BDO CONNECT

MANAGING PARTNER'S MESSAGE

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2019 was seen as somewhat a tumultuous year for the world. A busy one with crises, conflicts, natural disasters, protests, political and trade tensions that dominated the news. The two major global economies US and China are still locking horns as trade disputes went back and forth but thankfully they have arrived at a phase one deal. The situation fueled by other crises exacerbated the already weak global economy that contributed to a lacklustre 2019 as far as trade and the economy is concerned.

Singapore merely missed 'the recession' by a small margin. The Singapore economy recorded a mere 0.7 per cent growth last year, the slowest in the decade. The question in everyone's mind now is what will it be like for 2020? All eyes are now on the Singapore Budget 2020 scheduled on February 18. The government does acknowledge the challenges amid the uncertainties.

Given the uncertainty of the future, I hope the upcoming Budget will include support measures for businesses as well as help for households to cope with rising living costs. BDO will be providing our usual expert coverage on Budget 2020. We will produce our insights and commentaries on the Budget, followed by our Budget Seminar on March 5. I would like to invite you to lock in the date in your diary and join us at the event.

Lastly, I want to take this opportunity to thank all our clients and business partners for their support and wishing a good year ahead.

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Preparation of Financial Statements on a Going Concern Basis

The Hyflux saga and the restructuring of Noble Group's US$3.5 billion debt have led to increased scrutiny of the audit process. Singapore Exchange plans to increase the accounting oversight of listed companies, adding pressure on audit committees and auditors to increase the thoroughness of the year-end audit.

Accounting regulator is keeping close watch as investors ask why auditors failed to flag risks such as going concern. Questions were also raised about whether the current requirements regarding going concern assessment and reporting included in various financial reporting frameworks were indeed adequate.

Companies should assess if the consideration of going concern uncertainty is in accordance with the accounting standards, which states that "When preparing financial statements management shall make an assessment of an entity ability to continue as a going concern. An entity prepare financial statements on a going concern unless management either intends to liquidate entity or to cease trading or has no realistic alternative but to do so. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why it is regarded as a going concern."

According to Singapore's auditing standards, auditors are duty-bound to question this assumption, assessing risks to the company's ability to stay afloat and avoid bankruptcy. They are also required to remain alert to any events or conditions that show otherwise.

Apart from considering the period assessed by managment, i.e. at least twelve months from the balance sheet date, the auditor should ask management to indicate any known events or conditions beyond their period of assessment that may cast significant doubt about the ability of the entity to continue as a going concern.

Management is required to critically assess if there are any events or circumstances, which may cast doubts on the going concern of a company and include the relevant disclosures in the financial statements. The auditors' role is to review such assessment by following the decision tree below:

