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# BDO CONNECT

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## MANAGING PARTNER'S MESSAGE

### Frankie Chia
### BDO Singapore

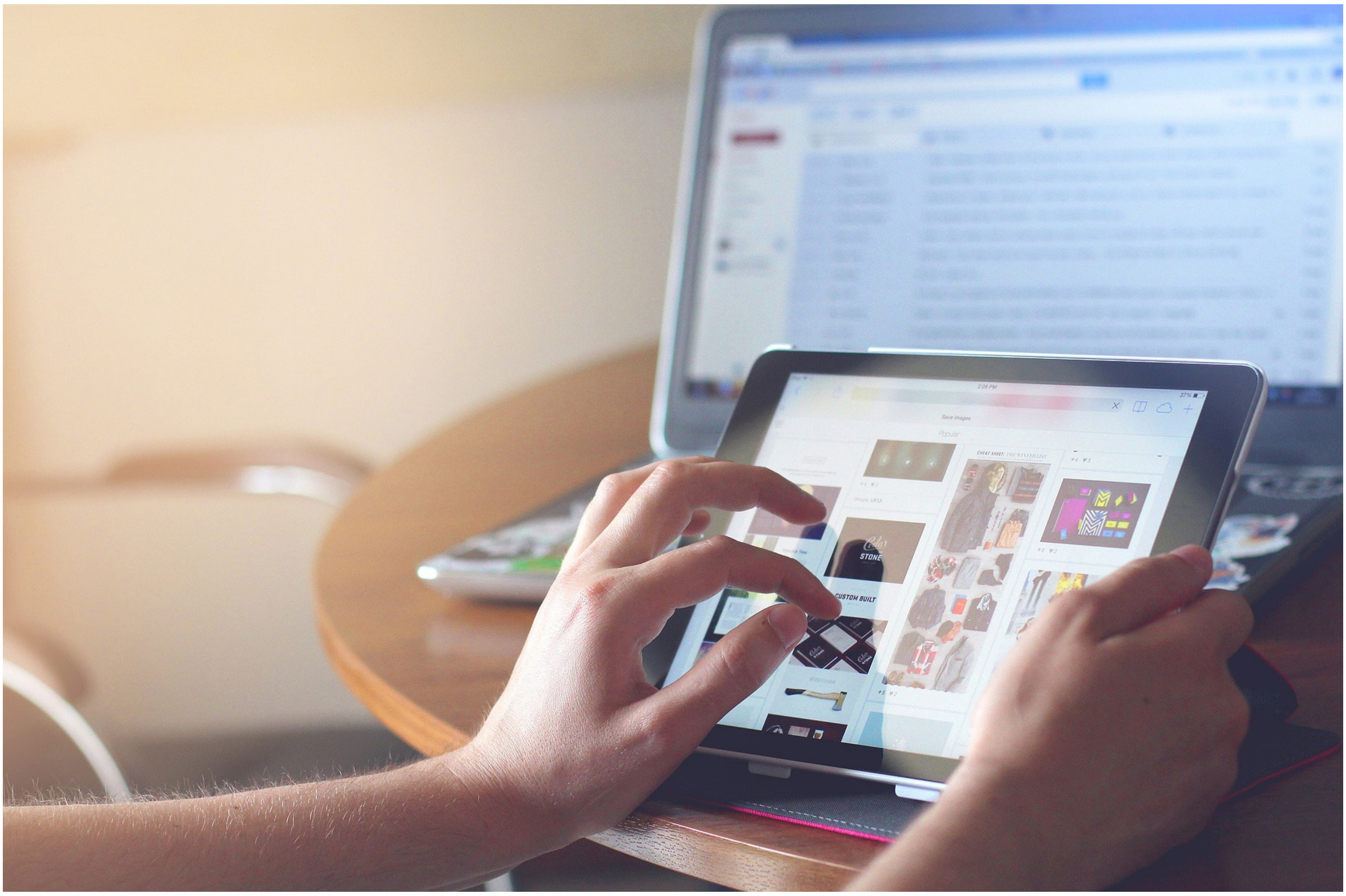
The year 2018 has its fair share of breaking news and events. From President Trump's and Kim Jong Un's meeting in Singapore, the 'surprise' change in the political scene just across the Causeway, SingHealth's data breach incidence and the unveiling of the fourth generation leaders of the current ruling party that will shape future politics here. Every breaking event will affect businesses in one way or another. None but one will stick out like a 'sore thumb' right into 2019. I'm referring to the trade war between the US and China. When these two giants ' collide', the shockwave from that 'collision' will inevitably ripple to economies that depend on free trade. Already companies like Apple and Samsung beginning to feel the effect of the shockwave when their forecasted sales and profit numbers are starting to show a downward trend citing China woes and impending slowdown as reasons.

