the guidance of the ISCA Council. Our Council members have provided wise counsel and strategic leadership to help ISCA scale greater heights. We are especially blessed to have Ser Luck as our President. With his vast leadership experience in various fields including business, public service and entrepreneurship, he brings fresh perspectives and dynamic change that position ISCA for success in the post-pandemic era.

To those of you who wrote to ceo@isca.org.sg, in case you are wondering if I manage this mailbox, yes, I do. I read every email and sincerely thank you for taking the time to write to me, whether it is to offer encouraging words or to give a virtual bang on my table. Please know that all feedback is carefully read and considered, so do keep your emails coming as they help us to do better every year.

I thank all the volunteers at ISCA, as well as our partners and facilitators, for helping to make 2022 a remarkable year for ISCA.

Last but not least, I thank all our members. You are the reason behind all that we do. With that, I wish you all the best for the year ahead. ISCA

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants of India

Japanese Institute of Certified Public Accountants

ASEAN Federation of Accountants & Federation of Accounting Professions

Association of Chartered Certified Accountants

Chartered Accountants Australia and New Zealand

CPA Australia

Institute of Chartered Accountants of Scotland

FOCUS

TEXT BY
ISCA CA Academy

The ISCA Financial Forensics Story

A Pathway To Specialisation

TAKE AWAYS

- With fraud and economic crime on the rise, ISCA launched the Financial Forensic Accounting (FFA) Qualification in 2018 to equip members with new skills to support their career development.
- Upon completion of the ISCA FFA Qualification and acquiring relevant years of experience in financial forensics-related fields, eligible individuals will be conferred the ISCA Financial Forensic Professional (FFP) credential and ISCA membership.
- The Institute has rolled out different initiatives to build a financial forensic community.

BANKING FRAUD, SCAMS, BREACH OF FINANCIAL AND CORPORATE GOVERNANCE REGULATIONS and financial statements irregularities are some of the terms that have been featured in the media headlines. In an age of digitalisation and rapid technological advancement, financial crime has become more frequent and complex. In 2020, Wirecard was suspected to have engaged in roundtripping transactions and fraudulent accounting activities to inflate its financial statements. Later that year, creditors of Hin Leong were shocked when it was revealed in court filings that US$800 million (S$1.14 billion) in losses were hidden.

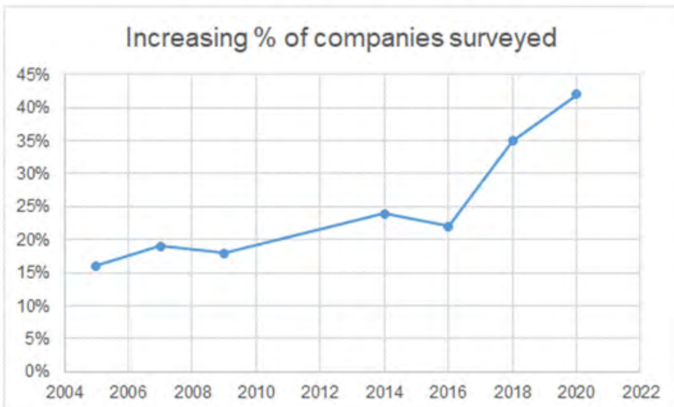
As a global financial centre, Singapore must be especially vigilant against white-collar crimes. Globally, the effects of the pandemic, ongoing geopolitical tensions, inflationary pressures and supply chain disruptions have placed immense pressure on organisations to adapt; they have also reshaped the global operating environment for organisations. In the PwC Global Economic Crime And Fraud Survey 2022 , 46% of companies surveyed experienced incidents of fraud and economic crime within the past 24 months. Between 2005 and 2020 (except for a dip between 2014 and 2016), a growing number of companies in Singapore surveyed experienced incidents of fraud and economic crime within the past 24 months (Figure 1).

LAUNCH OF THE FINANCIAL FORENSICS PATHWAY

Given the escalating risks, there is a need for ISCA to step up and arm our members with the right skills, not only to mitigate the risks but to enter this emerging space.

The launch of specialisation pathways since 2017 (Figure 2) has enabled our members to learn relevant new skills and enhance their professional standing in the future workplace. Financial forensics is part of ISCA's efforts to support our members in their pursuit of lifelong learning and career development.

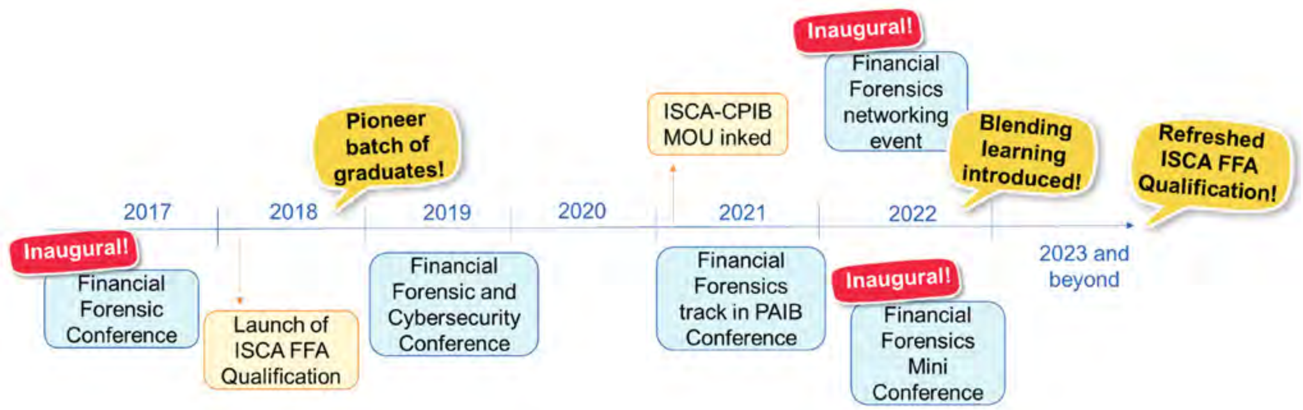
FIGURE 1



Source: PwC Global Economic Crime and Fraud Survey 2020 and 2022

PHOTO SHUTTERSTOCK

FIGURE 2 LAUNCH OF FINANCIAL FORENSICS PATHWAY



A ISCA Financial Forensic and Cybersecurity Conference 2019, 18 July 2019

In 2018, the ISCA Financial Forensic Accounting (FFA) Qualification started accepting new candidates. Featuring four modules, the qualification and its modular certificates cover forensic accounting and investigations, digital forensics, forensic data analytics, financial crime compliance and professional requirements. The ISCA FFA Qualification equips candidates with knowledge and skill sets that will complement an accountant's core training with a forensic perspective to deter and detect fraudulent behaviour. The qualification will also appeal to non-accountants who would like to enhance or acquire such specialised competences.

Feedback from graduates on their learning journey with the ISCA FFA Qualification has been encouraging. More than 70% of candidates who have attended the workshops provided a satisfaction rating of Good and Excellent. In a recent graduate survey conducted in 2021, more than 80% of the respondents shared that they have expanded their competencies and skill sets after going through the qualification.

Upon completion of the ISCA FFA Qualification and acquiring relevant years of experience in financial forensics-related fields, eligible individuals will be conferred the ISCA Financial Forensic Professional (FFP) credential and ISCA membership – a testament to their financial forensic expertise and the highest standards of ethical and professional conduct.

ENGAGING THE FINANCIAL FORENSICS COMMUNITY

With the launch of the financial forensics pathway, ISCA planned and organised more initiatives to build and engage the financial forensics community.

ISCA conferences

During the inaugural Financial Forensic Conference in September 2017, delegates got together to learn how they can be the next Sherlock Holmes (or Enola Holmes). Since then, more than 1,200 delegates have attended our conferences on financial forensics. In addition to serving as networking and learning platforms for the financial forensic professionals and accounting and finance community, they heard from subject matter speakers and organisations, including accountancy firms, financial institutions, the financial regulatory authority, and law enforcement and government agencies. Hot-button topics discussed at these conferences included the skill sets needed to conduct financial investigations, cybersecurity, and the impact of technology advancements on combatting financial crimes.

Outreach efforts and competitions

To build the talent pipeline, the Institute reached out to students at the institutes of higher learning (IHLs) to pique their interest in financial forensics. We debunked the myth that the accountancy profession revolves around bean-counting. In fact, financial forensics is a specialised career track in the Skills Framework for Accountancy, and an area of potential that accountancy students can go into.

In 2019, we partnered with Singapore Management University's School of Accountancy to organise the SMU-ISCA Case Competition. We brought onboard the Commercial Affairs Department of the Singapore Police Force (SPF) as our strategic partner, to develop a case scenario adapted from a real-life investigation. In 2022, we partnered NUS Business and Accountancy Network and EY to organise the NUS-EY CraACCk. These case competitions, which required the use of financial forensics in the investigation process, generated a lot of buzz among the students from the different IHLs.

> The ISCA FFA Qualification equips candidates with knowledge and skill sets that will complement an accountant's core training with a forensic perspective to deter and detect fraudulent behaviour.

ISCA and CPIB MOU

On 5 February 2021, a Memorandum of Understanding (MOU) was inked with the Corrupt Practices Investigation Bureau (CPIB). This milestone marked the culmination of a series of discussions between ISCA and CPIB to deepen the talent pipeline for qualified financial forensic professionals. Under the MOU, both ISCA and CPIB will collaborate to provide a pathway for eligible CPIB officers to be conferred the ISCA FFP credential and admitted to ISCA membership. As part of the partnership, ISCA will also provide support for CPIB officers who have completed equivalent courses in their pursuance of the ISCA FFA Qualification. In October 2022, the ISCA FFP credential was conferred to 39 experienced CPIB officers who have met the requirements.

ISCA connects

Just like how different stakeholders work together to combat crime, ISCA's outreach initiatives are often collaborative efforts with our various partners. We frequently support partner events, including the event organised by the Auditor-General's Office (AGO) in January 2022, International Economic Crime Course (IECC) by SPF in July 2022, and CPIB Learning Festival in October 2022.

