BUDGETING FOR ACCOUNTANTS
A Practical Discourse

GOING BEYOND THE FIGURES
Managing Partner of EY, ASEAN & Singapore, & ISCA Member Max Loh

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COLLABORATING FOR GROWTH
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In June, Singapore played host to over 4,000 athletes from 11 nations at the 28th SEA Games. Minister of State for National Development Desmond Lee spoke at the World Cities Summit Mayors Forum in New York. Minister for the Environment and Water Resources Dr Vivian Balakrishnan gave the welcome address at the SIWW Technology and Innovation Summit in Singapore. On a working trip to Washington DC, Minister for Foreign Affairs and Law K. Shanmugam urged the US to move forward on the Trans-Pacific Partnership or risk its credibility in the Asia-Pacific region.

What do these seemingly disparate events have to do with us in Singapore, and specifically, the accountancy profession? A few things stood out for me: Singapore has a credible global voice that others heed – the result of foresight, forward planning and focused hard work; foresight is important to ensure our sustainability, and significantly, complacency has no place in Singapore.

These messages are equally applicable to the Institute, and to the accountancy profession. As the national accountancy body, ISCA continually builds on its regional and global standing by being an advocate for the regional accountancy profession at global events, and taking the lead to raise the collective standard of the profession. Looking beyond the immediate, our actions today will contribute towards establishing the Institute as a foremost professional accountancy body, and forward our vision to be a global accountancy hub for Asia-Pacific.

Our efforts to promote the Chartered Accountant brand have benefitted our members in many ways, and continue to do so. Most recently, with ISCA’s admission into Chartered Accountants Worldwide, a grouping of leading global institutes of Chartered Accountants, CAs (Singapore) can look forward to even more career mobility and professional visibility within an increasingly globalised world. But like the Institute, accountancy professionals also need to think deeper and reach farther to ensure a sustainable future.

The July cover story takes a closer look at the upcoming ASEAN Economic Community (AEC) by delving into some of the complex tax and customs issues. In particular, the article examines the challenges that SMEs looking to extend their footprint overseas might face, and what steps AEC could take to transform ASEAN into a single market and production base, as well as a highly competitive economic region.

We started the bi-monthly “Member Profile” segment in March issue. The series highlights the value of an ISCA membership and the diversity of talent in the accountancy sector. By sharing the achievements of prominent ISCA members, we hope to inspire members to think deeper about their current roles, look farther into their future, and aspire towards greater career heights. This month, Max Loh, Managing Partner of EY, ASEAN and Singapore, shares why he looks forward to going to work, even though he has been in the profession for almost 30 years. He cites the digital economy as being fascinating as it has changed the world fundamentally. Indeed, technology is transformational, and has created exciting new opportunities for accounting professionals.

In recent years, the Chief Financial Officer (CFO)’s role has moved beyond just accounting and financial responsibilities to a more strategic one. A recent survey reveals that with the digital agenda, the CFO and Chief Information Officer are collaborating more deeply than before, in areas like managing cybersecurity, setting up information management strategies and processes, transitioning to a digital IT function, and creating an analytics-driven organisation. Accounting professionals can extend beyond their job scope to add value to their organisations by engaging their IT-focused counterparts. More details about the survey and its findings are within these pages.

Elsewhere in this issue are updates about accounting and business that are directly relevant to your work.

In keeping with my theme of looking ahead, in anticipation of the launch of the digital journal mobile app in August, we have included a showcase of the exciting features coming your way to enhance your reading pleasure. Enjoy!

Gerard Ee
FCA (Singapore)
president@isca.org.sg
Tapping into ASEAN
Collaboration among member countries is necessary to make AEC an easier place to conduct business from a tax perspective.

Member Profile
Going Beyond the Figures
Managing Partner of EY, ASEAN & Singapore, Max Loh, FCA (Singapore) explains why an accountant should have a business mindset and trusted business advisor capabilities.

ISCA Members: Leading the Way
ISCA Calendar of Events
ISCA is First Chartered Accountancy Body Admitted into Chartered Accountants Worldwide
ISCA Launches Quick Guide to CPE
ISCA-UBO Quarterly Economic Update: US Interest Normalisation and Singapore Monetary Policy
Taking Flight in International Tax with SIATP
ISCA Breakfast Talk: Creating a Strong PDPA Framework to Protect Your Company
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Budgets are useful for strategic coordination and control when linked to business plans, yet the budgeting process is broken at many organisations; why?

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An SIATP event sheds light on the reforms and progress in India, and a synopsis of the taxes that are critical for foreign companies investing in India

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To drive profitable growth and performance in the digital age, close partnership between finance and IT heads is mission-critical

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Guidelines on how to account for share-based payments that are part of employee remuneration arrangements and transactions entered into by Singapore companies

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Investment Properties
This article discusses the impact that fair value measures have on companies’ reported earnings, and the resultant market reactions

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The views expressed in IS Chartered Accountant journal do not necessarily represent those of the Institute of Singapore Chartered Accountants (ISCA). No responsibility is accepted by the Institute or its staff for the accuracy of any statement, opinion or advice contained in the text or advertisements, and readers are advised to rely on their own judgement or enquiries, and to consult their own advisors in making any decisions which would affect their interests. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of ISCA. IS Chartered Accountant journal welcomes contributions and letters. These may be edited for clarity or length. Articles, letters and requests to reproduce articles appearing in IS Chartered Accountant journal should be sent to Editor, IS Chartered Accountant, Institute of Singapore Chartered Accountants, 60 Cecil Street, ISCA House, Singapore 049709 or email: editor@isca.org.sg.
ISCA Members: Leading the Way

ISCA has rolled out a campaign to highlight the value of being an ISCA member. The centrepiece of the campaign is a video showcasing six ISCA members who hold leadership positions in diverse industries, including banking, audit, F&B, early childhood education, as well as hospitality & leisure. Each member briefly shares what they do to shape their organisation.

The profiles represent a snapshot of ISCA’s membership, with over 28,000 accounting professionals making strides in diverse roles across different industries.

The campaign aims to increase awareness of the value ISCA members bring to businesses, and enhance the brand image of an ISCA membership. Targeted at employers and aspiring accountants, a mix of 60-second and 30-second variants of the video commercial will be aired over Channel NewsAsia, Straits Times Online and Straits Times iPhone and android apps, as well as in lift lobbies at more than 500 office buildings islandwide.

The video can be viewed on ISCA’s YouTube channel (www.youtube.com/ISCAofficial) and will be shared on ISCA’s social media platforms. ISCA is conducting a series of activities via our Facebook page in conjunction with the launch of the videos.

Like us on Facebook (www.facebook.com/ISCA.Official) for updates, and stand to win attractive prizes!

Lee Wai Fai, FCA (Singapore)
Chief Financial Officer, United Overseas Bank

Koh Chiap Khiong, CA (Singapore)
Group Chief Financial Officer, SembCorp Industries

Max Loh, FCA (Singapore)
Managing Partner, EY, ASEAN and Singapore

Ng Gim Choo, CA (Singapore)
Founder and Group Managing Director, EtonHouse International

Joseph Ong, CA (Singapore)
Founder and Managing Director, One Rochester Group

Jennifer Yap, CA (Singapore)
Managing Director, Singapore and Southeast Asia, Royal Caribbean Cruises
Attention all accountants and management consultants,

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• They maintain the order processing, inventory and accounts receivables, you update the payables and GL

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3. Save cost, no upfront software purchase required, no server needed
4. Grow with your clients, do not let your clients outgrow your service
5. Online training videos for all functions and features, no more training fees to pay
6. Helpdesk (office hour) and Email support

Find out more from our website www.realtimme.com.
Be a Realtime cloud evangelist and get a lifetime user account for free.

Contact us: sales@realtimme.net or call us @ +65 6297 7623

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**ISCA CALENDAR OF EVENTS 2015**

### JULY

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<th>Event Details</th>
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| **Wednesday** 08 | ISCA Breakfast Talk  
Procurement Fraud – Are You Ready? |
| **Thursday** 09 | ISCA SMP Dialogue  
Staying Relevant in an Ever Increasing Competitive Environment |
| **Wednesday** 15 | ISCA Mingles  
Presenting Intelligence: Where Style meets Substance |
| **Saturday** 25 | ISCA Durian Escapade |

**SAVE THE DATE**

<table>
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<tr>
<th>Month</th>
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| November 12 | Singapore Accountancy Convention 2015  
Leading Change, the Asian Way |

**UPCOMING**

<table>
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<tr>
<th>Month</th>
<th>Event Details</th>
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<tr>
<td>August 12</td>
<td>ISCA Breakfast Talk</td>
</tr>
<tr>
<td>August 21</td>
<td>ISCA-UOB Quarterly Economic Updates for CFOs</td>
</tr>
<tr>
<td>September 09</td>
<td>ISCA Breakfast Talk</td>
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| September 16 | ISCA Mingles  
Rethink. Reset. Results!: Practice Positive Intelligence to Increase Performance |
| September 22 | QA Seminar |

Limited spaces on a first-come-first-served basis are available for each event.
Dates and events are subject to change without prior notice.
For more details, www.isca.org.sg

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**MEMBERS' PRIVILEGES**

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One Wellness Fitness Club
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Physiomed
Enjoy a complimentary Spinal Scan and Health Consultation worth $150

TIME Magazine
Enjoy up to 67% off the cover price for TIME All Access subscription

For more details, go to Members Benefits and Privileges at www.isca.org.sg
Chartered Accountants Worldwide has welcomed the Institute of Singapore Chartered Accountants (ISCA) as its first Associate member.

Chartered Accountants Worldwide was created by the leading institutes from around the world - Chartered Accountants Australia and New Zealand, Chartered Accountants Ireland, Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Scotland, and the South African Institute of Chartered Accountants - to support, develop and promote the role that Chartered Accountants play throughout the global economy. ISCA is the first Chartered Accountancy body to be admitted to the organisation, other than the founder members, since it was launched in February 2013.

As an Associate member of Chartered Accountants Worldwide, ISCA joins a group of leading global institutes of Chartered Accountants that are committed to enhancing the value of the Chartered Accountant brand. Chartered Accountants have been a mark of excellence in the accountancy and business sectors for over 150 years. There are Chartered Accountants working in over 180 different countries globally. ISCA’s admission to Chartered Accountants Worldwide is testament to its commitment to the Chartered Accountant designation. With the national accountancy body becoming part of the globally-recognised Chartered Accountants Worldwide, the stature and employability of Singapore accountants will be enhanced, especially in a business environment.
environment that is increasingly globalised. The membership will also enable ISCA to deepen relations and explore partnership opportunities with the other member bodies, in line with the government’s vision for Singapore to develop into a global accountancy hub by 2020.

Gerard Ee, President of ISCA, said, “We are honoured to join Chartered Accountants Worldwide as its first Associate member. Joining the organisation is a mark of recognition that our members adhere to the highest professional, technical and ethical standards. By being part of the globally-recognised Chartered Accountants Worldwide, we aim to add value to our members, bringing Singapore accountants greater career mobility and professional visibility in an increasingly globalised business environment. We look forward to working closely with our fellow members to promote the Chartered Accountant brand in our part of the world.”

Pat Costello, Chairman, Chartered Accountants Worldwide, has welcomed ISCA’s membership. He said, “We are delighted that ISCA has joined the family. ISCA has played a key role in developing the accountancy profession in Singapore over the last five decades and shares our ambition to work together and promote the very highest standards of the profession globally. We are committed to growing Chartered Accountants Worldwide and working together with other like-minded bodies to promote the brand and support our members wherever they are in the world. We look forward to the fresh perspectives ISCA will bring to the table.”
ISCA Launches Quick Guide to CPE

For Chartered Accountants of Singapore (CA (Singapore)) who require clarifications on what constitutes Continuing Professional Education (CPE), ISCA has launched the Quick Guide to CPE to help members with some of their frequently-asked questions.

