

Hello Everyone,

It is my pleasure to yet again share my thoughts for the 3rd quarter newsletter of MGI Asia.

On the outset I must say that I was very pleased with the great attendance at the area meeting in Bangkok earlier this month. We took some big decisions for the welfare of the area which I hope will propel it to integrate and innovate in the coming year. I am sure that we will work together and make the region even stronger with the marketing, branding and thought leadership initiative. I also take this opportunity to thank Nathee Audit Company Ltd for organizing a successful meet. Specially to Thanadee for his wonderful hospitality and to Nilar for all her administrative support

I am grateful to everyone for supporting the creation of Area Coordinating Committee and the new position of the Area Leader Elect. This action by all of us will establish good governance in Asia and give continuity to our initiatives independent of an individual. I am sure that this committee will be challenged with some interesting debates in the times to come.

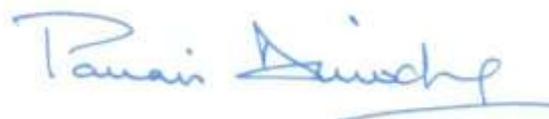
We in Asia are growing as is evident from 4 new members joining in the last year in important countries like South Korea, Philippines, Vietnam and Indonesia. We have also finally met a longstanding member from Pakistan who was extremely happy to be part of the new and rejuvenated MGI fold.

I hope that with this collaborative spirit in each of us, we will promote MGI through our common cooperative identity and also in all initiatives in which we participate as firms in our respective countries.

I am also happy to share that there are 7 registrations for the AGM of Sydney in Asia other than Audrey's and I thank those who have registered and request those who have not to reconsider. Being part of an alliance is to work together to financially generate more business for ourselves and to make new friendships which will keep up the spirit of MGI, Personal: Entrepreneurial: Global.

I hope I see many of you at the AGM in Sydney, Australia next month.

Warm regards.



Pallavi Dinodia
Area Leader – Asia



BE A PART OF MGI EVENTS

2013

MGI AGM 2013

16-19 October, Sydney Australia

UK & Ireland Partners' & Managers' Conference

28-30 November

Legoland, Windsor, UK

2014

Combined Latin American & North American Area meeting

May 28 -30, 2014

Miami, FL, USA

Australasian Area

16-18 July

Perth, Australia

MGI Asia Area Meeting

29-30 August

Jakarta, Indonesia

Global AGM 2014

22-24 October

Chicago, IL USA

ASIA AREA MEETING 6 & 7 SEPTEMBER 2013



This year's meeting in Bangkok was for the first time held over 1.5 days. Instead of focussing on internal Asia matters, the members spent half a day with an external facilitator. The session was on "Driving Innovation & Customer Centric Culture" We looked at the professional services landscape - opportunities and new emerging business lines and markets. Members shared their respective firm's client/service offerings.



Thanadee welcoming everyone



Pallavi introducing Nathee
Audit Co Managing Partner, Ruenruedee
Hongratana-Utai

A major part was spent on looking at our behavioural profile. We workshopped on how to work with people with different behavioural styles. We looked at the strengths and weaknesses and the leveraging to bring out the best in each other.



Busy during the workshop

Finally, each of the 5 groups looked at 5 real company case studies and brainstormed how to approach this potential client with our product and services and what we can do to differentiate ourselves from other firms

The other part of the meeting was looking at administrative matters within MGI Asia. Two of our members also shared business growth best practises from their firm.



Listening attentively

The members debated at length on the next steps that they need to undertake to see the area & the MGI brand grow - specifically the common use of the logo, branding and marketing events. Budget was allocated and approved against the 2014 action plan.

Members pledged to support the initiatives that will be undertaken in the course of the next year



Jeenendra, Imran, Nilar, Hien & Pham

The election for the formation of the Asia Coordinating Committee per Clause 15 of the MGI Administration manual was also conducted. With this, the practise of good governance was met and the continuity of good leadership and succession planning within Asia is assured.

Area coordinating committee:

Chairman/Area Leader

: Pallavi Dinodia

Deputy Chairman/Area Leader elect :

Imran Assan

North Asia Circle Leader

: Dickson Leung

South East Asia Circle Leader

: Thanadee Hongratana-Uthai

South Asia Circle Leader

: Deepak Goil



Introducing the next generation of MGI member



One for the camera before we boarded

On the evening of the first day members and their spouses were treated to a lovely dinner on board the boat as we cruised along the Chao Phraya river. There was great networking and fun to be had by all



On board the boat

Area Leader Pallavi Dinodia said “this years meeting was a great success because of the great turn out of 87% of our membership in Asia, including the attendance of second generation representative of some firms.” The formation of the Asia Coordinating Committee is a great step in ensuring the area practises transparency and good governance.

PROFESSIONAL NEWS FROM AROUND THE WORLD

IAASB Proposals for Enhancing the Auditor’s Report: Potential Impact on Audits of Unlisted Entities

Introduction

The International Auditing and Assurance Standards Board (IAASB) has released proposals that could fundamentally transform the auditor’s report, greatly enhancing its communicative value. The Exposure Draft (ED) proposes a new standard, International Standard on Auditing (ISA) 701, Communicating Key Audit Matters in the Independent Auditor’s Report, and a number of revisions to existing standards, including ISA 700, forming an Opinion and Reporting on Financial Statements (see [IAASB press release](#)).

While the proposals stand to significantly change the shape of auditor reporting for listed entities, the impact on unlisted entities is likely to be much smaller. Nevertheless, there are proposed requirements that apply to all audits. These are intended to help demonstrate the value of the audit and, furthermore, may improve service and promote engagement efficiency.

This article summarizes this impact and suggests how small- and medium-sized practices (SMPs) and small- and medium-sized entities (SMEs) can get involved to help ensure the best possible outcome.

Proposals

The proposed new and revised standards deal mainly with reporting considerations, which typically involve decisions by the auditor toward the end of the audit process. There are, however, aspects that may have implications for what the auditor does at or near the beginning of the audit, such as agreeing the terms of and planning the engagement, as well as communicating with those charged with governance. The most significant implications for the audits of unlisted entities are described below.

1. Content of the Auditor’s Report

The centrepiece of the proposals is proposed ISA 701. This completely new standard establishes requirements and guidance for the auditor’s determination and communication of key audit matters in the auditor’s report. Key audit matters, which are selected from matters communicated with those charged with governance, are required to be communicated in the auditor’s report for listed

entities. Auditors of financial statements of unlisted entities may also be required, or may decide, to communicate key audit matters in the auditor's report. For example, law, regulation, or national auditing standards may require auditors of unlisted entities in a particular jurisdiction to communicate key audit matters. Moreover, the auditors of other unlisted entities may wish to use the new mechanism of key audit matters on a voluntary basis. Where key audit matters are communicated for audits of financial statements of unlisted entities (either voluntarily or when required by law or regulation) then such matters should be determined and communicated in the same manner as for listed entities (see paragraph 4 of proposed ISA 701 and paragraphs 30 and A30–A31 of proposed ISA 700 [Revised]).