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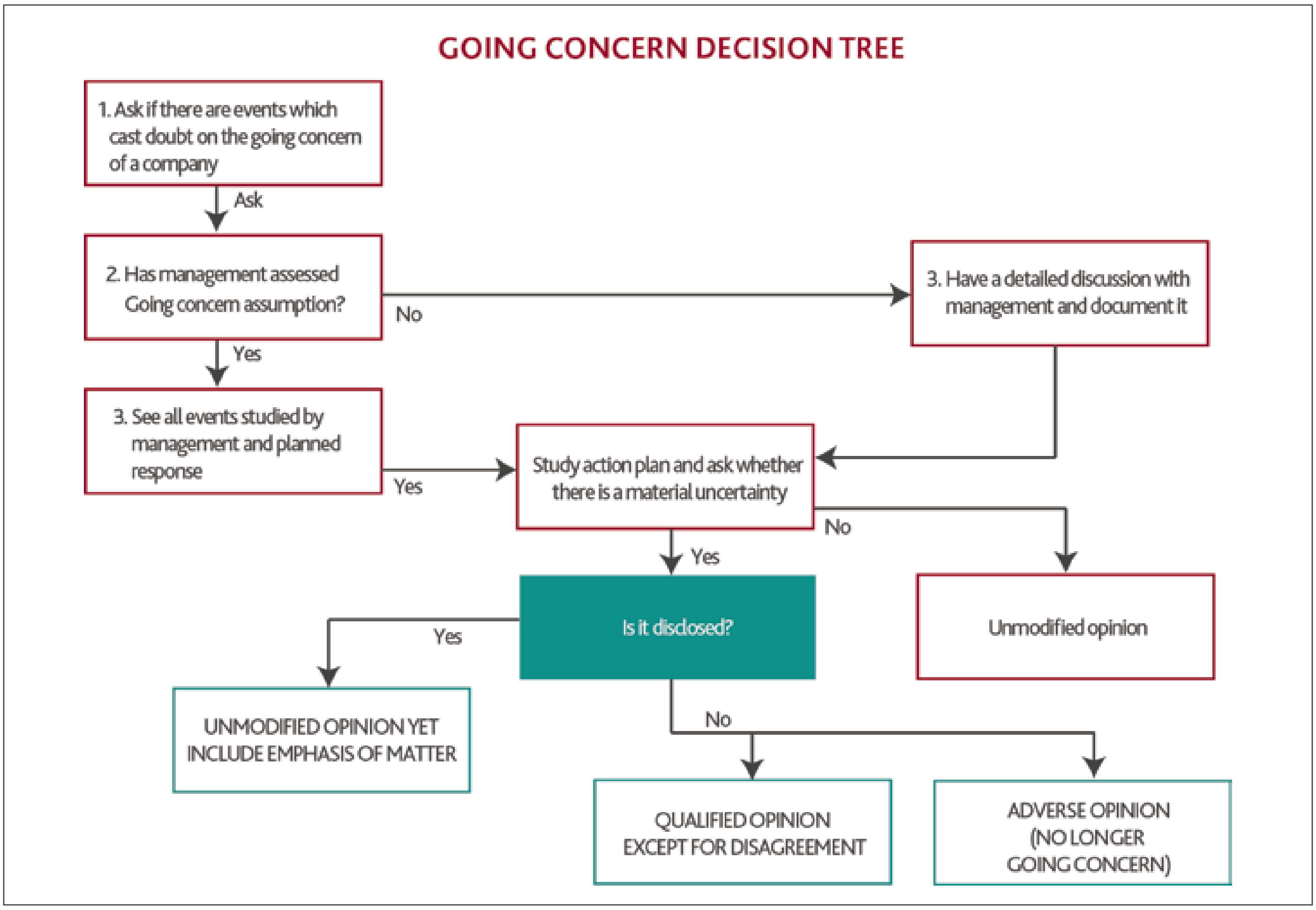

A New 5Cs for the Chief Audit Executive

Spanning across different organisations and industries, there are many similarities in the trends and driving forces that affect our societies and businesses. There are also challenges and opportunities in place that all organisations should respond to in order to remain an effective and efficient organisation in the ever-changing business landscape.

Internal Audit In A Disruptive Environment

Throughout the years, technology has successfully disrupted and revolutionised our world. The continual improvement of technologies brought about the Fourth Industrial Revolution, also known as the Industry 4.0 where organisations should decide on how it should invest in these new technologies and identify the ones that are best suited for their needs. With the rise in the Industry 4.0's technologies, there is no doubt that technology is here to reshape and redesign business models, even upending certain industries.

Facing a daunting and ever- expanding range of diverse issues, the scope of internal audit will continue to evolve, expand and develop rapidly. As featured in a report from The Institute of Internal Auditors titled "OnRisk 2020: A Guide to Understanding, Aligning, and Optimising Risk", there will be a greater focus in auditing a broader range of risks, such as cybersecurity, data security, data ethics, data and new technology, regulatory change, third party, as well as talent management and culture.

