INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

# economia

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# DIRECTOR'S CUT

THE MANY ROLES AND DECISIONS OF SERIAL NON-EXECUTIVE AND BARCLAYS BOARD MEMBER ALISON CARNWATH

**SQUEEZED MIDDLE | PENSIONS UPDATE | THE WORLD BANK | CASH ACCOUNTING**

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economia

# There's a simple way to restore trust in the banks

Do you trust your bank? Or bankers in general? The fallout from the financial crisis means that these have become common questions. And the evidence suggests that increasingly, the answer is a resounding "no".

The latest Trust Barometer produced by PR firm Edelman shows that trust in banks has fallen 16% in the last year. And the report was produced before the news of the Libor-rigging scandal broke, so there is little chance of an improvement next year.

And yet trust and confidence in banks is essential for a successful, growing economy. While some aspects of financial services showcase the worst of predatory capitalism, elements of banking are also productive and a force for good. Many small businesses rely on their bank. The trouble is, the good and bad elements co-exist under the same roof. Honest, hardworking bank managers are not far enough removed from the feckless "banksters" of the trading floors.

There is a simple remedy to restore confidence and trust in banking. The government commissioned the Independent Commission on Banking and needs to listen to its sensible conclusions, rather than undermining its work by watering down the implementation of the recommendations.

There needs to be a high and hard ringfence between retail banking and investment banking operations. The current proposal for a gentler ringfence would allow some degree of proprietary trading and makes little sense. Bankers would find ways to exploit any potential blurring of boundaries. The separation must be black and white. A hint of grey will be exploited.

Now is the time for a full and proper separation of retail and investment banks. The banking lobby points to the limitations of the Glass-Steagall Act in restricting the activities of banks in the US. This is merely proof that bankers need clear rules, regularly updated to keep pace with financial innovation. It doesn't prove such a measure can't work. The Act was dropped for ideological reasons, not economic ones. Such a separation is the only way to ensure that we restore trust and confidence in our banks.

## IT'S NOT GOOD ENOUGH TO HIDE BEHIND SEMANTICS

The last month has not been an edifying one for the accountancy profession. A series of investigations by *The Times* newspaper has condemned the widespread adoption of tax-minimising schemes for those on high incomes across a wide range of sectors. Things got worse when the prime minister accused comedian Jimmy Carr of behaving immorally. ICAEW chief executive Michael Izza took a tough and clear line (read his views on page 18), but much of the profession, as often happens when issues around the morality of tax and how much wealthy individuals or corporates should pay are raised, went into paroxysms of self-doubt. Inevitably the semantics of the distinctions between tax planning, questionable avoidance and illegal evasion were raised. The two extremes present few problems. But while pension contributions are easy to agree on, the line between advising clients how to pay the least tax possible and setting up complex schemes purely to hide income and avoid paying tax is more contentious.

One solution is more transparency. A straightforward test of morality must be how comfortable individuals or companies would be to adopt a less opaque approach to tax affairs.

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PHILIP SINDEN

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**Vince Cable** Secretary of State for Business, Innovation and Skills
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**John Talbot** BDO
**Steve Wood** Helm Godfrey
**Simon Witkiss** IRIS Accountancy Solutions

"I think people who always think they are right are probably quite often wrong"
**Alison Carnwath** p33

"You can act as a thought-provoker at any age if you have the maturity"
**Deborah Harris** p45

"Her Majesty's Inspectorate of Constabulary has warned that the Met may not be able to provide an effective public service in the future"
**Cathy Newman** p20

# *economia* online

**icaew.com/economia**
The *economia* website provides the same insight and analysis as the magazine, but with added technical content constantly updated to reflect news, events and developments from across the profession. There's also an opportunity for readers to comment on the issues raised in every story.

People featured exclusively online this month include...

**NORBERT WALTER** Deutsche Bank Group's former chief economist questions whether there really is a euro crisis to worry about.


**ACCESS TO EXPORTS** Four experts offer their advice on what smaller companies need to do to prepare for international markets.

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# In review

**The stories that matter most from the month just gone**

## "This underlines a terrible problem in France: one is never sure of anything when it comes to tax"

**Olivier Cadic**, of the Council for the French Abroad, slams François Hollande's decision to tax British second-home owners in France


### Rotten rigging

The interest rate rigging scandal that rocked the City of London and led to the departure of Barclays Bank's top executives reached far and wide. EU commissioner Michel Barnier branded traders' falsification of benchmark rates a "betrayal". The fraud may have been uncovered when Barclays in London was found to have submitted false figures to the Libor to improve its trading position, but HSBC, Citigroup, JPMorgan Chase and Deutsche Bank have admitted they are also under investigation for interest rate manipulation. The Serious Fraud Office is in action, there's a parliamentary inquiry and trust in financial services has taken another blow.

■ Spanish prime minister Mariano Rajoy hasn't exactly been flavour of the month either. Rajoy announced €65bn of austerity measures after he was given an extra year (until 2014) to correct the nation's excessive deficit. An agreement to recapitalise the Spanish banking sector was also reached. But it came at a price: a three-point hike in the main VAT rate on goods and services and cuts in unemployment benefits and civil service pay and perks.

■ A Capital Economics team led by Roger Bootle won the £250,000 Wolfson economics prize for outlining the smoothest way for a member state to exit the euro. One drachma, say, should be worth the same as a euro, with wages, prices, loans and deposits re-denominated one for one. Bootle said, "People may disagree on whether leaving the euro is a good thing but the Wolfson prize demonstrates it can be done."

■ The ageing population was on the agenda. The Office for Budget Responsibility said the UK's public finances were "clearly unsustainable". Even if the government saved £123bn in the next seven

years it would need to raise taxes permanently or cut spending by 1.1% of GDP (£17bn in today's terms) to get the national debt to pre-crisis levels. People over 65 are expected to make up 26% of the UK's population by 2061, compared with 17% this year.

■ Economics consultancy Cebr's chief executive, Douglas McWilliams, was named the Mercers' School Memorial Professor of Commerce at Gresham College. He will give 21 public lectures over three years on how transforming two thirds of the world's population from starvation to moderate prosperity will affect us all.

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## The month in numbers

**£50bn** the amount the Bank of England has just pumped into the stalled economy

**8bn** the number of single-use plastic bags handed out by UK supermarkets last year

**3.5%** the percentage by which the new car market grew in June

**43%** the percentage by which complaints about spam in the UK jumped last year

**£20bn** what the CBI says clean energy products are worth to the UK economy

**2.4m** the number of emails from Syrian government officials published by Wikileaks

**3,000** the number of hours it took Chanel's "petites mains" to make one coat for a recent couture show

**0.75%**

The record low ECB interest rate in July

**1,016ft**

The height of the Renzo Piano-designed Shard tower in central London

**12**

The number of airlines that have agreed to scrap fees for paying by debit card

## GADGET OF THE MONTH
### Microsoft Surface tablet

The age of the laptop is dead. Mobile working, as well as leisure activities and fun, is increasingly carried out on tablets. And while Apple continues to dominate the market the race to create an iPad killer hots up. The latest entrant is from Microsoft. But its Surface tablet, built around its new Microsoft 8 operating system, is not due to hit the shops until the OS is released this autumn.

So what can we expect?

There will be two versions: the Surface RT (which will run Windows RT) and the Surface Pro (running Windows 8). The aim appears to be to take the fight to Apple. Industry insiders think the magnetic smart cover, which doubles as a keyboard, might get Apple lawyers exercised.

Early reviews point to the Surface being elegant, tactile and good to use. The RT is slightly chunkier than an iPad; the heavyweight Surface Pro is significantly larger, thicker and heavier, but also more versatile and packing much larger storage.

It will be a fascinating battle as Microsoft marketing muscle and the familiarity of Windows go up against Apple's first mover advantage and established mobile app ecosystem.

## Street-fighting men

Iconic rock band The Rolling Stones were celebrating their 50th anniversary with a photographic exhibition at London's Somerset House and the release of a book, *The Rolling Stones: 50*.

> "I think, cumulatively, the whole package looks somewhat implausible"

Former economist **Andrew Tyrie** criticises Bob Diamond's Libor evidence to MPs

# Good news bad news

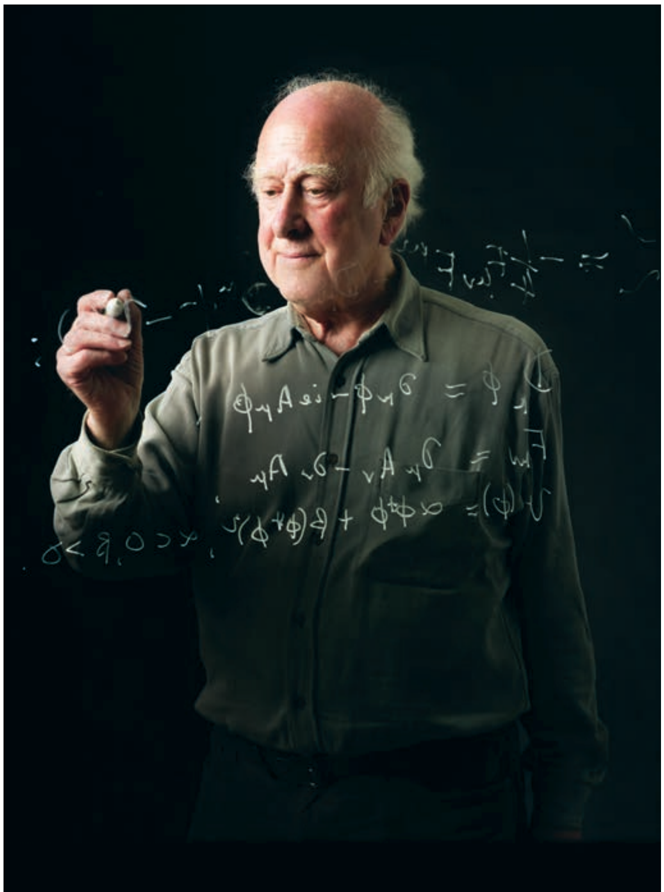

▲ **Nigel Bogle** and **Sir John Hegarty**, who are to sell the remaining stake in their ad agency BBH to Publicis Groupe for around £140m.

**£141bn**

▲ **Big business**, as Experian revealed that UK M&A deals are up 30% amounting to £141bn.

▲ **George Entwistle,** former *Newsnight* editor, is named as the BBC director general, replacing Mark Thompson in September but earning £200K less.

▲ **Regional government,** as eight of England's largest cities are told they will gain greater powers over their economies and transport, creating new jobs and autonomy.



▲ **Professor Peter Higgs,** as a team of physicists at CERN confirmed they had discovered the Higgs Boson or "God particle", believed to bestow mass.

▼ **M&S,** as it reported its worst quarterly trading for three years. Head of non-food Kate Bostock also announced her departure from the retailer.


▼ **Barclays,** as Standard & Poor's joined Moody's and put the bank on negative watch over the uncertainty created by the Libor rigging scandal. Chief executive Bob Diamond eventually bowed to calls to resign.

▼ **Meat producers,** who face sliding profits after the price of an ingredient for fattening chickens and pigs hit a record high as a result of the heatwave in the US farming belt.

▼ **Fiat,** as its chief executive warned unions the company might need to close another plant in Italy if the workforce does not accept cost-cutting concessions.

▼ **Apple,** as the High Court ruled that Taiwanese rival HTC had not infringed a patent relating to its 'slide to unlock' feature.

ADVERTISING ARCHIVE, PA, GETTY, ALAMY, REUTERS, REX

# Talking point

# Is tax planning morally flawed?

**Stephen Herring**
Senior tax partner
BDO

**Richard Murphy**
Co-founder
Tax Justice Network

## Stephen Herring

There is a broad consensus across individual taxpayers, businesses and their advisers that abusive tax planning products need to be stopped. Indeed, taxpayers have failed to appreciate the poor chances of success that these have had in the courts in recent years. Tax planning is, however, economically appropriate, beneficial and perfectly moral.

Investors have the right to expect the companies they invest in through their pension policies, unit trusts, investment trusts and ISAs seek to enhance earnings and dividends by both increasing revenues and reducing costs. Taxation is clearly a cost to business and ought to be managed just like raw material, employment, administrative and technology costs. This management must be within the law and be robust against challenges by the tax authorities. For example, if a transaction can be completed in four ways, the taxation treatment ought to be one of the factors taken into account, but my experience tells me it is seldom the determining factor as the broader commercial, risk management and legal factors generally prevail.

Similar criteria apply to individuals and I confess to considering the tax treatment before deciding to invest in my SIPP or ISA. I have not personally invested in enterprise zones, films, forestry, venture capital trusts or enterprise investment schemes, but all of these have been promoted by governments on the basis of the tax reliefs provided. A citizen is not morally flawed because they factor the tax reliefs into their investment appraisal, they are merely being sensible. They should be very suspicious of investments appearing to eliminate their taxation liabilities without investment risk as if by alchemy. Such schemes have generally been closed down by the tax authorities or will fail in the courts.

By all means, allow some individuals to pay higher tax if they so choose, but they can't claim moral superiority and force everyone else to ignore taxation. The outcome would be lower growth, less competition, fewer opportunities and lower tax receipts in future to finance public services.

## Richard Murphy

No, of course it's not. I suspect no one would argue it is. Precisely because the UK has a desirably complex tax system that is intended to accommodate and so not constrain the choices taxpayers in the UK need to take in organising their affairs. The tax system does, of course, offer them a range of legal options on many issues between which they have to decide. If that decision-making process is called tax planning then it is an entirely appropriate exercise to undertake.

That said, I suspect that the question asked was incorrect. It should have been, "is tax avoidance morally flawed?" The answer to that is an unqualified "yes". But let's be clear what I mean, because accountants and even, it seems, editors of accountancy magazines use language wholly inappropriately when discussing these issues. Unlike tax planning, where a tax payer decides between options clearly made available in our law, tax avoidance means getting round the law. The result is, almost invariably, that the legal substance of what is declared does not match the economic substance of what happens (as is invariably true when tax havens are used) and tax is not paid in either the right amount, or in the right place or at the right time as a result.

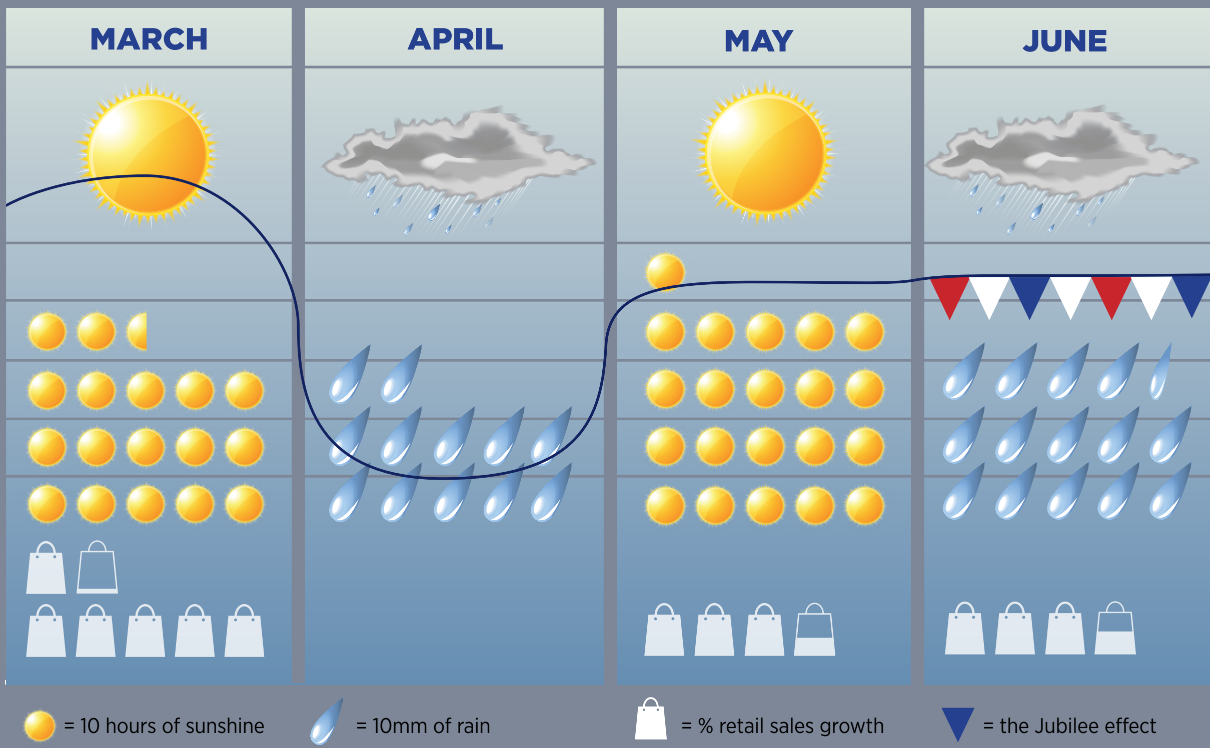
That is unethical because while it is not illegal nor is such a process legal: no law permits it. The intention is to go through the loopholes between laws and regulations, often of more than one country. That is a conscious and deliberate attempt to free-ride the tax system to secure an economic advantage at cost to others. However dressed up, that is cheating and for good reason the world thinks cheating unacceptable and immoral.

Accountants can play with the semantics of this to justify their gain from such abuse if they so wish but what society has shown is that it has an uncanny ability to hold in contempt those who make such excuses, and rightly so. Which is why it is time for the accountancy profession to make clear tax avoidance is unethical – and reason for being excluded from our institutes.

If you want to contribute to this debate, go to icaew.com/economia

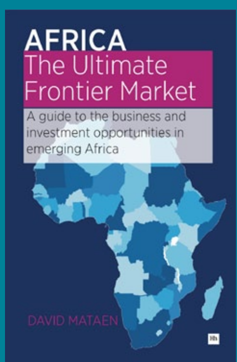
# The graph
# Retail sales values

**Figures from the British Retail Consortium prove that temporary factors such as the weather and the Queen's diamond Jubilee have an impact on trading. While the wettest April for 100 years led to zero growth in total retail sales values, June got a bunting boost amid the dismal rain.**




FIGURES FROM BRITISH RETAIL CONSORTIUM AND MET OFFICE

## BOOK REVIEW
## Africa: The Ultimate Frontier Market
**by David Mataen**




At a time of slow, or no, growth in most of the world's major developed economies, it is not surprising that businesses and governments around the world are busy searching out every possible opportunity for growth.

As the previously unstoppable rise of the emerging BRIC (Brazil, Russia, India and China) economies begins to slow, focus is shifting to Africa. And with good reason. The continent that was home to 100 million people in 1900 had an estimated population of 770 million in 2005 and more than 860 million in 2010. A lot of this growth has happened in the past 20 years.

The rapid expansion is creating all sorts of opportunities for those prepared to understand some of the continent's difficult issues. David Mataen's book explores the region thematically rather than geographically. Thus he excludes South Africa from his discussion as economically it stands apart from it neighbours. Mataen identifies eight megatrends that define the region, ranging from the population explosion through the cultural development and rapid urbanisation that this causes to more nuanced ideas such as the growth of credit and the development of capital markets.

Sprinkled throughout the book are statistics that are both terrifying and potentially exciting for those looking to expand into new territories. Mataen explores many of these potential business and investment opportunites sector by sector, explaining the context of how each market has developed.

While not quite as thoughtful as Will Hutton's *The Writing on the Wall,* which examines developments in China, this is a more practical guide that will be particularly useful to anyone keen to develop work or investment relationships with any of the rapidly expanding African markets. It is also worth a flick if you are just interested in the continent's story.

**Richard Cree**

# If I ruled the world

**Every month we ask prominent figures how they'd handle the biggest job of all**

## Dr Atul K Shah

If I ruled the world, I would transform the thinking and behaviour of leaders. Leadership today is often seen as a prize, an opportunity to maximise private gain and increase personal status and power. This is a recipe for disaster. In many ancient cultures, leadership was seen as a huge civic responsibility, which was handled with the greatest care and compassion, and success was measured in terms of the improvement in welfare of the whole community. And often this community included not just humanity, but nature and animals too. Leaders took pleasure from giving and not taking, from serving and not dominating, from sincerity and not falsehood.

Leadership was seen as a humbling act where the highest accountability was to one's inner soul and spirit. Mahatma Gandhi lived very simply, was never arrogant in spite of his huge intelligence and empathised with the pain and suffering of his people. We need to revive such role models. Love not fear should be the leading emotion.

The science and wisdom of leadership is diverse and should not be monopolised by one culture or world view. Leaders should recognise the existence of other cultures and patterns of behaviour in these globalised times and interact with them instead of suppressing differences or hiring the same colleagues. And they should not expect everyone to think and behave in the same way, but instead understand and recognise differences, and even allow the possibility that in some areas, other cultures and wisdoms may be superior to their own. We need leaders with borderless minds, who are keen to stretch their thinking and horizons by engaging with people and ideas which are different from their own. Creativity and innovation are the lifeblood of successful leadership, and cultural diversity in the management team is critical to effective leadership.

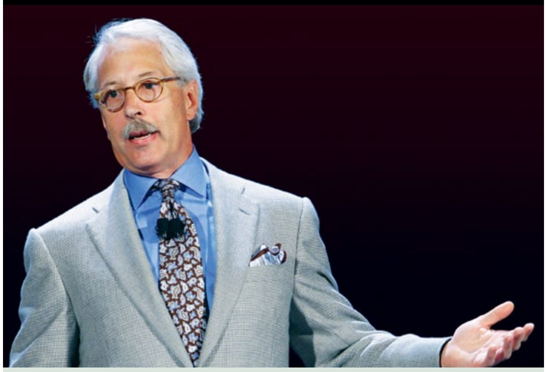
Leaders need to improve the triple bottom line of economy, society and environment through their actions and decisions. Challenge should be welcomed in the boardroom, not marginalised or suppressed. It should be seen as a way of building a robust team to mitigate against adverse risks and obsessive behaviour. Difference is a window to innovation, and the world out there should be reflected in the boardroom.

Above all, leaders must engage with the timeless wisdom of the universe and try to live by it.

Dr Atul K Shah is trainer and consultant at diverseethics.com and author of *Boardroom Diversity – The Opportunity*.

## THE BIG IDEA

### Gary Hamel
**Nimble management**



REUTERS

**Who is he?** Ranked by the *Wall Street Journal* as the world's most influential business thinker, the mustachioed business strategy expert built his reputation alongside Indian academic and fellow guru CK Prahalad with the idea of core competencies. His latest book, *What Matters Now*, follows *The Future of Management*, in which he declared that management is out of date.

**How so?** It may be one of humankind's most important inventions, helping mobilise people into getting things done, but according to Hamel the tools and methods used to manage people at work today are ill-suited to the challenges of succeeding in a creative economy.

**What needs to change?** Hamel, a visiting professor at London Business School says that, aside from some restless managers who are eager to disrupt the status quo, not enough people are willing to adapt and innovate. He'd like to see more managers sharing ideas as a crowd to influence change.

**What, like management 2.0?** Exactly. Hamel has created the MIX (Management Innovation Exchange), designed to embrace and implement radical new ideas. From increasing trust to expanding the scope of employee autonomy, Hamel says these "gnarly problems" must be tackled to make the future fit for human beings.

**So what's his big idea?** That'll be the core competencies. Hamel reckons too many companies look at the capabilities of individuals when core competence identification has to be top down. That means discovering transcendent capabilities among employees, not generating a laundry list of technologies and functions. What you want is a deep conception of who you are as a company.

**Like Enron?** Well, no, that was a bit of a slip-up. In his book *Leading the Revolution*, Hamel was not alone in holding Enron up as an exemplar of strategic innovation. What he says now is that institutions will only change if the activists drive strategy; not necessarily from the top down. He describes the assumption that change must start at the top as "extraordinary arrogance", and a sure way of guaranteeing that change will not happen.

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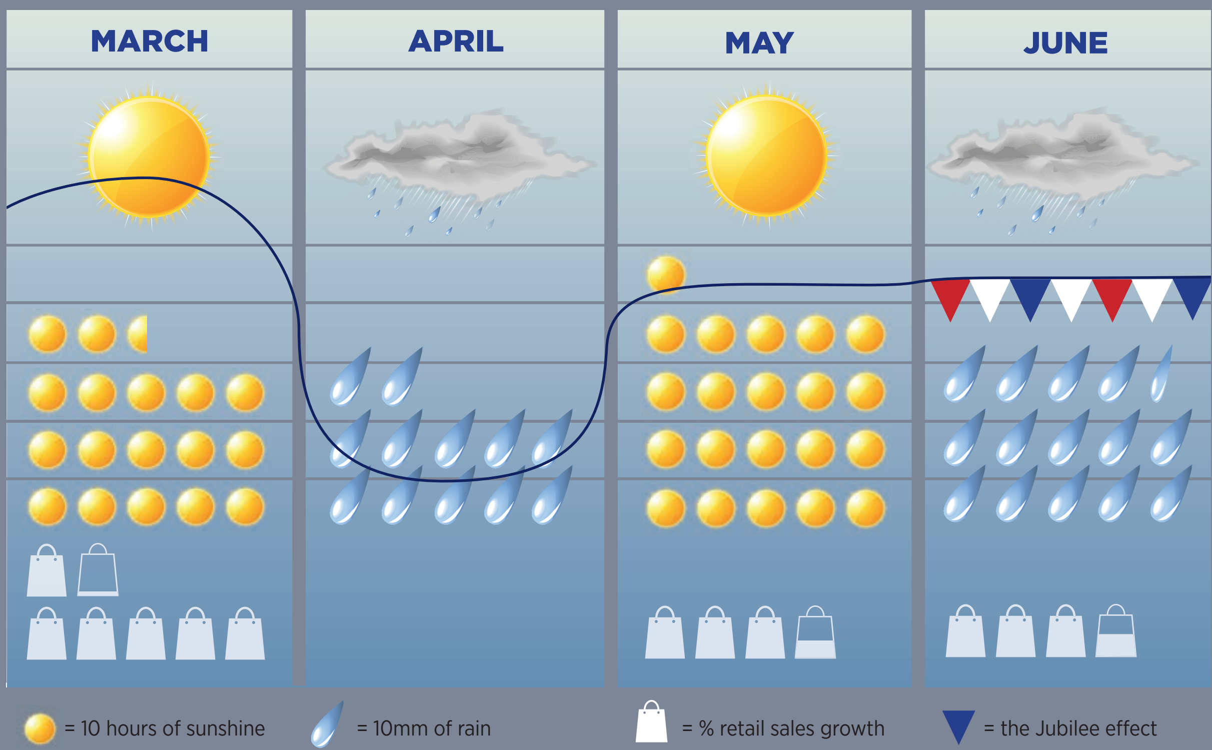


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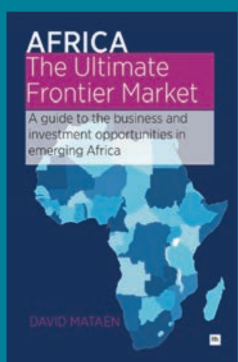


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If I ruled the world, I would transform the thinking and behaviour of leaders. Leadership today is often seen as a prize, an opportunity to maximise private gain and increase personal status and power. This is a recipe for disaster. In many ancient cultures, leadership was seen as a huge civic responsibility, which was handled with the greatest care and compassion, and success was measured in terms of the improvement in welfare of the whole community. And often this community included not just humanity, but nature and animals too. Leaders took pleasure from giving and not taking, from serving and not dominating, from sincerity and not falsehood.

Leadership was seen as a humbling act where the highest accountability was to one's inner soul and spirit. Mahatma Gandhi lived very simply, was never arrogant in spite of his huge intelligence and empathised with the pain and suffering of his people. We need to revive such role models. Love not fear should be the leading emotion.

The science and wisdom of leadership is diverse and should not be monopolised by one culture or world view. Leaders should recognise the existence of other cultures and patterns of behaviour in these globalised times and interact with them instead of suppressing differences or hiring the same colleagues. And they should not expect everyone to think and behave in the same way, but instead understand and recognise differences, and even allow the possibility that in some areas, other cultures and wisdoms may be superior to their own. We need leaders with borderless minds, who are keen to stretch their thinking and horizons by engaging with people and ideas which are different from their own. Creativity and innovation are the lifeblood of successful leadership, and cultural diversity in the management team is critical to effective leadership.