ISA 700 has been revised to establish new required reporting elements, including a requirement for the auditor to include an explicit statement of auditor independence and disclose the source(s) of relevant ethics requirements, for all audits including those of unlisted entities. Similarly, ISA 570, Going Concern, has been amended to establish auditor reporting requirements applicable to all audits. The IAASB believes it is in the public interest for this to have universal application.

2. Agreeing the Terms of the Engagement

In light of the possibility of auditors of unlisted entities communicating key audit matters in the auditor's report, or being requested by management or those charged with governance to do so, the IAASB has proposed limited amendments to other ISAs, including ISA 210, Agreeing the Terms of Audit Engagements. Specifically, if the auditor is not required to communicate key audit matters but intends to do so, a new requirement has been established for the auditor to include a statement in the audit engagement letter regarding such intent. This will provide an additional opportunity for the auditor to communicate with management and those charged with governance to ensure there's a clear understanding as to the nature of the key audit matters to be disclosed.

3. Communicating with Those Charged with Governance

In light of proposed ISA 701, amendments are proposed to the required auditor communications with those charged with governance for all audits. The most significant proposed change to ISA 260 relates to the existing requirement for the auditor to communicate an overview of the planned scope and timing of the audit with those charged with governance. Proposed ISA 260

(Revised), Communication with Those Charged with Governance, expands this requirement to include communicating about the significant risks identified by the auditor (see paragraph 15 of proposed ISA 260 [Revised]).

Communication with those charged with governance about significant risks is likely already occurring in many audits, including those of SMEs, as ISAs demand a risk-based approach to the audit. But the IAASB believes audit quality could benefit from explicitly requiring such communication in every audit. The proposed requirement would provide those charged with governance with insight into those areas for which the auditor determined special audit consideration was necessary and, in so doing, help those charged with governance to fulfil their responsibility to oversee the financial reporting process. This will also provide the auditor with an opportunity to garner additional insights into significant risks from those charged with governance and, thereby, help ensure the audit program is appropriately focused.

The IAASB believes it is in the public interest to establish this requirement for audits of financial statements of all entities, not only for listed entities. Communicating with those charged with governance about significant risks is not expected to result in a significant burden on auditors who are not required to communicate key audit matters in the auditor's report (e.g., auditors of unlisted entities), as proposed ISA 260 (Revised) remains flexible for such communication to be made orally. In addition, the IAASB proposes requiring the auditor to communicate, as part of communicating the significant findings from the audit, circumstances that require significant modification of the auditor's planned approach to the audit, to align with the factors the auditor considers in determining key audit matters (see paragraph 16(c) of proposed ISA 260 [Revised]). This will provide further opportunity for dialogue with those charged with governance to help ensure all responsible parties have a full understanding of areas of significant auditor attention.

Feedback

The IAASB believes that the proposed ISAs can be implemented in a manner proportionate to the size and complexity of an entity and welcomes the views of both preparers and auditors of financial statements of unlisted entities, including SMEs, in this regard. The IAASB also invites respondents to comment on areas where additional guidance may be helpful to

illustrate how the proposed ISAs can be implemented in a proportionate manner

The IFAC SMP Committee has been providing regular and robust input to the IAASB throughout the ED's development, starting with a [response letter](#) to the Invitation to Comment, and encourages SMPs to comment: [Submit a comment](#). Comments are due by **November 22, 2013**. Please also join the discussion in the [IFAC SMP Community on LinkedIn](#).

By Brian Bluhm, Deputy Chair, and Phil Cowperthwaite, Member, IFAC SMP Committee
Aug 28, 2013

SMP Quick Poll—Mid-Year Results and Upcoming Poll

The mid-year [IFAC SMP Quick Poll](#) showed that the vast majority (73%) of the nearly 4,000 SMPs surveyed are either currently providing or have plans to provide sustainability services to their clients, suggesting that there's a sizeable market for these services among the small businesses that SMPs typically serve. Of those who offer sustainability services, many offer more than one service; the most common service provided, indicated by over 75% of respondents, is advisory services. Reporting and assurance are the next most commonly provided services. Read more in the [IFAC SMP Quick Poll: Mid-Year 2013](#). Due to different response rates in different geographic areas, results may not be statistically representative of global or regional populations of SMPs. IFAC wishes to thank the many member and regional organizations that helped with translation and distribution of the poll.

In November, IFAC will open the year-end SMP Quick Poll to find out if business performance met expectations and to check in on the current challenges facing SMPs and their clients, among other topics. To see the complete results of the last poll and participate in the next one, see the [SMP Committee](#) home page

IASB publishes a Discussion Paper on the Conceptual Framework

The International Accounting Standards Board (IASB) published for public comment on 18 July 2013 a Discussion Paper exploring possible changes to the IASB's *Conceptual Framework for Financial Reporting*.

The Discussion Paper is the first step towards issuing a revised *Conceptual Framework*.

The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements. It identifies principles for the IASB to use when it develops and revises its IFRS.

The existing *Conceptual Framework* has enabled the IASB to develop high quality IFRS that have improved financial reporting. However, it does not cover some important areas and some guidance needs updating.

In 2011, the IASB carried out an extensive public consultation to assist in identifying priorities for its agenda. Most respondents to that consultation identified work on the *Conceptual Framework* as a high priority.

This Discussion Paper is designed to obtain initial views and comments on important issues that the IASB will consider as it develops an Exposure Draft of a revised *Conceptual Framework*. The issues include:

- definitions of assets and liabilities;
- recognition and de-recognition;
- the distinction between equity and liabilities;
- measurement;
- presentation and disclosure; and
- Other comprehensive income.

Commenting on the publication of the Discussion Paper, Hans Hoogervorst, Chairman of the IASB said: "The *Conceptual Framework* underpins the work of the IASB and affects all IFRS that we develop. This Discussion Paper gives people the opportunity to help us to shape the future of financial reporting by discussing the concepts that drive our work."

The Discussion Paper: *A Review of the Conceptual Framework for Financial Reporting* is **available for comment** until 14 January 2014. In addition to seeking input in the form of comment letters, the IASB will undertake an outreach programme designed to obtain feedback on the areas covered in the Discussion Paper.

