

# Business & Management

**MATTER OF CHOICE**  
HOW TO DETERMINE  
CONTRACTOR STATUS  
IN THE GIG ECONOMY

**BUSINESS AS USUAL?**  
WHAT FDs THINK  
OF COMPANY LAW  
CHANGES IN PRACTICE

## Business on the threshold

How CFOs handle the  
reporting milestones  
that come with success





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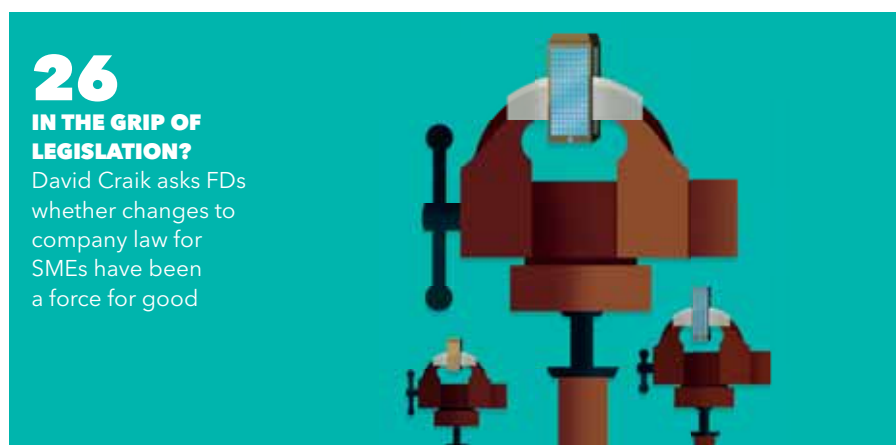
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# The tale of a handshake



The awkward handshake between Donald Trump and Emmanuel Macron a few months ago, captured on film, revealed the impression that handshakes give, not only to each of the people involved, but also, in this case, to a much wider audience. Trump arrived in Brussels preceded by his reputation as a deliverer of dominant handshakes, but the French president was not going to let him

get away with appearing to be the stronger person. He refused to let go of Trump's hand for several seconds, despite Trump's two attempts to withdraw. Macron later told French media that their white knuckle encounter was "to show that I won't make concessions".

This power play would not have been widely noticed if the cameras had not been there to film it, and it offers an insight into the politics of greeting and how one's handshake can be interpreted by third parties.

*The Definitive Book of Body Language* suggests that there are three types of dominant handshake – the upper hand, the double hander and the left side advantage.

The upper hand is exactly the style that politicians like Trump and Putin adopt to communicate a desire to take control of a meeting. The double hander gives control over the recipient of the two-handed handshake by controlling the movement of their hand, but this is a very intimate handshake and preferred by members of the religious community. The left side advantage is only applicable when a handshake is staged for photographers – it places the person on the left of the photo at an advantage as they appear to be in control.

I suspect that many of us don't really seek to dominate through a handshake and care should be taken not to be seen as domineering in a work environment. Debretts, the etiquette authority, provides the following advice: "Ensure a firm handshake, lasting a few seconds, and 'pump' the hand two or three times before you let it go, with your fingers gripping the other person's palm, otherwise you will crush their fingers. Be careful not to clench in a bone-crushing grip, but do not offer a limp hand. Check that your palms are not clammy before shaking hands."

They do not offer advice on dominant handshaking, but then, that might be considered vulgar.

We hope that you enjoy this summer issue – our next publications will not be until September when the special report on courageous leadership will also be published.

Please contact [matthew.rideout@icaew.com](mailto:matthew.rideout@icaew.com) or [robert.russell@icaew.com](mailto:robert.russell@icaew.com) if you have any suggestions or comments about the faculty. Have a great summer!

**Robert Russell**  
Technical Manager

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Annual membership of the faculty costs from £96 for the whole year.

### FACULTY EVENTS AND WEBINARS

Events and webinars are listed in this publication; details can be found on page 7

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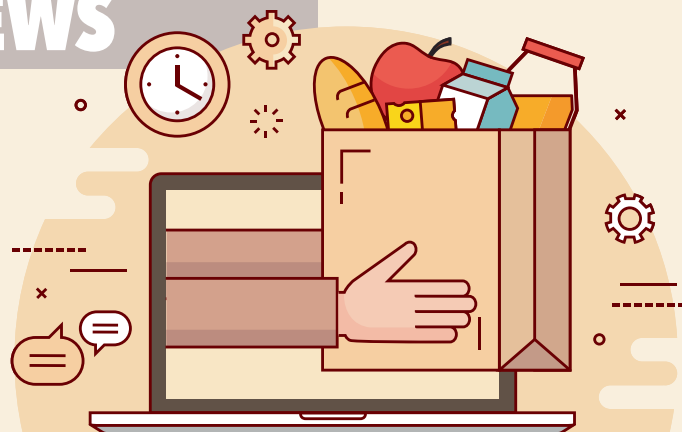
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ISSN 1471-1818 TECPLM15386

Printed in the UK by Sterling Solutions



## NEWS

DIGITAL GROCERY  
RETAIL BOOST

Research from analysts Mintel reveals the extent of the shift to online shopping, with 48% of customers making at least some use of online grocery shopping and 14% of all customers purchasing their entire shop online. Mintel expects online

grocery retailing to grow by 12% in 2017 to just over £11bn, against 1.5% for the overall food retail sales. Meanwhile, Amazon's takeover bid of \$13.7bn for Whole Foods last month could see the online trend accelerate.



48%

of shoppers make some grocery purchases online, while 14% do the entire shop online



44%

of car parts for British car makers are UK-derived

## ONLINE SHOPPING SCAM

Reuters has uncovered several EU-based money laundering websites purporting to sell household goods. A review of online shopping found these websites are fake outlets, offering "transaction laundering" – a system of cross-processing card transactions, used as a front for internet gambling payments. Reuters points out that the global approach to e-commerce regulation is woefully inadequate. "It is the digital evolution of money laundering," said Ron Teicher, CEO of EverCompliant, a cyber-intelligence firm, "it is much easier to do, and much harder to be caught."