ISCA's inaugural financial forensics networking event, 14 July 2022

During the AGO and IECC events, internal auditors and law enforcement officers gained useful insights from ISCA's Financial Forensic Accounting Oversight Committee Chairperson Lem Chin Kok. Mr Lem shared on the future of fighting commercial crime, against the backdrop of a digitalised crime environment. He touched on the use of digital forensics, artificial intelligence and machine learning to enhance financial crime investigation processes. At the CPIB Learning Festival, ISCA Vice President Yiong Yim Ming spoke about corruption in the private sector and how anti-bribery management systems will help businesses manage corruption.

Professionals in the financial forensics community get to attend complimentary financial forensics events, including live webinars and a newly launched networking event series. In the most recent live webinar, more than 430 attendees heard from Kon Yin Tong, Managing Partner of Foo Kon Tan LLP. As an ISCA FFP credential holder with robust experience as an expert witness in financial crime cases, Mr Kon shared how forensic accountants can extend reliable litigation support to solicitors, and play their part in upholding justice.

The inaugural networking session on 14 July 2022 brought together aspiring and experienced financial forensic professionals to network. They also heard from Mr Lem, who shared his experiences and thoughts on the importance of financial forensics in strengthening corporate governance.

THE NEXT CHAPTER

"It's not enough to be up to date, you have to be up to tomorrow." This quote is often attributed to Israel's first Prime Minister David Ben-Gurion. At ISCA, we, too, strive to stay ahead of the curve and seek continuous feedback from stakeholders and industry partners to enhance the content and delivery of the ISCA FFA Qualification.

This year, we will be unveiling refreshed modules for the ISCA FFA Qualification. These will be delivered in a blended learning format so you can learn on the go and at your own pace. Stay tuned and join us for the workshops featuring the refreshed content. ISCA

This article was written by ISCA CA Academy.

Under the ISCA FFA qualification, there are four skills-based modular certifications that stack up to its completion:

- Forensic Accounting and Investigation
- Digital Forensics
- Financial Crime
- Professional Requirements

Scan this QR code or visit isca.org.sg/ffa to find out more.

Join our new Telegram Channel: ISCA Financial Forensics (FF) Connect

ISCA has launched a new channel on Telegram so that the financial forensics community can stay up to date with all the news, developments, updates and much more. Join today by visiting the following link (https://t.me/ISCA_FF) or scanning the QR code:

TEXT BY

Michelle Koh

New Work Practices Post-COVID-19

Perspectives From Finance And Industry Leaders

TAKE AWAYS

- Hybrid work, a shorter work week and more empowerment to employees and their supervisors are the new normal post-COVID-19.
- Technology enables seamless, efficient remote working and cross-border work; it also enhances work processes and interactions with stakeholders and customers.
- Physical interactions are still necessary, including to build or deepen interpersonal relationships and strengthen the office culture.

NEW YEAR, NEW HOPE. As we start the year, we believe we are not the only ones who are excited about the fresh opportunities and challenges a new year can bring. Our last few years reacting to and living with COVID-19 have had a lasting impact on how work looks. Today, many employers have adopted new practices which have been much talked-about both on as well as offline.

In this article, we would like to explore these topics from the perspective of finance and industry leaders. As employers, they are facing historic challenges from an exhausted workforce and a highly competitive labour market in Singapore. Hybrid work seems to be here to stay, as well as a shorter work week and more empowerment to employees and their supervisors – all of which impact the role a leader needs to play.

The Edge Partnership spoke to four finance leaders to get their views and advice on the new work practices they have observed and/or put in place.

ENG HOCK ONG
CA (SINGAPORE)
CFO,
NANYANG TECHNOLOGICAL UNIVERSITY

> "I think the concept of work-life balance cuts both ways – you are there when the company needs you, and you are there too, when the family needs you."

"With advanced and easy-to-use technology, most financial transactions can now be seamlessly and remotely processed, especially with built-in system controls and automated complex business processes that abide by finance or company polices. These solutions have provided operational finance roles to process day-to-day transactions remotely and therefore, do not always require physical office presence. This was soundly in the last two years, where operations were run remotely via well-integrated ERP systems. Even so, does it make sense for finance staff to work remotely and, if so, at what frequency that will not impact work objectives and team spirit?

While the workforce now demands flexibility and work-life balance, the same employees are asking for stronger engagement and meaning in work. Without human connection and interactions with stakeholders, we will miss the critical cues from the body language, new ideas generated through highly energised intellectual debates, and the ability to build bonds and relationships that are hard to replicate through video-conferencing. This invisible bond that ultimately forms the culture of a workplace is something that cannot be replaced by remote working. Values, and soft competencies, which form an important part of performance review and personal development, would be difficult to assess without the face-to-face interactions.

The real question is: Is remote working an entitlement, or does an employee just want that flexibility when the situation calls for it?

I think the concept of work-life balance cuts both ways – you are there when the company needs you, and you are there too, when the family needs you. The ability to work remotely now gives employees the flexibility to attend to critical work tasks as well as to attend to home and other emergencies.

However, in my view, to call it an entitlement is perhaps pushing it a bit too far. Like everything else, we need to take a balanced approach to achieving this new norm. So long as the final outcomes (to the company, the employee) are not affected, we could, perhaps one day, achieve the right win-win balance".

GHAMAZY RASHID
CA (SINGAPORE)
AUDIT & ASSURANCE PARTNER-
ACCOUNTING AND REPORTING ADVISORY,
DELOITTE SINGAPORE

"COVID-19 has accelerated the future of work, and working and workplace realities that we thought were still some ways away are already happening. Aided by the technological advancement necessitated by the pandemic, the ease of mobility and of 'working anywhere' has changed perceptions on how and where work can be done. In this regard, from my experience serving clients in the finance function, I have observed that there is a greater openness to cross-border service delivery, compared to pre-COVID-19, where clients preferred local service in each of the jurisdictions they operate. This has allowed professional service providers like Deloitte to draw on our expertise not only in Singapore but also in the region, to bring our best to meet the needs of our clients as one regional delivery team.

> "… I have observed that there is a greater openness to cross-border service delivery, compared to pre-COVID-19, where clients preferred local service in each of the jurisdictions they operate."

Technology is the key enabling factor, providing multiple digital collaboration tools to help with communication and transactions for borderless business interactions, and business processes and decision-making can progress better than they did before. This way of working also caters to the next generation of talent that has a preference for flexible work; it can help attract and retain top talents who are looking for this flexibility. However, I believe that there needs to be a balance, and time must still be made for physical interaction in today's increasingly remote working world. No person is an island, and there has to be support available for an individual to stay mentally and emotionally healthy as they work.

In addition, the pandemic has changed the way we learn. This new borderless world has opened up doors for employees across countries to learn from each other more seamlessly. This benefits the work that they do as they are exposed to different perspectives on the job. New ways of learning have emerged too. Training to reskill and upskill employees and business leaders to navigate today's world is now being delivered online and virtually, which increases accessibility to and motivation for learning."

LAY PENG TAN

FINANCE DIRECTOR-GROWTH MARKETS & ASIA PACIFIC, TATE & LYLE

"Empowerment is given to our employees and their supervisors to work together to create an infrastructure that can drive a more agile work environment so that together, we can continue to top our game and present work deliverables on time."

"COVID-19 has led transformation and pushed boundaries on the interpretation of work for finance professionals. To begin with, throughout the last two years, our finance team has proven that work can be accomplished remotely from our laptops and Microsoft Teams in terms of collaboration locally, regionally and internationally with our stakeholders; it has also pushed forward the digital strategies for finance processes, where workflow has transited to a digital process versus a manual workflow.

Digitalisation brings about immediate and obvious efficiencies. For example, we now have e-signatories using docusign software. We no longer have to print and sign on hard-copy documents where much time and effort are often expended including a long lead time to gather the physical signatories to get their endorsements. The accounts payables process went into EDI invoicing from customers, and we use the ERP system with linkages to payments via Internet banking. The finance team is able to share documentation via Teams and Sharepoint, and update a single version of the file through Sharepoint collaboration instead of emailing each other to update the information.

On cross-regional work, we are able to work effectively with team members from all over the world using Teams. For business, it's easy for our business partners to reach out to us, while collaborative tools like MS Teams make it easier for us to walk through the details, such as through video-meetings; this is of course easier than having to book a room and sharing the information via projector and screen.

As Singapore 'reopens' and the workforce returns physically to the office, our company has decided to adopt flexible work arrangements. Our employees are encouraged to be at the office three days a week for face-to-face collaboration, and also to strengthen cross-functional team bonding. What we missed in the last two years or so were the social interactions among team members, including the face-to-face chats at the office, and the convenience of quickly getting hold of someone along the corridor to discuss work solutions.

Our China office has adopted a five-day work week since reopening and the team has embraced it. Simultaneously, we are maintaining the flexibility for our finance team to adopt the hybrid working model as it has generated good take-ups from our regional finance team.

Overall, with things picking up and more employees returning to the office, we have rolled out initiatives like a 'connection week' and team-bonding sessions. We want to remind our staff of the fun days pre-COVID, and let them know that the office is not only a place for work, it's where they can have fun too. Our recent mooncake-making session is a good example. We have added a list of social activities to our workplace calendar as we want our employees to look forward to coming into the office.

With the back-to-office protocols, the flexibility remains. Empowerment is given to our employees and their supervisors to work together to create an infrastructure that can drive a more agile work environment so that together, we can continue to top our game and present work deliverables on time."

BELINDA TAN

FCA (SINGAPORE)
HEAD OF FORENSIC ADVISORY, GRANT THORNTON SINGAPORE

"... hybrid working is not a one-size-fits-all. Our teams are encouraged to find the best and creative ways to collaborate and meet their responsibilities to continue to deliver quality work."

"One of the immediate goals we have now is to revitalise the Grant Thornton culture.

Grant Thornton Singapore, prior to the pandemic, had a very close-knit culture. However, the necessity for remote work eroded part of that culture. We have since grown exponentially, both in established services such as audit and tax, and through the introduction of new service offerings such as forensic, business risk and valuations services. While our fundamental values of trust and collaboration have endured the pandemic, we are focusing on re-establishing the sense of community and familiarity with one another (and recognising the bottom half of each face, beyond the eyes!). Coming into the office to work, celebrate birthdays, or even a casual 'how are you?' also helps to alleviate the sense of isolation that one might experience when remote working. This will in turn enhance teamwork and remind our people that they can influence the future of the firm.

