ICAEW FINANCE & MANAGEMENT FACULTY

ISSUE 207
FEBRUARY
2013
icaew.com/fmfac

FINANCE & MANAGEMENT

"WHEN YOU'RE WORKING IN NICHE MARKETS YOU HAVE TO BE GLOBAL" PAGE 12

Invest in people

Measuring the value of staff training

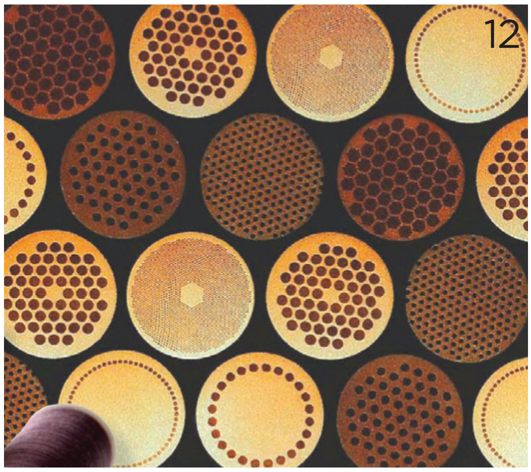
Fundamentals Finding finance for growth **New and improved** An appraisal of Excel 2013

Leaning in the right direction Lightening the burden of month-end reporting

Contents

Issue 207
February 2013

COVER: MIKE LEMANSKI



"The finance function has to question the MDs and operational teams and encourage them to think in new ways"

12

Kevin Boyd is FD of nanotachnology company Oxford Instruments

Keeping the focus on growth

FINANCE & MANAGEMENT FACULTY

We're now into the second month of 2013 – although I dare say we are still writing "2012" in our reports. This might be a tough year, with limited growth in UK GDP, continued poor returns on low-risk investment and

increasing public sector unemployment. However, here at the Finance & Management Faculty we are concentrating on business growth in 2013 and start by considering various ways of raising funding. This month we look at equity financing and will be moving on to other forms of funding in later months.

Some of you may be planning to recruit apprentices or similar. The evolved ACA qualification allows you to recruit students direct onto contracts in business, which ICAEW's own Adam Birt talks us through in this issue.

We also thought that we should cover training costs in their entirety. Gavin Hinks looks at the controversial idea that not all training is good – finance can feel comfortable attaining efficiencies through targeted training to ensure value for money.

This month's magazine also touches on software upgrades (although we will be covering this later in the year in more detail), by looking at the ever-versatile Microsoft Excel – Simon Hurst reviews the new 2013 version for us.

Elsewhere, Kevin Dilton-Hill covers efficient month-end reporting in his article, while Richard Young interviews one of our members, the FD of growth sucess story Oxford Instruments.

Have a good month.

Robert Russell
Technical Manager

THE TEAM

Robert Russell
Technical manager
+44 (0)20 7920 8417
robert.russell@icaew.com

Rick Payne
Finance direction programme
+44 (0)20 7920 8451
rick.payne@icaew.com

Caroline Wigham
Services manager
+44 (0)20 7920 8508
caroline.wigham@icaew.com

Christian Doherty
Commissioning editor
christiandoherty@mac.com

THE COMMITTEE
Dr Philip Smith
Chairman

Rob Thompson
Deputy chairman

Jonathan Teller
Vice chairman

Paul Chan, Ben Freeman, John Ferguson, Len Jones, Tristan Price, Professor Bob Scapens, Graeme Scott, Judith Shackleton, Helen C Stevens, Michaela Talbot, Nick Wildgoose

SUBSCRIPTIONS
Annual membership of the Finance & Management Faculty costs from £85 a year. For more information and to join see icaew.com/fmjoin

FACULTY EVENTS
For information about forthcoming faculty events, please visit icaew.com/fmevents. Highlights of events can also be found within this mailing. For all enquiries contact the events booking line on +44 (0)1908 248 159.

F&M ADVERTISING
Advertising enquiries to advertising@progressivecp.com

FINANCE & MANAGEMENT FACULTY
Chartered Accountants' Hall
Moorgate Place, London, EC2R 6EA
+44 (0)20 7920 8508
+44 (0)20 7920 8784
fmfac@icaew.com
icaew.com/fmfac
linkedin.com – find ICAEW
twitter.com/icaew
facebook.com/icaew

ISSN 1471-1818 TECPLM11830

Printed in the UK by Polestar Stones

News

COUNTRY BY CORRUPTION	2012 RANKING	2011 RANKING
Denmark	1 =	2
Finland	1 =	2
New Zealand	1 =	1
Sweden	4	4
Singapore	5	5
Switzerland	6	8
Australia	7 =	8
Norway	7 =	6
Canada	9 =	10
Netherlands	9 =	7
Iceland	11	13
Luxembourg	12	11
Germany	13	14
Hong Kong	14	12
Barbados	15	16
Belgium	16	18
Japan	17 =	14
United Kingdom	17 =	16
United States	19	20
Chile	20	19

LATEST WORLD CORRUPTION RANKINGS

Transparency International released its annual survey results at the tail end of last year, which are available at **bit.ly/VlyFCB**. This survey ranks countries in terms of the perception of their corruption. The UK is ranked at 17, so it is perceived as more corrupt than Hong Kong, Iceland or Barbados — see table (left).

Chandu Krishnan, CEO of Transparency International commented:
"Despite the passing of the Bribery Act, and measures to improve transparency in government, the perception of experts is that the UK continues to be more vulnerable to corruption than the political establishment is willing to admit."

PHONE TECHNOLOGY LINKED TO WEALTH

Deloitte's 2013 *Technology, Media and Telecommunications* report links mobile phone technology to increased wealth. It argues that the doubling of mobile data use leads to a 0.5% increase in a country's Gross Domestic Product (GDP) by adapting economic endogenous growth models. The full report is available to download from **tinyurl.com/ae3xl3x**

DID YOU KNOW...?

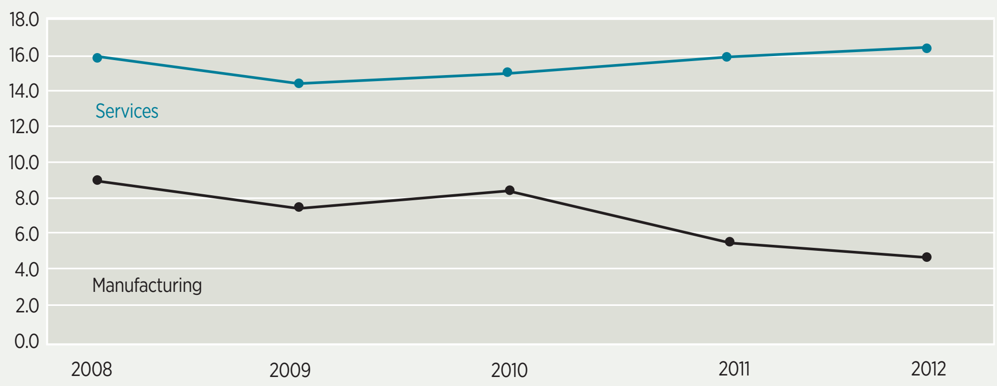
17.59

...the number of petaflops that TITAN (a supercomputer built by Cray at Oak Ridge National Laboratory in Tennessee, USA) is capable of. This makes it the most powerful computer in the world.

A petaflop comprises 10^{15} floating-point operations per second. This processing ability could only be achieved by using Graphic Accelerators in conjunction with normal processors.

UK RATE OF RETURN DETERIORATION

UK COMPANIES - RATE OF RETURN



Office of National Statistics figures reveal that the net rate of return from UK manufacturing has continued to deteriorate, while profitability in the services industries has rebounded to levels last seen in 2006. Full data sets available at **bit.ly/Y94pSM**

Events

WEBINAR: MAINTAINING AN EFFICIENT FINANCE DEPARTMENT WHEN CONTROLLING FRAUD RISK – ESSENTIAL INTERNAL CONTROLS
26 March, 10.00 – 11.00
Free for faculty members
Please set aside this time in your diaries for this webinar on internal controls, linked to our March Special Report on fraud. David Luijerink, forensic partner at KPMG and Steve Caine, director of fraud investigations and disputes at Ernst & Young will talk through the situations leading to fraud and the controls needed to minimise fraud risk.
bit.ly/10wj6AI

WOMEN IN FINANCE NETWORK: INTERVIEW TECHNIQUES
12 March, 17.30 – 19.00
Lisa Haynes and Jayne Halperin from Morgan McKinley will provide practical tips on identifying the right candidate for your role by employing good interview techniques.

WORKING CAPITAL OPTIMISATION (in conjunction with the Association of Corporate Treasurers)
20 March, 9.00 – 17.00
F&M £550 plus VAT
This all-day event deals with both the basic principles for smaller companies and the strategies for larger enterprises to employ, including end-to-end cashflow management, supplier financing and technology solutions.

GETTING MORE FROM THE FINANCE FUNCTION: THE ART OF THE POSSIBLE
25 April, 17.30 – 19.00
Adrian Ryan, head of finance transformation at Imperial Tobacco, will discuss assessing what your finance function is aiming to achieve, the components of a practical approach for getting there and dealing with the pitfalls along the way.

All events are charged at £33 including VAT per person and held at Chartered Accountants' Hall, unless otherwise stated

Members engrossed in the event Financial Modelling in Uncertain Times presented by John Tennent on 5 December. And below, two members' comments on the event.

"A good, well presented session. Lots to take away and use!"
James Edgar

"Absolutely excellent value for money and very well presented"
Nicholas Lawson

SOFIA SHORR-KON

Finding the funds

Funding expansion plans in times of financial strain pose real challenges for businesses. **Rachael Singh** sets out some alternatives for those going for growth

There's little doubt that raising debt in the current environment can cause even the most phlegmatic finance director to break out in a cold sweat. After all, we are emerging from a period of excessive expansion fuelled by debt. But if the banks and debt markets remain closed for business – which is still the reality for many businesses – what's the alternative for those looking to fund growth plans?

Equity financing naturally comes into focus in times like these and, if structured correctly, has various benefits if the FD is prepared and understands what they are letting themselves in for.

Some are certainly making it work. Topshop owner Sir Philip Green recently decided to opt out of traditional bank lending to fund the expansion of his retail empire overseas. He sold 25% of the family business Arcadia to American private equity firm Leonard Green & Partners for £500m in late 2012.

At the time of this announcement, Green claimed the cash would stay within the group and leave it debt-free, allowing it the opportunity to have "flexibility to look at other opportunities".

But Arcadia – which also owns BHS and Burton – isn't the only big brand to choose private equity over debt. In December last year, Aston Martin announced the sale of a 37.5% stake to Italian private equity investor Investindustrial for £150m.

The Aston Martin example illustrates the opportunity of looking beyond the banks when considering financing options. The figures back this up; of those that have used external finance in the last year, bank finance is still the primary source, with 28% of all SMEs having used their overdraft and 11% having used a bank loan, according to the Department of Business Innovation and Skills (BIS).

However, while the majority of companies seeking finance are able to achieve it (74% of SMEs), more than a quarter of SMEs are restricted from accessing traditional debt financing. Bank lending during 2012 was still worryingly slow; according to the Bank of England, net lending to SMEs was negative in each quarter from 2011 Q2 to 2012 Q1. In addition, the British Bankers' Association (BBA) said that lending to all non-financial businesses showed a £1bn drop in September while there was a 7.7% fall in loans and overdrafts.

The growth in popularity of equity financing is certainly real, says Darland Hansmann, specialist investment business ICG's head of high-yield business.

"Previously, companies would take on about a maximum of 20% to 25% equity financing with the rest in debt, now we are seeing companies with 50% equity and the rest debt," he says.

A NEW ERA

Small and medium-sized companies, however, might prefer to make use of some new ways of raising finance. The government was keen to ensure that venture capital (VC) financing was accessible to more companies and has expanded the family of VC funding:

- Enterprise Investment Scheme – individuals can obtain 30% tax relief on investments of up to £1m in new qualifying shares;
- Seed Enterprise Investment Scheme – individuals can obtain up to 50% tax relief on investments of up to £100,000 in new qualifying shares.

"There are low interest rates and tax incentives to investing in business so why not take advantage? It can be a useful addition to the market"

Much of that investment is coming from business angels flushed with cash. With interest rates showing no sign of crawling off the floor anytime soon, that investment capital has to go somewhere.

Business angels have benefitted greatly in recent years through the growth of networks aimed at bringing together

ENTERPRISE INVESTMENT SCHEME (EIS)

Unlisted companies with fewer than 250 full-time equivalent employees, assets of less than £15m and which are carrying on a qualifying trade may raise up to £5m in any 12 month period through EIS by issuing new shares, raising a maximum of £1m from each investor.

SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

Unlisted companies with fewer than 25 full-time equivalent employees, assets of less than £200,000 which are carrying on a qualifying trade and which have not received any EIS or VCT investment may raise up to £150,000 through SEIS, raising a maximum of £100,000 from each investor.

VENTURE CAPITAL TRUST SCHEME (VCT)

Unlisted companies with fewer than 250 full-time equivalent employees, assets of less than £15m and which are carrying on a qualifying trade may raise up to £5m in any 12 month period through VCTs, raising a maximum of £200,000 from each investor.

GETTY

investee companies. This is increasingly popular; the UK Business Angels Association estimates the amount being invested through angels is currently around £850m a year.

Angels are increasingly attracted by tax incentives available to investors via the equity funding route. Indeed, under the recently tweaked rules, the annual limit that companies can raise through one of the government's Venture Capital Schemes has been lifted to £5m for a qualifying company. While that change came into effect in April, there were several proposals for further reform.

While angels rely on word of mouth and small private networks, the venture capital funds – essentially a managed pool of money – will form out of a syndicate of various investors working together as one fund. These sometimes include pension companies that will use a venture capital company to make its investment decisions.

David Petrie, head of the ICAEW's Corporate Finance Faculty, says the rules should encourage more investors into the market. "There are low interest rates and tax incentives to investing in business so why not take advantage?" he says. "It can be a useful addition to the market that is squeezed with reduced lending."

PROS & CONS

Advantages include:
- Investors can bring new skills and opportunities to the business, eg marketing or exporting overseas;
- There is no interest repayment;
- A company will share the risks of the business with its investors.

Some of the disadvantages listed include:
- It can be a demanding, expensive and time-consuming process;
- Entrepreneurs will own a smaller share of their business, although their share could eventually be worth more money if the business succeeds;
- Companies may have to consult investors before making certain management decisions;
- It is only available to unlisted companies.

One of the biggest advantages is that it is "clearly a longer term finance model as opposed to traditional bank loans" explains Robin Stevens, corporate finance partner at Crowe Clark Whitehill.

However, there are downsides,

principally cost. There's no doubt that equity financing can be more expensive than debt because investors will expect a higher rate of return than the current low interest rate. Stevens estimates that at the point of investment most will want to see potential for a 15% to 25% return over the life of the investment, usually five to seven years. But if the company fails to grow, the investment may have cost very little, unlike bank loans.

"In the early stage there is a higher risk so investors will want a higher return. But once finance has been raised it provides a securer base rather than the whole financing structure based on debt," he says.

Stevens adds it is not a decision that should be taken lightly as some entrepreneurs are not comfortable with the idea of relinquishing some control, but with banking agreements or covenants the way they are, he also claims that some public companies have greater flexibility than private ones.

SHARED VALUES

More daunting for some is the quoted route to allow shares to be traded with the Alternative Investment Market (AIM), which allows companies to raise funds by allowing a variable amount of their equity to be publicly traded.

"The reality is that equity is attractive as a financing tool because it has a real depth of financing. It allows companies access to the deepest pool of capital available to them," says the London Stock Exchange's head of primary markets Alastair Walmsley.

Around £5bn has been raised on the AIM market since the onset of the recession in 2008.

While part of that can be accounted for by foreign-owned businesses seeking a way onto the London markets, there's little doubt that AIM does present an attractive route for raising money.

PRICE VS VALUE

Businesses need to be mindful of valuation. An entrepreneur could value the business at £5m but an investor may only value it at £2m, so in this case you can enter into a ratchet agreement. In this situation, the investor will pay the £2m value but the business buys it back for that same value later, which must be set out in the contract. A company can agree to buy its equity back, but the difference in perceived value of a company needs to be identified before the agreement occurs.

There are also anti-embarrassment clauses that investors will include in their contracts. To essentially save the investor from embarrassment they will sell their shares back to a company, or sometimes third party, and share in any uplift in the sale of those same shares within a contracted time frame – usually two years.

Usually in equity financing, if an entrepreneur wants out they will have to sell at the same time as the investor and can't exit early unless clauses are included in the agreement contract. The beauty of equity financing is its flexibility which can allow a company to set out how much it needs, what it wants to achieve, when, how and whether or not it wants the equity back.

Essentially a business needs a mixture of both debt financing and equity so that it doesn't find itself putting all its eggs in one basket. But despite this risk, Stevens claims that "if you want to sleep nights, raise equity; if you don't, raise debt".

Essentially, a business needs a mixture of both debt financing and equity so that it doesn't find itself putting all its eggs in one basket

COMPANIES ADMITTED TO AIM ARE QUOTED, THOSE ADMITTED TO A STOCK EXCHANGE ARE LISTED

A common misconception is that businesses have to float 100% of the stock in order to gain access to quotation. However, AIM does not impose a minimum for quotation on its market – you could sell as little as 1% of the business. But, the less you put onto the market, the more difficult it is to attract a varied group of investors, Walmsley warns.

Admission to a recognised stock exchange can also give you a higher profile for future investors and greater visibility to potential customers. "There are a lot of different reasons and there is no one size fits all," he says.

But there are costs such as formalising a board, which many small or private businesses have yet to do. A company may need greater transparency in its reporting and decision-making explanations; quoted companies will need market intermediaries such as a nominated advisor (NOMAD).

However, equity financing – in whatever fashion – can also open up a skills window. Investors will usually have extra skills that could benefit the company such as experience of the market. Also, they will have a vested interest to ensure a company's success.

THE NEW CAPITAL INVESTORS

The last two years have seen the entry of several new players looking to make equity investments. The government made great play of its support for the Business Growth Fund (BGF), which was launched in 2011 under the leadership of former banker Stephen Welton. Its initial mandate was to provide long-term equity finance to smaller businesses in the UK, and had £2.5bn available to invest.

It takes minority stakes of between 10%-40% in a company and describes its sweet spot as businesses looking for between £2m and £10m growth capital. So far it has invested in restaurants (Barburrito), healthcare (Springfield Healthcare) and employee benefits providers (Benefex).

SMALL SCALE
BIG GROWTH

Who better to offer tips on growth than the FD of a company that's increased turnover two and a half times over the past six years? *F&M* quizzed **Kevin Boyd** of nanotechnology leader Oxford Instruments

Oxford Instruments is proof that great things really do come in small packages.

Founded in the 1950s, the company is a pioneer in superconducting magnets (it manufactured the world's first full-body MRI scanner) and nanotechnology tools – the devices used to monitor and move individual atoms, creating revolutionary materials and components.

Admittedly it had a pretty dull time after floating in the early 1980s. But an injection of new management – CEO Jonathan Flint in 2005 and FD Kevin Boyd in 2006 – has heralded an unprecedented period of growth.

At the start of 2006, its shares stood at a modest 245p (pretty much where they were in 1990). They started 2013 at 1,500p – despite that intervening seven-year period including the worst global recession in living memory.

"Our success is really down to two factors," explains Boyd. "Growth in Asia has been excellent – it now represents 38% of sales; China is second only to the US in terms of our biggest markets. Then the nanotechnology tools market is a key factor in our growth. Half of our turnover comes from our businesses in that sector, and it has shown strong structural growth over the past six or seven years."

So what did this new team do to manage such incredible growth despite the gloomy backdrop? And how does a finance team best support a business looking to grow?

SET TARGETS

The first job is to actively target growth. "When Jonathan joined as CEO in 2005, the company was facing twin problems of lack of growth and poor profit margins – it had a turnover of about £130m with a 3% return on sales," says Boyd. "So in 2006 we worked up a five-year plan to double turnover and margins. Clearly it meant restructuring and a change of culture, too. But we recognised that at the same time we had to keep the innovative spark that made the business special."

> "It's all about mapping a process. Then you can question why you do each part and how you could reduce waste"

That cultural shift is crucial. "If you want your business to be different you're going to have to do things differently. If you want growth you have to do things better," says Boyd.

"It's explicit here. We tell new people joining the group that if they think something we're doing is stupid or unnecessary, just come and explain why. You have to question things, and that's often easier when you're seeing it fresh. It's all about mapping a process and breaking down exactly what's happening at each stage. Then you can question why you do each part and how you could reduce waste."

The problem with setting targets is that eventually you meet them. By March 2011, Oxford Instruments was able to report a yearly revenue of £260m with a margin of more than 10% – exceeding the five-year plan. So the team has redoubled its efforts.

"Our current three-year plan – [known as] 14 Cubed – is to deliver 14% compound annual growth through to 2014 and an EBIT margin of 14%," says Boyd. That keeps the whole group focused on the need for growth. But where are they finding it?

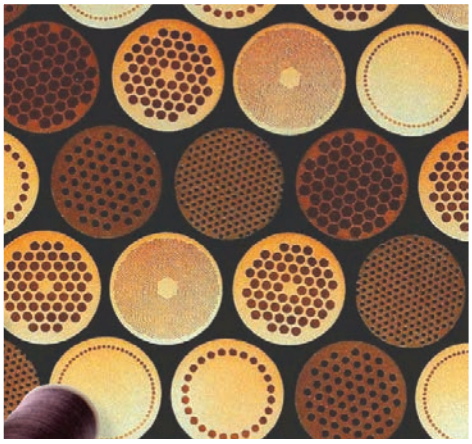
GO GLOBAL

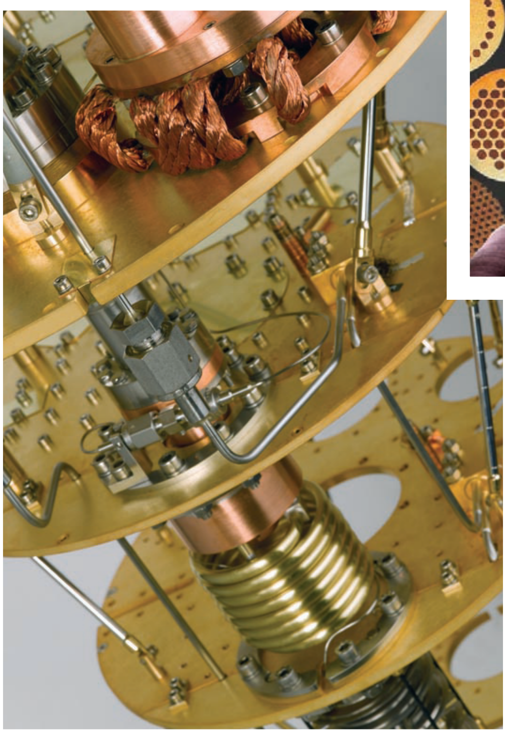
It's become a cliché to talk about exporting as a means of offsetting the sluggish domestic economy. But that doesn't make it any less compelling as a route to growth. "Currently half our employees and the bulk of our innovation come from the UK, but only 3% of our sales," says Boyd. "When you're working in niche markets you have to be global. We had some great global distribution infrastructure back in 2005, but it wasn't being used very efficiently."

Below group level, there are 10 business units operating in three sectors; nanotechnology tools, industrial products and services. And rather than rely purely on overseas distributors, the group has set up regional hubs to support local businesses.

"It means we don't double up on infrastructure and the local businesses get the support they need with economies of scale," says Boyd. And when a regional market gets significant enough, the group can set up a new support hub.

"For example, we did business in India for years through distributors," says Boyd. "When we were confident the time was right, and we could get the right people and infrastructure in place, we set up a hub. Its costs are gradually being adopted by the operating business units as they get the benefits from it. It's a great example of ensuring they can leverage the group set-up to grow."





GET AROUND

Each hub and local business unit has its own finance team – and Boyd undertakes plenty of travel to ensure they're well supported. "It's really useful to see how things are working in the field," he says. "Videoconferencing is great for day-to-day stuff but there's no substitute for actually being there."

Growth through international sales brings complexity, of course, not least in managing foreign exchange risk.

"We do try to exploit natural hedges [where trading activities offset currency risk so rather than repatriating dollar revenues, say, you find suppliers who want to be paid in dollars] wherever possible, and that's paid off as we've grown," says Boyd. "So six years ago we were selling $60m worth of dollars. Now, that's probably closer to $80m – but on three times the revenue. We've achieved that by outsourcing to dollar-denominated manufacturers, for example. And we encourage our UK-based businesses to buy in dollars, which actually helps suppliers if they're buying in dollars themselves."

The other burden this kind of international growth puts on the finance function is monitoring risk effectively. "China is a good example," says Boyd. "Legislation and regulation there can change rapidly, especially in tax and import/export rules. So having a really strong local FD keeps us on top of all that, as well as ensuring overheads stay under control as we grow."

PLAY TO STRENGTHS

For companies that operate in highly competitive or commodity markets, there are plenty of other challenges to going global. Oxford Instruments' growth is significantly aided by specialisation.

"Nanotechnology is clearly where we've seen the most growth, mostly organically but also through acquisitions," says Boyd.

"The finance function has to question the MDs and operational teams and encourage them to think in new ways"

"We would expect that to continue being the case in 2013. And we're always looking for M&A opportunities where they can fill out our portfolio. That might be a single-product company that we could plug into our distribution channel, say."