The step-by-step guide smooths the way for our members to continue their professional development journey through CPE. Here is a summary of key information.

1 KNOW YOUR CPE REQUIREMENTS
All CA (Singapore) members must attain at least 120 CPE hours over a rolling three-year period, with a minimum of 20 verifiable hours, including two verifiable hours of ethics, to be completed each year.

2 IDENTIFY VERIFIABLE AND NON-VERIFIABLE ACTIVITIES WHEN PLANNING AND COMPLETING RELEVANT CPE ACTIVITIES
CPE should be relevant to members’ work and have a clear set of learning objectives which translates to professional development. Members have the flexibility to plan and choose their CPE activities according to individual needs and circumstances.

Non-verifiable learning
Non-verifiable learning refers to activities that do not have any assessment component or evidence to corroborate the hours to be claimed, such as reading of technical, professional, financial or business literature, self-study and research for knowledge purpose.

Verifiable learning
Verifiable learning refers to activities that can be verified by an objective and competent source. Refer to Figure 1 for examples of verifiable activities.

CPE hours may also be claimed for the time spent on preparing and discussing technical matters at board meetings or audit committee meetings if they are relevant to the development and maintenance of a member’s professional competence. Refer to Figure 2 to determine if an activity can be considered as verifiable learning.

3 MAINTAIN YOUR CPE ACTIVITIES RECORDS IN THE CPE RECORD FORM
Record all CPE activities in the CPE Record form available on ISCA’s website.

4 DECLARE CPE COMPLIANCE STATUS DURING ANNUAL MEMBERSHIP RENEWAL EXERCISE
As part of the annual monitoring process, members’ annual declarations on CPE compliance are reviewed.

If you have not been able to fulfil the CPE requirements, you may seek an extension to make good the CPE hours. Depending on the circumstances, a waiver or reduction may also be granted.

5 SUBMIT YOUR CPE RECORDS WITH RELEVANT SUPPORTING DOCUMENTS IF YOU ARE SELECTED FOR ANNUAL REVIEW
For members who have been selected for the annual review, do remember to submit the records together with relevant supporting documents upon receipt of the notification letter.

Access the full Quick Guide to CPE and get more information at http://isca.org.sg/member-services/members-obligations/cpe-compliance/how-to-start-your-cpe/.
It was full capacity for the third time in a row at the fifth ISCA-UOB Quarterly Economic Update event on May 21, where close to 80 participants listened eagerly to UOB Economist Francis Tan share his views on the impact of the impending US interest rate normalisation.

Following the Monetary Authority of Singapore's unusual off-cycle announcement in January, Mr Tan paid particular attention to the Singapore Nominal Effective Exchange Rate and how it is managed, and also presented his views on the performance of the Singapore Dollar (SGD) against various major currencies. He shed light on the trends relating to the US interest rate normalisation. While the million-dollar question of when the US Federal Reserve Bank will increase interest rates remains unanswered, Mr Tan discussed its potential impact on the region.

Participants were forthcoming in the Q&A session, with many asking for a forecast of SGD's performance against other popular currencies by the end of the year.

The series, now in its second year, has drawn great response from our members in the business community. Do mark your calendar for the next session slated for August 21.

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**ISCA-UOB QUARTERLY ECONOMIC UPDATE**

**US Interest Normalisation and Singapore Monetary Policy**

<table>
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<tr>
<th>Date held</th>
<th>Topics</th>
<th>Speaker</th>
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<tbody>
<tr>
<td>21 April 2014</td>
<td>Shadow Banking in China</td>
<td>Suan Teck Kin, Senior Economist, UOB</td>
</tr>
<tr>
<td>11 July 2014</td>
<td>Impact of Tapering of QE on Businesses in Asia</td>
<td>Francis Tan, Economist, UOB</td>
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<tr>
<td>10 October 2014</td>
<td>Rennminbi Internationalisation</td>
<td>Suan Teck Kin, Senior Economist, UOB</td>
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<tr>
<td>6 February 2015</td>
<td>Overview: ASEAN Economic Community &amp; Outlook of Economy</td>
<td>Suan Teck Kin, Senior Economist, UOB</td>
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<tr>
<td>21 May 2015</td>
<td>US Interest Normalisation and Singapore Monetary Policy</td>
<td>Francis Tan, Economist, UOB</td>
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**2015 International Tax Courses in Asia**

- International Corporate Tax Planning Aspects – Singapore
- Principles of Transfer Pricing – Kuala Lumpur
- International Taxation of Oil and Gas and Other Mining Activities – Singapore
- Principles of International Taxation – Kuala Lumpur

Courses are held in April, July, October and November. For exact dates and additional information, go to www.ibfd.org/training.

**Study online**

A wide range of international online tax courses is also available. Access course material 24/7 from anywhere in the world.

IBFD is the leading provider in international taxation and has been conducting international taxation courses for over 25 years.
As businesses internationalise, they are exposed to various tax risks arising from permanent establishment (PE) and transfer pricing (TP) issues. These topics were discussed at the recent workshops organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

Accredited Tax Advisor (Income Tax) Linda Foo, Tax Partner, Deloitte Singapore, provided clarity on PE creation, tax implications and risk management through a cornucopia of insights drawn from practical cases and tax treaties application.

Another much-talked about topic in international tax is TP. This was expounded in two separate sessions. The first session, co-organised with the Tax Academy of Singapore, was helmed by Accredited Tax Advisor (Income Tax) Tang Yam Soon, and Chan May Ling, both from the Corporate Tax - Large Corporations, Inland Revenue Authority of Singapore (IRAS). The session provided participants with a detailed overview of the IRAS e-Tax Guide on TP Guidelines, reaffirming their understanding which in turn helps to enrich the tax profession.

The second session provided a 180-degree view on TP with Luis Coronado, Partner, Transfer Pricing Services, EY Singapore, sharing his expertise from a consultant’s perspective, and Accredited Tax Advisor (Income Tax) Sam Sim, author of LexisNexis’ The Logic and Practice of Transfer Pricing from an inhouse perspective. Associate Professor Darren Koh, Head of the Master of Taxation Programme, SIM University, ended the session on a high note with a robust discussion on managing TP where manpower and budgetary resources were limited.

For more information on achieving tax excellence, visit www.siatp.org.sg and sign up to be an accredited tax professional.
**ISCA BREAKFAST TALK**

Creating a Strong PDPA Framework to Protect Your Company

The Personal Data Protection Act (PDPA) came into effect in Singapore on 2 July 2014. Violations of PDPA can result in severe punishment, but many companies remain ignorant of the steps they should take to ensure compliance. Over 70 ISCA members attended the Breakfast Talk on May 13 to understand more about creating a strong PDPA framework to protect their company. Sia Nam Chie, Governor, Institute of Internal Auditors Singapore, shared the key information about the Personal Data Protection Act.

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Members picked up useful tips on how to create a good compliance framework.

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**ISCA MINGLES**

EQ Skills for Success@Work

Emotional Intelligence (EQ) accounts for 80% of success in one’s work life. To better understand how EQ can enhance work relationships for desirable outcomes, over 30 members packed the Mingles session in May at Cocotto to explore how to enhance one’s emotional awareness of self, and also to evaluate that of others.

Arul John Peter, Principal Trainer/Facilitator, Centre for Creative Thinking, helmed the session titled “EQ Skills for Success@Work”.

During the hour-long session, Mr Arul shared with members the four keys of EQ - Self Awareness, Self Management, Social Awareness and Social Relationships. He also explained how feelings and emotions can affect work performance and how we can use our EQ to create a better work environment.

ISCA Mingles will continue to seek out places of interest for our members and provide sessions which will empower members with useful soft skills.

Members packed the May Mingles session at Cocotto.
The launch of the new IS Chartered Accountant journal mobile app is just a month away. The mobile app will enable members to access the journal on the go, 24/7, via different platforms including smartphones, tablets and laptops. With the digital journal, members will continue to enjoy similar content as the print version, as well as have access to many more interesting features that are not possible with the traditional print copy.

The move to the digital platform will also contribute towards environmentally-sustainable practices and reduce our carbon footprint. Each month, the print journal requires the use of more than 4.4 tonnes of paper, which translates to the felling of 66 trees a month, or about 800 trees a year.

Get ready to download the IS Chartered Accountant mobile app this August. The print copy of the journal will be discontinued from November.

- Available on your preferred mobile device or computer
  The journal can be viewed on any Internet browser via the ISCA web viewer, which has a responsive screen size to cater to different device sizes. The upcoming app* is fully optimised with the suite of features showcased below. (*Requirement: Devices to be IOS Version 7 and above & Android Version 4.0 and above.)

- Font resize
  Members may have a preference for different font sizes. To improve your reading experience, three font sizes are available for selection. Toggle your favoured font size with just a tap.
EXCITING FEATURES OF DIGITAL JOURNAL

● Day/Night mode
Reduce the glare from an overly-bright screen when reading in the dark. In low-light conditions, opt for the more comfortable “night” mode using the Day/Night mode icon. This dims the background of the screen so it is easier to read. Change the setting to “day” mode for the original off-white background.

● Search function
"I saw it, but I cannot recall where it is!" This frustrating don't-know-where-it-is feeling will be a thing of the past with the keyword search function. Doing a search on the app will display the related topics for your selection.

● Offline browsing
Members are constantly on the move and are sometimes in areas which have limited or no Internet access. Offline browsing allows you to download an issue of the journal when you have Internet access, and read it at your leisure when you are offline.

● Bookmarking
Ever torn out pages from magazines for future reference? With the bookmarking feature, store any number of pages from any issue and never lose them, even if you delete the issue. Save more space on your device for the articles that matter to you.

● Share articles
With this feature, you can share any article with anyone with the click of an icon. Simply click and share – it’s that simple!

● Quickview
With this feature, you can browse through the article thumbnails, and zoom in on the articles that most pique your interest.
In Tune
ISCA NEWS

ISCA YPAC ENGAGE

Career Progression & Mobility: What Employers will not Tell You

ISCA YPAC Engage took on the theme of career progression and mobility, with a focus on “What Employers will not Tell You”. Held on May 21 at ISCA House, the session was helmed by two captivating speakers - Adeline Kee, entrepreneur and Founder of Numbers+, and Yvonne Goh, Regional Director of headhunting firm Profile. The networking-cum-dialogue session for ISCA members under 35 was facilitated by Lee Yean Ting, a YPAC member.

Ms Kee shared on her career progression and her entrepreneurial journey, providing tips on the skills and competencies required by the market. Ms Goh covered the recruitment spectrum and shared on the key skills that employers look for, trends in finance recruitment, and how to stay relevant in today’s job market.

Here are some key insights from the session.

What are some examples of stretch assignments, and where do we go for opportunities in stretch assignments?

Examples of stretch assignments include where a finance personnel takes on a process improvement initiative (beyond his or her comfort zone). For opportunities, you can consider volunteering for cross-functional duties where you can suggest and implement new initiatives to improve processes. If you have chalked up any achievements or initiatives in the previous or current workplaces, it will be good to indicate them in your resume. It is not just about putting in the hours at work, but also about how we showcase our capabilities or efforts.

Regional Director of Profile Yvonne Goh provided insights on market trends and what employers look for.