PCAOB to overhaul auditor's reporting model

By Jonathan Minter The Accountant, 14 August 2013

The US Public Company Account Oversight Board (PCAOB) has proposed significant changes to auditor's reporting model for US public companies, in what PCAOB chairman James Doty called a "watershed moment"

The major change in the proposed standard will require auditors to identify the "critical audit matters," describe what led the auditor to deem the matter critical and refer to the relevant financial statement accounts and disclosures that relate to the critical audit matter.

'Critical audit matters' are matters addressed during the audit that involved the most difficult, subjective, or complex auditor judgments, posed the most difficulty for the audit to obtain sufficient evidence of or posed the most difficulty to the auditor in forming the opinion on financial statements.

The PCAOB says that it hopes the change will make the auditor's report more informative, and therefore more relevant and useful to investors.

The new standards will also require a statement regarding the auditor's independence to be added to the auditor's report, as well as the year the auditor began serving as the company's auditor and other information.

It also changes certain standardized language in the auditor's report, including the addition of the phrase "whether due to error or fraud."

The second proposed standard, "The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report", will replace AU section 550, Other Information in Documents Containing Audited Financial Statements.

This change will apply the auditor's responsibility for 'other information' in a company's annual report filed with the Securities and Exchange Commission (SEC), which also contains the company's audited financial statements and the related auditor's report.

The PCAOB said this will enhance the auditor's responsibility with respect to other information by adding procedures for the auditor to perform in

evaluating the other information based on relevant audit evidence obtained and conclusions reached during the audit.

It will also require the auditor to evaluate the other information for a material misstatement of fact as well as for a material inconsistency with amounts or information, or the manner of their presentation, in the audited financial statements.

The PCAOB unanimously approved exposing the proposal for public comment, though not without reservations. PCAOB member Steven Harris, for example, expressed concern that the proposals are not strong enough to meet the needs of investors, but still supported the publication of the proposed standards.

The proposal is open for comment until 11 December 2013, and is due to come into effect, subject to the US Securities Exchange Commission (SEC) approval, 15 December 2015

India one step closer to mandatory audit firm rotation

By Jonathan Minter The Accountant, 8 Aug 2013

A move towards mandatory audit firm rotation has taken a step forward in India, after the country's upper house, the Rajya Sabha, voted through the long awaited Companies Bill.

As has been the case with much of the rest of the world, mandatory rotation has support from the mid-tier in India, and Suresh Surana, founder of RSM Astute Consulting in India told International Accounting Bulletin he thought "it may not be a bad idea to have rotation as we need to improve corporate governance."

There is less support for rotation among India's 'Big Five' (Big Four and Grant Thornton International), and Richard Rekhey, chief executive officer of KPMG India said "it is dysfunctional and it doesn't actually serve the purpose which the regulators tried to put in it."

As well as bringing in every 10 year audit firm mandatory rotation, the Bill will require companies to spend at least 2% of profits on Corporate Social Responsibility (CSR), enforce a uniform accounting year end of 31 March for all companies, and will also

create a quasi-judicial body, the National Financial Reporting.

Vishesh Chandiok, managing partner at Grant Thornton India told IAB that he was broadly supportive of the NFRA, but warned that "unless it is backed by the right financial resource, the right human resource, it will end up like the old Quality Review Board (QRB), which was still-born from the time it was legislated."

Rekhey was similarly cautious about the new body, describing it as a "positive step," but adding "with the creation of the NFRA there is still no clarity; the rules have not come unfortunately and no one knows how this will play out with the ICAI."

Additionally, the Bill will also make audit firms and partners liable to civil and criminal charges if they are found to have "acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company of its directors or officers."

Surana noted that "people are concerned about the increase in regulatory oversight for the auditors."

The bill passed through India's lower house, the Lok Sabha, in December 2012 and will now go to President Pranab Mukherjee for his assent, before it officially replaces the Companies Bill, 1956.

Singapore tipped to be Asia's Integrated Reporting Hub

By Carlos Martin Tornero, 19 Sept 2013

The Singapore Accountancy Commission (SAC) is determined to transform the country into the hub of Integrated Reporting (IR) in South East Asia, *The Accountant* has learnt.

According to SAC chief executive Uantchern Loh, the International Integrated Reporting Council (IIRC) chairman Mervyn King supports the idea of Singapore becoming the hub of IR in South East Asia.

Loh told *The Accountant* that SAC is investing resources to promote and help companies adopt IR not only in Singapore but in South East Asia.

Loh said that SAC is firmly committed to invest in IR as Singaporean companies are already showing

interest in advanced non-financial reporting models.

"It's quite exciting for us. DBS, a local listed bank, is already in the IR pilot programme; and there are other companies interested, including the Singapore Exchange, which is keen on adopting IR as a listed company itself," Loh says.

Loh says SAC has an important role to play in championing IR in the region and adds:

"We are going to invest quite significantly in IR and we are building an IR team in Singapore as we speak. We've already started research projects and we are also looking at creating an index for listed companies in Singapore to measure their performance against the principles of IR."

SAC is an organisation that promotes the accounting profession in the country and its raison d'être is to transform Singapore into Asia's accounting hub by 2020

MGI ASIA MEMBER NEWS

Mr. Pankaj Dinodia awarded “Entrepreneur of the Year 2013 – Financial Services”

Mr. Pankaj Dinodia, Executive Director (S.R. Dinodia & Co.) & CEO (Dinodia Capital Advisors) is awarded “Entrepreneur of the Year 2013 – Financial Services” by Entrepreneur India, powered by Franchise India.

Each year Entrepreneur India presents the country's most prestigious award in the Entrepreneurship arena attracting leading entrepreneurs and members of the Indian investor community together with CEOs and professionals leading growth oriented organizations.



Hong Kong firm fetes staff

Senior partner, Mr. Kenneth Chau and Partner, Mr. Ken Yeung invited the firm's staff to have lunch buffet together on May 4, 2013. All participants enjoyed the lunch buffet and it is really a good time to get together and get to know each other



MGI GLOBAL NEWS

Launch of the MGI Australian Family and Private Business Survey 2013

MGI Australasia launched The MGI Australian Family and Private Business Survey 2013, which is undertaken by RMIT University and supported by MGI.

Over the past 19 years the survey series has tracked the concerns and motivations of Australian family and private business owners. RMIT University's Professor Kosmas Smyrniotis and Mr Lucio Dana undertook the research, the eighth in the series, among 5000 Australian companies.

Sue Prestney, MGI Chairman, Australasia said “It is one of the longest running surveys of its type in the world and MGI is very proud to have supported the survey for the past decade.”

