ISCA Chartered Accountant JOURNAL

SEPTEMBER 2023

Restructuring Charities

Impact Investment For The People Sector

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DOING "CHEAP, GOOD AND FAST" BETTER

Lim Yeong Seng
FCA (Singapore)
ISCA Council Member

Dear members,

TO MARK THE INTERNATIONAL DAY OF CHARITY, which falls annually on September 5, our cover story is centred on the theme of charity. Titled "Restructuring Charities", the article provides an overview of where Singapore's social sector is today, where it needs to go in relation to the recent Singapore conversation feedback on building a new social compact and, most importantly, what needs to be done to get there.

In light of Singapore's rapidly ageing population, there is urgency for the social sector to restructure so that beneficiaries can enjoy service delivery that is "cheap, good and fast", according to FCA (Singapore) Professor Ang Hak Seng, who penned the article. Professor Ang's past articles have focused on raising the professionalism of the sector, such as through system thinking, and putting in place proper frameworks and structures. In this article, he proposes impact investment as an approach to futureproof the sector, including enhancing capabilities and capacities.

Already, many ISCA members are using their unique skill sets to benefit the social sector in diverse areas from corporate governance to risk management, financial planning and more. Impact investment is yet another area where accountants' expertise can make "cheap, good and fast" service delivery better.

As the world observes International Day of Charity in September, it is particularly meaningful that the ISCA Run will also take place this month, on the 30th, as the net proceeds will go to ISCA Cares, the Institute's charity arm. I hope you are looking forward to meeting up with friends and colleagues as they, too, participate in this collective effort by the accountancy profession to contribute to the community. Have a fruitful outing!

ABOUT LIM YEONG SENG

Mr Lim is a member of the Public Accounting Practice Committee, which he had also served on from 2009 to 2015. He was also a member of the Investigation and Disciplinary Panel from 2013 to April 2022.

Mr Lim has more than 35 years of experience in audit, corporate recovery, tax, secretarial, finance and administration. He is Founder and Managing Partner of KLP LLP, which he established in 1999. Mr Lim has cross-functional skills which enable him to assist clients in various ways, and these include consultancy relating to financial management and enterprise risk management. He is an ACRA-approved liquidator, with experience in judicial management, liquidation and litigation support.

Mr Lim is currently Chairman of TASK International and Millet Holdings Pte Ltd, and sits on the boards of Abacus Worldwide Advisory and The Rice Company Limited.

Teo Ser Luck
FCA (Singapore)
ISCA President

THOUGHTS

The recent Accountancy career fair held at ISCA House was an astounding success, attracting more than a thousand attendees. This remarkable turnout signals a clear and growing interest among individuals in Singapore to pursue a career in accountancy. However, despite this heightened enthusiasm, the Singapore Chartered Accountant Qualification (SCAQ) programme continues to grapple with challenging enrolment as well as dropout rates. This trend, if left unchecked, threatens to deter potential accountants and will stagnate the profession's growth. To address this issue, it is imperative to implement measures that enhance accessibility and provide critical support to students throughout their SCAQ journey.

To ensure that the SCAQ programme becomes more accessible and attractive, I suggest three key areas to focus on. First, the introduction of optional classes for all modules, both in the Foundation and Professional programmes, will allow students to tailor their learning experience to their individual needs and pace. This flexibility can accommodate diverse learning styles and minimise the dropout rate, as students can adapt their study schedules to align with their personal and professional commitments.

Second, enhanced mentorship programmes, whether provided by individual professionals or companies where students work, can significantly impact student retention. Mentors can offer guidance, share valuable insights, and provide emotional support, fostering a sense of belonging and commitment among students. By pairing students with experienced mentors, we create a support system that bolsters their chances of successfully completing the programme.

Third, regular online assessments, taken at any time at the students' convenience, can help students gauge their progress and identify areas where they need improvement. These assessments can serve as valuable feedback mechanisms, empowering students to take proactive steps to enhance their knowledge and skills. Additionally, periodic assessments can act as motivation, encouraging students to stay on track and remain engaged in their studies.

Furthermore, it is crucial to ensure that the SCAQ programme is accessible not only to university students but also to those in the polytechnics and Institute of Technical Education (ITE). A clear and inclusive pathway to becoming a chartered accountant should be established, ensuring that aspiring professionals from various educational backgrounds have equal opportunities.

The primary objective of SCAQ is not about the programme's financial returns nor how difficult it is to pass; it is about helping students realise their dream of becoming a chartered accountant. While keeping the quality is important, it is equally vital that we help students learn and find joy in learning.

These are the immediate tasks when ISCA has the chance to oversee the SCAQ programme. It can only get better!

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Global Report On State Of Cyber Resilience

COMPANIES ARE COMING OFF A CHALLENGING FOUR YEARS MARKED BY THE RISE IN THE NUMBER AND SEVERITY OF CYBER THREATS AND RANSOMWARE ATTACKS. Cyber events have the potential to impact all areas of their business. According to Aon, a major cyber incident will result in a 9% decrease in shareholder value – over and above the market – in the year following the event. Achieving cyber resilience is now a recurring theme in board room discussions, and the threat is being considered from a holistic risk perspective.

The *2023 Cyber Resilience Report*[1] can serve as a guide for business leaders to benchmark their organisation's cyber risk maturity against peers, and make better decisions when managing cyber across six risk areas: cyber, operational, supply chain, insider, reputational and systemic. The report is based on proprietary client data collected from Aon's Cyber Quotient Evaluation (CyQu)[2].

Highlights from the global report

- **Cyber risk:** Five domains – endpoint and systems security, remote work, application security, access control and data security – demonstrated the most improvement on changes to Aon's CyQu risk profiles, providing greater insight into an organisation's most significant risks and control effectiveness.
- **Operational risk:** Ransomware events decreased 16% from Q3 2022 to Q4 2022, but data from the cyber and errors and omissions insurance marketplace show an uptick in Q1 2023.
- **Insider risk:** Two in five companies reported a lack of security operations centre controls, highlighting the need for improved cybersecurity measures to prevent against phishing, the most common vector for initial network access.
- **Systemic risk:** Managing systemic risk is a high priority, stemming from the use of technology in an interconnected world. As cyber threats evolve, risk quantification models and scenario planning are being refined to accurately determine an organisation's risk profile and inform the extent of cyber insurance coverage required.

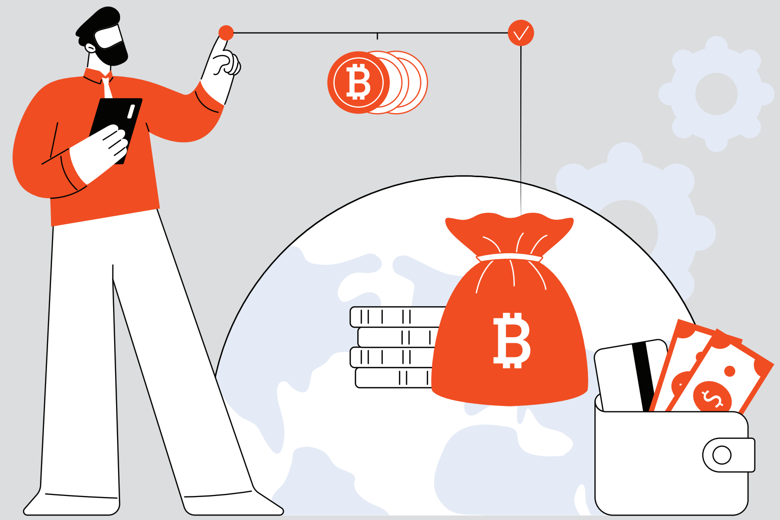
Key insights by industry

- **Finance and insurance:** Insurance claims are rising, with a 38% increase in ransomware claims from Q4 2022 to Q1 2023.
- **Healthcare:** The overall cyber risk score for healthcare clients improved from 2.6 to 2.8 (on a scale of 1 to 4). In 2022, for enterprise and global clients in healthcare, the overall risk profile improved from "basic" to "managed", with more than 80% of the companies reporting scores of 2.5 or higher.
- **Manufacturing:** Aon's CyQu data shows that the overall risk score improved from 2.2 to 2.5 (on a scale of 1 to 4) in 2022, for mid-market clients in the manufacturing industry. However, 56% of the companies reported risk scores lower than 2.5 in 2022. The median percent of IT budget reportedly spent on security also rose globally, with companies reporting 8.5% of the IT budget dedicated to security.

Aon collected the CyQu self-assessment scores from 2,946 client organisations across Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America, North America and the UK in 2020 and 2022. The study focused on six areas of risk – cyber, insider, operational, reputational, supply chain and systemic – in the finance and insurance, healthcare and manufacturing industries.

[1] https://www.aon.com/2023-cyber-resilience-report/
[2] https://www.aon.com/cyber-solutions/cyqu-cyber-quotient-evaluation/

PHOTOS: SHUTTERSTOCK



Singapore Gets Stablecoin Regulatory Framework

SINGAPORE NOW HAS A STABLECOIN REGULATORY FRAMEWORK. On August 15, the Monetary Authority of Singapore (MAS) announced the features of a new regulatory framework that seeks to ensure a high degree of value stability for stablecoins regulated in Singapore. The regulatory framework was finalised taking into account the feedback received, following public consultation in October 2022.

Stablecoins are digital payment tokens designed to maintain a constant value against one or more specified fiat currencies. When well regulated to preserve such value stability, stablecoins can serve as a trusted medium of exchange to support innovation, including the "on-chain" purchase and sale of digital assets.

MAS' stablecoin regulatory framework will apply to single-currency stablecoins (SCS) pegged to the Singapore dollar or any G10 currency that are issued in Singapore. Issuers of such SCS will have to fulfil key requirements relating to:

- **Value stability:** SCS reserve assets will be subject to requirements relating to their composition, valuation, custody and audit, to give a high degree of assurance of value stability.
- **Capital:** Issuers must maintain minimum base capital and liquid assets, to reduce the risk of insolvency and enable an orderly wind-down of business if necessary.
- **Redemption at par:** Issuers must return the par value of SCS to holders within five business days from a redemption request.
- **Disclosure:** Issuers must provide appropriate disclosures to users, including information on the SCS' value-stabilising mechanism, rights of SCS holders, as well as the audit results of reserve assets.

Only stablecoin issuers that fulfil all requirements under the framework can apply to MAS for their stablecoins to be recognised and labelled as "MAS-regulated stablecoins". This label will enable users to readily distinguish MAS-regulated stablecoins from other digital payment tokens, including "stablecoins" which are not subject to MAS' stablecoin regulatory framework. Any person who misrepresents a token as an "MAS-regulated stablecoin" may be subject to penalties[1] under MAS' stablecoin regulatory framework, and placed on MAS' Investor Alert List. Users should make their own informed decisions on the accompanying risks should they choose to deal in stablecoins that are not regulated under the MAS framework.

"MAS' stablecoin regulatory framework aims to facilitate the use of stablecoins as a credible digital medium of exchange, and as a bridge between the fiat and digital asset ecosystems," said Ho Hern Shin, Deputy Managing Director (Financial Supervision), MAS.

"We encourage SCS issuers who would like their stablecoins recognised as 'MAS regulated stablecoins' to make early preparations for compliance," she added.

For more details on the finalised stablecoin regulatory framework as well as the response to the public consultation, please refer to the MAS website (https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities).

[1] Penalties could include financial penalties or imprisonment (in the case of an individual)

(From left) Blackline's John Driscoll, Director – Presales, Asia Pacific and Japan; and Nikhil Parambath, Regional Vice President – Enterprise, Asia Pacific, discussed emerging trends in the F&A space

isca breakfast talk

Evolving F&A From Caretaker To Value Creator: Making The Cost Centre To Profit Centre Transition

DIGITAL TRANSFORMATION is an ongoing priority for organisations that want to modernise their operations and adapt to changing market demands. At the ISCA Breakfast Talk session on July 5, BlackLine's John Driscoll, Director – Presales, Asia Pacific and Japan, along with Nikhil Parambath, Regional Vice President – Enterprise, Asia Pacific, discussed emerging trends in the finance and accounting (F&A) space.

One of the biggest trends is the evolution of the modern F&A function from caretaker to value creator. Businesses are increasingly recognising how F&A functions can deliver more value by redirecting their time to mission-critical activities, instead of simply maintaining a business's finances.

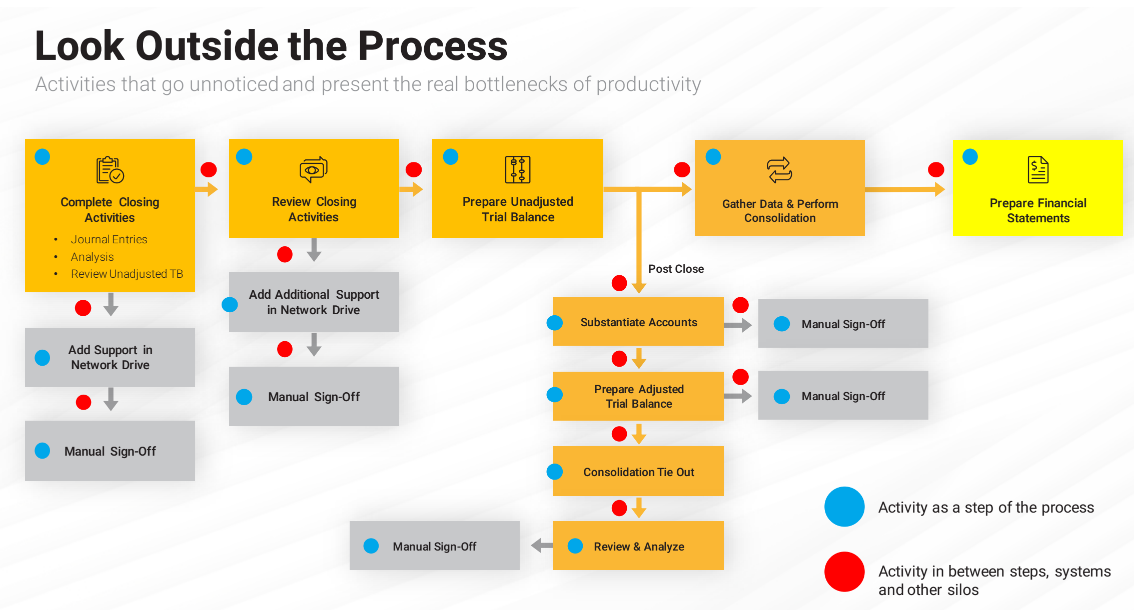
To achieve this, organisations are investing in modern solutions to digitise processes and empower F&A teams to contribute to more value-creation work while transitioning from cost centre to profit centre. Key to this evolution is for businesses to conduct an activity analysis: the framework through which organisations can identify where time is being spent by F&A teams, what processes can be streamlined, and where the business can lift and shift team members to contribute to higher-value work. This framework includes:

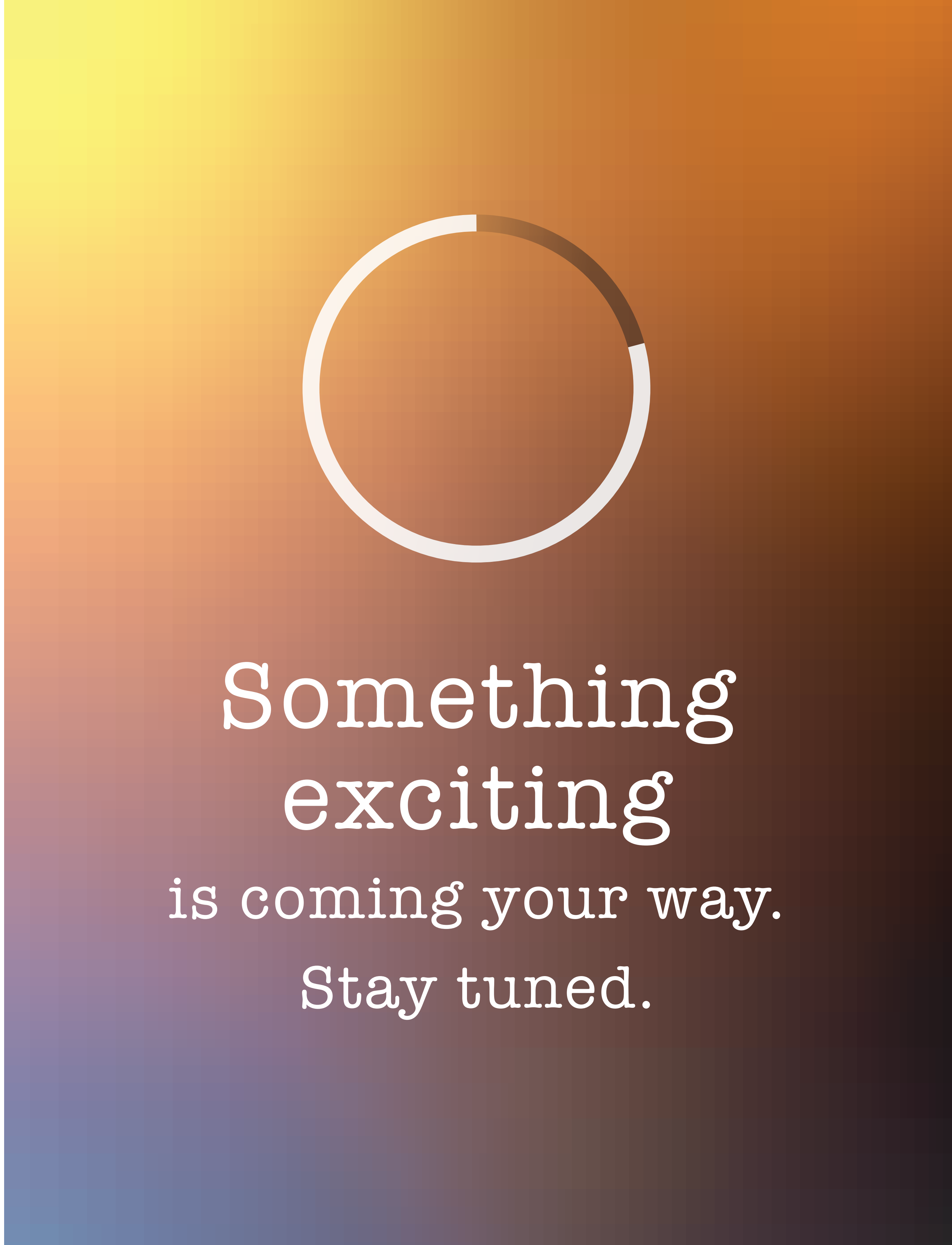
1. Looking at the process to understand what activities are included in the F&A function;
2. Looking outside the process to identify additional activities that fall in between process steps, systems, and other silos.