From an operational perspective, COVID restrictions have pushed us to be even more agile and technology-enabled. The way we work has changed and we have embraced hybrid work across the firm at all levels. Having a conversation virtually may not be as enjoyable or productive as sitting next to someone, especially when one is new to the team. Given the nature of our work, we also see that in-person mentoring and 'shadowing' someone at work enhances on-the-job learning.

At the same time, we recognise that not having to commute frees up time and helps achieve greater work-life balance. But hybrid working is not a one-size-fits-all. Our teams are encouraged to find the best and creative ways to collaborate and meet their responsibilities to continue to deliver quality work. To make hybrid working work for our people, we, as leaders, have regular open check-in sessions with our teams.

Fundamentally, we do need to be reminded that our firm is made up of our people and that each of us is unique. We have our own working preferences, communication styles and career aspirations, and the support we require naturally differ. We will need to ensure that our people know what we are working towards and why they matter. This way, we work collectively to shape the way our teams collaborate and move towards our shared vision and goals."

Undoubtedly, the COVID-19 pandemic has had a profound impact on the labour force and caused a radical shift in working habits. It is heartening to hear from the four leaders that they have prepared their organisation to adapt to the current situation. It is imperative for employers to recognise this shift while approaching it in a manner that works best for their own teams. Consistent areas to balance are work-life harmony, managing productivity in a flexible work setting, and maintaining both social cohesion and idea-generation in a more remote working environment.

While there is no one-size-fits-all, employers must seek and consider feedback from their workforce to better attract and retain their top talents in this post-COVID hiring environment, and balance it with what works for the organisation to achieve their business goals and objectives. ISCA

Michelle Koh is Managing Director, The Edge Partnership.

The Changemaker

Member of Parliament **Derrick Goh**, CA (Singapore), Managing Director and Head of Group Audit, DBS

TAKE AWAYS

- Be yourself. Putting effort and passion into what you do creates opportunities. We should seize them as they arise.
- The use of data is core to the accountancy profession, which makes us well-placed to embrace technology and analytics.
- More than just promoting efficiency and accuracy, technology (in finance) can be used to transform the way we do things by re-engineering or redesigning processes which can create dramatic improvements.

THE CONCEPT OF 'TRANSFORMATION' HAS BEEN CENTRAL in Derrick Goh's life, from his younger days when he, having been in the pure sciences stream all through junior college, made the switch to accountancy in university. Throughout his career in the finance sector, when he readily relocated to different parts of the world and constantly spearheaded innovation within the organisations that he worked for, change has been a constant. It continues to be the theme of his life story as he currently makes his foray into politics as a Member of Parliament, a role he was elected to in 2020.

And as he goes along his own journey, Mr Goh has effected transformation bigger than himself. As one of the key management committee members under the astute leadership of DBS CEO Mr Piyush Gupta who drove the adoption of technology and innovative solutions at Southeast Asia's largest bank, Mr Goh played an integral part in the bank's digital transformation as Group Head of Internal Audit. This led to DBS being named the World's Best Bank by leading industry publications *Euromoney* and *Global Finance*.

As a finance professional and accountant, the opportunities for effecting change are tremendous

"(Singapore) has its uniqueness – it is Asian in approach yet international in outlook ... I wanted my children to grow up with that open, optimistic mindset about the world, and yet be rooted in the same Asian values that I grew up with."

PRIMING FOR A FUTURE-READY INDUSTRY

Mr Goh shares matter-of-factly that all he has achieved today is not by design. Sagacious and with an academic rigour, he instead puts effort into enriching himself so that he is in the position to grasp opportunities as they come along. He attributes his achievements to the fundamentals of logical thinking that he picked up when he was a science student and accounting theories that opened his eyes to different, objective-oriented perspectives in approaching matters. To shift his mindset from thinking about things in absolutes was a struggle at first but, once he embraced a different way of thinking, accountancy drew him in.

Similarly, a mindset shift might be what the industry needs to continue attracting new blood for progress, says Mr Goh. He notes that many students are drawn to tech-driven industries today, eschewing accountancy, which is perceived as traditional and stagnant. "Yet, in group audit, we use at least 6,500 algorithms to track and monitor our risks. There is a massive amount of technology integrated into auditing alone," he enthuses, stating a case for accountancy as an industry primed for progress. "The topics I was drawn to in university continue to be very relevant today. My professor, Mr Neo Boon Siong, taught us about systems and data design, and the concepts – from data normalisation to data hierarchy – remain very relevant in the age of big data, and I apply them even in my day-to-day work. The accountancy profession's reliance on data makes it well-placed to embrace technology."

He remembers a time not too long ago when his current organisation was still doing budgeting on Excel spreadsheets. But rather than wait for things to happen, he took it upon himself to initiate change. Having spent 11 years at American Express' Paris, London and New York offices, Mr Goh brought with him cosmopolitan perspectives and best practices from beyond Singapore's shores. In 2008, upon joining DBS, he spearheaded the adoption of advanced systems with the support of his CFO Ms Chng Sok Hui. "I shortened the chart of accounts to optimise data use putting information in data cubes, so that we could better tell profitability," he recounts. "This is one example of how, as a finance professional and accountant, the opportunities for effecting change are tremendous, and that is certainly something that excites me."

Mr Goh highlights that adopting technology is not just about efficiency and accuracy. "It is also about re-engineering or redesigning processes to allow for dramatic improvement," he stresses. Now, as Managing Director and Head of Group Audit at DBS, he continues to challenge the status quo of auditing practices. "In university, we were taught to take unbiased samples. But with digitalisation, auditors can check for lapses and gaps by looking at 100% of the transactions instead of sampling; this offers even greater assurance," he explains. "And if we cannot check 100% of the data, we can apply algorithms to rank transactions in order of risk, rather than do random sampling which we were taught. After all, auditing is about exposing risks!" Indeed, beyond changing the tools used in auditing, Mr Goh is also changing the way the work is done. "This is critical because risk is continually evolving and getting a lot more complex." He also feels that, armed with sharper tools, auditors will be able to dedicate more effort in engaging stakeholders so as to deepen the understanding of their concerns. "In the old days, an auditor would just look at the audit memorandum and say, 'Okay, send us the information requested, and we will check them.' Now, we've moved from the policing mindset to a collaborative process where we are searching for the risk together with stakeholders, to prevent risk from happening," he says.

Mr Goh is currently exploring the use of natural language processing for auditing purposes. "For the longest time, we have been dealing with structured data, applying network-linked analysis, optimisation models and so on. But there is a whole mass of information in the form of words," he points out. "If we can process data using natural language, we would be tapping into new sources of information that would complete the jigsaw puzzle better, and allow us to be a lot more precise about what the issues are." This is already being piloted as of 2022, starting with the application of natural language processing to read DBS' own issue registers over the years to discover patterns. "Many young people are not aware that AI and machine learning applicable to fintech are equally applicable to the accountancy profession," Mr Goh explains. "This is especially so with businesses growing at a faster pace, and risks growing more complex; the profession needs to be able to keep pace by constantly evolving our methods and advancing the tools we use." He adds, "We need to reposition ourselves, so that young people can see that accountancy is a relevant profession with good prospects."

Incidentally, Mr Goh's eldest daughter – currently in her second year in university – is reading accountancy. "My daughter first wanted to be a vet, then a dentist, and eventually landed in accountancy. My wife and I, both of whom are in the accountancy profession, neither encouraged nor discouraged her, but I suppose she saw that we have good jobs and a good life and hence, decided to follow in our footsteps." But it wasn't all smooth sailing for her. When she applied for internships at the banks, she realised there were fewer opportunities for accountancy students than for business students. In Mr Goh's view, the number of internships offered to accountancy students "should be equal if not more". After all, accountancy, as a professional degree, is applicable beyond accounting and there is "a big role for accountancy students to play and to add value in the different industries and businesses". To this end, he hopes that the wider business ecosystem will recognise the value presented by accountancy students and provide them with more avenues to garner real-world experience in the application of data science, making the profession more attractive.

Mr Goh stresses that the work calls for talent beyond number-crunching. "While speaking to new candidates, I always look out for their leadership and the values they have," he emphasises. "Our work of highlighting opportunities for improvement is a stewardship function; calling out issues – often to stakeholders much more senior than you – takes courage. For example, how does one have difficult conversations while demonstrating empathy and balance to create and reinforce a positive risk culture?" This, in Mr Goh's view, requires not just deep technical knowledge and intelligence but also good EQ (emotional quotient). "It is a very challenging profession, but one that rewards well those able to contribute meaningfully."

"Our work of highlighting opportunities for improvement is a stewardship function; calling out issues – often to stakeholders much more senior than you – takes courage. For example, how does one have difficult conversations while demonstrating empathy and balance to create and reinforce a positive risk culture?"

PLAYING HIS PART

Mr Goh's enthusiasm for his work stems from a genuine care for others. "I always believe that if one is going to do anything, he should do it to make things better, especially for others." A self-professed extrovert, he enjoys connecting with people from all walks of life. Incidentally, while heading POSB – the 'people's bank' – from 2012 to 2014, he successfully deepened its community outreach in the heartlands. He led the creation of the POSB Passion bank card partnering the People's Association; the card is now carried by over 1.5 million people in Singapore. "It was the first bank card with a community slant," he reveals with a grin. "An innovation in its own right!" For Mr Goh, the time leading POSB was an initiation into community outreach, and an experience that would prepare him for his latest role as Member of Parliament and Chairperson for Nee Soon Town Council. "You cannot work for the people without caring for them; it is not sustainable to pretend to be who you are not," he opines.

"... good governance is not just about good policies but also about good execution"

Mr Goh is also a patriotic Singaporean. "The country has its uniqueness – it is Asian in approach yet international in outlook. So, when my eldest child was six years old, my wife and I decided it was time for my family to return to our roots. My boss then could not fully comprehend why I would want to leave the Big Apple, but I wanted my children to grow up with that open, optimistic mindset about the world, and yet be rooted in the same Asian values that I grew up with. I wanted them to go through school and National Service as I did, and build the relationships as I did."