The survey has generated a lot of interest from Small Business Commissioners and politicians at the State and Federal level in Australia. It has also generated a lead story in Australia's most authoritative and popular business publication, BRW, as well as a lead story on the RMIT University website.

In a sector worth \$4.3 trillion according to Federal Government sources in Australia, 2013 highlights some interesting statistics on how the family business sector has changed over the past decade, revealing some worrying trends.

To read the full report and to download the new iPad app visit <http://www.mgiaust-survey.com>

For more information contact Christine Greiser | Area Coordinator, MGI Australasia

MGI Member, Santos Postal 2013 Best Accounting Firm to Work For

MGI member and leading full service certified public accounting and consulting firm, Santos Postal & Company was recently named as one of the 2013 Best Accounting Firms to Work For in the USA. The annual list of “Best Accounting Firms” was created by Accounting Today and Best Companies Group.

This survey and award program was designed to identify, recognize and honour the best places of employment in the accounting industry, benefiting the nation's economy in the USA, its workforce and businesses.

The Best Accounting Firms to Work For list is made up of a total of 100 companies, split into three groups: small-sized companies (15-49 employees), medium-sized companies (50-249 employees) and large-sized companies (more than 250 employees).

To be considered for participation, companies had to fulfil the following eligibility requirements:

- Be a for-profit or not-for-profit business;
- Be a publicly or privately held business;
- Have a facility in the United States;
- Have at least 15 employees working in the United States;
- Must be in business a minimum of 1 year;
- Be an accounting firm.

Accounting firms from across the USA entered the two-part survey process to determine the Best Accounting Firms to Work For. The first part consisted of evaluating each nominated firm's workplace policies, practices, philosophy, systems and demographics. The second part consisted of an employee survey to measure the employee experience. The combined scores determined the top firms and the final ranking.

TIPS & HELP

Does Your Firm Look Like an Inverted Pyramid?

Chances are it does. Here are ideas on how to deal with it.

BY GARY ADAMSON

There is no question that the most profitable firms (defined as high per partner income) in our profession have figured out that leverage and a well managed pyramid is one of the key ingredients. Why is it then that so many firms, and I would suggest the majority, are struggling with just the opposite – an upside-down or inverted pyramid where there are lots of partners and managers but few staff.

We didn't get here overnight, and I would suggest that few of us planned to be here. We wound up with our top-heavy firms due to a number of factors. Here are some of the primary culprits:

- Generational issues including the Baby Boomer Bubble, Xers, Millenials, etc.
- Lack of a people plan with effective, consistent recruiting and staff development processes in our firms. We don't have a process to see enough new faces and we let people hang around too long.
- Promoting non-partner-track people or sometimes marginal folks to higher positions because "we're preserving staff continuity" and "it's best for the client" when perhaps it is just the path of least resistance and/or we have no one else.
- Partner compensation plans that focus on chargeable time. Partners stay busy first. Managers are doing staff work and no one has incentive to push the work down.
- "It's just easier to do it myself and besides I'm a lot more efficient at it."



If any of these sounds like you, here are some of the outcomes that are not desirable but pretty common. You have too few if any younger staff. You have a tough time keeping the ones you do have busy. Really talented staff—your “all-stars”—leave because they don’t see any opportunity to advance in the firm. Managers and staff do the same work on the same clients year after year after year. You have a relatively expensive workforce and you have a difficult time getting paid at their billing rate for work that they have outgrown. Partners are full with compliance work and are not cultivating the high-value consulting work. And, worst of all, you don’t have the talent at the right levels to succeed you as a partner in the firm.

Ouch! So, what do we do? First of all we need some time to work it out. We didn’t get here overnight and we won’t fix it overnight either. Unfortunately, some firms are out of time and that is the reason the profession is seeing so much M&A activity. Hopefully that’s not you and you can start to make changes now, to work on the pyramid.

My advice is to begin the journey by prioritizing and tackling the following list of tasks in your firm:

- If you don’t have a staff recruiting and development plan for the firm, create one now. It should include the commitments that we are always hiring whether we need people or not, we have expectations for performance at each level in the firm, and we expect our people to grow and advance. The national firms have done this so well for years. They see lots of new faces every year, they manage the turnover, and the cream rises to the top.

- Tell your people the truth. You have managers who are never going to be a partner. Tell them. More than likely, they already know it.

- As important, if not more so, make sure that the rest of the team knows it too. We have staff looking up at the layer(s) of people above them thinking, “There is no way that I can ever make it through or around all of them.” We can tell our “all stars” that they are special and that we will promote them, until we’re blue in the face. But talk is cheap and if they can’t see the path, they will leave.

- Treat them differently; pay them differently. If you have all-stars in your firm, please don’t get sucked into making everyone look the same at a particular level. They are not.

- Make the tough decisions sooner. We tend to hang onto people hoping they will change or grow into what we are looking for. They rarely do and we fill up the firm with them.

- Decide how many spots we are willing to have in the firm at each staff level for “career” people. A career person is someone who is stuck in that spot and not moving up. A word of caution—this needs to be a small percentage of the staff and, as we discussed above, they need to be identified. Don’t clog up your ladder with career people and watch the all-stars leave!

I know you’re thinking that this is just the old up or out policy. Not exactly, but I am suggesting a model that is a lot closer to up or out than where most firms have been. The difference is that you do make room for some career people. Take a look again at the inverted pyramid at the beginning of this article. We need to change our approach.

- Every once in awhile initiate a pushdown of work at each level in your firm. I promise that you have partners doing manager-level work, managers doing senior work and so on. People cling to the familiar and comfortable. So, shake it up and ask everyone to push down 100 or 200 hours. You’ll free up your high-level people who are capable of creating new work, get more of the work done at the right level and give the younger staff some challenging work.

- If you have a partner compensation model that is heavily weighted toward billable time, change it.

- Promote a work environment that embraces nontraditional staff and partners. Technology and remote connectivity have created opportunities to find great people to help the pyramid, but there is a hesitation to run with it because it's different. Get over it and innovate.

- Last but not least, grow! It will be very difficult to turn the pyramid without a solid growth strategy for the firm. We will not see the "easy" growth that we had in the prior decade for some time to come. So, we have to work harder to get it. Dynamic growing people want to be a part of a dynamic growing firm.

Gary Adamson, CPA, is the president of Adamson Advisory, specializing in practice management consulting for CPA firms. He can be reached at gadamson@adamsonadvisory.com. For more about Adamson Advisory, visit www.adamsonadvisory.com or follow the company at www.adamsonadvisory.com/blog

He Said She Said: To Merge or Not to Merge?