## UK-BASED AUTO PARTS

The Automotive Council, a joint government and industry body, has been keen to increase the level of UK-sourced components for car manufacturing in the UK. Its annual survey for 2016, issued last month, showed that some 44% of car parts derive from the UK, up from 36% in 2011. Government would like this to be closer to the 60% of locally sourced components seen in Germany and France.

## SECURITY SLIP-UP

Gloucester City Council has been fined £100,000 by the Information Commissioner's Office (ICO) after personal information on its employees was compromised in a hacking attack. The council's outsourced IT had failed to take action against the "Heartbleed" security bug, which it had been alerted to prior to the attack. Hackers exploited this to download more

than 30,000 emails from the council's mailboxes. Sally Anne Poole, group enforcement manager at the ICO, said: "This was a serious oversight by Gloucester City Council which, along with inadequate security measures, left them vulnerable to attack. "Businesses must understand they need to do everything they can to keep people's personal information safe."

CYBER  
PROTECTION  
ALERT

In the wake of the WannaCry ransomware attack on the NHS this year, more than two dozen apps appeared in online stores offering to protect mobiles from the virus – despite the virus not attacking such devices. The problem? RiskIQ, a cyber security firm, claims out of over 4,000 antivirus apps, more than 10% sparked malware concerns – and a portion of these apps were on the Google Play store. "Google Play is one of the most reputable app stores in the world, so the fact that so many fraudulent apps reside there shows the dangers facing mobile app consumers," said Forrest Gueterman, RiskIQ security analyst.



10%

of all antivirus apps reportedly contained malware, according to RiskIQ



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ENTREPRENEUR  
AWARDS 2017

The 2017 NatWest Great British Entrepreneur Awards are accepting nominations. The Awards celebrate the inspiring stories of British entrepreneurs as well as their financial success. There are 12 categories to enter in each host city – Cardiff, Birmingham, Manchester, Edinburgh and London. Applications can be submitted via [greatbritishentrepreneurawards.com](http://greatbritishentrepreneurawards.com) before 18 August.



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# EVENTS & WEBINARS

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## EVENTS

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### COURAGEOUS LEADERSHIP

**21 September 18:00 - 20:30**  
(including networking)  
London, Manchester  
and Birmingham

Leadership is about more than being an excellent role model and good communicator. David Hopley, leadership, management and business consultant, coach and mentor, explains how leaders need to display courage if they are to become truly exceptional.

To book a place, visit [icaew.com/bamsepevent](http://icaew.com/bamsepevent)

The Faculty is delighted to also be able to live stream this event for our members outside of London.

For Manchester, visit [tinyurl.com/leadershipman](http://tinyurl.com/leadershipman)

For Birmingham, visit [tinyurl.com/leadershipbirm](http://tinyurl.com/leadershipbirm)

## WEBINARS

ICAEW.COM/BAMWEBINARS

### FREE 20-MINUTE LUNCH WEBINARS

#### GRAPHS - CLARITY AND IMPACT IN YOUR DOCUMENTS AND SLIDES

**18 October 12:30**

Visual presentation of information can either enhance or detract from the main points you might be trying to make. Jon Moon has years of experience teaching how to present in a straightforward and powerful way. He says: "Imagine creating documents that people praise and envy, ones that have clarity and impact and that win new business or impress and influence the board. Now imagine the impact on the rest of your working life." This webinar offers a taster of Jon's full-day course. To book a place, please visit [icaew.com/lunchoct](http://icaew.com/lunchoct)

### STATS FOR BUSINESS - USE OF STATS TO DETECT FRAUD

**15 November 12:30**

This short talk is the third of our webinars on statistics for business to refresh your memory (or to introduce you). Nigel Marriott of the Royal Statistical Society will explain how statistics can be used to identify anomalies in data sets and will assist in deterring and preventing fraud. Statistics provide an effective technology for fraud detection and have been successfully applied to detect money laundering, business expenses and computer intrusion, among others. This webinar will cover the easiest methods available for statistical fraud detection but does assume a good working knowledge of statistics.

To book a place, please visit [icaew.com/lunchnov](http://icaew.com/lunchnov)

### FREE 60-MINUTE MORNING WEBINARS

#### BUSINESS TAX UPDATE

**27 September 10:00**

Sarah Ghaffari of the ICAEW Tax Faculty will run through the most important tax changes that have been introduced in the past year that are of importance to you and your business. To book your place, please visit [icaew.com/bamsepewebinar](http://icaew.com/bamsepewebinar)

#### TIME MANAGEMENT

**9 October 10:00**

Conflicting demands of work, leisure and CPD study make time a precious commodity, but additional work commitments and a reluctance to say no results in many FDs feeling that they are

rushing from one task to another without being able to properly complete them. David Parmenter will go through practical and easy steps to assist you to better manage your time. To book your place, please visit [icaew.com/bamoctwebinar](http://icaew.com/bamoctwebinar)

#### ECONOMIC UPDATE WITH IEA

**22 November 10:00**

Dr Stephen Davies, head of education at the Institute of Economic Affairs (IEA) presents this one-hour webinar on the state of the UK economy. Stephen will cover growth and employment as well as the state of UK public finances. He will also provide us with an idea of UK growth prospects and touch on news relating to Brexit negotiations and trade deals.

To book your place, please visit [icaew.com/bamnnowwebinar](http://icaew.com/bamnnowwebinar)

## E-LEARNING LECTURE

### TRANSFORM YOUR ENTERPRISE WITH WINNING KPIs

**19-20 September 09:30**

**£85 for Business & Management Faculty members**

KPI guru David Parmenter is back to deliver his very popular online workshop. This three-hour e-learning lecture, split over two days (90 minutes each), will cover how to assist your business to focus on issues that matter. It will show how winning KPIs lead to happier customers and a better managed organisation.

To book your place, please visit [icaew.com/kpi](http://icaew.com/kpi)

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The mpg figures quoted are sourced from official EU-regulated test results (EU Directive and Regulation 692/2008), are provided for comparability purposes and may not reflect your actual driving experience.