Leaders need to improve the triple bottom line of economy, society and environment through their actions and decisions. Challenge should be welcomed in the boardroom, not marginalised or suppressed. It should be seen as a way of building a robust team to mitigate against adverse risks and obsessive behaviour. Difference is a window to innovation, and the world out there should be reflected in the boardroom.

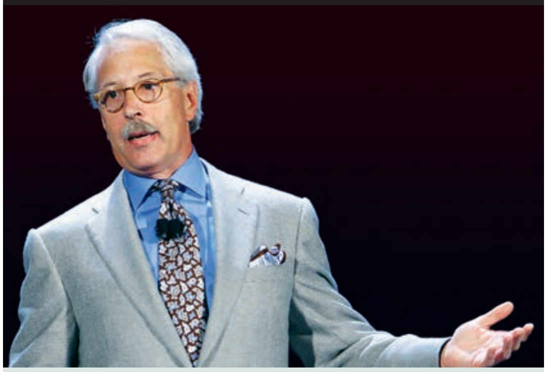
Above all, leaders must engage with the timeless wisdom of the universe and try to live by it.

**Dr Atul K Shah is trainer and consultant at diverseethics.com and author of *Boardroom Diversity – The Opportunity*.**

## THE BIG IDEA

### Gary Hamel

**Nimble management**



**Who is he?** Ranked by the *Wall Street Journal* as the world's most influential business thinker, the mustachioed business strategy expert built his reputation alongside Indian academic and fellow guru CK Prahalad with the idea of core competencies. His latest book, *What Matters Now*, follows *The Future of Management*, in which he declared that management is out of date.

**How so?** It may be one of humankind's most important inventions, helping mobilise people into getting things done, but according to Hamel the tools and methods used to manage people at work today are ill-suited to the challenges of succeeding in a creative economy.

**What needs to change?** Hamel, a visiting professor at London Business School says that, aside from some restless managers who are eager to disrupt the status quo, not enough people are willing to adapt and innovate. He'd like to see more managers sharing ideas as a crowd to influence change.

**What, like management 2.0?** Exactly. Hamel has created the MIX (Management Innovation Exchange), designed to embrace and implement radical new ideas. From increasing trust to expanding the scope of employee autonomy, Hamel says these "gnarly problems" must be tackled to make the future fit for human beings.

**So what's his big idea?** That'll be the core competencies. Hamel reckons too many companies look at the capabilities of individuals when core competence identification has to be top down. That means discovering transcendent capabilities among employees, not generating a laundry list of technologies and functions. What you want is a deep conception of who you are as a company.

**Like Enron?** Well, no, that was a bit of a slip-up. In his book *Leading the Revolution*, Hamel was not alone in holding Enron up as an exemplar of strategic innovation. What he says now is that institutions will only change if the activists drive strategy; not necessarily from the top down. He describes the assumption that change must start at the top as "extraordinary arrogance", and a sure way of guaranteeing that change will not happen.

REUTERS

## Charity conference

REX FEATURES

This year, the Charity and Voluntary Sector Group Conference in November looks to the future. It has attracted some excellent keynote speakers including Lord Hodgson, *The Big Issue*'s Nigel Kershaw and MPs Nick Hurd (above) and Gareth Thomas. It aims to provide thought-provoking plenary sessions, as well as a range of practical workshops and networking opportunities.

So what can delegates expect? There will be discussions on the future of regulation; preventing and managing insolvency; key tax, financial reporting and other developments; how to improve the effectiveness of your charity; impact reporting; social entrepreneurship; collaboration; social investment and social return on investment, and a panel debate on the future of the sector.

As ICAEW president Mark Spofforth pointed out recently, charities are increasingly asked to deliver public services but "it's not good enough to hand the hard task of service delivery to charities and others without ensuring they are equipped to deliver these services for the long-term".

The conference will be held in London on 15 November and Manchester on 27 November.

**icaew.com/charityconference**

# View from the top

**Mark Spofforth explains why trust is a key theme in the work he is doing throughout his year as ICAEW president**


CHARLOTTE PLAYER

No one can have failed to notice that the public's view of bankers has hit rock bottom since Barclays admitted that 14 of its traders were involved in manipulating the interbank lending interest rates.

We chartered accountants have felt the chill wind of mistrust too. And big business is now regarded with suspicion. It seems that this loss of trust is not just a domestic phenomenon. Earlier this year, the 2012 Edelman global Trust Barometer, which tracks 25 countries, revealed trust in businesses had fallen to 53% around the world in the 12 months to January.

Disappointingly, the British public seems particularly untrusting of business – we rank fifth from the bottom.

It's not just economic hard times we are going through. The landscape we live and work in is changing and we will have to learn to adapt. No one can expect to be trusted just because they are professional. That world has gone.

The Edelman research gives us an indication of what the public is looking for from the business of the future. They want business to be more empathetic, to listen to customer feedback, to treat its employees well. They want it to have ethical business practices, to work to improve the environment and to address society's needs.

Regaining public trust is fundamental to our future as businesspeople and is the reason why I have chosen trust as one of the themes of my year as president.

ICAEW has always been good at doing but perhaps a little bit less so at explaining to the rest of society what it is we do and listening to its concerns. After all, our royal charter commits us to act in the public interest. So when I talk about trust, I'm not saying "Trust me because I'm a chartered accountant". I'm talking about all the practical work we are doing to build our reputation for our members all over the world. I'm talking about working with other countries' institutes, regulators and governments to build a high quality global profession. I'm talking about championing sustainable business. I'm talking about raising standards.

There's an old adage: Trust is like a vase: you can fix it once it is broken but it will never be the same again.

That may well be the case but it must never stop us trying. Of course, ICAEW is the sum of its parts, and as chartered accountants we need to ensure that we consistently perform our work to the highest standards.

**If you have any views about this opinion, please get in touch by emailing president@icaew.com or join the debate on our website icaew.com/economia**


# As I see it

**Jonathan Crown runs his own property company and is founder of Project Harar**

**As the first person to win an ICAEW Everybody Counts award twice, for work with a charity bringing surgery to Ethiopians with facial disfigurements, Jonathan Crown looks back on his career**

**What was your childhood ambition?** I was a talented musician and thought I might do something musical, especially as my mother was an opera singer. As a teenager though, I developed a talent for photography but my father steered me into accountancy, saying I could become a photographer afterwards. I never did, of course.

**What inspired your career choice?** My first job in 1982 was selling energy surveys to factories and industrial units. I went to almost every industrial estate in North London. It was a baptism of fire, but I realised that I enjoyed business and wanted to get into it.

**What did you want to achieve?** My father died when I was 27, I had just qualified, but still had a lot of growing up to do. I started a property company, which I have run ever since. Its success has allowed me to follow altruistic pursuits. I set up Project Harar in Ethiopia 11 years ago to secure surgery for impoverished Ethiopians with facial disfigurements.

**What would you do differently?** I can honestly answer "nothing". I am satisfied with my lot. I've made mistakes, but I try always to look forward and not dwell on the past.

**Who do you admire?** Sir Bob Geldof for his work in Ethiopia and his brazenness and Sir Alec Reed, also for his work in Ethiopia, as well as his creativity in bringing his business genius to work in the charity sector.

**What do you enjoy most about your job?** The variety and freedom of being my own boss and working in areas that are so different. I can be on the phone to a London estate agent one minute talking property, and then my director in Ethiopia phones up telling me about the progress of a recovering patient after surgery. That never fails to put things in perspective.

**What are your main challenges?** Being my own harshest critic means I set the bar high for my own challenges. Right now I want Project Harar to extend its reach. We cover a third of Ethiopia, and we have treated 2,500 patients.

**What inspired your interest in social justice?** I lost my mother young and, as a recently bereaved nine-year-old, was sent to Rhodesia for a long holiday with family friends. I stayed at a large house with servants. I befriended them and was invited to their huts. I have never forgotten the disparity in their living standards and my own. That deep sense of injustice has stayed with me and consumes me to this day.

**What motivates you?** I like to make a real difference to individuals with Project Harar.

**Which of your achievements are you most proud of?** Founding and running Project Harar by far. But winning the Everybody Counts award for the second time is hugely exciting. The £2,000 will pay for operations on 10 patients with cleft lips and palates.

**What gets you out of bed in the morning?** I am lucky there is real diversity in my life. Getting up has never been a problem – so much to do, and so little time. And if that thought doesn't work, two energetic young children jumping up and down on you does the job instead.

**icaew.com/everybodycounts**

CHARLOTTE PLAYER

# Tales from the front line

**Real stories from the cutting edge of business and finance**

Brian McArthur-Muscroft
**Group finance director, TelecityGroup and winner FDs' Excellence Award 2012**

I was a lawyer by degree, but that was obviously too interesting, so I trained as an ICAEW Chartered Accountant. I qualified with Price Waterhouse in the 1980s and worked in restructuring in the insolvency group, using my legal training. I spent two years in Australia and came back to the UK, left the firm and headed into the nascent world of telecoms.

It was an exciting time. Everyone knew something was about to happen, but no one knew what it would be. I joined Cable & Wireless as a new CEO came on board and was creating something new from this portfolio of investment businesses. The first thing we did was combine four businesses and float it as Cable & Wireless Communications. Then I went to Hong Kong as FD of Hong Kong Telecom, also responsible for all Cable & Wireless risk management across Asia. We did a joint venture with Star (Sky's Asian business) and I was on a board with a young James Murdoch.

By the early 2000s the telecoms bubble had burst. Because of my restructuring and telecoms experience, I ended up as interim finance director at Worldcom. It had already gone into chapter 11 in the US, but the European operation had no bankruptcy protection. The world had just fallen apart for the company. All the cash was pulled back to the US overnight. We had £3bn of revenue, 9,000 employees, no money, no parent company guarantee and no credit. I am proud we saved 6,500 of those jobs.

You start something like that by getting into the detail. The first thing we did was a strict 13-week rolling cashflow for all 100 businesses across Europe, updated every week. It had to be as good as we could make it. In telecoms you have to deal with the competing companies because you pass off traffic with each other. Some allowed us credit, others made me settle daily. It was long hours of doing deals very quickly, without all the information.

I joined Telecity in 2007, just after it had come together. It was a private-equity-backed venture to bring Telecity, Redbus and Globix into one business. I was hired to do the restructuring, get three into one and float it. The original plan was to float in the second quarter of 2008. We floated in October 2007. Just 10 months after walking in, we'd restructured three businesses. We were the last significant IPO to get away before the crash. At the same time we were doing a re-financing, with the markets virtually shut. But we got a facility for £100m, that's increased to £300m and can go to £400m. We don't have freehold property to use as security, so they are lending cash against cashflow. The banks are lending to our business model and have been incredibly supportive.

All our data centres are really data distribution centres. We operate in the big hub cities for internet traffic across Europe. We build centres in the middle of wherever the connectivity is to distribute it. Our model is to enable the infrastructure that supports the digital economy. It's all about data. Internet usage is growing and a large share of it is coming to us.

When we floated, the company reported profit of £600,000. Last year profit was £67m. We are aiming for strong top-line growth and even stronger growth in profits. We want to double the size of the business within three years. But it's about profit. If something isn't going to add to the bottom line we aren't interested. I hate the idea of growth for growth's sake. It doesn't get you anywhere and uses up capital. Our mantra is sustained, manageable and profitable growth.

We only have 600 people across Europe. Once you take frontline data centre staff off the total there are only about 150 people left to run the business for Europe. We have very little overhead. Mike Tobin, the CEO, and I don't even share a PA, let alone have one each. We don't have any excess cost. What keeps us growing is that we can be nimble – we don't have much hierarchy. The drive in the business is all about being single-minded. Most people who spend time with us are stunned at the amount of analysis we do.

We have blurred lines between finance and operations. My background helps because it requires attention to detail and constant checking. I want us to be a successful FTSE 100 company doing everything properly, with due governance, but with that small firm DNA of getting things done quickly without getting bogged down.

I didn't expect to win the FD's Excellence Award, but I was pleased when I did. Sometimes I look back and say, 'wow we've come a long way in four years'. The award is recognition of how strong the company is and the fact we've turned a £67m revenue figure to a £67m profit in six years. It's also about the quality of the company and it goes well with the Deal of the Year Award we won last year.

TINA HILLIER

**If something isn't going to add to the bottom line we aren't interested. Our mantra is sustained, manageable and profitable growth**

# Michael Izza

## Time for plain talk on tax

When we qualify as chartered accountants and become ICAEW members, we agree to abide by an ethical code and certain fundamental principles. In particular, we commit to being straightforward and honest in all professional and business relationships; to maintaining professional competence; and to complying with relevant laws and regulations and avoiding action that brings the profession into disrepute.

For most of us, these fundamental principles inform everything we do in our working lives. So when we read about aggressive tax avoidance schemes that we suspect don't work – like the Jersey-based K2 scheme, which recently put comedian Jimmy Carr on the front page of every newspaper – I think most of us would regard them as unacceptable.

There is a difference between aggressive tax avoidance and responsible tax planning. It is well established that taxpayers have the right to structure their affairs to pay less tax than they might otherwise do. The government itself introduces tax incentives to encourage taxpayers to invest money and help generate growth – one example is the new seed enterprise investment scheme. More generally, we all get tax breaks when we put money into ISAs or make pension contributions. Problems arise when people devise schemes that push the tax system up to, and often beyond, the absolute margins. There is a difference between maximising legitimate tax reliefs and entering into contrived and artificial arrangements that have no commercial purpose but that are claimed to achieve a substantial tax saving.

There should be no place in our profession for people who are involved in designing or maintaining these sorts of agressive tax avoidance schemes. They must be well aware that what they are doing is beyond the bounds of what is reasonable and responsible tax planning, and that they risk bringing discredit not just on themselves but all members of the profession.

But I do think that the debate about tax evasion and tax avoidance suffers from a language problem. Tax evasion is, of course, illegal but tax avoidance covers a whole spectrum of what is morally acceptable and what is not. Having a category where there are shades of grey is not helpful, especially since most members of the public find it hard to understand the difference between avoidance and evasion and consider both unacceptable.

I know that the terms have a basis in the law but I do think it's time we started using different language that draws a clearer line between reasonable and responsible tax planning and that which is not. The writing has been on the wall for aggressive tax schemes for a number of years and the pressure on those who promote and advise on such schemes will continue to mount.

**Michael Izza**
**ICAEW chief executive**

# Your feedback

### Telling us something good


With the cover line 'Chuka Can' on the front of the July issue, it's nice to see that ICAEW does indeed have a sense of humour. However, some younger members will need to ask their mums and dads who Chaka Kahn is!
**Tony Cooney**

### Aikido you not

I am writing to commend you in general on *economia*, which is a vast improvement on its predecessor. However, I was disappointed that in the article on martial arts (July 2012) Penelope Rance failed to mention Aikido, which is popular throughout the world. It is suitable for all ages and sexes, does not stress the body and practitioners can train at their own pace.
**Ian Cherry FCA, 5th Dan; chief instructor, Preston Aikido Club**

### Online comments

Comedian Jimmy Carr's tax affairs prompted much comment online. A reader posting as Theremustbeanotherway wrote: "Where is the economic sense in setting up artificial entities in tiny dominions with diminutive markets to avoid paying tax, which cripples the Third World and destroys the First in a tax rates race to the bottom?"

And Bruce Garnham-Smith wrote: "The blame shouldn't rest with Jimmy Carr but his advisors. Most have a duty to act in the public interest. Schemes that avoid tax to ridiculous degrees are not in the public interest."

An anonymous reader asked: "What is 'the correct amount of tax' an individual, or an organisation, should pay? Jimmy Carr was living in a glass house and throwing stones."

While another anonymous reader wrote: "Excellent moral stand from the PM. Next

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thing we know former PMs and their delightful wives will be returning income they have made legally by virtue of their former public office! Let's see what certain Lords have to say about Mr Carr's conduct."

Reader Heather Townsend was impressed by Elaine Clarke's *Tales from the Front Line*. She said: "Well done Elaine. I am in awe of what you have achieved and think of you as a role model to others in the profession. Keep on disrupting is what I say."

After reading *The Entrepreneurship of Sole Practice* piece, Stuart Jones wrote: "We, the ICAEW (members and senior staff) should be ashamed that 'The average annual income after tax, expenses and fixed costs is around £25,000.' How have we allowed ourselves to become so undervalued?"

But reader and ICAEW Fellow, Steve disagreed. "£25k is not so bad, I started my practice in 2010 and my GROSS fee income is £3,500 for the most recent 12 months."

Digesting the news that *Half of accountants report health issues due to overwork*, D James observed: "People need to realise they are not replaceable at home but are entirely replaceable at work. You can get other work, but good health and new families are harder to come by. It's necessary to stand up for ourselves and an employer who thinks work is the only thing in its employees' lives needs a reality check."

Mark Lee responded to the feature on how well accountancy firms fare in social media. "We all know (or should do) that follower numbers on Twitter are not the 'be all and end all'. But any statistics related to firms with less than a few thousand followers are relatively meaningless. For these large firms, the number of people with whom they engage is surely key. If it's low then the generic metrics that rank social media players are relatively meaningless; it is these metrics that drive the ranking in this report.

Plenty of readers reacted to ICAEW CEO Michael Izza's warning to members over tax avoidance schemes. "Michael Izza is absolutely right to stand up for the public interest, which is at the heart of ICAEW's role as a Chartered professional body," wrote one. "Alongside a chartered accountant's fiduciary duty to his/her clients must sit a commitment to the highest standards of ethical behaviour. The barrier between avoidance and evasion has been steadily blurred by governments and commentators in recent years. It is enormously refreshing and encouraging that Mr Izza has the courage to remind his members of their professional and ethical obligations."

But not everyone agreed. Ken Frost felt that Izza had missed an opportunity "to stand up against the media and political witch hunt that is threatening legitimate tax avoidance and the profession itself." He continued: "Instead of calling for the simplification of the tax system, which would kill many complex tax avoidance schemes stone dead, he kowtows to the pressure of the media and political witch hunt and implies that ICAEW wants members who offer legal tax schemes which ICAEW does not approve of to leave ICAEW."

In response to a piece about shadow minister for small business, Toby Perkins, calling for better SME funding, Lucy commented that there are lessons to learn from the US: "This issue is integral to the survival of British SMEs. Following the lead of the Small Business Administration in the US, and producing detailed categorisation across industry of what we mean by 'small business', is key to policy success in this area. The suggestion that we take inspiration from the US has been presented to this government on more than one occasion."

Commenting on new ICAEW president Mark Spofforth's call for the profession to rebuild trust, David said: "Being in a smaller practice, I would hope that my clients trust me to act for them professionally and ethically, otherwise they would move to another firm. What needs to be tackled at grass roots level is the loss of clients to the unqualified, who can undercut us at every opportunity due to their lack of regulation/training/insurance. I don't feel ICAEW does enough to help us, as it is generally overseen by members from the top tier firms, who are seemingly unaffected by this. Other professions are able to restrict the use of their names including solicitors, dentists and hairdressers, why can anyone still call themselves an accountant?"

**The economia website is constantly updated with news, features and breaking technical stories. To join the debate and comment on anything from the magazine or online, visit icaew.com/economia**

**Letters and comments may be edited for clarity and space.**

### TOP FIVE MOST READ STORIES ONLINE AS WE WENT TO PRESS

1 Tycoon fined for evading inheritance tax
2 Half of accountants report health issues due to overwork
2 How do accountancy firms fare in social media?
4 Diamond: Libor emails made me feel "physically ill"
5 Government accounts show falling national deficit

# Cathy Newman

# Olympic values, the front line and NHS spending

With the Olympics in town, *FactCheck* has been limbering up with a mental work-out to tone the grey matter and flex the rhetorical muscle. And where better to apply our new razor sharp factometer than the mayor of London's claim about the Games.

Unveiling the five Olympic rings to a media horde on a boat under Tower Bridge, Boris Johnson waxed lyrical about what they represented. "Look at those five rings. Baron Pierre de Coubertin said they symbolised the five great Olympic virtues of athleticism, sportsmanship, exertion, poverty, chastity… or whatever," he told me in his customarily flamboyant interview style.

To which the only response would seem to be a "hmmmm" and a wry smile, but it did pique my curiosity. What do those coloured rings stand for, or are they just giant hula hoops?

Baron Pierre de Coubertin was a French aristocrat who founded the International Olympic Committee in 1894. The rings are one of the three Olympic symbols, along with the flame and the motto Citius, Altius, Fortius (Faster, Higher, Stronger).

The five interlocking rings first appeared in 1914, when they were superimposed on a white background to form the Olympic flag. Coubertin said the flag represented the five continents of the world "united by Olympism". The six colours, he said, "are those that appear on all the national flags of the world at the present time".

So where did Johnson get the idea of those "great Olympic virtues" from? Well, it turns out there are Olympic virtues. But you won't be surprised to learn that they're not the ones Mr Johnson listed. The baron reeled off respect, fair play, pursuit of excellence, joy in effort, and balance of mind, body and will as the most crucial Olympic values. If you want to know more about the Olympic rings of truth, or listen to my interview with the mayor, go to bit.ly/NCePja.

If *FactCheck* has been limbering up for the Olympics, that's nothing compared to the planning and worrying being done on our behalf by the Metropolitan Police. But it's what happens after the Games that is most concerning. Her Majesty's Inspectorate of Constabulary has warned that the Met may not be able to provide an effective public service in the future. So how then was policing minister Nick Herbert able to claim that the HMIC report "makes it clear that the frontline of policing is being protected overall and that the service to the public has largely been maintained"?

**There are Olympic virtues. But you won't be surprised to learn they're not the ones Boris Johnson listed**

First some numbers. The HMIC says that – thanks to government funding cuts of 20% – the number of front-line officers in England and Wales will fall by 5,800, while back-office teams will lose 20,300 jobs. So the proportion of staff who are front-line officers will shift from 67% in 2010 to 74% in 2015. Hence Mr Herbert's bullish claim.

But the HMIC makes clear that "the frontline is being protected, although not preserved". In other words, although there's a greater proportion of officers on frontline duties, there are still fewer in numerical terms. And that's before we start analysing how the Met – the country's biggest force – is going to make a further £233m of cuts. It has yet to spell that out, preferring to get the Olympics out of the way first. For more, go to bit.ly/OdENxa.

Before I finish, another contentious cut – this time to the NHS. At the last election David Cameron made much of his promise to increase NHS spending year-on-year. In fact it wouldn't be too much of a stretch to say it was the linchpin of his campaign. Now, however, it's emerged he's broken that pledge. New Treasury figures show the amount spent by each government department in 2011/12. They reveal NHS spending fell by 0.02% – tiny but nevertheless symbolically significant.

The Department of Health retorts that the budget allocation is still going up in real terms year-on-year – but officials have underspent by more than £1bn. For details, have a look at bit.ly/LuyTsZ.

So that's it. Whether it's rings of truth, the thin blue line or the NHS bottom line, *FactCheck* will endeavour for the duration of the Games – in homage to Baron Pierre de Coubertin – to stay true to the Olympic virtues of excellence, joy in effort and respect.

Cathy Newman presents *Channel 4 News* and runs the *FactCheck* blog. It can be found at channel4.com/factcheck

# Jason Cowley

# Levelling the playing field in education

Amid the many U-turns that have become a defining characteristic of the coalition government, there's one senior minister who knows the direction of travel and has no intention of thrusting the vehicle of reform into reverse.

The hyper-articulate, adopted son of an Aberdonian fish merchant, education secretary Michael Gove is an unapologetic conviction politician. I first met him when we were colleagues on *The Times* in the mid-1990s and understood then he was the sort of fellow who knows what he thinks and what he wants and how to go about getting it.

He has charm as well as a single-minded determination that's a virtue in a politician for whom power is not an end in itself but a means to an end. Like Andrew Adonis, the New Labour action man and architect of the Blairite academies programme, Gove believes the way to improve children's educational prospects is to liberate schools from the diktats and funding restrictions of local authority control. Unusually for a Conservative, he has a fundamental understanding of the deep unfairness of our education system.

We like to think we live in a meritocracy and while we cannot equalise economic outcomes, we can at least reduce inequalities of opportunity. But you can't have a meritocracy when the playing field is not level from the beginning and so many children from poorer families are condemned through bad luck to a mediocre and chaotic education.

In a speech at Brighton College in May, Gove complained of "the breadth and the depth of private school dominance".

"We all live in an unequal society," he said. "More than any other developed nation ours is a country in which your parentage dictates your progress. In England, more than in any comparable country, those who are born poor are more likely to stay poor and those who inherit privilege are more likely to pass on privilege. For those of us who believe in social justice this stratification and segregation are morally indefensible."

Why for so long have we tolerated a form of educational apartheid in which the richest 7% or so buys itself special privileges while too many state schools fail their pupils? Our education system institutionalises class prejudice and disadvantage and creates a society in which people are tiresomely defined by where they went to school.

**So many children from poorer families are condemned through bad luck to a mediocre and chaotic education**

The liberal-left intelligentsia of the 1960s believed the creation of comprehensives and the abolition of grammar schools would revitalise Britain. The great taboo was selection: children who passed the 11-plus (often those from aspirational middle-class families) enjoyed all the advantages of a rigorously academic grammar school education while the "failures" went to secondary moderns, which were inferior in every sense.

But too many comprehensives for too long were simply not good enough. Labour was correct to challenge the status quo in 1997 by encouraging schools, especially those that were failing, to become academies. Since being elected in 2010, the coalition has accelerated the academies programme. There are currently 1,957 open in England, accounting for more than half of all secondary schools; when Labour left office in May 2010, there were just 203. In addition, there are currently 24 so-called free schools (which are essentially academies by another name) with an additional 79 due to open in September.

Gove can at times sound like Dickens's Mr Gradgrind as he proselytizes about the benefits of a traditional academic education. He believes increased competition and parental choice are as necessary for state schools as for private – if parents choose to go to a popular academy, it should incentivise the less popular schools in the area to improve. Freedom over funding and staff pay allows headteachers to attract and retain good teachers as well as business sponsorship. Teachers know better than civil servants what to teach, so schools should be free to innovate (within the national curriculum). Controlling the length of the school day allows more lesson time.

Academies are popular with parents. Gove's course is set and Labour, if it wins the next general election, is unlikely to reverse it. Could this be part of the solution to our "morally indefensible" education apartheid?

Jason Cowley is editor of the *New Statesman*

# Julie Meyer

# The era of ecosystem economics

Whether you're a start-up or an FTSE 100 corporation, your success is tied to your ability to understand, and partner with, your natural allies in the market. You can no longer think of yourself as a silo, or a sole trader, or a standalone business. We live in a networked world. It took 89 years for the fixed-line telephone to achieve an adoption of 150m users, and 38 years for the TV to get to the same point. The mobile phone achieved it in 14 years. The iPod in seven. Facebook in five.

Today's technology behemoths – Apple, Amazon, Google and Facebook – have achieved dominance because of several factors. First, they understand that consumers, not enterprises, are adopting their products and services (even if ultimately the consumers import their phones and tablets into the office). Second, and more important, they are organising the economics of the markets and the industries in which they operate.

Take Apple. Steve Jobs's legacy will be about the beautiful products his team created as well as the fact that he took on two industries where innovation was stifled in the early part of this century: music and mobile carriers. He invented a revolutionary business model that cut in the little guys: the artist; the publisher; the consumer of music; and the developer. By giving everyone a share of the pie, Jobs changed the way the game was being played.

Or witness Monitise, the mobile payment technology specialist founded by Alastair Lukies in 2003. The genius of Monitise was not to attempt to disrupt the banks, but to enable them. Lukies helped the banks get into the world of mobile money. His partnership with VocaLink in the UK, where Monitise originated, gave him a rail into the banks' systems. From there, he was able to get any mobile banking transaction to be treated as "just another ATM transaction", a piece of technological and business brilliance.

Lukies knew that if mobile money was going to be an industry, it would have to work for everyone including the banks, mobile carriers and users. He thought long term. He dared to believe that he could create an industry and that a simple "win, win, win" attitude could create a monster firm. Today, Monitise powers more than 250 financial institutions. Its services are used by someone in the world every 20 seconds. Visa has backed Monitise four times; other institutions such as Standard Chartered Bank, PCCW and Flemings and Co have also become shareholders.