BY AUGUST AQUILA AND ANGIE GRISSOM

No one can deny that over the last several years, there have been more mergers and acquisitions in the accounting profession than ever before. The real questions, however, are whether these transactions are really delivering the promised marketing and competitive results, and whether the firms are financially better off now than they were before the merger.

He said: We always hear about the larger mergers. They hit the press and then we don't hear much more about what takes place in the next 12 to 24 months. We also hear about a handful of mergers that are announced and then never take place. What we don't hear is how the firms make the mergers work.

While I think mergers make sense, many are done for the wrong reason, or better yet, for no reason. And some firms are not financially better off now than they

were before. There are a lot of reasons why mergers fail -- primarily a lack of effective leadership and a fuzzy strategic direction.

She said: If a firm is interested in a merger primarily to grow for the sake of growth, beware. Organic growth can be tough and isn't getting any easier, but the skills needed to grow your practice are needed whether you have been acquired or not. If a firm wants to acquire skills and expertise from another firm and also wants a presence in a certain geographic location or specialty area, it tends to make more sense. You can't merge away the problem of not having partners who can develop business. Once a merger happens, the need to grow your practice is still there and may be even more pronounced. Partners need to be aware of this going in.

He said: While I hate to agree with you, you are right. Two weak firms do not make a strong one. Let me give you some examples of things that I have seen that almost guarantee an unsuccessful merger. It's really a giant lie when a buyer tells the seller that nothing is going to change. You can be sure that things will change -- software, billing policies, compensation, and maybe even who calls the shots. Sometimes a buyer will tell the merger candidate that they will address the issues after the transaction is completed. The time to work out the issues is now, not later. Or worse yet, firms put the wrong people into leadership positions.

She said: Issues take time to work out, so you can't expect to work them all out before the merger happens. Let's be honest about that: The knowledge that a merger is not seamless and the conversation around that is important. Many things change. The goal is to decide what makes sense to change, when the change should occur, and how to navigate that change. Changing software? To what? Why? When is the conversion date? Make a plan. Stick with it. Talk about it early and often.

He said: A lot of people will agree to make changes, but then find all sorts of excuses not to make them. Even when partners know that the change is good for them, they are still hesitant about embracing it. No one worries about the integration of the two practices. But someone needs to. When two larger firms merge, it is an even more critical issue. I know of mergers where a year later the two firms are still operating as two separate entities.

She said: More firms should consider bringing in a person with expertise as an option, instead of only considering merging in an entire practice. When you merge two firms, you not only get the desired additions like experts, clients and a market presence, you also get the undesirable staff, clients and problems in their market. Many times the problems outweigh the benefits. Mergers don't solve all of a firm's problems. However, if a merger makes sense, one plus one can equal three. Integrating best practices and having some accountability around how the combined firm will operate can create an outstanding result.

He said: I believe that the most critical element for a successful merger is for the two firms to have a similar culture. They need to do things the same way, have the same values, and behave in similar fashion. You don't want oil and water trying to mix together. It never happens. It's like a firm with a 9-to-5 culture trying to merge with a firm with a 5-to-9 culture.

She said: It is difficult to determine what cultural differences exist. This is true especially because the partners tend to be in "courting" mode when initial merger discussions occur. Leaders get excited about the potential of combining the firm.

Leaders should ask the tough questions about hiring and firing practices, work-life balance policies, professional development, and partner accountability and compensation systems.

He said: That's why firms need to have someone do an independent cultural assessment to get their heads out of the clouds and back to reality.

They said: Mergers are fraught with problems, and more than 80 percent of mergers in all industries do not deliver on their value proposition. We think it is better to be safe than sorry when undertaking a merger. Taking an extra week or so to identify undesirable staff/partners, firming up governance and more is time well worth spending.

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MGI ASIA COUNTRY UPDATE



China's New Exit-Entry Law and Implementation Regulation

Introduction

As a result of the deliberations of the standing committee of the National People's Congress on June 30th 2012, a new exit-entry law came into effect on July 1st 2013. This replaces a pair of existing laws, one for Chinese nationals and one for foreigners, unchanged since the eighties and seen by many to be in need of a significant overhaul. Order 637, resulting from the 15th standing committee (July 3rd 2013) and due to take effect on September 1st 2013, provides implementation rules for the aforementioned law. Both documents introduce their own novelties, and we shall look into some key concepts and changes from each one separately.

Key Changes – New Law

- The law introduces a new visa category, namely 'talent introduction', for foreign experts deemed by China to be urgently needed (see R-visa in next section).
- For all such offences that require deportation, and are deemed sufficiently serious, a 10-year travel ban to China will be imposed. The decision to deport rests with the responsible Public Security Bureau (PSB) and cannot be appealed. Lesser travel bans and voluntary departures are also available for lesser offences. In general, the new law signifies an era of more severe punishments for offences covered by its scope.
- For several offences, a system of fines is detailed. A person staying illegally will be fined RMB 500 per day (not exceeding RMB 10 000 in total) and may be detained anywhere from 5 to 15 days. With regard to illegal employment, the fine for the employer will be RMB 10 000 per illegal employee (not exceeding RMB 100 000). Illegal earnings will be confiscated and both the employee and the person/organisation who introduced him or her to the work (thus

encouraging the illegal activity) are liable for RMB 5000 - 20 000 and RMB 5000 per person introduced (not exceeding RMB 50 000) respectively. What constitutes the illegal employment of foreigners is detailed in the law, and includes (but is not limited to) working without a work permit or beyond its scope.

- Apart from the usual reasons, detailed in pre-existing laws (such as a decision of a People's Court to this effect for unsettled civil cases), aliens will not be allowed to leave China should they default on payments to workers and if a decision to this effect is taken by a relevant government office (see Article 28 for a list of these).
- A residence permit or certificate obtained for employment purposes can have a validity anywhere between 90 days and 5 years (the minimum used to be 180 days). A residence permit obtained for purposes unrelated to employment can have validity anywhere between 180 days and 5 years.
- Employers must now report the foreigners they recruit to the relevant PSB. There is a general obligation for all to report those who are working (or staying, or entering) illegally.
- Aliens applying for the above permit will now have to provide some biometric information. The law gives the example of fingerprints.
- Security organs are allowed to forbid foreigners from establishing residences or workplaces in certain areas, requiring those already established to move.
- The visa issuing office is not required to provide a reason for denying a visa to an alien, and no appeal route is provided. This level of discretion had yet to be sanctioned by law.
- Under article 47, aliens having made, among other things, 'outstanding contributions' to China's development may qualify for permanent residence.
- The law recognises, and makes provisions for, those who apply for or are granted with the status of refugee.