BIK values were correct at the time of printing and are based on taxation rates for 2017/18 tax year. P11D value is the sum of RRP (plus VAT) and number plate charge (£25). Options available at additional cost.



# WHERE NEXT?

When the general election came along, talk of the government's industrial strategy dried up. Nina Bryant looks at the details that are likely to still be on the table now that parliament has reconvened



The faculty covered the green paper on industrial strategy in the magazine's March cover feature

Since the government closed consultation on its industrial strategy green paper in April, there has been no sense of when ambitious cash injection plans for the UK economy would be realised - and following the Queen's speech on 21 June, most would have been little the wiser. Only by delving into the speech's background notes would the keen-eyed FD find six brief mentions. The industrial strategy, it seems, is not dead.

But a year on from the referendum, time is short to firm up funding mechanisms to replace EU schemes such as the Horizon 2020 programme. Amid fears these funds would dry up post-referendum, the government said in 2016 that all businesses promised or in the process of applying for EU grant money would have their applications honoured. The likes of the Federation of Small Businesses have urged the government to help businesses forward plan by fully developing funding alternatives before Britain leaves the EU.

## STRATEGY HIGHLIGHTS

In the industrial strategy, £4.7bn was earmarked for research and development (R&D) by 2020-21. It introduced a set of directional pillars including investing in research, science and innovation;

supporting businesses to start and grow; driving growth; and creating the right institutions in which these strategies could flourish. A £6bn umbrella body, UK Research and Innovation (UKRI), bringing together seven research councils, Innovate UK and Higher Education Funding Council monies, was given the green light with the appointment of interim chairman Sir John Kingman. But its most recent announcement was in February, when the government's chief scientific adviser Sir Mark Walport was appointed CEO.

The industrial strategy also addressed weaknesses in nurturing scale-up business by announcing the Patient Capital Review (PCR). It outlined plans to turn around an under-supply of late-stage venture capital, working with the ScaleUp Institute, British Business Bank and Business Growth Fund, partnering with Local Enterprise Partnerships (LEPs), Growth Hubs and the private sector, with assistance from a £13m Productivity Council. Nothing more has been announced since February, though there is some suggestion the Autumn statement will contain an update.

## KEY PROJECTS

What's next for the Midlands Engine and Northern Powerhouse schemes? Earlier this year chancellor Philip Hammond promised £392m through a Local Growth Fund as part of the Midlands Engine, which would focus on the wide range of sectors represented across the region, including advanced manufacturing, automotive, life sciences, space technology and digital.

Hammond also announced the £250m Midlands Engine Innovation Fund that would be used to support 1,400 businesses and create 3,800 jobs. But while the Midlands Engine website reports the organisation has been attending events to showcase the region (for example at Railtex), details on how to tap into the innovation fund are scant. The British Business Bank states that the fund will launch and open this year.

A £13bn fund to improve transport links across the region was at the heart of the Northern Powerhouse's plans, alongside £3.3bn for LEPs through Growth Deals and £81m pledged for a variety of science institutes, Tech North, trade missions and an investment taskforce. It too was actively promoting its policies in the run-up to the general election. The equivalent investment fund was backed by £50m capital from the British Business Bank when it launched in February 2017, and in June reported debt funding of £250,000 into Tees Valley-based engineering firm ENEX Group. Interestingly, the investment fund received £400m from the European Regional Development Fund.

## FINAL COUNTDOWN

The fact that every senior minister in the Department for Business, Energy & Industrial Strategy (BEIS) was returned to parliament and kept on in their role, means there is at least political continuity for businesses awaiting news on industrial strategy. BEIS however, will be deeply involved in the Brexit process. Will they be able to combine this with renewed focus on industrial strategy? Whether or how financial support mechanisms, for SMEs in particular, can be built into proposed legislation only time, for now, will tell. ●





## EXPERTLY HANDLED

If you pride yourself on being a hardcore dealmaker who doesn't back down, it might be time to change tack. Nina Bryant finds out how the experts define the art of negotiation

On a day-to-day basis in business it can be easy to forget that negotiation isn't just the preserve of those doing big City deals. We are all in negotiation in the workplace - hiring or being hired, assigning or being assigned tasks, and in discussions about pay, as well as when establishing a new supplier or other trade relationship.

Between consultants and trainers, a huge range of techniques and tips has been amassed for improving negotiating skills, many of which can be applied in all spheres of our negotiating life. Even 36 years ago, Roger Fisher and William L Ury called conflict a "growth industry" in their now-famous book on negotiation theory, *Getting to Yes*: "Everyone wants to participate in decisions that affect them; fewer and fewer people will accept decisions dictated by

someone else." The cliché approach of someone forcefully laying down a deal and expecting everyone else to accept it is unlikely to wash in the 21st century.

### BE ASSERTIVE

Ed Brodow is a keynote speaker and negotiator with more than 30 years' experience and the author of *Negotiation boot camp: How to resolve conflict, satisfy customers and make better deals*. This year he posted a set of 10 tips for negotiating in 2017, which he said were re-evaluated for "today's turbulent climate". Number one in his list is not being afraid to ask for what you want - what Brodow calls "negotiation consciousness". It calls for assertiveness, including an ability to challenge any offers made and question what is presented to you at face value "while maintaining respect for the interests of others". Brodow recommends not straying into aggressive territory. "Practising 'I' statements" can help with this. He writes: "Instead of saying 'you shouldn't do that', try substituting, 'I don't feel comfortable when you do that'."

Brodow is not alone in calling out aggression. *Forbes* contributor and negotiation consultant Keld Jensen says the opposing parties model of supplier vs

clients has been supplanted by a business partner approach where “openness and sincerity replace self-centredness and egoism”.

He writes: “Far too many old-style negotiators are on a continual ego trip... incapable of seeing how there could be advantage for themselves in working towards advantage for the ‘other side’.” Instead of taking the approach where mistrust breeds mistrust, Keld recommends seeing the opposing party as a “partner in negotiation”, giving out more information in order to demonstrate your confidence in them. This in turn leads the other negotiator to be similarly open. In what Keld terms an “indispensable SMARTnership” you do “what’s best for yourself and the group – that’s the only way where everybody wins”.