For 2018, the BDO network still maintains its consistent growth path. I am pleased to report that we are now present in 162 countries and territories with 1,591 offices supported by 80,847 staff worldwide, ready to assist our clients as they grow, wherever they choose to conduct their business.

Lastly, I want to take this opportunity to thank our clients for their support and wishing A Happy and Prosperous 2019!

## CONTENTS

# Don't Fall Victim To Another Email Scam



## News Alerts … not again !?

You read this in the news headlines almost every month from police scam alerts to banks and government offices issuing advisories to the public of scammers trying out impersonation and defraud companies and individuals. And yet, the media reports a steady increase in the number of email scams with a record amount of cash being defrauded. Singapore citizens and companies are targeted and continuously cheated by scammers with connections and banks accounts located in the United States, Hong Kong, and China. Is that all a coincidence or Singapore companies and individuals are easy targets or .... preys.

## A brief history of email scam

From the early days of the proliferation of the internet in the 90s and email communications taking over snail mails for personal and business communications, technology advancement has created an immense opportunity for scammers out to cheat. With any potential targets just a click away, and costing close next to nothing, the scammers can blast out hundreds of thousands of emails telling the "lucky ones" they have won a lottery or could share an inheritance from a deceased wealthy nobleman in the African continent. Most of us would ignore these electronic mails as spams and hoaxes but for those, one in a million who responded, it would be a windfall for the scammers.

## Scam with stealth and sophistication

Today we see cybercriminals doing the same but with more sophistication and stealth. Cybercriminals would do their reconnaissance of its target ahead of time and using techniques like Spear Phishing, a form of targeted email attack, he would gain access to an employee's machine and his/her email account. Once in the system, the cybercriminal may monitor email communications between the companies and their suppliers or customers to look for an opportunity to attack and scam. This could be stealthily intercepting emails exchanges with suppliers and amending payment details to bank accounts belonging to the scammers or impersonate the employee to send out invoices altered with scammer's payment details to the company's customers. Many of these activities happened with company executives or the IT team unaware till the fraud has occurred and customers or suppliers informing of the default of payments. Sometimes this can take months before the financial or system audit team discover some anomalies in their accounts and uncover the fraud.

## Why me?

Just like Singapore passport being highly regarded, Singaporean companies' credentials including email addresses are authentic and of high value, as pedalled in the underground market of Darkweb. Coupled with Singapore being a highly connected economy moving with a rapid pace of technological development (just like in the 90s) it has spawned lots of attention from the cybercriminals out for a quick buck to target companies here. Companies here are highly efficient and at times, too efficient to expedite any transaction that comes their way without due diligence or validation until it is too late.

In most of the reported cases of scam, the account details have been amended but given the supplier/customer has been transacting with the victim company for a long time, it has been assumed the changed details to be a genuine request by the supplier/customer.

## I have been scammed, now what?

For the victim company, it is indeed painful to suffer a financial loss in the scam, and for some, reputational damage as the hard-earned trust established between the company and the customer/supplier could be damaged. More importantly, any of this email scam constitute a cybersecurity incident in which, it requires full disclosure and incident reporting to the relevant authority, i.e. Cyber Security Agency. A police report also has to be made so that the police could into this email scam as a cybercrime.

After the email scam, as a consequent of a cybersecurity breach incident, the company should conduct a Digital Forensics & Incident Response (DFIR) investigation to uncover the 5W 1H of the incident.

- What has happened?
- When did this happen?
- Why did it happen?
- Where did this happen? (i.e. initial entry point for scammers)
- Who did this? (i.e. Attribution)
- How did this happen and how can I prevent it from happening (again)?