This activity analysis will help businesses automate and eliminate unnecessary steps and processes to move towards more strategic finance.

For more information about the current F&A landscape, download the whitepaper titled *Futureproofing Finance & Accounting – The 2023 Landscape* (https://www.blackline.com/resources/whitepapers/future-proofing-finance-accounting-2023-landscape-singapore/).

Framework for activity analysis





isca mini conference series

Updates On Professional Standards 2023

Helming the session were (from left) Genevieve Joan Soh, Head of Platforms and Ecosystems, Climate Impact X; Lim Tze Yuen, member, ISCA Ethics Committee and Partner, Ernst & Young LLP; Aylwin How, member, ISCA Financial Reporting Committee and Partner, Deloitte & Touche LLP; Susan Foong, member, ISCA Auditing & Assurance Standards Committee and Partner, Baker Tilly TFW LLP; Wong Yew Chung, member, ISCA Financial Reporting Committee and Partner, Ernst & Young LLP; Fang Eu-Lin, member, ISCA Sustainability Reporting Advisory Committee; Bong Yap Kim, Senior Technical Director, ACRA; and Justin Turnbull, Director, KPMG Australia

THE FOURTH INSTALMENT OF THE ISCA MINI CONFERENCE SERIES 2023 TOOK PLACE ON JULY 12, with the theme "Updates On Professional Standards 2023". The session was organised by the ISCA Professional Standards Division and supported by the ISCA Auditing and Assurance Standards Committee, Ethics Committee and Financial Reporting Committee.

During the 2.5-hour session, 251 participants were enriched with insightful updates from the speakers on key changes in accounting, auditing and ethics. They also learned about the latest developments in emerging areas such as climate reporting in Singapore and environmental credits. Here are some highlights from the event.

Mr How shared the key changes to the SFRS that are effective 1 January 2023, and their implications

TOPICAL ACCOUNTING UPDATES

Aylwin How, a member of the ISCA Financial Reporting Committee and Partner, Deloitte & Touche LLP, kicked off the session where he shared the list of key changes to the Singapore Financial Reporting Standards (SFRS) that are effective 1 January 2023, and how they might affect the preparation of financial statements. He went on to elaborate on the accounting considerations arising from the International Tax Reform – Pillar Two Model Rules with the associated amendments to SFRS(I) 1-12 *Income Taxes*, as well as SFRS(I) 17 *Insurance Contracts* for non-insurers. Mr How concluded the session with a quick overview of two of ISCA's technical guidance issued in 2023, comprising FRB 9 (Revised January 2023) *Accounting Implications of the Interest Rate Benchmark Reform in Singapore*, and FRB 10 *Real Property Valuation for Financial Reporting – Fair Value Based on Highest and Best Use*.

UPDATES ON AUDITING STANDARDS

Macroeconomic and geopolitical developments, as well as evolving business and audit environments, make it necessary to constantly review existing auditing and assurance standards, to ensure that they remain fit-for-purpose.

In this segment, Susan Foong, a member of the Auditing & Assurance Standards Committee and Partner, Baker Tilly TFW LLP, shared the significant changes to the recently revised SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, which is effective for audits of group financial statements for periods beginning on or after 15 December 2023. She also covered key changes proposed by IAASB in its exposure drafts of standards dealing with going concern, audit evidence, audits for less complex entities and sustainability assurance.

Ms Foong spoke about the recently revised SSA 600, and IAASB's key exposure drafts

Mr Lim highlighted key revisions to the Ethics Code, to set out independence requirements for individuals and firms in a group audit context

REVISIONS TO THE ETHICS CODE RELATING TO ENGAGEMENT TEAM AND GROUP AUDITS

To ensure consistency and interoperability with the auditing standards, in particular, the revised SSA 600, ISCA had put forth proposed revisions to the Ethics Code for public consultation in May 2023. The consultation period has since ended, and the revised Ethics Code was issued on 30 August 2023 with an expected effective date of 15 December 2023[1].

In this segment, Lim Tze Yuen, a member of the ISCA Ethics Committee and Partner, Ernst & Young LLP, shared key revisions to the Ethics Code relating to alignment of key defined terms with those in revised SSA 600 and a new section entitled Group Audits, which sets out independence considerations for individuals and firms in an audit of group financial statements.

PHOTO SHUTTERSTOCK

[1] https://isca.org.sg/content-item?id=7e25dd22-ef79-4c13-bc62-8d5bb13811b9

TURNING CLIMATE AMBITION INTO ACTION IN SINGAPORE: RECOMMENDATIONS TO ADVANCE CLIMATE REPORTING BY THE SUSTAINABILITY REPORTING ADVISORY COMMITTEE

In July 2023, ACRA and Singapore Exchange Regulation (SGX RegCo) launched a public consultation on the recommendations by the Sustainability Reporting Advisory Committee (SRAC) to advance climate reporting in Singapore. Fang Eu-Lin, a member of the ISCA Sustainability Reporting Advisory Committee, opened the segment with a short presentation on the recommendations proposed by SRAC which seek to uphold Singapore's attractiveness as a global business hub.

Bong Yap Kim, Senior Technical Director, ACRA, then joined Ms Fang on stage for a lively question-and-answer session, where they addressed queries from the participants.

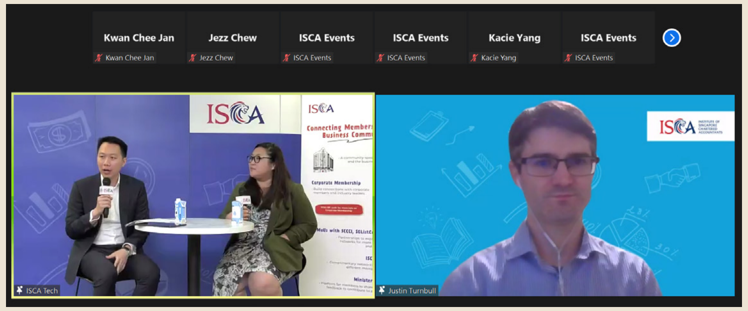
Ms Fang (left) presented on the SRAC recommendations which seek to uphold Singapore's appeal as a global business hub; Ms Bong joined Ms Fang for the Q&A segment

ENVIRONMENTAL CREDITS AND RELATED ACCOUNTING IMPLICATIONS

Since Singapore's introduction of carbon taxes in 2019, there has been growing interest in carbon credits. In 2022, it was announced that Singapore-based companies would be allowed to offset up to 5% of their taxable carbon emissions through the purchase of high-quality international carbon credits starting from 2024.

To familiarise participants with this fast-developing area, Wong Yew Chung, a member of the ISCA Financial Reporting Committee and Partner, Ernst & Young LLP, provided a quick introduction to environmental credits, power purchase agreements between green energy buyers and green energy suppliers, as well as some notable accounting implications.

Mr Wong provided an introduction to environmental credits, and power purchase agreements between green energy buyers and green energy suppliers, and related accounting implications



Mr Wong, Ms Soh and Mr Turnbill discussed the considerations and risks when entities purchase and hold environmental credits

Following his presentation, Genevieve Joan Soh, Head of Platforms and Ecosystems, Climate Impact X, and Justin Turnbull, Director, KPMG Australia, joined Mr Wong for a discussion on the developments surrounding environmental credits. Among others, they discussed salient considerations and risks that entities should be concerned with when purchasing and holding carbon credits, types and categories of carbon credits available in the marketplace, and key accounting implications arising from physical and virtual power purchase agreements.

TEXT BY

Professor Ang Hak Seng

PHOTO SHUTTERSTOCK

Restructuring Charities

Impact Investment For The People Sector

TAKE AWAYS

- The key changes required to build a new social compact for Singapore will inevitably affect the People sector, particularly in the areas of operations, organisations, and relationships with stakeholders.
- Impact investment could be a plausible approach to futureproof the People sector, by enhancing the capabilities and capacities of non-profit organisations.

IN THE RECENT SINGAPORE CONVERSATION ON BUILDING A NEW SOCIAL COMPACT, there was emphasis on the need for a mindset shift which extends beyond people, towards government and communities doing more to help. For this to take place, charities need to be a key pillar of support.

From the conversation, key changes, such as needing a new approach for social support, providing care for our seniors, and skills upgrading, were identified as critical themes. For the People sector, these changes will have significant impacts on our operations, organisations, and relationships with our stakeholders.

To futureproof the People sector, I have conducted some research through interviews with select charities and social service agencies (SSAs) to understand the current best practices of the People sector. Through this applied research process, I have condensed the current and future state of the People sector and proposed impact investment as the approach to enhance the capabilities and capacities of our non-profit organisations.

DRIVING FORCES

Due to external and internal circumstances, it is evident that the non-profit sector is changing. Based on my research, four main driving forces have emerged, namely changing expectations, resource scarcity, increasing demand for People sector services, and the digital awakening.

1. Changing expectations

Over the years, as our population demographics shift, the expectations of our citizens have also changed.

Compared to previous generations, the citizens of today are more educated and affluent. For instance, university graduates now make up a larger proportion of society, increasing from 23.7% in 2010 to 33% in 2020[1]. This change in demographics has resulted in beneficiaries, volunteers, and donors who are more selective with their choice of SSA. Volunteers are looking for volunteering opportunities that allow them to create positive social impact, provide them learning experiences, and also enable personal growth and development. Beneficiaries are looking for SSAs that can deliver cheap, good, and fast services that are convenient. Donors, who are becoming more sophisticated, are looking to donate to charities that can provide the greatest social impact, which ensures that their money is well spent. Hence, the change in Singapore's demographics has resulted in a drastic shift in the expectations of stakeholders in the People sector.

2. Resource scarcity

Another key driving force in the People sector is resource scarcity caused by the high cost of living. A direct result of the volatile, uncertain, complex, and ambiguous (VUCA) world that we live in, as well as climate change, the high cost of living has affected the non-profit sector in terms of money and manpower.

In terms of money, the donations and grants that charities have been receiving have dropped. For instance, donations received in 2020 were reduced by 3.9% compared to 2019, according to the *Commissioner of Charities Annual Report 2021*[2], published by the Ministry of Community, Culture and Youth in 2022. A key reason for this financial prudency among the population is because of the recent financial constraints resulting from a higher cost of living. Since non-profit organisations rely heavily on donations and grants as their main source of funding, the drop in donations will affect an SSA's ability to generate social impact. Furthermore, the high cost of living also directly impacts on the operational costs of charities, making it more expensive to run their programmes and services.

Resource scarcity is also reflected in the SSA's manpower. As the cost of living increases, the median volunteering hours have reduced by half, from 24 hours in 2018 to only 12 hours in 2021, according to *NVPC Individual Giving Study 2021*[3], published by the National Volunteer & Philanthropy Centre in 2021. While COVID-19 was a contributing factor to the reduction in volunteering hours, the other cause for fewer volunteering hours is greater work or school commitments. As such, for People sector organisations that rely heavily on volunteers to execute programmes and engage beneficiaries, the reduction in volunteers would negatively affect the SSA's social impact to a large extent.

[1] https://www.straitstimes.com/singapore/spore-population-better-educated-across-age-ethnicity-women-make-greater-strides
[2] https://www.charities.gov.sg/PublishingImages/Resource-and-Training/Publications/COC-Annual-Reports/Documents/Commissioner of Charities Annual Report 2021.pdf
[3] https://cityofgood.sg/resources/nvpc-individual-giving-study-2021/
[4] https://www.singstat.gov.sg/-/media/files/publications/society/ssn122-pg10-14.ashx

3. Increasing demand for People sector services
The demand for People sector services has risen and will continue to rise as Singapore's population continues to rapidly age. There are several characteristics that an aged population would have, including low fertility rates, low marriage rates, longer life spans, and people becoming more politically sensitive towards immigration.

A key problem that ageing populations experience is the high medical cost to society. As Singapore's population ages, the rate of chronic diseases, such as diabetes, high blood pressure and high blood cholesterol, is likely to rise. For example, between 2009 and 2017, the proportion of older adults who had three or more chronic diseases had almost doubled, according to the National Population Health Survey 2020[4]. On top of the rise of chronic diseases, mental health issues, such as elderly loneliness and dementia cases, have also been increasing.

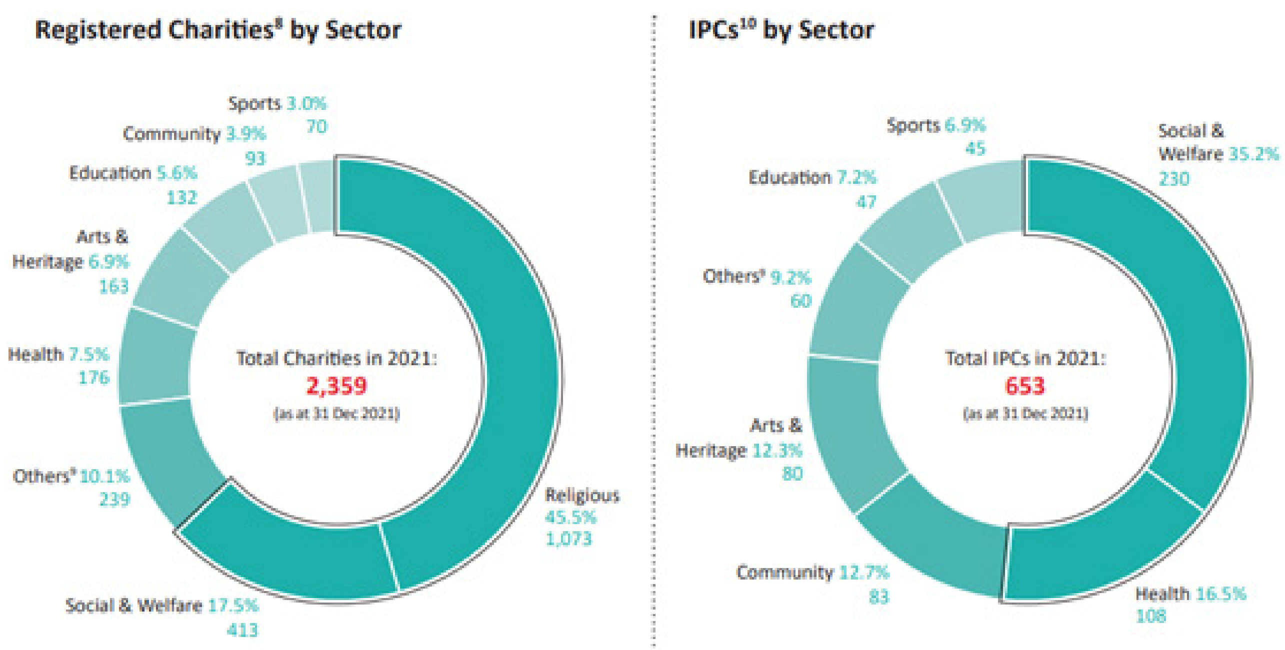
To address these societal issues, the nation relies heavily on the People sector to create the community support networks, provide financial assistance and other types of services to improve the lives of those who are less able, thereby increasing the demand for People sector services.

4. Digital awakening
Regardless of sector, it is safe to say that COVID-19 was a tumultuous time for all of us. However, there was a silver lining as it sparked a nation-wide digital awakening. For the longest time, charities and non-profits faced an uphill battle to change the negative mindset beneficiaries had regarding technology. However, during COVID-19, as businesses and government services started to migrate online, our population, specifically the elderly, underwent a digital awakening and has since become much more digitally savvy. As a result, in today's context, technology plays a more significant role in our citizens' lives as people have become accustomed to the convenience of digital services. This trend has translated into the way people give back to society as there is a significant number of donors who donate exclusively through digital channels.

Hence, as our stakeholders become more digitally savvy, the operational process in the People sector organisations will also need to be updated accordingly. Furthermore, the People sector should leverage on the digital awakening to deliver more of our services via the digital channels, which can in turn improve the service delivery of our charities.

FIGURE 1

Distribution of Charities and IPCs by Sector



Source: *Commissioner of Charities Annual Report 2021*

> Impact investment, which is the cumulative efforts of all three social innovations, refers to investing with the intention to generate social impact and financial returns, and embodies the concept of doing good, doing right, and doing well.

CURRENT STATE OF CHARITIES

To tackle the driving forces, the charity sector will need to examine our current state to establish a baseline.

In Singapore, there are over 2,360 registered charities serving our community, with the majority of them being religious or social and welfare organisations (Figure 1). The non-profit sector of today operates on a decentralised system, where the social sector ecosystem comprises many small SSAs serving a diverse range of beneficiaries. An advantage of this system is that it gives the stakeholders (beneficiaries, volunteers, and donors) the ability to choose the charity that best suits their needs. It also ensures that each service is highly tailored and personalised to each beneficiary, thereby promising to address the unique pain points of each beneficiary.

However, while this structure has brough great benefits to the sector, there are some limitations to the current model.

First, while the decentralised system encourages the formation of many SSAs, a large proportion of these SSAs are small (for example, some SSAs may have just five staff). This means that SSAs may lack the economy of scope, as their small size limits the scale and variety of programmes that they can simultaneously operate. Also, the small size also implies that they would not have the economy of scale to purchase goods and services in bulk. This would inevitably increase the operational costs of the individual SSA, thus reducing the amount of funds that can go directly to the beneficiaries.

Second, a diverse group of small charities also leads to a fragmented social service sector in terms of services and beneficiaries. In terms of services, as each charity becomes specialised, the scope of service it provides is also narrowed. This leads to fragmented service as there is no clear unifying focus that the entire sector is moving towards; over time, this could lead to more abandoned projects or discontinued services. The beneficiaries are also fragmented due to the limited number of beneficiaries each SSA can serve. Hence, to address their complex problems, beneficiaries are required to individually source for different SSAs to address their specific areas of concern. This creates additional unnecessary burden and confusion to the beneficiaries as each SSA may have different procedures. Moreover, there may be necessary services which the SSAs have yet to create due to the lack of awareness of these gaps in service.

In both cases, the quality and quantity of service that beneficiaries receive would be less than what they expect, due to the large amount of administration or paperwork that beneficiaries would need to attend to. This runs contrary to the cheap, good, fast, and convenient service delivery that our stakeholders expect.