It’s nearly impossible to achieve this kind of win-win situation without discovering what it is your opposing negotiator wants and needs. Indeed, almost every negotiation expert shares the view that to be good at negotiating also means to listen – in effect taking the Druckerian approach: “The most important thing in communication is to hear what isn’t being said.”

### A CHATTY APPROACH

But how do you get to the point where this kind of open dialogue feels natural? According to some academics the secret lies in us not hiding behind our keyboards.

A report from the Program on Negotiation at Harvard Law School, *Dispute resolution: working together toward conflict resolution on the job and at home*, recognises the important role played by rapport in brokering a deal. Defining rapport as “a state of positive mutual attention marked by harmony and affinity”, the report states that negotiators who have rapport feel “in sync” and will focus on the deal at hand.

Those who are already familiar with one another via the telephone or in person may have more success in their negotiations than those only using email to communicate. This means people will be able to interpret non-verbal communication as well as adopt their own positive posture/body language. The report extolls the virtues of engaging in chat prior to a negotiation to build rapport. A study by Janice Nadler for Negotiation found that “‘small talk’ negotiators were more than four times more likely to reach an agreement than their ‘no small talk’ counterparts”.

This tip plays into one of the six principles of persuasion as envisaged by Dr Robert Cialdini – liking the person you are dealing with. Negotiators are more likely to strike a deal with someone they enjoy working with – so time spent engaging in ‘small talk’ that might seem irrelevant could actually be the intangible ingredient that helps to get your deal over the finishing line.

Psychology and marketing analyst Nick Kolenda, who specialises in distilling academic research, has created an easy to use database of negotiating tactics gathered from a wide range of management studies and theses. But the first point in his list is

**“Engaging in ‘small talk’ that might seem irrelevant could be the ingredient that helps get your deal over the finishing line”**

deceptively simple – gather your benchmark data. Without it you are unlikely to get far in testing out any of the techniques already outlined here. As Kolenda observes: “To gain leverage, you need knowledge. You need to understand the type of deal that you should be receiving.” This can be as simple as seeking salary comparisons across your industry to inform renegotiations or job searches, as Kolenda recommends, or as complex as undertaking a research exercise into a company you wish to deal with (for example, understanding how it operates or has done deals in the past).

### WHAT’S THE ALTERNATIVE?

If there is a deal on the table and your emotional reaction is to refuse it outright or take it gratefully because you don’t think a better offer will arise, there may be a chance that you haven’t established what Fisher and Ury, with Bruce Patton, call BATNA – the best alternative to a negotiated agreement. BATNA is “the course of action... [to] pursue if the current negotiation results in an impasse”. Establishing a BATNA (or BATNAs), they say, should be determined “before talks begin”.

The Harvard report *BATNA basics: boost your power at the bargaining table*, shares a plan for how to assess your BATNA. This involves first listing and evaluating alternative solutions to the deal you are hoping for. What is the value of pursuing each of the alternative options? When you then “choose a course of action that would have the highest expected value for you”, you have your BATNA, which can be followed if negotiations on the original plan fall down. From there, the scholars argue, a reservation value can be set which you can use as a benchmark for whether to accept or reject a deal – below your reserve price and you may want to keep pursuing your BATNA, above it but below the original plan and you may wish to accept what’s on offer.

And what if you decide that walking away is still the right thing to do? The Harvard report says it is better to reach that point while “firmly grounded in reality”. This will help in avoiding being bound by emotional considerations.

If you’ve done all your groundwork in other areas of negotiation around relationship building and trust, you’ll hopefully get to walk away with the foundations intact – ideal should you and your negotiation partners cross paths again in future. ●

### IN NEGOTIATION: RESOURCES FOR MANAGERS

*BATNA Basics: Boost your power at the bargaining table* is a downloadable report that includes a Q&A with a Harvard professor on negotiating with suppliers. Find it at [tinyurl.com/BM-HarvardReport](http://tinyurl.com/BM-HarvardReport)

Ed Brodow: [brodow.com](http://brodow.com)  
Keld Jensen: [keldjensen.com](http://keldjensen.com)



# HOW TO DELIVER DOWN THE LINE

Paul Golden considers how to make sure staff are clued up on the latest software in order to see work through in the longer term

There are solid business reasons for making sure staff are up to speed on the software they use at work. Employees who are comfortable using technology are likely to be more efficient and require less assistance to do their job, which can significantly reduce the cost of IT support. They are also likely to be more innovative and motivated as they feel their employer is investing in their professional development.

Catherine Banks is co-founder of Nepeta Consulting which works mainly with small businesses employing fewer than 20 people. She explains that most microbusinesses use MS Office or the equivalent Google applications and that Xero and Quickbooks are becoming the key accounting packages.

## STARTING SMALL

“Most very small companies will have evolved systems for themselves using the technologies they know, so in that respect all solutions are customised,” says Banks. “The problem is then maintaining these systems as they grow. Often it will be one of the founders of the business that set up the system and will carry on maintaining it.”

There are two approaches to customisation. The most common is where the IT provider gets a project scope from the client and develops what it thinks the client wants. This approach often fails owing to a poor scope or misinterpretation of the clients’ requests. One of the challenges of

creating customised solutions for companies in specific industry sectors is that projects often go wrong when the company is unclear about what it wants to achieve.

The alternative is to take an agile approach, where the focus is on developing a working solution that can be refined over time, giving the client access to some of the functions it wants quickly rather than having to wait for a complete solution to be delivered.

## MAKING SOFTWARE EASY

Despite demands from customers for more user-friendly software, Simon Smith, information systems manager at Air-IT, suggests that many applications are less than intuitive. “We have started running training programmes for our clients to help them get more out of their software packages and systems,” he says. “Some of the larger software vendors have their own training programmes, but users are so busy that they often don’t feel they have the time to complete them.”