**Businesses that are dominant organise the economics of the markets in which they operate**

Another example is BeatThatQuote, the price comparison website started by John Paleomylites in 2005 and snapped up by Google for £37.7m in March last year. Ever wondered why a billion-dollar company would pay that much for a newcomer with an EBITDA of only £250,000? It's because Google felt threatened. Its own business model offered consumers no economic benefit for their personal data – it was hoarding the lion's share of profits. BeatThatQuote, on the other hand, had developed an innovative business model, offering cashback deals to customers. It was reshaping the whole financial services price-comparison sector, and its strategic value was massive.

There are always natural allies for your success, but you may have to think laterally and find the adjacent, non-obvious players for your game of chess. And remember: the game can change in an instant. At the time that Skype was climbing towards 10m users daily (late 2004), I sat at a lunch with the CEO of a major incumbent telco. He dismissed Skype as a "young start-up" and failed to grasp that the telecoms world was in freefall.

If you can share the investment into building an ecosystem, keep the customer top of mind and focus on growing the pie as opposed to defending existing revenue, you have a good chance of winning. Users will always flock to the systems that incentivise them to participate.

The next decade will see the emergence of new business ecosystems in smart cities, mobile money, digital health and broadcast media and entertainment. Business is no longer a zero-sum game: companies will expand when more people are able to participate and share the economics. Winning today is about imagining and orchestrating the economic model for your sector.

**Julie Meyer is the CEO of Ariadne Capital and a member of the *economia* editorial advisory board. Her new book, *Welcome to Entrepreneur Country*, is available now. bit.ly/W2EnCountry**

# Letter from America

## Obamacare is bitter medicine for small business

**The latest insight on America from Christopher Alkan, our insider in Washington**

Barack Obama's landmark healthcare reform has survived. Much to the disappointment of the president's opponents, the Supreme Court ruled on 28 June that the controversial law did not violate the constitution. That delighted many Americans. The nation's medical service is a sickly creature. About 50m Americans do not have health insurance – that figure is equivalent to roughly the population of England. To make matters worse, healthcare spending gobbles up a larger share of income than in any other nation. Medical spending swallowed 17.6% of GDP in 2010, compared with a rich nation average of just 9%, according to the latest data from the OECD. And America gets a mediocre outcome for this lavish spending. The World Health Organization ranks the quality of healthcare in the US as 37th in the globe.

But while healthcare urgently needed reform, many groups were desperately hoping that America's top court would strike down the law. The primary purpose of Obama's overhaul is to provide more Americans with insurance. Much of this will be done at the expense of businesses, especially small ones.

Individuals will bear part of the burden. Those who lack coverage will be forced to buy it, or pay a penalty. Still, it will also become compulsory for any firm with more than 50 employees to offer insurance to its staff.

Large companies typically already do this, so the main burden of the new law will fall on small businesses. This won't come cheap. The average cost of providing healthcare to a worker is $7,000 a year, according to the Cato Institute. A business with 150 people, for example, faces a $1m a year healthcare bill. This will be a deterrent to hiring, business groups claim. Given that the law kicks in at 50 workers, it also gives companies a perverse incentive to stay small. For a firm with 49 workers, hiring that extra employee will cost $350,000 a year in added healthcare costs – since they will then have to cover the entire company.

France, where firms are also obliged to offer certain benefits once their payroll rises above 50, offers a cautionary tale. The country has 1,600 companies that have 49 employees but only 660 that have a staff of 50 or more.

Wealthy business owners – both large and small – have another reason to dislike Obamacare. To offset part of the cost of the reform, which is expected to total $1.2trn over the coming decade, Congress imposed a net 3.8% tax on investment income. The new levy will hit anyone with an income of over $200,000 a year. For example, the tax on capital gains and dividends will rise from 15% to 18.8% – or even more if George W Bush's tax cuts are allowed to expire.

Mitt Romney, the Republican presidential nominee, has promised to scrap the law if he wins in November's race. This is mere posturing. To do so he would need to win 60 seats in the 100-member Senate, an almost impossibly high hurdle. So, much as they might hate Obamacare, small businesses will have to live with it.

# THE MAKING OF MEXICO

A new government, the G20 summit and a growing economy have set up Mexico as the gateway to international business with Latin America. But, says **Nick Martindale**, there are still challenges to overcome


Above: Christine Lagarde at the G20 summit in Mexico in June 2012. Opposite, clockwise from top left: Palacio De Bellas Artes, Mexico City. Shopping mall security guard. Soumaya museum, Mexico City. Waiter with tequila. Gabriel Orozco house at Roca Blanca. Nestlé's Research Laboratories, Queretaro

In June, Mexico became the first Latin American country to host the G20 summit. Arguably as important as the discussions on economic stabilisation, financial reform, employment, food security and climate change was the spotlight it shone on the country as a business destination and increasingly prominent player in the global economy.

After a contraction of 6.2% in 2009 on the back of the global economic downturn and the H1N1 swine flu epidemic, said to have originated in the country, Mexico has seen a strong recovery. The economy grew by 5.5% in 2010 and 4% in 2011 and is forecast to grow by a similar percentage this year.

Interest rates and inflation remain low. The former remained at 4.5% in April and HSBC predicts the latter will average 3.9% for the year. The bank also predicts Mexico will become the world's eighth largest economy by 2050.

"The recovery from the crisis has been better than anticipated," says Rodrigo Aguilera, Mexico analyst at the Economist Intelligence Unit. "Last year it grew more than Brazil and may do so again this year. Mexico has a weaker currency so is benefiting from exports. The US is also recovering at a decent pace and that's benefiting Mexico."

Exports such as TVs, refrigerators, mobile phones and home appliances are a big driver of this growth and 78% of these are to the US, according to HSBC. Mexico is the world's fifth largest exporter of vehicles – the value of these is twice the vehicle exports of Brazil and India combined, according to business group ProMexico.

## TRADE LINKS

Much of this success has come from the country's location on the US border and as the gateway to South America, as well as the policy of free trade over the past 20 years. The country now has 11 trade agreements giving it favourable terms with 44 countries, including membership of the North American Free Trade Agreement (NAFTA), a similar arrangement with the EU and deals with a host of South American countries. Mexico is negotiating an export agreement with Brazil and planning to join the Trans-Pacific Partnership. Its appeal as an export location and manufacturing base has increased further recently as wage inflation narrows the gap with China. "There's barely a differential now and in some cases China is as expensive as Mexico, with high transportation costs," says Judith Macgregor, British ambassador to Mexico. "Some companies have moved their production back."

The country enjoys a cost advantage of 18% over the US as a manufacturing location, according to a KPMG survey conducted across 17 industries.

Mexico was the leading receiver of foreign direct investment in aerospace between 1990 and 2010, and renewable energy, agriculture, tourism, mining and the creative industries are key sectors.

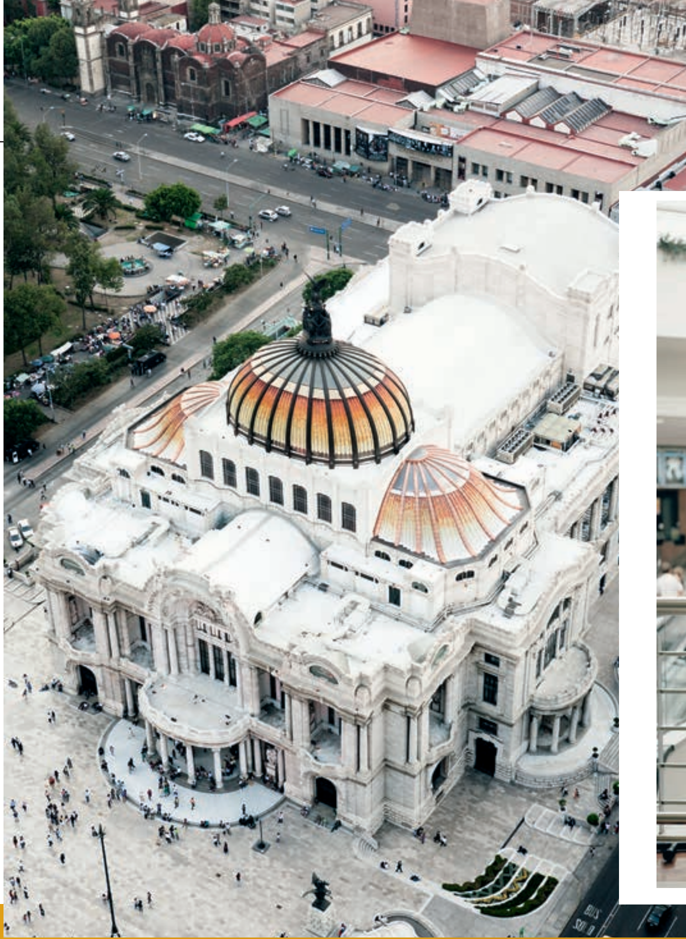
## YOUNG POPULATION

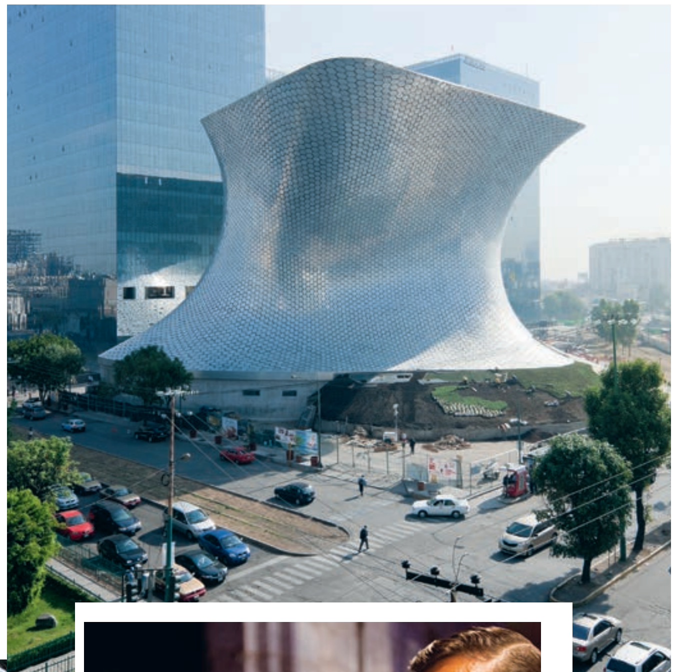
Many British businesses have already started up in Mexico, attracted by the young population and an established middle class. Retailers Lee Cooper, Ben Sherman and Accessorize all launched operations last year. The opportunities from the domestic market, though, are not as attractive as they could be. Unemployment has fallen from its peak in 2009, but the job market remains fragile. Telecomms and energy, which should be ripe for investment, remain controlled by monopolies or just a few companies.

The country is well set up to attract foreign firms. VAT, set at 16% and falling to 11% in border regions, is not charged on exported goods. Imports held in bonded warehouses are also exempt until the point at which the end-customer takes delivery – and with that the tax obligation. Corporate tax stands at 30% but will fall to 29% in 2013 and 28% next year.

The demographics of Mexico also appeal. More than 100,000 engineers and technicians graduate from science and technology programmes each year, while the average age of the country's 115m people is 29. By 2030, there will be more than 60m people of productive age, estimates ProMexico. The country invests 5% of its gross domestic product into infrastructure projects, but this follows years of underinvestment. And to date the private sector has been unwilling – or unable – to fill the gap.

"There are large structural bottlenecks that are stopping Mexico from growing faster, especially in





CORBIS, GALLERY STOCK, IWAN BAAN

the energy sectors where the infrastructure is poor," says Aguilera. "There's also the issue of how they focus the spending. There is talk of high-speed trains, which will make Mexico look modern, but how much it would improve the overall economy is debatable."

The domestic economy is also an ongoing concern. "A million jobs need to be created each year to cope with demand and the domestic economy is only meeting half that at the moment," says Macgregor. "Education also needs to be improved and some rigidities in the labour market need to be addressed."

Mexico also suffers from the issue of organised crime and the extreme violence that goes with it. "The service sector has been hit hardest," admits Aguilera. "The border towns used to get US citizens crossing over and now they don't, so businesses have shut down. In manufacturing there's not been such an impact, although foreign investment is not as high as it was in the early 2000s." The G20 summit should be a starting point in achieving the international buy-in to wider measures that will be required to tackle the underlying causes.

Food security is a case in point, says Yves Hayaux Du Tilly, chairman of the Mexican Chamber of Commerce in Great Britain. "Most of the challenges are global and multinational, even if the consequences are felt in one country," he says. "Organised crime is a reflection of a serious international problem."

In the longer term, Mexico needs to assume regional leadership within the Latin American community, politically and at a business level, he adds. "I see a new era where Mexican and Latin American businesses take advantage of the opportunities from Europe," he says. "A link between Mexico and the UK, with the UK as the gateway to Europe and Mexico as the gateway to Latin America, would certainly appeal."

## BUSINESS THE MEXICO WAY

Nick Rines, CEO of the Institute of Diplomacy & Business, explains Mexican business etiquette.

**Body language is one potential flashpoint. "There is more eye contact," he says. "An inability to meet someone's eye can be interpreted as a sign of being untrustworthy."**

With the exception of multinational companies, relationships in Mexico revolve around personal contacts within a strictly hierarchical business model. "In Mexico the boss is the boss," says Rines. "Delegation and interpretation of tasks is not normal."

**"Meetings often start and finish late and agendas are ignored," says Rines. "Discussions go off at tangents with raised voices and bold use of body language. Such behaviour should be interpreted as enthusiasm and within professional boundaries."**

## NEW GOVERNMENT, NEW ERA

In July, the return of the Institutional Revolutionary Party (PRI), which governed Mexico for 71 years until it was forced from office in 2000 amid allegations of corruption and financial irregularities, marks a new era in Mexican politics.

Elected on the back of a promise to promote economic growth, Enrique Peña Nieto (above) immediately pledged to create a "renewed free market with social sensitivity".

The party, though, has a history of government intervention, says Rodrigo Aguilera, Mexico analyst at the Economist Intelligence Unit. "They're inspired by Brazil so there'd still be a free market but they also see an important role for the government and have talked about having a national development bank," he says.

One area where there could be change is in the energy sector, which is crying out for foreign direct investment, says Aguilera. "I'm not sure how far they can get because a lot of political capital is needed but it would be a step in the right direction," he says.

Other items up for debate are likely to be fiscal reform – personal tax rates are low, while the country relies heavily on revenues from its state-owned oil company – and labour reform, with a large proportion of the population engaged in informal work.

> Peña Nieto pledged to create a "renewed free market with social sensitivity"

Among Peña Nieto's campaign pledges was a commitment to increase economic growth to 6% a year, create jobs and shift the focus in the drugs war towards reducing violent crime rather than directly targeting drug lords.

The election of Peña Nieto in place of Felipe Calderon marks a redemption for the PRI, which had been seen by Mexicans as aloof and increasingly out of touch towards the end of its last term. However, there is likely to be a brief honeymoon period for the new administration and long-held mistrust may have been a factor in the poll results, where the margin of victory was significantly lower than opinion polls had predicted right up to the eve of the election.

"The president needs to understand that civil society will be monitoring and auditing what they do so they can't promise whatever they want," warns Yves Hayaux Du Tilly, chairman of the Mexican Chamber of Commerce in Great Britain. "They will be required to deliver."

Left-winger Andres Manuel Lopez Obrador of the Party of Democratic Revolution was second in the election. The real loser was the outgoing National Action Party (PAN), led by Josefina Vázquez Mota, which had governed Mexico since 2000 and was punished for failing to get to grips with the country's drugs problem.

GALLERY STOCK, GETTY IMAGES

# ARE YOU NEGLECTING MOBILE INTERNET USERS?

British businesses are working hard to create visibility for themselves on the Internet and adapt to the needs of the online consumer

Worringly, only 7% of firms were confident they have optimised their websites for mobile usage

**Richard Stevenson**, head of corporate communications, 1&1 Internet Ltd, 1and1.co.uk, a global leader in web hosting

While business and accountancy professionals will always be most concerned with the standards of their work and advice, no accountant or financial consultant these days can afford to neglect their business development. There is clear evidence that more people are browsing the web on the go with devices such as the iPhone, BlackBerry or Android phone. For example, IDC, a global provider of market intelligence, saw that in the final quarter of 2010, Smartphones surpassed global PC shipments for the first time in history (100.9 vs. 92.1m units).

Research shows that a worrying number of UK firms – including accountants – may be at risk of losing the audience they worked hard to acquire as consumers now switch to browsing the Internet from a mobile device.

Despite 64% of small business owners having used a mobile device to surf the web in their private lives, more than half (53%) have not yet checked the appearance or functionality of their own business website using this method.

The smaller screen and touch functionality of mobile devices can often make it necessary to adapt the design of websites. Furthermore, a significantly higher number of operating systems and browsers have to be supported as compared to local hardware like PCs.

From businesses that have examined their web presence from a mobile, 41% admit their website has a reduced appearance from a mobile device, and 36% know of reduced functionality. Worryingly, only 7% of firms were confident they have optimised their websites for mobile usage, while 65% have no plans to do so.

It appears that many UK business owners today place a low importance upon whether their website can be used comfortably from a mobile device. Only the minority of owners (18%) believe that a mobile-friendly website would positively impact sales revenue, 23% recognise a link to brand enhancement, and 31% feel it could provide access to a broader range of customers.

Some 43% of owners agree that an optimised website could make a difference to the overall visibility of a business. The figures suggest that complacency on the issue has the potential to place firms at risk of losing website visitors and failing to engage with consumers. Thus, it is perhaps unsurprising that mobile-friendly website features are still not commonplace.

Remarkably, only 1 in 4 firms have a location map on their website, or have location listings on popular search engines such as Google.

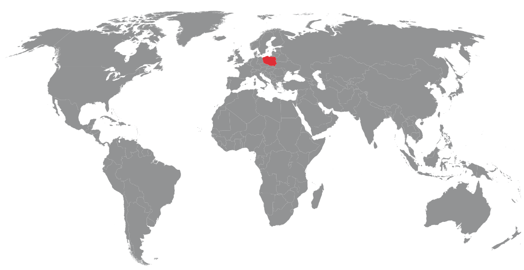
Interestingly, the level of optimisation for mobile devices varies on an international scale. Spanish business owners are most likely to have checked their website for mobile usage (58%), while German firms are the least likely (31%). French companies have made the most effort to optimise the design of their websites (13%).

The data shows that many UK websites have not yet reached the smartphone age. Accountancy professionals must ensure that when their website is viewed on a mobile, it loads promptly, functions correctly and comprises an attractive and fitting representation of them.

**Tools for the mobile web**

Today there are website packages aimed specifically at helping small businesses such as accountants and financial consultants launch a compelling and effective website in minutes. In particular, there are packages from around £10 a month that provide a choice of industry-specific templates and content, such as those for accountancy, that deliver a website automatically optimised for display on popular smartphones.

Every accountancy or financial services firm must ensure they are online whenever and wherever their customers need them. By accommodating the mobility of their online audience, customer loyalty and spend can be enhanced. On-the-go web access is a trend that can be used to an accountant's advantage.

# Poland

## AT A GLANCE

With a highly educated population, prime position in central Europe and rapidly improving infrastructure, Poland is open for business, says **Joe Smoczynski**

### VITAL STATISTICS

**POPULATION:** 38,415,284 (July 2012 est.)
**CAPITAL:** Warsaw
**FULL NAME:** Republic of Poland (Rzeczpospolita Polska)

### ECONOMIC STRENGTH

**GDP PER CAPITA:** $20,100 (2011 est.)
**EXPORTS:** $197.1bn (2011 est.)
**IMPORTS:** $217.9bn (2011 est.)
**EXCHANGE RATE:** £1=5.308PLN (Polish Zloty) (8 Jun 2012)

### PROFILE

Poland has stayed out of the red for 20 years and having avoided recession, is Europe's fastest growing economy. Its robust business law framework, created after the peaceful revolution of 1989, has silenced criticisms about doing business in Poland that beset its neighbours. The country has had some success in creating a market economy and attracting foreign investment but agriculture, which accounts for 60% of the land area, is inefficient and poverty is widespread in rural areas.


PANOS

## HISTORY

Having had various borders and rulers since before the 17th century, Poland's recent history starts with independence in 1918. Infamously invaded by Germany in the Second World War, it was run by the Soviet Union in the aftermath as a Soviet satellite state. Turmoil in 1980 led to the formation of trade union Solidarity, which took control of parliament in the first democratic elections in 1989 and 1990. Poland joined NATO in 1999 and the EU in 2004, leading to widespread emigration of workers.

## DOING BUSINESS

Poland has adopted many EU directives and setting up companies, filing taxes and raising funds via banks or the Warsaw Stock Exchange are routine. A basic personal income tax of 18% rises to a maximum of 32%, while corporate income tax is 19%. Its largest trading partner is Germany and trade with the UK is increasing. The workforce is well educated and most graduates have a master's degree and language skills.

## GETTING AROUND

The Euro 2012 tournament was a carrot to the Polish government to carry out an overdue road upgrade with 2,800km of new expressways and motorways. Some contractors missed the June deadline for travelling football fans, but the roads will be finished this year. Rail travel is easy between the major cities, but can be slow due to upgrade works. Air travel between Polish cities competes well with the national rail network on time, price and service.

## ACCOUNTANCY

Since 2011 ICAEW has had a memorandum of understanding with KIBR (the National Chamber of Statutory Auditors) to collaborate on broader technical and regulatory exchanges. ICAEW has regularly provided keynote speakers for KIBR's annual auditing conference in Jachranka, which gathers several hundred KIBR members. ICAEW also has good relations with SKwP, the Accountants Association in Poland, and maintains regular dialogue on education, training and other professional matters.

## WORK, LIVE, VISIT

English is widely spoken, so living and working in Poland is straightforward. A well-developed culture, stunning landscapes and long, hot summers, mild autumns and clear winters all add to the appeal. The south boasts mountains for hiking in the summer and skiing in the winter, virgin forests containing European bison and hundreds of lakes. There are long sandy beaches in the north, where, in the summer, the sun rises early and sets late.

# OUT OF THE ORDINARY

Successful director and company chair Alison Carnwath says making decisions is easy – even if they aren't the right ones. She talked to **Helen Roxburgh** about some of her more controversial choices – days before the Barclays affair erupted

There are few people more qualified to comment on life in the boardroom than Alison Carnwath. Her CV includes 20 years as an investment banker, 30 years serving on executive boards, her current role as chairman of Britain's largest listed property company and until recently, the only director on the board of three FTSE 100 companies at the same time.

This latest change in status was only precipitated by Man Group dropping into the FTSE250 at the end of June, and is no indication of Carnwath slowing down. In fact, she is more embroiled in the machinations of the City than ever.

As chair of the remuneration board of Barclays, she took partial responsibility for the decision to award chief executive Bob Diamond a £17.7m pay package in April 2012 in the midst of the "shareholder spring", including a £5m tax payment paid on his behalf by the bank.

Since Carnwath spoke to *economia* in June, Diamond and two other senior Barclays executives have been forced to resign. Diamond blamed the "external pressure" that had built up on Barclays in early July after MPs called for his resignation, and the government announced an inquiry into the LIBOR-rigging affair (see box, over the page). Her corporate roles have not won her any popularity awards. Before he became deputy prime minster, Nick Clegg attacked her as the embodiment of "crony capitalism", and in the left-wing press she has been repeatedly dubbed a "serial non-executive". She admits ruefully: "They haven't been the kindest journalists. But I've had a lot of visibility because of my activities on some of these very interesting boards. So it's par for the course."

Politics aside, she remains a force to be reckoned with. Hers is one of those personalities that impresses as soon as she enters the room, and her enthusiasm and excitement for the financial world is unsullied where many have become cynical.

"Welcome to our humble abode," she greets me cheerfully in the slick Mayfair offices that advisory firm Evercore, where she is senior advisor, has just moved to. She lives in Devon, with her husband, but spends much of the week at their second home in London, which they have been able to maintain, she says with a wry smile, "because of my ill-gotten gains as an investment banker".

Not that she is there much; several of the boards she sits on are international and she spends a lot of time in the air. "I know everyone gets fed up with sitting on aeroplanes,

"If I put Joe Bloggs, a good guy who drives a taxi, on the remuneration committee, I don't see how that would work. You have to have some sensitivity to how businesses operate and their culture"

Words: Helen Roxburgh Pictures: Philip Sinden

because our elders and betters have told me you do," she says. "But I haven't yet." It's hard to imagine who she thinks these betters are, for Carnwath has certainly earned the tag of "City veteran".

Concurrent with her positions at Barclays, Man Group and Land Securities, she is also on the board of insurance giant Zurich, US technology company Paccar and ISIS private equity partners, which owned fashion brands Fat Face and Bonmarché. Previous directorships include companies as diverse as Friends Provident, Glas Cymru, Gallaher and Welsh Water.

She's been on both sides of the boardroom table. After completing a degree in economics and German, she decided she wanted to get a professional qualification – "It was a toss-up between accountancy or law, but I liked that with accountancy you got to train on the job". She qualified at Peat Marwick (later to become KPMG); moved from there to Lloyds Bank, and then to Schroders for 10 years, which she describes as "one of the most enjoyable parts of my life".

When we met in June, the Barclays LIBOR scandal was yet to unfold, but the bank is nevertheless central to our conversation. She refuses to comment on press speculation that she was not initially in favour of the mammoth payout for Diamond, although is willing to admit that the board might have "got it wrong" in terms of his pay.

"You have to keep a lot of the key indicators at the front of your mind when you look at overall pay packages in a bank," Carnwath says. "What is the return on equity, the revenue line, the efficiencies? Is the bank taking costs out? Can a bank like Barclays return to an adequate level of return on equity so the shareholders get a proper return?

"When it comes to the top echelons of Barclays, obviously the remuneration committee has to make its own decisions, and there are a lot of pressures that come to bear. It's not easy, and we don't always get it right. We clearly didn't get it right this year. The shareholders were a little upset, although they weren't upset in the same way as we've seen at other companies; our proposals did get through. But, whereas in previous years we would have got perhaps 85% voting in favour of our remuneration report, this year it was just over 70%. So clearly there were some major institutions that were not in agreement with what we did, and we must try to communicate better."

The 31% of Barclays shareholders who rejected the package in April would agree. Although it wasn't enough to get the report voted down, it did send a warning to boards around the country. And 24% voted against Carnwath herself.

Her role at Man Group has also been under close scrutiny amid this rising wave of shareholder activism. The shareholder advisory body ISS recommended its pension fund clients vote against Carnwath's re-election to the board in May, on the grounds that she is no longer independent, after 11 years at the group. The vote saw 33% of investors failing to support her. In spite of the wave of criticism, she maintains that a delicate balance has to be found between remaining competitive and keeping pay packages in check.

"You'll say that I would say this anyway," she says, with that characteristic grin, "but I'm still going to say it. These jobs are hard. To be chief executive of a plc is a 24/7 job that people do normally when their families are growing up, with a lot of stress." But a lot of jobs are stressful, and we don't all get rewarded for time away from our children with a six-figure-plus salary.

"I agree with you," she says emphatically. "I'm very sensitive to the general feeling out there, when people are miserable and unemployed. [At Barclays] we definitely tried to take into account the political mood and the mood in the country."

There have been failings in remuneration committees, she admits, and there are more pressures coming to bear than there used to be, with the new government pressures and European regulations. "It's a more time-consuming job than it used to be, and they've got to engage with shareholders better."

The government has been trying to tackle this question. It is proposing to limit the number of boards executives can sit on, in a bid to tackle the perceived "old boys' club" culture.

Carnwath is unconvinced. "Without wishing to be unduly cynical about our politicians, you sometimes feel that some of these areas that they are getting themselves involved in are partially to fight their own political battles, as opposed to being that well informed about the banks.