Third, many charities have overlapping problem statements and tend to focus on similar problem areas, thereby leading to underserved and overserved beneficiaries. For instance, for charities addressing the issue of senior isolation, many tend to focus only on the elderly who live in one-room, two-room or rental flats. However, senior isolation is not limited by an individual's living arrangements. Regardless of one's living arrangements, factors such as low levels of education and cognitive impairment are associated with social disconnection, which increases loneliness among the elderly. Hence, the elderly who live in three-room or four-room flats, or even private housing, will also be affected by this social issue. Hence, by focusing on the obvious and easily solved issues, charities may have inadvertently created the issue of overserved (that is, one-room or two-room rental flats) and underserved (that is, three-room or four-room flats) communities.

Fourth, charities tend to have low productivity levels as they lack the economy of scale and scope. As all their processes are small-scale by nature, individual SSAs will likely have to pay more than larger organisations for similar products or services. Also, generally, the productivity of service delivery in the People sector is severely underdeveloped, especially when compared to the productivity in the Private sector.

Fifth, young talents entering the workforce are not starting their careers with the non-profit sector. Currently, a large proportion of those who join the social service sector as working professionals tend to come in at a later stage in life[5], according to the *SWAAB Annual Report 2020*, published by the Social Work Accreditation and Advisory Board in 2020. When interviewed, SSAs responded that young talent makes up only about 35% of staff, while retirees and late mid-career switchers account for up to 60% of charities' CEOs; 70% of charities' chairpersons are retirees.

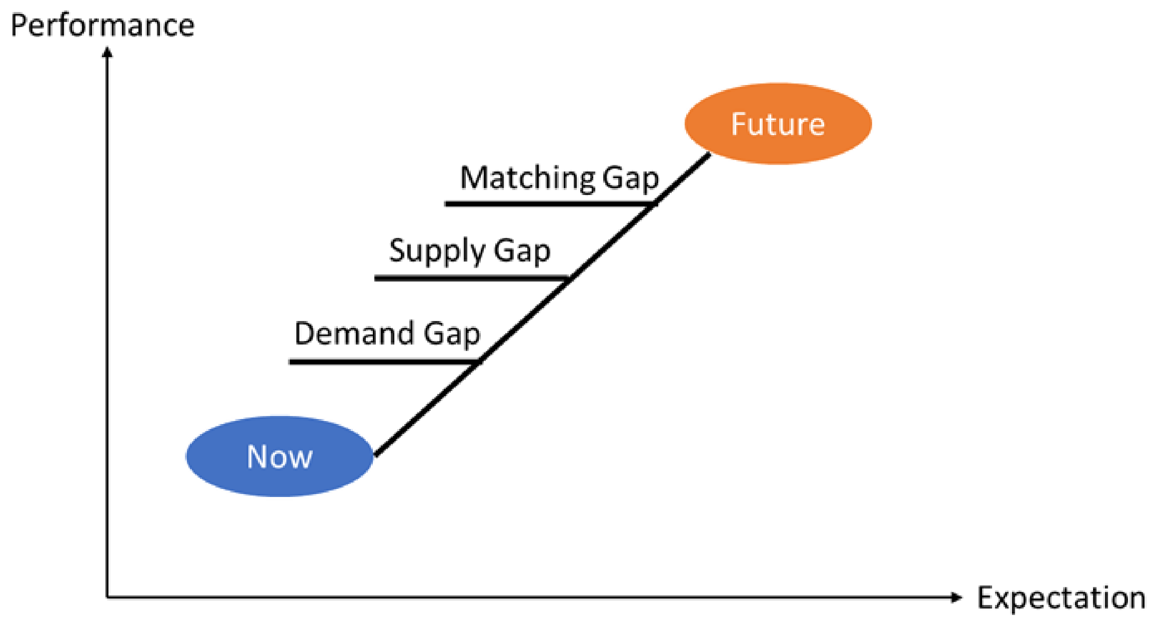
Having the more experienced professionals joining the charity sector has been beneficial, as these workers bring with them best practices and knowledge from the public or private sectors, thereby spurring development in the non-profit sector. Some of the identified key reasons for this trend (of later joiners) include the SSAs' inability to keep up with the rising salaries, and the lack of career development opportunities within the sector.

In summary, currently, Singapore has many small and diverse charities, and many of the SSAs serve overlapping groups of beneficiaries. The sector currently struggles with productivity issues, though there is governmental support to help mitigate this, and talent acquisition issues. With this understanding, where are the looming gaps that the People sector will experience?

GAPS AND SHIFTS IN THE PEOPLE SECTOR

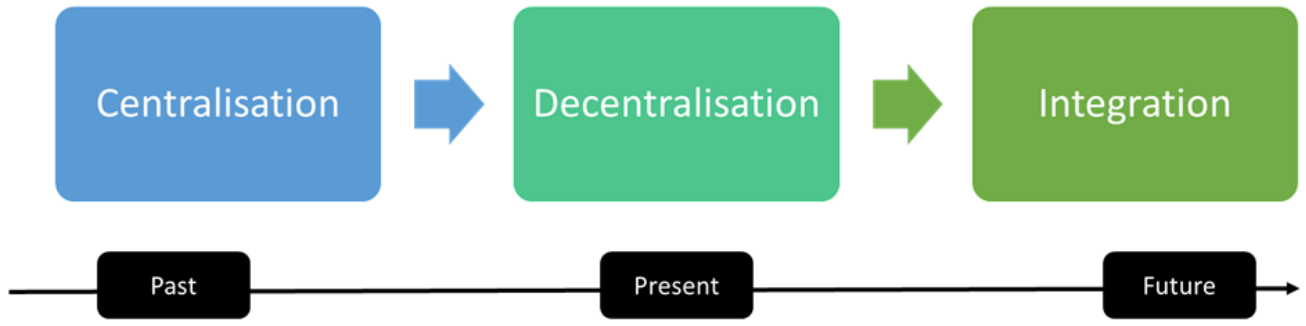
When one considers the drivers of the People sector and the current state of charities, it is clear that there are gaps in capabilities, such as in demand, supply, and matching (Figure 2). Furthermore, there are also shifts that we observe, such as investment over donations,

FIGURE 2 DIFFERENCE IN EXPECTATIONS AND PERFORMANCE BETWEEN SSAS AND THEIR STAKEHOLDERS



Another solution that would enable the vibrancy of the decentralised system, while enjoying the economy of scale from the centralised model, is to ensure that charities form alliances with each other via the integration solution.

FIGURE 3 CHANGES IN THE PEOPLE SECTOR ECOSYSTEM



collaboration over silos, and social impact over doing good, that the People sector will have to address before the sector is future-ready.

Gaps between current and future state of the People sector

Referring to the demand gap, the amount and type of help has simultaneously increased (Figure 2). However, does the sector possess the capacity and capabilities necessary to address this increase in demand? If not, what are the kinds of skills and systems that we will need to develop moving forward?

For the supply gap, we are not receiving the optimal number of resources (funding and volunteers) that the sector needs to thrive. How can we better manage with what we have, to continue to deliver quality services to our beneficiaries? Also, the sector is not as productive as it could be. Are there other ways to improve productivity?

Regarding the matching gap, it is evident that our stakeholders' (beneficiaries, donors, and volunteers) expectations and our expectations are misaligned. Also, there is an issue of underserved and overserved beneficiaries. How can we seek to ensure services are catered to all who need them equally? Some would argue that we are underperforming in this aspect, as we are not quickly responding to the changes that our stakeholders are experiencing.

From centralisation to integration

Observers of this scenario (Figure 3) may suggest that the People sector move away from the current decentralised model and return to the old, centralised model to address the issue of economy of scale and scope. Centralisation would dramatically change the current social ecosystem, reducing the number of charities to a few large organisations. However, this process is undesirable as it reduces the number of choices people would have regarding their desired SSA. Reducing the options people have for SSAs would reduce the ownership they feel towards community and charities. Furthermore, returning to centralisation would mean that SSAs would be forced to undergo the merger and acquisition process, which would potentially dilute the vibrant social sector we currently have, as the unique identity and culture of individual SSAs become blended into a monotonous singular entity. As a highly emotive sector, many SSAs were created due to ground-up initiatives by those who care deeply about our community. Hence, forcing a variety of SSAs to merge and form several large charities would disengage the ground.

[5] https://sasw.org.sg/wp-content/uploads/2021/07/SWAAB-Annual-Report-2020-as-of-7-June-21-FINAL-for-Dissemination.pdf

Fortunately, centralisation is not the only solution. Another solution that would enable the vibrancy of the decentralised system, while enjoying the economy of scale from the centralised model, is to ensure the charities form alliances with each other via integration.

Thus, what are the shifts that we will need to adopt quickly, to address the aforementioned changes?

Shifts required to deal with the future of the People sector

The first shift is from donation to investment. To address the financial aspect of the resource gap, it is advisable for charities to start exploring more sustainable income streams. As the sector is still highly reliant on donations and grants, research and development of new financing methods for the sector, such as social investment, would be required for the sustainability of charities.

The second shift is from working in silos to collaborating with others. To establish a win-win scenario, where we retain the decentralised structure of today's charities but also increase productivity, we will need to collaborate with others and form long-lasting alliances. For the People sector to be more efficient and productive, beyond streamlining our processes, we can also leverage on each other's strengths and work together.

The last shift is from doing good to creating social impact. In the beginning, most SSAs were measured and benchmarked based on the amount of resource used (Figure 4). The criteria have evolved to evaluation on the charity's productivity levels. Currently, most charities are being evaluated based on the number of beneficiaries that they have assisted. However, in the future, the evaluation criteria will shift again, towards a charity's ability to generate social impact, which is the most complex method of them all. Already, a few SSAs have adopted this criterion.

When we were measured based on our input, process, and structure, the focus was about the number of beneficiaries impacted. However, social impact looks beyond only the number of beneficiaries helped and includes the amount of value we bring to the lives of our stakeholders. This process is more complicated as it requires complex metrics and evaluation. Being able to develop these assessment methods requires a high level of sophistication and understanding of the sector. The most complicated and thus most difficult measurement system is collective social impact, which is the cumulative social impact of all SSAs within the same ecosystem. To calculate collective social impact, ecosystem-wide vision and goals need to be set, ensuring that the whole of the social sector operates and moves together as one unit.

As such, due to the three different sector shifts that the social sector requires, it is evident that the current model for the People sector needs to be reframed and reengineered.

FIGURE 4 CHANGES TO THE MEASUREMENT SYSTEM OF SOCIAL IMPACT

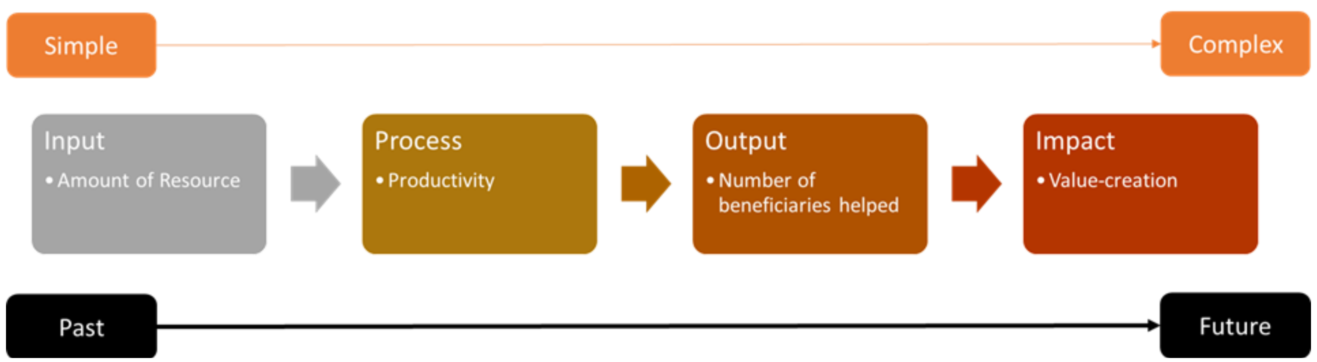
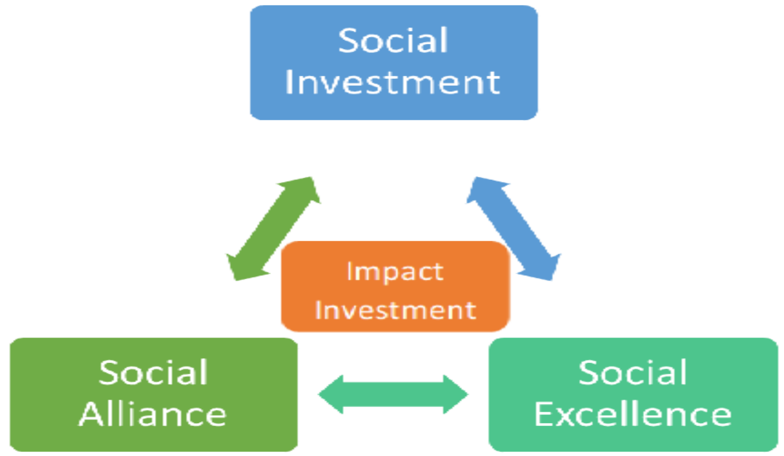


PHOTO GETTYIMAGES

... social impact looks beyond only the number of beneficiaries helped and includes the amount of value we bring to the lives of our stakeholders.

FIGURE 5 3 KEY SOCIAL INNOVATIONS IN POSITIVE FEEDBACK LOOP



SOCIAL INNOVATIONS

With the necessary mindset shifts, it is apparent that the People sector requires certain reframing. To do this, we need to challenge our current assumptions; therefore, social innovations such as social investment, social excellence, and social alliance are necessary (Figure 5). When all three innovations are done together, it would result in a fundamental shift towards impact investment, which is vital for the People sector to be future-ready.

Impact investment

Impact investment, which is the cumulative efforts of all three social innovations (Figure 5), refers to investing with the intention to generate social impact and financial returns, and embodies the concept of doing good, doing right, and doing well.

Social investment is a way of ensuring the sustainability of an organisation, and is to be used in conjunction with other methods of income generation for charities, such as donations and grants. There are two main elements that make up social investment, namely social capital, and social return-on-investment (ROI). Social capital includes social bonds, social equity, and social revenue. Social ROI refers to the outcome of the investment, which could be capital or other social impacts.

Social excellence refers to frameworks which would help the social sector achieve operational excellence with the purpose of improving sector productivity. Within the social excellence framework, there are three critical areas that need to be addressed, namely value creation, productivity, and technology.

Social alliance is a key social innovation that strengthens the sector's collaboration capabilities. By collaborating with one another, People sector organisations would be able to leverage on each other, thus improving the overall sector capability. There are three main types of alliances that the sector can forge with each other: resource alliance, process alliance and ecosystem alliance.

CALL TO ACTION

As our society continues to evolve, the People sector will need to keep up with the changes to ensure that we continue to provide the best service we possibly can for our beneficiaries. In my next article, we will go into detail about the toolkits and best practices to use in order to create and quantify social impact investments for the People sector. ISCA

Dr Ang Hak Seng, FCA (Singapore), is Professor of Social Entrepreneurship and Director of Centre of Excellence for Social Good, Singapore University of Social Sciences; and Adjunct Professor, Nanyang Technological University.

member profile

Making It Count In Every Way

Terence Cheng, CA (Singapore), International FP&A Lead, BRF

TAKE AWAYS

- Mr Cheng's advice for young professionals include finding a mentor, speaking up at meetings to share their ideas, and talking to people both within and outside the company to broaden their horizons.
- A Chartered Accountant qualification is highly regarded by employers and definitely opens doors.
- He urges accountants to embrace technology, and use it to elevate their work.

THE NOURISHING DOUBLE-BOILED PORK RIB SOUP A GRANDMOTHER MAKES FOR THE FAMILY. That roast chicken salad for those quick desk lunches. The glistening barbecued wings calling out to you at the food centre. You would not have guessed it, but Terence Cheng, a Chartered Accountant and ISCA Young Professionals Advisory Committee (YPAC) member, has a part to play in bringing these dishes to you.

As the International FP&A (Financial Planning and Analysis) Lead at BRF – a Brazilian food processing company that sells meat products under brands such as Sadia and Perdigão internationally – he leads an international team with members based in Russia, Japan, and Austria. His team formulates the company's annual budget for 40 countries across four continents, and also performs monthly analysis and forecasting, slicing the numbers by region, country, product and other variables that affect each line of the profit and loss statement. "It is a very interesting industry with an incredibly complex value chain," he explains. For example, while each whole chicken is a product on its own, it can also be cut into parts and sold to different markets. In Singapore, consumers like wings; in Japan, the demand is greater for drumsticks and thighs; in Europe, breast meat is preferred while in Hong Kong, it is the feet that they love. "There is a huge supply chain and demand planning that goes on in the background to ensure that the returns on each chicken are maximised. In fact, a lot happens before the chicken even arrives at your favourite BBQ hawker stall," he reveals.

In steering the strategies for each market, what he does affects the sale and availability of the meat products used in homes and restaurants alike. "It feels great to have a job that impacts the everyday lives of many, as I can see my work translate into products made available for all in supermarkets and food outlets everywhere," enthuses the 33-year-old, of the role that he took up almost two years ago.

The effects of his work have not always been so visible. Like many accountancy graduates, the Nanyang Technological University graduate cut his teeth at a Big Four firm – in his case, KPMG – where he was exposed to a wide range of industries spanning shipping, healthcare, general manufacturing, construction, oil & gas and even the public sector. "It was a tough grind, but it was a great place to set foundations through insider access to the operations and financials of clients from different industries," Mr Cheng recalls. "Like a character in a video game, you start off at Level 1; you need to gain the requisite experience and skills before levelling up."

> "Seek out mentors – ideally your bosses. Alternatively, find others from your company or other organisations such as ISCA."

Wanting to explore opportunities outside of auditing firms, he took on an inhouse finance role at a technology company. "The audit experience took me from Level 1 to, say, Level 5. But I still had a lot to learn and the curve was steep," he shares. Mr Cheng explains that audit, by nature, is "backward looking" as it involves examining historical data to provide reasonable assurance on a company's finances. But an inhouse finance role requires adopting a forward-looking stance. "Indeed, it is important to understand the past to make sense of the present, in order to see the future," he elaborates. "I enjoy the forward-looking aspect more, because it allows me to play a part in what is to come, and create more impact."