DFIR services also help with removal and getting rid of any malware used by the cybercriminals to penetrate and defraud the company of its monies. Over the next six months, any further transactions with the company's supplier/customer should be monitored and scrutinised closely by both parties closely, and there could also be further policy changes to put forth a more rigours checks and balances.

### Would any assurance not happen .....again?

While no one can guarantee cybercriminals will not target the same company again, the company could look at preventing similar incidents from happening again by subscribing to Managed Detection and Response (MDR) services, which helped companies around the clock to monitor and mitigate such email scam attacks in the future.  As an added assurance, the company could consider purchasing cyber insurance that could provide an added safety net to help mitigate any losses incurred by the email scam incident. But most importantly, we do suggest the company to add periodic cyber awareness training into their company's training programme, and stage simulated cyber incidents and measure the company's cyber resilience in these exercises at least twice a year.

Useful link for reference:
https://www.scamalert.sg/
https://www.bdo.global/en-gb/services/advisory/cybersecurity

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# A Client's Case Study on FRS 116 *Leases*

## Background

From 1 January 2019, FRS 116 *Leases* will supersede FRS 17 *Leases* introducing a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees. FRS 116 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the lease assets will be depreciated, and the lease liabilities will be measured at amortised cost.

Under the new FRS 116, financial statements of lessees will be more transparent with the recognition of lease assets and lease liabilities on the balance sheet, the recognition of depreciation on right-of-use assets and interest expense for lease liabilities on the income statement. Key financial statement implications are the bringing of more debts onto the balance sheet and the front-loading of total lease expenses. As such, FRS 116 would bring the majority of leases onto the balance sheet resulting in additional assets and liabilities being recognised.

From the perspective of a lessor, the classification and accounting for operating and finance leases

remain substantially unchanged under FRS 116. FRS 116 also requires enhanced disclosures by both lessees and lessors.

Most companies, especially those with a substantial number of leases, would understandably face issues in adoption and compliance with FRS 116 and will require assistance from professional advisors.

We are sharing a Client's challenges and how we have assisted our Client in the adoption and implementation of FRS 116.

## The Challenges

The Client has more than ten existing leases that ranged from the rental of office premises, employee accommodation leases to machinery leases and currently accounted these leases as operating leases.

Upon adoption of FRS 116, the Client will be required to capitalise its office, employee accommodation and equipment leases on the statement of financial position by recognising them as 'right-of-use' assets and their corresponding lease liabilities for the present value of future lease payments.

The Client requires assistance to adopt and implement the new standard into their books, including identifying the cost components, other parameters for consideration and determining the discount rate to be used in the computation of the present value of the lease commitments.

## Our Solutions

BDO Business Services Outsourcing (BSO) team reviewed and assessed the Client's existing lease agreements and lease registers as well as its financial statements to identify affected leases and other cost components. We also discussed with the Client and evaluated the discount rates to be applied in present value computation.

After the above parameters have been discussed and decided, we presented the case solution to the Client, providing the basis of the derivation of the right-of-use assets, the lease liabilities, and the adjustment entries as well as highlighting the potential impact on the client's prior year retained earnings.

## HOW CAN WE HELP?

Our esteemed team of accounting professionals in Business Services Outsourcing are ready to assist clients with their day-to-day accounting functions and payroll services. Our services not only range from the routine book-keeping, payment and payroll services, but we also help clients with the preparation of their management reporting packages and drafting of both audited and unaudited financial statements. We offer value added services such as providing our professional advice on the adoption of the new Financial Reporting Standard.

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# From OJEK to GO-JEK Part 2 - The Rise of the Super App

## Identifying Your Markets

Since my previous article just three months ago, GO-JEK have already launched in Vietnam as GO-VIET, taking a whopping 35 per cent of market share for bike-hailing services in Ho Chi Minh City, just six weeks after launching there in August[1].

It has been well documented that GO-JEK's success in Jakarta is primarily down to solving the city's acute infrastructure pain points. But how will this pan out in 2nd or 3rd tier cities, where traffic is not a primary concern?