Some companies may have cross-functional roles or work improvement teams – these are possibilities where you can shine. Look out for such opportunities when they come along.

Many jobs these days have too much overtime (OT). How do we manage our work-life balance?

We should consider how we are doing our work and have proper planning. Only then can we best manage work-life balance. OT is sometimes unavoidable or may even be necessary, especially in finance-related roles with tight deadlines.
When reviewing resumes, what are some key negative areas recruiters focus on?
What is negative is dependent on the context and profile of the vacancy. Some areas which may attract negative attention from a recruiter include:

- Serial job-hopping;
- Lack of career progression;
- Limited exposure of roles;
- Short length of stay in each organisation.

How can we develop soft skills?
Many avenues are possible, for instance, picking up the fundamentals from books or magazines, having meals with colleagues, attending networking events, volunteering, etc, where there are opportunities to interact or socialise.

Is it possible for a finance professional to change industries?
Finance is a very transferable skill set. Many finance professionals successfully change industries when they want a career switch.

Young ISCA members should take heart. Keep searching and improving yourself – you will land that dream job.

Building on the success of the inaugural ISCA Run last year, ISCA organised its second run with the slogan “Gather. Bond. Run”. Race day saw over 1,300 runners - an increase of over 30% from the previous year. With participants from all corners of the globe spanning Singapore’s Asian neighbours and further afield, Kenya, Nepal, Norway, Russia, UK and USA, the run is gaining traction as an event on run enthusiasts’ calendars.

In keeping with tradition, the run raised funds for the less fortunate. The two beneficiaries this year are the Movement for the Intellectually Disabled of Singapore (MINDS) and Society for the Physically Disabled (SPD). We were thrilled that MINDS sent in three Special Olympics athletics for the ISCA Run.

Participants and their supporters started arriving as early as 6am, and by 6.45am, the holding area was crowded with runners mingling with each other and raring to go. Soon after the mass warm-up, Guest of Honour and ISCA Advisor Teo Ser Luck, Minister of State for Trade and Industry, was presented with a token of appreciation by ISCA President Gerard Ee. Mr Teo then flagged off the 10-kilometre race at around 7.10am, followed by the 5-kilometre race. The Kids’ Dash was flagged off by Mr Ee at around 8.30am.

There was never a dull moment for non-runners. With the KPMG Band belting out popular tunes and the CFO music duo, comprising ISCA Treasurer Vincent Lim and Micro-Mechanics CFO Chow Kam Wing, serenading the crowd with evergreens like “Better Man” by Robbie Williams and Canto-pop favourite “光辉岁月” by Beyond,
every song was greeted by roars of approval and loud applause.
The booths at the run village were courtesy of our generous sponsors, and the proceeds would go to MINDS and SPD in aid of their upcoming projects. As the returning runners collected their finisher’s medals, they joined their family and friends to soak in the carnival atmosphere.
The photo booth was a huge favourite, with long queues snaking around the run village. The runners wasted no time documenting their run on the different forms of social media as they snapped and uploaded “selfies” or “wefies” to take part in the #ISCARun Photo Contest, even while standing in line. The ever-popular Milo van, dispensing one of Singapore’s favourite ice-cold beverages, also attracted long lines. The Red Bull team arrived later to distribute replenishing energy drinks while the donation and sure-win lucky dip booths were also packed with people happy to donate to a good cause.
Before the activities drew to a close, Mr Ee presented the prizes to the top three podium finishers from each run category. Participants were overheard commenting on how much fun they were having, and how well-organised the run was.
ISCA would like to thank all participants for their contribution towards a worthy cause, and for making the ISCA Run a success.
★
“I took part in this run again to keep my body and mind active. I have participated in over 100 marathons, that is why I am still healthy and alert at 85.”
Chan Meng Hui, oldest participant

5km (Ladies) winner De Belligny Rowena, with her family

Guest of Honour and ISCA Advisor Teo Ser Luck, Minister of State for Trade and Industry (2nd from left), with ISCA Council Members (from left) Vice President R.Dhinakaran, Treasurer Vincent Lim and President Gerard Ee

Hazel Seng, Audit Accountant, and Zhang Zhi Tang, Tax Accountant, EY
Stephanie Tang, Corporate Resolution and Recovery Associate, and Jasmine Low, Tax Associate, Baker Tilly TFW. Some 50 staff from the firm participated in the run. Cambridge Industrial Trust Management ran for a worthy cause. Ooi Yhee Poah, Assistant Finance Manager, Fraser Hospitality

#ISCARun Photo Contest
Three ISCA Run participants - @kjchong90, @Jeanine Lui and @shuqishuqi - have won $50 CapitaLand Mall vouchers in the #ISCARun Photo Contest. The contest began on the morning of May 30 and ended at 11.59pm of the same day. See the winning photos at the ISCA Facebook page.

Nepalese Gurung Nimesh won the gold in the 10km (Men) race.

Raffles Institution runners (from left) Aaron Chan, 16, came in 6th (5km Men), and Chong Qi Tan, 15, came in 2nd (10km Men).

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Cambridge Industrial Trust Management ran for a worthy cause.

Ooi Yhee Poah, Assistant Finance Manager, Fraser Hospitality
Joshua Chu, Audit Associate, and friends from Ardent

A big group from JBS Practice PAC showed their support for charity.

(from left) Lim Wei Wei, Partner, and Seah Wan Sheng, Consultant, Baker Tilly TFW

Regular runners Ryan Emma and Ayliffe Fleur, from the UK, learnt of the event from local running site JustRunLah!

★
“I am a regular marathoner. I quit smoking three months ago and now run four times a week”
Yohan Janean, who has lived in Singapore for the past two years

“Podium finishers for 5km (Men): (from left) Marcus Reed (2nd), Kiprotich Thomas (1st) and Haynes Stu (3rd)”

★
“This is the first time that all 22 of our staff from varying age groups are participating in this industry event. We took part in the ISCA Run to prove that auditors are cool!”
Janamanchi Balasubramaniam, JBS Practice PAC

MINDS volunteers and Special Olympics runners - (back row) Wei Seng (1st from left); Sofian (3rd from left) and Ahmad (4th from left); the runners completed the 5km run in about 38 minutes, ahead of half the participants.

▲ A group of MINDS volunteers and Special Olympics runners are seen posing together.

▲ Regular runners Ryan Emma and Ayliffe Fleur, from the UK, are posing at the ISCA Run event.

▲ Podium finishers for the 5km race are pictured, with Marcus Reed in 2nd place, Kiprotich Thomas in 1st place, and Haynes Stu in 3rd place.

▲ The quote by Yohan Janean highlights his dedication to running and quitting smoking.

▲ Janamanchi Balasubramaniam shares his motivation for participating in the ISCA Run.

▲ A big group from JBS Practice PAC is shown posing for a group photo, showcasing their support for charity.

▲ Lim Wei Wei and Seah Wan Sheng from Baker Tilly TFW are among the participants, along with other team members.

▲ A group of regular runners, including Ryan Emma and Ayliffe Fleur, have participated in the ISCA Run.

▲ Quotes from participants express their motivation and dedication to the event, highlighting the variety of ages and interests among the runners.
The Singapore government and business federations have been encouraging Singapore-based small and medium-sized enterprises (SMEs) to leverage the formation of the ASEAN Economic Community (AEC) to expand their operations within this region.

Based on a poll conducted by the Singapore Business Federation during its conference on internationalisation in 2014, 84% of Singapore businesses see Asian markets as their most important market, with 58.4% highlighting ASEAN as the key region for future growth potential.

However, SMEs currently have not been making significant inroads into expanding their ASEAN consumer base compared to the rest of Asia even though there are currently no tariffs on almost all ASEAN-originated goods trading within this region. This is largely due to unfamiliarity with rules and
84% of Singapore businesses see Asian markets as their most important market.
regulations in these markets, problems with cross-cultural communication, bureaucracy and red tape, avenues for resolving disputes and identifying the right business partners.

As an illustration, Terrific Tastes, a Singapore-based SME which manufactures and sells specialised food flavours, intends to expand its manufacturing facilities in ASEAN. The move aims to mitigate the rising cost of doing business in Singapore, and to grow its revenue streams as well as market share in this region. With regard to its research and development (R&D) activities, it intends to continue to conduct them in Singapore.

These are some of the issues facing Terrific Tastes from a tax perspective.

**KEY TAX ISSUES FACING LOCAL SMES VENTURING INTO OTHER PARTS OF ASEAN**

Tax legislation and practices differ significantly among the ASEAN countries (see Table 1 for headline corporate and personal income tax rates); the tax rules are not always clear, and there is a development divide among ASEAN member states. All these could pose a barrier to entry into certain markets for Terrific Tastes.

**Regional tax matters**

Although Singapore has bilateral agreements in force with most of the ASEAN countries for the avoidance of double taxation and fiscal evasion with respect to taxes on income, Terrific Tastes may still be subject to double taxation due to differing interpretation or application of Double Taxation Agreements (DTAs). For example, Terrific Tastes may be subject to withholding tax of 3.5% in Myanmar on gross payments received from a local entity for services rendered in Myanmar even if it does not have a taxable presence (also known as “permanent establishments”) there and hence, should rightly not be subject to tax on such income.

If Terrific Tastes were to have operations, or transact with someone in Cambodia or Laos, it would not be able to rely on any DTA as Singapore does not have tax treaties in force with these countries.

**Transfer pricing**

In addition, Terrific Tastes would need to maintain transfer pricing documentation that complies with the local tax regulations to prove that its contract manufacturing subsidiary is earning a fair margin. International standards are based on an arm’s length profit, and generally, tax authorities prefer local comparable data. Where such comparable data is not available, this can lead to protracted disputes.

**Flow of labour**

ASEAN, with regard to labour, is unlike the European Union where citizens of member states are free to travel and work anywhere within the region without restriction. Singapore citizens are still required to obtain work visas to perform substantive duties in any of the other nine ASEAN member states. Singapore, likewise, does not offer concessions or special exemptions from the usual immigration or tax reporting for citizens of ASEAN member states who wish to work in Singapore.

**Customs and trade**

From a customs and trade perspective,
moving production from Singapore to another ASEAN country currently introduces a host of potential risks and costs. The difference in production costs in a lower-cost manufacturing location, and/or the different way in which qualifying content is calculated there, may result in the final product no longer qualifying for duty-free access to other ASEAN markets under the ASEAN Trade In Goods Agreement (ATIGA). Separately, in our example, if the finished flavours are shipped directly to other ASEAN markets but the invoice is issued by Terrific Tastes, any entitlement to preferential market access may be compromised and, in most cases, such imports would be subject to stricter scrutiny and checks.

Any imported ingredients used for production may not be able to enter the contract manufacturing ASEAN country free of duty, like they would be in Singapore. In addition, in the food and beverage industry, many ingredients are subject to import controls, some of which only local entities are allowed to obtain. Similarly, although it may be possible to operate the manufacturing facility under bond, the licenses and management of available bonded schemes may be beyond the capability of Terrific Tastes, requiring third parties to be called on for help.

In the same vein, any mutual recognition agreements that ASEAN countries have around accepting Singapore certification of Terrific Tastes’ flavours, may not equally apply when such flavours are produced in another ASEAN country, resulting in potentially costly and time-consuming certification requirements in the destination markets.