IMPACTING LIVES

When it comes to impact, Mr Cheng is interested in bringing positive impact not just to the business but to those around him. This is why he relishes working in a finance business partner-type role. "Finance business partnering allows me to exercise both hard and soft skills," he shares. In such roles, one provides finance support to colleagues across all departments in an assigned geographical or functional area. "For example, I would be the primary point of contact for everything from simple payment matters to more complex issues, such as modelling the profitability of a new product." With many transaction-heavy roles offshored these days, what remain in demand are analytical thinkers who can communicate effectively with stakeholders from all levels and departments. This takes an ability to understand the different processes within a company, and the considerations and priorities of different units. The bird's-eye-view perspective Mr Cheng gained of business processes through his career in auditing and finance positions has served him well to assume this role.

He enjoys the collaborative nature of his work. "Having come from roles where I was always an individual contributor, the opportunity to lead a team is one of the most rewarding and exciting parts of what I do now," shares the natural leader who had found himself in leadership roles in school, sports teams and church. "I enjoy taking responsibility for my team's performance, and also taking care of people."

His advice to young professionals entering the industry is to seek out bosses who take a genuine interest in the growth and development of their team members. "Ideally, your boss or boss's boss should be your mentor. Otherwise, find other people within your company or other organisations such as ISCA," he suggests. Mr Cheng also encourages young professionals to come out of their shells. "The first aspect is to speak up at meetings and be heard. You might feel shy and wonder what you might be able to bring to the table, but you should be brave and share your ideas. The second is to speak to more people both within your company and within the industry." Citing his own career journey, he says that it was through talking to a lot of people and asking many questions that he got to understand the industry that he is currently in. "As a new joiner, one should reach out to non-finance colleagues to understand the company, the products, the operations, and the business drivers, so that one can quickly deliver impact in finance roles."

In this respect, an ISCA membership has helped Mr Cheng broaden his networking among members of the same fraternity. "While we may be from different industries, we can certainly learn from one another's experiences, and how we each manage our finance teams and the issues arising," shares the YPAC member, who actively engages younger members. Mr Cheng also highlights the importance of having a Chartered Accountant qualification. "It definitely opens doors. In fact, many prospective employers see the qualification as a mark of excellence and a testament to the qualification holder's knowledge, skills, and ethics," he observes.

As someone who has been proactive in attending Microsoft's Power BI workshops, ISCA's Business Analytics and Reporting (BAR) course, and Tableau training, Mr Cheng urges those in his profession to adopt new technology to elevate their work. "Rather than worry about new technology taking over, we should master it and bring it into our skill set," he says. "Artificial intelligence (AI) has tremendous potential to impact our output and processes. As individuals, we should pay attention to such developments because they affect what we bring to the table." Similarly, he urges companies to stay on top of trends to remain competitive. "I would be very surprised if any company today is not paying attention to topics such as AI and sustainability. Companies need to be responsive to emerging trends as these are issues that will be reflected in consumers' demands sooner or later, ultimately affecting the P&L."

NO CAREER FORECASTS

For one who makes business forecasts for every year, quarter and month, Mr Cheng does not try to forecast his own career trajectory. "It's much easier to make accurate company forecasts than personal forecasts!" he laughs. "Instead, I simply do my best and take things step by step, and hope to bring a positive influence or impact for the company and people around me wherever I go."

Having to lead an international team means he has to deal with the challenge of juggling many different time zones, which leaves the father of two girls under the age of two with little spare time. "I took the job at BRF just before my first daughter was born, and I was offered this new role just before the birth of my second daughter. I knew it would be challenging but my wife and extended family have been very supportive," he discloses. He is also very appreciative of his company, which has accorded him a flexible working arrangement with staggered hours – half in Singapore's time zone, and the other half at night – to connect with colleagues on the other side of the globe, such as Brazil.

"My days pass like clockwork: work-family-work-sleep," he reveals. "I squeeze in time to exercise at night after the kids go to bed and before I start my second shift. And I catch up with people over lunch on weekdays." Even so, he does not see it as a tough time but just a stage in life with its ups and downs. "It's a common experience for many young working parents. Rather than think about it as something we have to endure, I prefer to cherish this phase while working hard to give my best at all the things I have on my plate," he says. ISCA

TEXT BY


David Yeong


Keith Tan

Challenges And Pitfalls Facing SMEs And Startups

Tips To Overcome Common Hurdles

TAKE AWAYS

- SMEs and startups have many challenges arising from limited resources, that impact their growth and sustainability.
- The three key challenges facing SMEs are namely branding, talent acquisition and succession planning.
- The three key challenges facing startups tend to centre on business, technology, and governance.

IN "STRATEGIC PLANNING AND BALANCE SCORECARD, PART 1", published in the June issue of this journal, we discussed what strategic planning is and introduced the Balance Scorecard (BSC) for small and medium-sized enterprises (SMEs) and startups. In "Strategic Planning And Balance Scorecard, Part 2", published in August, we discussed how companies can implement a BSC and shared some tips for the successful implementation of strategies from business leaders. In this article, we look at the different challenges and pitfalls facing SMEs and startups. For both types of businesses, the key issues typically arise from their limited resources. Here, we identify the top three challenges facing SMEs and startups, and suggest ways to tackle these problems.

FIGURE 1 KEY DIFFERENTIATORS BETWEEN SMES AND STARTUPS IN SINGAPORE[1]

	SMEs	Startups
Definition	SMEs are defined (by Enterprise Singapore) as: • Companies with less than $100 million in annual turnover • Companies with less than 200 employees • Minimum 30% of the shares must have local ownership	A startup is a differentiated business that is novel to what is available in the market, and has potential market opportunity and business feasibility
Business model	Generally, the SME's business model has been proven and it has identified the correct product/service fit. Financing is required more for expansion than operational needs as revenue generated can cover operational needs	Business model has yet to be proven and most startups' objectives are to disrupt traditional service offerings and products in markets by using technology and novel solutions
Statistics	According to Singapore Department of Statistics in 2022, there are: • Over 299,800 Singapore enterprises (SMEs and non-SMEs) • SMEs make up 99% of all Singapore enterprises • SMEs employ 71% of the total Singapore workforce (non-SMEs: 29%) • 80% of SMEs are Singapore-owned (foreign-owned entities: 20%)	According to Startup SG in 2022, there are a total of: • 4,795 registered startups • 528 registered investors • 251 registered incubators and accelerators
Funding	Utilise more traditional funding methods: • Bank loans • Trade credit • Asset financing • Business grants	Non-traditional funding methods: • Angel investment • Venture capital • Crowd funding
Challenges	Three main SME challenges: • Branding • Talent acquisition • Succession planning	Three main startup challenges: • Business challenges • Technology challenges • Governance challenges

PHOTO SHUTTERSTOCKS

CHALLENGES AND PITFALLS OF SMES

SMEs form the backbone of economies worldwide and it is not surprising that they make up 99% of all enterprises in Singapore[2]. While SMEs contribute significantly to innovation and employment, they also face unique challenges that can impact their growth and sustainability. In this article, we delve into three key challenges that SMEs often encounter, namely branding, talent acquisition, and succession planning.

1. Branding

For SMEs, establishing a compelling brand identity is a pivotal challenge in a competitive market. Building a brand goes beyond creating a logo – it involves shaping a company's reputation, values, and the emotional connection it forges with customers. Here are some strategies to overcome branding challenges:

- **Define your brand:** Understand what your brand stands for, its core values, and the unique proposition it offers. This clarity will guide your branding efforts.
- **Brand storytelling:** Everyone loves a good story as it generates positive feelings. When done correctly, good storytelling is an opportunity to establish an emotional connection with your audience. In the case of brand storytelling, it uses narratives to mould and convey the company's identity to your customers. It provides information on the who, what, when and why that tells people what the company is about and why they should care. A good brand story infuses value that is important as it offers companies the opportunity to personalise their brand and form an emotional connection with their customers.
- **Consistent visual identity:** Develop a consistent visual identity across all touchpoints from your website to packaging, and delivery of service. A recognisable and cohesive brand look builds trust.
- **Authenticity in social media:** Authenticity in social media builds consumer trust. When brands share genuine stories and connect on a human level, they create transparency and trust, strengthening the brand-consumer relationship.

2. Talent acquisition

Acquiring and retaining top talent is a constant challenge for SMEs, particularly when competing against larger enterprises. To address this, SMEs need to foster an environment that nurtures talent and promotes loyalty:

- **Offer growth opportunities:** Emphasise career growth and skills development. Employees are more likely to stay when they see opportunities for advancement within the organisation. Having formal and informal feedback is equally important to guide employees on the right track for organisational advancement.
- **Emphasise company culture:** Cultivate a positive company culture that values collaboration, innovation, and inclusivity. As remuneration packages are different between multinational corporations (MNCs) and SMEs, SMEs should focus on the importance of culture and shared values, and identify the right fit for potential employees as early as during the interview stage. In order to cultivate a culture that attracts talent, SMEs must find the "why" or the purpose that it exists. With the right purpose, SMEs will then be able to attract the right people.

[1] **Definitions**
- SMEs: https://www.enterprisesg.gov.sg/financial-support/productivity-solutions-grant
- Startups: https://www.startupsg.gov.sg/programmes/4894/startup-sg-founder/eligibility

Business model
- SMEs vs startups: https://www.mckinsey.com/industries/public-sector/our-insights/unlocking-growth-in-small-and-medium-size-enterprises
- https://www.entrepreneur.com/starting-a-business/whats-the-difference-between-a-startup-and-a-small/439411

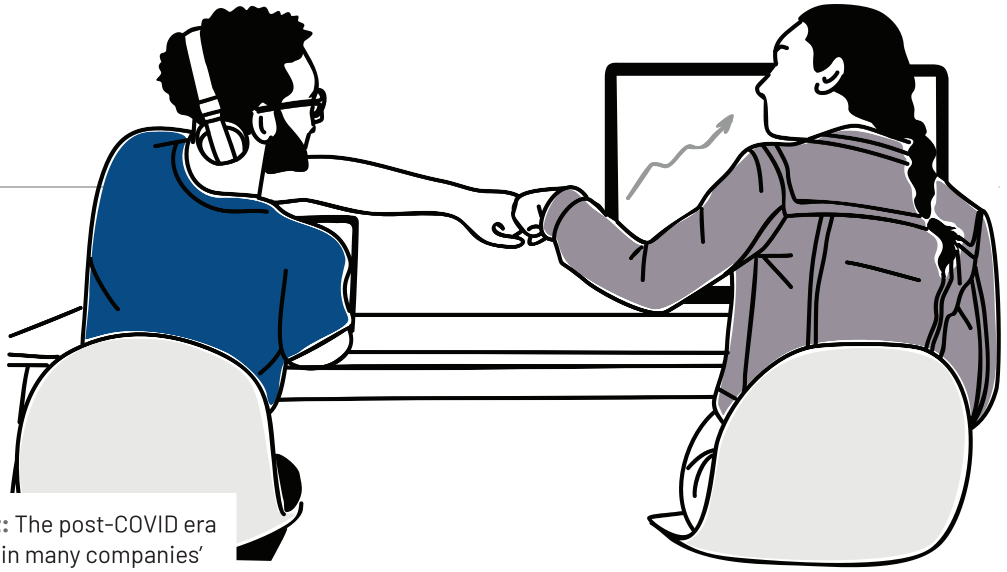
Statistics
- SMEs: Singapore Department of Statistics SME Report: https://www.singstat.gov.sg/modules/infographics/economy
- Startups: Startup SG: https://www.startupsg.gov.sg/directory/

Funding methods
- SMEs: https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf
- Startups: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4172800

SME challenges
- Branding: https://www.pwc.com/sg/en/entrepreneurial-and-private-clients/strong-brand-equity-vital-for-smes-to-accelerate-growth.html
- Talent acquisition: https://www.weforum.org/press/2021/11/small-businesses-adapting-to-rapidly-changing-economic-landscape-study-finds/
- Succession planning: https://www.emerald.com/insight/content/doi/10.1108/JMD-12-2015-0171/full/html

Startup challenges
- Governance challenge: https://sbr.com.sg/commentary/corporate-governance-greatest-challenge-start-ups

[2] https://www.singstat.gov.sg/modules/infographics/economy



- **Flexible work environment:** The post-COVID era has seen changes not only in many companies' business culture, it is seeing changes in employees' values. Companies should consider phasing in flexible work arrangements and recognise the importance of work-life balance. Before the companies embark on such flexible work arrangements, we encourage the reassessment of existing operating model and reimagine the possibilities of existing roles.
- **Recognise and reward:** Regularly acknowledge and reward employees for their contributions. Recognition boosts morale and encourages loyalty.

3. Succession planning

Succession planning remains a sensitive topic that is often avoided in discussions or board meetings. SMEs commonly overlook the necessity of succession planning due to the strong interconnection between the SME and the founding CEO. In truth, it is unlikely to find a similar-trait successor as the founding CEO. Having a succession plan that incorporates the company's business strategy would ensure business growth and continuity. SMEs can consider the following approach for succession planning:

- **Identify potential leaders:** Spot potential leaders within the organisation and provide them with opportunities to develop leadership skills. Each individual will have different strengths, weaknesses and varying capabilities. It is sometimes easier to identify the unwanted traits and use them to eliminate unsuitable candidates.
- **Document roles and responsibilities:** Clearly define roles, responsibilities, and workflows to ensure a smooth transition during leadership changes.
- **Mentorship and training:** Establish mentorship programmes that facilitate knowledge transfer and grooming of future leaders.
- **External recruitment:** In cases where internal succession is not feasible, be open to external recruitment while ensuring seamless transition and integration. Potential candidates can be sourced either vertically or laterally in the industry. Such opportunities can also be found through word of mouth, networking events (for example, conferences) or industry associations.

In conclusion, SMEs play a vital role in the global economy, and addressing challenges is crucial for their growth and sustainability. By focusing on effective branding, talent acquisition and loyalty, and succession planning, SMEs can position themselves for long-term success. These strategies empower SMEs to navigate the dynamic business landscape and emerge as resilient and thriving enterprises.

CHALLENGES AND PITFALLS FOR STARTUPS

One sad truth for startup enterprises is that most startups do not succeed. It is widely known in the startup community that more than two-thirds of them never deliver a positive return to investors[3]. However, those that do succeed may become the awe-inspiring and celebrated unicorns raking in more than 10-fold returns for investors that had supported their entrepreneurial ideas. This startup journey is laden with hurdles that demand strategic thinking, adaptability, and resilience. In our opinion, these are the principal challenges facing startups.

1. Business challenge: Balancing vision and reality

For startups, having a great idea is one part of the puzzle. The other piece of the puzzle involves possessing a feasible business strategy that can be professionally executed. The passion and zeal that drive entrepreneurs are often confronted by the need for sustainable revenue generation. Overcoming this challenge requires a delicate balance between visionary aspirations and pragmatic execution. To achieve this balance, startups can do the following:

- **Market research:** Thoroughly understand your target market, customer needs, and competitors. Data-driven insight via surveys or focus group sessions will guide your product development and marketing strategies.
- **Iterative approach:** Consider developing a minimum viable product (MVP), which is a core version of a product that includes only its essential features and functionalities. The main purpose of creating an MVP is to validate assumptions, gather user feedback, and assess market demand before investing significant time and resources into building a full-feature product. An MVP enables a lean and iterative approach to product development.
- **Learning to say no:** Prioritise resource allocation. Invest in areas that provide the most value and align with your core product scope and target customer group. A product with encompassing capabilities is resource-intensive and not viable.

2. Technological challenge: Harnessing innovation

In today's digital landscape, technology underpins the success of startups. Technological challenges range from selecting the right tech stack to staying ahead of technological trends. Here are some tips to manage this:

- **Choosing technology:** Select technologies that align with your product goals and scalability requirements. If you know that certain technology upgrade is required down the line, this should be a key consideration when selecting the initial technology infrastructure. A well-considered technology stack ensures efficient development and maintenance.
- **Innovation adoption:** Embrace emerging technologies like artificial intelligence, blockchain, or Internet of Things if they align with your product vision. Staying ahead of the curve can give your startup a competitive edge.
- **Security and data privacy:** Address cybersecurity and data privacy concerns to protect sensitive information and build customer trust.
- **Technical talent:** Build your team around the key business technologies. Prioritising the appropriate technology choice aligned with the founder's objectives (after conducting thorough due diligence) should take precedence over selecting technical talent. This approach enables a clear identification of required skill sets for the chosen technology. Conversely, if technical talent is chosen first, there is a risk of bias towards familiar technology, potentially hindering the selection of the most suitable option.

3. Governance challenge: Building a strong foundation

Maintaining good governance practices is often overlooked in the excitement of launching a startup. However, sound governance sets the foundation for sustainable growth and long-term success. Here are the considerations:

- **Entrepreneurial ethics:** This refers to the entrepreneur's moral principles and values that guide the behaviour and decision-making in business activities. It entails conducting business in a conscientious and morally upright fashion. The importance of entrepreneurial ethics is underscored by its capacity to cultivate faith and reliability. When entrepreneurs prioritise integrity, openness and equity, they cultivate robust connections with customers, employees and business partners, thereby ensuring business viability.
- **Legal compliance:** Ensure compliance with legal and regulatory requirements specific to your industry and location. While there are costs to ensure compliance, the penalty for non-compliance can be much higher. This is especially so between shareholders. Hence, shareholders' agreement is paramount for all startups to minimise or manage conflicts.
- **Intellectual property (IP) protection:** Safeguard your innovative ideas with appropriate IP protection mechanisms, such as patents, copyrights, and trademarks. The Intellectual Property Office of Singapore (IPOS) is a good platform to protect IP. There is also a panel of lawyers that startups can seek advice from, on areas such as IP infringement.
- **Stakeholder communication:** Establish clear communication channels with stakeholders, including investors, employees, and customers. Regular updates instil confidence among stakeholders.

In conclusion, startups navigate a challenging landscape that demands strategic acumen and adaptability. By addressing the Business, Technological, and Governance challenges, startups can lay a strong foundation for growth and success. Each challenge is an opportunity for learning and improvement, enabling startups to emerge as resilient and impactful players in their respective industries. ISCA

David Yeong is Partner of Consulting, SAC Capital Private Ltd; and Keith Tan is Director of Business Consulting, RSM Risk Advisory Pte Ltd.