According to Smith, many companies are still running their businesses off

**“Employees who are comfortable using technology are likely to be more efficient and require less assistance”**



spreadsheets, which are time consuming and prone to error. As a consequence, management are making important commercial decisions based on information compiled by other people.

Even among companies using sophisticated enterprise resource planning ERP systems there is a tendency for employees to take the module of the software that contains paperwork relating to exports off the system and send it to Excel. This means the information will only be available to the user of the spreadsheet rather than across the company.

WR Davies Motor Group finance director, Len Jones, observes that ignorance of the full functionality of ERP systems means they are often described as a hindrance rather than a help to the business. He suggests that the design and ongoing maintenance of the software is also an issue as automatic updates quite often happen without notice and also fail to retain work that might have been done the



### DETERMINE YOUR TRAINING NEEDS

Business organisation Invest NI recommends that before arranging IT training for staff, a company should carry out a training and learning needs analysis, the objectives of which are to:

- determine whether training is really needed, which may start with interviewing staff to understand their current IT skill levels - the European Computer Driving Licence syllabus provides a useful structure for these interviews;
- find any causes of poor performance;
- decide on the content and scope of training by reviewing the interview results to determine where the company should concentrate its training effort; and
- define the required training outcomes.

previous evening, or present it in a different manner.

"Software houses will insist on upgrades without further provision of training and believe 'release notes' will suffice," he says. "Current users of technology understand the limitations of systems and if one piece of software doesn't fit the bill they will fall back on Excel and design their own spreadsheets."

A company's confidence that it is utilising the full functionality of its business software must always be tempered by the reality that it will have installed a set of procedures that were written either internally or bought off the shelf and represented the best fit at the time of implementation.

Few software packages have the flexibility to deal with major changes to business processes and this means that parts of the software will become redundant - either because it is no longer fit for purpose or because it cannot cope with changes to sales delivery or new products. In the latter

**No software package can predict what will happen to basic business processes in the future and this inevitably means that parts of the software will become redundant**

instance a 'safety first' approach is often used or, failing that, the information is extracted and used elsewhere outside the system.

The percentage of software functionality utilised is also a function of the people using the system. New employees inevitably use the latest version and may have a narrow view of what the system can do because they will have missed the initial training provided by the software developer. Organisations with a high level of staff turnover may only teach the very basic processes, so the 'nice to have' elements of the system may be under utilised.

### SOFTWARE IS JUST A TOOL

Many software packages have huge breadth and sophistication - so the most important point to remember is that software is just a tool to help users to do their job and the challenge is to ensure that users are as productive as possible, even if they are not using all that the software can offer.

That is the view of Adnams's finance director, Stephen Pugh, who suggests that the process of determining whether the cost of training staff to use business software more effectively is worth the return in terms of increased productivity/process efficiency can be hindered by limited knowledge of what the technology can deliver.

Banks suggests that the pros and cons of conducting software training in house versus off site and the necessity for on-site support for business software

## On-site support will often be more highly valued by users due to its accessibility and flexibility, and bespoke systems tend to be better supported this way

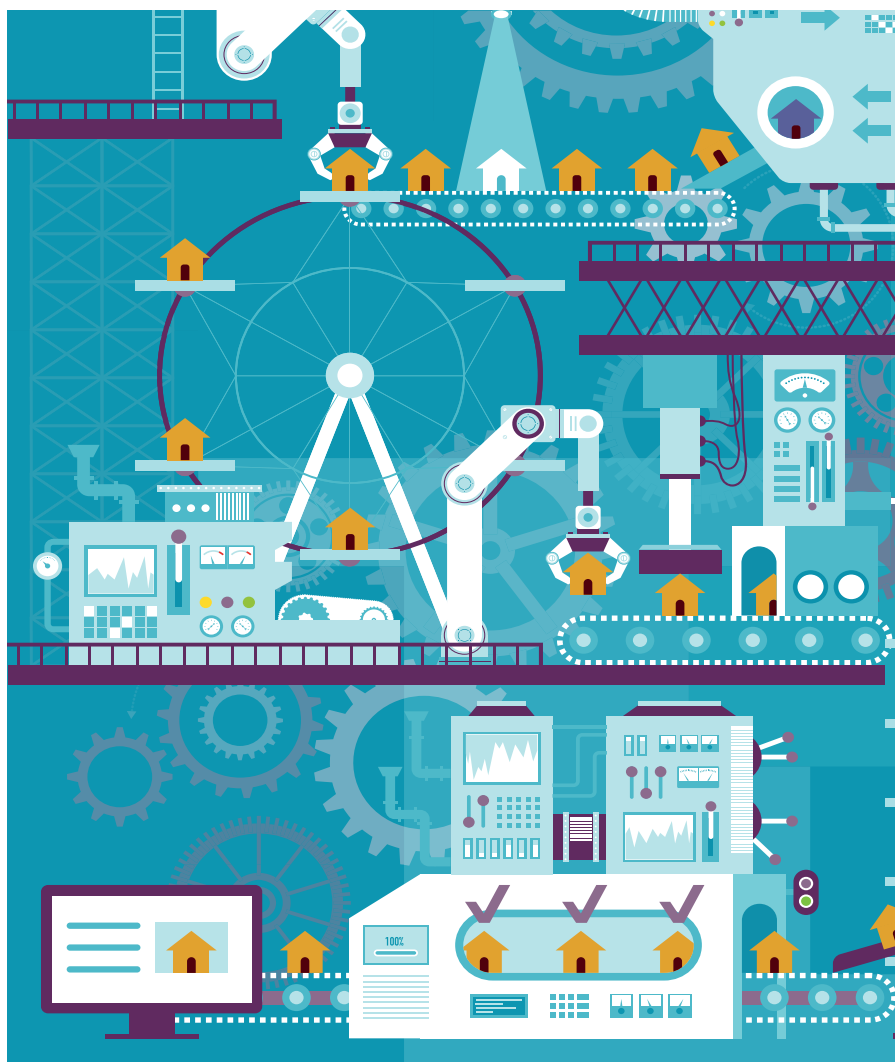
depend on the size of the company. If the company is using a home-grown system of processes and software it would be very difficult for someone to come in from outside the company and train staff to use it.