Table 1 Current income tax rates on corporate and employment income for a tax resident of ASEAN countries, and indicative duty rates for flavours

<table>
<thead>
<tr>
<th>Country</th>
<th>Headline Corporate Income Tax Rate</th>
<th>Highest Marginal Income Tax Rate</th>
<th>Customs Duty Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Preferential</td>
</tr>
<tr>
<td>Thailand</td>
<td>20%</td>
<td>35%</td>
<td>0%</td>
</tr>
<tr>
<td>Philippines</td>
<td>30%</td>
<td>32%</td>
<td>0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>22% (20% from 2016)</td>
<td>35%</td>
<td>0%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25%</td>
<td>30%</td>
<td>5%-150%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>25%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Laos</td>
<td>24%</td>
<td>24%</td>
<td>0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>17% (22% from 2016)</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>20%</td>
<td>20%</td>
<td>0%-5%</td>
</tr>
<tr>
<td>Brunei</td>
<td>18.5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
THE WAY TO A TRULY INTEGRATED AEC
Under the current AEC Blueprint, the only taxation agenda mentioned therein is the completion of the DTAs within the ASEAN countries. In view that there will be minimal changes to the domestic taxation in each member country, AEC may not have a significant impact from a tax perspective. There should be greater impact from broader commercial perspectives.

In order to achieve the AEC goals of transforming ASEAN into a single market and production base as well as a highly-competitive economic region, the member countries should consider collaborating to make ASEAN an easier place to conduct business from a tax perspective. Initiatives could include providing greater clarity on interpretations of domestic tax legislation and incentives, giving greater certainty to investors. For example, the body could consider providing clarity on what constitutes a “shell/conduit company”, “beneficial ownership test” and “limitation of benefits” in order to be entitled access to tax treaties. For example, a certificate of residence issued by the relevant tax authority within ASEAN should be accepted by the tax authorities of other member countries.

ASEAN could consider a united response to efforts by the Organisation for Economic Cooperation and Development to address base erosion and profit shifting (BEPS). This would present various challenges given that BEPS should impact each ASEAN member country differently, depending on its economic and tax profiles. But a united policy document outlining the key principles to be adopted would be an important statement.

The DTAs between the ASEAN members should be at least as competitive as those which they have signed with non-members. For example, Terrific Tastes would be subject to tax in Indonesia at 5% on the gross consideration arising from the sale of shares of an Indonesian company which is not listed on the Indonesian stock exchange. There is no protection for capital gains under the Singapore-Indonesia DTA. In comparison, under the Hong Kong-Indonesia DTA, taxing rights to the gains derived by a Hong Kong tax resident seller are given to Hong Kong, provided that certain conditions are satisfied.

To encourage the intra-regional mobility of labour, AEC should introduce a simplified work permit arrangement for citizens of ASEAN countries seeking to work elsewhere within the region. It should also simplify the administrative processes for treaty exemption claims for cross-border business travellers. These structural changes may take some time to implement, so in the meantime, Terrific Tastes (as an employer)
should keep up-to-date with local immigration, tax and payroll compliance requirements in the territories to which they deploy staff. It may also need to consider how to incentivise key employees so it can mobilise the right person into the right place, at the right time, in order to achieve its strategic goals.

From a customs and trade perspective, there is no intention to create a harmonised external tariff, hence, duty rate differentials for non-ASEAN originating products will likely remain. Although there is a commitment to work towards harmonising more than just the elimination of duty rates on originating products, much of this is work-in-progress and will still be work-in-progress come 1 January 2016.

Mutual recognition of certification, harmonisation of rules of origin, alignment of procedures and data requirements through the ASEAN Single Window, synchronisation of trade facilitation schemes and the like will not magically be implemented by next year. Much work is being done in all these areas, and although progress is substantial, implementation difficulties and even barriers will remain for some time to come.

AEC is a step in the right direction for enterprises like Terrific Tastes. The challenges outlined are not insurmountable. With the correct guidance, many enterprises have been and will continue to be successful operating in ASEAN. Therefore, the focus for the leaders of ASEAN is to continue to promote the harmony that ASEAN represents, and to reflect it in mutually beneficial initiatives, with the view of helping each other to build their respective economies so as to better the lives of their people.

This article is the second of a three-part series highlighting what AEC is, further expanding on its implications from a tax perspective, and the opportunities for members under the ASEAN Mutual Recognition Arrangement for Accountancy Services.

SIATP Board Member Chris Woo is Tax Leader, PwC Singapore; Frank Debets is Managing Partner, PwC Asia Worldtrade Management Services, and Sarah Wong is Tax Director, PwC Singapore.
At a recent EY company dialogue session, a young accountant asked Max Loh, Managing Partner, EY, ASEAN and Singapore, "Max, you have been working in the same company for so many years, haven’t you thought of leaving?" Mr Loh laughed and replied, "Yes, every Monday."

He continued candidly, "It is not possible to come to work happy every day but, one can come to work happy most days. There will be days when you don’t feel like working, and that’s because you are a human being; it’s a fact of life." It is this philosophical and matter-of-fact attitude towards life and work that has kept him going all these years. It certainly helped that he has a good sense of humour too.
An interest in Business sparked it off

Mr Loh discovered his interest in business when he studied economics as one of his subjects in junior college. As he was good in mathematics, he decided that a degree in accounting would be ideal as it was more centred on business. That decision marked the start of his journey as an accounting professional. To date, it has been 29 years and counting.

He began his career with accounting firm Arthur Andersen in 1986 before joining EY in 2002. He has held various leadership positions throughout his career, helping to spearhead the expansion of the firm’s practice in Singapore, as well as in the region. Having been in the business for close to three decades, he still finds it interesting to go to work – with good reason.

Mr Loh explained that it is his interest in business and being able to help clients succeed in their business that makes work enjoyable. “When our clients succeed, we succeed with them. We build a relationship by offering them the best advice that will enable them to run their business successfully.”

Among his client base, he is particularly enthusiastic about interacting with entrepreneurs as they bring new concepts and products to market. “When you deal with entrepreneurs, things are not as structured as in big corporations. It is always exciting as they have this level of energy and innovation about them, coupled with their desire to succeed. Of course, not all of them succeed but it is the journey together with them that makes it worthwhile.”

A more complex and exciting world

Mr Loh finds the digital economy fascinating as it has changed the world fundamentally, as reflected in new ways of doing business. He reminisced that things were “a lot more straightforward” when he first started out because the business environment was simpler. Although he has enjoyed his work all these years, there have been challenges in the profession, such as regulatory oversights, economic crises, risk of public accounting being commoditised, fair value accounting, and rogue clients. It was – and still is – a challenge to constantly stay on top of current events and accounting updates. However, he views every day as a positive experience as he is always learning new things.

Mr Loh emphasised that in this complex and dynamic global economy, it was imperative that accountants remain relevant in the marketplace and provide value in a timely and meaningful manner. Most important is the ability to constantly learn and change in order to take advantage of the many opportunities presented to accounting professionals as trusted business advisors.

He said, “An accounting degree gives you that basic skill set. Working with different sectors, learning from different groups of people as well as continuing professional education will provide us with diverse skill sets.” When asked why he has kept
require sound decision-making, negotiation and strategic-thinking skills – demands that go far beyond the figures. “Accountants need to have a business mindset and trusted business advisor capabilities. These may not be easy to pick up but you will have that if you have a business mindset. We need to have a more proactive and advisory approach with clients and add value by helping them to manage their businesses more effectively in an increasingly complex global economy.”

For aspiring accountants, Mr Loh advised that employers nowadays seek non-accounting job skills when evaluating candidates for accounting roles. In addition to accounting knowledge, other skills such as business knowledge, IT and communication skills are the most valuable. “Understanding how a business runs – how it operates, how it mitigates risks, how it makes money, etc – is an invaluable skill. If you decide to pursue another career later on, you would have already built a solid business foundation. Good communication is important as saying the right thing at the right time is a good soft skill. You must also have the right mindset to do the right things. People in the market will then recognise you as a principled, good go-to professional who can help clients manage and resolve their issues.”

WORKING WITH A DIVERSE GROUP OF PEOPLE
Mr Loh enthused that another perk of being in professional services is working with people, not only with clients but his own people in EY. At last count, he has 28 different nationalities, working across disciplines, in the Singapore office. People from diverse disciplines, who bring with them different skills, help EY and their client-companies manage varied business needs and issues. If their background is in engineering or psychology, for example, they can address change management in client-companies.

The opportunity to collaborate with such a diverse group of people has been invaluable, not only because of the high-quality accounting work that was produced but also from the learning and development process where staff made valuable
Pauline Chee is Manager, Corporate Relations & Communications, ISCA.

contributions to achieve corporate goals and objectives, said Mr Loh.

FLEXIBLE WORK ARRANGEMENT: TECHNOLOGY AND MOBILITY ARE KEY

Mr Loh manages 2,400 EY employees in Singapore and 15,000 people in ASEAN, with an average age of 27. Working in a public accounting firm means long hours for employees. It is demanding work but there are opportunities for staff to handle assignments that pique their interest.

“We do spend time with our people in town halls and focus groups to find out what their issues are,” he said. “At the same time, I try to give them what I never had when I was younger – work-life balance.” Leading by example, Mr Loh allocates time for his family and himself. “It is about balance and how you organise your time. I have two young children whom I exercise with; we go swimming and play tennis. I kill three birds with one stone: I spend time with my family, spend time with my kids and get some exercise while doing it. I also make it a point to leave work earlier to watch my son play tennis whenever I promise him to do so. Of course, continuing my work after that is another matter. When you have an important family commitment, you have to plan and make time for it.”

EY has a flexible working environment. Many of its people work from home or from a client’s office most of the time, so they are not physically present at the EY premises. Staff are encouraged to think differently about their working lives, their attitudes and their actions. By doing so, the company hopes to create a great place to work in, and attract and retain talented people.

“Times are different and our younger generation has been brought up differently from my generation. The challenge for me is to be able to keep myself young in thinking, to be able to manage my people and look after their interests. It’s about sharing our vision and our purpose, and I keep emphasising that at the end of the day, people are our only asset. We don’t manufacture any products like tables and chairs. What we manufacture are good outcomes for our clients. A good outcome means a good piece of advice or “think-straight, talk-straight” report, and good outcomes can only come from the highest performing teams,” he said. ISCA
Budgeting is a ubiquitous business activity that accountants are involved in – supporting unit heads in its preparation, assisting controllers and executives in its review, and even preparing the budget itself. Firms generally prepare two types of budgets – capital budget and operating budget – but for our purpose, budgeting refers to recurring preparations of operating budgets1.

There are two related objectives to preparing budgets. First, budgeting is a part of strategy to help allocate resources, monitor progress, and provide progress feedback, that is, strategic control and coordination. Second, budgets provide inputs to performance measure to align behaviour with the strategy, that is, performance measurement. These objectives are related but distinct.

Neely et al2 suggests that the budgeting process is broken at many organisations. Budgeting consumes substantial management time in terms of preparation, revision-negotiation, and review. Yet, managers complain that budgets are rarely strategically focused. Instead, budgets reinforce departmental barriers rather than encourage collaboration, misallocate resources based on positional power rather than strategic need, focus on cost reduction and ignore value creation, and encourage gaming behaviour. Furthermore, the planning assumptions are often outdated when the budget is completed, but budgets are seldom revised to consider competitive changes, hence constraining effective strategic responses. Despite these problems, budgeting remains essential to management because of the lack of a viable alternative, and remedies3 have yet to gain traction.

Anecdotally, there are wide variations in the effectiveness and practice of the budgeting approach used in firms where practising accountants play a role. This variation indicates a potential where adoption of best practices could enable accountants to contribute a high value-added service to their business. In this article, we examine the two objectives

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1 Capital budgeting is non-recurring and requires investment appraisal by specialists.
3 For example, the applied literature reported two approaches: either to improve the budgeting process (for example, the Activity Based Budgeting initiative) or abandon budgeting (for example, the Beyond Budget initiative).
4 The forecast is usually a growth over the previous year’s profit considering market expectation, economic conditions and business strategy.
of budgeting – strategic control and coordination, and performance management – in detail, and provide an overview of good practices.