GO-JEK's CEO, Nadiem Makarim[2], explained that their strategy is two-fold. Firstly, they aim to gain critical mass in the 1st tier cities, where infrastructure issues are the most pressing – hence they can capitalise on their transport, logistics and food delivery services. Secondly, in the lower tier cities where financial inclusion is on the top of the agenda, GO-JEK will prioritise solutions in the form of payment systems and financial service offerings. GO-JEK's vast portfolio of services for the middle-class, provided as a one-stop-shop, is rapidly entering the realm of the all-encompassing super-app, alongside WeChat with its one billion customers using the platform at least once a month and Grab with its 125 million downloads to date[3]. With GO-JEK seeing in excess of 100 million downloads, they are not far behind and with this trio paving the way for the super-app phenomenon in Asia, it seems that individual apps for transport, food delivery and payments, as per the norm in the U.S. and Europe, have already become a thing of the past.

## Carving out Your Niche

Presently, GO-JEK runs the largest food delivery business in Southeast Asia. What you may not know, is that 80% of these food delivery transactions come from small businesses such as your mom-and-pop shops rather than from multinational food chains[2]. Indonesia is unique, with its population of over 260 million and an infinite number of food vendors that up until now, have not had access to scale. GO-JEK's GO-FOOD is now essentially the middle-man connecting Indonesia's vast population to these small businesses. This in turn creates a previously non-existent transaction history, leading to a bank loan, which acts as the catalyst for national expansion[4].

These small businesses in Southeast Asia constitute the informal economy which counts for 60% of the workforce[5]. It is this opportunity, combined with the fact that the spending power of the middle class is predominantly focused on food - that GO-JEK plans to leverage during their rapid expansion across the region. But first, how did GO-JEK carve out such a niche in its home country to start with? The central bank in Indonesia had granted the much sought-after (well, by Grab at least, which had their e-wallet suspended in the country last year) e-money permit to GO-JEK, which enables them to collect payment from customers who don't have access to a bank account or credit card[6]. Such customers are able to instantly top-up their GO-PAY accounts with cash via one of GO-JEK's drivers or at a convenience store.

## With this in mind, how will GO-JEK go head to head with Singapore's Grab on its home soil?

Launching its beta app in Singapore just last week, GO-JEK will initially service just over half of Singapore[7], including the CBD and highly populated surrounding areas, before expanding further.

Customers are currently being put on a wait-list to ensure demand can be met, although DBS customers are given priority as well as a credit voucher when they are signed up.

It seems that GO-JEK's ride-hailing launch is already well under way but they may well be driving their payment platform as the frontrunner when they expand further, if their recent deal with DBS is anything to go by.

## Bridging the Gap

So what's in it for DBS, Singapore's leader in payments with DBS PayLah! being the country's most prevalent mobile wallet[8]?

Rather than being in competition, GO-JEK will act as the bridge between the banks and consumers. Last valued at $5 billion, the exponentially expanding GO-JEK has attracted technology-centric DBS with its rich plethora of both user and merchant data – especially given its conversion of cash payments to e-payments, capturing the previously impossible-to-capture data of cash-paying customers. DBS will also be able to reach the small business owners in the informal economy by offering its services and e-loans[9].

Grab clearly echoes GO-JEK's sentiment according to their similar announcement of a regional partnership with Singapore's United Overseas Bank, cementing them as Grab's preferred banking partner in Singapore as well as credit card partner across Singapore, Indonesia, Vietnam, Thailand and Malaysia[10].

Just like Grab's battles in Indonesia, GO-VIET is currently still waiting to be granted the permit by the local authorities to enable them to develop their e-payment systems in Vietnam. GO-JEK's strategy in Singapore is smart as their recent partnership with local bank DBS should hopefully enable them to bypass some of the scrutiny by Singapore's monetary authorities for foreign companies entering Singapore's e-payments market[11].

Finally, another interesting offering that GO-JEK launched recently is GO-VENTURES: its very own venture-capital fund. Interesting, given that they still requires a liberal amount of financing themselves[12], although it could give them first-mover advantage if they snap up any number of technology start-ups to add to their ever-increasing super-app portfolio. It does lead us to beg the question however; what will they think of next?

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*This is a follow-on from the article: 'From Ojek To GO-JEK: Internationalisation May Not Be As Far-Fetched As You Think', originally published in ASME Entrepreneurs' Digest, Sep/Oct issue*

**Note: Information in this article is considered to be correct at the date of submission (Dec 2018).**

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