Broadening the range of risks provide both opportunities and challenges for internal auditors. As Boards are increasingly seeking ways to overcome risks and hurdles, internal auditors play

a vital role in their efforts to successfully navigate through these fast-moving business environments. Consequentially, the question of how internal audit can help manage risk and drive value in the new paradigm while enabling the organisation to stay relevant and deliver value, is first and foremost in the minds of many internal audit leaders.
An example is the in-car GPS navigation system where it has been transformed from a portable device to a highly efficient data analytics tool that provides accurate and consistent real time traffic and related information for both the driver and the passengers. Similarly, internal auditors can aid organisations to add value and improve customer experience by providing assurance that the organisation is progressing on its intended course as charted by the management and the Board, identifying potential risks, alerting management and the Board of any signs of compliance risks or failures, and recommending any corrective actions, if needed.

The 5cs Of The Chief Audit Executive

Given the competitive and ever- changing business landscape, it is critical for modern age internal auditors to understand how to lead with a difference in order to create and enhance value to an organisation. Back in the day, Singaporeans are familiar with the traditional 5Cs that are associated with how one would define a successful life in Singapore. However, this notion has been superseded with people shifting more towards the new 5Cs. The new 5Cs are primarily more focused on intangible success markers such as “Convenience”, “Credibility” and “Cultured”. To better understand how one leads with a difference, the same acronym – 5Cs is utilised but with a twist.

Catalyst for change

The terms “leaders” and “superiors” are often used interchangeably, however these two terms differ in which leaders are able to lead with a difference. Leaders should be able to think and act differently, and at times challenge the status quo. To encourage effective changes, there is a need to constantly question if one possesses the technical competencies, as well as sufficient knowledge of the business and its evolving environment to provide assurance that the risks are well-managed.
In addition, it is of crucial importance to innovate and overcome old notions that are resistant to change. Internal auditors should learn how to embrace and invest in new technologies to reap the full benefits that technology has to offer, such as Robotic Process Automation and Machine Learning. For example, Machine Learning enables one to audit accounting files in less than 10 minutes in comparison to having three employees spending two weeks to complete the same exact task. Therefore, there is a pivotal need for internal auditors to improve and think strategically from the same viewpoint as the executives and members of the Board so as to create value and enhance credibility as the trusted advisors to the Board.

Collaboration

Internal auditors possess unfettered access to information regarding an organisation’s systems, processes, people and data. This presents a unique and valuable opportunity for internal auditors to collaborate with business partners to enhance and protect their organisational value. As effective leaders, internal auditors need to break through the traditional role as an assurance provider by collaborating with the various stakeholders to provide management with deeper insights drawn from ongoing internal audit activities.

Using the same analogy as before, the in-car GPS navigation system engages both the driver and the passengers. From the driver’s perspective, it provides the best possible route and notify the driver of any upcoming traffic conditions. From the passengers' perspective, it provides a more accurate estimated arrival time and allows them to monitor their location. Such a collaboration assists in creating synergy among parties, and provides an opportunity to increase efficiency levels, improve service, minimise duplication and most importantly, helps to increase internal audit's value to the organisation.

Continuous learning

There is an imperative need to keep improving to acquire in-depth skills and expertise to better respond to the changing demands of the economy. Leaders also have the responsibility to develop their people so as to ensure that they are trusted advisors who are insightful, forward-looking and are highly focused on generating value for the organisations.

Communication

Effective communication is vital in all organisations to aid in providing insights and advice to stakeholders in areas that will resonate with the concerns of relevant stakeholders. Frequent communications between the relevant stakeholders allow gaps to be bridged when it comes to managing expectations and priorities.
Using the same analogy of the enhancements in the navigation system, it shows the best route the driver should take as well as the progress of the current journey. The navigation system's colour coded routes provide latest information on the current traffic conditions. Such information not only helps to increase convenience and greatly enhance communication between one another, it also reduces any potential miscommunications from occurring.