In December, for instance, the group bought Asylum Research Corporation, a provider of scanning probe microscopes. It's a natural fit with both the existing business units and with Oxford Instruments' customer base.

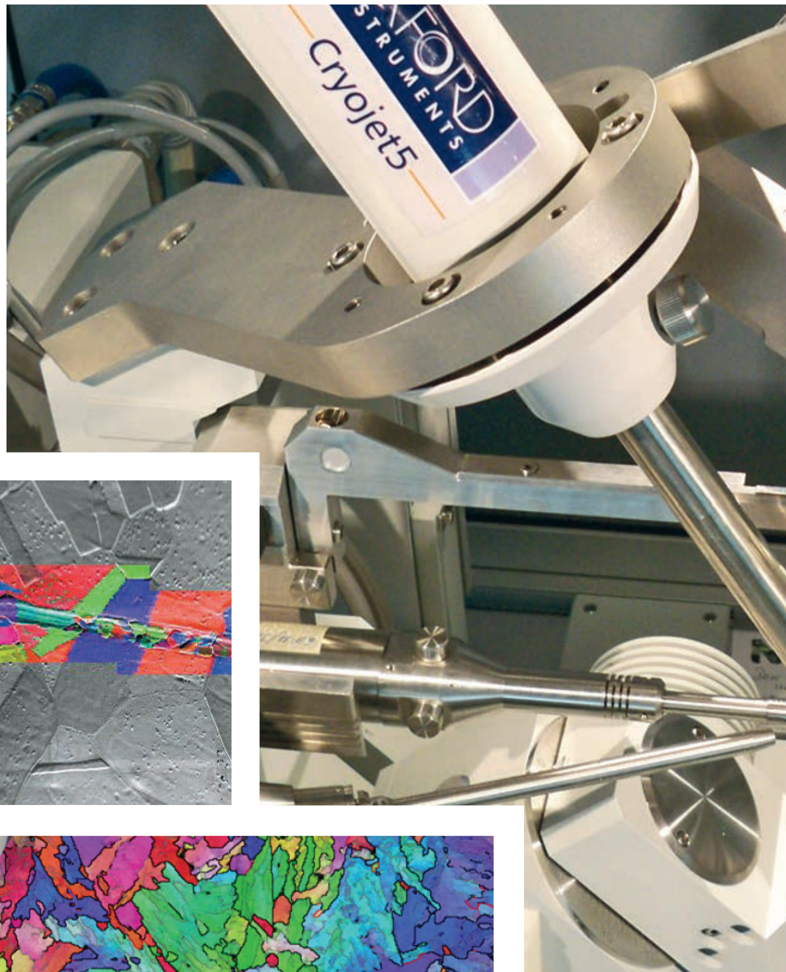
The other advantage of developing a range of specialist business units is that risk can be managed more effectively. In fast-moving markets driven by scientific developments, there's always a danger that you pin your growth hopes on a product that's about to become obsolete. "But with 10 business units – all with different technologies or offerings – that risk is much more likely to be isolated," says Boyd.

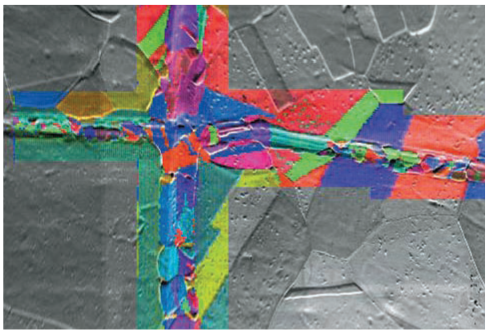
THE VALUE OF VITALITY

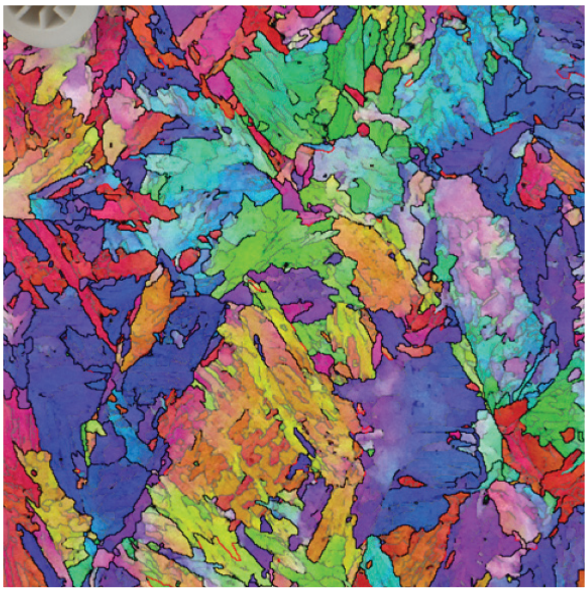
Targeted acquisitions help. But what keeps any business growing is innovation. "We spend about 10% of sales on R&D, but really that's just an input measure," Boyd explains. "To properly evaluate how we're doing, we use a vitality index. That measures the share of turnover that comes from products launched in the past three years. Right now it stands at about 44%. That's good – ideally it will be between 30% and 50%."

Every year the group management team receives pitches from the business units for investment in new products. (Chairman Nigel Keen and Boyd have both accountancy and engineering qualifications, and all the executives are accredited engineers.)

"That ensures the business units stay focused – there's no single global sales or







The Cryojet5 above is an example of Oxford Instruments expertise

R&D push," says the FD.

Projects then have to pass through seven stage gates between concept and volume production, including risk analysis and, critically, customer feedback. So it's a rigorous process – but the combination of good targeting and proper evaluation ensures that the company is taking the right level of risk to deliver growth.

STAY IN CONTROL

The challenge for unit FDs – and their MDs, of course – is to grow their businesses without growing the cost base. "Can they change the shape and output of their workforce, not just grow it?" asks Boyd. "It's one thing to hire some new salespeople and increase revenue. But can they work smarter to deliver a better result?"

This is a vital lesson for any financial controller or director. Yes, the finance function has to exercise clear levels of control and manage the downside. But you can forget about delivering growth if it's not doing two other jobs: thinking creatively about the structure of the business; and managing risk on the upside.

For Boyd, the first job is all about asking questions. "We've seen a 70% increase in the sales per head over recent years," he says. "That happened because we encouraged people to break taboos. The finance function has to continually question the MDs and operational teams and encourage them to think in new ways. That makes the FDs a vital sounding board for their MDs."

That has to apply at head office, too. As the company has grown – it's now in the FTSE 250 – its reporting and governance requirements have also expanded. It's added on specialist tax and internal audit functions, for instance. "But how often does the head office actually ask for less information to be reported? Having been a subsidiary FD in the past, I know how annoying a lot of the information requests can be," Boyd says. "Worse, they mean adding infrastructure to handle them. So as a group FD I try to avoid asking for things I don't absolutely need – and I talk to the business unit FDs about the information they need back from me."

And upside risk? Well it's not just about taking a punt. "There's no criticism from me if you're wrong about a decision so long as you understood the risks," he says. "And don't listen too much to lawyers. Often professional advisers will offer chapter and verse on what you can't do – so it's the FD's job to take careful heed of what they say… and then take the risk anyway.

"That can be a hard message for finance, which by inclination is more conservative," Boyd concludes. "My advice to those hoping to grow is, don't be afraid to take a risk. Understand it, try to quantify it. But business growth is all about risk. Take a decision, then move on. If you're afraid of risk and don't take decisions, you'll wither."

BOYD'S ADVICE FOR FDs

Kevin Boyd was named FD of the year for smaller quoted companies in the FDs' Excellence Awards 2011, held by Real Business in association with ICAEW and the CBI.

Since then Oxford Instruments has joined the ranks of the FTSE 250 and his company's ongoing success made us wonder what other advice he could offer FDs this year.

"There are plenty of new opportunities for the finance team in 2013. The Patent Box legislation looks really interesting and R&D tax credits moving above the line is another. We've got to secure the maximum benefit from that shift.

"I'm constantly trying to communicate better with all our stakeholders. Finance can sometimes lapse into navel-gazing, which is a huge loss because it can do so much for the rest of the organisation. The important thing is to explain what the numbers actually mean – to be interpreters, helping people within the business make better decisions.

"Finance also has to maintain great communications with customers, suppliers and shareholders. That's mostly about making the numbers important and understandable. You have to be a good storyteller, creating a narrative that gives people a context for their decisions."

Nominations are still open for the FDs' Excellence Awards 2013. For more information visit **snipurl.com/FDXnom**

Richard Young is the strategic editor for the ICAEW faculty magazines

Excel 2013 – is it worth it?

The latest version of Excel is coming. **Simon Hurst** explains what's new

Upgrading to a new version of Excel doesn't just cost you the upgrade price; there is also the installation and management time for the IT team and the cost of disruption and training for users. For many organisations, even if their software licensing arrangements avoid any direct costs of acquiring the latest version, a new update has to either deliver significant benefits or be essential to maintain compatibility with mission-critical applications or partner organisations. So is there anything included in the latest version of Excel to persuade you to endure the pain and cost of updating?

BACKGROUND

From Excel 1997 to Excel 2003 there wasn't really any enhancement or additional functionality that made a clear-cut case for the majority of users to go through the expense and trouble of upgrading.

Excel 2007 changed that. Not only did it radically change the entire user interface but it also included a series of very significant enhancements, including massively increased numbers of rows and columns, improved conditional formatting and a name manager. Excel 2010 continued the process with a set of major improvements to the program's analysis tools and graphics as well as the introduction of viable self-service business intelligence through the optional PowerPivot add-in.

Excel 2013 looks set to complete the hat-trick of must-have version upgrades with more business intelligence improvements. Key enhancements to usability include touch controls for use on tablets, significant movement towards the cloud and, perhaps most importantly, a serious spreadsheet auditing and documentation add-in – though this is only available with the Professional Plus version.

INTERFACE AND USABILITY

Excel 2013 certainly looks very different to Excel 2010. The ribbon interface hasn't gone away (to some people's disappointment no doubt) but it has a new minimalist flat-white appearance with a rather strange use of capital letters for the tab names. It won't take most users long to get used to this but the new 'advice from your best mate' style of help, warning messages and animation applied to virtually every action may niggle for a bit longer.

On the plus side, there is a range of new commands for use with touch devices and, for those of us with more than one computer monitor, Excel now treats each open spreadsheet as a separate window. This makes it easier to work with multiple spreadsheets displayed on separate monitors.

ANALYSIS AND PRESENTATION

The Quick Analysis option appears when you select a table of data and suggests a range of ways to analyse the table, including the use of conditional formatting, charts, PivotTables and sparklines. In the case of charts and PivotTables, Excel uses a new 'recommended' feature to suggest appropriate types of chart and PivotTable to use.

Slicers – the visual filter feature introduced in Excel 2010 – has been given two improvements: they can now be attached to Excel tables as well as PivotTables; and for PivotTables that include date and time fields a new timeline slicer simplifies the process of choosing a particular or set of time periods.

The Excel PowerPivot add-in, which included some significant database functionality, has found its way into Excel itself. Excel now includes a data model that allows you to connect to multiple external data sources or tables within Excel and set up relationships between them. This allows you to incorporate fields from multiple data sources in a PivotTable, for example. The PowerPivot add-in itself is still available for more advanced data analysis.

The new Power View Reports feature allows you to quickly create dashboard-style interactive data visualisations, including plotting values on maps – a feature that was part of Excel many versions ago.

INQUIRE ADD-IN

As mentioned above, this add-in is only available if you have the Professional Plus version of Office. This is a shame because if ever there was a new feature from which every single Excel user could benefit, it would be Inquire.

Errors in spreadsheets continue to make national headlines and although cases such as the west coast main line train franchise may have more to do with business logic than mechanical spreadsheet errors, there is little doubt that inadequate spreadsheet testing poses a risk of loss to businesses and individuals. Inquire includes a comprehensive range of tools to help analyse the structure and content of Excel workbooks, including comparing different versions of a workbook, highlighting types of cell content and showing the relationship

between workbooks diagrammatically (see diagram, bottom left).

Probably more relevant to larger organisations, there is also a new Discovery and Risk Assessment application based on Microsoft's Audit and Control Management Server. It can create and manage inventories of Excel workbooks and analyse them to assess the risk they pose.

ACTION

If you are using Excel 2007 or earlier, then the combined changes in Excel 2010 and 2013 provide enough benefit for all but the most basic of Excel users to upgrade to the latest version.

Even if you are an Excel 2010 user, unless you already use a third-party spreadsheet auditing tool the Inquire add-in alone may be enough to justify an upgrade, with all the other enhancements a bonus.

KEY CONTACTS

ICAEW's IT Faculty provides a community dedicated to helping members improve their use of Excel through a question and answer forum, regular articles and updates, periodic webinars and an online training course.