A small business using an off-the-shelf software package would not typically have on-site support, she explains. "I would suspect that pretty much all training would be done off site by a couple of individuals who would then come back and train others on the job as and when required."

Where external trainers are engaged, Jones believes it is useful for the trainer to find out what the individual user does so they can form a view of what processes would best fit their requirements and show them how the software can be used to its best advantage. "Sitting in with the user can often be more beneficial than general off-site training principles," he says.

Unless large numbers of employees need to be trained, off-site training can often be cheaper as the cost is being spread more widely, though on-site training is more valuable as it can be better targeted to the specific needs of the firm, says Pugh.

On-site support will often be more highly valued by users due to its accessibility and flexibility, and bespoke systems tend to be better supported this way as they need particular knowledge, he concludes. "Generic software can be effectively supported off site and again this is likely to be cheaper." ●



### XTRAC-TING VALUE

In 2008, engineering firm Xtrac installed an ERP system specifically designed for manufacturing processes. From the outset the company was determined to extract as much value as possible from the software, explains finance director Stephen Lane.

"In many areas we achieved this, but we also recognise that we haven't fully utilised all the functionality of the software," he admits. "We also tried, maybe a little too hard, to make the software fit our existing processes rather than adapt some of our processes to fit into the overall functionality of the software. While this is not an uncommon approach I think it does fly in the face of the advice you would get from any business software consultant."

However, it is also important to make sure that business software isn't the 'tail that wags the dog'. Lane

suggests there is a balance to be struck between the two approaches outlined above and says that Xtrac has done well on the back of this strategy. The company also has an ERP steering committee whose role is to help the business extract maximum value from its software.

That committee constantly reviews the roll-out of software training across the business and identifies 'project champions' – people prepared to share their knowledge and insight into how their colleagues can make the most of the functionality of the software they are using.

"We also engage external trainers when required," says Lane. "This may happen when we want to understand how the software might help us with a specific process. However, this is all managed under the aegis of the steering committee – we don't want individuals randomly commissioning external trainers."



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42%

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# SUPER POWER



Gary Tinnams explores the world of quantum computing and how the efforts of IBM and Google might one day bear fruit. Enter the megacomputer

The co-founder of Intel, Gordon Moore, extrapolated in 1965 that computing would dramatically increase in power and decrease in relative cost at an exponential pace. Known as Moore's Law, it is the observation that the number of transistors in a dense integrated circuit doubles approximately every two years. But all that could be about to change.

Intel has suggested that silicon transistors can only keep shrinking for another five years, according to *MIT Technology Review*, at which point decreasing computer size and increasing processing power will no longer be possible in the traditional sense. A number

of companies have been looking for a way to increase processing power and have poured significant resources into researching an alternative route: quantum computing. The potential impact on finance is far-reaching - as one quantum computing innovator has speculated, it could completely revolutionise risk modelling.

## NOT JUST FASTER

Quantum computing isn't just about making a faster and better computer. It's about using the laws of quantum physics to create a different type of computer system that follows vastly different rules. Announcing plans to build a quantum computer in March, IBM describes this as "a radical new computing model that harnesses the power and rules of nature to address problems that are impractical to solve with today's systems".

The crux of the matter is that what we understand as classical computers - everything from your average supercomputer, to your iPad or mobile phone - is based on digital bits.

Bits exist as zeroes and ones, or more precisely as an open or closed gate in a

maze of circuitry. By saying yes, no - positive or negative - in combination, data is defined and stored, questions are posed and answers are given. The limitation of this principle is just that, yes or no - one bit of data can only exist in one of two states, so the more complex the question, the more bits are required and the more complex the hardware.

Quantum computers don't use bits, rather they use qubits. The difference between a bit and a qubit is that unlike a bit, a qubit does not have to exist solely in a determined state of zero or one. It can exist in an indeterminate state of both simultaneously.

This is called superposition. To add to that is the second important concept of quantum computing, namely quantum entanglement. The entanglement of specific qubits for different functions means that a qubit can be used for more than one operation while processing is in motion. Classical bits work in connection to their neighbouring bits, but as *The Economist* notes, one qubit operates "to varying degrees, on all entangled ones" and "to describe all the states of a 50-bit standard computer requires 50 bits of

digital memory; a description of a 50-qubit computer would require a quadrillion” – that’s a thousand trillion bits.

### PLUMBING THE UNFATHOMABLE

It is easy to see why companies such as Google and IBM are so excited about quantum computing. The potential for increased computing power is nothing short of inspiring. D-Wave, a Canadian quantum computing company, has postulated that “quantum computing will move business, science and government forward in unprecedented ways by solving problems that are too complex for today’s computational systems”. D-Wave itself is one of the leaders in quantum computer development and also advises quantum computing. It will offer definite application improvements in various industries.

For defence, the improvements can be applied to applications ranging from mission planning and logistics to pattern recognition and anomaly detection. For scientific innovators, such as the US National Laboratories, it promises improvements to material science and machine learning.

In finance, as well as revolutionising risk modelling, quantum computing could help to develop and power trading strategies, detect market instabilities, and optimise asset pricing and hedging.

### DOES NOT COMPUTE

But there are issues with quantum computing; chief among them is error correction. Due to the delicate nature of quantum states, not only are qubits used for the operation of a process, more qubits must be utilised for error correction. What this means is that the processing cost goes up, and it may take more qubits than bits to complete the same calculation.

D-Wave created a system using 1,000 qubits in 2015 and more recently a 2,000 qubit system in January 2017 with the

### WHAT IS QUANTUM ANNEALING?

Quantum annealing, which was proposed in a 1998 paper by Japanese academics Hidetoshi Nishimori and Tadashi Kadowaki, is a “computational paradigm” used, via a control of quantum fluctuations, to “search for the minimum of a cost function”. Its aim is to solve combinatorial optimisation problems, which are a key feature of machine learning for AI.

expectation of doubling that in the next two years. When comparing this to IBM, which has a five qubit system, and Google’s six qubit system you could be forgiven for believing D-Wave has pulled far ahead in the race.