Culture

Culture, if done well, can be a powerful driver of organisational performance. Therefore, maintaining a healthy corporate culture in a challenging business and risk environment is of utmost importance to many business leaders. With auditing culture taking on greater attention, internal auditors must be quick to recognise and identify any potential gaps or unethical behaviour within an organisation's culture and make the appropriate recommendations to ensure that a healthy corporate culture is maintained to maximise an organisation's performance.
Apart from auditing culture, it is essential that internal auditors practise what they preach, and uphold their own ethical conduct so that they can be relied upon as trusted advisors. Outstanding internal auditors also must do more than just committing to ethical standards, it also calls for doing the right thing and not give in to fear and cave under intimidation even when the ethical position may not be a popular stance among the executives and members of the Board.

Conclusion

An ever-evolving business environment presents multiple opportunities to many, but it also comes with challenges too. Therefore, it is pertinent for effective leaders to know how to lead with a difference so that they could overcome challenges and leverage opportunities to continue creating and enhancing organisational value.

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Goods and Services Tax on Imported Services

To achieve parity in GST treatment for the consumption of services in Singapore, beginning 1 January 2020 business-to-business (B2B) imported services will be subject to GST by way of a reverse charge (RC) mechanism.

Reverse charge mechanism

Under the RC mechanism, when an overseas supplier makes a B2B supply of services to a local GST-registered person, the GST-registered recipient is required to account for GST on the value of the imported services (with the exception of certain imported services as discussed below) as if the recipient were the supplier. The GST-registered recipient would be allowed to claim the corresponding GST as input tax, subject to the normal input tax recovery rules.

Who will be affected by RC

The implementation of the RC mechanism will impact certain groups of businesses, primarily financial institutions, mixed and residential property developers, investment holding companies deriving dividend and interest income from loans, as well as organisations that provide free or subsidised activities such as charities, Voluntary Welfare Organisations (VWOs), Non-Profit Organisations (NPOs), hospitals and educational institutions.

Specifically, two groups of taxpayers that are required to apply the RC are:

1. GST-registered persons obtaining services from an overseas supplier where they are either not eligible to claim full input tax or they belong to

GST groups that are not entitled to full input tax credit.

2. Non-GST registered persons procuring from overseas suppliers imported services exceeding S$1 million over a 12-month period where they would not be entitled to claim full input tax even if GST-registered.

Scope of imported services

A person who is subject to RC must account for GST on all imported services other than:

a. Services that fall within the description of exempt supplies under the Fourth Schedule to the GST Act;

b. Services that would qualify for zero-rating under Section 21(3) of the GST Act, had the services been made to them by a taxable person belonging in Singapore;

c. Services provided by the government of a jurisdiction outside Singapore, if the services are of a nature that falls within the description of non-taxable government supplies under the Schedule to the GST (Non-Taxable Government Supplies) Order of the GST Act; and

d. Services that are directly attributable to taxable supplies (only applicable to businesses that are not granted a fixed input tax recovery rate or a special input tax recovery formula for all input tax claims).

The impact of the RC mechanism

Unless there are competitive advantages, such as better pricing or service levels that overseas suppliers can offer, given the added responsibility of having to account for GST on behalf of overseas suppliers, businesses that have been procuring services from abroad may now want to consider sourcing the same type of services locally.

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How To Create A Compelling Employee Experience

This article was first published in the Entrepreneurs' Digest, Issue 83.

What is employee experience? What does it mean?

Employee experience is a journey that the employee goes through from the moment the employee joins the organisation until the moment they leave. If you think about customer experience, it is a similar concept to following the journey of a stakeholder that the company is trying to retain and engage.

Employee experience is not a component of employee benefits, but rather a holistic experience that makes up the employee journey with multiple touchpoints and stakeholders (i.e. employee's performance evaluation, employee's on- boarding process and many more of such experiences).

Why should companies manage the employee experience? And why is this important to the employer and especially to SMEs?

Singapore has the highest employee turnover in the Asia Pacific with close to half of employees planning to quit their jobs within a year based on a recent Workday survey[1]. Employee turnover is a costly affair whereby the bulk of the cost is the time required for existing employees to recruit and retrain new hires.