Directed by a heart for the people, a love for his nation, and leveraging his private-sector experience, he hopes to support the government to shape the Singapore of the future. "In my maiden parliamentary speech, I said that good governance is not just about good policies but also about good execution. This is where I want to play a part and help the government do better." As someone who has led group planning, held the position of CFO and COO for a corporate banking division, headed POSB as a business unit, expanded DBS Treasures beyond Singapore's borders, and taken on the role of heading group audit, Mr Goh certainly has a varied and successful track record of making things work better.

Needless to say, juggling career, family and political work – all while not losing sight of self-improvement – is not easy. Mr Goh laughingly tells of how he had to give up two of his favourite past-times – golfing and gaming – to take on the additional duties outside of work. "I've played golf maybe all of three times last year. I used to play Clash of Clans and Clash Royale for two hours a day as a way to unwind; I even had my son, brother and colleagues in my clans! But I haven't had time to touch the game in the last two-and-a-half years." Yet, he wouldn't have it any other way. "I didn't set out to chart my journey in a specific way, but I wouldn't choose anything differently in retrospect either," he reflects. "We have the circumstances that we are born into. Whatever the circumstances, we have the accountability to roll the dice from there and push ourselves forward to create our own path." In addition, he pays special credit to his wife, whose support and encouragement has been vital in enabling him to carry out his many responsibilities.

And, for Mr Goh and his peers, the path has been an incredible one. "Among my classmates from the pure sciences stream, almost all are now successful senior doctors," he reveals. "But accountancy has opened up the world to me," says the man who grew up in a three-room HDB flat and went on to work in the biggest capitals of the world, became CFO of a global consumer bank at just 30 years of age, and earned a masters from the Wharton School, University of Pennsylvania through an Amex scholarship. "It has been amazing," he says. "And, coming back to Singapore to help transform a national bank into a global champion and the world's best digital bank, to contributing to the community and politics in a place that I call home – these were never the targets I set for myself but opportunities that presented themselves."

"I simply did what I could, to the best of my abilities and had fun along the way!" ISCA

VIEWPOINT

TEXT BY
Robert Half

Why Is Communication Important In Accounting?

Strategies To Keep All Team Members Updated

TAKE AWAYS
- Effective management communication is a requirement for accounting professionals guiding their company through any major change.
- Familiarise yourself with the relevant technological tools that help you communicate more effectively.
- Be positive in tone and transparent in approach. Make sure everyone's views are heard.

A good rule of thumb is to communicate two to three times more often with your remote employees as you did in person.

EFFECTIVE COMMUNICATION IS ESSENTIAL for accounting professionals in Singapore during times of disruption and uncertainty – like right now. But what if communicating with colleagues has never been one of your top strengths? And what if your staff members are working remotely?

For many accounting professionals, keeping the company informed, especially on the financial health of the organisation, while working at a distance during the COVID-19 pandemic, has been challenging.

Communication is an important and essential part of accounting, particularly when it comes to analysing and sharing of critical information with management. The ability to deliver clear messaging – including through virtual communication – will be just as critical as your business transitions into the next new normal for Singapore.

To improve your communication abilities and set yourself on the path to mastering effective communication throughout your accounting career, consider the following strategies:

1. COMMUNICATE MORE FREQUENTLY

During times of transition, no amount of communication is too much. A good rule of thumb is to communicate two to three times more often with your remote employees as you did in person. For example, if your past practice was updating your in-office team once a week on Monday morning, consider changing the frequency to every other day, such as Monday, Wednesday and Friday.

To underscore the importance of these additional check-ins, keep calls on time and limit cancellations.

(Also read: How to improve your communication skills; https://www.roberthalf.com.sg/career-advice/career-development/communication-skills)

2. PROMOTE VIRTUAL COMMUNICATION

Effective virtual communication, particularly video-conferencing, is obviously important if your entire accounting team is still working remotely. Even when some of your employees return to the office, you cannot relax your efforts to help everyone stay connected. Continuing to make all key meetings virtual is one option. If a meeting must be held on-site, promptly fill in off-site staff on any decisions made pertaining to their projects.

You can do a lot to make virtual communication successful now, and as your finance team transitions back to the office. That includes making sure employee communication is not hindered by easy-to-solve tech obstacles.

Learn as much as you can about the collaboration and data-sharing apps your company uses. Aim to become a source of support for helping your colleagues troubleshoot issues when they arise. Also, by better understanding how these tools work, you will feel more comfortable using them when communicating with employees.

(Also read: 7 accounting certifications you need for a career in Singapore; https://www.roberthalf.com.sg/blog/jobseekers/accounting-certifications-employers-crave)

3. EMBRACE TRANSPARENCY AND STRAIGHT TALK

While it can be tempting to sugar-coat difficult news, that approach can easily backfire. Be as transparent as possible when sharing the latest information about the state of the business. Stick to the facts and avoid speculating, even when asked to.

This does not mean stonewalling, however. You can keep a positive tone to your responses with something like, "I know everyone has this question, but we just do not know yet. In the meantime, we are encouraged at the financial progress the company is making to stabilise because of your efforts."

(Also read: How to prepare an accountant resume in Singapore; https://www.roberthalf.com.sg/career-advice/resume/templates/accounting)

4. LISTEN ACTIVELY – AND WITH EMPATHY

The ability to listen actively to employees is the mark of a good communicator. If you are the one who is doing all the talking, all the time, then you cannot tune in. And it is more vital than ever that your team members know they are heard, and that you take their concerns and questions seriously.

Do not assume you know exactly what your colleagues are feeling. Check in on them individually, by asking questions and then listening with an empathetic ear.

What does it mean to listen actively? It means truly focusing on the individual's words rather than silently formulating a response while they are speaking to you. During video-meetings, take note of non-verbal cues. In short, give the other person your full attention.

Another way to boost your communication skills in accounting is to help your colleagues understand the connection between finance and the broader strategic goals of the organisation...

PHOTO SHUTTERSTOCK

Be an active listener; give the person your full attention

5. MAKE YOURSELF AVAILABLE

Also let your colleagues know they can come to you. Institute a virtual open-door policy and make yourself available to hear their concerns and ideas.

By communicating in a two-way fashion, instead of always delivering messages from the top down, you will create a sense of trust – and inspire their ongoing support for the company's efforts to manage change now and moving forward.

(Also read: Accountant duties and responsibilities of the job; https://www.roberthalf.com.sg/employers/finance-accounting/accountant-jobs)

6. PAINT THE BIG PICTURE

Another way to boost your communication skills in accounting is to help your colleagues understand the connection between finance and the broader strategic goals of the organisation, which may be evolving rapidly right now.

Be quick to offer appreciation and share any wins the team achieves.

WHY IS COMMUNICATION IMPORTANT IN ACCOUNTING?

Effective management communication is a requirement for accounting professionals guiding their company through any major change. It is also a skill set that many managers need to polish.

So, do not be discouraged if your traditional and virtual communication abilities need some refinement. Now's an ideal moment to improve how you are communicating with your finance team. ISCA

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VIEWPOINT

TEXT BY


Jason Pang


Snehal Pawar


Kinjal Shah

Rising Prices And Inflation

How Does It Affect Valuation?

TAKE AWAYS

- With inflation and interest rates on the rise, companies will need to respond to the associated risks, and adjust their risk assessments.
- One of the major considerations are the risks associated with financial reporting, particularly relating to the fair value measurement.
- Businesses can do more to boost their resilience against the financial risks brought on by inflation.

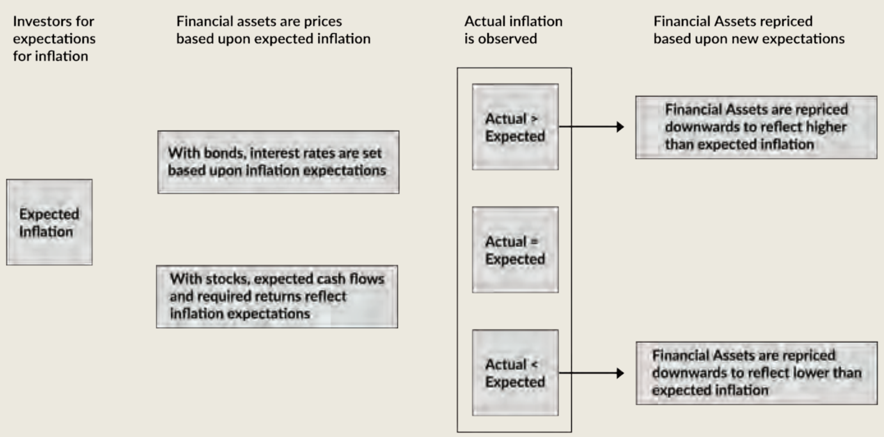
THE ONSLAUGHT OF INFLATION HAS BEEN A GLOBAL PHENOMENON after the lingering COVID-19 pandemic, fuelled by increasing prices for natural gas and electricity due to the Russia-Ukraine war, supply chain disruptions and tightening financial conditions in most countries. According to the Eurostat statistics published in October 2022, the reported annual inflation in the European Union reached 10.9% in September 2022, while the United States recorded an 8.2% inflation rate in September 2022.

The International Monetary Fund's 'World Economic Outlook Update', published in October 2022[1], showed an uptick in the headline inflation as well as in the underlying inflation. Global economic activity has also begun experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. Global growth is forecast to slow from 6% in 2021 to 3.2% in 2022, and 2.7% in 2023. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the COVID-19 pandemic.

IMPACT OF INFLATION ON VARIOUS ASSET CLASSES

The impact on prices of asset classes on account of inflation is mainly due to the difference in actual inflation versus expected inflation. While expected inflation is always priced in the asset's value, the repricing happens to account for the actual inflation, as illustrated in Figure 1, according to Professor Aswath Damodaran, Professor of Finance, Stern School of Business, New York University.

FIGURE 1



Based on the historical data, with inflation at its peak and interest rates on the rise, it is reasonably expected that the energy, healthcare and financial sector may continue to perform well, while the consumer discretionary, utilities and materials sector may suffer. Companies will need to respond to, and manage, these risks which could lead to changes in risk assessment, business plans and even longer-term strategy. Now, one of the major considerations for companies are the risks associated with financial reporting, particularly relating to fair value measurement. The reasonableness and appropriateness of the estimates and inputs plugged into the fair value measurement process which need to factor in the inflation will be crucial.