In addition, members can attend a range of events throughout the country at discounted rates. The Excel Community has been featuring detailed articles on the 2013 changes since November 2012.

Visit ion.icaew.com/excelcommunity or the Microsoft Office site at office.microsoft.com/en-gb/

PRICES

As well as the traditional licences, Office 2013 will be available on a subscription basis via Office 365. At the moment a version for midsize businesses and enterprises, including Office Professional Plus, costs £15 per person per month. At the time of writing, final prices hadn't been announced, but the licence prices should be similar to Office 2010, with Professional Plus costing about £250.

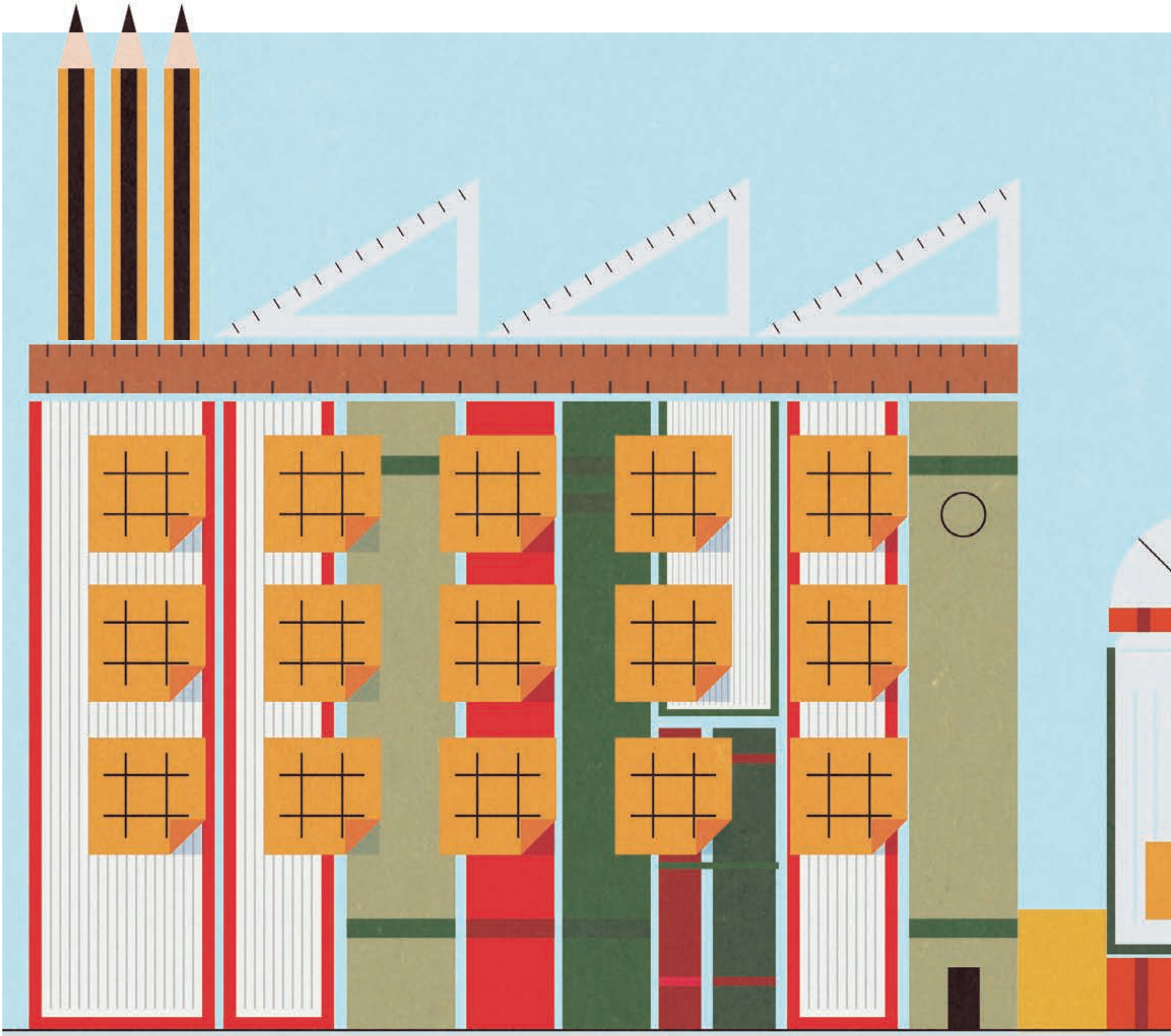
VERSION STATISTICS

Are you the last organisation left using Excel 2003? I only have anecdotal evidence from my Excel roadshow lectures, but my estimate of the version used by attendees towards the end of 2012 was something like the following: 50% Excel 2010; 30% 2007; 20% 2003.

This is clearly a far from random sample. I would put a more realistic estimate at 40% Excel 2010; 30% 2007; 20% 2003; 10% Excel XP or older.

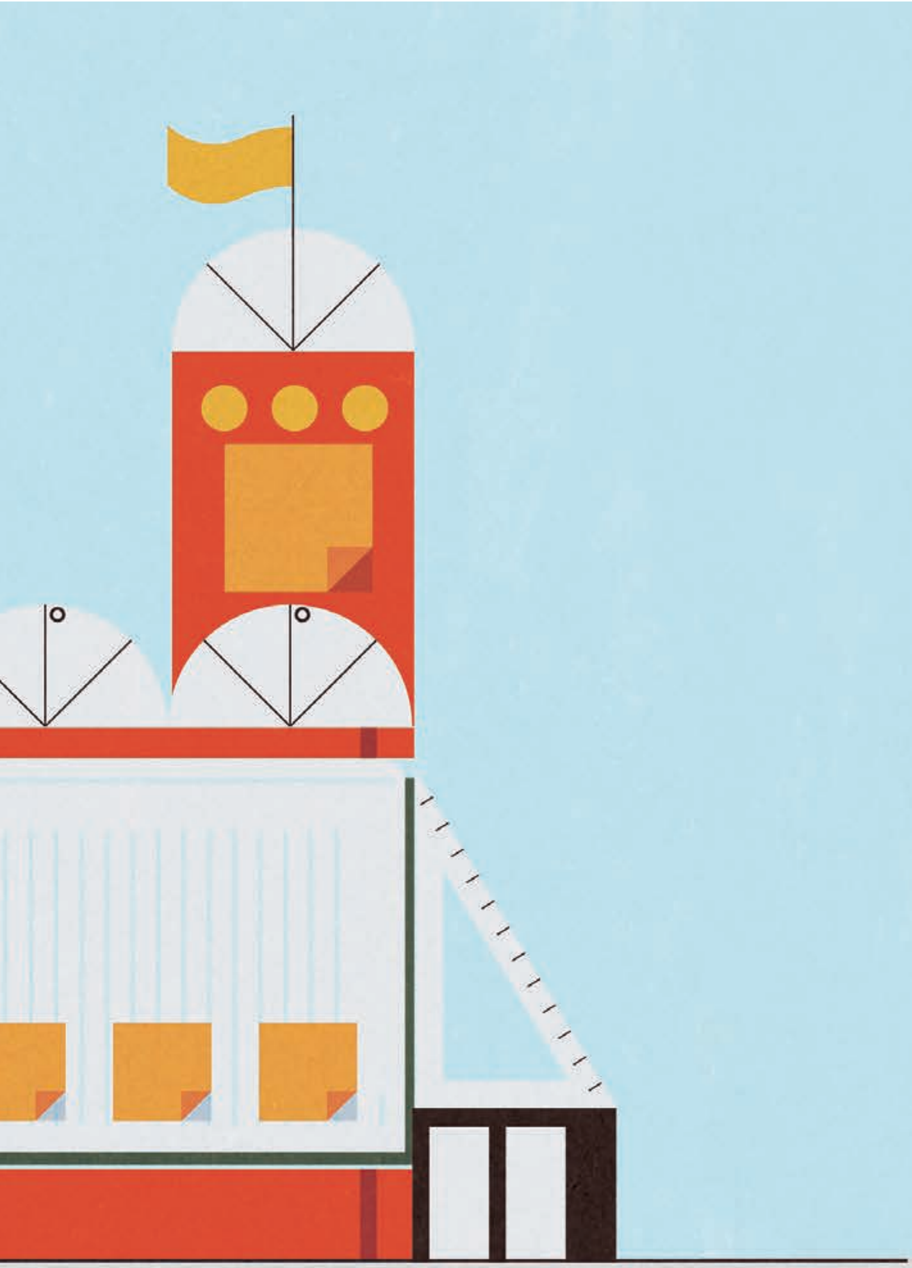
TOP EXCEL TIPS

- Plan your spreadsheet on A3 paper with an HB pencil before you go anywhere near Excel.
- Make sure you understand the basics, including absolute and relative cell references, the need to keep your data and formulae separate and how to use the Insert function.
- The F4 key will cycle through the four different absolute and relative options for a cell reference.
- After copying a date with the fill handle, click on the fill options button to choose whether to copy individual days, months or years.
- PivotTables are as much fun as it's legally possible to have with Excel.



TRAINING DAY

Training is often spoken of as being inherently valuable. But working out what training to give and how to evaluate its effectiveness is not so simple and involves some tough decisions. **Gavin Hinks** sets out the facts



It was the legendary General Electric chief executive Jack Welch who wrote: "An organisation's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage." Go to GE's website today and you'll find this bold statement: "Worldwide we invest $1bn every year on training and education programs for the people of GE. The results can be measured in the increasing leadership capabilities of our own people and ultimately in the value and opportunity generated for our customers and their communities."

Who would deny the claims of one of the world's most successful companies? It's self evident, isn't it? Training is a good thing and everyone should be learning at every opportunity. GE even has its own college – the John F Welch Leadership Development Center. 'Nuff said.

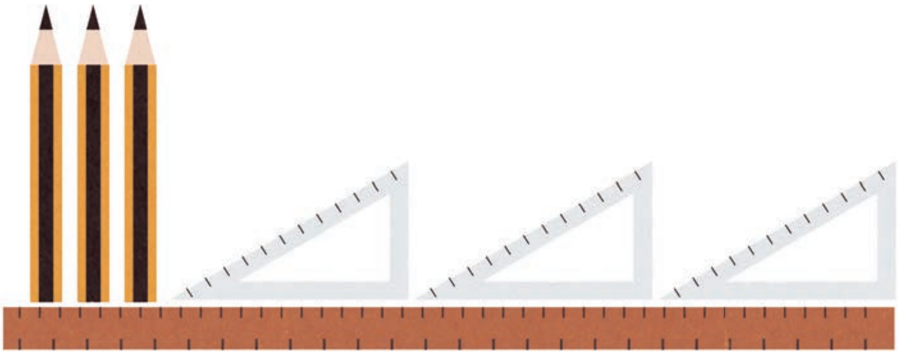
But speak to the experts and it soon emerges that this is not the whole story. The assumption that tuition for work has to be a good thing, conceals a passionate debate about how to train, how it should relate to a company's overall strategy, how you figure out what training your staff need and how best to reckon its value.

"Once you start talking about training you open a can of worms that has wide implications," says Paul Kearns, a writer and consultant on training and development.

STATE OF LEARNING

That training should be a topic of intense interest to company finance chiefs is evident once the scale of interest in training becomes apparent. Britain devotes vast sums of money to training and considerable man-hours to its delivery. According to a 2011 survey the UK Commission for Employment and Skills (UKCES) found 15m workers, or 54% of the UK workforce, had been given training in the previous 12 months. The figure equates to 117m days of learning, or 7.8 days per employee trained. Total UK expenditure on training amounted to £49bn, with England alone accounting for roughly £40bn. The previous survey, in 2009, which looked at England alone, saw 12.8m people in training, and spending at £39.2bn. Training expenditure appears to be steady (although not after inflation has been taken into account), however as indicated below, spending per head is falling.

And that's interesting because it is clear that in a year in which the economy will barely grow, the pressure is on training budgets. A study in 2012 by the Chartered Institute of Personnel Development (CIPD) found some disquieting news. The number of companies that deliver training activities has fallen from 61% in 2011 to 54%. What's more, fewer than three-fifths of organisations believe their staff development projects actually work. Indeed, 15% confessed that their own training initiatives were, to put it bluntly, "ineffective". Spending on training dropped too. The median annual spend per employee fell from £350 in 2011 to £276 in 2012. Another clear sign that training budgets are feeling the pinch and the pressure is on to make the best use of the money available.



GOOD THING

A good two-thirds of spending is on mandatory regulatory and compliance training. The debate here revolves around discretionary spend. As you might expect, UKCES sees training as highly valuable, and for powerful reasons. Its 2011 report concludes: "Developing skills is a key part of securing growth and prosperity in the UK." It goes on to call for training to be overhauled in the UK and be led by employers. To that end it is sponsoring pilot schemes that allow employer groups to bid for public money.