According to Josh Bersin of Deloitte[2], there are three components to the total cost of voluntary turnover for each employee who leaves an organisation, and he believes the cost of turnover is 1.5 to 2 times of the employee's annual salary.

The direct cost per hire, which is more visible, is the cost of the new employee's training and the expense to source for the new employee. In addition, most companies surveyed did not include or calculate the loss of productivity that will cost a lot more. Together, both will outweigh the cost savings from the interim reduction in labour costs.

Unfortunately, he did highlight that more than 50% of executives surveyed would pay attention to the direct savings that would, in turn, increase the company's profitability.

In conclusion, the cost is conservative given that there are other indirect costs that were not included such as the loss of client relationships, institutional knowledge, employee engagement and previous training invested in the exiting employee.

The loss of these indirect costs is being magnified for SMEs with smaller headcounts as there is higher reliance on each individual employee to contribute towards the overall success of the business.

What can an employer do to improve the employee experience?

There are dozens of ideas to improve employee experience which range from a simple short-term solution, such as improving employee benefits by implementing flexible benefits, to a long-term programme such as creating more learning and growth opportunities for the employees. The only question lies with what will work for your company, since each company operates in a different culture and with different demographics. Employers should find ways to identify what will work for them as one size does not fit all.

Depending on the number of employees, employers could consider conducting a company-wide survey or focus groups with the employees. Below are some of the commonly asked employee engagement statements which will allow the employer to assess the overall employee experience in the company[3]:

1. **I would not hesitate to recommend this organisation to a friend seeking employment**
2. **It would take a lot to get me to leave this organisation**
3. **This organisation motivates me to contribute more than is normally required to complete my work**

Getting the data analysed by an expert is essential. Otherwise, the company will not be able to optimise the trends and findings from the survey. For example, coming up with a hypothesis based on the highest and lowest percentage of the results is not sufficient. The data needs to remove responses which do not make sense before that to provide a more accurate insight.

The actual work begins in resolving issues that surface through the findings. Some of the common problems are communication, leadership and career progression within the organisation which drives engagement. The survey will be able to uncover the symptoms which pinpoints the actual issue. HR will need to investigate and speak to the ground staff to further understand the problems. The overall report of the employee experience based on the survey will be a good starting point to review the entire employee experience and prioritise segments of employee experience that require immediate attention.

What will happen to SMEs who do not invest in employee experience?

SMEs will continue to face a high turnover which leads to the need of recruiting continually. The employee landscape has changed drastically due to the changing demographics of Singapore's population and rise in other forms of employment opportunities. The ManpowerGroup 2018's Talent Shortage Survey reported that 56% of the employers in Singapore are having difficulty filling jobs. The medium-sized companies are said to have the most problem in recruiting[4].

Resources:

[1]https://www.hrdmag.com.sg/news/singapores-staff-turnoverrate-highest-in-asia-252563.aspx

[2]https://login.bersin.com/uploadedFiles/021517-calculating-true-cost-voluntaryturnover.pdf

[3]https://apac.aonhewitt. com/document-files/thought-leadership/peopleand-performance/model-of-employee-engagement.pdf

[4]https://manpowergroup.com.sg/ talent-shortage-2018

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Key Business Lessons To Learn From The Fall Of Thomas Cook & Forever 21

Being ambitious and seeking growth is key for every business to survive in a competitive marketplace. Numerous successful companies grow through rapid expansion – opening up new outlets across the world quickly via market penetration. Plans to expand without a clear strategy can however be detrimental to the overall brand and business. In this article, we will take a closer look and review what lead to the collapse of **Thomas Cook (TC)**, a world known travel agency that has been in business for 178 years and **Forever 21 (F21)**, a 4 billion-turnover fast-fashion retailer from USA, in September 2019.