To understand these risks better, below is an example of how rising interest rates and inflation will have an impact on financial reporting and operational decisions. In connection with goodwill impairment testing, let us divide inputs into two categories:

1. Internal inputs
- Revenue
- Costs of production/Cost of sales and other operating expenses

2. Market inputs
- Discount rate: Risk-free rate, cost of equity and cost of debt
- Currency volatility in case of cross-border operations

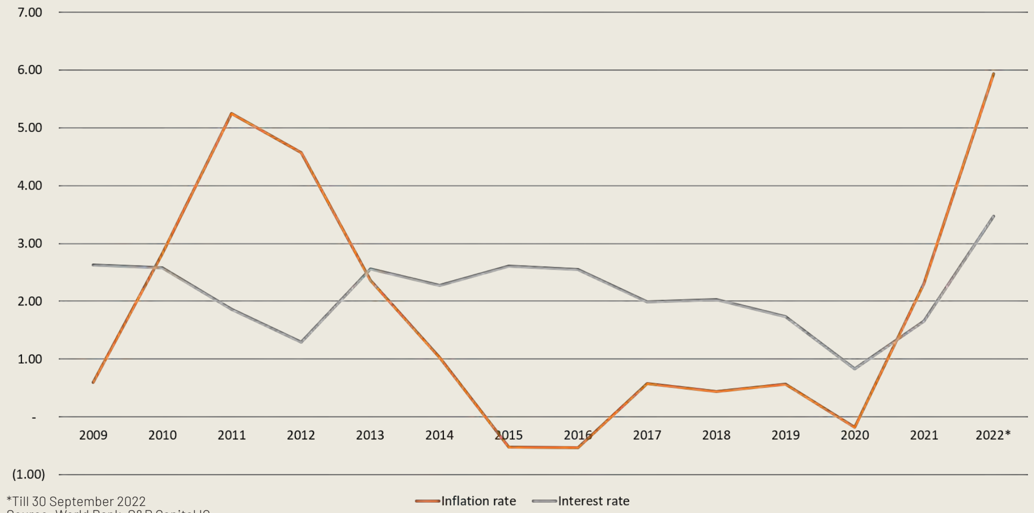
Now, one of the major considerations for companies are the risks associated with financial reporting, particularly relating to fair value measurement

[1] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

The reasonableness and appropriateness of the estimates and inputs plugged into the fair value measurement process which need to factor in the inflation will be crucial.

FIGURE 2

Inflation vs Interest rate



*Till 30 September 2022
Source: World Bank, S&P Capital IQ

Amid geopolitical concerns, the most prominent risk for CFOs is determining their possible impact on business and impending risk of impairment of assets

Typically, the risk-free rate forms the basis of discount rate in the Discounted Cash Flow (DCF) method under the income approach for valuation. Therefore, an increase in the interest rate (shown in Figure 2), would usually lead to an increase in the overall discount rate. Additionally, in terms of cross-border operations, the associated risks are largely characterised as financial, economic, and political risks.

Under the financial risk, currency risk is the risk that exchange rates (the value of one currency versus another) will change unexpectedly. Under the normal circumstances, the currency of the projections should always be consistent with the currency of the discount rate. This implies that the inputs used to derive a discount rate (the denominator) should be in the same currency used to project cash flows (the numerator). There are two basic methods to address foreign currency cash flows in the valuation, assuming the analysis is being conducted in nominal terms, as illustrated in Figure 3.

Furthermore, due to rising inflation, the revenue growth rate may be reduced as a result of lower demand. At the same time, the increasing cost of production and other operating expenses would cause the margins to contract if they cannot be passed on to the customers. This, in turn, will decrease the overall value under the DCF method while testing for goodwill impairment. It will impact the headroom between the carrying amount and the fair value of the cash generating units if the decrease in fair value is not offset by improved cash flow assumptions. There are also various risks to consider, such as businesses' ability to leverage and repay loans in a timely manner, credit-rating impacts and increasing cost of capital.

WILL INFLATION DECREASE BUSINESS VALUE AND TRIGGER IMPAIRMENT OF ASSETS?

Amid a flurry of geopolitical concerns, the most prominent risk for C-suite personnel, particularly the Chief Financial Officer (CFO), is to determine the possible impact on business and impending risk of impairment of assets.

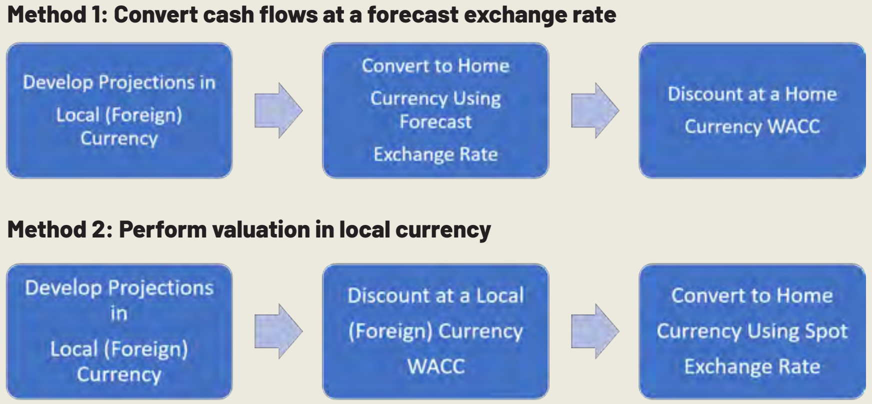
IAS 36 *Impairment of Assets* requires a company to assess at each reporting date whether there is any indication of impairment (or an indication that a previously recognised impairment loss has reversed).

Sustained inflation could be an indicator of impairment for a company that is negatively affected by the high inflation rate. A likely candidate for such damage would be a company in the consumer discretionary space, whereby consumer demand is severely impacted due to the lower purchasing power and the elasticity of demand for discretionary products or services. The likelihood for an impairment testing increases significantly for such companies.

According to Prof Damodaran, it has been demonstrated that inflation affects a company's value in the following ways:

- Companies that can pass their inflationary costs to customers in the form of price increases fare better during times of high inflation. The company's pricing prowess is determined by the industry in which it operates.
- Companies whose cost structure comprises inflation-sensitive costs are likely to be affected negatively by inflation.
- Companies that have the ability to postpone their investment decisions in periods of high inflation will generally fare better. Such an option is generally not available to companies operating in the manufacturing or infrastructure sector where long-term investment is necessary.
- A general increase in the cost of equity may be observed across the board on account of the risk-free rate due to higher treasury bond yields. Sector-specific risk exacerbates the situation for companies that operate in inflation-sensitive sectors.
- The relationship between inflation and interest costs is positively correlated. Higher inflation leads to higher cost of debt. A heavily levered company will likely be a victim of inflation due to this correlation. Also, the cost of debt will be severely affected for a company with volatile earnings vis-à-vis a company with an established history of stable earnings.

FIGURE 3



*WACC: Weighted average cost of capital

WHAT CAN BUSINESSES DO TO MINIMISE THE IMPACT OF INFLATION?

- **Increase prices:** One of the reasons for price increases is supply chain disruptions. Companies would take cognisance of this disruption, and may take the opportunity to raise prices. Business owners could assess the ability of their customers to absorb the price hikes.
- **Optimise operations:** Business operations can be optimised by applying strategies, such as introducing high-margin products which help to leverage the fixed costs or bulk purchase from vendors in exchange for a discount.

HOW DOES A VALUER CAPTURE THE IMPACT OF INFLATION IN BUSINESS VALUATION?

- **Discount rate:** The first order effect of inflation is increasing interest rates. A general increase in discount rates is expected as the majority of inputs, such as risk-free rate, and equity risk premium would be higher. A detailed assessment is warranted around the company-specific risk premium. A company sensitive to inflation warrants a higher alpha factor vis-à-vis an inflation-agnostic company. In particular, a higher discount rate may be applied to the growth companies for their future cash flows as compared with stable cash flows from the mature companies.
- **Long-term growth rate:** Often, the starting point for a long-term growth rate assumption in estimating the terminal value of the company is the risk-free rate. A practical challenge that is faced in this assumption is that recently, the risk-free rate has increased substantially, leading to overstated perpetuity values. The question that needs to be answered is whether such higher growth rate would be sustainable at the end of the discrete projection period. At times, a significantly higher growth rate may be indicative of a country facing hyperinflation with no real growth happening. At such times, valuers should assess the reasonableness of the input and consider alternative assumptions. For example, rather than relying on the most recent market inputs, a historical average rate which normalises the aberrations could be considered for the long-term growth rate.

In a nutshell, the effect of inflation on the value of assets or businesses is dependent on the impact it has on the expected cash flows, growth rate and risk associated with the assets or businesses. In the event that the inflation stays elevated for an extended period, the impact to the valuation will be increasingly significant, and the assumptions or inputs used in the valuation process will have to be critically assessed to derive the appropriate valuation conclusion for the purpose of financial reporting or transactions, such as mergers and acquisitions. ISCA

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VIEWPOINT

TEXT BY
Ilian Mihov | Katell Le Goulven | Mark Stabile

> Global leaders and experts surveyed for the World Economic Forum's 'Global Risks Report 2022' cite environmental issues as the biggest global risks in the short, medium and long term.

Six Global Trends In Business And Society

Risks That Business Education Must Address

TAKE AWAYS

- People want businesses to do more to address societal issues such as climate change, economic inequality, workforce reskilling and untrustworthy information.
- There will soon be a formal set of accounting standards for ESG reporting, which will enable the monitoring of large-scale ambitions that have been historically hard to measure, such as contributions to the UN Sustainable Development Goals.

PEOPLE WANT BUSINESS TO ENGAGE MORE, NOT LESS, WITH SOCIETAL PROBLEMS. That's according to the 2022 Edelman Trust Barometer[1], which presents findings from a survey of 36,000 people in 28 countries.

