

Accounting for Participating Agencies' Cumulus Arrangement with the Government of Singapore

This document sets out AGD's views on how Statutory Boards (SBs) should account for their subscription to Cumulus.

2. In summary, AGD is of the view that the arrangement between Participating Agencies (SBs who use Cumulus) and the Government is a service contract, i.e. Participating Agencies should expense off the subscription fees paid to the Government as and when the service is provided:

- a. The arrangement between Participating Agencies and the Government does not contain a lease within the scope of SB-FRS 116, as no single Participating Agency has the right to obtain substantially all economic benefits from the use of the identified asset, i.e. Cumulus, nor does any Participating Agency have the right to direct how and for what purpose the identified asset is used throughout the period of use; and
- b. The arrangement between Participating Agencies and the Government does not provide the Participating Agencies with any resources under their control, i.e. intangible assets in the scope of SB-FRS 38 *Intangible Assets*, as the Government owns the software license and the Participating Agencies are only subscribing to the use of the software license owned by the Government.

3. This document contains AGD's professional views and should not be taken as a pronouncement by a standard-setter. Accordingly, the interpretation contained in this document is not mandatory. If necessary, SBs should discuss the accounting treatment for the Cumulus subscription with the auditors of their financial statements.

Background Information on Cumulus

4. On 20 June 2019, the Government initiated a multi-year rollout plan to implement a fully operational integrated Finance, HR and Payroll Software as a Service (SaaS) (Cumulus System) for use by Participating Agencies.

5. The Government (represented by PSD) and the Participating Agencies have set out their understanding of the implementation and operation of Cumulus

and the use of services provided by the Suppliers in a Memorandum of Understanding (MOU).

6. The Government, as owner of Cumulus, has entered into and will be entering into contracts with various suppliers for the supply, development, maintenance and support of Cumulus. Unless prior written consent from the Government has been obtained, the system supplier is not allowed to make any modifications to the system requirements as set out in the contract.

7. The Participating Agencies will pay the Government annual user subscription fees for the usage of Cumulus. The subscription fees are computed by the Government based on the following components:

- a. SaaS subscription fees;
- b. Professional services cost;
- c. Change request cost;
- d. Manpower cost; and
- e. Any other incidental costs to implement and operate Cumulus(including but not limited to security, audit, project site, GSIB, hosting cost, etc).

8. The Participating Agencies do not enter into any contracts with the various private sector suppliers e.g. system supplier, system integrator, etc.

AGD's Assessment

9. Various SB-FRS Standards, including SB-FRS 116 *Leases*, SB-FRS 38 *Intangible Assets*, and SB-FRS 16 *Property, Plant and Equipment*, are relevant in assessing the accounting treatment for Cumulus subscriptions. AGD has also considered the IFRS Interpretations Committee's (IFRIC) agenda decision on evaluating how a customer accounts for a "Software as a Service" cloud computing arrangement (published in March 2019).

Does the Arrangement Contain a Lease in the Scope of SB-FRS 116?

10. According to SB-FRS 116 paragraph 9, an arrangement would contain a lease if the contract conveys the *right to control the use of an identified asset* for a period of time in exchange for consideration. The relevant contract to be assessed is the arrangement between Participating Agencies and the Government as set out in the MOU.

11. SB-FRS 116 paragraph B9 further sets out that the customer (in this context the Participating Agency) obtains the right to control the use of an identified asset,

which means that the contract contains a lease, throughout the period of use when the customer has:

- a. The right to obtain substantially all of the economic benefits from use of the identified asset; and
- b. The right to direct the use of the identified asset.

Does the arrangement contain a lease in the scope of SB-FRS 116?

i. Is there an identified asset?

12. According to SB-FRS 116 paragraph B13, an asset is typically identified by being explicitly specified in the contract, or by being implicitly specified at the time the asset is made available for use by the customer. The identified asset in this case is the Cumulus System.

13. Even if there is an identified asset, there is no right to use the identified asset if the supplier (in this context the Government) has the substantive right to substitute the asset throughout the period of use according to SB-FRS 116 paragraph B14. A supplier's right to substitute an asset is substantive if both the following conditions exist:

- a. The supplier has practical ability to substitute alternative assets throughout the period of use, e.g. Participating Agency cannot prevent supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time; and
- b. The supplier would benefit economically from the exercise of its right to substitute the asset, i.e. the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset.