"I think to have people on remuneration committees who have very little experience of how remuneration works is a bad thing. So, where do you source these experienced non-executives who know about remuneration? Well, they will be either people like myself who have sat on a number of remuneration committees, or they will be executives who have retired who will have understood completely how the companies they used to work in structured their remuneration, or they will be existing executives. If I put Joe Bloggs, a good guy who drives a taxi, on

## CAREER HIGHS

- 1975 joins Peat Marwick (now KPMG), qualifies as an ICAEW Chartered Accountant in 1979
- 1980 Joins investment banking arm of Lloyds Bank International
- 1983 joins J Henry Schroder Wagg & Co, the investment banking subsidiary of Schroders, joining the board in 1988 as corporate finance director
- 1993 Senior partner in the corporate advisory Phoenix partnership, acquired by DLJ in 1997. Becomes MD of DLJ in New York until 2000
- From 2000 to 2005 as chairman of the board of Vitec Group plc
- 2001 appointed director of Man Group
- 2001 to 2006 a director of Welsh Water
- 2004 to 2007 director of Friends Provident
- 2004 to 2007 director of Gallaher Group
- 2008 appointed chairman of Land Securities
- 2010 joins the board of Barclays
- 2011 joins the board of Zurich Insurance Group

> "I find making decisions quite easy, but it doesn't mean to say I've always been right. I think people who always think they are right are probably quite often wrong"

the remuneration committee, I don't see how that would work. You have to have some sensitivity to how businesses operate and their culture. You have to understand the business.

"I think the government and media emphasises too much that X is a chum of Y, and X sits on another company board with Y, and they can dictate the pay because they are all in some sort of club. I think that's slightly old hat these days."

But she admits: "None of us can be proud of how all this was portrayed to the great British public." She's keen to point out that she is aware of the mood in the country, and what "people have had to put up with, ordinary people like you and me. When I'm not doing my job I'm an ordinary person.

"But, remuneration and risks aside, to sit on the board of somewhere like Barclays, you have a window on how the world is working. You see where the capital flows are around the world, you see where the liquidity is, and you see where the stresses are in the financial system." Like any ordinary person, she worries. "I sometimes wake up worried – or don't go to sleep at all because I'm anxious," she says. "That's not so good. Last night I lay awake fretting about something. I then have to stand up and somehow all the worry drains out of my feet, or I write things down.

"I find making decisions quite easy; but it doesn't mean to say I've always been right. I think people who always think they are right are probably quite often wrong. I'm happy to be in business with people who get things wrong occasionally; I certainly want to hear people admit they've not got things quite right at times."

But she must be doing something right. The companies she represents have backed her to the hilt in the face of public criticism. Land Securities recently hailed her as a "great chairman" and it saw profits rise 9% to just shy of £300m. "Oh yes, print all of that," she smiles. "We are optimistic; we're making good strides. The "Walkie Talkie" is going up a foot a week," she says, gesturing out of the window to indicate Land Securities' flagship City development at 20 Fenchurch Street.

"Will there be another property bubble? History tells you that there will. In terms of Land Securities, I think we are better prepared, with better indicators, better risk management controls. But human nature does sometimes take over." Her enthusiasm for banking is obvious. Peat Marwick was "wonderful", Schroders was "very exciting" (despite the fact that "the hours were often very difficult, very long,"), and her time spent at niche partnership Phoenix Securities, which was later sold to US investment bank Donaldson, Lufkin and Jenrette, was a "very interesting time".

But after selling the Phoenix partnership and taking her share of the sale, she knew her investment banking days were over. "I just decided that after 20-plus years in investment banking, I'd find something else to do. I hadn't a clue what. If you get up in the morning and you don't want to go to work, and that happens for six weeks or so, then it's time to go. I knew I could survive pretty well without doing much at all, but that wasn't my mindset. I wanted to get back into doing something. So I decamped to Devon and got involved in all sorts of strange and unsuccessful ventures, some which I made money on, some I lost money on. That's par for the course."

Inevitably, she was lured back to the City. "One or two people called me up and were wondering if I'd like to come and sit on their boards," she says. "I don't really know how this arose, but it became my life, a combination of sitting on public company boards, domestic and international, and private equity, which I think is a fantastic business."

It's her appointment as chair of Land Securities in 2008 of which she is most proud. "It was the proudest moment of my career," she says. "It's such a fabulous, modern company. It understands about corporate responsibility and sustainability and it's such fun." And the worst moment of her career? "I've had some dark moments, but I don't really want to talk about them." And with that, she brings the interview to an end.

## DIAMOND LOSES HIS SHINE

Barclays found itself at the centre of an international financial scandal last month when it emerged traders had been fixing lending rates to favour the bank's interest rate derivatives. The bank was fined £290m by authorities in the US and the UK for manipulating the Libor and Euribor rates.

In the face of a public and political outcry, chief executive Bob Diamond and other senior executives handed back bonuses as a sign of "collective responsibility". It was not enough to quieten the scandal, and a week later Barclays chairman Marcus Agius resigned, saying the "buck stopped" with him. It didn't, and the following day Diamond also resigned, followed by COO Jerry del Missier.

Barclays promised a "root and branch" review, and Agius was charged with finding a replacement for Diamond, with former KPMG International chairman Sir Michael Rake.

The resignations were only the beginning. Accusations were levelled that the Bank of England and former Labour government ministers knew about the rate-rigging scandal, and that the Bank had pushed Diamond into resigning.

A parliamentary inquiry to investigate the scandal was called and will be chaired by Andrew Tyrie, head of the Treasury Select Committee.

Naturally, focus turned to the pay-off Diamond was likely to get from the bank as a golden goodbye, rumoured to be as high as £25m.

> "I find making decisions quite easy, but it doesn't mean to say I've always been right. I think people who always think they are right are probably quite often wrong"

the remuneration committee, I don't see how that would work. You have to have some sensitivity to how businesses operate and their culture. You have to understand the business.

"I think the government and media emphasises too much that X is a chum of Y, and X sits on another company board with Y, and they can dictate the pay because they are all in some sort of club. I think that's slightly old hat these days."

But she admits: "None of us can be proud of how all this was portrayed to the great British public." She's keen to point out that she is aware of the mood in the country, and what "people have had to put up with, ordinary people like you and me. When I'm not doing my job I'm an ordinary person.

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Diamond gave up bonuses worth up to £20m after resigning, but will receive a full annual salary and benefits worth in excess of £2m.

# THE BANK THAT LIKES TO DO GOOD

Once a dominant player in developing countries' finance, the World Bank is in danger of doing itself out of a job. **Christopher Alkan** asks whether it can reinvent itself

**$276bn**
Total World Bank capital

**$57bn**
World Bank contribution to developing countries in 2011

**The World Bank** – the globe's largest anti-poverty agency – has a new chief. Jim Yong Kim, an activist doctor whose five-year term began on 1 July, will have his work cut out for him. Running the 9,000-employee development powerhouse has always been one of the toughest jobs in the world, and a successful bank chief must be in almost equal measures a diplomat, financier and intellectual.

How to lift people out of poverty – the Bank's main mission – remains one of the enduring mysteries of modern economics. A vast body of research and experience fails to provide any simple lessons. Like his 11 predecessors as Bank president, Kim will need considerable diplomatic poise. The organisation has 188 member nations all wanting a say in how it works. With a loan book of roughly $200bn, it is a formidable financial institution. Last year alone it committed $57bn to developing nations.

As if this were not challenge enough, the World Bank has gone through something of an identity crisis in recent years. Not long ago it was the biggest single source of lending for many poor countries, funding everything from massive dam and road projects to health and education plans. Recently, however, some of its most reliable clients – notably China and India – have become less reliant on its largesse. Meanwhile, the World Bank is left with crisis-ridden states like Sudan and Haiti, some of the hardest nations to assist. As its financial importance shrinks, the World Bank has needed to forge a new role.

**$200bn**
Value of World Bank loan book

At the heart of the Bank's soul searching is a surprising statistic. Despite a global recession and surging food prices, poverty has been falling in all parts of the globe for the first time since the World Bank started collecting figures in 1981. In 2010 the number of people living on less than $1.25 a day – the Bank's definition of extreme poverty – was about half the level it was in 1990. As a result, the world hit the United Nations' target of halving poverty between 1990 and 2015 five years ahead of schedule. The share of the world's population below the poverty line has plunged from 43% in 1990 to 22% in 2008.

**$100bn**
World Bank lending to developing nations 2009/10

**$110bn**
Chinese lending to developing nations 2009/10

The biggest progress has been made in China. This nation alone has managed to lift 660 million out of poverty since 1981. But China is not the only nation to be making economic progress. Developing nations through Asia, Africa and Latin America have been enjoying far faster rates of economic growth. "The reward has been ready access to international capital markets, which has meant that World Bank money is less important," says Claudio Loser, a former director of the Western Hemisphere for the International Monetary Fund. Last year the Bank's net funding for middle-income countries, such as Turkey, was a mere $8bn. That compares to $910bn in private inflows into emerging markets in the same year, according to the Institute for International Finance.

In fact, China – which has amassed $3.3trn in foreign exchange reserves – has even emerged as a rival source of development aid. Between 2009 and 2010 the Middle Kingdom actually lent more to developing nations than the World Bank – $110bn to the Bank's $100bn.

New World Bank president Jim Yong Kim said he was "humbled and inspired" to take charge, and talked of helping nations "design and implement longer-range strategies for sustainable, inclusive growth"

## ICAEW AND THE WORLD BANK

Even the most globetrotting accountant seldom has occasion to fly between Blantyre and Lilongwe – the two largest cities in Malawi. Yet ICAEW's growing relationship with the World Bank – the globe's leading poverty-fighting agency – has taken its staff as far afield as Tanzania, Ghana, Botswana, Croatia and Bangladesh.

Since 2007 ICAEW has won seven contracts from the World Bank to help shape up accountancy in developing countries. The World Bank believes that a healthy accountancy system is an important ingredient in creating a modern economy and reducing poverty. The rationale is that for companies to expand and create jobs, their financial statements need to be widely trusted. And a corporate system plagued by frequent scandals is less stable.

"Having an accounting system that works is a small but important step on the path to development," says Vernon Soare, ICAEW's director for professional standards and the point man for World Bank contracts. "Countries are always competing for international investment and so anything that can be done to boost confidence is helpful."

The World Bank specialises in helping nations create the financial and legal architecture necessary for a flourishing economy. As part of this work the Bank conducts a troubleshooting exercise called the *Reports on Observance of Standards and Codes* to identify weaknesses that might be slowing growth. All told, about 70 nations have undergone such a health check. When this process turns up a deficiency in the accounting profession, the Bank seeks bids from accounting organisations around the world to advise its client nation on how to remedy these flaws. ICAEW has now won many of these contracts in a competitive tender process. "Our aim is not to impose our standards on a nation, in a neo-colonial way," says Soare. "Instead we want to make them self-sufficient."

Accounting deficiencies often start with poor professional training, Soare argues. One common problem is that many candidates for accounting qualifications fail the examinations. Indeed the pass rate can be around just 10% in some nations, compared to about 80% for ICAEW. "The fact that so few pass exams is sometimes seen in the nation as a sign of quality," he says. "Sadly, it actually reflects the poor quality of ▸

"There are compelling reasons to get funding from the World Bank instead of China, since the money comes along with hugely valuable expertise," says Dr Todd Moss, a former deputy assistant secretary at the State Department and now development expert at the Center for Global Development in Washington. "But money from China comes along with fewer strings attached, while the Bank insists on rigorous environmental safeguards and other standards for its projects." Some experts believe that China's efforts to enhance its political sway across the globe through development lending have undercut the influence of the World Bank.

The Bank has also seen its client list shrink at the other end of the wealth spectrum. Some of the largest recipients of the World Bank's soft loans and grants – only available to nations with an income per head of less than $1,175 – will graduate from this category over coming years. The Center for Global Development estimates that clients such as India, Vietnam, Pakistan, Nigeria, Ghana and Kenya will soon be too rich to qualify for such easy lending. It was only in 1999 that China became too prosperous to borrow from this part of the Bank, known as the International Development Association.

> "Rather than laying down the law to poorer nations, the Bank got better at sharing its knowledge of what seems to work"

"We believe that this arm of the Bank will lose more than half of its client countries over the coming decade or so," says Moss. By 2025 over half of the Bank's soft loan wing will be conflict-ridden states – such as Chad or Haiti. "Operating in such difficult nations is a massive challenge. It also means that the Bank chief will need to be as much a global troubleshooter as a traditional financier."

However, none of this means that the World Bank is out of a job. Even after recent progress, 1.3bn people still live on less than $1.25 a day while 2.4bn subsist on under $2 a day. The strategic challenge for the Bank is that an increasing number of these people live in nations that are extremely hard to help due to conflicts and internal strife. Many of the remainder are found in countries such as China and India with ready access to international capital and thus less need for the Bank's money.

There are those who believe that the World Bank had begun to forge a winning new strategy under the leadership of Robert Zoellick, whose five-year term as Bank President ended in June 2012. Sebastian Mallaby, a senior fellow at the Council on Foreign Relations and author of *The World's Banker*, believes there was a "quiet revolution" under Zoellick that his successor Kim should propagate.

The first element of Zoellick's approach was to transform the World Bank from primarily a traditional lender into a global brains trust with the kind of expertise that even nations with access to private capital would want to tap. The World Bank was once associated with imposing austerity and privatisation on reluctant poor nations in return for its financial support. Under Zoellick the Bank moved further away from this. "Rather

**51%**

Fall in world population living below the poverty line between 1990 and 2008


**1.3bn**

Number of people still living below poverty line

**$1.25**

Poverty line earnings level defined by World Bank

PANOS, GETTY IMAGES

As the World Bank boosts nations such as Vietnam (middle), more of its work is in conflict zones such as Darfur (top) or disaster zones such as Haiti (bottom)

than laying down the law to poorer nations, the Bank got better at sharing its knowledge of what seems to work, gleaned from experience around the globe," explains Mallaby.

After the 2010 Haiti earthquake, for example, the World Bank took aerial photographs of the devastated country. This information was then shared with engineers in 21 nations who could help figure out the best way to help the country rebuild. Rather than hoarding information, Mallaby argues, the Bank has got far better at sharing it. In addition, the Bank has become more open to feedback – using the internet to allow the citizens affected by World Bank projects to comment on their effectiveness. Outside experts are hopeful that the new president – whose last job was as president of Ivy League university Dartmouth College – will continue this trend towards transparency.

Secondly, Zoellick sought to overturn the perception that the World Bank was a bastion of western influence, dominated by the US and Europe. The first problem is that the voting strength of rising nations like China and India is still far smaller than their economic heft warrants. To make matters worse, the president of the World Bank is appointed by the White House – a 60-year-old tradition that increasingly angers emerging nations.

While Zoellick didn't have the capacity to change this power structure, he did manage to appoint more citizens of big emerging markets to top positions at the Bank – including Justin Lin, a Chinese national, as the organisation's top economist.

Uri Dadush, a former director of international trade at the World Bank, believes Kim could go even further, making the organisation more meritocratic and open to talented individuals from across the globe.

"It's one thing making sure that emerging nations get a good share of top jobs," says Dadush. "Better still would be to remove altogether the link between nationality and position. Kim needs to completely get rid of the informal quota system by which leading countries control patronage. This is the best way to ensure that the Bank gets the top talent it needs."

The third aspect of Zoellick's modernisation process was to focus on global public goods such as the environment. The Bank, working with the private sector, backed $50bn worth of projects aimed at promoting energy efficiency in 45 countries. Mallaby argues that the Bank has been a particularly innovative force in combating climate change, and Kim is well placed to expand on these initiatives, especially in healthcare. As co-founder of Partners in Health, Kim helped bring top-notch healthcare to impoverished communities in Peru, Haiti and elsewhere. He also headed the World Health Organization's efforts to contain HIV/AIDS. Commentators think it likely that Kim will continue to take a strong interest in global diseases.

Finally, Zoellick did not neglect the financial side of the World Bank. Like the IMF, the Bank can play a role in helping nations during financial turbulence. Zoellick, for example, provided credit lines to Indonesia after the 2008 meltdown to allow it to offset slowing growth with an expansionary fiscal policy. Zoellick also realised the Bank needed a larger war chest. In 2010 he won

## ICAEW AND THE WORLD BANK CONTINUED

teaching and the illogical way in which exams are structured," he explains.

Many nations don't offer students prepared training materials and lectures are often improvised rather than properly structured. An additional drawback in many cases is that all exam subjects must be passed in one sitting rather than one theme at a time – a practice ICAEW abandoned 20 years ago. "If you can fail just by tripping up on one paper, this is a huge disincentive to people to try to enter the profession, and so promising students will opt instead for banking or business," says Soare. "It can be difficult to change hearts and minds on subjects like this. But we did eventually manage to convince Bangladesh to ditch this failing approach."

ICAEW helps nations to develop top-quality training material and professional teaching techniques. In Botswana it has even helped set up a national qualification for accounting, which the country still lacked almost 50 years after independence.

ICAEW has also assisted in setting up proper supervision of auditors. Some of the nations in which it has worked have lacked a regulator that ensures auditors are doing a good job – the equivalent of the Public Company Accounting Oversight Board in the US, which was set up after the collapse of Enron in 2002.

Aside from promoting economic development, such programmes also serve a purpose for ICAEW. "Around 2007, ICAEW took the decision to internationalise its brand," says Soare. "Despite the fact that we have about 20,000 members working outside the UK, ICAEW has often been seen as an exclusively domestic organisation. Working with the World Bank helps give the institute a much broader global visibility."

Join the debate at icaew.com/economia

## WORLD BANK AT A GLANCE

New chief Jim Yong Kim takes charge as the number of people living in poverty is falling.

**China and India have progressed to become rival sources of aid, leaving the Bank to work in more complex areas.**

Kim's task is to continue reshaping the Bank, refocusing on issues such as climate change, health and easing financial turbulence, and making the organisation more meritocratic.

**9,000**

World Bank staff

**$50bn**

Value of World Bank-backed energy efficiency projects in 45 countries

Top: President Obama and US Secretary of State Hillary Clinton flank Jim Yong Kim as his nomination is announced. Above: Former chief Robert Zoellick was a reformer

GETTY IMAGES

a chunky $86bn increase from member nations in the Bank's capital, taking it to a total of $276bn. He convinced nations to provide 20% more money for soft loans and grants. Some, like Dadush, believe that Zoellick could have done even better. "The IMF more than trebled in size following the financial crisis," he says. "To remain a financial force to be reckoned with, the World Bank needs to get even bigger." If the European financial crisis starts to take a heavy toll on global growth, this may provide a good excuse for Kim to ask member nations to step up the Bank's capital still further.

So Dr Kim takes over an institution in flux. Its financial heft has failed to keep pace with expanding global capital flows. It is also less likely to be able to boss poor nations around than it did in the past. Nonetheless, the Bank remains the globe's leading source of expertise on development. While extreme poverty appears to be retreating, over 2bn people still struggle to meet their basic needs. A dynamic World Bank is as necessary as ever.

# SUPPORTING ROLE

For **Simon Fuller**, finance director of retail operations for Tesco, creating an optimised finance department is about supporting staff, customers and shareholder interests alike. He tells Adrian Holliday about his strategy


**What steps have you taken to optimise Tesco's finance department?**
For me it's about three key things. The first is supporting the development of people and ensuring that as a leader in the business I help people do the right things for their internal stakeholders and, most importantly, our external customers and shareholders. So the team all have the opportunity to develop in their jobs and progress into bigger and more influential roles. I've been in Tesco for almost four years now and one of my proudest achievements is seeing people move on to have a big impact in other parts of the business.

Secondly, ensuring finance has a voice in the organisation – and ensuring it has credibility. It's not just about keeping the score – it's understanding the business at the shopfloor. It's about spending time out in shops and depots with staff and customers and living, breathing the operation. This type of experience makes us much more effective business partners.

Thirdly, I'd say, it's about cross-functionality. Finance uniquely touches all areas of the business so we have an opportunity to leverage that strength. I consider an important part of my role is to enable my team to work effectively across all areas of the business. This is what really unlocks value.

**How about overcoming complexity? What is your programme for streamlining the workings of a large retail business?**
Much of life's complexity is self-created. So my way of approaching challenges is to try to boil them down to their simplest building blocks. I frequently urge my team to condense the things we do into a few bullet points. There are very few problems that can't be summarised in this big picture way.

In practice, working in a large business also often means looking for themes. For example, this year Tesco has a programme to refresh many hundreds of stores in the UK. When looking at the performance of these refitted stores we need to draw broad-based, as well as individual store, conclusions. So we may have all the data we need at a micro level, but we also want to look at things in a macro way: what have we learned? What works best? What do our customers like?

My job, at its core, is not just about controlling costs; it's about working with the business to best balance our cost base with the customer service we offer. It's about making sure we use our money optimally to give our customers the best shopping trip we possibly can.

**Given Tesco is the UK market leader, how does it maintain its focus on customers?**
The UK grocery market is fiercely competitive, which is great for customers. In this context, Tesco takes its position as the market leader seriously. What we need to do is be the leader in the industry for doing the right thing for our customers. And when we do the right things for our customers then we do the right things for our shareholders.

This is really the focus of our recently launched "Building a better Tesco" strategy – making things better for our customers, staff and ultimately shareholders. Not any one of these to the exclusion of the others.

As part of this six-step strategy, we're investing about £200m into our stores – enabling more staff hours particularly in large stores and particularly in fresh food.

GETTY IMAGES, CORBIS


This is what our customers want and therefore it is a central part of this year's business plan.

**How would you describe the optimal finance department?**
As part of the wider UK finance organisation we have a slogan of being *More than just a finance team*. Prince Charles, I think, said in an article recently that accountants should, "count what counts and measure what matters". I agree these are vital roles.

Also, building on this, a truly optimal finance department leads the business and helps it to make better decisions through coaching and supplying insight. There needs to be a strong base of financial control. We talk a lot about that. We can't move onto leading unless we have a strong financial bedrock.

**How can the finance department support the model of a continually expanding organisation?**
Primarily it's about flexibility. It's about being clear on the priorities of the business and aligning to them. It's important too that we help the business to strike the right balance between moving into new areas and maintaining a focus on the core of what we do.

Being connected is an important role for the finance team to help optimise the use of resources – it's important to invest in new areas, but be conscious of returns and know where our priority areas lie and where investment will have the biggest impact. Underpinning all of this, finance needs to have an independent voice, driven more by facts than emotions.

**What would you describe as the high point of your career?**
A lot of things came together for me at Tesco when I became the Logistics and Supply Chain Finance Director in 2010. I'd increased my understanding of the business, built a strong internal network and completed an excellent leadership development programme. The support I received at this time was first-class and meant that I moved into my new role with both confidence and determination.

I found the job to be both a varied and interesting one. I find understanding the process that takes a product from our supplier, to a depot, to a store and ultimately into a customer's hand is absolutely fascinating.

This is the great thing about working for Tesco – you really can personally relate to the whole experience.

**What does the ACA mean to you?**
I still remember clearly the day I qualified back in 2001 and the impact it had on me. I don't mean to sound rehearsed here, but it's about much more than the three letters on a business card.

For me the ACA stands for professionalism and quality. It's great to be part of an organisation that has that credibility and is seen as a leader in the things it does, backed up by the proportion of ACA members in very senior corporate positions. It's a highly respected, coveted, qualification.

**INTELLIGENT ENTERPRISE**
This is the latest in the Intelligent Enterprise series, sponsored by Genpact. To see previous articles in the series, featuring interviews with senior finance figures from SABMiller and AstraZeneca, go to **genpact.com/powering-intelligent-enterprise**

# THE BIGGER PICTURE

The days of non-executive directors being drawn from the old boys' network are on the wane. In an increasingly competitive market, says **Peter Bartram**, accountants looking to become NEDs have to offer value to the board beyond financial know-how

So you want to be a non-executive director? It won't be easy. Competition for places on boards is tough. When the Institute of Directors (IoD) announced in April that it was setting up a register of potential non-executive directors (NEDs), 1,400 of its members expressed an interest to be included during the first fortnight.

And accountants seeking their first appointment face a catch-22 situation, warns Deborah Harris, who chairs ICAEW's Non-Executive Directors Group. "To be attractive to boards, you have to have been on a board and to have been on a board, you have to have been attractive to boards," she says.

She suggests that accountants seeking their first NED appointment could burnish their CV with some relevant voluntary work. "Don't sniff at being on the local branch of a national charity or serving on a local authority," she advises.

Some forward-thinking companies allow middle managers to take on NED roles as a way of enhancing their own talent pool, Harris says. "Training at board level adds value to an executive's day-to-day work," she adds.

Mike Brooks, who has held several non-executive roles since he left a full-time career in the oil and gas industry, gained his first two appointments in quick succession. He saw the post of a governor at the University of Portsmouth advertised on the Cabinet Office's public appointments website, applied and was appointed. Shortly after, he became a NED at the Medical Research Council – after responding to an advertisement in *The Sunday Times*.

He advises: "The way to get an appointment is to look at the advertisements and the description of the person they're seeking. Often, they will ask for experience in finance, especially in audit and corporate governance. So to get your first post, pick ones that specifically want finance expertise. That will usually get you on to the long list and often on to a short list."

Nigel Guy, who is one of Britain's most experienced NEDs and a non-executive board member of ICAEW's Corporate Finance Faculty, advises prospective directors to get involved with NED networks such as those run by ICAEW. "You're likely to have greater success if you get an introduction through a network," he says. "So work your networks hard while recognising that, particularly in the quoted sector, there is a definite process to go through so that NEDs don't become just an old boys' club."

But when that first invitation comes, it's important to take a close look at the company and the offer before deciding whether to accept. Guy, whose NED appointments include communications services provider Azzurri Holdings and listed investment trust Northern Investors Company, asks himself three questions before accepting a new role.

"The first is: do I understand the business?" he says. "That's important so that you will be able to identify issues that emerge and ask the right questions. The second is: can I deliver some value on the issues the company faces? If the company starts with a clear idea of why it wants me, that's great. But if they think they want X and you deliver Y, it's bound to end in disappointment.

"The third question is: can I get on with the people around the boardroom table? I'd want to meet or talk to the majority of the board and certainly the whole of the executive team," he adds.

Philip Arnold, who has been a NED at five companies, points out that NEDs have the same liabilities as executive directors. "Because there are a lot of responsibilities, the first thing I would want to do is a mini due diligence on the company to make sure the corporate governance was in order," he says. That would include a detailed look at the finances, at whether the company was complying with data protection legislation, and at its employment policies and practices.

Alistair Summers, who has 17 years' NED experience with companies that include a shirt maker, an engineering business and a specialist IT equipment cleaning company, says the companies that approach him tend to be looking for financial and strategic support. "I'm an accountant and that's the main value I add to businesses. I look at a company's strengths and weaknesses and what I could contribute as a NED."

But checking out whether you could be an effective NED at a company is only the first step. When you've accepted the job, it is important to get up to speed quickly so that you can make a positive contribution.

"It's about getting your hands dirty," says Summers. "The way to understand a business is to go out, feel it and be part of it." That means talking to a wide range of people in different departments. "You've got to walk the floor," advises Guy. He says

LORRENZO PETRANTONI


RISK REPORT
RESPONSIBILITY
RESPONSIBILITY
RISK REPORT
AUDIT COMMITTEE
AUDIT COMMITTEE
EXPERIENCE
EXPERIENCE
INFLUENCE
INFLUENCE
FINANCIAL
FINANCIAL
NED
NED
BUSINESS
BUSINESS
MANAGEMENT
MANAGEMENT
COMPANY
COMPANY

“You can engage with people, know how to influence and act as a thought-provoker at any age if you have the maturity”

it is important to read the company’s business plans and particularly any pitch documents it uses with customers. “I reckon it can take three months for me to get under the skin of a business and in that time I meet as many people as I can.”

He says a new NED can learn a lot from water cooler moments. “You stand by the water cooler and chat to people who come up, and show an interest in how things are going,” he says.

Harris, who is a NED and chairs the audit committee at London’s Moorfields Eye Hospital NHS Foundation Trust, is another believer in walking the walk. “To understand a business, you need to meet people one or two layers beneath the C-suite and talk to them about the issues they face,” she says.

An element of caution awaits the new NED who has held previous executive posts – the need to learn the difference between direction and management. “You have to draw a very clear line of demarcation between being a NED and being an executive director,” advises Guy. The key is leaving the executive team to get on with managing the company day to day, but being there to advise, monitor and look at the broader strategic picture.