Key Changes – Implementing Regulation

The summaries of the types of ordinary visas, as listed in the implementing rules, are given here together with how they compare to their pre-01/09/2013 counterparts.

Visa name	Who is it for (briefly) ?	How does it compare to before?
C	Those involved in international transportation (sea, rail...) and their accompanying family	As before
D	Those entering as permanent residents	As before
F	Those involved in exchanges, visits, inspections etc.	Was short-term studies (<6 months), cultural exchanges, business etc.
G	Those passing through China	As before
J1 / J2	J1 for foreign resident correspondents, J2 for those coming in briefly (e.g. to report on one story etc.)	There was no 1 / 2 distinction
L	Tourists or tourist groups	Used to be wider category, including visiting relatives etc.
M	Those coming for business or commerce-related activities	Did not exist (was covered by F)
Q1 / Q2	Relatives of Chinese citizens wishing to reside (Q1) or stay for a short period (Q2)	Did not exist (was covered by L)
R	Urgently needed foreign experts	Did not exist – entirely new category introduced by law
S1 / S2	For visitors to foreigners residing in China, long-term (S1) or short-term (S2)	Did not exist (covered by L)
X1 / X2	Long-term (X1) or short-term (X2) study in China	No 1 / 2 distinction, old X was for students or interns coming for more than 6 months
Z	Those wishing to work in China	As before

The implementing rules also provide an outline for the application process for each type of visa. For example, one must provide the required work permit for a Z-visa (and other related documents). For an R-visa, the documents from a relevant Chinese authority expressing its need for said expert must be provided. Unpaid foreign staff may use an F or M-visa, whereas any paid employment would come under the scope of a Z-visa. The types of residency certificates or permits available are also briefly detailed below.

Who is it for?	Conditions for eligibility
Employment	Foreigners who will work in China
Study	Foreigners who will study in China
Journalists	Foreign journalists working on behalf of permanent offices in China of their foreign agency
Family Reunion	Those wishing for such a reunion with Chinese relatives, among others
Private Affairs	Family of foreign permanent residents in China wishing for a family reunion

It is also worth noting that:

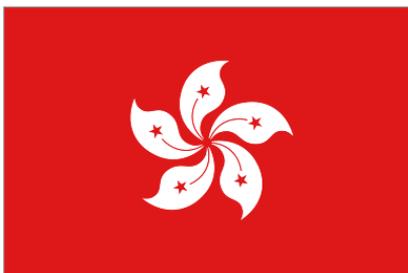
- The extension of a visa cannot exceed the time in China that was granted in the original visa. The visa type cannot be changed however (in other words, one may not change an F-visa to M-visa during their stay, though they may extend their F-visa should they wish to).
- A visa expires at midnight Beijing time on the provided expiry date.
- An R-visa for foreigners above 60 years old will be

issued on a case by case basis and may require, for approval, additional documentation

Conclusion

It appears many of these changes have come to strengthen the crackdown on immigration-related offences. Punishments are stricter, and more numerous than before. As for the implementing rules, the only great novelty is the R-visa, which will smoothen the way for China's use of foreign talent. Other categories seem to only be introduced to make the system, in general, more specific. In other words, categories used to be wider in both scope (i.e. each one being available for many purposes) and time (i.e. fewer distinctions relating to length of stay were available).

Submitted by **LehmanBrown**



HK, Kuwait tax treaty in force

The agreement between Hong Kong and Kuwait for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income has entered into force. The agreement was signed in May 2010. It came into force on July 24, 2013, after completion of ratification procedures on both sides. It will be in effect in Hong Kong for any year of assessment beginning on or after April 1, 2014.

HK, Jersey tax treaty in force

The agreement between Hong Kong and Jersey for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income has entered into force. The agreement was signed in February last year. It came into force on July 3, 2013, after completion of ratification procedures on both sides. It will be in effect in Hong Kong for any year of assessment beginning on or after April 1, 2014.

(Source: from HKIRD website, www.ird.gov.hk)

Submitted by **Kenneth Chau & Co**



Companies ACT, 2013 – The Game Changer

Fifty-seven years after the first Companies Act was enacted and over 20 years after liberalization, India inched closer to bringing more contemporary issues, such as corporate governance, investor protection, corporate social responsibility and measures to check frauds, under the legislation.

4-Aug-04	•Ministry of Corporate Affairs(MCA) released Concept Paper on Company Law
31-May-05	•JJ Irani Committee Report submitted to MCA
23-Oct-08	•Companies Bill 2008 introduced
3-Aug-09	•Companies Bill, 2008 introduced(2008 Bill without changes)
31-Aug-10	•Parliamentary Standing Committee submitted detail report
24-Nov-11	•Revised Bill of 2011 approved by cabinet
14-Dec-11	•Companies Bill 2011 introduced in Lok Sabha(Lower House of Parliament)
5-Jan-12	•Companies Bill referred to Parliamentary Standing Committee
15-Jan-12	•Parliamentary Standing Committee submitted detailed report
18-Dec-12	•Companies Bill, 2012 passed by Lok Sabha
8-Aug-13	•Companies Bill 2013 passed by Rajya Sabha(Upper House of Parliament)
29-Aug-13	•Bill received President's assent

The Act 2013, aims at improving corporate governance, also contains provisions to strengthen regulations for companies, as well as auditing firms.

The new legislation contains 29 Chapters, 7 Schedules, and 470 sections as against the Companies Act, 1956 which consists of 658 sections under 13 Parts and 15 schedules. In so far as section numbers are concerned more than 200 sections have been deleted from the Companies Act, 1956. While this is on one side of it, number of provisions have been removed or discontinued or dispensed with in the existing but revised section/section numbers.

The Ministry has planned to implement the various provisions of the Act 2013 in a phased manner and is contemplated to implement the entire Act by the end of current fiscal. Notably Ministry of Corporate Affairs has made applicable 98 sections and some definitions w.e.f 12th September, 2013 vide <http://www.mca.gov.in/Ministry/pdf/CommencementNotificationOfCA2013.pdf>

THE KEY HIGHLIGHTS OF THE NEW COMPANIES ACT ARE:

Introduction of concept of 'Corporate Social Responsibility' (CSR):

With the introduction of CSR regime, India would possibly become the first country to have Corporate Social Responsibility (CSR) spending through a statutory provision. The new law would require companies that meet certain set of criteria, to spend at least two percent of their average profits in the last three years towards Corporate Social Responsibility (CSR) activities. This is applicable to companies with a net worth of Rs 500 crore or more, or Rs 1,000 crore turnover or Rs 5 crore net profits, who have to set up a corporate social responsibility committee.