[3] https://www.a-star.edu.sg/News/a-star-innovate/innovates/innovate/how-can-deep-tech-startups-minimise-risk-3-lessons

TEXT BY
Government Engagement & Member Support (GEMS), ISCA

ISCA One Young #CharteredStar Competition 2023

Introducing Our Young Champions

TAKE AWAYS

- ISCA organised the One Young #CharteredStar Competition to find an outstanding leader to represent the Institute and Chartered Accountants Worldwide (CAW) at One Young World (OYW) Summit 2023.
- The finalists were assessed on their knowledge of the OYW plenary challenges, ability to think critically on their feet, passion and conviction, and soft skills, among others.
- CA (Singapore) Jeremy Cheong, Assurance Manager, PricewaterhouseCoopers LLP, Singapore, will be representing ISCA and CAW at OYW Summit 2023.

JEREMY CHEONG, CA (SINGAPORE) WAS UNVEILED AS THE WINNER OF THE ISCA ONE YOUNG #CHARTEREDSTAR COMPETITION THIS YEAR. He will be flying the ISCA flag at One Young World Summit (OYW) 2023 in Belfast, United Kingdom, this October.

ABOUT ONE YOUNG WORLD SUMMIT 2023

The OYW Summit is a global forum which brings together the brightest young leaders from every country and sector to work to accelerate social impact. It also creates opportunities for young leaders who want to drive positive, peaceful and impactful changes.

During the Summit, delegates will participate in four transformative days of speeches, panels, networking and workshops, to harness the knowledge and skills needed for being impactful change-makers. All curated content at the Summit is shaped by the five Plenary Challenges, and these are the driving forces for the discussions centred on creating a better world. Delegates will have the opportunity to challenge world leaders, engage with and be mentored by expert industry influencers and make lasting connections. Past summits have featured Emma Watson, Kofi Annan and Justin Trudeau, among many other global figures.

ABOUT ISCA ONE YOUNG #CHARTEREDSTAR COMPETITION 2023

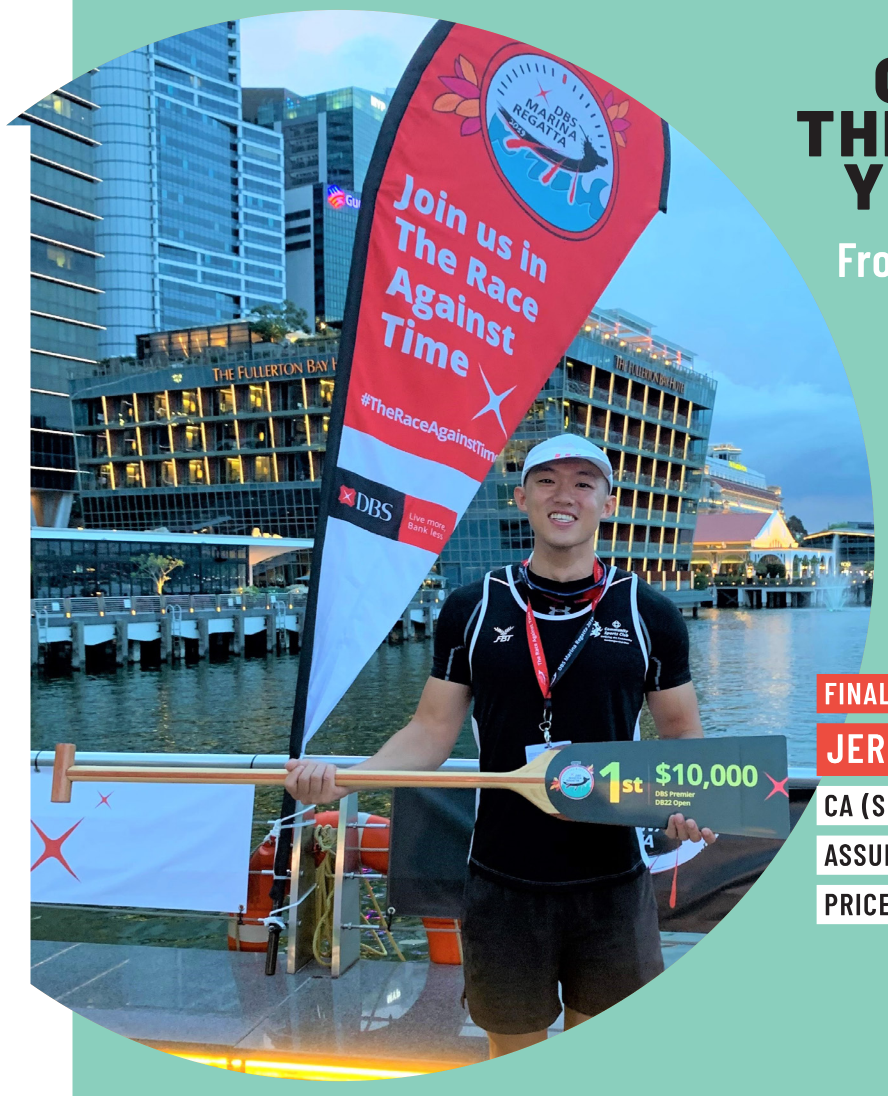
To find an outstanding young leader to represent ISCA and Chartered Accountants Worldwide at OYW Summit 2023, ISCA organised the One Young #CharteredStar Competition. Switching things up, this year's competition incorporated additional elements of creativity and interaction. To understand the candidates better and discover the causes that they are passionate about, ISCA called for creative content submissions that showcase the candidates' passion. The Institute received submissions based on the crucial topics pertinent to the United Nations' Sustainable Development Goals, such as climate emergency, quality education, and global peace.

The finale of the Competition was the thrilling Trivia Night, where the finalists battled it out over their knowledge of the OYW plenary challenges. They were also assessed on their ability to think critically on their feet when responding to the panel judges during the Question and Answer (Q&A) segment of their OYW presentations. This year's panel of esteemed judges comprised past ISCA OYW Ambassadors, the Institute's senior management member, and Chairperson of the ISCA Young Professionals Advisory Committee.

A One Young #CharteredStar Competition 2023 finalists

CAREER ADVICE FOR THEIR YOUNGER SELVES/ YOUNG ACCOUNTANTS

From Our ISCA One Young #CharteredStar 2023 Winner and Finalists



"I am a full-time Assurance Manager at PwC Singapore, and husband and father to my lovely wife and two-year-old daughter. I am incredibly excited to represent ISCA and Singapore for the upcoming OYW Summit in Belfast, where I'll have the opportunity to pick the brains of the global community in shaping the future of our world, and creating memorable lifetime experiences with my fellow young leaders from across the globe.

FINALIST
JEREMY CHEONG, 32
CA (SINGAPORE)
ASSURANCE MANAGER
PRICEWATERHOUSECOOPERS LLP, SINGAPORE

Outside work, I enjoy recreational golf and rowing activities as well as being present for my young family over the weekends. Nothing beats spending quality time with your loved ones."

Jeremy's advice "Define your own success"
"Accounting is an ever-evolving profession, largely because of the emergence of cutting-edge artificial intelligence and machine learning. We are also uniquely positioned to promote sustainability, as we design standards and instruments to integrate financial and sustainability information for the stakeholders to build a better future for the planet. As a non-accounting graduate from Nanyang Technological University, I am extra motivated to break barriers and to drive the future of the accounting profession with a different perspective. As I progress into my eighth year in the external assurance career, one piece of career advice I would give my younger self would be to define your own success. We are all motivated by different goals in life, so be sure to know yours and what gives you fulfilment at work."

FINALIST
BENJAMIN WONG, 32
CA (SINGAPORE)
INTERNAL CONTROLS SENIOR MANAGER
BOLTTECH

"Besides being a CA (Singapore), I am also a Certified Information Systems Auditor, an MBA graduate, a licensed Real Estate Salesperson, and currently an Internal Controls Senior Manager at bolttech, an insuretech unicorn. I help companies prepare for US IPO by making sure they are Sarbanes-Oxley Act-compliant. Prior to that, I was an Internal Controls Manager at Grab, where I was part of Grab's US IPO listing team. I started my career at PwC Singapore and completed two overseas secondments in PwC Myanmar and PwC Israel during my six years with PwC. When overseas, I witnessed racial and religious conflicts and even experienced real-life missile attacks that were fired from Gaza in 2021."

Benjamin's advice "Be a risk-taker and be hungry for opportunities"
"I would advise my younger self to embrace risks and explore new opportunities, including overseas experiences. Instead of fearing the unknown, embrace it with an 'accept then adapt' mindset to develop resilience and critical thinking, which is crucial in our ever-changing professional landscape. To stay ahead in our field, always seek continuous upskilling and professional development as we adapt to new technologies and trends in our industry. Valuable lessons and growth often lie beyond the familiar."

"I am an Assistant Manager, with more than four years of professional services experience within the Audit and Assurance, Financial Services practice at Deloitte Singapore. I will be heading to Deloitte's New York office on secondment. I am also working with ISCA and Accounting and Corporate Regulatory Authority, engaging in the government's agenda to address concerns to shift the prevailing notions about accountancy in Singapore. I have contributed to the Accountancy Workforce Review Committee (AWRC) taskforce under the Ministry of Finance by participating in the focus group. I also founded SCAQ Angel, an initiative to encourage more to pursue the Singapore Chartered Accountant Qualification, with the bigger aim to build a more cohesive, supportive and positive accounting industry."

"It is amazing the creative ideas and solutions the mind can generate when you train it to get fully acquainted with learning."
CA (SINGAPORE) CARISSA TAN, ASSISTANT MANAGER, AUDIT AND ASSURANCE, FINANCIAL SERVICES, DELOITTE & TOUCHE LLP, SINGAPORE

FINALIST
CARISSA TAN, 27
CA (SINGAPORE)
ASSISTANT MANAGER, AUDIT AND ASSURANCE, FINANCIAL SERVICES
DELOITTE & TOUCHE LLP, SINGAPORE

Carissa's advice "Embrace continuous learning to unlock your mind's creativity"
"It is amazing the creative ideas and solutions the mind can generate when you train it to get fully acquainted with learning. It is an indication of humility, creativity, open-mindedness, and an immeasurable amount of empathy. To keep learning is to admit that you do not have all the answers; believe that there could be (and almost certainly is) a better way, and not just be passively open to what others have to say, but to be running towards others' perspectives in earnest.

I have always been a strong advocate of technology. We should strive to see both humans and technology co-exist in harmony. This synergy enables us to explore how technology can enhance businesses and our quality of life. In high-touch professional services, this approach helps us identify client problems through a methodical, data-driven, and client-centric process, while capturing essential themes and patterns. I am excited to see how technology enables us to create a better future for ourselves, our clients, and the communities around us."

"Since graduation, I have been with the public service as an accountant at the Accountant-General's Department. Through the structured rotation programme, I have taken up various finance-related roles across different ministries, such as fund accounting and administration, investment policy, financial reporting, and finance transformation."

Shirlynn's advice "Enjoy the journey"
"Embrace continuous learning and pursue professional certifications in areas of interest, such as sustainability. Network actively, attend industry events, and don't be afraid to seek mentorship. Also, do not underestimate the importance of soft skills, including effective communication, leadership, and stakeholder management matters. We set our own definitions of success. And, remember to enjoy the journey!" ISCA

FINALIST
SHIRLYNN KOH, 29
CA (SINGAPORE)
SENIOR ASSOCIATE
MINISTRY OF FINANCE

This article was contributed by Government Engagement & Member Support (GEMS), ISCA.

PHOTO SHUTTERSTOCK

ChatGPT: A New Dawn, Or The Beginning Of The End?

What AI-Powered Tools Mean For Professionals

TAKE AWAYS

- ChatGPT's impact is being felt beyond the virtual: it's changing the way we work, heralding a new era of creativity and productivity.
- In accountancy, ChatGPT is not a substitute for accounting software or advanced financial models. It is at best an assistant, to be used alongside professional judgement and training.
- Content that is generated by ChatGPT needs to be checked for accuracy and relevance.
- Due to ethical and privacy issues, professionals must guard against feeding privileged client information when "training" ChatGPT or similar.

IF 2022 BELONGED TO TIKTOK, THEN 2023 IS THE YEAR OF CHATGPT. The current hype around the tool – and generative artificial intelligence (AI), the tool that powers it – might make it seem like it is a new phenomenon but this is far from the truth[1]. It is merely building on technology that has been gradually creeping into our lives for years. Think about your email trying to suggest what you want to type next, or Spotify building a playlist that you may like. And if you pop into your mobile phone's Photos folder, you'll find that it has likely identified your friends' faces and grouped their photos together for you.

What has changed though, is the enormous progress in computing power and data analysis. The popularity of ChatGPT has brought these developments to the fore. The tool, which was launched in 2020, can generate human-like responses to a conversational prompt or message. Earlier this year, it leapfrogged other programmes like Instagram and TikTok to become the fastest-growing web platform in terms of the number of active users[2].

It's not the only AI tool around. Others include Midjourney, which can be used to create realistic images based on a prompt, and DeepArt.io, which allows users to transform their photos into artistic styles inspired by famous artists. Although their outputs may be different, these tools work the same way. Grasping how AI works is crucial as it helps dispel certain persistent myths – including one that such tools have a mind of their own and can take over the world. Such scenarios can easily be seen as the stuff of science fiction once users understand that AI tools are probabilistic engines that come up with predictions on what a user is asking, based on huge databases of past data. These databases "train" these tools to learn patterns and correlations, which are then used to create content that is both realistic and lifelike.

ChatGPT's impact is being felt beyond the virtual: it's changing the way we work, heralding a new era of creativity and productivity. According to a survey cited in *Business Insider*, 43% of professionals have used tools like ChatGPT at work. Even Singapore's public service has embraced some form of AI, which officers can use to help them in research and writing. However, that has been accompanied by a directive to ensure the work they eventually submit is accurate and in line with copyright laws.

ACCOUNTANTS AND CHATGPT

Accountants, too, have tapped on ChatGPT to work smarter and more efficiently. Such tools eliminate the need to scour through research to learn about tax regulations and accounting standards. They can also assist accountants to calculate ratios, perform simple financial forecasts and analyse data patterns.

But even firms that have adopted such tools should err on the side of caution as ChatGPT is not a substitute for accounting software or advanced financial models. Instead, it should be viewed as an assistant, to be used alongside professional judgement and training. There are also ethical and privacy issues to consider. "One thing to be wary of is feeding privileged client information into (ChatGPT)," said Ben Bilsland[3], partner and technology sector expert at RSM, a leading British audit, tax and consulting firm. "That's a problem for accounting firms," he added, speaking to *Accountancy Age*.

OpenAI, the Microsoft-backed tech company behind ChatGPT, has sought to reassure professionals with new features, to allay concerns about data security and integrity. In March, it introduced a feature that allows users to indicate if certain conversations should not be used to train future models. However, they will still be stored in the company's servers for

> "A strong desire for AI safety need not mean pulling the drawbridge to innovation and adoption."
>
> – Minister for Communications and Information Josephine Teo, at Asia Tech x Artificial Intelligence Conference, 7 June 2023

[1] https://pubmed.ncbi.nlm.nih.gov/35845955
[2] https://time.com/6253615/chatgpt-fastest-growing/
[3] https://www.accountancyage.com/2023/03/22/chat-gpt-uk-accountants-tussle-over-adoption-timeline/

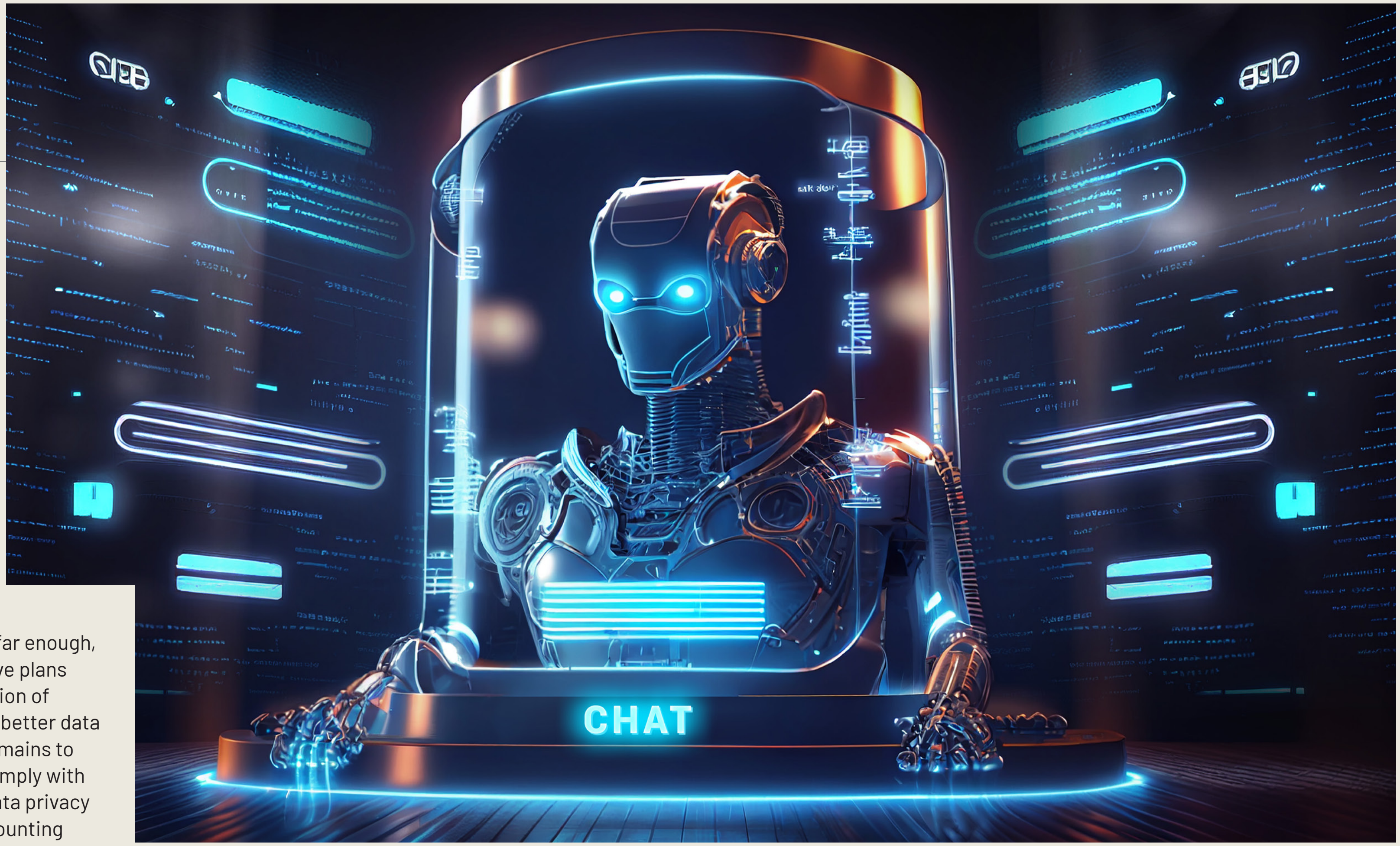


PHOTO SHUTTERSTOCK

The Singapore government would work with industry to steer AI towards beneficial uses and away from harmful ones

[4] https://edition.cnn.com/2023/03/29/tech/chatgpt-ai-automation-jobs-impact-intl-hnk/index.html

30 days. This may not go far enough, although OpenAI does have plans to roll out a business version of ChatGPT, which will offer better data security and privacy. It remains to be seen how these will comply with the strict standards on data privacy and security that the accounting profession must adhere to.