According to the survey, people believe societal leadership is core to business. They also believe business is an effective driver of positive change. And yet, respondents don't perceive business as doing enough to address issues such as climate change, economic inequality, workforce reskilling and untrustworthy information. More than half say capitalism does more harm than good in the world.

At INSEAD, we pay close attention to trends like these, as they help inform our agenda as a global business school. We are particularly attuned to six global trends impacting business and society. These trends, which present both serious risks and impactful opportunities for business, hold implications for our school's activities in 2022. Here, we offer key insights from leaders and organisations closest to the issues.

PHOTO SHUTTERSTOCK

1. CLIMATE IS THE TOP PRIORITY

Today's gravest threat to humanity isn't COVID-19, despite what headlines may imply. Global leaders and experts surveyed for the World Economic Forum's 'Global Risks Report 2022'[2] cite environmental issues as the biggest global risks in the short, medium and long term. Extreme weather, climate action failure and threats to biodiversity are of the greatest concern.

The urgency of this problem has increased in the last two years, both because the pandemic has stalled progress toward a green transition and countries have met the climate emergency with an inadequate response. For example, while 197 countries signed the Glasgow Climate Pact at the 2021 UN Climate Change Conference (COP 26), their commitment is not expected to achieve the 1.5°C goal set by the 2016 Paris Climate Agreement.

Inequality between and within countries is making matters worse. OXFAM International estimates the top 1% of people produce twice as much emissions as the bottom 50%[3]. And yet, the least fortunate will bear the consequences. By 2030, the climate crisis is estimated to kill approximately 231,000 people in poor countries each year.

2. SOCIOECONOMIC RISKS ARE INCREASING

As the pandemic persists, socioeconomic problems are worsening. Globally, the economic recovery is slowing in the wake of inflation spikes, debt crises, rising commodity prices and supply chain bottlenecks. 'Livelihood crises' are increasing among lower-income households, a segment particularly hard hit by higher prices and expensive debt.

By 2024, the global economy is projected to be 2.3% smaller than it would have been without the pandemic[4]. Labour market imbalances, protectionist policies and disparities in education and skills are expected to create more divergence in economies worldwide. By 2024, economic growth in advanced economies is projected to surpass pre-pandemic growth by 0.9%. However, in developing countries (except China), economic growth is expected to fall 5.5% below pre-pandemic growth. Growth in Latin America and Sub-Saharan Africa is projected to slow even more.

3. INEQUALITY IS INCREASING WITHIN MOST COUNTRIES

Failures to distribute the COVID-19 vaccine equitably have most harmed the world's poorest countries. Although half of the world's population has already received two doses of the vaccine, only 7% of Africa is fully vaccinated[5]. Inequality has also worsened in the areas of healthcare, education, digital access and economic growth which mostly impacts the poor, women and girls, and visible minorities. Since the pandemic began, the timeline for achieving gender parity has slipped a whole generation, from 99 to 135 years[6].

Wealth inequality continues to rise. Today, the richest 10% of the global population owns 76% of all wealth, while the poorest half owns only 2%. Multimillionaires – representing only 1% of people on earth – have also captured 38% of all additional wealth accumulated since the mid-1990s.

However, data on income inequality shows different trajectories. Over the last two decades, income inequality *within* countries has significantly increased while income inequality *between* countries has decreased. The 2021 'World Inequality Report' indicates that the gap between the average incomes of the top 10% and the bottom 50% of individuals within countries has nearly doubled, from 8.5 times to 15 times; yet, the gap between the average incomes of the richest 10% of countries and poorest 50% of countries has declined from about 50 times to less than 40 times.

[1] https://www.edelman.com/trust/2022-trust-barometer
[2] https://www.weforum.org/reports/global-risks-report-2022
[3] https://www.oxfam.org/en/research/inequality-kills
[4] https://www.worldbank.org/en/news/press-release/2022/01/11/global-recovery-economics-debt-commodity-inequality
[5] https://www.weforum.org/events/the-davos-agenda-2022/sessions/meeting-the-challenge-of-vaccine-equity-96eca106b1
[6] https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621341/bp-inequality-kills-170122-summ-en.pdf

Governments and corporations must also work together to rebuild trust and moderate misinformation in digital spaces.

4. DISTRUST IN KEY INSTITUTIONS IS MOUNTING
A lack of trust in key institutions has reached critical levels. Nearly six in 10 people[7] say they instinctively distrust something until evidence suggests otherwise. Government and media fuel a 'cycle of distrust', with nearly one out of two people perceiving these institutions as divisive forces in society. Democratic governments are trusted even less than autocratic regimes.

Increasingly, consumers and employees hold businesses accountable for their role in society. They also want CEOs to take a stand on issues. The Edelman survey reports that beliefs and values now guide key decisions such as buying or advocating for brands (58%), choosing a place to work (60%) and investing (64%). Most institutional investors (88%) also scrutinise an investment's commitment to ESG as much as its operational and financial practices. Meanwhile, activists are taking to the streets to protest greenwashing while litigators are taking corporate giants to court over failures to fulfil climate promises – putting increased pressure on businesses and investors to address climate change in a meaningful way.

5. METRICS FOR ESG REPORTING ARE CONVERGING
For years, ESG reporting lacked rigour and consistency due to the absence of a single ESG accounting standard. It created difficulties for investors looking to compare companies' commitments, and also fuelled discontent about the greenwashing of sustainability investments. However, in November 2021, the International Sustainability Standards Board (ISSB) was formed to create a formal set of accounting standards for investors and the general public.

The convergence of metrics for ESG and sustainability will help organisations to firmly commit to these factors and embed them within their business strategy[8]. The new standards will also enable monitoring of large-scale ambitions that have been historically hard to measure, such as contributions to the UN Sustainable Development Goals.

6. TECHNOLOGY REGULATION IS GROWING IN IMPORTANCE
Our dependency on technology, coupled with the acceleration of technology innovation, has increased the need for new regulatory tools and policies. The challenge for policymakers is to develop approaches that protect consumers' privacy, speech and security without dampening growth or inhibiting innovation. Governments and corporations must also work together to rebuild trust and moderate misinformation in digital spaces. This will require an agile, flexible and transparent approach to governance[9], along with global cooperation and collaboration, particularly to address fast-moving cybersecurity threats.

OVERALL, TRENDING IN THE RIGHT DIRECTION
Due to these and other global risks, 84% of global experts and leaders in the WEF report say they are 'worried' or 'concerned' about the outlook for the world. We share their concerns. But we also see these risks from another angle. They are reasons to act. They are sharp reminders that responsible business matters. They motivate us to work harder for people and the planet. Ultimately, that leaves all of us in a better position – not just to manage other risks, but to face the next crisis headed our way. ISCA

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[7] https://www.edelman.com/sites/g/files/aatuss191/files/2022-01/Trust 22_Top10.pdf
[8] https://www.weforum.org/events/the-davos-agenda-2022/sessions/esg-metrics-for-a-sustainable-future
[9] https://www.weforum.org/about/agile-regulation-for-the-fourth-industrial-revolution-a-toolkit-for-regulators

Technical Highlights

AUDITING AND ASSURANCE

IAASB Issues Guidance On How Amendments Made To IFRS Standard IAS 1 Impact The ISAs

IAASB has published new guidance to help users understand the impact on the ISAs due to narrow-scope amendments made to IAS 1 *Presentation of Financial Statements*.

In the local context, ISCA would be updating the illustrative auditor's report in the SSAs to be aligned with the amendments to SFRS(I) 1-1/FRS 1 *Presentation of Financial Statements*.

For more information, please visit
https://www.iaasb.org/news-events/2022-11/iaasb-issues-guidance-how-amendments-made-ifrs-standard-ias-1-impact-isas

ETHICS

ACRA Issues Changes To ACRA Code Effective 15 December 2022

ACRA has issued changes to the ACRA Code to adopt four IESBA's final pronouncements relating to non-assurance services, fees, objectivity of an engagement quality reviewer and other appropriate reviewers, and quality management-related conforming amendments.

These changes mirror ISCA's EP 100 (revised on 7 September 2022) which is also effective 15 December 2022.

For more information, please visit
https://isca.org.sg/content-item?id=89b0270e-fc72-49d2-9039-af069233ac23

IESBA Issues Staff Publication Highlighting The Relevance And Applicability Of The IESBA Code In Combatting Greenwashing

The publication spotlights key provisions in the Code that apply in preparing and presenting sustainability information. It emphasises the professional accountant's obligation to be straightforward and honest and refrain from being associated with information that is misleading or false, including in situations where they might experience pressure to do so.

For more information, please visit
https://www.ethicsboard.org/news-events/2022-10/iesba-issues-staff-publication-highlighting-relevance-and-applicability-iesba-code-combatting

FINANCIAL REPORTING

ACRA Issues Financial Reporting Practice Guidance No. 1 Of 2022

ACRA has issued the Financial Reporting Practice Guidance No. 1 of 2022 highlighting areas that may require closer attention by directors in their review of the FY 2022 financial statements.