Lesley Giles, deputy director of UKCES, says that in an economy simultaneously struggling to grow while being driven by developments in technology, "skills investment is fundamental. The survival of a business hinges on it." For the Commission the factor that trumps costs, and employee time away from the coalface, is the imperative for companies to keep developing their skills base to stay in business.

There are big advantages for workers too, says Giles: "For individuals it's important because it's the currency for getting into the labour market and being able to progress in a job. The primary way you progress is through skills enhancement."

CFO CHALLENGE

For CFOs, however, it's not as easy as spend, spend, spend on training. There are important questions to answer and balances to strike. Chris Kinsella, formerly chief executive of the Chartered Management Institute, and now a freelance CFO, says finance chiefs have to balance return on investment (RoI) against the immediate cost base, as well as all the conflicting priorities within a large organisation. Not an easy matter. "Certain individuals shout louder than others," he observes wryly.

That said, the reasoning behind training should remain an important element for CFOs. "Robustness of the justification is key," says Kinsella, "and this applies not only to training but for all other areas also." But despite coming from a quantitative background he admits: "Many proposals are not really quantifiable, therefore an element of trust and judgement is called for."

> "Measuring RoI is like seeking the Holy Grail - and to be honest, we don't think we are going to find it"

The clash between quantitative evaluation techniques on the one hand, and what Kinsella calls "judgement" on the other, is best illustrated by the controversy caused by the use of return on investment (RoI) as a means of telling whether education at work has been productive.

The RoI formula can be found anywhere on the internet. To calculate the percentage RoI you simply divide benefits by the costs and multiply by 100. Nothing to it – except that while estimating the costs may be relatively simple, identifying and then estimating the value of the benefits can be a minefield. Giles says judging the effectiveness of training is not necessarily about "monetary outcomes." Indeed she finds some difficulty with considering an RoI sum as a valuable way of evaluating training. "It's not simply a quantitative assessment," she says.

In the human resources world there is a debate raging about the best way to judge whether a training project has been worthwhile. Indeed, in some circles there is even an objection to the use of the word "investment", because it seduces managers into a mistaken belief that the "returns" can be accurately attributed to the training.

Many HR people claim that the diversity of variables that go into producing an outcome within a company and its performance, is so broad that pinning down a direct connection between training and company performance is impossible. In a 2005 paper from Ashridge Business School, *Measuring RoI in Executive Education*, the authors Kate Charlton and Carole Osterweil quote what they consider to be a common belief among training and development professionals: "Measuring RoI is like seeking the Holy Grail – and to be honest, we don't think we're going to find it."

Their research was prompted by the increasing suspicion of the assumption that company leaders were only really interested in RoI. What Charlton and Osterweil concluded, after questioning 270 CEOs, MDs, managers and HR directors, was that the term was probably not used consistently and that, in fact, the demand for RoI calculations, in relation to executive training at least, was not as fervent as HR people might have assumed. After totting up their figures, the Ashridge researchers found only 11% of those polled evaluated executive training in terms of results at an organisational level, and only a tiny 3% did so in terms of financial RoI. Further questioning produced no clear-cut reasons for this, only that, broadly speaking, many HR people felt that working out a financial return on training was simply too difficult.

A year later Charlton carried out similar research among US company managers, concluing: "There would appear to be a wider use of a range of evaluation methodologies in the US than in Europe."

These measures included feedback from training participants, as well as interviews with line managers about the outcomes, customer surveys and monitoring promotions post training, among others. However, though slightly more US companies reported a liking for seeing results in terms of financial RoI or in an organisation's overall performance, the bulk of evaluation did not use these methods.

DUMB WAY TO PROCEED

This echoes the views of the Chartered Institute of Personnel and Development (CIPD). According to Dr John McGurk, an adviser on learning and development at the institute, working out RoI for a singular training project (or intervention, as HR professionals like to call them) produces a faulty perception. RoI on its own, he says, "inflates the impact of an intervention."

McGurk favours alternative measures that, he says, give a more rounded view of the outcomes of training. These might be psychometric, changes in behaviour, employee engagement or 360 degree evaluations involving the trainees' colleagues. "We should be more evidenced

MIKE LEMANSKI

based," he says. "In a world of Big Data, RoI evaluation is a dumb way to proceed."

However, McGurk wants to shift attention to ensure the metrics used are ones that reflect the expected outcomes of company management. He cites an example: "Do I want my sales team to be building long-term relationships with high-margin B2B (business to business), or churning on low margin B2C (business to customer)?"

This moves the focus to a company's strategic objectives and whether training is properly targeted to serve them. Chris Kinsella makes the same point: "A good organisation will do a series of skills audits in order to identify the gaps, then work through a series of proposals with the management team. Therefore, the training proposals should not come as a surprise to a fully engaged CFO." Because the training aims should be in tune with company strategy.

In a report published in 2012 the Chartered Management Institute (CMI) looked at the drivers for training managers. The top five motives were to: achieve organisational objectives, manage change, improve managers' performance, increase competitive advantage and support business growth. The report notes that respondents with the largest budgets for learning and development were more likely to cite this quintet. "As a result they may, when associated with higher performance, be more likely to spend their budget in a more focused way." Managers clearly see training budgets as spending on strategic performance improvement.

This point is made even more emphatically by Paul Kearns, who made national news headlines in 2004 for publicly slamming a £35m training course run by the BBC. The broadcaster had invited Kearns to advise on how the course could be evaluated. He was quoted in the press insisting the course had "no link to any performance objectives at the BBC".

In his book *Professional HR* (pub. Routledge), due out in March, Kearns advocates what he calls a "baseline" viewpoint. "The only evidence-based approach theoretically possible, is to ask about the business evidence that a training problem exists before anyone assumes they can solve it with training," he says. "No training should take place in a business without a business justification. No CFO or professional accountant should approve expenditure with no business justification."

For Kearns the justification comes down to whether the company is able to confidently assert at least one of the following:

- The training will improve the output of those trained;
- The training will cut the cost of production;
- The training will enable the company to charge more for a product or service;
- The training will make the product or service better.

Kearns' critique of the BBC training programme arose from the belief that the broadcaster addressed none of these four aims when it decided it needed a course. Which means that Kearns rejects the idea that training is of value. Indeed, Kearns' view is that an assessment may even conclude that training is not required. A difficult pill to swallow for many HR stalwarts. "Training is not automatically good. If it is, accountants should pour money into it, which would be ridiculous." Can of worms indeed.

TRAINING NUMBERS

$1bn
amount GE spends on education and training for employees worldwide

54%
percentage of workforce that received training in previous year according to a 2011 survey

£49bn
total UK expenditure on training in 2010

15%
of organisations surveyed admitted that their training programmes were ineffective

Business class

The benefits of accountancy training are well established but keeping up to date with how the ACA for Business works can be invaluable for employers

There are many different types of accountancy, finance and business qualifications available. It can be difficult to understand what makes each one unique as they often appear to have very similar elements.

However, there isn't just one thing that makes the ACA different. It's a combination of factors that makes it a world-leading professional qualification:

1 It has fully integrated components that work together so our students can put theory into practice and can understand and apply what they learn to the workplace throughout their training.

2 We write our own learning materials and only test what is in them, so our students are tested on their understanding and ability to apply what they've learned, not just their ability to memorise.

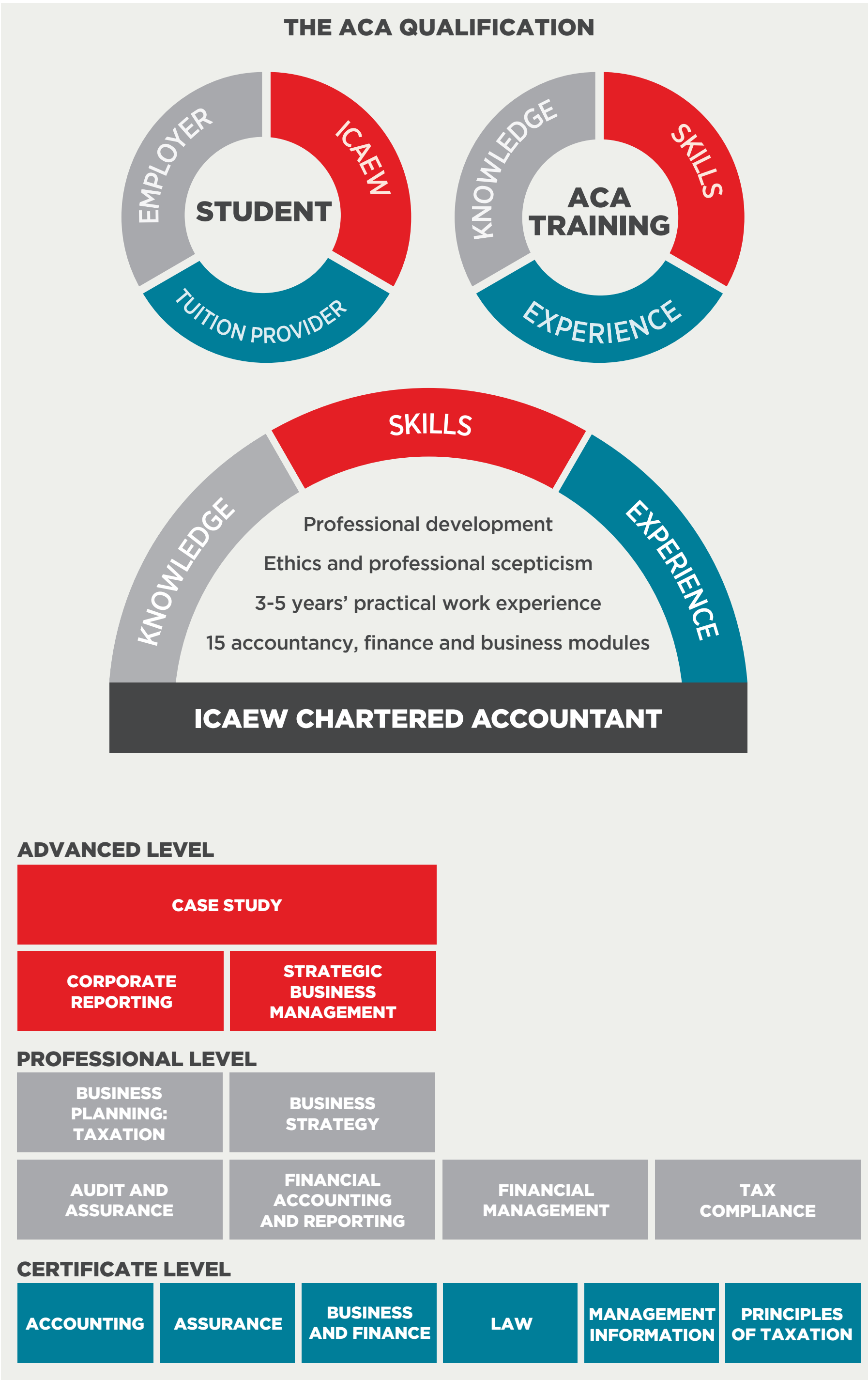
3 We build a relationship with employers through our authorised training employer process. They meet ICAEW standards that ensure quality, commitment and support for our students throughout their training.

4 All 15 modules are compulsory so students gain a broad perspective with in-depth understanding across accountancy, finance and business. This allows specialism in a wide variety of areas throughout and beyond their training.

5 The Professional and Advanced Levels have open book exams that mimic real-life scenarios. Students are presented with problems they have to solve using the resources at hand (the Professional Level has prescribed texts with the exception of Business Planning: Taxation, which is fully open book like the Advanced Level). This means students need to demonstrate their understanding and application of what they have covered rather than learning acronyms to be able to recite the regulations.

HOW ACA IS EVOLVING

The ACA syllabus is updated annually to keep pace with regulatory and statutory changes. We also undertake a full review of the entire qualification every five or six



years to maintain its flexibility, relevance and appropriateness in meeting the needs of the market both now and in the future.

ICAEW has worked with stakeholders – including members, employers, tuition providers, universities and students – to evolve the ACA qualification and ensure that our qualification continues to remain highly recognised, valued and respected across all sectors.

Building technical knowledge, professional skills and experience

The components of the existing ACA – structured training in ethics, technical work experience, initial professional development, and exams – have always been connected, although sometimes viewed in isolation.

To enhance the holistic approach of the qualification, we have modified how they fit together and have an impact on each other. The increased integration benefits students' understanding and progression through their training, building the knowledge, skills and experience required to become an ICAEW Chartered Accountant.

Technical rigour

We have ensured that the technical rigour has been maintained and increased in the core areas of bookkeeping and taxation, which are now covered at an earlier stage.

There are still 15 modules with exams over three levels – Certificate, Professional and Advanced. Students gain in-depth knowledge across a broad range of topics in accountancy, finance and business and the modules are designed to fit with their practical experience, so they constantly progress through the qualification.