The Act allows companies the freedom to choose areas of work for CSR; however the companies will also have to give preference to the local areas of their operation for such spending. If they are unable to meet CSR norms, they will have to give explanations and may even face penalty.

Class Action Suit

The New Act provides for class action suit, which is key weapon for individual shareholders to take collective action against errant companies. The move

is being seen as a positive as it empowers small shareholders to seek answers in case they feel that a company's management or its conduct of affairs is prejudicial to its interests or its members or depositors.

Regulations for appointment and engagement of Auditors

The new legislation limits the number of companies an auditor can serve to 20 besides bringing more clarity on criminal liability of auditors. The rotation of auditors will take place every five years, while an audit firm cannot have more than two terms of five consecutive years. It also makes auditors subject to criminal liability if they knowingly or recklessly omit certain information from their reports.

Setting up of Courts for Speedy Trial of Company cases

The proposed legislation would ensure setting up of special courts for speedy trial and stronger steps for transparent corporate governance practices and curb corporate misdoings.

Check and Balance for Directors

The term for independent directors have been fixed for five years too. The maximum number of directors in a private company has been increased from 12 to 15, which can be increased further by special resolution. It will be mandatory for companies that one-third of their board comprises independent directors to ensure transparency. Also, at least one of the board members should be a woman. The concept of 'One Person Company' has been introduced in the new company law.

Acceleration in Mergers and Amalgamations

The new Act will speed and accelerate amalgamations and mergers. While the old Act only permitted merger of a foreign company with an Indian company, the new Act allows merger of Indian companies into foreign companies which would aid in consolidation of cross-border businesses/assets. The new Act permits merger of a listed company with an unlisted one, subject to exit opportunity being offered to shareholders of the listed company. While the old Act depended on precedents for merger of a subsidiary with a parent (or between two small companies), the new Act provides a separate and simplified regime for this without any approval from High Court.

OLD PROVISIONS DONE AWAY WITH:

Certificate of Incorporation no more a conclusive evidence (section 35)	Private Company to become public company in certain cases (section 43A)
Filing of Prospectus or statement in lieu of prospectus by private company on ceasing to be private company (Section 44)	The provisions of section 58AA relating to acceptance of deposits from small shareholders and intimation of default in repayment of deposits thereof has been dropped. Similarly section 58AAA making any offence connected with or arising out of acceptance u/s 58A or 58AA as cognizable has been done away with.
Statement in lieu of prospectus (section 70)	Share Warrants (section 114)
Provisions relating to Certificate of Commencement of Business (Section 149)	Statutory Meeting and Statutory Report (Section 165)
Payment of Interest out of Capital (Section 208)	Special Audit (Section 233A)
Right of Company to increase or reduce the number of directors (Section 258)	Share Qualification (Section 270)

OUR POINTERS:

- Most of the provisions have been made mandatory by including the word shall and omitting the word may.
- The Act intends to prevent error and fraud before it occurs.
- Most of the provisions are made applicable to private companies which were earlier not applicable.
- The constitution of National Company Law Tribunal and Appellate Tribunal is a new area of practice for Practicing Professionals where the professional has been recognised to appear which was not allowed in the Court of Law until you are a Legal Practitioner

- One of the most important highlighter is the Act has consolidated various provisions into one section pertaining to particular subject matter which was not the case in Companies Act 1956.
- Ministry of Corporate Affairs has released draft rules on 09th September, 2013 for public comments and feedback. The Ministry has released draft rules for 16 chapters and for other chapters ministry is yet to release the draft rules.
- There are more than 370 places under Companies Act, 2013 where as may be prescribed has been given in the provisions where regulators i.e. Registrar of Companies, Ministry, Directors has been given considerable amount of power to enact and frame subordinate legislation in the form of rules. The impact of the rules will define the procedural implementation of the Companies Act 2013. Though giving considerable power to regulators and bureaucrats through rules will create further gap in compliance of procedural aspect of the Act.

• Submitted by MGB & Co



Final Tax Rate 1% For Company and Individual With Sales Volume Below IDR 4,8 Billion

Government Regulation No. 46 2013 about final tax rate 1% for Company and Individual Tax Payers excluding for several types of taxpayers as the detail below. Minister of Finance issued the technical instruction No. 107/PMK.011/2013 explaining the procedures for calculating, paying, and reporting of the final income tax 1%. Then, the Directorate General of Taxes issued Circular Letter No. SE-42/PJ/2013 to implement technical instruction no. 107/PMK.011/2013.

Government Regulation No. 46/2013 relating to final tax rate 1% of annual sales volume below IDR 4.8 billion.

On June 12, 2013, the Government has enacted Government Regulation No. 46 Year 2013 concerning Income from Business Received or Earned by Taxpayers Who Have Certain Gross Turnover. This Government Regulation shall come into force by July 1, 2013. The income of the business received or earned by taxpayers who have a certain turnover, shall be subject to final income tax of **1% of gross turnover every month**.

While the term "taxpayer who has a certain gross turnover" means the taxpayer who meets the following criteria:

- a. individual taxpayer or corporate taxpayers not including a permanent establishment, and
- b. Receive income from the business, excluding income from independent personal services, with respect to the gross turnover does not exceed IDR 4.8 Billion in one tax year.

Taxpayers **excluded** from the above provision are as follows:

1. for individual taxpayers:

- a) individual taxpayers who earn income from independent personal services with respect to, which include:
 1. experts who do the independent personal services, consisting of lawyers, accountants, architects, doctors, consultants, notaries, appraisers, and actuaries;
 2. music players, host, singer, comedian, movie star, soap star, commercials, film director, film crew, photo model, fashion models, drama artists, and dancers;
 3. sportsman;
 4. counselor, teacher, coach, speaker, educator, and moderator;
 5. writer, researcher, and translator;
 6. advertisement agency;
 7. supervisor or project manager;
 8. intermediate;
 9. officers merchandise vendors;
 10. insurance agent; and
 11. Multilevel marketing or direct selling and other similar activities.
- b) individual taxpayers who undertake trade activities and/or services which in their business use the facilities or infrastructure that can be assembled, whether settled or not settled, or
- c) individual taxpayers who undertake trade activities and/or services in an attempt to use some or all of the places in the public interest that are not destined for a place of business or selling.

2. For corporate taxpayers:

- a) corporate taxpayers who have not been in commercial operation; or
- b) Corporate taxpayers whose turnover exceeds IDR 4.8 Billion per year.

For taxpayers whose income is subject to final income tax under this Government Regulation and maintains bookkeeping, may compensate their losses in respect of their business income is not subject to income tax which is final under this Government Regulation.