For more information, please visit
https://www.acra.gov.sg/news-events/news-details/id/682

IASB Votes To Retain Impairment-Only Approach For Goodwill Accounting

At its November 2022 meeting, IASB has voted to retain the impairment-only approach to account for goodwill. This tentative decision culminates a thorough evaluation that began with the Post-Implementation Review of IFRS 3 *Business Combinations* in 2014.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/11/iasb-votes-to-retain-impairment-only-approach-for-goodwill-accounting/

IASB Adds To Work Plan An Accelerated Project For Narrow-Scope Amendments To Accounting Standard On Income Taxes

At its November 2022 meeting, IASB decided to add to its work plan an accelerated project proposing narrow-scope amendments to IAS 12 *Income Taxes*. The proposed amendments would introduce a temporary exception from accounting for deferred taxes arising from the implementation of the OECD's Pillar Two model rules, as well as targeted disclosures for affected entities. IASB expects to publish an exposure draft in January 2023 with a comment period of 60 days and these amendments, when finalised, would be effective immediately.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/11/iasb-proposes-accelerated-narrow-scope-amendments-to-accounting-standard-on-income-taxes/

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IASB Amends Accounting Standard To Improve Information About Long-Term Debt With Covenants

IASB has issued amendments to IAS 1 *Presentation of Financial Statements* for long-term debt with covenants. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. These amendments are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/10/iasb-amends-accounting-standard-to-improve-information-about-long-term-debt-with-covenants/

IFRS Foundation Issues Compilation Of Agenda Decisions – Volume 7

The IFRS Foundation has published Compilation of Agenda Decisions – Volume 7 which contains all the agenda decisions issued by the IFRS Interpretations Committee from May 2022 to October 2022.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/11/compilation-of-agenda-decisions-volume-7-published/

SUSTAINABILITY & CLIMATE CHANGE

November 2022 ISSB Podcast Available

In this podcast, ISSB Chair Emmanuel Faber and Vice Chair Sue Lloyd share on topics discussed at the ISSB's November meetings, including the decisions taken on scenario analysis, requirements on climate transition planning, and the timing requirements for disclosure.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/11/november-2022-issb-podcast-now-available/

ISSB Confirms Requirement To Use Climate-Related Scenario Analysis

ISSB unanimously confirmed that companies will be required to use climate-related scenario analysis to inform resilience analysis. ISSB also agreed to provide application support to preparers including making use of materials developed by the Task Force for Climate-Related Financial Disclosures (TCFD) to provide guidance to preparers on how to undertake scenario analysis.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2022/11/issb-confirms-requirement-use-climate-related-scenario-analysis/

TEXT BY
ISCA Ethics Committee

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Communication With TCWG Prior To Provision Of Non-Assurance Services

Possible Approaches To Comply With Requirements

TAKE AWAYS

- EP 100 (Revised on 7 September 2022), effective 15 December 2022, is aimed at improving firms' communication with those charged with governance (TCWG), which enhances non-assurance services transparency that helps TCWG assess the firm's independence.
- TCWG of large and complex PIE groups are best placed to determine how to operationalise the Requirement, taking into account the spirit within the Code and IESBA's basis for conclusions.
- This article clarifies and sets out the ISCA Ethics Committee's views on the possible approaches to comply with the Requirement.

ISCA'S CODE OF PROFESSIONAL CONDUCT AND ETHICS (EP 100 or the Code) is modelled after the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). EP 100 encourages regular communication between an audit firm (the firm) and those charged with governance (TCWG) of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication aids TCWG in their evaluation of the firm's independence, after considering the firm's judgements in identifying and evaluating threats to independence and how the firm has addressed such threats through the use of safeguards or actions taken where appropriate.

When the audit client is a public interest entity (PIE), stakeholders have heightened expectations regarding the firm's independence. Hence, EP 100 (Revised on 7 September 2022), effective 15 December 2022, introduces the requirement for firms with PIE audit clients to obtain concurrence of TCWG prior to the provision of non-assurance services (NAS) by the firm or a network firm to that PIE audit client, its downstream controlled entities and any entity that controls that PIE directly or indirectly (the Requirement).

This article clarifies and sets out the ISCA Ethics Committee's views on the possible approaches to comply with the Requirement.

COMPLIANCE WITH THE REQUIREMENT

Recognising that PIEs have different corporate and governance structures, the Code provides the firm and TCWG flexibility to agree on a process which addresses when and with whom, from within TCWG, the firm must communicate to facilitate compliance with the Requirement. This enables TCWG to put in place a process that is most suitable for their specific circumstances.

For example, the process agreed by the firm and TCWG of the PIE audit client might[1]:

- identify the entities within the corporate structure of which the PIE audit client is a part of, that might create threats to the firm's independence to which the process would apply;
- identify services that may be provided without specific approval each time, if TCWG agree as a general policy that such services would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level. For example, a policy might specify a list of services that the firm and TCWG have previously determined, which will not impair the firm's independence.

IESBA considered whether there should be any constraints on the matters that may be addressed in any process agreed by a firm and TCWG of a PIE audit client and concluded that "it was for TCWG to determine what was acceptable to enable them to discharge their governance responsibilities"[2].

[1] Paragraphs 600.20 A1 and 600.20 A2 of EP 100 (Revised on 7 September 2022) and Question 19 of IESBA Staff Questions & Answers: Revised Non-Assurance Services Provisions of the Code (July 2022); https://www.ethicsboard.org/publications/iesba-staff-qa-revised-non-assurance-services-provisions-code

[2] Paragraph 67 of IESBA's Basis for conclusions: Revisions to the Non-Assurance Services Provisions of the Code (April 2021); https://www.ethicsboard.org/publications/final-pronouncement-revisions-non-assurance-service-provisions-code

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POSSIBLE APPROACHES

The flexibility for TCWG to establish a bespoke process to accommodate different corporate structures is important to ensure that the process operates efficiently and effectively to discharge TCWG's governance responsibilities and is likely to benefit TCWG of large and complex groups:

1) Investment companies/funds that are not actively involved in the management of the controlling PIE investee companies

Where the investment portfolio of the investment company/fund is diverse and autonomy is given to established portfolio PIEs to operate under the direction of their own boards and executive management, reporting the controlling parent's NAS to TCWG of the PIE audit client may not necessarily provide useful or relevant information to them for considering whether the auditor's independence is maintained at the PIE level.

In this scenario, the relevant factors are:

- the PIEs are independently managed by their respective boards with typically no representation (non-executive directors in some cases) on the PIE board by the controlling parent;
- the controlling parent of the PIE does not direct the PIE's business decisions or operations or direct the way in which audit and non-audit appointments are made in those PIEs;
- TCWG at the PIE independently review and conclude on the independence of the PIE auditor.

Bearing the above in mind, a practical framework that could be adopted by TCWG of the PIE is to have a general policy whereby no concurrence by them is required for NAS being provided by the firm to the PIE's controlling parent, provided that the NAS:

- are solely for the purposes of the controlling parent and not for the PIE or its controlled entities;
- will have no impact on the financial statements or internal controls of the PIE and its controlled entities (that is, no self-review threat created); and
- will not create any other threats to the auditor's independence as auditor of the PIE and its controlled entities (or any such threat will be reduced to an acceptable level or the circumstance creating the threat will be eliminated by the auditor).

TCWG of large and complex PIE groups need to take nto account the spirit within the Code and IESBA's basis for conclusions.

2) Investment companies/funds that are actively involved in the management of the controlling PIE investee companies

In contrast to the above, some investment companies/funds (for example, private equity funds) are more actively involved in the management of their investee companies. Where the types of NAS provided to the private equity funds are unlikely to create a threat to the auditor's independence of any controlled PIE investee companies (for example, tax return preparation and administrative services), TCWG of the respective PIE investee companies may wish to consider a blanket pre-approval of such services, which eliminates the need for specific concurrence on a case-by-case basis.

EP 100 provides the firm and TCWG flexibility to agree on a process which addresses when and with whom, from within TCWG, the firm must communicate to facilitate compliance.

3) Corporate PIE parent controlling PIE subsidiaries audited by the same firm

Possible options are:

a) TCWG of the controlling parent operates a group concurrence policy (with TCWG of the controlled PIEs in agreement that the concurrence requirement can be considered and made at the parent level);

b) Each PIE operates its own process as determined by TCWG:

- TCWG of **parent** PIE decide there is no need for their concurrence on NAS provided to subsidiary PIE(s) and its controlled entities, **if** concurrence has been given by TCWG of the subsidiary PIE for services to the subsidiary PIE and its controlled entities;
- TCWG of **subsidiary** PIE(s) decide there is no need for their concurrence on NAS provided to the parent PIE. This is on the basis that the NAS will not have any impact on the financial statements or internal controls of the subsidiary PIE and its controlled entities; nor will it create any threats to the independence of the subsidiary PIE auditor and its controlled entities.

Both options avoid duplication in what is otherwise a fully-controlled corporate group.

In addition to the above, TCWG could also decide to include a list of pre-approved services requiring no specific concurrence.

CONCLUSION

As there is no one-size-fits-all approach, TCWG of large and complex PIE groups are best placed to determine how to operationalise the Requirement, taking into account the spirit within the Code and IESBA's basis for conclusions.

Overall, the Requirement (along with other new requirements in the Code) is aimed at improving firms' communication with TCWG, which enhances NAS transparency that helps TCWG assess the firm's independence. It does not replace the existing requirement for the firm to ensure that its independence is maintained when providing NAS (that is, even in some cases where TCWG's concurrence may not be required, the auditor's and TCWG's assessment of permissibility of NAS is still required). ISCA

This article was written by the ISCA Ethics Committee.

This article aims to raise awareness and provide clarification on the new requirement of the Code relating to audit firm's communication with TCWG about NAS.

TECHNICAL EXCELLENCE

FRS 117 *Insurance Contracts* Vs MAS' Risk-Based Capital 2 Part 4

Guidance From ISCA's IFRS 17 Working Group

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TEXT BY


Alvin Chua


Harry Lee


Charlies Chiu

In this article, the IFRS 17 Working Group, in collaboration with the SAS Life IFRS 17 Workgroup, discusses specific considerations around the measurement of insurance liabilities for life insurance business under FRS 117 and RBC 2 in the areas of (1) economic assumptions; (2) risk adjustment vs provision for adverse deviation; and (3) contractual service margin and profit emergence.