Ethics and professional scepticism

Ethics have always been at the core of the qualification and are integrated throughout all exams. We have developed a new ethics learning programme to better support students and employers, which is similar to the existing structured training in ethics. The first part is an online learning programme, based on the ICAEW Code of Ethics. The second part is a set of scenarios for discussion between students and employers where the ethical implications can be explored.

STATISTICS

We have more than **19,000** ACA students worldwide, 25% of them outside the UK, training with **2,850**-plus authorised training employers.

42% of our members work in business, and we have more ACA students training in business than ever before.

We have a **87%** pass rate at the early stage exams and **78%** first-time pass rate at the final exam.

In 1995 there were **3,450** pages in our ACA learning materials; in 2010 there were **7,980** pages.

Almost **50%** of our graduates come from non-accountancy, finance or business-related degrees.

Professional development

Although the initial professional development system has been retained, it has been restructured. Students and employers work together to progress their professional skills to the levels required of an ICAEW Chartered Accountant.

The seven areas of focus are: adding value; communication; consideration; decision-making; problem-solving; team-working; and technical competence.

Systems and processes

We've evolved our systems and processes to make administration for employers and students more efficient. A new online programme is also under development to increase students' understanding of what a career in chartered accountancy means.

Access to the profession

Access to the profession over the past few years has been an important issue to many members. In the latest evolution, quality has been maintained while ensuring that individuals who have the potential to become members are able to do so irrespective of their background. We are committed to maintaining the reputation and recognition of ICAEW Chartered Accountants as leaders in accountancy, finance and business.

If you have any queries please contact **acaevolution@icaew.com**

FREQUENTLY ASKED QUESTIONS

Q Do you have to live in the UK to be an ICAEW Chartered Accountant?

A No. You can train in many different countries with one of our 2,850-plus authorised training employers.

Q Do you have to train with an accountancy firm to be an ICAEW Chartered Accountant?

A No. You can train in many types and sizes of companies and organisations, including business and commerce, public sector and accountancy firms.

Q Do you need to offer audit experience to recruit ACA students?

A No. Students need a minimum of 450 days' practical work experience but this need not include audit experience.

Q Do you have to pay to become authorised to train?

A No. There is no charge to become an authorised training employer (ATE).

Q Does it take long to become an ATE?

A No. Although the process we follow is robust in order to ensure employers know what is required to train students, the process is straightforward and can usually be completed in three to four weeks.

HOW TO GET STARTED

To offer ACA training, you'll need to become recognised by ICAEW as an ATE. The process is quick and simple and designed to ensure all students receive the same level of support, no matter where they train.

Steps

1. Complete the application.

2. Ensure your training will meet ICAEW training standards.

3. Arrange a meeting with our training authorisation team.

4. Organise suitable work experience and establish an ACA training agreement for your recruits.

5. Your recruits register as ACA students and start training.

To find out more visit bit.ly/12CpAvf

PwC Manual of accounting series 2013

Expert financial reporting guidance – whichever framework you report under!

Fully up-to-date with the latest standards and packed full of practical worked and best practice examples, the PwC Manual of accounting series 2013 provides comprehensive and reliable guidance on IFRS and UK GAAP from one of the world's most respected names in accounting.

Whether you are reporting under UK GAAP, IFRS or both, we have a cost effective pack for you. For details of the books included in each pack, visit www.bloomsburyprofessional.com/pwc

For those reporting under IFRS in the UK

Manual of accounting: IFRS for the UK 2013 Pack

• ISBN: 978 1 78043 008 9
• Price £125

For those reporting under UK GAAP

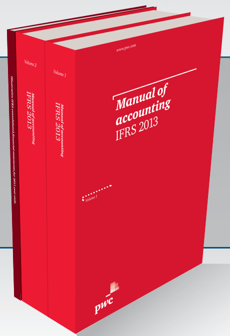
Manual of accounting: UK GAAP 2012/13 Pack

• ISBN: 978 1 78043 141 3
• Price: £90

Global guidance on IFRS

Manual of accounting: IFRS 2013 Pack

• ISBN: 978 1 78043 009 6
• Price £118



For those who purchased the Manual of accounting: UK GAAP 2012 Pack last year

Manual of accounting: UK GAAP 2013 Supplement

• ISBN: 978 1 78043 177 2
• Price: £65

For those reporting under IFRS in the UK

IFRS Reporting 2013 Pack

• ISBN: 978 1 78043 0119
• Price £165

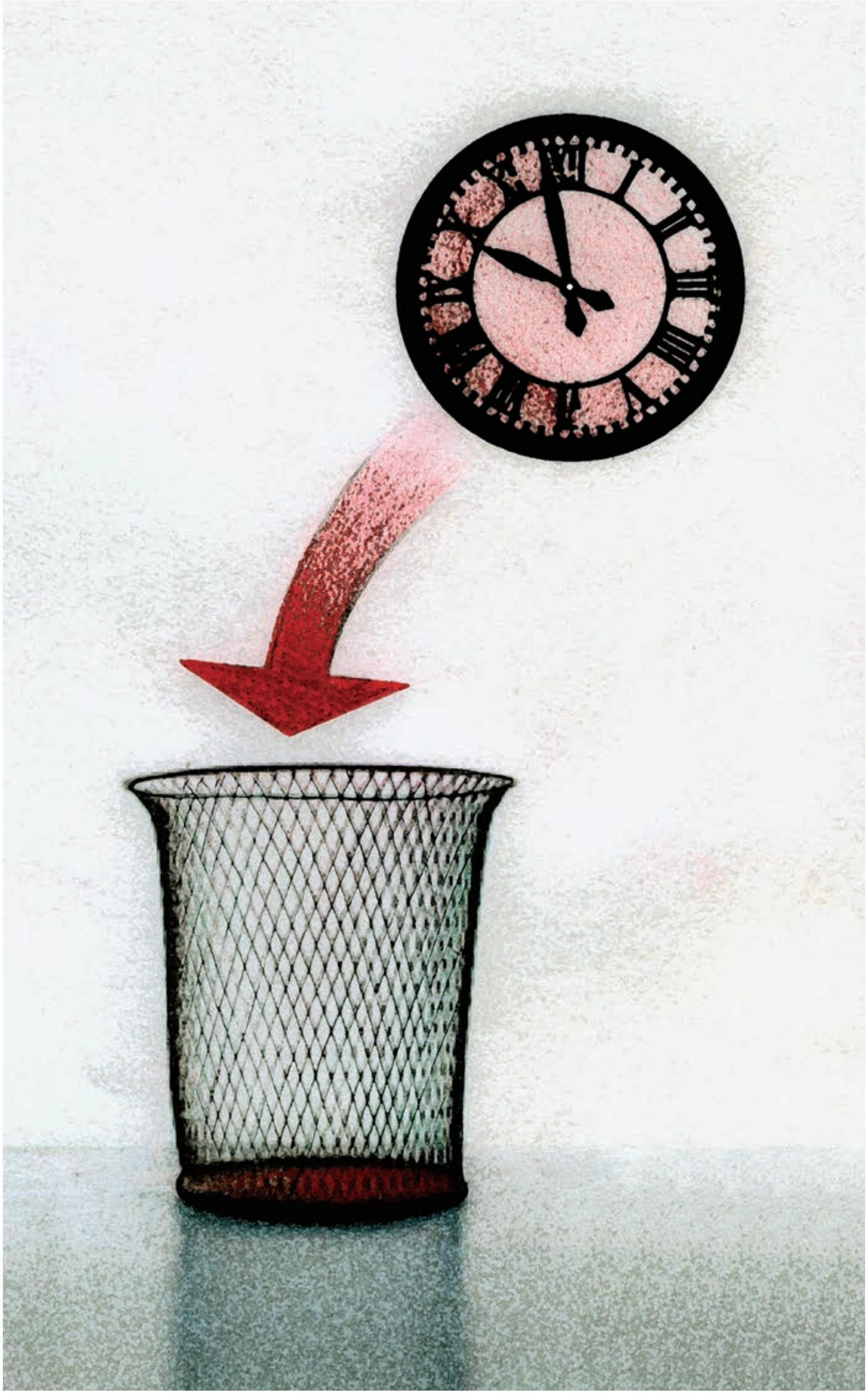
Order your pack today at

www.bloomsburyprofessional.com/pwc

and make sure that your financial reporting guidance is up to date with the latest standards.

pwc

Bloomsbury Professional


CORBIS

Lean and efficient

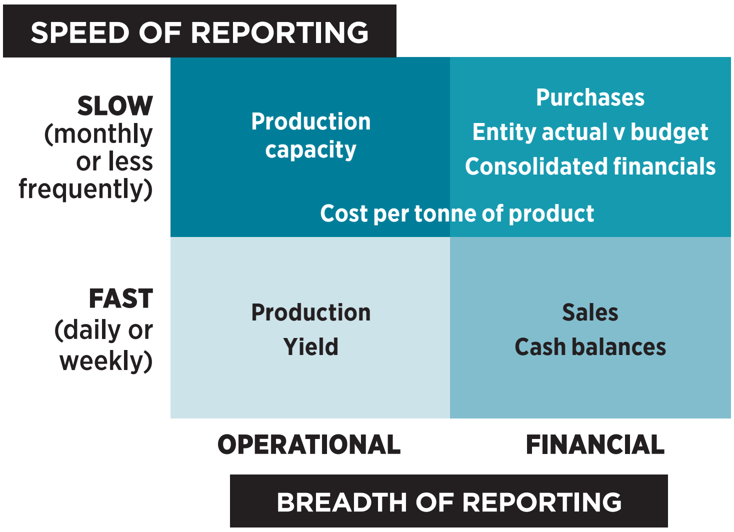
Month-end and management reporting tends to be time-consuming and problematic. **Kevin Dilton-Hill** looks at reporting trends, and explains how determining the right information, and "lean" methods of producing it, could bring big benefits

Month-end reporting requires substantial finance resources and is fraught with potential problems. Finding efficiencies and raising quality in this area are a constant challenge. There are two broad areas that can help – choosing the "right" information to report, and reducing the time and resources to produce it. This is an approach based on the two main tenets of the "lean" discipline, which are the purpose of a process is to fulfil customer demands and any task in the process not absolutely essential to meet those needs is waste that should be eliminated (or at least minimised).

These two tenets can be usefully applied to the month-end process, which provides information that the customers of finance use to make decisions.

THE RIGHT INFORMATION – ANALYSING CUSTOMERS' REPORTING DEMANDS

One of the most salutary things a finance function can do is print out the reports it issues every month and send them to the usual recipients asking them to tick each page every time they look at it and to circle the information in which they are interested. You will be astounded by how



much is never read. So you could stop issuing all reports until a request is received for a particular one. Again, you will be amazed by how many reports are produced unrequested. Producing reports that are not used is wasteful and should be minimised.

Finance's problem is that users rarely know what they want. Probably the best way is to focus on what decisions are made, and then analyse what 'facts and figures' add value to such decisions, and when they are needed. True, this approach broadens the topic of month-end reporting out into all the management reporting that finance does. But for most organisations it is the right approach.

The development of different data systems and myriad ways of data gathering, has led to a proliferation of reporting – so the concept of "monthly management accounts" has been somewhat overtaken. It also seems that the increase in reporting is largely of operational, as opposed to financial, figures; and operational figures may well not be collected for, or relate to, a period of one month. Yet managers may need such figures for effective management and for monitoring of KPIs.

Management reporting can be analysed in the classic 2x2 matrix as shown in the diagram above; the dimensions being speed (fast/slow) and breadth (operational/financial). All management reporting falls within this space and the question is whether the optimal position in the box is changing from the slow/financial quadrant to the fast/operational quadrant.

There is a growth in reporting concentrated at the fast/operational position in the spectrum (a separate issue from the perennial speed/accuracy debate in producing monthly financial figures). The demand from finance's reporting customers is for a linking of solid financial reporting with underlying operational data in a way that tells managers what has led to their financial result and which operational levers they must pull to change that result in future.

Putting the demand for management information into the 2x2 matrix will help the finance function identify where to concentrate its efforts, by showing which reports will truly satisfy customer demand.