**Budgeting for Strategic Control and Coordination**

Preparing budgets to support strategy requires concurrent preparation of business plans (hereafter referred to as plans). Budgets quantify the expected outcomes and expected resources to execute plans, ensuring the strategy’s financial feasibility is considered. Plans, containing assumptions for the coming year’s activities, are the basis for budgets. Hence, draft plans should precede pro-forma budgets. Budgeting is iterative: Draft plans precede pro-forma budgets which are then aggregated, reviewed and revised. Budget revisions consequently cause plan revisions until an agreement for the final plans and budgets is reached. Firms adopt annual planning cycles to sequence the budgeting process, provide common templates to facilitate aggregation, organise preparers to present to reviewers, and obtain the board’s endorsement. Budgets become a device to allocate financial and human resources across business units.

The value of budgets to support strategy is well recognised. However, quantifying budgets require judgements, estimates and forecasts that introduce subjectivity, and lead to unintended consequences. Resource allocation is always a politicised negotiation. There are generally two approaches to the negotiation process: top-down and bottom-up. The top-down process begins with aggregate forecasts by top management which then cascade to lower levels. The bottom-up process begins with heads making initial budget estimates which then aggregate up. We can think of final budgets as weighted averages of top-down views of corporate ambitions and bottom-up views of feasibility. Using the concept of framing from negotiation research, the weights gravitate towards the setter of the pro-forma budget ceteris paribus.

For new units or strategies, preparers prepare zero-based budgets. For mature units or strategies, preparers

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can use the information from previous years to prepare incremental budgets. There are two advantages to preparing incremental budgets – less time is needed, and verified data is used as the basis. However, it is also easy to prepare incremental budgets without any plans or strategies. Budgeting degenerates into politicised bargaining without the basis of plans or strategies.

For many firms, having prepared budgets is the beginning of using them as a management tool. For example, a hospital organises its wards as units, prepares annual budgets disaggregated by month, and uses monthly budgets for operational reviews including monthly meetings of nurse managers (responsible for a ward) with the hospital administrator, financial controller and accountant to review budget variances. Operational reviews are for problem-solving and not evaluating performance. Positive price variances can signal unexpected market opportunities. Negative volume variances can signal competition which warrants investigations into their

5 Recall that the budget variance consists of price and volume variances applicable to revenue and expenses.

nature and devising of countermeasures. The accountant prepares the variance analysis and educates nurse managers on concepts such as static and flexible budgets. The analysis helps nurse managers understand the financial impact of operational decisions and instil financial discipline.

Budgeting is criticised for being overly focused on short-term financial outcome. Norton and Kaplan propose a balanced approach covering four areas along two axes, widely known as the Balanced Scorecard (Figure 1). Mackay provides practical guidance on this topic.

A 2012 global survey by Quantrix shows wide variations in business planning and budgeting: 26% of small firms (<50 employees) just prepare budgets and 44% prepare budgets with business plans; large firms (>5,000 employees) almost always prepare budgets with business plans. How budgeting is practised strongly influences the time costs and potential benefits for the firms.
BUDGETING FOR PERFORMANCE MANAGEMENT

A 2010 survey of American CFOs shows that meeting the budget is a key input of performance evaluation tied to compensation. The logic is simple – since a budget quantifies the strategy, incentising executives to meet the budget results in the delivery of the strategy. However, incentives often work too well and result in gaming. Budgeting games are played at two points – setting targets and meeting targets.

Forecasting involves judgements and estimates and hence produces a range of feasible targets. Budget preparers prefer conservative targets, for example, low profit targets, which are easily achievable. Using conservative targets to increase the chance of receiving incentives is known as sandbagging the budget. Reviewers try to negotiate for less conservative targets that are deemed fair and feasible, and the negotiation dynamics strongly influences the final target. Sandbagging can occur for expense lines, and cost centres are not spared.

Reviewers often set targets based on last year’s actual targets, producing an ironic situation as last year’s strong performers are “punished” with high targets. The effect of targets creeping up if they are consistently hit, but not lowered if they are missed, is known as ratcheting. Ratcheting incentivises preparers to deliver sub-optimal performance, giving budgets a bad reputation as fixed performance contracts. Ratcheting also occurs in the expense lines as there is unnecessary spending towards the year-ends to maintain future budgeted expense.

Budgeting games are better appreciated using the pay-for-performance profile (Figure 2).

Looking at Figure 2, the normal incentive effect occurs on the slope but becomes dysfunctional outside this range. Below Point A, the expectation to exceed Point A influences the manager’s action. The manager shifts current profit to current year if he expects to exceed Point A, and vice versa if he expects to miss. Approaching Point C, the manager will shift current profit to future year by a variety of methods – delay sales booking (such as announcing discount next year), bring forward expenses, bring forward investment spending for projects, and even fraudulent accounting. Roy estimated that removing budget gaming improves productivity from 33% to 150%.

Using budgets as inputs to measure performance intensify budget gaming. Excessive budget gaming is destructive because first, budgets are no longer useful for strategic control and coordination because the estimates are not reliable. Second, integrity and honesty are eroded when concealing information is rewarded. The adverse incentives produce an unhealthy corporate culture that lowers the firm’s competitiveness.

CONCLUSION

This article discusses many facets of budgeting. Budgets are useful for strategic coordination and control if two conditions are met – budget estimates are linked to plans, and budget gaming is not significant. Unfortunately, using budgets as inputs to performance measurement intensifies budget gaming. How Singapore firms handle the trade-off has a strong effect on their competitiveness, but the practice is currently unknown. Research on budgeting practice of Singapore firms may hold the key to unlocking greater competitiveness and productivity.

Dr Tan Boon Seng is Assistant Director, Technical Research, ISCA, and Low Kin Yew is Associate Professor and Associate Dean (Undergraduate Academic), Nanyang Business School, Nanyang Technological University.
It seems that India is, once again, an exciting destination for foreign investment. After all, Christine Lagarde, Managing Director, International Monetary Fund (IMF), did say that in this “cloudy global horizon, India is a bright spot” during her March visit to the world’s second most populous nation.

At an engaging Tax Excellence Decoded session organised by the Singapore Institute of Accredited Tax Professionals (SIATP), Accredited Tax Advisor (Income Tax) Rohan Solapurkar, Director of Taxes, Deloitte Singapore, shared his insights on the reforms and progress in India. He also provided a synopsis of the taxes that are critical for foreign companies investing in India.

**FOR THE BUSINESS**

Foreign investment in almost every sector is permitted in India on an automatic basis. However, there are some sectors such as agriculture, multi-brand retail, lotteries, etc, in which foreign investment is restricted. There are also certain sectors such as telecommunications, defence, insurance, etc, in which sector-specific caps on foreign investment are set.

**INVESTING IN INDIA**

In the Budget, the Indian Finance Minister re-affirmed the commitment to introduce Goods and Services Tax (GST) from April 2016.

**FORMS OF BUSINESSES**

The common forms of business presence in India include liaison office, branch office, project office, subsidiary, joint venture and limited liability partnership. A liaison office, branch office and project office are extensions of their respective parent entities and are not considered legal entities on their own.

A liaison office (also known as representative office) may act as a channel of communication between its Head Office abroad and parties in India, but is not allowed to undertake any business activity or earn any income in India. This is unlike a project office which may execute a specific project in India after its foreign parent has secured a contract from an Indian company. The income generated by the project office will be taxed in India, and the project office will be closed upon the completion of the project. A branch office, on the other hand, may engage in any activity (except manufacturing) in which its parent company is engaged, and the income generated in relation to the branch office will be taxed in India.
Unlike a liaison office, branch office or project office, a subsidiary company is a legal entity. Such a set-up may be preferred as it limits the liabilities of the foreign parent. A subsidiary provides the maximum flexibility in conducting business in India. It may be funded through a mix of equity, debt (both foreign and local) and internal accruals. The exit strategy for a subsidiary is, however, generally more cumbersome than for other forms of businesses.

OVERVIEW OF INDIAN TAXES
India levies taxes at both the national and state levels. Here are some of the essential tax issues businesses should note when investing in India.

Corporate income tax
The tax year in India (known as the “previous year” or “fiscal year”) is mandated to be the year beginning April 1 and ending March 31. Income of a fiscal year is taxed in the next fiscal year.

The corporate income tax rate for an Indian company (assuming it earns an income of at least INR100 million) is 34.61%. Unlike an Indian company, a foreign company with a taxable presence in India through a branch office, project office or permanent establishment will be subject to a corporate income tax rate of 43.26%
A company that is a tax resident in India where its control and management is situated in India, is liable for income tax on its worldwide income. A non-resident company, on the other hand, is liable for income tax on its income arising in or received in India, or deemed to arise or accrue in India.

It is mandatory for every company (subject to certain conditions) in India to spend at least 2% of their net profits on activities that are eligible towards Corporate Social Responsibility (CSR) spend. Such mandatory CSR spend is, however, not tax deductible as it is not incurred wholly and exclusively for business purposes.

**Minimum alternate tax**
A company with a tax liability of less than 18.5% of its book profit will have to deem its book profit to be the total income chargeable to minimum alternate tax (MAT) at a tax rate of approximately 21%. For example, a company with a tax loss but makes a book profit will be liable to pay MAT on its book profit, which is computed as per specific provisions of the Income Tax Act, 1961. MAT is akin to an advance tax payment and may be carried forward to be set off against the income tax payable in the next 10 years, subject to certain conditions.

**Dividend distribution tax**
Companies are required to pay dividend distribution tax (DDT) of 20.36% on any amounts declared, distributed or paid as dividends. Dividends on which DDT have been paid are not taxed again in the hands of the recipient.

**Withholding tax**
Indian tax law mandates the withholding of tax in respect of any payments (chargeable to tax in India in the hands of the non-resident) made by a resident to a non-resident.

It is important to note that a non-resident needs to produce a tax residency certificate and a Permanent Account Number to enjoy concessionary tax rate under the Indian tax treaty with its home country. In addition to the tax residency certificate, the non-resident may also be required to file a Form 10F to certify that it does not have any permanent establishment in India.

**Capital gains tax**
Profits and gains derived from the disposition of capital assets other than those held for business purposes are taxed in India as capital gains. The tax treatment on capital gains is dependent on the type of capital assets and the holding period.

**Transfer pricing**
Any transactions (including domestic and international transactions) between two associated enterprises are subject to transfer pricing regulations in India. The definition of associated enterprise is very wide and also extends beyond shareholding and management control.

In line with recommendations by the Organisation for Economic Cooperation and Development, India has five prescribed transfer pricing methods, namely traditional transaction methods such as comparable uncontrolled price method, resale price method, cost plus method, and transactional profit methods such as profit split method, and transactional net margin method.

It is important to note that transfer pricing documentations are mandatory in India, and that companies need to file Form No. 3CEB (which is a certification...
Indirect taxes

Indirect taxes in India are levied at both the central level (such as excise duty, customs duty, service tax, research and development cess and central sales tax) and at the state level (such as value-added tax and entry tax). Rates for state taxes generally vary from state to state.

In the Budget, the Indian Finance Minister re-affirmed the commitment to introduce Goods and Services Tax (GST) from April 2016. The GST is proposed to be a comprehensive indirect tax levy on the manufacture, sale and consumption of goods and services at the central level, and will replace all indirect taxes levied on goods and services by the Indian central and state governments. The impending implementation of GST is set to change the indirect tax landscape in India.