TAKE AWAYS

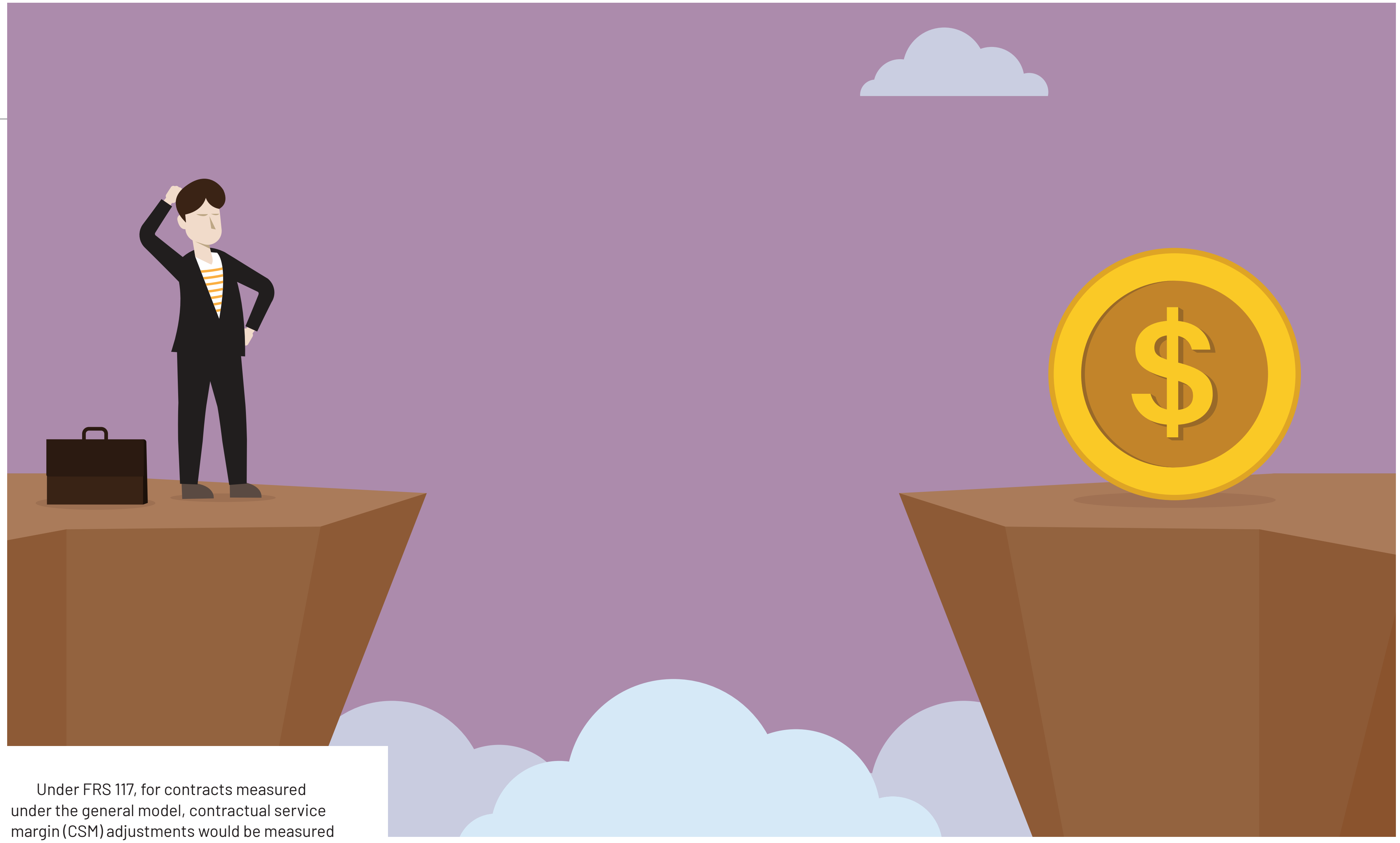
- Differences exist in the basis of calculations used for economic assumptions under FRS 117 ad RBC 2.
- The risk adjustment under FRS 117 relates only to non-financial risk, and diversification benefit is allowed. The provision for adverse deviation under RBC 2 is not limited to non-financial parameters, and consideration of diversification benefits is not explicit.
- Through various mechanisms, the profit pattern under FRS 117 is expected to be smoother compared to RBC 2.

THE THIRD ARTICLE OF THE SERIES BY THE IFRS 17 WORKING GROUP, published in the December 2022 issue of this journal, in collaboration with the committee members of the Singapore Actuarial Society (SAS) Life IFRS 17 Workgroup, explored specific considerations around the measurement of insurance liabilities for life insurance business under FRS 117 *Insurance Contracts* (FRS 117) and Risk-Based Capital 2 (RBC 2) in the following areas:

1. Level of aggregations;
2. Component of liabilities;
3. Contract boundaries;
4. Valuation methodology;
5. Expense.

In this fourth article, the IFRS 17 Working Group, also in collaboration with the SAS Life IFRS 17 Workgroup, discusses specific considerations around the measurement of insurance liabilities for life insurance business under FRS 117 and RBC 2 in the following areas:

1. Economic assumptions;
2. Risk adjustment vs provision for adverse deviation;
3. Contractual service margin and profit emergence.



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1. Economic assumptions

The economic assumptions used in FRS 117 are required to be current and consistent with observable market variables. The discount rates should only reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Under the 'bottom-up' approach, the risk-free rates would often be the starting point for the construction of discount rate curves, with a possible further adjustment for the difference between the liquidity characteristics of the insurance cash flows and the risk-free assets. The method to allow for the illiquidity premium (IP) is not specified in FRS 117 but should be consistent with available market information where possible.

Similarly, the calculation of policy liabilities under RBC 2 in many cases also involves application of discount curves that are based on the market risk-free rates, although other forms of discount rate are used for certain classes of business (such as for participating fund policies, which are described below). Entities may apply IP or matching adjustment (MA) on the risk-free rates when discounting the liability cash flows, subject to prescribed conditions being met. Overall, the determination of IP and MA under RBC 2 is dependent on the composition of the investment assets that are backing those liabilities. The IP is determined on an industry level based on the spreads of corporate bonds held by life insurers, while the MA considers the specific spreads of the assets in an insurer's MA[1] portfolio. In contrast, FRS 117 discount rates should consider only the liability characteristics and could be largely independent from the asset strategy.

Under RBC 2, the best estimate cash flows component for participating fund and universal life policies also consider the discount rates based on the expected long-term investment return of assets backing the policy liabilities of the participating fund and universal life portfolio respectively. These approaches may not meet FRS 117's requirements of consistency with observable market variables and reflecting liquidity characteristics of the liabilities.

Under FRS 117, for contracts measured under the general model, contractual service margin (CSM) adjustments would be measured using economic assumptions that are locked in at the inception of the contracts. There is no CSM requirement under RBC 2, hence, locked-in economic assumptions would not be required.

For reinsurance contracts held, the FRS 117 discount rate is not necessarily identical to the discount rate for underlying insurance contracts. The extent of dependency between the cash flows of reinsurance contracts held and the underlying insurance contracts should be evaluated according to FRS 117. For RBC 2, the valuation of reinsurance cash flows is not separated from the underlying contract's cash flows, therefore, the discount rate would generally be consistent with underlying contracts' cash flows.

[1] Prior approval from MAS is required before MA can be used on the liabilities in an MA portfolio.

For reinsurance contracts held, the FRS 117 discount rate is not necessarily identical to the discount rate for underlying insurance contracts

2. Risk adjustment vs provision for adverse deviation

Under FRS 117, the risk adjustment (RA) is an explicit adjustment to the estimate of the present value of future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The RA only relates to non-financial risk and diversification benefit is allowed.

Under RBC 2, entities explicitly make a provision for adverse deviation (PAD) to increase the prudence of policy liabilities. PAD is not limited to non-financial parameters and consideration of diversification benefits is not explicitly stated under RBC 2.

FRS 117 does not prescribe the level of sufficiency built nor the method of computing RA, but it requires confidence-level disclosure in the financial statements. Under RBC 2, certain short-term policies issued as part of the insurer's life business and any policy that provides accident and health benefits are subject to 75% level of sufficiency. For other policies that are not within the scope of the requirement under RBC 2, SAS guidance similarly proposes for PAD to be set at a minimum 75% level of sufficiency and relate to calculation of policy liabilities, and it is a general industry practice to derive PAD by applying margins on the valuation assumptions.

3. Contractual service margin and profit emergence

Under RBC 2, the PAD and the flooring of negative reserves could be viewed as additional margins or buffers in the policy liabilities. These buffers delay the recognition of economic value of writing profitable new business, and act as a mechanism that affects the rate that economic gains are recognised in the regulatory balance sheet.

If new business profitability were to be assessed on this basis, insurers may expect that during periods where the policy liabilities are floored at zero, any policy cash flow would directly change an entity's net asset position. When the policy liability flooring is no longer effective, the surplus emergence would generally commensurate with the run-off of PAD and experience variance of policy cash flows.

In contrast, FRS 117 is designed to give a profit recognition pattern that is in line with the pattern of service provided to policyholders. The main mechanisms controlling the profit recognition pattern are as follows:

- **CSM:** Explicit unearned profit provision set up on initial recognition of each contract. For profitable new contracts, it offsets the best estimate liability and RA such that no profit or loss is recognised at the point of contract inception. As the CSM is floored at zero, a loss component is created when the group of contracts is onerous at inception and the negative amount must be recognised immediately in profit or loss.
- **Coverage unit:** The CSM is recognised over the contract's coverage period based on the pattern of coverage units, which represents the level of insurance (and investment) service that is provided to policyholders in each period, for example, for policies with fixed level of insurance coverages, the CSM would be expected to be amortised at similar rates through the policy term, leading to smooth profit recognition.
- **Measurement model:** Contracts with significant assets-linked benefits (such as investment-linked and participating fund policies) would be measured under the variable fee approach. Recognising that these contracts' profitability could be dependent on future economic environment, FRS 117 allows for the impact of economic changes and variances to adjust the CSM and be recognised over the coverage period. This mechanism allows a smooth profit pattern to emerge and lessens the distortions from short-term market fluctuations.

Through the above mechanisms, the profit pattern under FRS 117 is expected to be smoother compared to RBC 2.

In the upcoming article, the IFRS 17 Working Group will attempt to address measurement issues faced by an entity applying the premium allocation approach (PAA) under FRS 117, and highlight the differences between FRS 117 and RBC 2 when adopting the PAA. ISCA

Alvin Chua is Chairman of the IFRS 17 Working Group (WG) and Director, KPMG Services Pte Ltd; Harry Lee, a WG member, is Co-Chair of the SAS Life IFRS 17 Workgroup and Programme Director, IFRS 17 Programme Office, Prudential Assurance Company Singapore; and Charles Chiu is Co-Chair of the SAS Life IFRS 17 Workgroup and Actuarial & Pricing, Group Finance, Great Eastern Life Assurance Co Ltd.

This is the fourth in a series of articles from the IFRS 17 Working Group (set up under the ambit of the ISCA Insurance Committee) to help insurers in Singapore navigate through the differences between FRS 117 and RBC 2.

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