ELIMINATING WASTE

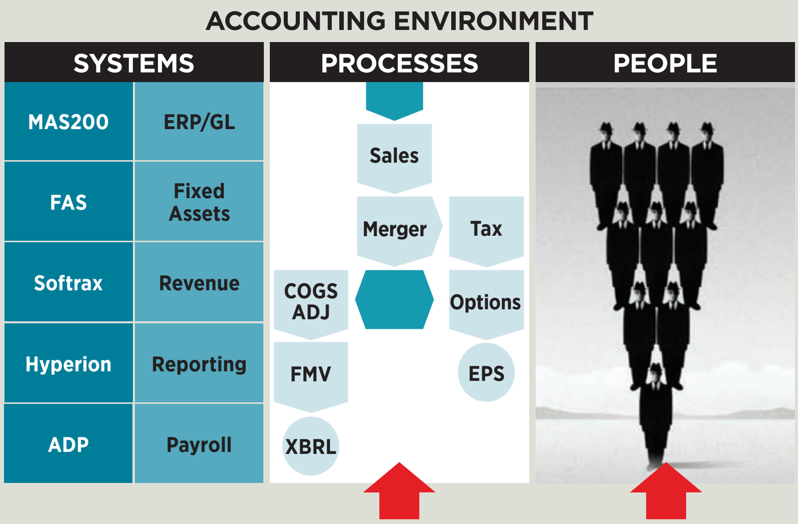
There are five main ways of identifying and eliminating waste in month-end and management reporting:

1 MAKE FLASH RESULTS 'ACTUAL'

If you produce flash results, your month-end process is full of waste. My first finance transformation project experience was with an organisation that made "flash is actual" its motivating mantra, and those flash results were ready on day three. It wanted to do it right first time, having realised that most of the activity after release of the flash results was directed at re-affirming previously issued information. When you see "re" you are seeing waste; re-do, re-work, re-analyse – all waste.

This company – a listed subsidiary – cut the number of days to issue the management report, did its own sub-consolidation and submitted the consolidation information within five days, where it had previously been 15. The project also improved the quality of the information and cut costs substantially. When we talked to the executive directors about the cost savings and return on investment, they said it was irrelevant; the benefit from being able to take action with reliable, on-time information was incalculable in their view.

2 ELIMINATE BOTTLENECKS



Over the years considerable investment has been made in base systems; enterprise resource planning (ERP) or general ledger, fixed assets, payroll and revenue. These systems interface well with each other so further investment is unlikely to speed up the close.

However, as the diagram above illustrates, the challenge in the close centres on the other things that have to be done manually; inter-company adjustments, closing-off accounts payable, accruals, closing-off accounts receivable, inventory cut-off, time sheets and travel expenses. Much of the delay is caused by overly tight materiality levels. In most areas, with the probable exception of some accruals such as tax and intercompany accounts, the cut-off errors are never material and need to be rethought.

The effort to get things right first time, on time, should be focused on the few potentially material areas; other areas can be done after the month end. We are too inclined to 'batch' our work, so we only start the intercompany reconciliation after the month end. But, we could identify reconciling items from the first three weeks before, leaving only the last week to be done after the month end.

CORBIS

3 SEARCH OUT ERRORS, DELAYS, STOP-START WORK

Arguably, the most annoying waste during the month-end is the rework caused by errors. The richest listing of errors is in the adjusting journals; so each journal should be reviewed to identify if the root-cause of the journal is an error. If it is, then part of the continuous improvement of the close would be to eliminate the cause of the error. For example, in one organisation over a period of two years, every month's error report identified that a minority of fixed asset additions, included in the fixed assets control account in the general ledger, had not been posted to the fixed assets register.

The error message stated that no identifying code was present, but on investigation, in every instance, the code was there. Therefore the fixed asset system had to be corrected using a manual journal.

The month-end close is a strange mixture of tasks that can be done at more or less any time and in any order and small groups of tasks that have to be done in sequence. As a result, it is virtually impossible to perform a critical path analysis for a close. Delaying the close by performing too may tests is not an option. We set a deadline for every submission and every task, knowing that some tasks will be delayed, so we don't over-react when one is. This often leads to a general lack of observance of the timetable – and the inevitable late nights or even delays to the close. The only way to overcome this is to use the concept of just-in-time; ascertaining the latest that the task must be completed and therefore the latest that it should start.

Waste arises because we start a task but can't complete it because of missing data and other items, so we have to defer it for a while before picking it up again. We then start again, hoping to finish it this time. The amount of time wasted re-starting the task is always under-estimated. The aim is 'one-and-done'; do one thing at a time (in other words, don't batch work) and do it to completion.

4 USE LEAN'S "RUNNERS, REPEATERS AND STRANGERS"

A key way to eliminate waste is to focus effort on what really matters. The tendency in designing processes is to try to cover every eventuality. Things start off reasonably simple but as the exceptions come along steps are added to cater for them and suddenly there is a complex, time-consuming process to go through.

However, a lean method called "runners, repeaters and strangers", developed to simplify production planning, has great application in accounting processes. "Runners" are those simple transactions that make up the volume on an 80/20 basis in every process – 80% of the volume of transactions, but only 20% of the total cost. The "repeaters" are those things that happen often but not daily. And "strangers" are those things that are one-offs – they may be many in number, but each one of them a bit different from the others.

- Processes should be designed to handle runners;
- Repeaters should be redesigned to become runners – but if they can't, should be handled as strangers; and
- Strangers should be handled outside the runner process and then inserted into it just before the end when all the difficult stuff has been done manually.

This approach works because runners are not burdened with the needless overhead of complex tasks and strangers get the focused attention of people skilled enough to deal with them and get them right first time.

5 REPLACE SPREADSHEETS WITH PURPOSE-BUILT SOFTWARE TO ENABLE CONTINUOUS IMPROVEMENT

It has become clear that investment in the close process has lagged behind investment in other areas. *Finance and Management* conducted a survey in summer 2012, which concluded that although 'substantial' investments [had been made in] their financial reporting systems and reporting processes, spreadsheets and email remain the dominant tools for managing reporting. So it is not surprising that the close consumes large resources and is the source of unwelcome surprises. The *Finance and Management* survey also found, rather less surprisingly, that the lack of investment had the effect of: "reducing productivity… causing missed internal deadlines… damaging finance's reputation with board colleagues and creating knock-on effects for finance juniors".

This lack of investment has been identified by software companies; both SAP and Oracle have modules that address this area, and many others have created products to assist.

- The reconciliation software company, Blackline, has a task management module that also could be used for this purpose.
- AFRM (Accelerated Financial Reporting Management) from Hyland Software's OnBase content management solution was created specifically to manage and improve (using lean methods) the month-end close process; it can also be used for general task management outside the close, for example in budgeting or in merger and acquisition support.

AFRM is one of several 'cloud-based' software solutions that have several practical advantages, including:

- It can be implemented at the pace that suits each finance function's resource constraints;
- Doesn't require big IT involvement as the system is accessed via internet browsers; and
- Doesn't carry up-front capital cost as its licences are per seat per annum.

GO LEAN FOR AN EFFICIENT MONTH-END PROCESS

Delivering a genuinely fit for purpose lean month-end process first requires finance to understand what the customers want and then use tried and tested methods that are appropriate, improving the quality of reports while reducing the time and resources spent, making it quicker, better and cheaper. Ultimately, lean improvement is based on facts. The best way to gather the facts, have a documented, repeatable, improvable process and better manage the close is to examine existing processes and generate genuine change.

Kevin Dilton-Hill
is a finance transformation expert. He is founder and director of JSK Solutions.
kevin.dilton-hill@jsk-solutions.com

From the faculties

Keep in touch with our selection from ICAEW's other faculty magazines


CHARTECH

IDENTITY ASSURANCE

Real Time Identity?

A simple way to build online trust, or another failed technology project in the making? Toby Stevens explores the government's new identity assurance programme and considers what it means for your business

DIGITAL BY DEFAULT?

Corporate Financier

JOGGING ON THE SPOT

The number of UK companies able to service debt interest payments but unable to pay down debt increased by 10% to 160,000 last year.

In practical terms it means that 9% of UK businesses are unable to invest in developing or growing their company. UK insolvency trade body R3 has labelled these zombie companies that are running to stand still. Vicky Meek explores the issue and looks for the way forward for these businesses.

R3 president Lee Manning says keeping the company going is better than burying them. "If a company keeps trading, it continues to employ people who are able to spend money," he says. "Turnover – even if it isn't growing – means circulation of money."

The increase has been partly brought about due to patient banks as reflected in the large number of so-called "amend and extend" deals; a fact that some put down to the banks wanting to avoid massive losses. Sir Mervyn King has distinguished between "good" and "bad" forbearance from the banks.

Now, there are signs of a way forward for the companies stuck in this debt limbo with investors coming in to buy up businesses and loans from the banks.

For more from the Corporate Finance Faculty, visit icaew.com/cff

Chartech

MAKING THE CASE FOR SYSTEM SAFETY

Information security is gaining more recognition in organisations but IT professionals often struggle to justify spending on information security controls to decision-makers. While more businesses have realised that information security needs to be properly managed, many of the risks are still poorly understood.

Now, a new draft ISO Technical Report 27016 has been developed to offer guidelines on how an organisation can make decisions to protect information and understand the economic consequences. The aim is to help management determine the right level of resources required to implement and operate an information security management system (ISMS).

As with other standards in the ISO 27000 series, the focus is the management of information security and the importance of senior management taking an active role.

The report advises on the vital elements that should be presented to decision-makers when putting together a business case for investing in information security. There's also additional guidance for a number of business objectives, key cost decision factors and their relevance.

The draft report stresses that every organisation needs to take a tailored approach. There will always be a need to persuade decision-makers that the security controls are required, but this report may help management to focus on information security with renewed perspective.

For more from the IT Faculty, visit icaew.com/itfac

FS Focus

IT AIN'T WHAT YOU DO IT'S THE WAY THAT YOU DO IT

Making decisions is an important part of being a leader, but it is only a part of the strategy process. The real challenge starts when implementing the decisions.

Robin Speculand, founder of Bridges Business Consultancy, argues that the business leaders most likely to succeed pay more than lip service to implementation, which he says should be considered an expertise field in its own right.

Rule number one is that leaders should not be implementing change, but focusing on delegating any necessary action, explaining the reason behind it and supervising the process. Staff engagement is crucial to the success of implementation.

He highlights the eight areas of excellence in execution – tick off all the elements and you're more likely to pull off any implementation successfully.

Key to the implementation process is carrying out an assessment to identify the right actions to take – much as you would carry out due diligence before buying a company.

Finally, don't forget to continue to review the process once it's under way. The only way to know whether the agreed actions are being taken is to keep reviewing it. Set aside time regularly for implementation meetings – this way any wrong actions can be stopped in time and changes can be made.

For more from the Financial Services Faculty, visit icaew.com/fsf

Technical updates

Our regular round-up of legal and regulatory changes

TAX

News and updates from the Tax Faculty weekly newswire. Subscribe free: visit ion.icaew.com/TaxFaculty and click the sign-up link on the right.

COMPANY TAX RETURN FILING AND THE NEW AIA LIMIT

Last year's Autumn Statement brought news that the rate of annual investment allowance (AIA) for capital allowance would go up from £25,000 to £250,000 for two years, taking effect from 1 January 2013. The rate increase may affect some early submissions.

The increase will need to be implemented into software, including HMRC's systems, and the ICAEW Tax Faculty is already anticipating some challenges presented by the transitional rules. HMRC has issued the following advice to companies:

- The HMRC corporation tax online service will be updated with the new AIA annual limit in April 2013. Until then, it will use the earlier AIA limit.
- A company can file online before the corporation tax online service is updated if it is not claiming the AIA, or if its claim for the AIA does not exceed the earlier AIA limit.
- Companies claiming the new AIA annual limit will be able to file when the corporation tax online service is updated in April.

Companies that have an urgent need to file their company tax returns before April are asked to contact HMRC for further advice.

Third party software developers will also be affected by this rate change. The Tax Faculty understands that the planned delivery for HMRC's third party validation service (which allows products to be tested) is scheduled for the second week in February 2013. The full live online service should be in place on 8 April 2013.

CAR AND VAN FUEL BENEFIT FOR 2013/14

In December 2012 HMRC published the secondary legislation setting the value of car fuel benefit and van fuel benefit for 2013/14. The legislation is the Car and Van Fuel Benefit Order 2012, SI 2012/3037, which can be found at bit.ly/VZYpc7.

The figure on which the cash equivalent of car fuel benefit is based will be £21,100 for 2013/14 and subsequent tax years (increased from £20,200).

The cash equivalent of van fuel benefit will be £564 for 2013/14 and subsequent tax years (increased from £550).

EVENT: IMPLEMENTING RTI

For most employers, Real Time Information (RTI) will become mandatory from April 2013 – and for many that will mean changes in systems and processes. RTI requires you to submit data to HMRC on or before the day you pay an employee, with very few exceptions.

If you are already using payroll software, you need to make sure your supplier is upgrading their product on time. Not all suppliers are and some have decided to discontinue their payroll software product.

If you don't currently use payroll software (or HMRC's 'Basic PAYE Tools', for nine employees or fewer), 'manual' payroll will no longer be an option. You must get software or else outsource your payroll to an agent or a bureau.

So what payroll software will you need? Has your existing payroll software become RTI-enabled? And what if you pay your employees via Bacs? Will there be changes to that system too?