Individual tax

Ordinarily, residents of India are taxed on worldwide income. Non-residents, on the other hand, are liable for tax on India-sourced income, including interest, royalties and fees for technical services paid by an Indian resident, salaries paid for services rendered in India, income that arises from a business connection or property in India, and any income first received in India.

There is no doubt that doing business in India can be complex, but the trillion-dollar economy provides so much opportunity that it is difficult for foreign investors to ignore. With careful planning and the expert guidance of the right advisors, foreign investors can reap handsome rewards from the latest efforts by the Indian government to create a pro-business environment.

A subsidiary provides the maximum flexibility in conducting business in India. It may be funded through a mix of equity, debt (both foreign and local) and internal accruals. The exit strategy for a subsidiary is, however, generally more cumbersome than for other forms of businesses.
CFO-CIO COLLABORATION
Vital for Driving Competitiveness and Performance

BY SUNNY CHU

In today’s digital economy, the financial well-being of any organisation is dependent on the level of collaboration and teamwork of its C-suite executives. Particularly, the health of the Chief Financial Officer-Chief Information Officer (CFO-CIO) relationship is important, and this is expected to amplify as the influence of digital grows.

Technology innovations – from the cloud to mobility – offer the potential to transform organisations’ operations, customer experience and business model. Organisations are driving performance improvement and creating new competitive advantage through a range of digital initiatives, from harnessing the power of big data and analytics to transforming decision-making, to meeting the demands of the ultra-connected customer.

The more complex reporting requirements that are being placed on CFOs also mean that there is now greater demand by the finance function of IT for quality data. Today, boards typically require data on sustainability and energy efficiency, for instance. The better the data that IT can provide to finance, the easier this reporting becomes. And for this relationship to work well, it needs to work in both directions.

The CFO who understands the need for better data – and supports the investment in analytics technology to facilitate this – will see benefits extend beyond reporting requirements. The CFO and CIO, enabled by advanced analytics tools, will be able to use the enhanced data to gain real insight into the business, which in turn helps to drive more sophisticated executive decisions.

CFOs are well aware of this. A recent global survey of 652 CFOs and a series of indepth interviews with CFOs, CIOs and EY professionals for EY’s Partnering for Performance report revealed that the CFO-CIO relationship is becoming closer and more collaborative both in developed and emerging markets. Some 61% of CFOs report increased collaboration and 71% of CFOs have increased involvement in the IT agenda in the last three years.

The survey also showed that the CFO is increasingly involved in managing cybersecurity, establishing

To drive profitable growth and performance in the age of the smart machine, close partnership between the finance and IT chiefs is mission-critical.
information management strategies and processes, transitioning to a digital IT function, and creating an analytics-driven organisation.

**CYBERSECURITY A TOP PRIORITY**

Two-thirds of the CFOs surveyed saw managing cybersecurity as a high priority, reflecting a growing awareness of the rising sophistication of attacks. It is not surprising that CFOs are concerned, as sophisticated attackers could be looking at economic manipulation of share prices as an objective. Any form of reputation distress as a result of cybersecurity breaches could have long-term impact on investor and consumer confidence in the organisation, and consequently affect performance and returns.

Yet, the survey also indicated that while most CFOs recognise the scale of the cybersecurity threat, a lack of understanding of IT issues prevents them from recognising what a mature cybersecurity capability looks like, in order for them to invest in the right initiatives.

Effective cybersecurity management requires organisations to treat it as an enterprise risk-management issue, rather than an IT one. Also, given that breaches are inevitable, and it is not possible to prevent every attack or protect every asset, the CFO should lead the board-level discussion to prioritise the assets that are business-critical to protect, while the CIO takes the lead to work out how to protect them.

**ANALYTICS DRIVE COLLABORATION**

The same mindset also applies to data analytics. The seeds of data analytics were sown in the IT function. But to realise its potential as a tool for delivering better decision-making, analytics needs to be seen as a business issue, not a technology one.

According to the same survey, CFOs who are making analytics a top priority are seeing organisational value: 48% who say that analytics is a very high priority had EBITDA growth of greater than 10% over the past three years. Among the rest of the sample, just 35% grew at this rate.

There is a clear business case for improved analytics and data management capabilities to drive financial and strategic decision-making. It is also the top reason CFOs said they are working more closely with their CIO. For now though, the role that CFOs play is relatively limited, as only 53% of the CFOs surveyed said they make a significant contribution to determining where analytics can add most value to the organisation.

As such, there is a huge opportunity for CFOs to be a champion for advancing the analytics agenda, not only within finance, but also for embedding it across the firm, given how CFOs are involved in other parts of the organisation.

**GAPS REMAIN**

Even as the survey revealed that CFOs and CIOs are making progress in eliminating silo behaviour, two threats to the effectiveness of their collaboration remain. First, cost discipline, rather than strategic value, still defines the IT investment mindset. Second, most CFOs still need a deeper understanding of IT issues.

Traditionally, CFOs tend to focus on managing costs and setting budgets, and therefore often struggle to come to grips with IT and technology issues. The relationship between the CFO and CIO has always had a strong cost dynamic. Investments have typically involved large-scale purchases of data storage, enterprise applications and PCs.

IT spending as a percentage of revenue, as high as 6% in some industries, used to be a crucial metric. The goal was to bring this figure
Organisations are driving performance improvement and creating new competitive advantage through a range of digital initiatives, from harnessing the power of big data and analytics to transforming decision-making, to meeting the demands of the ultra-connected customer.

New digital technology, such as cloud and mobile computing, can also present opportunities for substantial cost efficiencies. CFOs need to understand this and invest accordingly. In turn, CIOs need to be able to explain to finance leaders how IT can help them realise cost efficiencies for their businesses. For example, in developed markets, IT expenditure models are shifting from one based on Capex, involving large outlays on infrastructure and systems, to one where costs can be classed as Opex. The growth of cloud-based storage and application services, more flexible IT infrastructures and managed services are making such a shift realistic in emerging markets as well.

Suffice to say, to succeed in an increasingly digital world, organisations must make bold technology investment decisions that are driven by corporate strategy, while managing a range of severe risks, such as cyber risk and data privacy concerns. It is a shared dialogue between the CFO and CIO; any disconnect between the two can have profound consequences for the organisation’s competitiveness and performance.

Helen Arnold, CIO, SAP, who was interviewed for the EY report agreed, citing that “to achieve greater efficiency and bring down cost, a validation and redesign of business processes is often paramount” and that typically, it is a new technology that will enable these benefits to materialise.

Venkat Padmanabhan, President and Global Head of Finance–Products, Olam International, commented that greater CFO involvement is key to driving value. “IT is very powerful, and finance should have more ownership,” he said, adding that “when finance is the core owner of IT, it makes a huge difference when it comes to extracting the full value of IT investments”. It is clear that as organisations look to drive innovation through technology, this critical CFO-CIO relationship requires a different mindset and better mutual understanding.

**A SHARED DIALOGUE**

Making an effort to understand the world of IT will enable CFOs to make more strategic decisions when it comes to digital technology. Finance leaders who can develop their IT knowledge will have a distinct advantage, especially given that there are so many CFOs today who have only a limited comprehension of the issues at stake.

down, and CFOs played a critical role in managing IT project overruns and keeping a watchful eye on hidden costs. This also explains why many CIOs reported to the CFO even though this reporting structure may be shifting.

Today, technologies are crucial to both operational excellence and profitable growth. There ought to be a growing focus not only on what IT costs, but also on the value it brings to the organisation.

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FINANCIAL REPORTING

ISCA ISSUES COMMENT LETTER ON DISCLOSURE INITIATIVE (PROPOSED AMENDMENTS TO IAS 7)
ISCA agrees with the proposed disclosure on liquidity if such disclosure is material and relevant to the understanding of an entity’s liquidity risk exposure. However, this additional disclosure requirement should be addressed in IFRS 7 instead. On the proposed disclosure about an entity’s financing activities, excluding equity items, ISCA has raised concerns that such disclosure would lead to “disclosure overload” in the financial statements.

For more information, please visit http://isca.org.sg/media/776820/comment-letter-on-disclosure-initiative-ias-7-final.pdf

IASB PROPOSES TO DEFER THE EFFECTIVE DATE OF THE NEW REVENUE STANDARD
The new revenue Standard (IFRS 15 Revenue from Contracts with Customers) was issued jointly by IASB and FASB in May 2014 with an effective date of 1 January 2017. In May 2015, IASB published for consultation a proposal to defer the effective date by one year to 1 January 2018. Early application of the Standard would still be permitted.

For more information, please visit www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-votes-to-defer-the-effective-date-of-the-new-revenue-Standard.aspx

ETHICS

IESBA PROGRESSES TOWARD GLOBAL STANDARD ON RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS
IESBA has released for re-exposure an enhanced Standard, Responding to Non-Compliance with Laws and Regulations. The proposed Standard sets out a new framework to guide auditors, other professional accountants in public practice, and professional accountants in business in deciding how best to act in the public interest when they come across an act or suspected act of non-compliance with laws and regulations.

For more information, please visit www.ifac.org/news-events/2015-05/iesba-progresses-toward-global-standard-responding-non-compliance-laws-and

REGULATORY

GETTING MORE VALUE OUT OF XBRL FILING
ACRA is granting access to all SingPass holders to tap on a free data analysis service on the BizFinx portal. The access allows users to generate a Free Data Analysis (FDA) report that was previously available only to company directors and secretaries of companies that file XBRL financial statements with ACRA.

For more information, please visit www.acra.gov.sg/components/templates/newsDetails.aspx?id=0c9011e6-0a05-40c8-b769-194e90dd8dd5

ACRA ISSUES PD NO. 3 OF 2015
ACRA has issued Practice Direction No. 3 of 2015: Revocation of Practice Directions Relating to Practical Experience Requirement for Registration as a Public Accountant on 28 April 2015. The implementation of the new practical experience requirements took effect from 1 February 2015.

For more information, please visit www.acra.gov.sg/components/templates/newsDetails.aspx?id=fa35ffe8-c8d5-46b8-b25f-f9267215d700

KEY AUDIT QUALITY TRENDS IN SINGAPORE MIRRORS THOSE FOUND IN GLOBAL AUDIT LANDSCAPE
Talent attraction and retention issues and commoditisation of audit services are some of the key trends currently impacting the global audit landscape. These trends are of concern to audit regulators as well as investors who rely on independent and high-quality audits to ensure the reliability and integrity of financial information that they receive.

For more information, please visit www.acra.gov.sg/components/templates/newsDetails.aspx?id=a25f4c60-7bca-491e-b973-00429aaf557b

AUDITING AND ASSURANCE

WITHDRAWAL OF SAP 1
SAP 1 Guidance to Auditors on Money Laundering and Terrorism Financing has been withdrawn on 1 May 2015. Members should refer to the ISCA Ethics Pronouncement (EP) 200 for the relevant requirements and guidelines on anti-money laundering and countering the financing of terrorism applicable to professional accountants in Singapore.

For more information, please visit http://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2015/may/withdrawal-of-sap-1/
Easing Fixed Asset Data Management across Asia-Pacific

**CHALLENGE**
An international manufacturer of solutions for product identification and traceability faced a huge challenge in planning and managing capital budgets at its Asia-Pacific headquarters in Singapore. As the office managed fixed asset data with spreadsheets, calculating the depreciation of assets was a highly manual and time-consuming process. This process was consequently prone to human errors, negatively affecting the accuracy of financial reports. The company also needed a convenient way to view the fixed asset data of its branch offices across the region. Seeking a solution, it turned to Stone Forest IT (SFIT) for assistance.