In this competitive marketplace at this day and age, businesses have to realize that brand loyalty and the duration for how long a business have been operating for, do not account for much. This holds true not for just large corporations but also Small Medium Enterprises (SMEs). TC and F21 had to learn this in the hardest of ways. Here are some of the learning pointers:

1. The need for an updated business model

TC has been in business much longer than any other travel agencies in the world. One major contributing factor to their downfall was its strong adherence to the bricks-and-mortar model, where physical stores were mainly to facilitate face-to-face interactions between the customers and their consultants. The downside of not integrating the use of IT in their business also meant that TC lacked the ability to capture data from their consumer's behavioural patterns; valuable insights that would be beneficial to TC. One such example that was that in the summer of 2019, customers cancelled short-haul holiday plans due to summer heatwaves in UK and Scandinavia.

Other businesses whom have integrated IT to their business could have been able to identify this trend and made the necessary adjustments to their offerings.

Just like TC, F21's expansion strategy primarily focused on making their presence known via physical stores – the shopping malls. Instead of embracing the digital movement, F21 was enticed by the surplus of cheap and oversized real-estate, and constantly expanded the size of their stores to accommodate other merchandises in their family brands. Having increased overhead costs such as rent and labour definitely took a toll on their revenue.

Businesses need to understand that a fixed business model would not always work, and there may be a need to have them reviewed and implement change. This is necessary to accommodate the dynamicity of the ever growing and competitive business landscape. It is key that the management constantly monitors their revenue stream, cash flow ratio, cost structure, debt to equity ratio and operating expenses ratio from time to time too.

2. The importance of a customer-centric strategy (the need to truly understand your customers)

The rise of online travel agencies were inevitable. Customers of all ages became more and more technologically savvy and the benefits of making an online purchase for their travel needs were apparent – effort, time and cost savings. TC fell victim to the rise of online travel booking services such as Expedia, Booking.com and TripAdvisor.

In the case of F21, their target market has always been the Millennials (age 23-38 years old). F21 may have been successful in serving the Millennials a decade ago, however as they have grown into working adults, they now seek for practicality, comfort and durability in their clothing purchases. With movements and focus towards sustainability practices, of which are absent in fast-fashion industries, it is not surprising that the Millennials are no longer supporting them. There is also a changing mind-set that Millennials are now rather be seen at the right place than wearing the 'it' outfit. Even though Millennials still frequent shopping malls, they are now spending less on clothes. Instead, they prioritise their spending on experiences and entertainment.

3. Develop your Unique Value Propositions (UVP)

In both industries, both companies faced strong competition from many different fronts such as direct competitors, digitalised competitors and emerging brands. TC faced competitions from online travel agencies, as they are able to couple different product offerings from various partners in the same industry such as airlines and hotel groups. One such example is that Expedia is now an exclusive partner to Marriott International Group. Having a strong online presence and engaging in cross marketing through partnerships are just some of the ways that travel agencies can distinguish themselves from their competitors.

In the case of F21, chains such as Gap and Urban Outfitters have sped up their supply chains to be more reactive to new trends. Mid-Premium chains such as Ann Taylor and Express had entered the rental-clothing business to provide customers with a cheaper alternative to purchasing new clothes. Other than that, digitally enabled second-hand selling is gaining popularity. One such example is Carousell, an online marketplace in Singapore where everyday users can purchase or sell off new or second handed goods. Consumers can now afford to have a constantly refreshing wardrobe without the need to visit these fast-fashion stores.

Companies need to constantly carve out their UVP and monitor what their competitors are doing. It is of utmost importance to understand what is going on in the marketplace, and what influences the customer's purchase decisions.

To conclude, the relevancy of a company is fundamentally dependent on its business model – something that should be reviewed time to time if change is required, based on its ability to understand and serve customers, and its ability to carve out a strong UVP. Being a "have-been-successful" company does not guarantee continuous success. The management needs to continuously push for change and improve the business to accommodate the ever-changing business climate. Through continuous customer research, the management would be able to identify any red flags and have contingency plans set in place to avert the threats. There is simply no room for those who are resistant to change. Instead, businesses must always be vigilant because the sharks are always lurking.

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