Other less obvious use of ChatGPT in finance and accounting includes marketing oneself and one's services. Those looking to grow their social media footprint can turn to ChatGPT to generate snazzy posts about trending topics. People who are less confident of their writing can also use ChatGPT to vet their emails and improve their tone and clarity.

AI ON AI

When asked to generate a brief history of AI, ChatGPT churned out this content in two seconds:

Artificial Intelligence (AI) has a rich history dating back to the mid-20th century. The term "artificial intelligence" was coined in 1956 at the Dartmouth Conference, where researchers explored the idea of creating machines that could simulate human intelligence.

During the 1960s and 1970s, AI research faced challenges due to limited computing power and the inability to process large amounts of data effectively. However, advancements in algorithms and computer hardware in the 1980s led to the emergence of expert systems and machine learning techniques.

The 1990s witnessed significant progress in AI, with breakthroughs in areas such as natural language processing and computer vision. The early 2000s saw the rise of statistical learning algorithms and the availability of vast amounts of data for training AI models.

In recent years, deep learning, a subfield of machine learning, has gained prominence. Enabled by powerful hardware and extensive data, deep learning has revolutionised AI applications, including image and speech recognition, autonomous vehicles, and recommender systems.

A BALANCED VIEW

While some professions have embraced ChatGPT and other AI tools for their efficiency, other fields view them with suspicion, concerned about how it might take away, rather than help, jobs. Some have already sounded alarm bells. In March, Goldman Sachs economists[4] estimated that as many as 300 million full-time jobs could be automated in some way because of advances in AI. But at the same time, World Economic Forum research suggests AI is projected to create around 97 million new jobs, potentially countering workforce displacement concerns.

However, some jobs will likely still be affected, especially among professionals in creative fields such as writers, designers, photographers and musicians. AI-generated content – which ChatGPT creates in seconds – may become more prevalent, leading to a reduced demand for human creators. Professionals in customer service may also be affected as already, ChatGPT-powered chatbots and virtual assistants are being used to handle customer inquiries and support requests. As the language models they are trained on improve, they may be able to handle more complex customer interactions, potentially reducing the need for human customer service representatives. Another strength of ChatGPT is its ability to quickly process and analyse vast amounts of data, which may impact jobs in fields like data entry and basic data analysis. Many administrative tasks, such as scheduling, document processing, and data entry, can also be automated using similar tools. This could impact administrative assistants and similar roles.

This is not to say that AI tools like ChatGPT do not have their drawbacks. One of these has to do with accuracy. There have been numerous instances of ChatGPT presenting inaccurate data, for example, when it "hallucinates" and generates output that sounds plausible but is either factually inaccurate or contextually irrelevant; in some cases, the output can even be dangerous. Part of its popularity stemmed from its promise of content guardrails that promised to limit hate speech, violence, misinformation and instructions on how to do things that are against the law. However, the perception of that illusion was swiftly shattered as users discovered methods to circumvent content moderation. As reported in *The Guardian*, instances arose where ChatGPT could be manipulated to produce derogatory comments about women and express sympathy towards war criminals like Adolf Hitler. Generative AI can also be easily used to generate malicious code that can launch cyberattacks or fake news campaigns, and impersonate others by generating lifelike images.

THE NEXT CHAPTER

Fortunately, not all is lost. Governments, such as in the European Union, have increased their scrutiny of ChatGPT and are mulling legislation to regulate its development and use. Closer to home, the Infocomm Media Development Authority (IMDA) has spearheaded the AI Verify Foundation (AVF), a group comprising at least 60 global industry players. Including tech giants like Microsoft, Google and Meta, AVF will tackle pressing issues in AI such as bias, copyright and its susceptibility to lying, said Minister for Communications and Information Josephine Teo, at the Asia Tech x Singapore Conference in June.

Outlining Singapore's approach to AI, she said that the government would work with industry to steer AI towards beneficial uses and away from harmful ones. "This is core to how Singapore thinks about AI," she told an audience of several hundred tech professionals. "In doing so, we hope to make Singapore an outstanding place for talent, ideas and experimentation. A strong desire for AI safety need not mean pulling the drawbridge to innovation and adoption." ISCA

A YEAR TO REMEMBER

A whizz through ChatGPT's eventful year so far:

- January 2023: ChatGPT reaches 100 million monthly active users – a record-breaking feat.
- April 2023: Italy becomes the first major jurisdiction to block ChatGPT, citing data privacy concerns. It resumed service in the country later that month.
- May 2023: ChatGPT goes mobile, with an iOS app. An Android version opens for pre-orders two months later.
- May 2023: Minister for Communications and Information Josephine Teo confirms to Parliament that the Public Service has introduced guidelines for public officers using technologies like ChatGPT to draft documents.

VIEWPOINT

TEXT BY

Kevin Fitzgerald

> Learning and development is non-negotiable for all employees in this new era of work.

Job Security In A Changing World

Actionable Strategies For Employers To Assuage Workers' Concerns

TAKE AWAYS

- The growing use of technology has created widespread uncertainty among the workforce that they will be displaced.
- Employers need to take action to assuage employees' fears, such as by providing upskilling opportunities, fostering a culture of transparency and communication, introducing agile work practices, investing in employee wellbeing, and more.
- Employers should create an environment where employees feel secure, valued, and equipped to adapt to evolving circumstances.

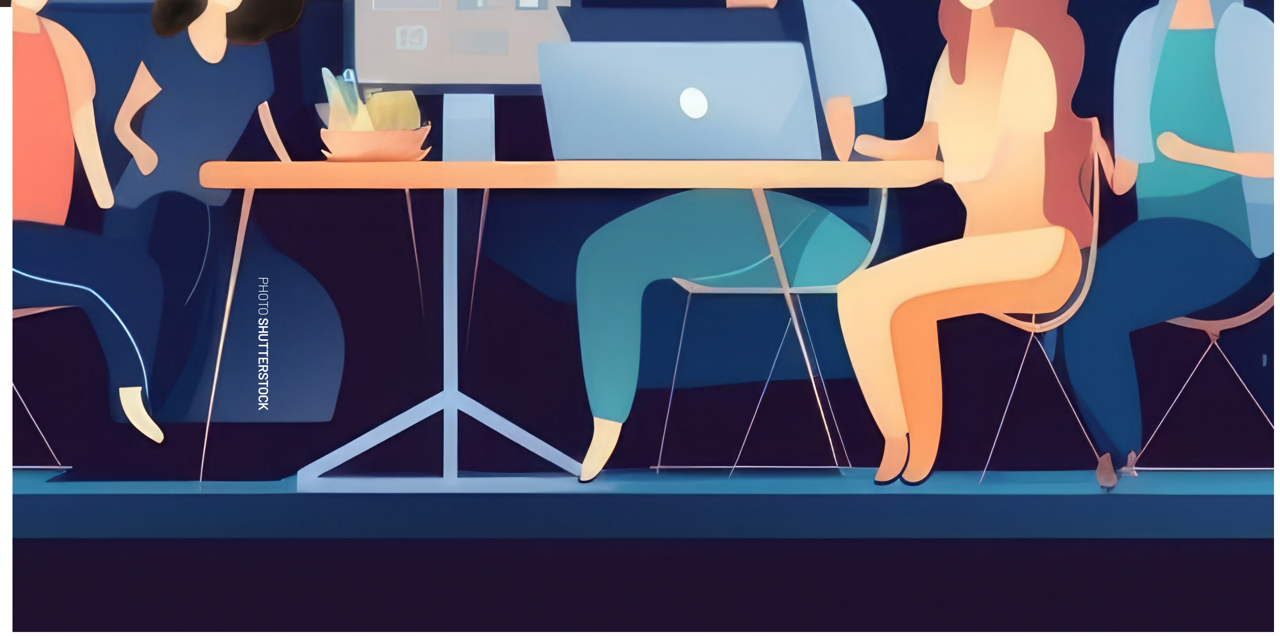



PHOTO SHUTTERSTOCK

THE ADVENT OF TECHNOLOGY HAS BROUGHT FORTH BOTH OPPORTUNITIES AND CHALLENGES, creating a widespread sense of uncertainty regarding the stability of traditional job roles. It comes as no surprise that job security has become a paramount concern.

Which roles will be phased out and which roles will not? As automation and artificial intelligence (AI) continue to reshape industries, professionals are increasingly questioning the longevity of their careers.

Employment Hero's *State of Payroll and Technology Report*[1] revealed that 79% of respondents were concerned that their job would be replaced by technology, although 86% of them also recognised that disruptive technology is essential. With the swift development of automation and AI, employees face the unsettling prospect of their skills becoming obsolete, leaving them vulnerable to job displacement.

Our *Talent Insights Report*[2] also revealed that almost half of respondents (49%) felt either insecure or unsure in their current role. There were some significant differences amongst demographics – younger generations felt more confident in their future, with 60% of 25 to 34-year-olds feeling a strong sense of security, compared with 34% of those over 55 were unsure about their future.

What then, can employers do to address these fears and foster a sense of security among their workforce? In my opinion, there are a few actionable strategies that employers can adopt to assuage these fears.

1. Embrace continuous learning and reskilling

As mentioned earlier, one of the primary causes of job insecurity stems from the rapid pace of technological advancement. Industries are being transformed, traditional job roles are being disrupted, and new skills that employees are not trained for are needed.

Amid these concerns, employees have turned to "career cushioning", where they seek to futureproof their careers should they want to (or be forced to) leave their current roles. A whopping 84% of employees in Singapore are already career cushioning at the moment. They are weaving safety nets by seeking ways to enhance their skills, diversify their knowledge, and adapt to emerging technologies to remain relevant in the job market.

Continuous learning and upskilling have become imperative for career sustainability, offering a potential safeguard against the volatility of employment prospects and hence, the massive uptake. As such, employers must take an active role in providing ongoing training and reskilling opportunities to employees.

Learning and development is non-negotiable for all employees in this new era of work. By offering upskilling programmes and supporting continuous learning initiatives, employers empower their workforce to adapt to changing job requirements, ensuring that they remain valuable assets within the organisation as they expand their skill sets.

[1] https://employmenthero.com/sg/resources/state-of-payroll-and-technology-in-singapore-malaysia/
[2] https://employmenthero.com/sg/talent-insights/

2. Foster a culture of transparency and communication
In uncertain times like the present, having clear and open communication is vital in allaying job security concerns. As an employer or leader, you need to proactively communicate the organisation's goals, strategies, and priorities to your employees.

By providing a clear vision and aligning employee aspirations with the company's objectives, you help to foster a sense of purpose and stability. Transparency is key – regularly engaging in honest conversations about industry trends, potential disruptions, and organisational changes will enable employees to stay informed and prepared for any eventualities.

3. Promote agile work practices
In an era of volatility and uncertainty, employers need to embrace agility in their work practices. Agile approaches, such as flexible work arrangements, cross-functional collaboration, and project-based teams, enable organisations to respond quickly to changing market demands. Creating an adaptable work environment demonstrates your commitment to embracing change, and emphasises that each employee's job security lies in their ability to evolve with the needs of the business.

4. Invest in employee wellbeing
Job security concerns often arise from the fear of being replaced or overlooked. If you want your employees to perform at their full potential, you need to prioritise their wellbeing and create a supportive work environment. Encouraging work-life balance, providing mental health support, as well as recognising and rewarding employee contributions are crucial steps.

Offering competitive compensation and benefits packages that reflect market trends is another way to reassure employees that their efforts are valued, and that the organisation is committed to their long-term growth. Your employees are your greatest asset, and investing in them means investing in your business for years to come.

5. Foster a culture of innovation
To survive and thrive in a changing world, organisations must prioritise innovation. Employers should encourage a culture of experimentation, where employees are encouraged to explore new ideas, challenge the status quo, and take calculated risks.

By fostering innovation, organisations can create new avenues for growth and enhance employee engagement. This culture of innovation helps employees understand that they are part of an organisation that continually evolves and adapts, thereby reinforcing their job security in a world of rapid change.

By fostering innovation, organisations can create new avenues for growth and enhance employee engagement

6. Provide career development opportunities
Employees often associate job security with opportunities for career growth. Employment Hero's *Talent Insights Report 2023*[3] revealed that the number of employees looking for a promotion or lateral move internally has jumped to 39%, up from 27% in 2021. As job insecurity heightens, creating more opportunities for growth within your current team will help with retention.

Ensure you have career development programmes in place that enable employees to acquire new skills, take on additional responsibilities, and advance within the organisation. Providing clear career pathways, mentorship programmes, and internal mobility opportunities are essential to instilling confidence in employees that their future growth is a priority.

7. Reframe attitudes towards technology
Not only does our *State of Payroll and Technology Report*[4] show that a large majority (79%) of practitioners are worried that they will be replaced by technology, there was also concern surrounding the effectiveness of technology in client servicing – 71% of respondents felt that it will actually make client servicing more difficult. Some 82% also believe that their clients will be opposed to their practice adopting more technological tools, perhaps because it will bring about changes in existing processes and ways of working.

This shows that there is still a lot of wariness surrounding the usage of technology in the industry, and more needs to be done to reframe the mindset of employees. They need to view disruptive technologies as tools that can be utilised to their benefit, and not as a threatening presence that might render them redundant.

Consider organising training sessions, expert talks, panel discussions and more, that will help to educate employees on how they can leverage technology to help them work easier and more effectively. When employees have a positive attitude towards technology, they will be more receptive and willing to learn about its advantages. Keep them focused on the valuable aspects of technology rather than constantly worry about potential job loss.

CONCLUDING THOUGHTS
Ultimately, in a rapidly changing world, job security concerns are inevitable. Employers have a vital role to play in addressing these concerns and creating an environment where employees feel secure, valued, and equipped to adapt to evolving circumstances.

By embracing all the actionable points above, you can reassure employees that they will grow together with the business come what may. ISCA

Kevin Fitzgerald is the Managing Director for Asia at Employment Hero.

[3] https://employmenthero.com/sg/talent-insights/
[4] https://employmenthero.com/sg/resources/state-of-payroll-and-technology-in-singapore-malaysia/

TEXT BY


Kang Wai Geat


Terence Lam

... it is not enough to know what is right; the biggest challenge many face at the workplace is doing what is right, even when no one is watching.

Balancing Performance And Ethics

The Key To Numbers You Can Count On

TAKE AWAYS

- Ethical principles and values should be enshrined in the company culture.
- The code of conduct needs to be clearly and frequently communicated, as well as observed by everyone from top management to all employees.
- Key performance indicators must be crafted with consideration for striking the right balance between performance and ethics, and regularly assessed.
- A strong internal control environment is necessary to ensure proper accountability and a monitoring mechanism.

PROPER AND PROSPER – THE ULTIMATE CORPORATE GOVERNANCE DREAM. Corporate governance and ethics play a fundamental role in driving the responsible actions of an organisation and its leaders and employees.

It may be easy to be proper when you prosper, but what about when things get rough? Do ethics and governance take a backseat when business performance is less than ideal? After the likes of Hyflux and Noble Group, the recent saga surrounding the media circulation numbers of SPH Media makes us ponder again.

What can we learn from these events?

How can organisations put in place a robust corporate governance structure that works even when business conditions are less than rosy?

IS THERE A CULTURE OF ETHICAL BEHAVIOUR?

What is the similarity among an accountant, a lawyer, an engineer and a doctor? Members of these professions are subject to codes of ethics or conduct. A well-established profession emphasises the importance of ethical principles and values that their members are expected to uphold.

There is good reason for this – it is not enough to know what is right; the biggest challenge many face at the workplace is doing what is right, even when no one is watching. But is it sufficient that only professionals should act ethically? This is surely not in the public interest. The need for emphasis on ethical conduct should apply to all employees of an organisation.

Driving ethical behaviour within an organisation requires consistent action and communication throughout every level of the corporate structure. This goes beyond lip service. Are there clear policies or codes of conduct? Are they sufficiently communicated and emphasised? Do all employees (including senior management) undergo mandatory training on ethical practices and proper conduct? Are there assessments done to evaluate their level of understanding? Is action consistently taken against misconduct, regardless of seniority? Are employees rewarded for displaying good values and ethical conduct?

WHAT IS THE RIGHT APPROACH TO KEY PERFORMANCE INDICATORS?

Key performance indicators (KPIs) are a powerful tool to measure and drive organisational performance and success. However, as with all tools, they need to be used with care. An overemphasis on performance-driven KPIs can create undue pressure and lead to unethical behaviour to meet or exceed targets. It is crucial to strike the right balance, and organisations should always regularly assess the suitability of their KPIs.

KPIs should be well defined, reasonable, and achievable. It is also critical that KPIs take into consideration factors or attributes that foster a culture that values ethical behaviour.

When recognition is given for doing the right thing, employees would be encouraged to focus on the sustainable growth of the organisation instead of obsessing over short-term goals or incentives.