**SOLUTION**
After assessing the client’s needs, SFIT seamlessly integrated a tool called “Norming Asset Management” into Sage ERP 300 for the Singapore facility and some of its Asia-Pacific branch offices. The tool was also flexibly deployed as a stand-alone application in the remaining branch offices. Its capabilities include:

- Easily process all asset accounting transactions such as acquisition, adjustment, disposal, merge and split
- Automatically calculate monthly depreciation
- Accurate list of assets and flexible asset numbering
- Depreciation projection and reversals
- Easily access fixed asset data of all branch offices in the region
- Fully compatible with IFRS and US GAAP

**RESULTS**
With the new solution, the client has enjoyed several benefits, including:

- Eliminate risk of human errors in depreciation calculations
- Greater productivity due to time saved in fixed asset data management
- Easier capital budget planning and management as a result of convenient access to branch offices’ fixed asset data across the region

SFIT’s extensive experience in providing solutions to address clients’ unique needs helps businesses to reach new levels of efficiency and productivity.
Share-based payments continue to feature as part of employee remuneration arrangements and other transactions entered into by Singapore companies, including, increasingly, SMEs. The relatively complex accounting requirements for these arrangements present specific challenges not only for preparers of financial statements, but also for auditors.

Ng Kian Hui, Audit and Assurance Partner, BDO LLP, facilitated this topic among a group of practitioners at ISCA’s monthly technical clinic. Here are the highlights of the discussion.

1. Does a Share-based Payment Arrangement Always Involve an Employer and an Employee?

The scope of FRS 102 Share-based Payment (FRS 102) can be surprisingly broad. FRS 102 applies to all transactions in which an entity receives goods or services in exchange for transfer of its own (or another
group entity’s) equity instruments to the counterparty, or payment of an amount of cash that is based on its own (or a another group entity’s) share price. The granting of shares or share options by an entity to its employees is a common example of a share-based payment arrangement; however, many other transactions fall within the scope of FRS 102.

Assessing the completeness of share-based payments accounted for by an entity can therefore be an area with high/significant risk of material misstatement which requires greater audit focus. Situations to look out for, where entities may fail to identify and account for share-based payments, may include:

- Shares or share options issued to an entity’s employees by a parent company;
- Shares transferred by a shareholder directly, rather than issued by the company itself, to employees, management or directors of the company;
- Payment in shares for external consultancy services, common among startup companies and in pre-IPO situations, and
- Payment in shares to a supplier for goods/other assets, including asset acquisitions that do not meet the criteria for business combination accounting.

**Equity-settled transactions are recognised in equity at fair value, as measured at the grant date with no subsequent re-measurement.**

By contrast, **cash-settled transactions involve the recognition of a liability, which must be recorded at fair value through profit or loss at each reporting date until it is settled.**

**WHAT ARE THE DIFFERENT TYPES OF SHARE-BASED PAYMENT ARRANGEMENTS FOR EMPLOYEE SERVICES?**

Auditors need to be aware of the different types of share-based payments in order to assess the appropriateness of the accounting treatment. There are many variations to the detailed accounting requirements depending on the specific features of the arrangement. Additionally, the auditor needs to ensure that the key features of the arrangement are properly reflected in fair value measurement. Some of the distinctions auditors should focus on include:

- Share-based payments can be either **equity settled** (for example, grant of shares or share options to employees), or **cash settled** (for example, share appreciation rights and phantom shares). Equity-settled transactions are recognised in equity at fair value, as measured at the grant date with no subsequent re-measurement. By contrast, cash-settled transactions involve the recognition of a liability, which must be recorded at fair value through profit or loss at each reporting date until it is settled.

- Many share-based payments are conditional on the employee satisfying certain vesting conditions. Vesting conditions may affect both the timing of recognition and fair value measurement of the share-based payment expense and therefore must be carefully identified and classified. There may be **service conditions** (for example, continuing employment with the entity) and either **market** or **non-market performance conditions**. Market conditions (for example, achieving a target share price) are taken into account in the estimate of fair value of the equity instrument at grant date, whereas all other
non-market vesting conditions are reflected in the number of equity instruments included in the fair value measurement.

To illustrate with reference to a group scenario, shares granted by the parent to employees of a subsidiary would be an equity-settled share-based payment transaction (recorded as Debit Expense, Credit Equity) in the consolidated financial statements, and also in the financial statements of the subsidiary if the subsidiary has no obligation to settle the award. The subsidiary and the group have received a service, and the parent and the group have issued shares as consideration. The share-based payment transaction would be recognised at the grant date of the award, unless vesting conditions are specified. For example, if the shares vest after three years of continuous employment, the share-based payment transaction might be recorded over those three years.

WHAT ARE THE CONSIDERATIONS RELATING TO THE CHOICE OF AN OPTION-PRICING MODEL FOR CALCULATING THE FAIR VALUE OF SHARE OPTIONS?

Since employee share options are not traded, observable market prices are generally not available and therefore, fair value is typically determined using an option-pricing model. The most commonly used are the Black-Scholes-Merton formula (Black-Scholes) and Binomial models, but other models such as Lattice models and the Monte Carlo simulation may also be appropriate for certain arrangements. When evaluating its appropriateness, the auditor should consider whether the model selected by the entity is applied in a manner consistent with FRS guidance and economic theory, and reflects the substantive characteristics of the share option scheme in question.

This may be particularly important where an entity has performed the valuation of their share options themselves, rather than engaging an external valuation specialist. The auditor should bear in mind that the Black-Scholes method is likely to be the first choice for entities performing inhouse valuations, but it may not be appropriate for all types of share option schemes. For example, the Black-Scholes model requires adjustment if the options can be exercised prior to the maturity date; share options that include market performance conditions are generally better valued with a Binomial valuation or Monte Carlo simulation.

WHAT AUDIT PROCEDURES SHOULD THE AUDITOR PERFORM ON THE ACCOUNTING FOR SHARE-BASED PAYMENTS?

In evaluating the appropriateness of the accounting treatment, the auditor must ensure that the share-based payments are both recognised and measured in accordance with FRS 102. In addition to the above-mentioned considerations, the auditor should assess both the accuracy of the option-pricing model calculations, and the appropriateness of the underlying data used as inputs to the model, including the assumptions made by management. In practice, the nature and extent of work by the auditor may depend on whether the fair value has been determined by management or an external valuation specialist.

(a) What are the audit procedures that should be performed?

Some of the key audit procedures typically performed include:

- Obtaining copies of spreadsheets with the valuation calculations, checking and re-performing these for mathematical and theoretical accuracy;
- Holding discussions with management and external valuation specialists engaged, if applicable, as to specific assumptions made for inputs to the valuation, and corroborating such assumptions (for example, expected term of options, share price and expected volatility, expected dividends), and
- Assessing the systems, and related controls, that generate the data used in the fair value computations, including share option/share award systems (for example, records of grants, forfeitures, lapses, exercise) and payroll/HR systems (for example, employee numbers, employment contracts, periods of employment, attrition rates).

(b) Can a subsidiary auditor rely on audit work performed by the auditor of the parent?

Arrangements where a parent company grants shares or share options to employees of a subsidiary can present additional practical challenges for the auditor of the subsidiary. The extent to which the subsidiary auditor can rely on audit work by the parent company auditor requires judgement. Generally, the subsidiary auditor would not rely
solely on the parent company auditor, but would also request and review copies of the relevant workings, reconcile amounts within them to both the subsidiary and parent company financial statements, review statements issued to employees, and obtain relevant confirmations from the employees and the parent company as to completeness. It may also be possible to access and review the parent company’s share-based payment systems, or the working papers of the parent company auditor, but such arrangements require early communication. The subsidiary auditor should bear in mind that the parent company auditor is likely to work to a higher materiality threshold.

(c) When is an auditor’s expert required?
The auditor may need to engage an expert to assist in the review of the valuation of share-based payments. According to SSA 620 *Using the Work of an Auditor’s Expert*, whenever expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor must consider whether to engage an auditor’s expert. In order to decide when to engage an expert, the engagement partner takes into consideration, among others, the complexity of the valuation performed, the significance of the amounts involved, whether the management has engaged a management’s expert, and their competence and capabilities.

**What should the auditor do to satisfy the requirement to evaluate the qualifications of a specialist?**
SSA 500 *Audit Evidence* requires the auditor to evaluate the competence, capabilities and objectivity of any expert used by management, including a valuation specialist, as part of assessing the reliability of the expert’s work as audit evidence. This involves considering whether the specialist has the necessary qualifications and experience to perform the valuation in question.

In practice, to evaluate the expert’s qualifications, the auditor can look into their membership of, and licenses given by, relevant professional bodies, including seeking evidence in the form of certificates, letters of good standing and/or records of disciplinary procedures. Even with appropriate qualifications in place, the auditor should also consider whether the specialist has experience in valuing the specific type of share-based payment arrangement.

Evaluation of the expert’s experience can in practice often be done through a review of the expert’s resume and discussions with the expert. The auditor should consider the experience of both the valuation firm and the individual performing the service, and remain alert to, and be sceptical of, situations where the individual might be inexperienced even if the firm overall has relevant experience.

**Conclusion**
Auditors should consider the potential impact of FRS 102 on their clients at an early stage of the audit since the audit of share-based payment is likely to involve other professional parties, including valuation specialists and/or auditors of the parent. This will allow the auditors sufficient time and effort to perform an effective and efficient share-based payments audit.

Ng Kian Hui is Partner, Audit and Assurance, and Elisa Noble is Technical Director, Knowledge & Professional Development, BDO LLP.
FRS 113 Fair Value Measurement (FRS 113) was issued in 2011 and companies in Singapore have already applied it in their financial reporting. However, there are still concerns over how the fair value concept is to be appropriately applied to financial derivatives in view of credit valuation adjustments (CVA) and debit valuation adjustments (DVA) introduced in the draft Technical Information Paper Credit and Debit Valuation Adjustments issued by the International Valuation Standards Council (IVSC) in 2013.

As defined, CVA is an adjustment to the value of a derivative asset for counterparty credit risk while DVA is an adjustment to the value of a derivative liability for an entity’s own credit risk. A major concern here in

\[\text{IVSC issued its Interim Application Guidance, Credit and Debit Valuation Adjustments, in January 2015.}\]
Singapore is whether companies have sufficiently considered or understood CVA and DVA in measuring their financial derivatives at fair value.

Part 1 of this article, published in IS Chartered Accountant, June 2015, addressed issues surrounding CVA. In this Part 2, we look at issues surrounding DVA.

DVA FOR OWN CREDIT RISK
FRS 113 seems to suggest that we can view DVA (an adjustment for the entity’s own credit risk) as a mirror image of CVA if the entity’s derivative liability is held by a counterparty as a derivative asset. It states that “when a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date” (paragraph 37). IVSC’s Interim Application Guidance (see footnote 1) paragraph 11 also states “the DVA therefore represents the CVA that the counterparty would be expected to calculate when dealing with that entity”. This may sound intuitively appealing in that if the carrying amount of a derivative asset has been adjusted by the counterparty for CVA, a reporting entity could likewise use the observed CVA value as its DVA value for the corresponding derivative liability. However, we believe this way of looking at DVA may be overly simplistic.