14. While the Government has the sole discretion to change the system from Cumulus to another one if they want to, PSD highlighted that this is unlikely to happen. In addition, it is not likely that an alternative system will be readily available to the Government if they were to change the system from Cumulus. **Therefore, we are of the view that the supplier has no substantive rights to substitute Cumulus throughout the period of use, and there is an identified asset in this arrangement.**

ii. Does Participating Agency have right to obtain substantially all economic benefits from use of the asset throughout the period of use?

SB-FRS 116 paragraph B22 sets out that an entity shall consider the economic benefits that result from use of the asset within the defined scope of a customer's right to use the asset.

15. No single Participating Agency has exclusive use of the entire Cumulus. Cumulus is a single system which is shared across all Participating Agencies subscribing to the system. All Participating Agencies subscribed to Cumulus will have to access and use the same global features designed and set up in this system, with some localised requirements allowed, subject to the Government's approval. There will be at least 39 Participating Agencies on-boarding Cumulus over the next few years; as of 30 November 2020, there are 6.

16. **Therefore, AGD is of the view that each of the Participating Agencies do not have the right to obtain substantially all the economic benefits from using the Cumulus system.**

iii. *Do Participating Agencies have right to direct how and for what purpose the asset is used throughout period of use*

17. **AGD is of the view that no single Participating Agency has the right to direct how and for what purpose Cumulus is used throughout the period of use on the basis that:**

- i. No single SB has the decision-making rights to change Cumulus, as SBs need to seek the concurrence of the Design Authority (DA) / Change Control Board (CCB) for agency-specific Change Requests, if such Change Requests result in major changes to Cumulus, so as to ensure alignment to whole-of-Government strategic direction and processes before proceeding (MOU Section 3.3.2(b) "Change Requests");
- ii. It is specifically stated that the SBs are subscribers and partners, not owners, of Cumulus (MOU Section 3.2.2 "Roles of the Participating Agencies");
- iii. The Government, not the Participating Agencies, has the right to decide on the strategic direction, drive business development, review major project milestones and resolve management issues for the Cumulus System (MOU Section 3.2.1 "Roles of the Government as Owner of the Cumulus System");
- iv. The Government, not the Participating Agencies, has the right to expand the services of Cumulus, where feasible, so that it can deliver more value beyond its original scope (MOU Section 3.2.1 "Roles of the Government as Owner of the Cumulus System");

- v. The Government, not the Participating Agencies, has the right to manage, review and improve Cumulus (MOU Section 3.2.1 “Roles of the Government as Owner of the Cumulus System”);
- vi. The Government may, at any time during the Operational Support Period (including any extension thereof), review or revise the scope of Cumulus, and retain sole discretion in respect of the scope of the eventual Project Variation (MOU Section 3.5 “Variations to the Scope of Cumulus during the Operational Support Period”).

18. As the Participating Agencies do not have the right to obtain substantially all economic benefits from use of Cumulus and also do not have the right to direct how and for what purpose the asset is used throughout the period of use, AGD is of the view that the MOU arrangement between the Government and the Participating Agencies *does not contain a lease in the scope of SB-FRS 116.*

Does the arrangement provide the Participating Agencies with a resource that can be controlled (i.e. intangible asset) in the scope of SB-FRS 38?

19. According to SB-FRS 38, an intangible asset is an *identifiable non-monetary asset without physical substance*, which is *controlled by an entity* as a result of past events and from which *future economic benefits are expected to flow to the entity*.

20. The arrangement between the Government and the Participating Agencies does not provide the Participating Agencies with any resources they can control, e.g. software licenses for the use of Cumulus. Workday provides the platform on which Cumulus is developed and used (software license agreements are entered into between the Government and the software companies), while the Government and the Participating Agencies are merely users of the software licenses.

Conclusion

21. Given that the MOU does not provide Participating Agencies with any intangible asset for the use of Cumulus, and also does not contain a lease within the scope of SB-FRS 116, AGD’s view is that the Participating Agencies should account for their use of Cumulus in this arrangement with the Government as a *service contract over the term of subscription*.

22. Participating Agencies may also incur other entity-specific implementation and operating costs, e.g. hardware costs, training costs, customisation of software etc, in addition to the implementation and operating fees payable to the

Government for using Cumulus. Participating Agencies are to separately determine whether these costs should be capitalised or expensed off using the relevant SB-FRS Standards.