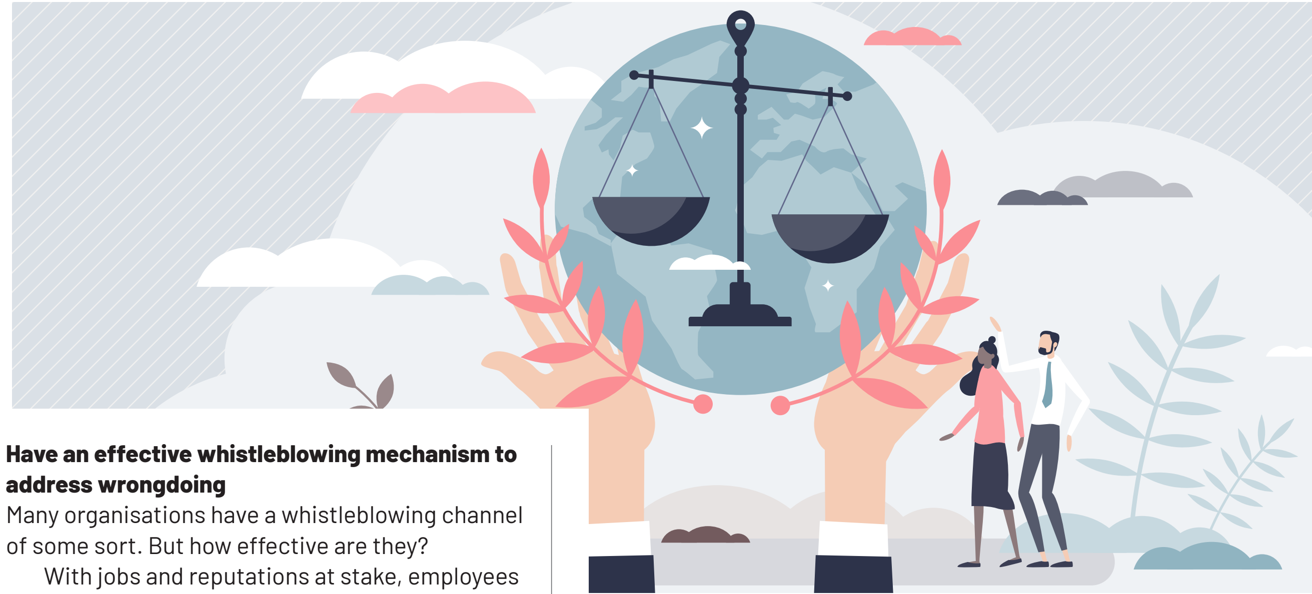
CULTIVATING A SOUND INTERNAL CONTROL ENVIRONMENT

To effectively cultivate a culture of ethical behaviour and implement a well-functioning KPI system, there needs to be proper accountability and a regular monitoring mechanism. A strong internal control environment is necessary to achieve this.

While most organisations would be familiar with the common principles of internal control, such as segregation of duties and review and monitoring, what many organisations can improve on is in integration and communication.

When organisations take the segregation of duties too far, departments operate in silos and this leads to barriers to information sharing, coordination and achievement of common control objectives. This reduces the organisation's operational efficiency and may even feed a culture where departments are inclined to report "what you want to hear".

Through open lines of communication and knowledge sharing, departments can better understand each other's processes, risks and controls. This can promote collaboration towards achieving the organisation's internal control objectives.



Have an effective whistleblowing mechanism to address wrongdoing

Many organisations have a whistleblowing channel of some sort. But how effective are they?

With jobs and reputations at stake, employees may hesitate to blow the whistle if

- the process is not clear;
- they are not confident that their identity will be protected;
- they are concerned that they may be unfairly treated;
- they are not convinced that any action will be taken.

For employees to take the leap, it would take more than just knowing that the organisation has a whistleblowing policy in place and motherhood statements disclosed in the annual report. The organisation needs to take concrete steps to demonstrate to the employees that it is serious about whistleblowing. This will help instil confidence on the ground to encourage employees to speak up against wrongdoings. Some aspects to consider are:

- How often is the whistleblowing policy and process communicated to employees? Is it only during new staff orientation? How about annual or regular townhall sessions?
- Are employees made aware of alternative channels? This includes, for instance, the Singapore Exchange Regulation (SGX RegCo) Whistleblowing Office for concerns relating to SGX-listed entities.
- Are the personnel designated to manage the whistleblowing channel independent, or just as important, perceived to be independent?
- Are statistics or a summary of cases and outcomes communicated to employees?
- Is the whistleblower kept updated about the progress of the case?

Tone from the top

There is only one way the above can be done successfully: when leaders walk the talk, consistently.

Often, there is an inherent fear factor in employees to speak up and deliver bad news. It is when leadership demonstrates a clear commitment towards integrity and ethics that honest conversations with employees can take place, and the organisation can optimally identify and work on the issues facing it.

CONCLUSION

There is no shortage of cases which demonstrate that, without good governance, a strong ethical culture and robust internal controls, organisations run the risk of making poor decisions as a result of inaccurate data or worse, being exposed to litigation or reputational risk.

Balancing performance and ethics. As a decision-maker, have you done your part? ISCA

Proper and prosper – the ultimate corporate governance dream

PHOTO SHUTTERSTOCK

*Kang Wai Geat is Divisional Director, Professional Standards, ISCA; Terence Lam is Head, Professional Standards, ISCA. An edited version of the article was first published in **The Edge Singapore** on 26 July 2023.*

Technical Highlights

PHOTO SHUTTERSTOCK

AUDITING AND ASSURANCE

ISCA Comments On IAASB's Exposure Draft: Proposed ISA 570 (Revised 202X) *Going Concern* And Proposed Conforming And Consequential Amendments To Other ISAs

ISCA is supportive of the enhancements to strengthen the auditor's evaluation of management's going concern in response to the heightened risks surrounding this topic in recent years. However, new and enhanced requirements need to be balanced vis-à-vis the responsibilities borne by management and directors. In our comment letter, we highlighted practical challenges which the profession may face and proposed enhancing the level of disclosures on going concern.

For more information, please visit https://isca.org.sg/content-item?id=84f98c15-81aa-4fa6-b116-69f0987887c5

ISCA Invites Comments On IAASB's Exposure Draft: Proposed ISSA 5000 *General Requirements For Sustainability Assurance Engagements*

With the increasing demand for reliable sustainability information amid concerns over greenwashing, IAASB has developed the Exposure Draft for ISSA 5000, a new comprehensive and standalone proposed standard for sustainability assurance.

ISSA 5000 is suitable for sustainability information reported across any sustainability topic and prepared under multiple frameworks. Moreover, the standard is profession-agnostic, which enables its use by professional accountants and non-accountant assurance practitioners.

Please send your comments on the exposure draft to professionalstandards@isca.org.sg by 30 September 2023.

For more information, please visit https://www.iaasb.org/publications/proposed-international-standard-sustainability-assurance-5000-general-requirements-sustainability

ETHICS

ISCA Issues EP 100 (Revised On 30 August 2023) – Expected To Be Effective 15 December 2023

ISCA has issued EP 100 (revised on 30 August 2023) to adopt IESBA's final pronouncement, *Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*. The revisions address holistically independence considerations which are applicable in an audit of group financial statements.

For EP 100 (revised on 30 August 2023), please visit: https://isca.org.sg/docs/default-source/ep-100/eps-100/code-of-ethics-for-isca-ep-100-(august-23)(for-upload).pdf

FINANCIAL REPORTING

ISCA Issues RAP 7 (Revised August 2023)

ISCA has revised RAP 7 to incorporate limited conforming amendments to two illustrative auditor's reports in Appendix 1 of RAP 7 *Reporting Framework for Investment Funds*, arising from SFRS(I) 1-1 and FRS 1 *Presentation of Financial Statements*. The references to "significant accounting policies" in these illustrative auditor's reports have been updated to "material accounting policy information" to align to the terminology used in the updated SFRS(I) 1-1 and FRS 1. The updates are effective for audits of financial statements for periods beginning on or after 1 January 2023.

For RAP 7 (revised August 2023), please visit https://isca.org.sg/docs/default-source/financial-reporting/rap/rap-7-(revised-august-2023).pdf

IFRS Foundation Publishes Updated Version Of Its Educational Material On Applying IFRS To Climate-Related Matters

The educational material was first published in 2020 to help companies determine how to consider climate-related matters when preparing IFRS financial statements. The publication is now updated for developments including the International Sustainability Standards Board (ISSB)'s inaugural IFRS Sustainability Disclosure Standards, which were issued on 26 June 2023.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/07/accounting-for-climate-related-matters-in-financial-statements-/

IFRS Interpretations Committee Q2 2023 Podcast Available

In this podcast, IFRIC Chair Bruce Mackenzie joins Committee members Karen Higgins and Donné Sephton, to share on IFRIC's decisions to refer two matters to IASB for narrow-scope standard setting, including a new submission relating to the application of the "own use" exemption in IFRS 9; and the accounting for hyperinflation in specific circumstances.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/07/ifrs-interpretations-committee-q2-2023-podcast-now-available/

July 2023 Agenda And Meeting Papers Available

- Accounting Standards Advisory Forum

For the Accounting Standards Advisory Forum meeting held on 10 and 11 July 2023, topics discussed include feedback from EFRAG's discussion paper on Better Information on Intangibles, updates on IASB's Primary Financial Statements project and Business Combinations – Disclosures, Goodwill and Impairment project.

For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/july/accounting-standards-advisory-forum/

- International Accounting Standards Board

For the IASB meeting held from 25 to 27 July 2023, topics discussed include Dynamic Risk Management, Equity Method, Business Combinations – Disclosures, Goodwill and Impairment, and Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures.

For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/july/international-accounting-standards-board/

- SME Implementation Group

For the SME Implementation Group (SMEIG) meeting held on 13 July 2023, topics discussed include feedback received on the Exposure Draft – Proposed Amendments to the IFRS for SMEs Accounting Standard and solicitation of feedback from SMEIG members on the proposed amendments to the IFRS for SMEs Accounting Standard arising from International Tax Reform – Pillar Two Model Rules.

For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/july/sme-implementation-group/

SUSTAINABILITY & CLIMATE CHANGE

IFRS Foundation Welcomes Culmination Of TCFD Work And Transfer Of TCFD Monitoring Responsibilities To ISSB From 2024

Following the publication of the inaugural ISSB Standards, the Financial Stability Board (FSB) has asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures from the Task Force on Climate-Related Financial Disclosures (TCFD).

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024/

IFRS Foundation Publishes Comparison Of IFRS S2 With TCFD Recommendations

Following FSB's announcement that the work of TCFD has been completed – with the ISSB Standards marking the "culmination of the work of the TCFD" – the IFRS Foundation has published a comparison of the requirements in IFRS S2 *Climate-Related Disclosures* and the TCFD recommendations.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/07/ifrs-foundation-publishes-comparison-of-ifrs-s2-with-the-tcfd-recommendations/

Watch Two High-Level Webcasts On IFRS S1 And IFRS S2, Hosted By ISSB Vice-Chair Sue Lloyd

ISSB Vice-Chair Sue Lloyd discussed IFRS S1 and IFRS S2 in ISSB's first high-level overview webcasts on its inaugural Standards.

For more information, please visit https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/#ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information

July 2023 ISSB Update Available

This update highlights ISSB's discussions on the path forward for researching targeted enhancements to the ISSB Standards.

For more information, please visit https://www.ifrs.org/news-and-events/updates/issb/2023/issb-update-july-2023/

PHOTO SHUTTERSTOCK

FRS 117 *Insurance Contracts* Vs MAS' Risk-Based Capital 2 Part 7

Guidance From ISCA's IFRS 17 Working Group

TEXT BY


Alvin Chua


Chai Siow Peng


Wang Nan


Wong Li Keng

TAKEAWAYS

- The upcoming application of FRS 117 presents both challenges and opportunities for the insurance industry due to the differences between FRS 117 and RBC 2.
- Insurance accountants are encouraged to have an awareness of the differences, and plan for potential mitigation measures on the accounting and operational complexities arising from the upcoming concurrent application of FRS 117 and RBC 2, as well as using it as an opportunity to revisit existing reinsurance arrangements.

> Determining the contract boundary of a reinsurance contract is challenging under the new FRS 117 framework, as it requires a significant amount of judgement and assessment.

A REINSURANCE CONTRACT IS DEFINED IN FRS 117 *INSURANCE CONTRACTS* (FRS 117) as an insurance contract issued by one entity (the reinsurer) to compensate another entity (the cedant) for claims arising from one or more insurance contracts (underlying insurance contracts) issued by that other entity.

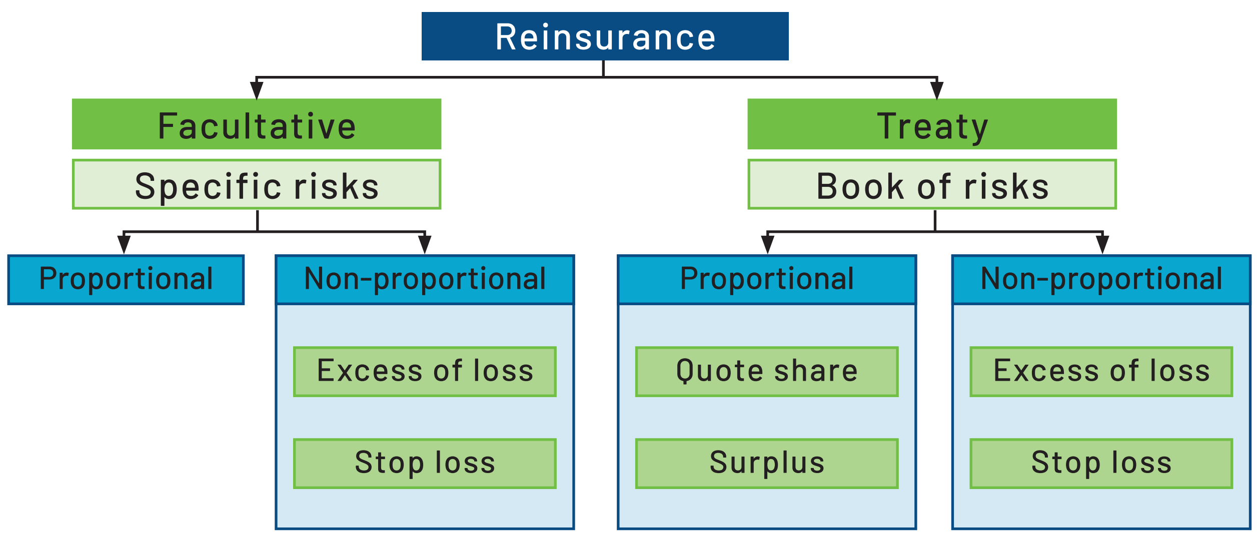
Reinsurance contracts may be grouped into facultative and treaty, and then further categorised into two categories, namely proportional coverage and non-proportional coverage (Figure 1).

Some contracts that are, in legal form, financial reinsurance contracts, return all significant risks to the policyholder. Such contracts are normally financial instruments or services contracts and would therefore fall outside the scope of FRS 117. In addition, certain parametric contracts that do not have a necessary direct link with an element of risk transfer may also fall outside the scope of FRS 117.

Fulfilment cash flows arising from reinsurance contracts held consist of premiums a cedant pays minus any amounts paid by the reinsurer to the entity for expenses (for example, reinsurance commissions, etc) it incurs. The amount paid for reinsurance coverage by the cedant can be viewed as:

- The reinsurer's share of the expected present value of the cash flows. That amount includes an adjustment for the risk that the reinsurer may dispute coverage or fail to satisfy its obligations under the reinsurance contract held.
- A contractual service margin (CSM) that makes the initial measurement of the reinsurance contract asset equal to the premium paid.
- As the CSM depends on the pricing of the reinsurance contract, it may differ from the CSM arising from the underlying insurance contract(s).

FIGURE 1 DEFINITION OF A REINSURANCE CONTRACT



FRS 117 requires a reinsurance contract held to be accounted for separately from the underlying insurance contracts to which it relates. This is because an entity that holds a reinsurance contract does not normally have a right to reduce the amounts it owes to the underlying policyholder by amounts it expects to receive from the reinsurer.

1. Grouping of reinsurance contracts

The level of granularity differs between FRS 117 and MAS' Risk-Based Capital 2 (RBC 2). At the highest level, under FRS 117, the definition of a portfolio focuses on both similar risks and managing contracts together, while RBC 2 focuses on insurance funds and classes of risk and geographic locations (Singapore, other ASEAN countries, other countries) for reporting purposes. Although in many cases the portfolios will likely be identical, differences could occur.

Next, within these portfolios, FRS 117 requires the division of contracts into annual cohorts (or shorter periods) and, subsequently, further separation into three profitability groups of net gain on initial recognition, no significant possibility of net gain arising subsequent to initial recognition and remaining contracts, such division (into portfolio, cohort, profitability group) requirements do not exist in RBC 2. This will not only have an impact on determining the CSM but possibly affect the identification of the future cash flows for measurement purposes.

2. Commissions and reinstatement premiums

Another key difference between FRS 117 and RBC 2 is the treatment of reinsurance commission and reinstatement premium. Under FRS 117, treatment of such items depends on whether they are claim-contingent (presented together with amounts recovered from reinsurer) or non-claim-contingent (presented together with allocations of reinsurance premiums paid). In addition, certain profit commission might be accounted for as a non-distinct investment component and such cash flows are excluded from insurance revenue and expenses under FRS 117.

In contrast, under RBC 2, profit commission is recognised as an acquisition expense, reinstatement premium is recognised as part of written premium, and reinsurance commission is recognised as a ceded acquisition cost.

3. Contract boundary of reinsurance contracts held

Under FRS 117, the boundary of a contract represents the point beyond which the cedant no longer has substantive rights under the contract to receive services from the reinsurer, and the cedant no longer has a substantive obligation to pay premiums to the reinsurer. Any cash flows beyond the boundary are not recognised in the measurement of the liability. Under RBC 2, contract boundary requirements are only specified for long-term medical policies in life insurance business, whereas contract boundary requirements under FRS 117 are also applicable for general insurance business.

Insurers will need to look closely at the two requirements across their full range of contracts to assess whether the requirements result in different contract boundaries. Determining the contract boundary of a reinsurance contract is challenging under the new FRS 117 framework, as it requires a significant amount of judgement and assessment.

4. Risk of non-performance by issuer of the reinsurance contract

Cedants face the risk that the reinsurer may be unable to meet obligations under the reinsurance contract held. This is accounted for differently under RBC 2 and FRS 117. Under FRS 117, the insurer shall include, in the estimates of the present value of future cash flows for the reinsurance contracts held, the effect of any risk of non-performance by the issuer of the insurance contract, including the effects of collateral and losses from disputes.