We discuss below why such a simplistic approach to DVA might be conceptually untenable. Under FRS 113, the fair value of an entity’s liability is the price that would be paid to transfer (rather than terminate) that liability in an orderly transaction in the principal market to which it has access. The key assumption is that the assumed transaction takes place under current market conditions at the measurement date from the
perspective of a market participant that owes the liability (paragraphs 19, 21 and 24). This principle contains several key attributes unique to a liability which could make its exit price (fair value) different from the exit price (fair value) of the corresponding derivative asset. In the following paragraphs, we provide our preliminary analysis focusing on the three key phrases mentioned earlier – transfer, orderly transaction, and principal market to which it has access.

(a) Transfer versus termination
FRS 113 explains that the transfer of a liability assumes that the liability would remain outstanding and the market participant transferee would be required to fulfil the obligation without extinguishment of that liability on the measurement date (paragraph 34). Transferring a derivative liability to a third party under the concept of exit price in FRS 113 is therefore not the same as terminating the liability with the existing counterparty at a negotiated price. In a transfer, the two-way credit exposure (explained in Part 1) before the transfer would continue to exist after the transfer but between the third-party transferee and the existing counterparty. FRS 113 assumes that non-performance risk is the same before and after the transfer of the liability (paragraph 42). It develops the liability's exit price from this assumption but in reality, after the transfer, the two-way credit exposure continues to exist but between different counterparties. It would be unrealistic for the transferee to assume that if it is in a deteriorating credit condition, it can expect to enjoy a deep discount in the price it pays to one of the market participants to transfer the derivative liability. Likewise, if the transferee's own credit condition is improving, it would not expect to pay more to transfer the derivative liability.

When it accepts the price and assumes the transferred derivative liability, the transferee achieves the same economic effect of raising borrowed funds with progressive future repayments (in the swap example, settling periodically the interest differentials), together with the possibility of the current derivative liability changing its value or flipping into a derivative asset. In reality, this potential transferee is likely to be a market-maker itself and we are of the view that logically, it will price its credit exposure to the continuing counterparty in the transferred swap, with no or little regard for the transferor's own credit risk. This suggests that the entity's own credit risk in this scenario is of little effect on the exit price (which is the fair value by definition). This is notwithstanding the apparent emphasis of FRS 113 on the need to reflect the effect of an entity's own credit risk in the exit price of an existing derivative liability.

(b) Orderly transaction in the principal market
In a financially-distressed situation, an entity may be able to negotiate with its counterparty to settle a derivative liability at a substantial discount, thereby realising a gain for its equity holders. However, within the meaning of FRS 113, this is not an assumed orderly transaction and the potential termination price is not the "exit price" as defined.

One of our major propositions is that the determination of both CVA and DVA is largely dependent on the credit exposure to the continuing counterparty to the derivative contract, with little regard for the own credit risk of the seller of the derivative asset or the transferor of the derivative liability.
(c) Principal market
Continuing from the above scenario, it could be suggested that the relevant market participants should be assumed to be those in the same category of credit condition as the transferor and this could be the principal market for the derivative liability of the transferor. If the transferor is in a weak or deteriorating credit condition, could it be assumed that its principal market comprises similarly weak market participants who are willing to receive a deeper discounted price to take over the derivative liability? We are of the view that this is not a realistic valuation assumption.

CONCLUSION
Fair valuing financial derivatives has become a significant area of challenge for financial reporting. The challenges are further compounded by the release of FRS 113 which explicitly requires non-performance risk to be factored into the fair value of an asset or a liability (derivative or otherwise) and by the concepts of CVA and DVA introduced by IVSC for the valuation of financial derivatives.

While the concept of CVA may sound complex, it is in fact quite intuitive because it is simply a discount to allow for the risk of default to arrive at the fair value of a derivative asset, although its application is somewhat complicated by the two-way credit exposure of financial derivatives such as swaps.

DVA, on the other hand, presents more challenging conceptual issues. Superficially, it seems like a mirror image of CVA but we argue that the fair value of a derivative asset (such as a swap) in a counterparty’s book is unlikely to be the exit price at which an entity can transfer the corresponding derivative liability to a third party as a market participant.

One of our major propositions is that the determination of both CVA and DVA is largely dependent on the credit exposure to the continuing counterparty to the derivative contract, with little regard for the own credit risk of the seller of the derivative asset or the transferor of the derivative liability.

In addition, it is an unrealistic valuation assumption that the principal market comprises mainly participants of similar credit standing ready to accept a transferred liability at a price that reflects the transferor’s own credit risk rather than one that reflects the credit risk of the continuing counterparty in a financial derivative such as a swap. A negotiated early termination price for a liability is not fair value by definition as it is neither a price that would be paid to transfer a liability nor one that is derived from an orderly transaction. Therefore, there is still considerable uncertainty as to how DVA should be applied to derivative liabilities for fair valuing purposes under FRS 113. ISCA

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INVESTMENT PROPERTIES

FV Measures and their Impacts on Stock Price

By Jian Ming & Clement Tan Kai Guan

Our previous article in IS Chartered Accountant journal, November 2014 issue, discussed the reporting practices of investment properties (IP) by Singapore-listed companies whose IP were more than 10% of their respective total assets, and reported that 80% used the fair value (FV) model.

This article examines the impact of the FV measures on their reported earnings and the market reaction towards such earnings. (Some percentages in the figures may not add to 100% due to rounding.)

FV HIERARCHY

Companies are required to measure FV using the FV hierarchy of inputs.1 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 inputs are unobservable inputs for the assets or liabilities. FRS 113:72 states, “The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).”

A rebuttable presumption under FRS 40:53 states that an entity can reliably measure the FV of an IP on a continuing basis. It is interesting to note that the majority of our sampled companies rely on Level 3 inputs for their FV measurement of IP (Figure 1). Some 73.8% used only Level 3 inputs, 15.4% used only Level 2 inputs, and 9.2% used a mixture of Level 2 and Level 3 inputs.

Given the heterogeneous characteristics of IP, none of our sampled companies reported the use of Level 1 inputs. Among those companies that used a mixture of Level 2 and Level 3 inputs for their different IP, more than 90% of the FV were based on Level 3 inputs.

IP usually trade infrequently and as a result, reliable reference market prices are usually not available. Valuations of these assets using Level 3 inputs are typically dependent on management assumptions and/or expectations about the assumptions a market participant would use in pricing the asset. Hence, they are
highly discretionary and prone to errors and managerial bias.

**MODES OF VALUATION AND FV HIERARCHY**
None of our sampled companies relied only on internal estimates to measure FV. Most of the FV measurements as determined by independent professional valuers (IPV) were based on Level 3 inputs (Figure 2).

**Impact on Earnings**
With volatility in the property market, recognising FV changes for IP in the income statement may result in volatile earnings. For the 64 sampled companies that chose the FV model, over a three-year period, there was a wide swing in the magnitude of their fair value gains or losses (FVGL) as a percentage of the reported earnings before interest and taxes (EBIT) in absolute terms (Figure 3). Two firm-years reported FV losses exceeding 50% of their EBIT, 12 firm-years reported FV gains exceeding 100% of their EBIT, and 135 firm-years reported FV gains ranging from 0% to 75% of their EBIT.

**MARKET RESPONSE TO EARNINGS ANNOUNCEMENT**
Efficient market theory implies that the market will react quickly to new information such as the announcement of earnings. When a firm releases earnings information that surprises the market (earnings surprises or ES), investors who

![Figure 3 FVGL/Absolute EBIT](image-url)
update their belief about the firm’s future performance would trade on their revised belief. Consequently, the stock price is expected to increase if investors who interpret ES as good news outweigh those who interpret it as bad news, and vice versa.

The market might respond more strongly to the good (bad) news in earnings for some firms than for others. This differential market response can be attributed, among other factors, to their different earnings quality. One measure of earnings quality is persistence. If a firm has higher earnings persistence, its current earnings would be a good predictor of its future performance. Therefore, one would expect a higher correlation between changes in its stock price and ES, the more the good (bad) news in the current earnings is expected to persist into the future. For example, if current good news was due to operating efficiencies or the successful introduction of a new product, the market response to the news is expected to be stronger than if the good news were due to, say, an unanticipated non-recurring gain on disposal of a plant. Another measure of earnings quality is the amount of discretion contained in the accounting measures. Discretionary components in earnings, for example, FVGL on IP, are subject to errors and managerial bias, and therefore lead to lower earnings quality. The market would react less to lower-quality earnings.

**EMPIRICAL FINDINGS**

We obtained the Straits Times

5 Percentage of current earnings expected to recur in future years

6 The earnings announcement day is defined as day zero. CAR is defined as the buy-and-hold return of a particular stock from day -1 to day +1, minus the Straits Times return during the same period.

7 We run a regression in the two groups in which the dependent variable is CAR and the independent variables include ES, the interaction between ES and a dummy variable (to indicate whether the firm made a loss in the year), the interaction between ES and Size, and the interaction between ES and Leverage.

8 An interesting phenomenon observed in our sample is that when FVGL were disclosed as a separate line item in the income statement or when an IPV is engaged to determine the FV of IP, the market reaction towards ES was bigger than otherwise.

Index and the price information around our sampled firms’ earnings announcement dates in the last three years from Yahoo!Finance and ChartNexus Charting Software. After eliminating observations with missing financial and/or stock price data, we ended up with a sample of 64 companies with 165 firm-years. Using the annual median of FVGL over absolute EBIT as the cutoff, we partitioned the sample into two groups according to whether their FVGL had a high or low impact on EBIT.

We calculate the correlation between market reaction (measured by the three-day cumulative abnormal stock return (CAR) around the earnings announcement day) and ES for each group. The correlation between market reaction and ES is 0.258 (0.009) for firms with low (high) impact of FVGL on EBIT.

Then, we conduct a multivariate analysis to examine the market reaction to ES. The results show that the market response to ES is significantly lower for firms with a high impact of FVGL on IP. In other words, when FVGL has a big impact on the bottom line, investors will react less to each dollar of earnings changes. This implies that investors may perceive FVGL on IP, being discretionary and less relevant to the firm’s operating efficiency, as not providing a good indication of its future performance, and hence resulting in lower-quality earnings.

Of the 118 firm-years that reported FVGL exceeding 10% of the absolute EBIT, 58 firm-years reported FVGL as a separate line item in the income statement. The FV of IP was determined by IPV in more than half of the companies that used Level 3 inputs. This might suggest that firms used transparent disclosure and IPV to signal higher earnings quality.

**CONCLUSION**

Most of the FV measurements of IP for our sampled companies are based on Level 3 inputs. Changes in FVGL are non-persistent and discretionary which lead to low-quality earnings. In general, the market reacts less to low-quality earnings.

To evaluate the future performance and intrinsic value of firms, investors value transparent and unbiased disclosure of relevant information about persistent earnings. Besides engaging an IPV who is perceived to add credibility to the FV measurements, firms can further signal their earnings quality by appropriately presenting material FVGL on IP as a separate line item in the income statement, and providing more transparent disclosure on the valuation techniques and the assumptions underlying the FV measurements.

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QUIZ

1 In “Audit of Share-based Payments”, auditors are advised to consider the potential impact of FRS 102 on their clients only if there is time as it is not an essential part of an efficient share-based payments audit.
A True
B Maybe
C False

2 In “Budgeting for Accountants”, it is said that budgeting helps in strategic control and coordination, as well as in performance measurement.
A True
B Maybe
C False

3 In “Tapping into ASEAN”, it is proposed that to achieve the AEC goals of transforming ASEAN into a single market and production base as well as a highly-competitive economic region, the member countries should consider collaborating to make ASEAN an easier place to conduct business from a tax perspective.
A True
B Maybe
C False
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