“If you cross the line between NED and executive responsibility, you do so at your peril, or you do so for a particular time and reason,” warns Guy. “It’s important to recognise that the day-to-day responsibility for the business rests clearly on the shoulders of the management team.”

Arnold is one NED who has had to tread that line carefully while providing financial advice to Clinithink, a venture capital-backed start-up that offers healthcare data services. “As a NED, I provide financial expertise until the company needs a full-time financial director,” Arnold explains. “But I keep the boundaries between executive and non-executive clear – I make recommendations to the other directors.”

As accountants are often brought onto boards because of their financial expertise, it is important they avoid the danger of becoming a kind of shadow financial director, encroaching on the real FD’s role. “In the best situations, FDs are looking for support from other accountants and there is camaraderie because you’re talking a similar language,” says Summers. “They like having

## HOW NEDS TURNED AROUND A £13M DEFICIT

When Colin Coulson-Thomas, an experienced NED and an FCA, joined the board of primary care trust NHS Cambridgeshire in 2009, he found the organisation was heading for a year-end deficit of £12.8m. Worse, the monthly “run rate” loss was increasing.

Coulson-Thomas, who became chairman of the audit and governance committee, and other NEDs who had joined the board at roughly the same time, were concerned about this and the fact that the interval between bi-monthly meetings was too great to get a grip.

He takes up the story: “My previous experience as a company director and consultant led me to focus on uncovering root causes of the deficit and addressing certain reporting and governance issues.

“After some conversations with concerned NEDs, and through the audit and governance committee, I commissioned a review from an independent former finance director, via the internal auditors, of the causes of the emerging situation. This looked, for example, at the process used to put budgets together and the exercise of budget accountability. After discussion with certain NEDs, I proposed to the audit and governance committee (and subsequently to the board) a combination of governance changes. These included monthly reporting and board meetings, new-style financial reports, a monthly CEO’s report and the setting up of a separate finance and performance committee.

“The recommendations were accepted and the governance changes were later supported by another independent review. Working within the new governance arrangements, with increased awareness of what was happening, and by addressing causes and tighter budgetary control – and with a succession of part-time finance directors and CEOs - the financial position was stabilised and the organisation posted a modest surplus the following year.”

As Coulson-Thomas points out, the story shows how NEDs can bring their previous experience to bear on a current problem.

He adds: “Perhaps the key lesson is the need to work with one’s fellow NEDs as the collective impact of two – in this case three – who initiated action through the audit and governance committee can be much greater than that of a single NED. It is also important to give due credit to the executive team for delivering savings within the new governance set-up.”

someone they can talk and relate to and who understands the financial technicalities."

At the same time, accountant NEDs must not become pigeonholed as financial experts. Rather, they need a broader view of all the company's activities. And they need to act as an independent voice – sometimes as a critic of the executive directors and senior management team.

As non-executive chairman of the Cornhill Partnership, the parent company of four executive recruitment firms, Guy tries to position himself as a "trusted and critical friend" of chief executive Robert Walker. "He can talk about the challenges of the business and the important decisions he wants to bounce off somebody," says Guy. "And I can challenge the management team on why they have chosen decision A over decision B."

Brooks, a NED at the Driver and Vehicle Licensing Agency, says to be an effective "critical friend" you need to be able to make sense of the issues that are discussed around the boardroom table. But that critical friend role can be a challenge, especially when there is resistance from the executive team to an idea that a NED has proposed. "You have to decide whether the resistance is justified or if it's just a not-invented-here syndrome," Brooks says. "Sometimes you have to be persistent without being bloody-minded, because after a while the other directors may warm to the idea and even start to think it's their own – which is the best outcome."

But if you're planning to give fellow directors a hard time, be sure of your facts, advises Guy. "If you are seeking to ask challenging questions and hold management's feet to the fire, you need to be sure the facts are understood and well articulated."

Some accountants hopeful for a NED appointment have taken the Chartered Director qualification, awarded by the IoD. This is something that Arnold – one of nearly 1,000 directors created so far – thinks could bring about a change in the way boards of private companies seek NEDs.

"I'd be amazed if the majority of NEDs in companies with a turnover of more than £2m aren't there because they knew someone," Arnold says. "But it's changing, and you can see it changing." In future, being offered a NED post may be more about what you know than who you know.

And Harris wants to see more accountant NEDs in their 30s and 40s. "It's not necessary to be grey-haired with years of experience," she says. "You can engage with people, know how to influence and act as a thought-provoker at any age if you have the maturity. You don't have to wait until you've got your gold watch."

**LORD CURRY**
Independent non-executive chair of the Better Regulation Executive

"I see the non-executive directors in government as having a role in challenging government departments on their regulatory ambitions. Having a better regulation responsibility on the board is, in my view, an important part of the role of the NEDs.

The business minister Mark Prisk and I hosted a breakfast in February and we talked about the work we're doing within the Better Regulation Executive. Many of the NEDs found it helpful and enlightening – they understood our agenda better. Economic growth and better regulation are seen as going hand in hand. So if we can reduce regulatory burdens it will hopefully help contribute to economic growth.

One of the conclusions [of that breakfast] was that the NEDs would ensure that better regulation appeared on the agenda at least twice a year on the departmental boards. I'm very keen to ensure that the NEDs deliver on that commitment.

We will be encouraging them to apply the same logic that they would in their own organisations. As businessmen they're concerned about the impact of regulation, so they ought to be concerned about the impact of regulation within the department that they have responsibilities for. It's important. They're there for their commercial knowledge and that includes a good understanding of the impact of regulation on business."

# MAKE IT BETTER

Apart from May, when manufacturing output was up, it's been a flat start to the year. But there are examples of remarkable resilience and growth in the sector. This month, **Amy Duff** speaks to three experts about how UK mid-sized manufacturers can help boost the economy

MCLAREN

There's no hiding from it: the crisis in the eurozone has finally cast a shadow over UK manufacturing. Hopes that industry would help pull the UK out of a double-dip recession were stymied by a shock fall in manufacturing output in April. And even though the May numbers were more optimistic – output rose by 1.2% – it was only because the end of May bank holiday was moved to June.

UK manufacturers are highly vulnerable to a further slowdown in exports, says the Ernst & Young ITEM Club. And Colin Edwards, economist at the Centre for Economics and Business Research, says


"Exports seem to be holding up, supported by increasing trade with emerging markets – critical as the eurozone continues its downward spiral"

the figures show how tough conditions are. "Output remains well below pre-financial crisis levels and shows little sign of improvement," he says. "With the eurozone in perpetual turmoil the UK's largest export market looks unlikely to provide an outlet for UK firms soon. This is likely to weigh on the potential for output growth for some time."

So far so grim. And the outlook isn't much better in France and Germany. Yet across the country there are examples of tenacity, with manufacturing companies showing that boldness, agility and a strategy to build growth in markets outside the eurozone are paying off.

It takes a lot to dent the confidence of British manufacturers, even though the future looks decidedly murky. As BDO manufacturing specialist John Talbot says, "UK manufacturing remains surprisingly resilient in the face of the combined headwinds of renewed eurozone uncertainty and a tight lending market. Exports seem to be holding up reasonably well, supported by increasing trade with emerging markets. These may well be critical as the eurozone continues its downward spiral. Over the next few years the success of the sector will almost certainly depend on how quickly we can switch our export focus to the emerging growth markets. This will require a shift in thinking among many manufacturers."

The smaller companies are taking the biggest knocks, cautions Talbot, "causing cashflow problems among those with the shallowest pockets". He calls for more measures to support such companies – "or we face the prospect of losing the type of innovative engineers for which the UK has become globally renowned".

There's no shortage of government rhetoric on UK manufacturing. In May entrepreneur Deborah Meaden lent her support to the *Make it in Great Britain* campaign to attract talent and investment to the sector. "This is demonstrating to the public how truly exciting and innovative manufacturing is, highlighting the range of opportunities, particularly for young people," she says. "As consumers, we care more about the finished product, but what we miss out on is the fascinating way in which that product is created. More and more often I find myself coming away from visits to businesses and laboratories across the country thinking how impressed I am with manufacturing in this country."

And when business secretary Vince Cable visited steelmaker SSI in Teesside in May, he said boosting British manufacturing was central to the government's mission to create long-term growth across the UK. Announcing £1.4m from the Regional Growth Fund to SSI, he said, "For too long the British economy has relied exclusively on the City of London, ignoring places such as Teesside. I want to see regions of the UK like the North East, once the workshops of Britain, get back to their glory days. The restart of the plant is fantastic news for the region as it will have a major impact on local growth and prosperity, creating around 8,000 jobs."

In *economia*'s 10-point plan for growth earlier this year we called for more government support to encourage trade relations with less developed nations as exporters cast their nets further to find a sale. Businesses need to boost exports and a system of government-backed export credit guarantees would provide a safety net for those seeking to export high-tech or expensive goods.

But what do those at the coalface think? Three experts talk to *economia* about the challenges for UK manufacturers, where growth opportunities lie and what they'd really like to see from this government.

## THE SECTOR EXPERT

**LEE HOPLEY, chief economist, EEF**

"It is definitely not all bad. We've seen a raft of gloomy statistics, which do paint a picture of a sector and an economy that's struggling. We have been through a very challenging recession and the recovery was always going to be bumpy. But there is still a balance of companies who are securing orders, they're continuing to grow, they're looking at expanding their headcount, they want to invest. On balance we're cautiously optimistic but clearly mindful that what's happening in Europe could turn sour very quickly.

Manufacturers in particular have done well to increase their exposure and penetration in markets beyond the traditional ones. And that's been going on for a long time, not [just] in the past 18 months when these issues in the eurozone started bubbling up. I have seen very strong growth in markets such as China, India, South America… There are still opportunities out there.

There are new supply chain opportunities opening up as well. There are big OEMs (original equipment manufacturers) looking at where they can source components locally rather than relying on suppliers several thousand miles away. So there are opportunities for companies in the UK to tap into the appetite to look more locally at the supply chain.

That requires investment, clearly. And we've not seen the increase in business investment that some surveys indicated would be coming through the pipeline consistently or sustainably. If companies are not investing in new kit and technology, it's a worry for competitiveness and productivity.

The opportunities for growth are there for all sizes. A lot of mid-size companies are diversified in terms of the geographical and sectoral markets they sell into and that's key to their growth path. But when you become an internationalised business, as a lot of mid-sized manufacturers are, your world becomes that bit more complex. You don't have the resources of a large company behind you to deal with the complexity. That might be from a regulatory point of view but also in dealing with multiple tax jurisdictions.

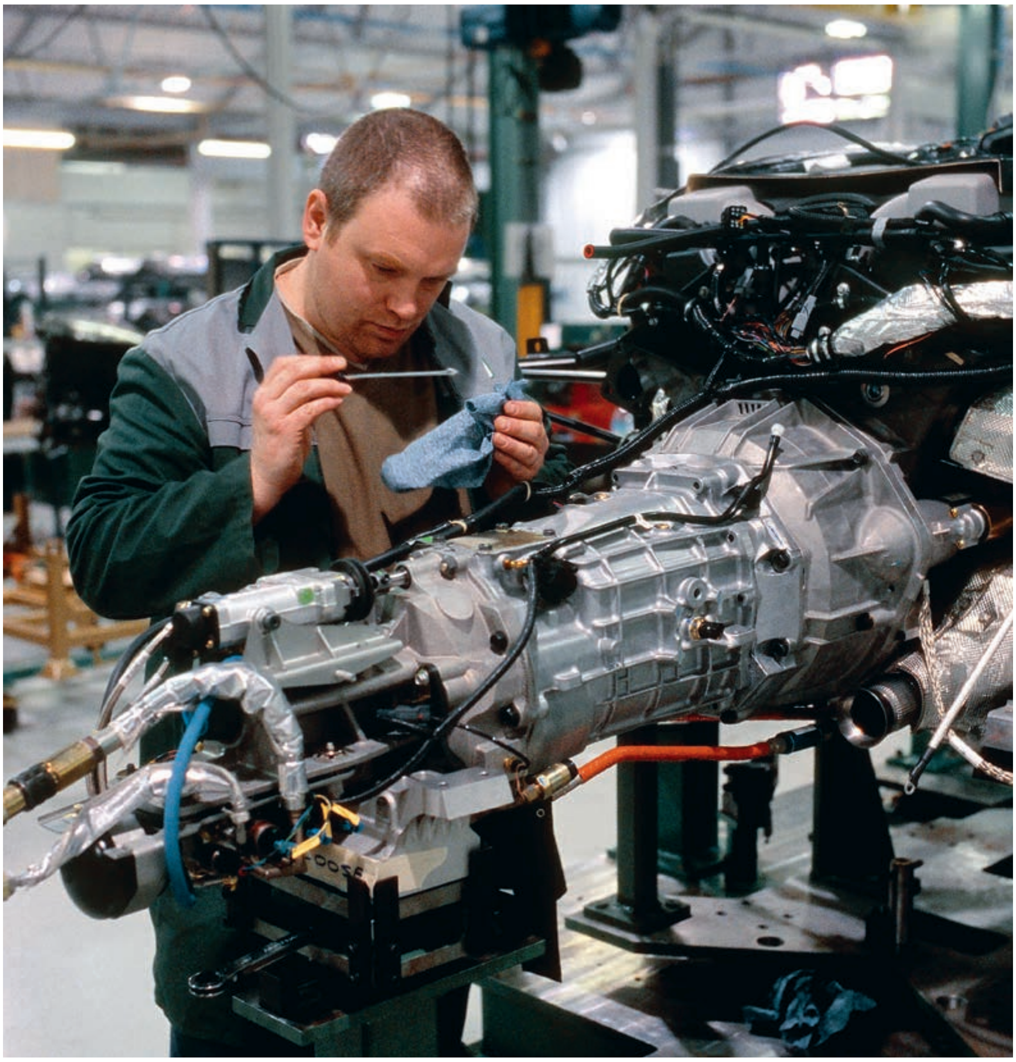
The EEF would like the same clarity about where we want our economy to grow and how we rebalance it as we do over the plan to deal with the public finances. There's a strong focus on the deficit – business understands that is helpful. But we need the same clarity and alignment across all parts of government about where growth is going to come from and how we rebalance our economy to make it more sustainable.

Between now and the end of this parliament we'd like the government to really build on this commitment to have the most competitive tax system in the G20.

We also have to look at the cost of doing business. Are we focused on competitive energy prices relative to our European rivals? Is the market lined up to deliver sustainable energy for manufacturing long term?"

NICK SINCLAIR, CORBIS

"Between now and the end of this parliament we'd like the government to really build on this commitment to have the most competitive tax system in the G20"



"That's probably the story that doesn't get told as much as it should – all the good things businesses are doing to adapt to a rapidly changing world"

**THE FINANCE EXPERT**

**MIKE MULLANEY, area director, Lloyds Bank Wholesale Banking & Markets**

"I'm one of the joint leads on a manufacturing programme we're developing through the mid markets business to help the manufacturing sector grow. If you look at the headline stats, manufacturing is 11% of GDP, 50% of UK exports and accounts for 5% of economic growth in the past two years. It shows manufacturing is going to be one of the growth engines.

My business in the North East has traditionally had a good proportion of manufacturers in it. The nature of it has changed considerably over the years from supporting heavy industries to automotive and renewables. But we've got a good bedrock to build from.

Manufacturers are exposed, as every other business is, to the macro issues. The euro has an impact, particularly as a high proportion of UK exports go into Europe, and that is an area of concern for these businesses.

But what we've tended to see – and this is why a lot of manufacturers are in a relatively good position – is that these guys tend to take a longer-term view. They've invested, they've continued to upskill their people and they've become very competitive and productive.

If you throw that together with the natural innovation we're very proud of in this country it's still a good mix.

There are some really good role models of businesses that have been operating in markets such as Brazil, India and China for some time. The BRIC countries are where people are beginning to focus after realising it's not such a major step. There's a lot of support and advice around exporting; peer-to-peer type learning is happening more and more. That's the way it should be. But one size doesn't fit all. We need to adapt in terms of what we offer in terms of advice.

We are a relationship bank. We spend a lot of time understanding what our customers need and advising them on the most appropriate funding structure. Our balance sheet continues to grow as we lend but also as we help to maximise the working capital cycle. For example, we'll look at trade financing structures and the likes of the export guarantee schemes, some of the government-backed support that's out there. We look to provide a bespoke funding package for our businesses.

Manufacturers need to showcase the really good products that they have – communication is key to everything in business. We're blessed with good management in this country. It's about knowing where the opportunities are; where our products and services are in demand. Good businesses – and there are many – know that while one market will contract they're already talking to the next that might expand. It's trying to get that balance. They know where to turn and how to execute well.

And that's probably the story that doesn't get told as much as it should – all the good things businesses are doing to adapt to a rapidly changing world.

It's the best part of what we do. We've seen businesses that we've backed as start-ups now listed on the stock exchange and that's great."

## THE BUSINESS EXPERT

**CHRIS PARKIN, director, Miller UK**

"At the moment business is going really well compared with how it was. In 2007 we did £38m [revenue], in 2009 £8m – that was painful. Starting again from £8m, the only way is up. But we've been shipping like mad and just had our best month's turnover since 2008. That's come from the US.

We have some trade with India and we're trying to further establish our products there. We're having a bit of success; we're beginning to sell some volumes. China is another country we're attempting to get into. Other companies in our sector that we supply to – big OEMs such as Caterpillar, Komatsu and Volvo – are doing fantastically well out of those countries. But China hasn't quite bought into the technology we're trying to sell yet.

If a product's made in Britain it carries with it a stamp of quality. We have a joint venture in China that produces very good-quality products but it's our authenticity as a British supplier that adds to that. They still suffer from this image of poor quality.

We were staring failure in the face. I didn't think we'd get through it. But we're a family-owned company and the three shareholders passionately believed we would survive. They put their money where their mouths are, taking cash out in good times and putting it back in.

We became really focused. When business drops to that level you cut your costs accordingly, which is what we did. Our bank at the time was extremely concerned and we ended up in their intensive care unit. But that wasn't such a bad thing. They held our hand and we worked together to get through the situation.

We were fortunate that the shareholders had cash outside the business and a desire to support it when we had a cashflow shortage. We were always able to bridge the gap. You've just got to realign your expectations.

The only thing we really kept going through the downturn was innovation and R&D – out of necessity because health and safety rules were changing and we had to adjust designs and products. But everything else was cut to the absolute bone.

We have about 185 staff and a turnover of about £20m but there is a skills gap. It's difficult to find youngsters who want to do traditional jobs such as welding and fabricating. It's difficult to convince people they can earn a good salary and have a decent career from that.

We see opportunities, like everyone else, in increasing exports to the growing economies, the BRICs. The challenge is having the working capital to invest in that. It's one of those things: you can't predict when it's going to happen.

To put it in perspective, the UK market – which is a great market for us – sells around 5,000 excavators a year. Probably nine out of every 10 excavators has a coupler fitted, which is what we supply. In the Chinese market last year the figure was more like 180,000 excavators but they don't take our technology yet. Even in the Indian market there are around 18,000 excavators – not far off four times the size of the UK market. So there's massive opportunity.

Would we be ready for growth? Yes. We're fortunate we have a joint venture in China with a foundry and they have the capacity to deal with that.

Our chairman and founder Keith Miller is passionate about the business. I'm a real stick-in-the-mud accountant, I just look on the dark side of everything, but Keith's drive saw us through some really difficult times. He said, 'Don't worry about it, we'll get through it'. And that helped everybody."

MAGNUM, CORBIS

"There is a skills gap. It's difficult to find youngsters who want to do traditional jobs such as welding"

The Squeezed Middle campaign is supported by Lloyds Bank Wholesale Banking & Markets. For more information, visit lloydsbankwholesale.com/growthchampions
Read more coverage of the campaign at icaew.com/economia/sqzmid

# FILLING THE POT

Keeping pensions both affordable and fit for purpose is about to become everyone's problem with the advent of auto-enrolment. **David Adams** seeks a solution

There is only one way to guarantee a comfortable retirement: have an enormous amount of money. Unfortunately, that option isn't open to most people so they turn to pensions. But for those who need to save diligently, both private pension arrangements and company pension schemes can be problematic. With a defined benefit (DB) scheme there is often too much risk loaded onto the employer and DB schemes can build up vast deficits if, as now, economic and financial factors go against them. With a defined contribution (DC) scheme there may be too much risk placed on the saver, leaving them with a pitiful retirement income.

If pensions are not fit for purpose and lots of people don't even bother trying to save for their retirement, that's bad news for everyone. So the pensions industry, the Pensions Regulator and the government are all trying to improve the situation. Any accountant, whether advising individual clients or businesses (for which the accountant may also be running payroll), or working in-house for an organisation with a pension scheme, needs to keep up to date with any resulting legislative change.

## AUTO-ENROLMENT

The most important recent change is the introduction of auto-enrolment (AE). This compels all employers to automatically enrol staff in a pension scheme, if they are not in one already, once earnings reach a certain level. If there is no existing scheme, or an existing scheme is unsuitable, employers will need to set up a new scheme, or use an external pension provider or the National Employment Savings Trust (NEST).

Auto-enrolment is being introduced in stages over the next two years, with around 600 organisations with 120,000 or more staff kicking things off in October 2012 (or any time from July if they prefer). All eligible jobholders (anyone aged between 22 and state pension age earning over £7,475) will be auto-enrolled unless they opt out. Non-eligible jobholders (aged between 16 and 75 earning between £5,715 and £7,475) have the right to opt in; as do what's termed entitled workers (those aged 16-75, earning under £5,715). Agency and temporary workers may be eligible, but the agency may have responsibility for enrolling them, depending on who is responsbile for paying them.

The minimum contribution, including employer and employee contributions and tax relief, will rise from 2% to 8% before 2018, according to current government proposals. At present the plan is for contributions to reach 5% in 2017 and 8% in 2018. Within that, minimum employer contributions will rise from 1% this year to 2% and then 3% in 2017 and 2018. Auto-enrolment processes will be repeated every three years for eligible staff who opt out.

## FACING THE CHALLENGE

In May research by Aviva suggested that about a third of workers who are auto-enrolled will opt out. What is clear is that AE will be a challenge for employers. Some will need a year or more to alter pensions and payroll systems and processes. In some cases it will make practical and financial sense to auto-enrol staff in an existing scheme. Of 820 employers surveyed by Mercer in March 2012, 69% said they planned to do this. But some schemes may not be suitable for AE, while some providers may only cater for lower paid workers on the condition they can charge higher fees.

So employers may find it easier to set up a new scheme. "If they do that they will need to think about communications, to make sure lower paid employees don't think they're being treated

IFAN BATES

unfairly," warns Liz Cole, manager, company law, pensions and insolvency at ICAEW. Employers should also review flexible benefits packages to ensure that joining a pension scheme is always seen as a right rather than a choice. Cole suspects these difficulties may mean that employers with existing pension schemes will actually take longer to prepare for AE than those that do not.

Whether or not setting up a new scheme is necessary, AE is certainly going to cost money, so many employers will want to find savings elsewhere. There has been some concern that some employers might cut contributions to existing scheme members' pensions, but this seems unlikely (it would look awful, apart from anything else). There are other ways to reduce costs in any case: reviewing administration or

Employers should also review flexible benefits packages to ensure that joining a pension scheme is always seen as a right rather than a choice

outsourcing arrangements for existing schemes; adjusting fees levied on members; or offering options such as salary exchange.

Employers will certainly need to factor AE into any other plans they might have around altering pension provision to employees, such as merging existing schemes or introducing flexible benefits, notes Mark Baker, senior associate at legal firm Pinsent Masons. He stresses the importance of

## THE RIGHT TOOLS

In response to the introduction of auto-enrolment, financial advice website Money on Toast has launched a free online planning tool to help companies and accountants assess the cost and impact of AE on their pension plans.

Money on Toast claims the tool can also outline what companies need to do to comply with the new legislation. The intelligent guidance software is designed to outline the impending changes; state whether a company is already compliant; calculate the cost to the company of any necessary alteration to its pension scheme; and offer tips on making wage bill savings. If it works, it could save businesses fines of up to £50,000.

**For more information, go to moneyontoast.com**

someone at a company, possibly senior members of the finance team, taking responsibility for managing the transition to AE. "That's difficult, because it's partly the finance department's concern, partly HR, and partly payroll," he says. "It will require coordination."

ICAEW members working in-house, such as Daniel Quint, finance director at recruitment company Robert Walters, are grappling with these issues. Robert Walters has 600 employees, some of whom will be auto-enrolled because they have not joined the company's existing DC scheme, but it is also responsible for auto-enrolling around 5,000 individuals working as temporary contractors for other organisations. "There's been lots of rewriting and changes to processes in terms of new joiners, which is an extra administrative burden and an increase in cost," says Quint. But he is confident the company will be ready when its AE staging date arrives next spring.

The National Trust will be starting to deal with AE at the same time. It already has a final salary scheme – now closed to new entrants – but with around 1,500 active members, and a Stakeholder DC scheme with about 2,000 members. Altogether the Trust has about 5,000 regular staff, but also about the same number of seasonal or temporary employees, some of whom will trigger AE with their monthly earnings. At the moment the Trust is planning to set up a new scheme to cater for AE, providing minimum contributions. Everyone who is automatically enrolled will still have the opportunity to join the DC scheme.

A new payroll system that was already scheduled to be introduced will need to manage the transition. Uncertainty over what seasonal staff will do is a key concern. "We just don't know how they will respond," says Andy Copestake, director of finance at the Trust. "We've just got to run with it for a while and see what the opt-out rate is. We want people to have pensions and to join the scheme, but it's got to be affordable for the Trust."

AE could also have significant implications for accountants in practice. "A lot of accountants provide general management advice to companies, particularly impacting on payroll," says Steve Wood, senior consultant at financial advisor Helm Godfrey. "Accountants need to decide where they want to get involved. They may want to link up with specialist firms giving payroll advice or wider auto-enrolment advice."

Accountants running payroll for clients (and for their own staff) will have to ensure systems can cope with AE. Software firms are trying to develop patches or upgrades to systems to help users cope. Some service providers are developing extra services, such as Oracle HR & Payroll specialist Hitachi Consulting, which is developing an offering that will help end users cope with fluctuations caused by seasonal employment.

### SMALL BUSINESS CONCERNS

Mike Cherry, national policy chairman at the Federation of Small Businesses (FSB), says few small businesses are already giving AE a lot thought. "At the moment their main focus is keeping the business going," he says. "We have tried to raise awareness so that people know this is coming. We are also calling on government to carry out an impact analysis, to make sure any bugs arising from large and medium-sized businesses going through [AE] are ironed out before small businesses have to cope with it."

There have been complaints from companies of all sizes and from within the pensions industry about the quality and consistency of the information being provided by the Pensions Regulator and the DWP in relation to AE. The regulator has now released a new online tool designed to help employers work out whether their scheme meets the criteria for AE; and published a

"For small businesses the main focus is keeping the business going. We're calling on government to make sure any bugs are ironed out before small businesses have to cope with it"

draft features document setting out questions employers should ask advisors or product providers when selecting a scheme to use for AE, or assessing an existing scheme.

## ALLOWANCE CHANGES

From 4 November the annual allowance for pensions is reduced to £50,000, while the lifetime allowance falls to £1.5m on 5 December for everyone retiring after that date. Accountants advising individual clients will need to ensure they understand the tax implications of exceeding those limits, something which could easily happen if someone has several different pensions savings pots, or if they take early retirement due to ill health.

It can be an issue for those working on in-house company schemes too. "We've had to respond to the £50,000 cap," says the National Trust's Copestake. "It's quite easy for people to trigger that if they get a big pay increase and they're in our final salary scheme."

AE has had an impact here too. Some individuals who already held more than the lifetime allowance in a pensions pot when the first cap was introduced in 2006 may have registered at the time for fixed protection to safeguard those funds. This is permitted on condition that those individuals opt out of all subsequent pensions provision, so accountants may need to make individuals understand that they must opt out of any AE arrangements put in place by any organisation for which they work.

For example, someone could have paid directorships with more than one company and it is perfectly possible that if they are paid for those roles through PAYE they may be auto-enrolled.