However, the D-Wave system is known as a quantum annealer (see above), which means it can only be used specifically for optimisation. IBM and Google on the other hand are attempting to create a universal quantum computer that will enjoy greater functionality more akin to classical computers, but this has proven slower to develop.

Quantum annealing has still proven useful, particularly for finance. According to a 2016 paper in the *IEEE Journal of Selected Topics in Signal Processing*, it has been used to “solve a multi-period portfolio optimisation problem” that in turn is scalable “with the expectation that as quantum annealing technology improves, larger problems will be solvable using the same techniques”.

It also has uses in cyber security as evidenced when Temporal Defense Systems bought the D-Wave 2000Q in January 2017. Although the price paid for D-Wave’s first 2,000 qubit computer has not been revealed, the computer was reportedly valued at \$15m by wired.co.uk

### STARTING FROM SCRATCH

IBM, on the other hand, is trying to build what could be termed as a true quantum computer from the ground up; one that will eventually have applications in medicine by going so far as to accurately simulate molecules.

IBM’s Quantum Experience, which was introduced in May 2016, is a five qubit cloud-based quantum system that has been made available to anyone who wants to use it and has had over 40,000 users so far. This way, institutions, academics and even the man on the street are getting an idea of what quantum computing can do.

In March this year a software development kit was introduced so that programs could be created and run on the Q Experience.

How this will affect business and finance is still a question for the future as until IBM surpasses 50-100 qubits, high-performance computers will still outperform a quantum one.

In fact, IBM intimated that it expects the eventual quantum computers of the next decade to be hybrid quantum and classical, with the classical computers controlling logic and operations on large amounts of data while the quantum computing handles the heavy lifting. Dave Turek, vice-president of Exascale Systems at IBM, speculated on the Top500 website that early designs could be employed as accelerators to classical systems in situations where offloading certain algorithms onto the qubits made sense.

Quantum computing is still a potential rather than an actuality, but research and development is ongoing to find out how best to apply it to the real world. As to the bottom line in saying exactly how it will improve business, how much it will cost in the short- and long-term, well, how long is a piece of string? ●

### VIEW FROM THE IT FACULTY

Quantum has risen in prominence in recent months, despite being around for some years. Like fusion power, it is always 10 years away, though companies like D-Wave are making progress.

Making quantum computing available as a service will be a key step forward. However, there are challenges. Programming is tricky

and quantum-suitable business problems are few and far between.

Quantum computers could lead to a significant new ability to attack existing information security measures, allowing for brute-force guessing of codes much quicker than current methods. That said, we have yet to hear of it happening. This type of algorithm underpins the secure communication of the web (putting the secure at the end of HTTPS).

In whichever way secret security is shared, good old passwords are not easily breakable by quantum computing, if at all. While every secure transaction on the web could be in danger, there are limitations as to what quantum can break.

Controlling and measuring qubits accurately is just too difficult for us to build reliable and affordable quantum computers right now – but research indicates that we are getting closer.



# CROSSING THE THRESHOLD

Proactive threshold management – good business practice or unnecessary disruption?  
David Adams asks the experts

Finance professionals know that effective government regulation should be based on sensible rules that create order out of the chaos of reality and categorise the almost infinite variety of businesses into rationally defined groups. Some may feel, after dealings with certain parts of the government machine, that this is not always the case, but broadly speaking this is how regulation should work. Consequently, one recurring feature in the story of any growing business is the crossing of thresholds that determine how that business should be treated by government, in terms of financial reporting, or tax, for example.

## PREVENTING GROWTH?

Any organisation attempting threshold management – that is, one in which the finance director (FD), chief financial officer (CFO) and/or other members of the leadership team consider when such thresholds will be crossed and how to prepare – faces significant challenges. One problem is that although the positioning of the thresholds should be rational, a threshold may feel arbitrary: if a business crosses it because it becomes slightly more profitable than it was a year earlier, for example. The thresholds also sometimes move for reasons that may appear to be more closely aligned to politics, or to the needs of bureaucracy, than to the greater good. So should businesses be paying more attention to threshold management, or more attention to specific thresholds – to do a better job,

or to find ways to gain extra benefit for the business? Paul Lantsbury, an experienced FD and a senior finance partner for PwC's SME accounting service MyFinancePartner, thinks such questions are not usually important to FDs, but are instead delegated to external accountants, if considered at all – and that this may be a mistake.

But Mike Cherry, national chairman of the Federation for Small Businesses (FSB), says his organisation has seen cases where too much attention is paid to thresholds and the regulatory exemptions linked to them. "We are instinctively wary of creating carve-outs or exemptions for businesses based on size, as they can lead to 'thresholditis', where businesses expand to just below a threshold to avoid a penalty, preventing growth," he explains. By contrast, Lantsbury highlights the potential benefits of effective threshold management. "Proactively thinking about these things in advance could benefit your business," he insists. "There are quite a lot of good reasons why you might want to disclose more [company information publicly] earlier, or think about the benefits of conducting an

**Should businesses be paying more attention to threshold management or more attention to specific thresholds?**



audit earlier, rather than waiting to hit a threshold. If you think about these things in advance then you are ready when they come along further down the line."

### A LIKELY TRIGGER

Thinking strategically about how and when audit requirement thresholds kick in is one instance where this could work in practice. The most likely compulsory trigger for an audit for most businesses will be the point when turnover reaches the £10.2m audit threshold. But the previous threshold, for financial years beginning between October 2012 and the end of 2015, was a £6.5m turnover. For others that may have anticipated having to undergo an audit in the near future, the threshold will now seem much more distant (see [tinyurl.com/ICAEW-thresholds](http://tinyurl.com/ICAEW-thresholds)).

But businesses might be unwise to base a decision about whether or not to conduct an audit based on the position of the threshold, says Lantsbury. He believes that the rising audit threshold is a good thing – "in the sense that less red tape is good" – but stresses that "audit thresholds aren't the only driver of the requirements for, or desire to have, an audit".