Under RBC 2, risk of non-performance by the reinsurer is reflected in the capital requirements of the insurer. In addition, for reinsurers with significant risk of default, insurers may recognise an allowance for impairment losses on reinsurance recoverable on paid claims and/or an adjustment of reinsurers' share of policy liabilities.

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5. Separation and valuation of reinsurance contracts held

Under RBC 2, reinsurance largely follows the grouping of the underlying businesses (such as insurance funds and class of businesses). However, under FRS 117, the lowest unit of account is the individual contract level (that is, reinsurance facultative contract or reinsurance treaty policy). Commonly, a reinsurance treaty policy could provide coverage to underlying businesses from multiple lines of businesses (or classes). Accordingly, unless separation criteria are met, the FRS 117 grouping for such reinsurance treaty policies may not follow the FRS 117 grouping of the underlying businesses.

In addition, under RBC 2, it is common that the valuation of reinsurers' share of policy liabilities is determined as the difference between the gross and net basis. However, under FRS 117, valuation of the reinsurance contract assets is performed separately from the valuation of the underlying insurance contract liabilities.

CONCLUSION

Reinsurance is an important component in the operations of many insurance and reinsurance companies. Accounting for reinsurance contracts held is also a material aspect in the accounting operations of many insurance and reinsurance companies. The upcoming application of FRS 117 presents both challenges and opportunities for the insurance industry due to the differences between FRS 117 and RBC 2. Insurance accountants are encouraged to have an awareness of the differences, and plan for potential mitigation measures on the accounting and operational complexities arising from the upcoming concurrent application of FRS 117 and RBC 2, as well as using it as an opportunity to revisit existing reinsurance arrangements. ISCA

Alvin Chua is Chairman, IFRS 17 Working Group (WG) and Director, KPMG Services Pte Ltd; Chai Siow Peng is a WG member and Asiapac P&C Financial Controller, SCOR Reinsurance Asia-Pacific Pte Ltd; Wang Nan is a WG member and Audit & Assurance Manager, Deloitte & Touche LLP; and Wong Li Keng is a WG member and IFRS Manager, Income Insurance Limited.

This is the last of 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.

TEXT BY

Felix Wong

Joseph Tan

What's The Deal With Withholding Tax?

Complexities Of Withholding Tax In Business Scenarios

TAKE AWAYS

- Companies are expected to examine and consider relevant factors holistically (for example, location of Board of Directors' meetings to ascertain where control and management is exercised, or the company's address where information on control and management is not practically known, especially in third-party scenarios) to determine tax residency.
- Withholding tax is only applicable to certain types of income of a non-resident person that is sourced in Singapore or deemed to be sourced in Singapore.
- A Certificate of Residence, duly endorsed by the Tax Authority in the non-Singapore resident payee's country, must be submitted to IRAS in order to apply reduced withholding tax rate or exemption under the Double Tax Agreement (DTA).

"IS SOFTWARE PAYMENT REGARDED AS ROYALTY FOR WITHHOLDING TAX PURPOSES?"

"How do you determine whether the payee is a Singapore resident or non-Singapore resident?"

"Is there a difference between making a payment to a foreign company and the Singapore branch of the foreign company?"

These were some of the withholding tax issues that were addressed by Yap Hsien Yew, Accredited Tax Advisor (Income Tax) and Business Tax Partner from Deloitte Singapore, and Swati Gupta, Accredited Tax Advisor (Income Tax) and International Tax Director from Deloitte Singapore, at a recent webinar organised by the Singapore Chartered Tax Professionals.

(From left) Yap Hsien Yew, Accredited Tax Advisor (Income Tax) and Business Tax Partner from Deloitte Singapore, and Swati Gupta, Accredited Tax Advisor (Income Tax) and International Tax Director from Deloitte Singapore, shared their views on the applications of withholding tax in real-life scenarios and discussed the interplay of tax treaties with domestic withholding tax rules

WITHHOLDING TAX IN SINGAPORE

Despite its name, withholding tax is not a different type of tax. It is in fact a collection mechanism to collect income tax from non-residents by putting the onus (to withhold tax and remit it to the authorities) on the Singapore payer. Where certain payments are made to another person not known to him to be resident in Singapore, the Singapore payer is obliged to deduct tax at the applicable rate.

"A Singapore payer may withhold tax if there are reasons to believe that the payee is a non-Singapore resident even if he may not be completely sure," explained Mr Yap. "On the other hand, if the Singapore payer decides not to withhold tax on certain payments to non-residents, he should be confident about the technical position taken and be ready to defend it should the need arise."

PHOTO SHUTTERSTOCK

To comply with their withholding tax obligations and avoid compliance errors, Singapore companies need to be clear on whether withholding tax is applicable on the payments they made to non-residents and if so, how much to withhold and when to file and pay the withholding tax.

TO WITHHOLD OR NOT TO WITHHOLD, THAT IS THE QUESTION

Tax residency of payee

As withholding tax does not apply to payments made to Singapore residents, the first question that the Singapore payer should ask is whether the payment is made to a non-Singapore resident.

In Singapore, the tax residency of a company is determined by where "control and management" is exercised. The term "control and management" is, however, not defined in the Income Tax Act 1947 (ITA).

Conventionally, the location of Board of Directors' meetings where strategic decisions are made has generally been accepted as the place where "control and management" of a company is exercised. Technological advancements and changing business norms have, however, challenged this notion. The prevalence of video-conferencing and virtual Board meetings has, for example, made pinpointing the location of Board meetings difficult.

Companies are expected to examine and consider relevant factors holistically (for example, location of Board of Directors' meetings to ascertain where control and management is exercised, or the company's address where information on control and management is not practically known, especially in third-party scenarios) to determine tax residency.

> Essentially, withholding tax is only applicable to certain types of income sourced in Singapore or deemed to be sourced in Singapore (such as interest, royalties, licence fees, technical service fees, management fees, and rental of movable properties) paid to a non-resident person.

Payments subject to withholding tax

Assuming that the payee is determined to be a non-Singapore resident, the next questions to ask are whether the payment made is subject to withholding tax as set out in the relevant sections in the ITA (for example, Sections 45, 45A to H of the ITA), and whether such income is sourced or deemed to be sourced in Singapore.

Essentially, withholding tax is only applicable to certain types of income sourced in Singapore or deemed to be sourced in Singapore (such as interest, royalties, licence fees, technical service fees, management fees, and rental of movable properties) paid to a non-resident person. Proper characterisation of the payment is crucial in determining whether it is subject to withholding tax, and also the rate at which withholding tax applies.

Consider exemption or reduced rate under the DTA

After it has been determined that a particular payment is subject to withholding tax, the Singapore payer may consider whether there is an Avoidance of Double Taxation Agreement (DTA) between Singapore and the country in which the recipient of the income is resident.

If a DTA is available and subject to meeting the relevant conditions, the Singapore payer may be able to apply a lower withholding tax rate or exemption on the payment made to the non-Singapore resident. A Certificate of Residence (COR), duly endorsed by the Tax Authority in the non-Singapore resident payee's country, must be submitted to the Inland Revenue Authority of Singapore (IRAS) in order to apply reduced withholding tax rate or exemption under the DTA.

COMMON WITHHOLDING TAX QUESTIONS

1. Does a Singapore payer need to withhold tax on payments made to a Singapore branch of a foreign company?

A Singapore branch of a foreign company is not a separate legal entity from the foreign company and is essentially an extension of the foreign company.

While the Singapore branch is prima facie a non-Singapore resident, there is no requirement to withhold tax on payments made to the Singapore branch of foreign companies as such payments have been legislatively exempted from withholding tax since 21 February 2014.

2. If the Malaysia branch of a Singapore company makes interest payment to a Malaysia bank, is the interest payment subject to Singapore withholding tax?

The interest payment relates to a business carried on outside Singapore through a permanent establishment (PE) outside Singapore, that is, the Malaysia branch. The interest expense is not deductible against income accruing in or derived from Singapore.

Assuming that the income derived from the loan where the funds provided by the loans are not brought into or used in Singapore, the interest payment made by the Malaysia branch to the Malaysia bank is not subject to Singapore withholding tax under Section 12(6) of the ITA.

3. Is software payment regarded as royalty for the purposes of withholding tax?

Singapore adopts a rights-based approach to characterise payments for software and payments for the use of or the rights to use information and digitised goods.

Payments for copyright rights which allow the Singapore payer to commercially exploit the copyrights are considered royalties within the scope of Section 12(7) of the ITA, and withholding tax is applicable unless exemption applies.

On the other hand, payments for copyrighted articles limit the usage to personal consumption or within the business operations only, under the aforementioned rights-based approach. Such payments are generally characterised as business income outside the scope of Section 12(7) of the ITA and are not royalties for the purposes of withholding tax.

4. What happens if a Singapore company files a withholding tax return based on the reduced rate under a DTA but is unable to obtain the COR from the non-Singapore tax resident?

The Singapore payer may be liable for penalties from IRAS. The amount of the penalty will depend on the actual circumstance but may be up to 20% of the shortfall between the tax withheld and tax that should have been withheld absent the DTA benefit.

CONCLUSION

Withholding tax issues can be complex and unclear at times. Businesses can do themselves a favour by not adding another layer of uncertainty to these issues.

"The lack of clarity in contracts, particularly in related-party situations, can make withholding tax issues more contentious than they need to be," observed Ms Gupta. "For the purpose of withholding tax compliance, businesses would appreciate well-drafted contracts that leave little or nothing to interpretation – the nature of payment is clearly defined; the date of payment for withholding tax purposes can be clearly determined, and the party who bears the withholding tax liability is explicitly stated." ISCA

Felix Wong is Head of Tax, and Joseph Tan is Tax Manager, Singapore Chartered Tax Professionals.

PHOTO SHUTTERSTOCK

TEXT BY


Patricia Tan Mui Siang


Koh Wei Chern

don's column

Renewed Focus On Integrated Reporting

Current State Of IR Among Straits Times Index Companies

TAKE AWAYS

- The Integrated Reporting Framework drives high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures which improves the quality of information provided to investors.
- The preparation of an integrated report requires a holistic and integrated approach to thinking about the organisation and its operations, which is the integrated thinking mindset.
- The Value Reporting Foundation has released a guide in 2021 to help with the transition to integrated reporting.

THE IFRS FOUNDATION released an announcement on 25 May 2022 entitled "Integrated Reporting – Articulating a future path"[1], and included the following joint statement by Andreas Barckow, Chair of the International Accounting Standards Board (IASB), and Emmanuel Faber, Chair of the International Sustainability Standards Board (ISSB), "We are convinced that the Integrated Reporting Framework drives high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures which improves the quality of information provided to investors. Therefore, we strongly encourage continued use of the Integrated Reporting Framework and the Integrated Thinking Principles underpinning it."

Sue Lloyd, Vice Chair of ISSB, echoed a similar view in an address[2] in December 2022. She said, "ISSB sees its standards as part of a broader reporting package to meet the information needs about sustainability risks and opportunities. We are fortunate to be the sister body of the International Accounting Standards Board. This gives us a unique opportunity to ensure that companies are able to get a complete picture from an information perspective. We are working to use the Integrated Reporting principles to pull this package of information together."

An integrated report is defined in the Integrated Reporting (IR) Framework as a "concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term". Given the renewed focus on the use of IR to improve connectivity between financial reporting (FR) and sustainability reporting (SR), this article discusses how IR helps to improve connectivity between FR and SR and examines the current state of use of IR in the Singapore FR landscape using the Straits Times Index companies.

WHY IR COULD POTENTIALLY IMPROVE CONNECTIVITY BETWEEN FR AND SR

When ISSB was formed in 2021, the IFRS Foundation had announced, "ISSB will sit alongside and work in close cooperation with IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and ISSB's standards – IFRS Sustainability Disclosure Standards. ... ISSB and IASB will be independent, and their standards will complement each other to provide comprehensive information to investors and other providers of capital."

We note that the objective of FR is to provide **financial** information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. We also note that the objective of SR, as put forth in the IFRS S1 *General Requirements for Disclosures of Sustainability-related Financial Information*, is to "provide **information about its significant sustainability-related risks and opportunities**" to the same target group. The aim is to ensure connectivity between these two pieces of information.

One reason why the IFRS Foundation is tapping on IR could be that these two objectives are within the objective of the IR Framework. The objective of IR (as stated in the IR Framework paragraph 1.7) is to "explain to providers of financial capital how an organisation creates, preserves or erodes value over time". We can see that both FR, SR and IR serve to provide information to the same target user group (that is, providers of financial capital), and IR goes beyond providing financial information and sustainability-related financial information. Instead, it provides "relevant information, both financial and other". Given the broader nature of the information provided, IR should benefit "all stakeholders interested in an organisation's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers" (IR Framework paragraph 1.8).

Another reason why the IFRS Foundation is tapping on IR could be that connectivity of information is a key guiding principle explicitly stated in the IR Framework. The IR Framework paragraph 3.6 states, "An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over

[1] https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/
[2] Impacts, Outcomes, Integration in the Corporate World, 8th Colloquium Memorandum, 3 November 2022, Good Governance Academy

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... an integrated report provides a more comprehensive picture that helps investors to better assess the entity's prospects, develop more robust forecasts of the timing, amount, probability of future cash flows and better assess the risk profile of the entity.

An integrated report supplements financial statements by sharing how the entity creates value through connecting sustainability issues and financial value creation

[3] This is in line with the fundamental concept behind the IR Framework (International <IR> Framework 2021 page 6).

time." The IR Framework discusses various forms of connectivity of information such as (i) the connectivity between the various capitals used, that is, financial, manufactured, intellectual, human, social and relationships, and natural; (ii) financial and other information; and (iii) quantitative and qualitative information, just to name a few.

For example, an integrated report supplements financial statements by sharing how the entity creates value through connecting sustainability issues and financial value creation. This enables investors and other stakeholders to properly assess a company's exposure to sustainability risks, its ability to manage those risks, and its actual performance on sustainability and all other issues. As such, an integrated report provides a more comprehensive picture that helps investors to better assess the entity's prospects, develop more robust forecasts of the timing, amount, probability of future cash flows and better assess the risk profile of the entity.

A LOOK AT THE STRAITS TIMES INDEX 30 COMPANIES

Both Chairs of IASB and ISSB "commit to a long-term role for a corporate reporting framework, incorporating principles and concepts from the current IR Framework".

Given the increased role of IR in the future, we studied a sample of companies to examine the current state of IR in Singapore. We obtained a list of the 30 entities that make up the Straits Times Index (STI-30) on the Singapore Exchange. We reviewed one year of annual reports (not including the sustainability report) of these 30 companies with financial year ending between 31 December 2021 and 30 September 2022.

PHOTO SHUTTERSTOCK

We examined the following:

(1) Whether the entities are using the IR Framework;
(2) Whether the entities disclose information on their business models and the value creation process given that this is a key objective of IR;
(3) Whether the entities disclose information on various capitals, that is, resources and relationships, and how they are used and affected by the entity.[3]

The findings on the 30 companies were as follows:

a) Only two entities reported using the IR Framework in the preparation of the annual report, and one entity reported incorporating the guiding principles of the IR Framework. These three entities also provided information on items (2) and (3) as well.
b) Two other entities that did not mention the IR Framework at all provided information on items (2) and (3).
c) Two other entities that did not mention the IR Framework at all provided information on item (2) but not item (3).
d) One other entity that did not mention the IR Framework at all provided information on item (3) but not item (2).

In total, eight out of the 30 companies reported some form of IR information. The results are summarised in Table 1. It would appear that a small proportion of the STI-30 component firms have taken to IR.

TABLE 1 REPORTED USE OF IR FRAMEWORK

	Number of entities	Business model and value creation	Capitals
Reported the use of IR Framework	3	3	3
No mention of IR Framework	27	4	3

All eight companies made some attempt to explain how the entities created value and provided some indicators on its impact on people and/or environment. DBS Group Holdings Ltd (DBS) was one of these entities and one of two entities that reported the use of the IR Framework in the preparation of the annual report. Included in the 2021 annual report are the following three sections:

(i) "How we create value – our business model": Showing how the entity creates value, including listing its strategic priorities, helps communicate the connection between strategy and performance, and how successfully stakeholders are served (through the presentation of balanced scorecard measures, for example, the customer engagement score and employee engagement score);

(ii) "How we develop and use our resources": Its discussion of resources used is not limited to financial and manufactured capital, but includes intellectual, human, social and natural capital. For example, presenting the number of training hours invested per employee shows how the firm values its employees and how improvements in the skill set of employees create future value for DBS;

(iii) "How we distribute value created": Value created includes both financial and non-financial value, and it shows the proportion of financial value that is distributed to various stakeholder groups including society and employees.

As such, by using the IR Framework, DBS was able to communicate a holistic picture of the resources it used to create value over time, and show the connectivity between relevant sustainability issues and financial value creation[4].

CONCLUSION

The importance of connectivity between FR and SR has been clearly articulated since the formation of ISSB in 2021. ISSB's intent to use the IR principles and concepts to drive connected and effective corporate reporting has also been communicated by ISSB. As such, companies that have not applied the IR principles in their corporate reporting should seriously consider getting on board the IR journey. The Value Reporting Foundation has released a guide in 2021 to help with the transition to IR[5]. It lists various preparatory steps when embarking on the IR journey, including (i) fostering understanding across the organisation, and (ii) minimising siloed thinking. The preparation of an integrated report requires a holistic and integrated approach to thinking about the organisation and its operations, which is the integrated thinking mindset. This requires the breaking down of departmental silos and having the different parts of the entity working collectively to achieve a deeper understanding of how an organisation creates tangible and intangible value for the entity and its key stakeholders. While integrated thinking is a significant benefit of IR, it is also likely that moving away from siloed thinking is a challenge for many entities. ISCA

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[4] DBS was featured in "The <IR> Journey In Practice: Insights From Early Adopters In Singapore", ISCA; https://www.integratedreporting.org/resource/the-journey-in-practice-early-adopters-of-in-singapore/

[5] "Transition To Integrated Reporting: A Guide To Getting Started", Value Reporting Foundation, Sep 2021; http://www.integratedreporting.org/wp-content/uploads/2022/08/Transition-to-integrated-reporting_A-Getting-Started-Guide.pdf

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