Another change of which accountants should be aware is the end of contracting out for DC scheme members. As of April people no longer receive the contracting out rebate and now build up State Second (S2P) benefits instead.

This may not be the best option for some individuals. The good news for them is there's no longer a legal requirement to keep any funds built up from contracted-out rebates separate from additional pension funds, meaning more flexibility in the way people manage their funds.

Accountants and their clients (corporate and individual) also need to keep an eye on the rising statutory retirement age and how this is treated in law. In one recent case (Seldon v Clarkson Wright & Jakes), a 65-year-old partner at a law firm claimed the firm's policy of retiring partners at 65 amounted to age discrimination. The Employment Tribunal rejected his claim and subsequent appeals to the Supreme Court failed on the grounds that the policy was a means of achieving aims relating to opportunities within the firm. The Tribunal is now considering how to clarify the test for justifying direct age discrimination.

## LEGISLATION CHANGE

Another Supreme Court judgment, in Bridge Trustees vs Holdsworth and another, may also have important implications for the definition of money purchase benefits – usually seen in a DC scheme – in pensions law. The Supreme Court has ruled that even if benefits were subject to a guarantee while being accrued they should be considered to be money purchase benefits.

Also if schemes used money purchase rights to provide pensions from the scheme itself rather than annuities from an insurer the pension should be considered money purchase. The problem is, this means some schemes can now be regarded as providing money purchase benefits under current legislation even if funding deficits can arise. This may make it necessary to change legislation relating to scheme funding, employer debt, government support for schemes in difficulty and the distribution of a scheme's assets if it is wound up. In a statement issued in July 2011 the DWP said it was considering the implications of the judgement. It intends to address these anomalies through retrospective legislation, to protect scheme members' rights and ensure compliance with EU law.

**For further information on pensions visit: dwp.gov.uk, thepensionsregulator.gov.uk, icaew.com/pensions and ariespensions.co.uk**

### AUTO-ENROLMENT AT A GLANCE

All employers will have to enrol qualifying staff in a pension scheme

**Accountants need to decide where they want to get involved. They may want to link up with specialist firms giving payroll advice or wider auto-enrolment advice**

It may be necessary to change legislation relating to scheme funding, employer debt, government support for schemes in difficulty and the distribution of a scheme's assets if it is wound up

**Join the debate at icaew.com/economia**

# SHE'S DONE THE TIME NOW SHE'S TURNED TO CRIME

Giving up a Big Four partnership to write a crime novel, Rose Edmunds has reinvented herself as an author. She tells **Xenia Taliotis** what it took to make the change

Ask Rose Edmunds what she does for a living and the answer is immediate and unequivocal: "I'm a novelist." It's a simple response that says so much more. It confirms that she has closed the door on her 22-year career as a tax accountant.

"Writing novels is my job now, it's what I do for six hours a day so yes, I do feel the accountancy is in the past," she says. "I felt that I'd changed career, that I was an author, from the first day I started writing after leaving Deloitte. But now my book's been published it's also how others see me. I think that previously people would put a silent 'would-be' before the word writer when I told them what I was up to. But that perception has shifted now."

What Edmunds has been dreaming of, and working on, for the past couple of years is *Never Say Sorry*. It's a pacey crime thriller about the existence of a natural cure for cancer, a global pharmaceutical company that suppresses it, a scientist who threatens to reveal all if he's not paid off, a corporate financier who stands to gain from a massive deal involving the pharma giant, and a journalist who senses a career-making scoop if she can knit the strands together.

Clearly not based on personal experience then? "Goodness, no," says Edmunds. "Though everyday situations and people and conversations are sometimes springboards for ideas. And I admit that a couple of the things Hugo, the corporate financier, says are things I heard from members of my own team.

"He's not based on any one person in particular but that doesn't stop people I know speculating about where my characters come from. One of my former colleagues is convinced he's Hugo. But I couldn't possibly comment."

Though she enjoyed writing stories as a teenager, she read maths at Sussex University. "It was the easy option for me with my analytical skills," she says. "And I knew I'd probably get a career out of it."

She graduated with a first and spent a year in the US working as a mathematics researcher before returning to the UK to do a PhD at Cardiff University on entropy numbers, approximation numbers and embeddings. It sounds gruelling but Edmunds says she didn't find it so, even though while working on her doctorate she was also taking her accountancy exams. And having a baby. Her son was born in 1988 between the two main sets of accountancy exams.

"I just made time for it all," she says. "After starting my doctorate I realised I didn't want a life in academia, so I had a think about what would suit me and came up with tax. I liked working with figures, solving problems and working logically and tax offered all of these."

She joined Andersen in 1985 and by the time she returned from maternity leave she was ready to qualify. Her competence was such that she was allowed to do so despite not having done the requisite hours of work experience between parts one and two of her exams.

Edmunds left Andersen in 1989 when the combination of childcare and the commute from Brighton to London became too much. She did a few years with a firm in Haywards Heath and then joined Grant Thornton, which promoted her to tax partner and gave her the specialist tax practice to run.

"Setting up the tax division was enormously stimulating," she says, "and it was great watching it become successful. I wasn't looking to change job but I was headhunted by Deloitte in 2001 – and I loved what they offered me so I went."

She had a "terrific" six years as tax partner with Deloitte, co-ordinating corporate, shareholder and employee tax-planning strategies, taking clients through critical development stages and advising on company sales and flotations.

But by the end of 2007 the constant contact with risk-taking entrepreneurs who were always pushing to turn their ambitions into reality got her thinking.

"I developed this thirst to do something different," says Edmunds. "I was surrounded by people who were creating businesses from scratch and I felt a need to give my life a shake, to do something creative."

Writing had been a niggling thought in her mind for years but the timing had never been right: exams, career, family, career, career, career. But with a healthy sum in the bank and her son grown up, the time suddenly became right.

"I'd had so much to do I couldn't find space to apply myself to it properly. I didn't want to do it part time, snatching minutes here and there to scribble a few paragraphs," she says. "The only way it would work for me would be to stop being an accountant and start being an author. I left Deloitte in December 2007, took the time I would have had off for Christmas and started writing on what would have been my first day back at work."

LEON CHEW


She's clearly highly disciplined. "It's true, I'm not a procrastinator," she says. "Besides, giving up such a generous salary was a powerful motivator to get on with it." She finished her first book – also a crime thriller – by the middle of 2009. But she felt she could do better and set to work immediately on *Never Say Sorry*.

Ten drafts and 18 months later that too was finished. But far from waiting by the letterbox to catch rejection letters, she did her research, chose a publisher she thought would take her book and bingo: Book Guild Publishing took her on. She hopes to have her next book for them finished by the middle of next year.

Edmunds chose crime thrillers as her genre because it's what she most enjoys reading. While she admires Stieg Larsson and Patricia Cornwell, mutilated bodies and forensic analysis are not what she writes about. She's more interested in conspiracies and cover-ups, how good people sometimes do bad things to protect their interests. That's why she's such a fan of John Grisham, John Le Carré and Dick Francis, master storytellers who deal more in skullduggery than skull bashing.

"People who like reading Grisham may enjoy my work," she says, "though my style is lighter and more humorous. I want to keep a few laughs in my books to keep it fun for me and my readers. That's why I don't sweat the planning stage too much. Once I've got my plot I start writing."

Is there anything she misses about her old job? "My clients and the camaraderie of being part of a team. And that I was considered an expert in my field so people valued my opinion," she says. "But I'm getting some of that back. I'm meeting lots of people, setting up new networks and last week I was invited onto a panel with other published authors to take questions from new writers. That was brilliant. In fact it's all brilliant."

# Briefing
# Extended audit reports, IFRS for SMEs and directors' pay

This month, an ICAEW report on establishing trust online. Plus, the review of directors' pay, and IFRS for SMEs

## EXTENDED AUDITOR REPORT

**1** Clarity and transparency lie at the heart of International Auditing and Assurance Standards Board (IAASB) plans for an extended auditor's report. It calls for a commentary of additional information highlighting issues that the auditor judges most important in helping users understand the audit or audited financial statements.

The auditors would have to judge the appropriateness of managers' use of the going concern assumption in preparing financial statements, stating whether any material uncertainties have been identified. And they would need to draw users' attention to any material inconsistencies that may occur between the audited financial statements and other information.

IAASB (iaasb.org) has issued a consultation document and the deadline for responses is 8 October.

## IFRS FOR SMES REVIEW

**2** The International Accounting Standards Board (IASB) is keen to ensure the IFRS for SMEs are fit for purpose. In the first step of a comprehensive review, the board would like to hear about experiences implementing IFRS for SMEs and whether entities think the standards need amending. It asks specific questions but encourages respondents to raise other issues.

Copies of the request for information are available from ifrs.org and the deadline for comments is 30 November.

## DIRECTORS' PAY REVIEWS

**3** The government is introducing legislation to give shareholders binding votes on executive salaries and exit payments and to ensure that the link between pay and performance is made clear.

The measures, part of the Enterprise and Regulatory Reform Bill, are to be implemented by October 2013.

BIS has published draft regulations covering the information companies will have to disclose in remuneration reports. The first section, subject to the binding shareholder vote, will set out every element of pay a director could be entitled to, its maximum potential value and how it supports strategic objectives. The second will report on how the company implemented its pay policy.

Meanwhile, the Financial Reporting Council is consulting on two amendments to the UK Corporate Governance Code: extending the code's provision on clawback arrangements; and limiting the practice of executive directors sitting on the remuneration committees of other companies.

Copies of the draft regulations are available from bis.gov.uk. The deadline for comments is 26 September. The FRC's consultation document is available for download from frc.org.uk

## CONSULTATION ON RTI

**4** HMRC is seeking views on the best way to comply with the Real Time Information (RTI) rules. In a consultation document, HMRC considers options for calculating RTI penalties for different sizes of employer and for various degrees of default, as well as how often penalties should be charged.

It says exact timings for introducing the penalties will be confirmed following responses to the consultation. Under the RTI rules, employers and pension providers will be required to send HMRC information about employees' pay, tax and National Insurance deductions in real time rather than at the end of the tax year. The rules will come into force for most employers by next April.

The deadline for responses to the consultation is 6 September. Email comments to TAP@hmrc.gsi.gov.uk

## BUILDING TRUST ONLINE

**5** ICAEW's IT Faculty says there is a growing need for informed debate about privacy, IP rights and information security. First published in 2011, *Building Trust in the Digital Age: Rethinking Privacy, Property and Security* confirms that IT transforms the way businesses operate but concerns about the control and security of digital information have been fuelled by major data breaches, identity thefts and computer viruses.

To build trust in the security and use of digital information, businesses should implement good practices based on an accepted framework of rights, duties and social expectations.

The publication summarises business practices, underlying theory and new areas of debate.

Copies from icaew.com/informationsystems

To find more technical updates visit icaew.com/economia/technicalupdate

# Updates

## EMPLOYMENT LAW

**ECJ confirms right to sick leave on holiday**

Workers who fall ill while on annual leave are entitled to take sick leave instead, and postpone their holiday until a later date, the European Court of Justice has confirmed.

That right is available to workers whether they fall ill before or during the holiday.

In delivering its judgement in Asociación Nacional de Grandes Empresas de Distribución v Federación de Asociaciones Sindicales, a case involving Spanish trade unions and department stores, the ECJ confirmed that any national provisions to the contrary are illegal under the European Union's Working Time Directive.

Paid annual leave is "a particularly important principle of EU social law from which there can be no derogations" the ECJ said.

The directive "must be interpreted as precluding national provisions under which a worker who becomes unfit for work during a period of paid annual leave is not entitled subsequently to the paid annual leave which coincided with the period of unfitness for work".

The UK government is reviewing the directive and lobbying to reduce the red tape it generates. Employment minister Norman Lamb described aspects of the directive as "barmy" – including the right to take sick leave instead of holiday.

### DELAY TO REPLACEMENT FRSSE

The replacement for the FRSSE looks set to be delayed well into next year, leaving small businesses facing uncertainty over the shape of their future accounting regime. The delay has come about because of the European Parliament's decision to go ahead with a first reading of its text of the proposed new accounting directive, rather than wait to iron out any differences first with the EU Council's own text. This means that the directive is unlikely to be finalised until well into 2013 rather than by the end of this year.

One of the key objectives of the new directive is the application of simplified accounting rules for small and medium-sized businesses. Accounts SMEs would have to prepare would be limited to an abridged balance sheet, profit and loss account, five stipulated notes but no additional disclosures. The "no additional disclosures" clause means that once the directive is implemented in the UK, the FRSSE will no longer be consistent with the law and will need replacing.

The UK Accounting Standards Board had hoped to know what the final version of the directive would look like so that it could work on the replacement.

The ASB is currently working on the replacement for UK GAAP for large companies, which is due to come into operation by the end of 2012. The consultation phase closed on 30 April.

### CDD – WHAT FIRMS NEED TO DO

Firms must make risk assessments even if they know their clients well, says the ICAEW quality assurance department.

They need to be able to demonstrate they have undertaken the assessment and taken appropriate steps to verify the client's identity. They should also record their knowledge and thought processes.

QAD suggests firms start by ensuring they have documented their knowledge of the client and considered the risk. Questions to ask include:

- What business are they in?
- Does the rationale for the business make sense or is it part of a complex web of transactions?
- Who are the beneficial owners of the business?
- What is the source of funds?
- With whom and where does the business trade?
- Have they met the client?
- Is there a risk that this business could be used for money laundering purposes?

Firms should then consider what evidence they hold to verify the client's identity. For longer-standing clients, they may well have obtained official verification of matters, such as names and addresses, through correspondence with government offices or from documents like utility bills that they have seen when preparing the accounts. Copies should be included in client due diligence (CDD) documentation.

Depending on the risk assessment, firms may want to obtain the client's photo identification and/or carry out electronic checks. Firms should regularly review the information they hold to ensure nothing has changed, remembering to mention the fact in the documentation.

Further information about the CDD process, including examples of risk-based verification, can be found at icaew.com/moneylaundering.

### BANKS ADMIT MIS-SELLING HEDGING PRODUCTS TO SMEs

The four big British banks have agreed to compensate small businesses incorrectly sold complex interest rate hedging products after the Financial Services Authority found "serious failings" in the way they were marketed.

Barclays, HSBC, Lloyds and RBS have stopped marketing interest rate structured collars to retail customers immediately and assured the regulator that, except in exceptional circumstances, they will not foreclose on or vary existing lending facilities without prior consent.

The FSA carried out a review after growing pressure from small businesses. Many had been sold "structured collars", which resulted in SMEs paying more if base rates fell below an agreed level. SMEs claim the inherent risks had not been explained to them.

In its review, the FSA uncovered evidence of bad sales practice, driven by sales reward and incentive schemes. They included: poor disclosure of exit costs; failure to ascertain the customers' understanding of risk; non-advised sales straying into advice; and overhedging (where the amounts and/or duration did not match the underlying loans).

The compensation scheme will only apply to "non-sophisticated customers". For further information, visit fsa.gov.uk

### A MASTERCLASS IN PRACTICE ASSURANCE

Is your firm part way through its review cycle? If so, you could benefit from attending one of a series of free local masterclasses held by the ICAEW quality assurance department.

Reviewers from QAD will go over some of the common issues they encounter in their monitoring reviews, including: anti-money laundering, data security, the quality of statutory accounts, ethics, clients' money and other hot topics.

A list of future dates can be found at icaew.com/practiceassurance, but firms will receive an invitation from QAD to one in their area if they are eligible. The next masterclass is on 11 September at Chartered Accountants' Hall.

### EIS AND VCT LIMITS TO INCREASE

The European Commission has agreed to the UK government's request for state aid approval to make changes to the Enterprise Investment Scheme and Venture Capital Trusts schemes.

The changes, first announced in the 2011 Budget, will increase the employee limit from fewer than 50 employees to fewer than 250 employees at the time of investment. Gross asset limits will increase from no more than £7m to no more than £15m immediately before the relevant investment, and from no more than £8m to no more than £16m immediately after investment. A third change increases from £2m to £5m the amount which any company may receive in the 12-month period ending with the date the relevant investment is made.

The ICAEW Tax Faculty welcomed the news as it has been lobbying for an increase in the limits since they were reduced six years ago. The move will allow more companies to raise finance using EIS or VCT for investments made on or after 6 April 2012.

## FISCAL SUSTAINABILITY REPORT

The independent Office of Budget Responsibility (OBR) last month issued its annual assessment of the long-term sustainability of UK government finances.

The annual analysis is done by looking at the fiscal impact both of past public sector activity, as reflected in assets and liabilities in the public sector balance sheet, and the potential impact of future government activity, by making 50-year projections of all public spending and likely transactions.

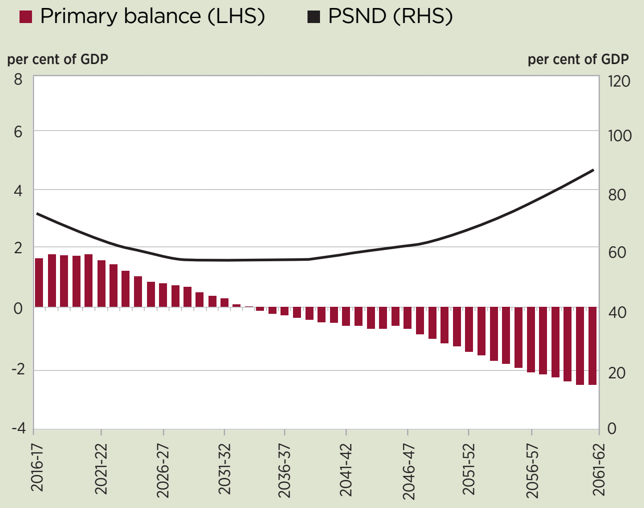
The headline projections suggest that austerity is unlikely to be short-term, as public finances come under greater pressure in the long term thanks in large part to demographics and an ageing population. While government revenues are projected to remain broadly stable as a share of national income, an older population will mean that age-related government expenditure (notably healthcare and pensions) will increase as a share of national income. Without increasing taxes or reducing spending elsewhere this will result in a significant growth in public sector net debt by the end of the 50-year period.

While the graph below shows both the primary balance and total public sector net debt deteriorating significantly by 2061, this year's figures represent a minor improvement from the projections made by the OBR last year. The improvement is due to the government announcing additional projected expenditure cuts in response to the worsening position over the medium term.

However, all long-term projections come with caveats and health-warnings. Early in this report, the OBR admits as much: "Long-term projections are highly uncertain and the results we present here should be seen as broad-brush illustrations rather than precise forecasts". But even written with a broad-brush the message is that fiscal austerity is here to stay.

**For further information or to download the full report, visit budgetresponsibility.independent.gov.uk**

### CENTRAL PROJECTION OF THE PRIMARY BALANCE AND PUBLIC SECTOR NET DEBT



# Coining it

Will cash accounting help SMEs to keep things simple or will it restrict their growth? **Liz Loxton** weighs up the arguments

Announcements in March's Budget that small businesses with turnovers of up to £77,000 – ultimately £150,000 – per year could be allowed to shift their accounting to a cash-based system, show that the government is keen to present a business-friendly face.

But the jury is out on whether these measures will genuinely simplify accounting and tax arrangements for the three million or so businesses that would qualify. And with IFRS for SMEs also on the horizon (see box, right), some commentators argue that micro-businesses as well as enterprises with growth aspirations will be left as hard-pressed as ever on the regulatory front.

The proposals to allow smaller businesses – the UK's army of sole traders among them – to account on a cash basis came originally from the Treasury's Office of Tax Simplification (OTS). In February the OTS recommended that cash accounting plus a range of fixed-rate deductions be accepted for small businesses. The OTS believed it was targeting businesses that use and understand cash accounting and that aligning tax and accounting regulations with common practice would bring greater clarity and reduced cost and red tape.

The OTS, however, was focusing on businesses with a turnover of up to £30,000. At some point between late February and Budget day, the Chancellor decided to target a wider group.

### OPINION DIVIDED

At the time of writing, the Budget proposals were out for consultation and opinion divided over what form they will take. Ed Molyneux, CEO and co-founder of online accountancy service FreeAgent, a partner with software firm IRIS, says the moving limits on company turnover size may not be as bewildering as they first appear. "Some companies start small and get bigger but the vast majority stay where they are," he says.

He believes more complex companies need more information on how a business is performing, whether a particular customer is profitable or not.

"But for hobby or sideline businesses cash accounting may well be appropriate," he says. "Setting the limit at the VAT threshold seems sensible, but may have the effect of complicating matters for moderate-scale businesses with turnovers fluctuating around that level. So £150,000 does make sense as an exit point – if you reach that figure, you are well on your way as a business."

Clive Lewis, ICAEW's head of enterprise, argues that the government should set a threshold of £30,000 for a test period to allow it to evaluate any negative consequences. Cash-based accounting undoubtedly simplifies administration for small and micro businesses and removing complication may save money and time for some, he argues. But he is concerned that the measures will do growth businesses no favours.

"Cash accounting takes them away from the basic structure of the profit and loss account," he says. "You lose the need for figures such as turnover, gross margin, operating expenses and net profit. The sooner business owners get familiar with those concepts the better business managers they will be."

Accounts with any level of complexity tend to be prepared through software, Lewis adds, which can take the sting out of converting a cash book into a set of full accounts. While accruals accounting is a

IKON IMAGES

"Cash accounting takes growth businesses away from the basic structure of the profit and loss account... you're not getting used to business language"

steeper learning curve for business owners without a finance background, it does give them a passport to discussing their business with others. "If you're using a cash-based system you're not getting used to the business language," Lewis says.

Richard Churchill, partner with central London firm Shelley Stock Hutter, agrees. His five-partner firm deals with many start-up businesses. Although setting up an accruals-based system will initially be more challenging, constructing accounts in a spreadsheet or in a cash book is a false economy and presents a misleading picture on future funding needs, he says. "You may well make bad decisions based on cash accounting."

He urges a more complete and forward-looking view of finances. "You can't get a true picture by looking at what is going in and out of the bank," says Churchill. "The worst thing would be to take money out for a dividend or pay award when in reality you will need that money for something else. You need to be forecasting forward. It may be more time-consuming initially and a bit more costly, but it gives greater hope of success."

He recalls one start-up, an event management company, which took the trouble to install an accruals-based system. The software flagged a requirement for £50,000 of future investment six months down the line, giving the founders time to approach their investors for a further £10,000 each. Cash accounting can also lead to a lack of discipline on both creditor and debtor management, Churchill argues. It is too easy to focus on the customers that are paying you and fail to chase up late payers.

On the supplier side, too, not attending to payment terms can mean new businesses fail to build up strong relationships with the companies they will need if they want to grow quickly. "Building up goodwill is very important for growth businesses. Just paying ad hoc when you have money in the bank won't do that," he says.

## TAXING CONCERNS

Anita Monteith, ICAEW's technical manager for SME tax, says the table of fixed rate deductions that accompanies the cash accounting proposals could amount to massive administrative savings for small businesses, although the principle is more attractive than the amounts proposed at the time of writing.

She believes that unless the amounts are increased, small businesses will be better off claiming a deduction for a proportion of their actual costs to cover home phone, internet and car use.

There are also concerns that the proposals may lead to obfuscation on the tax front. "With cash accounting, it may be relatively easy to distort figures to your advantage – to make a big payment at the end of the year, for instance, to bring tax relief forward," says Lewis.

Simon Witkiss, product director at IRIS Accountancy Solutions, says businesses can and do use cash accounting for VAT calculation up to the millions. "However, for cash accounting to be a success HMRC must resist the temptation to implement too many rules around minimising tax avoidance," he says.

"The increased limit the chancellor has proposed probably increases the pressure on HMRC to strike the right balance between simplicity and fairness. Businesses will also need to understand that while their accounting may be simplified that doesn't mean the tax rules on what is an allowable expense are lessened."

Monteith is concerned that in the name of simplification we will end up with a more complex set of options, with businesses checking to see which ones leave them better off. Rules will be needed around when and how businesses can or should enter or leave the scheme and also around the principles of cash accounting itself – what do we mean by cash? When can a business consider it has made a payment?

"The way the rules look at the moment there may not be much real simplification involved," she says.

And for businesses with true growth potential, the rules might have the effect of limiting their ambition. "Once you apply a distinction people trade up to that level and not beyond."

## IFRS FOR SMEs

In light of the complexities of the initiative to arrive at IFRS, UK SMEs might view IFRS-based UK GAAP with trepidation.

Given that the original aim, in part, was to minimise financial crises through distortion within company results, some wonder if we have been overtaken by events.

But John Boulton, corporate reporting manager in ICAEW's financial reporting faculty, says IFRS for SMEs has been refined to make them palatable to UK constituents. The standards are, he says, more concise than current UK GAAP and give more up-to-date reporting.

Aspects of the IFRS for SMEs made the regime unsuitable for the UK unmodified, but the new UK standards based on it have been enhanced through consultation.

The new standards address concerns whether businesses will be able to:

- Revalue property, plant and equipment
- Capitalise development costs (an issue for tech companies with small turnover)
- Capitalise borrowing costs.

These options are reinstated under the proposed new UK GAAP. In addition the UK GAAP will require certain financial instruments – foreign exchange forwards or commodities forwards used by agri-businesses – to be recognised on the balance sheet.

# Opportunity knocks

As the financial services sector faces its biggest shake-up in decades **Caroline Biebuyck** considers the consequences for member firms

The Financial Service Authority's retail distribution review (RDR) may lack the wow factor of 1986's Big Bang, but it's having a far greater impact than its pedestrian title may suggest. Commission is out, qualifications are in. Clarity and transparency are the name of the game, with consumers the intended winners. Firms offering financial planning advice are quietly confident the changes will play to the strengths of the accountancy model and benefit their business.

The biggest shake-up under the new rules, which come into effect on 1 January 2013, is that financial advisers won't be able to charge commission for advice on investment and pension products. They will only be able to charge a fee, agreed in advance with their client, for their work.

RDR makes it easier for consumers to understand financial advisers' motivations. At present advisers can be tied agents of a single product provider, multi-tied agents of a panel of product providers, whole-of-market advisers working on commissions, or independent advisers. In the future, firms will be simply independent or restricted.

Trust in the financial services industry is at an all-time low, reeling from mis-selling scandals. "Something needed to be done to make sure consumers would be given objective advice on their investments – advice that was clear and understandable," says John Gaskell, financial planning and advice manager, ICAEW Financial Services Faculty.

Changes are already sending shock waves through the sector, with some of the bigger providers, such as high-street banks, limiting their advice or stopping it entirely. This reduces services available at the lower end of the market. "From the consumers' point of view this is slightly

"Something needed to be done to make sure consumers would be given objective advice on their investments – advice that was clear and understandable"

worrying as there will be fewer people out there giving advice," says James King, partner at Price Bailey.

Many investment advisers are targeting high net worth individuals. Few seem to be looking at increasing their offerings to the mid-market. Richard Bertin, managing partner at FF&P Wealth Planning, says this bracket may resist advisory firms charging fees. "High net worth individuals are used to paying fees for tailored financial advice. The mid-range of the market isn't, as they've been paying a hidden fee in the past." Mid-income consumers are buying into passive products with low fees as a result.

Changes in fee structure could have unexpected consequences for investment advisers by shifting the balance of power away from providers. Commission amounts were decided by the product manufacturers. "Now there is no commission bias, why should the product providers dictate what the advisers earn from giving advice?" asks Bertin.

The RDR generally applies to advisory services only. This may lead to a skew in the marketplace as services such as execution-only will continue to receive commission. Neil Messenger, partner and head of financial planning at Grant Thornton, thinks this may send clients into the arms of execution-only platforms in the mistaken view they are not paying fees. "If I recommend a client takes a portfolio and I charge x% per annum, the client may go online and buy this portfolio themselves and think that they're saving by not paying us an annual fee for the service," he says. "In reality the fees could be higher as the charging basis is opaque. What's more they'll be receiving no service for their money."

A third main strand of the RDR is for all retail investment advisers to possess higher minimum qualifications and comply with improved standards of professionalism. FSA-accredited bodies – ICAEW is one – will have to verify that members who are advisers have met new qualification standards, abide by the FSA's regulatory regime and undertake the necessary mandatory CPD. Advisers will also be subject to the code of ethics and disciplinary procedures of their accredited body.