Regulation of The Minister of Finance Republic of Indonesia No. 107/PMK.011/2013 on Procedures for Calculating, Paying, and Reporting Income Tax for Taxpayers for Certain Gross Earnings on Business Income Received and Generated.

This regulation is to implement Government Regulation No. 46/2013, and the imposition of final income tax for Companies and Individual Taxpayers which received sales volume from business less than IDR 4.8 Billion a year. The Taxpayers who are entitled for compensation of loss in 2013, should submit bookkeeping till June 2013. The Annual Tax Return (SPT) should be submitted as usual. More detailed instructions were regulated in Circular Letter No. SE-42/PJ/2013.

Value Added Tax Refund for Individual Foreign Passport Holders

Circular Letter No. SE-39/PJ/2013 on Procedures for refund and manage the VAT administration to an individual foreign passport holders.

Value Added Tax Refund as tax incentive to an individual foreign passport holders for the purchase of goods or services in Indonesia. The provision for individual foreign passport holders are:

1. Neither Indonesian citizen nor permanent resident of Indonesia below than 2 (two) months stay since arrival in Indonesia;
2. Not airlines crews.

To apply the refund of VAT, individual foreign passport holders should submit:

- a. the original tax invoice first and second sheet, and
- b. Passport, ticket or boarding pass and luggage.

Procedures for Registration and Licensing for Foreign Investment Under One Door Integrated Services

Chairman of the Indonesian Capital Investment Coordinating Board (BKPM) issued **BKPM Chairman Regulation No. 5 of 2013 on Guidelines and Procedures for Licensing and Non-Licensing Matters in relation to investment**. In general, Regulation 5/2013 introduces a new set of guidelines

for implementing foreign and domestic investment in Indonesia. As a result, Regulation 5/2013 is expected to have a significant impact on Indonesian listed companies.

The application of Licensing or Non-Licensing neither in relation Investment to One-Door Integrated Services (PTSP) should be executed by:

- Directors/Head of the company as the applicant;
- Authorized companies employee specifically to handle application process with no substitution of right;
- Authorized consultant or firm specifically to handle application process with no substitution of right.

Foreign investment should be more than IDR 10 Billion or equivalent in US Dollar, excluding land and building. Paid in capital should be more than IDR 2.5 Billion.

Below are the steps for registration and licensing to establish foreign investments and legal entity ownership in Indonesia.

1. Registration and Organization of Business Activity

- a. Registration of investment
- b. Taxpayer number
- c. Establishment deed of legal entity
- d. Legalization of legal entity

Facility obtained

- a. Investment principle license
- b. Importer-producer identity number/general identity number

Employment of foreign workers

- a. Plan of foreign workers employment
- b. Recommendation of visa for working
- c. Permit of foreign worker employment

Construction and environment

- a. City spatial planning
- b. Land utilization allotment permit
- c. Building construction permit

Environment

- a. Hinder regulation
- b. Recommendation of environment impact assessment (EIA)
- c. Underground water suction/utilization permit

Business area establishment

- a. Business license
- b. Business domicile license
- c. Company's registration evidence

Specific licensing

2. Business Extension

Principle license of investment extension; The Principle License for Investment Extension should be possessed for performing investment activity and business activity by foreign as well as domestic investors intending to extend the investment activity that has been carried out and the investors have previously had the Investment Principle License.

Registration of investment extension; should be possessed for performing investment activity and business activity by foreign as well as domestic investors intending to extend the investment activity that has been carried out and the investors have previously **not** had the Investment Principle License.

3. Ownership Change

Registration of investment change should be possessed for performing investment activity and business activity by foreign as well as domestic investors changing the ownership of the investment that has been carried out and the investor previously **does not have/has not had Investment Principle License or Business License.**

Principle license of investment change should be possessed for performing investment activity and business activity by foreign as well as domestic investors changing the ownership of the investment that has been carried out and the investor previously **have had the Investment Principle License.**

Change business license should be possessed for performing investment activity and business activity by foreign as well as domestic investors changing the ownership of the investment that has been carried out and the investor previously **have had a Business License.**

4. Special Area

- a. Industrial area
- b. Investment activity license in the field of industrial area
 - Permanent license
 - Principle approval
 - Partial permanent license provided for companies of industrial area
 - Location permit
- c. Investment activity license in an industrial area
 - Business license for business activity in an industrial area

- Company's registration evidence
- d. Bonded zone; is a building, place or area with certain borders in which the industrial business activities of goods and substances/materials processing, architecture/building construction designing, engineering, sorting, initial inspection, final inspection, and packing of imported goods and materials or goods and materials coming from the Indonesia's other Customs Areas (DPIL), especially those for export, are undertaken.
- e. Permit as bonded zone management including as business practitioner in bonded zone
- f. Permit as company/business person in bonded zone

5. Business Termination

Any investor who wants to terminate its investment is obligated to submit an investment revocation. The investment revocation is for cancelling the investment registration, investment principle license, investment approval, or permit of Foreign Company Representative Office.

Submitted by KAP Basyiruddin Wildan



SINGAPORE EXPLORES OPTIONS TO STRENGTHEN QUALITY OF FINANCIAL REPORTING

Senior management officers, including chief executive officers (CEOs) and chief financial officers (CFOs) could soon be legally liable for certifying that their companies' financial statements are true and fair. This is one of the few measures that Singapore's regulatory authority ACRA is considering in order to raise the quality of financial reporting.

The above possibility was highlighted by Minister of State for Finance and Transport Josephine Teo at the annual Public Accountant's Conference held on Aug 14, 2013. The quality of financial reporting took centre stage at this year's conference. A recent survey jointly conducted by ACRA and ACCA found that external auditors spend very little time in value-adding work when preparers of financial statements are not able to produce financial reports and supporting audit schedules. In an unrelated study of 200 companies listed in the stock exchange of Singapore, KPMG found that 82 percent of a company's assets are based on estimates and involve some form of judgement. This means that a company's profits (or losses) are highly sensitive to fluctuations in total asset values.

Ms Josephine compared Singapore, where only directors are responsible for the financial statements, to other jurisdictions, where CEOs and CFOs can be fined or disqualified for making false certifications that their companies' financial statements are true and fair, and comply with accounting standards. However, she stressed that the broader aim of making CEOs and CFOs legally liable is to have management take ownership of putting in place the right systems and people to ensure the preparation of accurate financial statements. She also commented that auditors should not be involved in drawing up the same financial reports that they audit and that this issue should be addressed before it becomes the norm.

Submitted by MGI Menon & Assoc