This series of events, co-hosted by the Tax and IT faculties, will help to answer those questions – and a whole host of other practical questions. In addition to presentations from both IT and Tax specialists, there will be live demonstrations by several relevant software suppliers.

The event programme will include:

- Overview of RTI and HMRC's requirements
- Why RTI and are there any exceptions?
- The consequences of getting it wrong
- How to make sure you are ready
- Changes to your processes
- Changes to your IT systems
- Live software demonstrations
- Q&A session

Dates, times and venues

- 20 February, 09:30 - 13:00 Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA
- 6 March, 09:30 - 13:00 Aztec Hotel and Spa, Aztec West, Almondsbury, Bristol BS32 4TS
- 7 March, 09:30 - 13:00 Crown Plaza NEC Birmingham, Pendigo Way National Exhibition Centre, Birmingham B40 1PS
- 8 March, 09:30 - 13:00 Manchester City Football Club, Etihad Stadium, Etihad Campus, Manchester M11 3FF

£50 for IT or Tax Faculty members;
£75 for other ICAEW members.

bit.ly/10aZill

FINANCIAL REPORTING

You can find out more on the latest from the Financial Reporting Faculty, including UK GAAP and IFRS standards and consultations at icaew.com/frf

THE NEW UK REPORTING REGIME

The Financial Reporting Faculty's website pages now include a major new section on the new UK financial reporting regime, which will come into force on 1 January 2015. There you will find synopsis of the two standards published to date, FRS 100 *Application of Financial Reporting* Requirements and FRS 101 *Reduced Disclosure Framework*. For those qualifying entities wishing to take advantage of the reduced disclosure regime, our unique IFRS tracker has been updated to reflect the exemptions available and also the consequential amendments to IFRSs to ensure compliance with UK company law. Details of new resources will be added to this section of the website as they become available including the faculty's latest factsheet, *The New UK Regime*. More at icaew.com/newukgaap

THE FUTURE OF IFRS

The spread of IFRS around the globe has been a remarkable success story. Today well over 100 countries – including more than two-thirds of the G20 – require or allow their listed companies to prepare their financial statements using IFRS or national standards based closely upon IFRSs. But momentum has slowed, and a range of important questions are being asked about where the project goes from here.

At this important juncture the Financial Reporting Faculty has published a seminal report entitled *The Future of IFRS* that takes stock of the progress made towards developing a global financial language, as well as identifying barriers and challenges that must be overcome if the use of the standards is to continue to spread. It also provides recommendations for moving forward. You can download the report at icaew.com/futureofifrs

IASB WORK PROGRAMME

The International Accounting Standards Board (IASB) has rounded off its far-reaching public consultation on its future agenda by releasing a feedback statement that maps out its future priorities. Five broad themes emerged from responses to the public consultation:

1. Respondents asked that a decade of almost continuous change in financial reporting should be followed by a period of relative calm.

2. There was almost unanimous support for the IASB to prioritise work on its conceptual framework, which would provide a consistent and practical basis for standard-setting.

3. The IASB was asked to make some targeted improvements that respond to the needs of new adopters of IFRS.

4. The IASB was asked to pay greater attention to the implementation and maintenance of the standards.

5. The IASB was asked to improve the way in which it develops new standards, by conducting more rigorous cost-benefit analysis and problem definition earlier on in the standard-setting process.

IFRS CONSULTATIONS

At the end of 2012 the IASB published exposure drafts for public comment:

- ED/2012/4 *Classification and measurement: Limited amendments to IFRS 9*;
- ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation - Proposed amendments to IAS 16 and IAS 38;*
- ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Proposed amendments to IFRS 10 and IAS 28;*
- ED/2012/7 *Acquisition of an Interest in a Joint Operation - Proposed amendment to IFRS 11.*

You can find out more about these proposed narrow scope amendments at bit.ly/WMiEq8

EMPLOYMENT LAW

This section is summarised from the bulletins of various law firms and associations – find out more at the web addresses supplied. None of the information in this update should be treated as legal advice.

REASON FOR DISMISSAL – REDUNDANCY

Can the reason for dismissal be redundancy, even when the employer had issues about the employee's capability or conduct? Yes, according to the Employment Appeals Tribunal (EAT), whose decision was based on the facts in *Fish v Glen Golf Club* — a reminder of how difficult it is to argue perversity.

The claimant was dismissed on grounds of redundancy, but alleged this was a pretext since the club committee had long-standing concerns about his conduct and capability. He referred to the rushed nature of the consultation process and speed with which his deputy was appointed to an alternative job instead of him.

At the time the club was making serious losses and the claimant was one of four employees dismissed on grounds of redundancy. The employment tribunal found that he had been fairly dismissed by reason of redundancy.

At the appeal Fish argued that the tribunal's decision was perverse, but the EAT rejected his appeal and considered the employment tribunal was entitled to find that the principal reason for dismissal was redundancy. The tribunal found that the claimant's argument was background to the dismissal, not the real reason.

See more at bit.ly/NCFPOB

EMPLOYMENT LAW REFORMS: KEY DATES

The quest to reduce red tape is set to bring more changes to employment law this year.

The Department for Business, Innovation and Skills (BIS) has published the Fifth *Statement of New Regulations*, setting out implementation dates for regulatory reforms, which are due to take place this year. Among other things, it indicates that legislation implementing the revised employment tribunal rules of procedure will be brought into force in April and changes to the Equality Act 2010 are scheduled to be in place in March.

Key proposed changes for March:

- Increasing the right to parental leave to 18 weeks per parent per child and extending the right to request flexible leave to agency workers on return from parental leave;
- Removing employers' potential liability under S40(2)-(4) of the Equality Act 2010 for harassment by a third party;
- Removing the statutory questionnaire procedure.

In April legislation will be enacted to:

- Reduce the requirement for a 90-day consultation period to a 45-day consultation period for collective redundancies of 100 or more employees;
- Revise the Employment Tribunal Rules of Procedure; and
- Implement a change to the protection for whistleblowers under the Employment Rights Act 1996 so that disclosures are only protected if they can reasonably be said to be 'in the public interest'.

REDUNDANCY TALKS PERIOD TO BE CUT

The 90-day consultation period before large-scale redundancies can take place is to be cut to 45 days, under government plans. The change, due to come into effect in April, will affect redundancies of 100 or more workers.

The move, said Employment Relations Minister Jo Swinson, was aimed at helping workers and businesses. Predictably the move has split opinions. While many business groups have welcomed the change, the TUC said: "Making it easier to sack people is the last thing we need."

The government's argument is that redundancy talks are mostly completed well within 90 days and the process can delay any restructuring process for a business. "Our reforms will strike an appropriate balance between making sure employees are engaged in decisions about their future and allowing employers greater certainty and flexibility to take necessary steps to restructure," said Swinson.

But some claim that this will not boost growth. "David Cameron should be making it easier to hire, not easier to fire. We need a real plan for jobs and growth, not an attack on people's rights at work," said Shadow Employment Relations Minister Ian Murray.

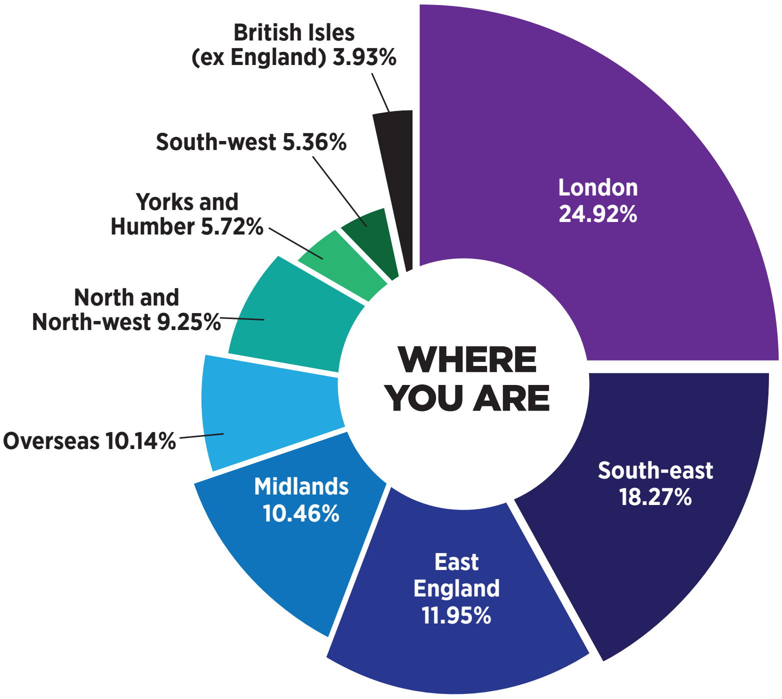
Speaking on behalf of businesses Alexander Ehmann, of the Institute of Directors, welcomed the announcement. "Companies facing problems have to be able to restructure swiftly, and a 45-day consultation period brings the UK closer to a number of EU competitors," he said.

MUTED RESPONSE TO EMPLOYEE OWNER CONTRACTS

When George Osborne announced his Autumn Statement one of the more controversial points was the proposed introduction of employee owner contracts. Essentially the contracts give employees a financial stake in the business; in return they sacrifice certain employee rights including unfair dismissal rights, redundancy pay and the statutory right to flexible working.

A government consultation on the proposal revealed a less than overwhelming response as less than 2% of respondents indicated an intention to use the scheme. Now the government has issued its response to the consultation, proposing to change the name of the scheme from "employee owner" to "employee shareholder". Despite the muted reception the government plans to press ahead and the intention is that this new status will come into effect from April 2013. Read about the government's response to consultation at bit.ly/10c1Xfx

Member page



We would welcome your thoughts on the following upcoming articles in Finance & Management. Please email **robert.russell@icaew.com** if you have a view or an interest in either of the following:

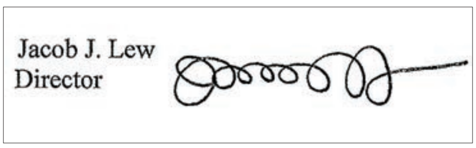
EXERCISE, HEALTH AND PRODUCTIVITY

We are planning an article on fitness in June's magazine and would like to include your thoughts in our article, especially if you're involved in fitness promotion. Do you think that it's important for employers to promote health? Is health connected with productivity?

FINANCIAL CONTROLLERS

We'd welcome thoughts from financial controllers and finance directors on the ideal FC. What are the main attributes good FCs should possess? Are you the ideal FC?

SIGNATURE CONCERNS



There has been some consternation expressed in the US with the signature of the new Treasury Secretary Jack Lew as being "too childish" (see left). Do you think that senior staff signatures require gravitas? Do you use your real signature on electronic documents? Drop us a line at **robert.russell@icaew.com**

The Corporate Finance Faculty have made their publication *SME Finance* available online to all. This useful, practical publication provides a more detailed look at 14 sources of funding and is available at **tiny.cc/naxcnw**

SAVE THE DATE!

The ICAEW's annual Finance Director Conference will be held on 23 May 2013. This event for Financial Directors should provide you with a clear insight into the latest trends and strategies in the context of uncertain future challenges and risks.

CHRISTMAS QUIZ RESULTS

We have joint winners of the Christmas Quiz with four points each, Geoff Simons of Bedfordshire and Peter Stewart of London. Congratulations to you both and many thanks to all who participated.

"It's a very pleasant surprise to share the honours in the Finance & Management Faculty Christmas quiz, and a good finish to the festive season. My wife is also pleased that the immense store of minutiae in my mind has proved productive for once!"

Geoff Simons

"Thank you very much for organising a fun, challenging and relevant end of year quiz. I've probably given accountants a bad name when I admit that the main impetus to my submitting my answers was a pedantic urge to clarify use of the term "Union Jack"!

Peter Stewart

Editor's note: The Lords Commissioners of the Admiralty approved the term "Union Jack" in 1902 when referring to the Union Flag, irrespective of its location on land or at sea. cf. The Flag Institute

Answers:

1. Greece/Troika/EU/IMF;
2. 99 - cf The Coinage Act 1971;
3. 1000 times;
4. Four;
5. 24 countries;
6. 16%;
7. GDP.

Full answers are available at **tinyurl.com/axx3fad**

TRANSFORMING FINANCE SPECIALISTS INTO BUSINESS LEADERS

Leadership development solutions for all career stages

- **Financial Talent Executive Network (F-TEN)™** for aspiring CFOs
- **Women in Leadership (WIL)** for women in finance and business
- **Mentoring and Executive Coaching** for senior finance executives
- **Developing Leadership in Practice (DLiP)** for newly appointed or aspiring partners
- **Network of Finance Leaders (NFL)** for middle managers
- **Finance Connect** for newly qualified accountants
- **Talent assessment and benchmarking** for all finance professionals
- **Valuing Integrity Programme (VIP)** for finance leaders

Contact us to find out more or to discuss customised solutions.

ICAEW

+44 (0)20 7920 8750 icaew.com/leadership