The changes aim to end the cowboy-type tactics used by the financial services industry in the past. King believes this means the financial planning world will be viewed far more as a profession than it has in the past. "Everyone will be better qualified, everything will be more transparent and people who perhaps ought not to be in the industry will go."

Accounting practices up and down the country have been offering wealth management services for years, out of their accountancy practices or via a separate limited company. Whatever their transmission mechanism, these firms are broadly happy with the changes. They have generally been providing fee-based independent advice for years, so ending commissions will level the playing field between them and other financial advisers.

"I can't see RDR being anything other than positive for a professional organisation," says Messenger. "It will drive a competitive advantage because we're in the right position: many of our competitors operated with a lack of transparency and their charging structure will now become more visible. Their

GETTY

"Everyone will be better qualified, everything will be more transparent and people who perhaps ought not to be in the industry will go"

clients currently have no idea what they're paying for their services or how they are being charged."

The RDR marks a move towards a professional practice model, emulating "what already exists in the culture of ICAEW and its members", says Gaskell. "Given the loss of confidence in the financial services sector, the accountancy profession is well placed to engage with those who need independent financial planning and investment advice."

Some accounting firms may not have the critical mass, or inclination, to get FSA approval to deliver investment advice. Gaskell says they will still have to find a way of gaining access to advice from a trusted financial adviser to help their clients. "Sticking your head in the sand is not an option. Clients need access to reliable advice on their personal finances, particularly small business owners and the self-employed where the boundaries between business and personal finances tend to merge."

Referrals to financial advisers by ICAEW members will continue to be governed by ICAEW's code of ethics, which will be updated this year to reflect the changes brought about by the RDR.

Ethics and integrity manager Elizabeth Higgs says the basic principles will stay the same. "Only the terminology is being updated," she says. Under the revised code, ICAEW members will not have to take any action if they refer work to an independent adviser. If they refer work on to a restricted adviser, they will have to assess its suitability and ensure it can cover most of the market products and providers relevant to the client's needs.

If a firm becomes a specialist adviser will it have to be restricted rather than independent? No: the FSA stated that a firm which offers specialist advice in a narrow market can do so either on an independent or a restricted basis. "Just because you're only looking at annuities, for example, doesn't mean you have to be restricted," Gaskell says. "If however you were only looking at a restricted panel of annuities, then you would be a restricted adviser too."

Firms considering moving into financial services need to be aware of cultural differences between financial planners and chartered accountants. King, a financial adviser, oversaw Price Bailey merge its financial planning and tax teams in 2007 – a move he says forced both sides to learn about the other. "They're quite different. The tax side works towards an end answer whereas with financial planning you're always looking towards the unknown future."

If firms can merge the two ways of working, clients will love the idea of coming to a one-stop-shop accounting, tax and personal finance service. "It's all about trust within the business," says King. "My tax colleagues trust my team but that didn't happen overnight; you have to constantly work at it and come up with ideas and push things and make things happen."

### ADVICE SERVICE

The ICAEW Financial Services Faculty's support to members and member firms operating in this sector of the market includes a monthly magazine, ***FS Focus***, and regular events and webinars.

A one-day financial planning conference, chaired by Justin Urquhart Stewart, will help members and others take advantage of the opportunities presented by the retail distribution review. Taking place in London on 17 September, you can find out more on the faculty's website: **icaew.com/fsf**

# Exclusion rescinded, orchestra fleeced, failure to spot fraud

Accountant allowed to retire, member appeals against costs as he serves jail term for defrauding orchestra, while another's appeal against exclusion for recklessness fails

## CERTIFICATE WITHDRAWN

An ICAEW member has had his exclusion order rescinded after he appealed to the ICAEW's highest disciplinary authority. The appeal committee decided that "exceptionally" it would substitute the exclusion with an order for Brian Mogford's practising certificate to be withdrawn. In doing so, it took into account that he would be able to retire after nearly 50 years as a member of the profession.

"His problems seem to have originated from factors beyond his control and left him with a lack of insight into, and means to deal with, the demands of practice," the tribunal said. "He presented a crushed and sorrowful figure beset by serious medical and personal problems since 2005. He expressed regret for his inaction giving rise to the complaints and stated that he should have instructed a firm of agents. He'd been stressed and unable to cope for three years."

Mogford had two complaints found against him at a hearing in June last year. The first related to his failure to submit a client's personal and partnership tax returns to HMRC in time in 2009 and at all in 2010. He then failed to return copies of previous tax returns, VAT returns, monthly spreadsheets and other papers to the client despite requests.

The second complaint covered his failure to respond to requests from another firm of accountants, ie a letter requesting professional clearance and handover information regarding another three of his clients.

For the first complaint, Mogford was excluded, fined £5,000 and ordered to pay costs of £2,414. For the second, he was severely reprimanded, fined £5,000 and ordered to pay costs of £1,649. Mogford appealed. As well as rescinding the exclusion order, the tribunal reduced the fines to £2,500 each and made no order as to the appeal costs.

## COSTS ORDER DROPPED

The ICAEW appeal committee has agreed to drop the costs order against a former member who was excluded from membership after being found guilty of defrauding a major national orchestra.

Cameron Poole, who is currently serving a four-year prison sentence in HMP Leyhill for the fraud, which ended up losing the orchestra £2.3m, has a judgement against him for repayment of the money. His assets have been seized and he has no means of meeting the tribunal costs of £2,555.67.

The Appeal Committee said that it would be "unjust to make an order for costs which cannot be paid" and allowed his appeal.

Poole, an Australian accountant, worked with the orchestra for five years as finance director. Within a few weeks of his leaving, the orchestra discovered he'd been milking the organisation for four years, hiding the transactions in a dormant account, making bank transfers to himself and forging signatures on cheques. All told, he stole around £666,000 which he spent on flights, clothing, art, jewellery and home renovations.

Because the orchestra had no knowledge its finances were being undermined, it put on extra performances, which led to further losses, amounting to around £1.6m. After the fraud was uncovered, the orchestra sued its bankers and its auditors, and managed to recoup a large part of the losses suffered. Poole did not appeal against the original exclusion order.

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The appeal committee rejected an appeal from a partner in a chartered accountancy firm who claimed that to exclude him from membership for reckless behaviour would be excessive. Paolo Maranzana had been excluded by an ICAEW disciplinary committee tribunal after the Financial Services Authority found he had behaved recklessly because he failed to realise a scheme being run by a client was fraudulent. The client, the holding company for a legitimate trading company, set up a scheme involving overseas share fraud operators (or boiler rooms) who aggressively sold shares in the holding company to gullible investors largely based in the UK.

The boiler room received 60% of the price of the shares sold and the holding company directors most of the rest. Both the holding and the trading company went into liquidation and investors lost more than £2.5m.

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There was no suggestion of personal dishonesty or involvement in devising the scheme. But he failed to realise it was fraudulent. The FSA found him reckless, banned him from performing any function regulated by it and fined him £105,000.

The FSA also found that Maranzana's fellow partner, Lawrence Finger, SRLV's compliance officer for money-laundering, had recklessly failed to recognise that the same scam involved money-laundering, and fined him £35,000. Finger subsequently received a severe reprimand from ICAEW. Maranzana argued this was inconsistent with the exclusion order made against him.

However, the appeal committee found a clear distinction between the two cases. The disciplinary committee was correct to exclude him and "merciful in recommending that he should wait two years before he could apply for readmission".

# Report listings

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**Order**. Severely reprimanded. Given that he is now in an IVA and has committed to repaying the shortfall to Westcott and outstanding monies to an employee as part of that IVA, no order as to fines or costs was made.

● Andrew Thompson of 9 Buchanans Wharf South, Ferry Street, Bristol BS1 6HJ
**Complaint**. Between 31 January 2007 and 9 March 2011, he failed to certify compliance with continuing professional development requirements.
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**Order**. Had the tribunal known about his conviction at the appropriate time, he would have been excluded for the maximum 10 years. However, given the exceptional circumstances of the case, the passage of time, the evidence of rehabilitation and his readmission to membership, the tribunal decided not to impose any sanction. Ordered to pay costs of £2,240.66.

## CESSATION OF MEMBERSHIP

The following have ceased to be ICAEW members because of failure to pay outstanding fines and costs.

● Richard Andrews of County Dublin
● Andrew Thompson of Bristol
● Eudora Thompson of London
ICAEW takes all necessary steps, including legal proceedings, to retrieve the money.

## INVESTIGATION COMMITTEE CONSENT ORDERS

● Caroline Lovibond of Mitre House, Lodge Road, Long Hanborough Business Park, Witney, Oxfordshire OX29 8SS
**Complaint**. Between October 2009 and July 2011, she engaged in public practice without a practising certificate, contrary to principal bye-law 51(a).
**Order**. Reprimanded, fined £1,500 and ordered to pay costs of £1,142.

● No publicity of name
**Complaint**. On 19 November 2010 the member entered into an Individual Voluntary Arrangement under the provisions of the Insolvency Act 1986.
**Order**. Ordered to pay costs of £360. The committee directed that the member should not be identified by name.

● Yiu Tak Anthony Tse of Room 711, Argyle Centre, 7th Floor 688 Nathan Road, Mong Kok, Kowloon, Hong Kong SAR
**Complaint**. He allowed his firm, Anthony Y T Tse & Company, to act as auditor of the financial statements of X Company Ltd for the years ended 31 March 1993 to 31 March 2005 when the firm was not independent because he, or a close family member, had an interest in the company.
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**Complaint**. He failed to undertake a compliance review in 2010 in accordance with Regulation 3.13 of the Insolvency Licensing Regulations and Guidance Notes.
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# Exclusion rescinded, LPO fleeced, failure to spot fraud

Accountant allowed to retire, member appeals against costs as he serves jail term for defrauding orchestra, while another's appeal against exclusion for recklessness fails

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An ICAEW member has had his exclusion order rescinded after he appealed to the ICAEW's highest disciplinary authority. The appeal committee decided that "exceptionally" it would substitute the exclusion with an order for Brian Mogford's practising certificate to be withdrawn. In doing so, it took into account that he would be able to retire after nearly 50 years as a member of the profession.

"His problems seem to have originated from factors beyond his control and left him with a lack of insight into, and means to deal with, the demands of practice," the tribunal said. "He presented a crushed and sorrowful figure beset by serious medical and personal problems since 2005. He expressed regret for his inaction giving rise to the complaints and stated that he should have instructed a firm of agents. He'd been stressed and unable to cope for three years."

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## COSTS ORDER DROPPED

The ICAEW appeal committee has agreed to drop the costs order against a former member who was excluded from membership after being found guilty of defrauding the London Philharmonic Orchestra (LPO).

Cameron Poole, who is currently serving a four-year prison sentence in HMP Leyhill for the fraud, which ended up losing the orchestra £2.3m, has a judgement against him for repayment of the money. His assets have been seized and he has no means of meeting the tribunal costs of £2,555.67.

The Appeal Committee said that it would be "unjust to make an order for costs which cannot be paid" and allowed his appeal.

Poole, an Australian accountant, worked with the LPO for five years as finance director. Within a few weeks of his leaving, LPO discovered he'd been systematically milking the orchestra for four years, hiding the transactions in a dormant account, making bank transfers to himself and forging signatures on cheques. All told, he stole around £666,000 which he spent on flights, clothing, art, jewellery and home renovations.

Because the orchestra had no knowledge its finances were being undermined, it put on extra performances, which led to further losses, amounting to around £1.6m. After the fraud was uncovered, the LPO sued its bankers and its auditors, and managed to recoup a large part of the losses suffered. Poole did not appeal against the original exclusion order.

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# Deep pockets

## Proposals for tougher fines for audit misconduct at public interest entities raise some worrying questions, as **Caroline Biebuyck** finds out

Audit regulation broke a barrier earlier this year when PwC was fined £1.4m for an audit failure in respect of its work at JP Morgan Securities – the largest fine ever to be imposed on a UK accountancy firm.

But the regulator involved, the Accountancy & Actuarial Discipline Board (AADB), wasn't celebrating. It had suggested that the tribunal it had convened to hear this disciplinary case levy a fine linked to PwC's profits. Figures in the tens of millions had been bandied around, numbers that would have brought the fine in line with the £33m paid by JP Morgan Securities to the Financial Services Authority in respect of the same issue (the bank had not ring-fenced client funds; the auditors had failed to spot this).

Just a few months later, in April 2012, the AADB's parent body, the Financial Reporting Council (FRC), issued a consultation paper setting out proposed formal guidance for its tribunals when determining sanctions in disciplinary cases.

This is the first time the AADB has issued any kind of guidance to the tribunals it convenes to hear disciplinary cases. In the past it has relied on precedent, sometimes from cases dating back two decades.

The consultation paper talks of the need for clarity and predictability of the sanctions-setting regime. It says it is normal for regulators to issue guidance on sanctions – last year a judge criticised the solicitors' regulator for not having sanctions guidance for its tribunals.

But while there's little doubt that guidance was needed, the timing of the consultation suggests that the PwC/JP Morgan Securities case left a bitter taste at the AADB. There's a sense among accountants that the regulator was unhappy its fine was so much lower than the fine levied by the FSA. The AADB would like to be seen to be sitting at the top table of regulators when it comes to the fines it can levy.

### UPWARD TREND

The consultation proposes fines be levied using a percentage of audit firms' turnover. This brings the independent audit regulator's sanctions closer to those of the FSA, which based its fine on JP Morgan Securities on a percentage of the assets under the company's management.

The underlying message is clear: penalties are going to rise. And while AADB executive counsel Gareth Rees QC says there isn't a direct comparison between the FSA and proposed AADB sanctions, he would like to see a situation where "that level of [FSA] fine can become the norm so that [the sanction] really matters". The consultation paper talks about the primary purpose of sanctions not being to punish but to act in the public interest. This suggests the need for a deterrent against poor work by audit firms.

Not surprisingly, members of the profession take umbrage at the implication that they need a deterrent to do their work properly. They say the FRC's monitoring work through its Professional Oversight Board has not shown there to be a systemic problem with audit quality.

"None of the firms ignore this issue. We are all busting a gut to ensure that errors don't occur," says one senior member of the audit profession. "If you can't identify something the firm did that could have been avoided by a behavioural change all you're doing by levying a fine is punishing."

An interesting aspect of the recent PwC case was that just as the AADB appeared to be unhappy over the fine levied by the tribunal, so the tribunal was unhappy that the AADB had not taken action against individuals at the audit firm.

### HELD TO ACCOUNT

The consultation tackles this issue by underlining the collective responsibility of member firms for the conduct of individual partners, directors and employees. Member firms need to be held accountable if they are to have an incentive to comply with the rules, says the AADB – particularly given their size, scale and the breadth of their business interests.

Another senior accountant is unhappy with this view. "Understanding what people are guilty of rather than blanket misconduct is the key to making sanctions guidance like this work. You have to understand that before you start levying what are meant to be deterrent fines where the fine will have no effect on the behaviour of the firm."

Focusing on the member firm has allowed the AADB to shift the fine-setting mechanism to a wider environment. It wants to calculate fines with reference to the turnover of the whole group to which the

> **MEMBER PANEL VIEW**
>
> Firms are being put in a difficult position, having to respond to proposals without knowing what sanctions will be in practice. The profession thinks it has been doing all it can to get its house in order, but does the public share that view? Currently the situation appears akin to that of disciplinary fines for serious misconduct by Premiership footballers, where significant fines arguably have no real deterrent effect in practice as they are not linked to earnings. Those outside the profession may well consider that larger fines will lead to greater diligence.
>
> **Stephen Dunstan, Blackpool Coastal Housing**

## OUT OF HARMONY

The AADB looks at possible audit misconduct cases at public interest entities. Other disciplinary cases are dealt with by the recognised supervisory bodies, one of which is ICAEW.

Fines imposed by ICAEW disciplinary committee tribunals in connection with audit-related offences at non-public interest entities are generally fixed or calculated with reference to the audit fee, using a multiplier that can be reduced depending on circumstances.

So if the AADB proposals are implemented there would be a wide gulf between its sanctions and those levied by ICAEW.

AADB executive counsel Gareth Rees acknowledges this but it's clear he doesn't expect the AADB to be the one to give ground. "We'd say that if we're right this means ICAEW – and the other recognised supervisory bodies – will have to look at their sanctions as well."

The consultation also mentions a possible route for settlement of cases. Rees says guidance on sanctions will help here as both parties will arrive at the negotiating table with a view on an appropriate settlement. Would this be disclosed? "It is important that so far as possible the settlement process is both fair and transparent," he says.

Others are concerned that having a type of plea bargaining system has nothing to do with public interest but more to do with the AADB being seen as ticking off a positive result. "They should want to get to the truth, not to get someone to plead guilty because they want scalps," says a senior auditor.

"None of the firms ignore this issue. We are all busting a gut to ensure that errors don't occur"

audit firm belongs, not just the member firm. The implications are startling as all partners, whichever business area they work in, would have to take collective responsibility for shortcomings in the audit department.

So is this just a way of providing a basis for levying much larger fines? Rees does not deny it. "The last thing that should happen is for the tribunal only to be looking at a very small entity of an international group, a group that has been structured so that the audit entity's turnover is tiny and the tribunal be limited to imposing a fine just on this entity," he says. "It would be wrong if the conglomerate's structuring were done in a way so that proper sanctions could not be imposed."

There are questions over the legitimacy of this approach. Some ask whether this will be open to appeal on grounds of natural justice; others wonder how the AADB can impose fines on a business area over which neither it nor the FRC has jurisdiction. "The fines have to be proportionate but they cannot be extortionate," says the senior accountant.

The consultation sets out three possible mechanisms under which fines could be calculated. Although the consultation refers to each mechanism being based on an assessment of how serious the misconduct is found to have been, the crux is that the fine should be calculated by referring to the member firm's financial means.

### RANGE OF FINES

One mechanism uses a fixed starting point depending on the level of turnover. A second option uses a range of fines, with the percentage of turnover applied depending on the seriousness of the misconduct. The third option uses a maximum starting point.

While the proposed options are set out at some length, one crucial detail is missing: the percentages to be applied to turnover to calculate the fines. How can firms and other interested parties properly respond to the consultation without this vital piece of information?

"It's difficult to reply intelligently to the paper when you're not sure what ball park the AADB is playing in," one commentator told us.

Rees says it's important to remember that the fine must have an impact. "You can see this is a genuine consultation because we've put forward three different ways in which the fines can be calculated," he says. "We are genuinely interested in people's views as to how we can achieve what we need to achieve. We hope we'll be assisted by constructive suggestions as to how we arrive at a full and proper solution to this."

TRUNK ARCHIVE

# It's your institute

From legal advice to emotional guidance, being a member of ICAEW has myriad benefits. **Xenia Taliotis** discovers what your institute can do for you

Our members can turn to us for advice at every stage of their career and lives, whether they're looking to change path or even after they retire," says Amanda Digne-Malcolm, director of ICAEW's Members' Department. "Membership offers total support throughout a person's professional life and beyond. I'm sure many of our members think membership subscription only gives them access to specialist information and qualifications, but it offers much more.

"For example, we can support people who are going through difficult times emotionally – a divorce for instance – and help members apply to the Chartered Accountants Benevolent Association (CABA) for financial assistance. We have many resources to put at our members' disposal – some of them at no extra charge. And we'd like more people to use them."

A quick look through ICAEW's product offerings shows an exhaustive list of resources. This includes courses, technical guidance and networking opportunities. There's also career and personal development advice, which is proving important at the moment.

If you've been a member for longer than a day, you'll probably already have used one of ICAEW's key facilities – its expert advisory services. Providing specialist technical, ethical and legislative guidance through three discrete services – each with a helpline and helpsheet – the advisory centre provides help with every aspect of your day-to-day work (see box *Only a phone call away*).

For those in practice, there's an additional resource that provides independent, objective guidance – practice advisory services. There's also ICAEW's library and information service (LIS), plus a website with information organised into 19 topics, including insolvency, ethics, corporate governance and public sector.

"We support over 138,000 chartered accountants including those working in business or in private practice, financial services, consultancy or academic sectors," explains Digne-Malcolm, "so we need to give expert, in-depth information on an extremely broad range of subjects. Our knowledge banks are second to none, but we're always looking for ways to add value to our facilities. If we feel members need an additional service, we provide it."

A recent example of this, says Susan Moore, head of LIS, followed "the push for UK businesses to export more, when we greatly increased interest from members for quality information to help them develop their business activities. To meet this demand, LIS devised web pages on how to develop export and import strategies."

> Each of the faculties has its own website and magazine and each offers a range of webinars and events

In addition to the LIS, ICAEW has seven faculties and 12 special interest groups (SIGs) for those who want more industry-specific information. Each of the faculties (in IT, tax, financial services, financial reporting, corporate finance, financial management, and audit and assurance) has its own website and magazine and each offers a range of webinars and networking events. The SIGs, meanwhile, provide essential advice and guidance to help you stay abreast of key strategic issues within a specific sector.

Beyond its technical resources, ICAEW can also provide you with the training and qualifications to help advance your career, or to take it in a different direction. If you have worked abroad as an ACA or FCA, you'll know these qualifications are seen worldwide as a mark of achievement and professionalism – and can help you secure a crucial job interview; the same goes for ICAEW's certificates and training programmes. The learning and professional development facilities can help you find courses and tuition to further your career.

"Training is an ongoing resource," says Digne-Malcolm, "which, together with our career support service, provides a key touchstone for people wishing to move on in their profession. Some of our members may be looking to specialise in one particular area, in which case further qualifications may be the best way forward. ICAEW's current curriculum includes a forensic accountant accreditation and a diploma in charity accounting, for example, but the programme remains flexible so that we can respond effectively to changes in the industry or to what our members want."

If, however, you need more strategic support to plan your career progression, then a one-to-one consultation with ICAEW's career coach, Bob Griffiths, may be the key. Griffiths can help you write

### MEMBER'S VIEW

Returning to work was daunting after having taken three years out to raise two children. The technical and emotional support on the *Narrowing the Gap* course boosted my spirits and showed I still had a brain. I have since joined two faculties and use their webcasts and webinars to improve skills in my own time, essential when juggling career and home life.

**Rebecca Pridham**

## HELP WHEN YOU NEED IT

ICAEW member John* was at crisis point. His child was ill, his home and business had been repossessed and he had been disqualified as a director, resulting in disciplinary action from ICAEW. But instead of despairing, he sought advice by contacting a volunteer ICAEW member through the members support helpline. From that moment on he had the practical and emotional support he needed. A specially-trained fellow member took John through the disciplinary process and recommended he find a solicitor. He acted as a sounding board – reviewing draft responses to ICAEW to ensure John had covered all relevant points in mitigation and had provided enough information in order for the judging committee to reach a sound decision. John's hearing went really well. He was reprimanded but not excluded from ICAEW, no costs were imposed on him, and he wasn't fined. He was able to walk away from the hearing with a clean sheet and is now rebuilding his life – with ICAEW's support.

## ONLY A PHONE CALL AWAY

ICAEW members can phone specialist advisory teams for confidential and free advice whenever they need support in any area of their career, or personal life.

- **The information centre** (01908 248 250) handles general enquiries on membership, audit qualification applications and practicing certificates.
- **The technical helpline** (01908 248 250) answers questions on a wide range of topics, including company law, accounting, and charities. You can also seek more specialist advice from the ethics enquiries team, the money laundering team or, for anything relating to running your practice, from the practice advisory service.
- **Library and information services** (020 7920 8620) For the latest company reports and in-depth research on everything you need to do your job properly, contact the library staff.
- **Practice society helpline** (0845 233 2727) Specialist, subscription-based tax service run by Abbey Tax Protection.
- **Legal helpline** (0845 567 6003) Speak to a solicitor free of charge (first consultation only) to discuss your legal queries.
- **Support members helpline** (0800 917 3526) ICAEW volunteers will support you through personal difficulties, including health and financial problems. Find out more at icaew.com/supportmembers

the perfect CV, take you through a dummy interview, and even show you how to create an online brand. It's a service that many members have found useful, particularly those who have been knocked back at final interview stage. The chances are, Griffiths will be able to tell you where you are going wrong – and how to put it right.

Other services include an online careers community, where you can get free advice from ICAEW experts, and a recruitment website (icaewjobs.com).

There's also a wealth of advice and guidance to help you get back to work if you have taken time out, or to switch from one area of accountancy to another. "We're looking at ways in which we can support people who are leaving practice and going into business, and vice versa," says Digne-Malcolm. "These people may need a suite of new skills, which we can help them acquire." And for members wanting to reach the top of their profession, there are leadership development programmes, including the Financial Talent Executive Network.

Described by ICAEW as "an elite business leadership programme and peer-to-peer network" for senior finance professionals, it will provide you with one-to-one mentoring, workshops run by experts and networking dinners hosted by leading business people. Past hosts have been Tony Chanmugam, group finance director at BT; Andrew Shilston, finance director at Rolls-Royce; and Alison Reed, non-executive director at BA.

There's also plenty of support and resource for those at the tail end of their careers. From help with transitioning to a portfolio career, to financial planning or making the most of your leisure time, there's advice to help you. ICAEW's regular conferences on planning your retirement (open to members aged 50-plus and their spouses) offer expert advice on writing wills, a lively Q&A session and lots of opportunities to meet others in a similar situation. And CABA-supported lunches, which are held nationwide, are ideal opportunities to network.

ICAEW membership can provide the knowledge to impress and assist clients; with the information to expand business; and the advice and networks to fulfil potential. It can help you climb up the ladder, stay there until you're ready to leave, and ease you into a comfortable retirement. All this, and a copy of *economia* each month.

**For details about our weekly email visit icaew.com/economia**

ICAEW / *NOT HIS REAL NAME

# Exclusion rescinded, LSO fleeced, failure to spot fraud

Accountant allowed to retire, member appeals against costs as he serves jail term for defrauding orchestra, while another's appeal against exclusion for recklessness fails

## CERTIFICATE WITHDRAWN

An ICAEW member has had his exclusion order rescinded after he appealed to the ICAEW's highest disciplinary authority. The appeal committee decided that "exceptionally" it would substitute the exclusion with an order for Brian Mogford's practising certificate to be withdrawn. In doing so, it took into account that he would be able to retire after nearly 50 years as a member of the profession.

"His problems seem to have originated from factors beyond his control and left him with a lack of insight into, and means to deal with, the demands of practice," the tribunal said. "He presented a crushed and sorrowful figure beset by serious medical and personal problems since 2005. He expressed regret for his inaction giving rise to the complaints and stated that he should have instructed a firm of agents. He'd been stressed and unable to cope for three years."

Mogford had two complaints found against him at a hearing in June last year. The first related to his failure to submit a client's personal and partnership tax returns to HMRC in time in 2009 and at all in 2010. He then failed to return copies of previous tax returns, VAT returns, monthly spreadsheets and other papers to the client despite requests.

The second complaint covered his failure to respond to requests from another firm of accountants, ie a letter requesting professional clearance and handover information regarding another three of his clients.

For the first complaint, Mogford was excluded, fined £5,000 and ordered to pay costs of £2,414. For the second, he was severely reprimanded, fined £5,000 and ordered to pay costs of £1,649. Mogford appealed. As well as rescinding the exclusion order, the tribunal reduced the fines to £2,500 each and made no order as to the appeal costs.

## COSTS ORDER DROPPED

The ICAEW appeal committee has agreed to drop the costs order against a former member who was excluded from membership after being found guilty of defrauding the London Symphony Orchestra.

Cameron Poole, who is currently serving a four-year prison sentence in HMP Leyhill for the fraud, which ended up losing the orchestra £2.3m, has a judgement against him for repayment of the money. His assets have been seized and he has no means of meeting the tribunal costs of £2,555.67.

The Appeal Committee said that it would be "unjust to make an order for costs which cannot be paid" and allowed his appeal.

Poole, an Australian accountant, worked with the LSO for five years as finance director. Within a few weeks of his leaving, the LSO discovered he'd been systematically milking the orchestra for four years, hiding the transactions in a dormant account, making bank transfers to himself and forging signatures on cheques. All told, he stole around £666,000 which he spent on flights, clothing, art, jewellery and home renovations.

Because the orchestra had no knowledge its finances were being undermined, it put on extra performances, which led to further losses, amounting to around £1.6m. After the fraud was uncovered, the LSO sued its bankers and its auditors, and managed to recoup a large part of the losses.

Poole did not appeal against the original exclusion order.

## EXCLUSION CONFIRMED

The appeal committee rejected an appeal from a partner in a chartered accountancy firm who claimed that to exclude him from membership for reckless behaviour would be excessive. Paolo Maranzana had been excluded by an ICAEW disciplinary committee tribunal after the Financial Services Authority found he had behaved recklessly because he failed to realise a scheme being run by a client was fraudulent. The client, the holding company for a legitimate trading company, set up a scheme involving overseas share fraud operators (or boiler rooms) who aggressively sold shares in the holding company to gullible investors largely based in the UK.

The boiler room received 60% of the price of the shares sold and the holding company directors most of the rest. Both the holding and the trading company went into liquidation and investors lost more than £2.5m.

Maranzana was a partner in Sedley Richard Lawrence Voulters (SRLV), a firm of chartered accountants. The firm received the moneys paid for the shares into its client account and he oversaw the remittance of the money to the boiler rooms and the directors.

There was no suggestion of personal dishonesty or involvement in devising the scheme. But he failed to realise it was fraudulent. The FSA found him reckless, banned him from performing any function regulated by it and fined him £105,000.

The FSA also found that Maranzana's fellow partner, Lawrence Finger, SRLV's compliance officer for money-laundering, had recklessly failed to recognise that the same scam involved money-laundering, and fined him £35,000. Finger subsequently received a severe reprimand from ICAEW. Maranzana argued this was inconsistent with the exclusion order made against him.

However, the appeal committee found a clear distinction between the two cases. The disciplinary committee was correct to exclude him and "merciful in recommending that he should wait two years before he could apply for readmission".

# Report listings

**The reports that follow are summaries. Copies of the full findings are available from icaew.com/publichearings or from the professional conduct department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ**

## DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

- Peter Georgiades of 1 & 2 Mercia Village, Torwood Close, Westwood Business Park, Coventry CV4 8HX
**Complaint**. As a principal of Armstrongs Accountancy Ltd, he issued eight audit reports in the name of his firm between 2007 and 2009 for three different clients when he was not a designated responsible individual. Also, between 2007 and 2010, he was both a principal of the firm and a director of an audit client at the same time, contrary to APB Ethical Standard 2.
**Order**. Reprimand, fined £3,000 and ordered to pay costs of £2,500.

- David Rice of David Rice & Co Ltd, 117 The Ridgeway, Plympton, Plymouth PL7 2AA
**Complaint**. He improperly retained a credit balance of £2,937.50 which he received from Ivybridge Constitutional Club in respect of fees owing to Thomas Westcott. In connection with selling his practice to Westcott, he also improperly failed to disclose that he had failed to make payments to employees' stakeholder pensions or personal pension plans in the sum of £21,474.60.
**Order**. Severely reprimanded. Given that he is now in an IVA and has committed to repaying the shortfall to Westcott and outstanding monies to an employee as part of that IVA, no order as to fines or costs was made.

- Andrew Thompson of 9 Buchanans Wharf South, Ferry Street, Bristol BS1 6HJ
**Complaint**. Between 31 January 2007 and 9 March 2011, he failed to certify compliance with continuing professional development requirements.
**Order**. Severely reprimanded, fined £3,000 and ordered to pay costs of £2,044.66.

- Eudora Thompson of 7 North Block, Chicheley Street, London SE1 7PJ
**Complaint**. Between 31 January 2008 and 1 April 2011, she failed to certify compliance with continuing professional development requirements.
**Order**. Severely reprimanded, fined £2,250 and ordered to pay costs of £1,445.66.

- No publication of name
**Complaint**. He resigned from membership in 2002 without admitting to ICAEW that he had been convicted in 2001 of soliciting to murder and sentenced to six years' imprisonment. He reported the truth in June 2003 once the appeal route was exhausted. He applied for readmission in August 2006 but was refused. He reapplied in 2011 and his application was successful, although the readmissions subcommittee forwarded the details of his conviction to the ICAEW investigation division.
**Order**. Had the tribunal known about his conviction at the appropriate time, he would have been excluded for the maximum 10 years. However, given the exceptional circumstances of the case, the passage of time, the evidence of rehabilitation and his readmission to membership, the tribunal decided not to impose any sanction. Ordered to pay costs of £2,240.66.

## CESSATION OF MEMBERSHIP

The following have ceased to be ICAEW members because of failure to pay outstanding fines and costs.

- Richard Andrews of County Dublin
- Andrew Thompson of Bristol
- Eudora Thompson of London

ICAEW takes all necessary steps, including legal proceedings, to retrieve the money.

## INVESTIGATION COMMITTEE CONSENT ORDERS

- Caroline Lovibond of Mitre House, Lodge Road, Long Hanborough Business Park, Witney, Oxfordshire OX29 8SS
**Complaint**. Between October 2009 and July 2011, she engaged in public practice without a practising certificate, contrary to principal bye-law 51(a).
**Order**. Reprimanded, fined £1,500 and ordered to pay costs of £1,142.

- No publicity of name
**Complaint**. On 19 November 2010 the member entered into an Individual Voluntary Arrangement under the provisions of the Insolvency Act 1986.
**Order**. Ordered to pay costs of £360. The committee directed that the member should not be identified by name.

- Yiu Tak Anthony Tse of Room 711, Argyle Centre, 7th Floor 688 Nathan Road, Mong Kok, Kowloon, Hong Kong SAR
**Complaint**. He allowed his firm, Anthony Y T Tse & Company, to act as auditor of the financial statements of X Company Ltd for the years ended 31 March 1993 to 31 March 2005 when the firm was not independent because he, or a close family member, had an interest in the company.
**Order**. Severely reprimanded and ordered to pay costs of £1,480.

- Mark Illingsworth of The Old Mill, 9 Soar Lane, Leicester LE3 5DE
**Complaint**. He was a member of X LLP, a limited liability partnership engaged in public practice, which had a winding up order made against it on grounds of insolvency on 8 September 2010.
**Order**. Reprimanded and ordered to pay costs of £1,149.

- Mallett, Jones & Co of Lee House, 6a Highfield Road, Edgbaston, Birmingham B15 3ED
**Complaint**. The firm failed to undertake a review of pension transfers and opt-outs it arranged by 30 June 2002 as required by the Securities and Investment Board (subsequently the Financial Services Authority).
**Order**. Severely reprimanded, fined £2,500 and ordered to pay costs of £3,167.

## AUDIT REGISTRATION COMMITTEE ORDERS

- Hill Wooldridge & Co Ltd of 107 Hindes Road, Harrow, Middlesex HA1 1RU
**Breach**. The firm failed to notify ICAEW of a change in the firm's circumstances following the appointment of a new director, in breach of audit regulation 2.11.
**Order**. A regulatory penalty of £1,000.

- Bridgen Watkins & Wainwright, 10 Dashwood Avenue, High Wycombe, Buckinghamshire HP12 3DN
**Breach**. The firm failed to comply with the requirements of the audit regulations.
**Order**. The firm's registration as company auditor was withdrawn on 23 May 2012 under audit regulation 7.03(g) of the Audit Regulations and Guidance.

- Paul Wallace & Co, 146 High Street, Holywood, County Down BT18 9HS
**Breach**. The firm failed to comply with the requirements of the audit regulations.
**Order**. The firm's registration as company auditor was withdrawn on 23 May 2012 under audit regulation 7.03(h) of the Audit Regulations and Guidance 2008.

## INSOLVENCY LICENSING COMMITTEE ORDER

- Philip Wood of Barringtons Corporate Recovery Ltd, 570-572 Etruria Road, Newcastle, Staffordshire ST5 0SU
**Complaint**. He failed to undertake a compliance review in 2010 in accordance with Regulation 3.13 of the Insolvency Licensing Regulations and Guidance Notes.
**Order**. A regulatory penalty of £500.

# Life

"Only when the tide goes out do you discover who's been swimming naked" Warren Buffett

GETTY IMAGES

*Out of hours – whether it's music, **magic** or scaling the highest peak, we discover what you get up to after work. Plus, lie back and think of **lido**, source the finest in **vegetarian dining** and explore the benefits of **meditation***

From magic tricks to mountain climbing, tap-dancing to taking the controls of a plane, ICAEW members tell **David Adams** what they do after hours

# WHEN I'M NOT BEING AN ACCOUNTANT I...

## ...AM A GUITAR HERO

As a child **Richard Joseph** was mesmerised by Tommy Steele and later The Shadows. At the age of 10 his uncle bought him a ukulele and at 12 he was given his first guitar. Chuck Berry was a revelation and then came The Beatles. Richard and a friend used to put in 15 shillings each to buy each new Beatles album, sit and listen to it and learn how to play all the songs.

"I was obsessed with guitars," he says. "But at 17 or 18 I had to ask myself: was this something I wanted to do for a living? My family weren't keen so I became a chartered accountant. I wanted to be an international rock star."

Richard has been a semi-professional musician for much of his life, almost always as a member of several bands. For the past seven years he's played with singer-songwriter Frazer Kennedy across the country. He also plays in a band called the Rockin' Retros, covering 1950s and 1960s songs using equipment from the era.

He set up his own practice in 1986 partly to allow more time for music. "I'm proud to be a chartered accountant but it's not a vocation," he says. "The guitar playing keeps me sane – to go a few hours without thinking about work is quite an achievement. There are a lot of chartered accountants out there for whom accountancy is their lives and could really do with an outlet like this."

## ...AM AN ACTION MAN

A tax inspector at RSM Tenon by day, **Nick Parker** started adventuring about 10 years ago. "Everyone has a list of things they'd like to do," he says, "and my wife Jan said I should start to do them while I could."

So he's trekked to Everest Base Camp and across Patagonia; sailed from Sydney to Cape Town on a leg of the Global Challenge round-the-world yacht race (the wrong way, westward, against prevailing winds and currents); and climbed various mountains.

He cites the voyage to Cape Town as his greatest challenge to date, having spent most weekends for two years training for the race. His team won the leg after 38 gruelling days at sea. "It wasn't enjoyable," he says. "It was absolutely horrible. But it was an amazing sense of achievement."

The trek to Everest Base Camp was also a highlight," he says. "We did have the time and we were walking among these fantastic mountains. I know it sounds corny but I did find peace."

For his next trip, Nick says he wants to drive a team of huskies across the Alaskan wilderness.

"It's definitely a pressure release," he says. "You get completely away from work and then you can crystallise in your own mind what you want to achieve. I tend to come back really fired up."

## ...LOOK GOOD ON THE DANCEFLOOR

**Sue Field,** who runs her own accountancy business in Greenwich, south London, says her earliest memory is dancing around her house aged about three dressed as a butterfly.

She took lessons in ballet and tap-dancing until the age of 14. Then dancing became a less prominent part of her life, although at parties, she says, she has always been the "first one onto the dancefloor and the last one off it".

However, about four years ago a friend who was staying with her brought some tap shoes out of her bag and Sue slipped them on and started dancing around her hall.

So the friend gave her a pair of her own tap shoes, and when a card advertising a new adult tap class nearby dropped through the door the decision was made.

After a gap of 40 years, she's practising her steps again, dancing at least once a week and performing in summer and Christmas shows.

Why tap-dancing? "It's good exercise, it's great fun and I've always liked tap," says Sue. "I do love watching ballet but I'm not the right build for a ballet dancer and I'm not very fond of contemporary dance. But there's something very jolly about tap – you think of the old Fred Astaire and Ginger Rogers musicals."

So how would she sum up what she gets from her hobby? "Sheer, unadulterated joy," she says.

## ...CONJURE UP A FEW TRICKS

Chairman of the Tax Advice Network, head of Winmark's Tax Director Network and former chairman of ICAEW's Tax Faculty, **Mark Lee,** is also a magician.

He started working as a children's entertainer at the age of 14, which taught him a lot about presentation skills. Although he doesn't do kids parties any more he's still an active member of the Zodiac Magical Society in west London, as well as the Magic Circle.

By the mid-1990s, as a partner at what was then Clark Whitehill, Mark would sometimes accompany senior partners to lunches with journalists, to entertain them with a little tabletop magic. He even appeared on BBC2's *Newsnight* as part of an item examining whether accountants were boring.

Today he performs less often but says a little bit of magic "does still creep into talks and presentations".

He specialises in close-up magic using cards and money but his trademark is the Potty Pom Pom power stick – which appeared with him when he was on *Newsnight*.

He used to worry that the magic might undermine his credibility as an accountant. But surely some clients like the idea of an accountant who can practice the art?

"If only I had £1 for every time I'd been asked whether I could make the taxman disappear," he laughs.

DAN MURRELL

## ...REACH FOR THE SKIES

A childhood love affair with aeroplanes has remained with **Eric Kench** since his days as an air cadet. In 1970, aged 17, he took a flying course, gained his private pilot's licence on his 18th birthday and has kept it up ever since.

About 10 years ago a friend persuaded him to buy a share in a plane. The P28R Piper Arrow can fly at about 120kts (or 138mph). "That sure as hell beats driving – and no speed cameras," he says.

Eric flies out from his local airfield in Berkshire once or twice each month. Trips have included visits to clients at Land's End and North Wales – a day trip rather than an overnight stay.

More often the plane is used for excursions or holidays with his wife Kathy or his fellow plane owners to Scotland, Ireland, France, the Channel Islands, Holland, Denmark and Sweden. He's also rented a plane on holiday in Australia and spent a few days flying up the west coast.

"I like the planning, poring over maps," he says. "The flying itself is second nature now, though occasionally I think I could have done it better." He recalls landing at an airfield with a short runway on the Norfolk coast, where he almost ended up plunging into the sea.

"There's a saying in flying: 'I'd rather be down here wishing I was up there, than up there wishing I was down here'," says Eric.

# VEG OUT

We sample some healthy, no-meat menus that even carnivores will enjoy

## BREAKFAST

**Iydea**
**Brighton, East Sussex**

Set in the heart of Brighton's North Laines, Iydea is located in hippy-central, and won't disappoint committed vegetarians. That said, many a carnivore can also be found here enjoying owner Steve Billam's concept of fast, healthy food. Laid out canteen-style, you select food from the counter, and then staff quickly heap a plate for you. The Big Breakfast is traditional with some nice touches such as own-made smokey paprika beans. The Lincolnshire-style sausages are better than most veggie bangers, and the avocado-mushroom stirfry an interesting addition. Iydea's own date and coconut granola with hot soya milk is a sweet treat, as is the banana and peanut butter on toast.

iydea.co.uk

## LUNCH

**Greens**
**West Didsbury, Manchester**

A long-standing pioneer of excellent vegetarian fare in north-west England, Greens has slowly but surely expanded since it first opened some 20 years ago. The latest incarnation is a fairly substantial 90-cover restaurant, but it has managed somehow to retain its early cosiness.

The lunch menu is extremely flexible, and this remains a great place for a full-blown fancy three-courses (for just £17.50). But it can also hit the spot if you are in the mood for something more relaxed, like its soup and a sandwich deal. There is something typically Greens about its signature fried veggie black pudding in a sarnie, with soup of the day and chips all for just £7.50.

greensdidsbury.co.uk

## MENU OF THE DAY

**BREAKFAST**

| | |
|---|---|
| Iydea Big Breakfast | £6.95 |
| Banana nut on toast | £2.75 |
| Hot date and coconut granola | £2.70 |
| Breakfast smoothie | £3.75 |

**LUNCH**

| | |
|---|---|
| Soup of the day with veggie black pudding and mustard mayonnaise sandwich and chips | £7.50 |

**DINNER**

| | |
|---|---|
| Halloumi kibi | £6.50 |
| Wild mushroom risotto cake | £15.50 |
| Apple, rhubarb and ginger crumble | £5.50 |

## DINNER

**The Gate**
**Islington, London**

For years the Hammersmith branch of The Gate ploughed a lonely furrow as one of London's few fine-dining vegetarian restaurants. Now Adrian and Michael Daniel have brought their "Indo-Iraqi-Jewish fusion" to Islington, across the road from Sadler's Wells Theatre.

The menu is lifted from the Hammersmith mothership, with an added snack menu. If the location lacks some of the former's atmosphere, the good food makes up for it. Halloumi in a tikka marinade is deliciously sweet and spicy, while the mushroom risotto cakes takes a reliable staple somewhere new. And, as the last mouthful disappears from her plate, my non-veggie friend soon forgets the lack of flesh on the menu.

thegaterestaurants.com


# PLUG AND PLAY

A range of alternatives to the internal combustion engine have been proposed over the past decade. Few have set pulses racing. **Richard Cree** discovers why Volvo claims to have the answer

Volvo is so confident about its new V60 Plug-in Hybrid that it launched it at the Goodwood Festival of Speed. Yes, this is where Formula 1 cars are pushed to the limit on the Hillclimb but, says Volvo, this is like no other hybrid.

The value of hybrid cars is that they allow eco-benefits without the drawbacks of purely electric cars. People enjoy quiet, low-emission cars but few want their car to look like a toy. Fewer still like to worry about getting home (so-called range anxiety).

The V60, Volvo's most advanced car to date, deals with range anxiety as well as any hybrid. And it handles style, comfort and quality better than many. It's built on the existing 2.5-litre diesel V60 D5, an easy-to-drive vehicle that does its job but doesn't set pulses racing.

With no compromise on looks, the plug-in looks like any other V60. The idea is that it is a model of "sustainable luxury" – indulgence that's good for the environment.

The V60's cabin is certainly plush, with the leather-clad luxury you'd expect in a high-end motor. A digital dashboard features a display showing electric and diesel power usage and there's an excellent gadget showing how and when the car's various technologies are used. Not one for a busy road, it is strangely mesmerising.

In pure mode, the electric motor goes about its work efficiently, offering a top speed of 74mph and a range of 30 miles – great for short urban commutes. It takes between 3.5 and 7.5 hours to charge, depending on your power supply.

In hybrid mode, the V60 offers a frugal, efficient drive, with emissions of just 49g/km and a tank that takes you 650 miles without refuelling.

But green stuff aside, Volvo was at Goodwood to prove that eco-friendly cars can be fun too. In power mode the V60 reveals its naughty side. The combined power from both motors (280hp) takes the car from 0-60 in just over six seconds. And as I took off on the Hillclimb it almost made me forget that I was driving a car that won't attract a congestion charge.

The new Volvo V60 Plug-In Hybrid is billed as eco-friendly and fun-to-drive

## WALL IS BEAUTIFUL

Audi has worked hard to build a reputation for technological prowess. To date this has been focused on the cars. Now it's bringing that Vorsprung durch Technik to the world of retail.

The first Audi City opened last month in London's Piccadilly (below) and the concept has more in keeping with an Apple Store than a car dealership. Customers are invited to configure a car on a large touchscreen or via the motion-

sensitive wonderwall. They can then experience the car (both exterior and cabin) on a large high-definition screen, complete with accurate recordings of the engine they've selected.

Configurations can be saved, tweeted or emailed while serious buyers can visit a private room downstairs, where the experience becomes less like a dealership and more like a high-tech tailor.

With Audi's range extending to 35 models and 90% of buyers creating a car online, the virtual showroom makes perfect sense.

## FIVE-MINUTE MEDITATION

**Geshe Kelsang Gyatso, the founder of the New Kadampa Buddhist Tradition, recommends a meditation that can be used to quickly develop a peaceful mind**

Breathing naturally, concentrate on your breath without being distracted by conceptual thoughts. As you breathe out, imagine you are breathing out all your negativities, worries and distractions in the form of black smoke. As you breathe in, imagine you are inhaling all the positive energy in the air around you in the aspect of pure, radiant white light. Continue with this meditation for a few minutes until your mind is calm and peaceful.

# SOMETHING ON YOUR MIND

How often do you consider the state of your mind? As **John McBretney** explains, the way we manage our minds can affect how we experience life – so retune yours with a little light meditation

A simple observation, but one that merits careful reflection, is that if our mind is peaceful it is naturally happy. And if our mind is happy we are happy.

Meditation is a practice that allows us to gradually cultivate and maintain a calm, peaceful mind so we can better respond to the challenges of living in a busy world. By practising meditation we learn to increase our familiarity with useful, virtuous states of mind such as patience, wisdom and love, while reducing negative, unhelpful states of mind such as anger, irritation, stress and worry.

Meditation also cultivates inner strength. If we have no mindfulness or mental control it can sometimes feel that we are simply a balloon in the wind, blown here, there and everywhere by external circumstances.

If things go well we are happy, but if things go badly we become unhappy. Meditation helps us to develop a mind that remains stable and composed in the face of adversity and which is therefore far more likely to find solutions and respond constructively to difficulties.

It is worth noting that meditation is very gentle. It does not require physical hardship. It is simply a mental action concerned with the internal task of controlling and transforming the mind.

Usually we are very interested in external change – changing our home, our car, our job or even our partner – but until we change our restless, discontented mind we cannot find true happiness and peace.

This internal transformation will lead to external transformations too. The world we experience is dependent upon our mind. The stressful situations we encounter are not intrinsically stressful – that is to say they are not stressful from their own side. Stress does not exist “out there”, it is not a person, situation or thing but rather our response or reaction to them.

Thus when things go wrong in our life we tend to regard the situation itself as the problem. We blame our boss, the pressures of the workplace, our car breaking down. The truth is far more subtle and profound: the problems we experience are coming from our mind. They are unpleasant, negative feelings such as worry, stress, anxiety and irritation – these are all states of mind and therefore their solution cannot be found outside of the mind.

This is where meditation comes in. By changing our mind we change our experience of the world and everything within it – including our boss.

John McBretney is the resident teacher at Heruka Buddhist Centre, Golders Green, London. To learn more about meditation, visit the website at meditateinlondon.org.uk

4 CORNERS

# SIX OF THE BEST

## LIDOS



Refreshing and relaxing, outdoor swimming is enjoying a revival. Take the plunge in a pool near you. We check out some of the best lidos

### JUBILEE POOL, PENZANCE

The largest seawater pool in the UK, this art deco triangular beauty has been welcoming swimmers since 1935. The pool was built on a traditional bathing spot at Battery Rocks near the harbour, where high sea walls protect swimmers from strong offshore winds and provide terraces for spectators. With superb views across to St Michael's Mount and the picturesque fishing village of Newlyn, the Jubilee is one of the best places to swim in the open air in Cornwall.
jublieepool.co.uk

### SALTDEAN LIDO

Developers have had their eye on this one for some time but earlier this year Brighton and Hove Council agreed to take back control of the at-risk Grade II listed lido. Perfect for serious swimmers, the pool measures 43m by 20m and for those seeking open-air relaxation there's a sun deck, tea terrace and café too. Organisers have been working hard to get the pool ready for summer visitors – visit the website to check progress.
saltdean.info/lido.htm

### TOOTING BEC LIDO, LONDON

Sitting on the common between Tooting and Streatham in south London, this lido [pictured] has a claim to fame. At 90m by 30m it's the second largest outdoor pool in Europe, with a children's paddling pool and a gazebo. Brightly coloured changing cubicles recall its heritage – it was built by local unemployed people in 1906. But be warned: the pool is unheated so it's a mecca for cold-water swimmers, but not so good for itsy-bitsy bikinis.
wandsworth.gov.uk

### HAMPTON POOL, LONDON

Not the type who enjoys a bracing cold-water swim? This outdoor pool, set within two acres of woodland next to Royal Bushy Park, is heated all year round. The water is maintained at a temperature of about 28°C and there's a learner pool for youngsters. A south-facing grassed area means sunbathers can easily while away a hot summer's day. But as it's open 365 days a year you can even use the diving board to perfect your tuck on Christmas Day or New Year's Day.
hamptonpool.co.uk

### PORTISHEAD OPEN AIR POOL, BRISTOL

This pool celebrated its 50th anniversary in April, its longevity may be due to its fabulous location overlooking the Bristol Channel. It's home to a 33m heated pool and sun terraces. There's a new café and tapas bar, The Lido Kitchen, run by the team behind Bristol favourite The Spotted Cow. So after your laps refuel with some tortilla.
portisheadopenairpool.org.uk

### ILKLEY POOL AND LIDO, WEST YORKSHIRE

Could this be one of the best lidos in the north of England? Very probably. As well as the unusually shaped cold-water pool – which looks like the cross section of a sliced mushroom – it boasts a lawned sunbathing and picnic area, a café, putting greens and even tennis courts. Priced very reasonably, it provides a great location for a family day out and is surrounded by stunning scenery. It also has an indoor heated pool, which is open all year round for the softies.
bradford.gov.uk

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## LIFE AFTER WORK

# ONE OF A KIND

By setting up her own practice, Jacqui Dodds achieved an enviable work/life balance. Now, she tells **Penelope Rance**, she's taking things easy in her own way

Jacqui Dodds is a rare breed, both as a woman among the ICAEW chartered accountants of her generation and as the founder of a successful practice at a time when female-run businesses were rare.

"When I was training, there would be four women and 60 men on every course," she says. "When you walked into the office, people would look at you as if to say: 'What's she doing here?' and they wouldn't discuss things with you. I never let that stop me. You had to be very determined, and I was."

Qualifying with Everett Pinto, now BDO Stoy Hayward, in 1976, she worked there until she felt the company was growing too large for comfort.

"I had a total life change at 35," she recalls. "I left my husband, started a business, married one of my clients and had a baby. A lot of my clients were female business owners. They knew I understood the issues they faced. It was different in those days. As a woman, the bank manager would expect you to bring your husband along. It was hard for women to set up a business – they'd always ask what your husband did. Even I got a loan through my second husband Peter's bank – he was really supportive of me setting up on my own.

"I had one qualified accountant, someone doing accounts and two part-time secretaries, but I ran it on my terms. I'd take time off during the day for flower arranging or to pick up my son, but then I'd work all evening.

"A man I employed made comments about me skiving off, but for all the time I took during the day, I more than made up for in the evenings. It was my business after all."

Her career inspired her son, who qualified with PwC before going to work for the department for business. "I didn't push him into it, but he saw accountancy as a good qualification – a stepping stone.

"It's a wonderful career for a mum or housewife, if you work for yourself. But you can't take time off. I was back doing clients' accounts three weeks after giving birth. Looking back, I don't know how I did it.

"Now it's nice to sit and do nothing. I appreciate being retired because I've worked a long time. My generation didn't have careers – a lot of my friends don't appreciate what it's like."

Jacqui's idea of doing nothing would leave many breathless. "We went to New Zealand for a month, I turned out the house, did the decorating. We took up bowls – I thought it would be a boring game, but I've really taken to it." She has already been treasurer, chair and secretary of her club in Royston, Hertfordshire.

*"I appreciate being retired. My generation didn't have careers – a lot of my friends don't appreciate what it's like"*

She also got involved in The University Of The Third Age, starting a book group, and she makes time for voluntary work as a governor for a local school, handling finance matters. "It's important to give something back," she says.

The first female president of ICAEW's Beds, Bucks and Herts Society, she is now chair of the area's Retired Members' Forum. "No one else came forward. It's nice to keep in touch with like-minded people, and remind ourselves that we haven't quite lost the plot.

"It's easy to feel useless when you retire. The forum is a way of connecting – people are busy but we talk about old times."

DOMINICK TYLER

SEAT


The dynamic Leon FR offers a fantastic combination of enjoyment and affordability to company car drivers. Sports suspension and a choice of TDI or TSI engines gives an exciting drive. On the 2.0 TDI 140PS, $CO_2$ emissions of 125g/km and combined fuel consumption of up to 58.9mpg means you can keep your eyes on the road rather than your wallet; BIK tax in the 19% banding in 2012/13 mean liabilities start from under £65 a month for a 20% tax payer.

**Leon FR main features**

- 17” alloy wheels
- Traction control
- Electronic differential lock system
- Rear parking sensors
- Light and rain sensors
- Dual-zone climate control
- Bi-xenon headlights

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Official fuel consumption for the SEAT Leon FR/FR+ range in mpg (litres per 100km); urban 35.3 (8.0) - 46.3 (6.1); extra-urban 54.3 (5.2) - 68.9 (4.1); combined 45.6 (6.2) - 58.9 (4.8). $CO_2$ emissions 145 - 125 g/km.

Model shown is Leon FR 2.0 TDI CR 140PS, P11D retail price £20,665.