Reasons why businesses might benefit from the audit process before being required to include giving a business that is growing quickly an opportunity to ensure that processes and practices are working properly; or to provide assurance for external investors or business owners not closely involved with day-to-day operations.

Andrew Griggs, senior partner for audit, advisory and corporate finance at Kreston Reeves, says one of his clients, with a turnover that is usually less than £2m, always wants an audit for the value



of an external view of the business. But he acknowledges the temptation to avoid the audit: "In the majority of cases, when people don't have to have an audit, they don't tend to have one. Many smaller companies still see it as an unnecessary cost."

Peter Fenton, FD at transmission and driveline system manufacturer Marine & Industrial Transmissions (MIT Group), which has a turnover below the current audit threshold, sees great value in an audit, noting how useful it is for a business seeking to work for much larger enterprises or organisations to be able to provide this type of assurance. He suggests that a business seeking to do so that has a turnover of about £3m might well benefit from an audit for this reason.

Tim Godson, director at accountancy firm Duncan & Toplis, also suggests that businesses with turnover in the £2m-£5m range might find conducting an audit particularly valuable, because the process might reveal problems that could otherwise remain hidden – so might end up being more expensive to rectify when discovered, or could lead to problems like fraud in the meantime – until the threshold is actually reached, possibly several years later.

Businesses must also take care to ensure that all financial reporting is in line with thresholds stipulated in Financial Reporting Council rules. In 2016 the thresholds defining a small company were moved with the auditing threshold, to £10.2m, while the balance sheet total limit increased from £3.26m to £5.1m. For 'medium' companies the turnover limit rose from £25.9m to £36m, while the balance sheet total limit increased from £12.9m to £18m. The threshold for employee numbers denoting whether a business is small or medium are still 50 and 250.

Companies classified as small (with any two out of these three characteristics: turnover of £10.2m or less, balance sheet of £5.1m or less, 50 employees or less) have the option of sending abridged accounts to Companies House.

### EXPLORING THE TAX SYSTEM

Another set of thresholds likely to feature in the thinking of the owner or FD of a growing business are those related to different parts of the tax system.

### STOPPING SHORT OF A THRESHOLD

If a company did want to avoid crossing a threshold, one way to do so would be to delay some sales until the start of a new financial year to manage turnover. Businesses might also delay the revaluing of freehold property assets.

"It may also be possible to split the business in a way that can postpone breaching thresholds," says Paul Lantsbury, senior finance partner for PwC's SME accounting service MyFinancePartner. But he stresses the importance of basing any such move on commercial grounds – and the need to ensure that the company complies with all relevant legislation and regulation.

There might be other ways to avoid the costs associated with crossing audit thresholds, such as leasing equipment, rather than buying it, or using freelance labour rather than full-time staff – but Lantsbury says he would not expect most businesses to base their decisions in this respect on the position of the threshold.

"Most businesses would do better to focus on increasing sales and profit margins rather than worrying about the resulting extra admin costs," he says.





**“Accountants should be able to provide you with group relief planning, which then negates the need for individual thresholds”**

Threshold management can be complicated when a company is part of a group structure. Fenton notes that the £1.5 million corporation tax threshold may cover a group and be split evenly between each of the companies within the group. “Here you could – in theory at least – end up paying tax on profit in one company and no tax for another,” he says. “[But] accountants should be able to provide you with group relief planning, which then negates the need for individual thresholds.”

The FSB’s Cherry is concerned about the way the Making Tax Digital (MTD) initiative may affect smaller businesses. And while some believe MTD will not happen in its current state, the ICAEW Tax Faculty believes that it’s still on the cards.

MTD was government’s grand idea to extract tax in a more timely fashion to facilitate government spending, but the original proposal was unpopular and widely seen as being anti-business, adding more bureaucracy and red tape for business owners. This controversial proposal is subject to amendment, further to the election outcome, and the government may not be able to maintain its ambitious timetable. Treasury was expected to issue revised draft guidance in July 2017.

Those with a turnover above the VAT threshold of £85,000 were scheduled to start using the new digital service for income tax and national insurance contributions from April 2018; while businesses under the VAT threshold were

due to do the same from April 2019. All businesses that are VAT registered may need to use the digital system for VAT from April 2019; and all businesses paying corporation tax may need to use the digital system to do so from April 2020.

The FSB suggests its members also have many complaints about VAT. Four out of 10 members think the VAT registration threshold should be increased; 24% say it should be removed so that all firms are VAT registered.

Fenton believes any small business selling to other businesses should certainly consider registering for VAT, regardless of the threshold. After all, he says, accountancy software available at a fairly low price makes the administration of VAT much easier than in the past.

Lantsbury also highlights the importance for a UK business exporting to other countries to ensure it is complying with VAT rules in every country where it is trading – VAT thresholds tend to be lower in other countries where the tax is used. He stresses the importance of a proactive approach to this aspect of threshold management, seeking out the requisite information as soon as possible, “because an external accountant might only spot the problem months later if they’re just looking at the books twice a year”.

“You need to know when you are going to cross these thresholds, but there are quite a lot of benefits in doing these things in advance,” he says. “We

feel this is very much overlooked by FDs in industry: they feel it’s just something for their accountant to think about. We’re very keen to bring it onto the agenda earlier.”

Fenton also believes organisations need to try to develop better forward planning, to prepare for what will happen when thresholds are reached. “You should be constantly reviewing where you’re going to be in the next two, three, five and 10 years.”

But Griggs of Kreston Reeves says that threshold management is not usually a big strategic issue for the companies he works with that are growing quickly. He thinks many entrepreneurs would treat the approach of the audit threshold “as a success – as part of their journey: just a consequence and a cost of growth”. “Some will see it as a cost burden, but they’re not going to deviate from their business strategy to deal with it.” ●

**CASE STUDY:  
MIT GROUP**

Marine & Industrial Transmissions, recently rebranded as MIT Group, was founded in 1974 and is now split into three manufacturing entities, which build transmission and driveline systems for the marine, industrial and mining; and specialist vehicle (fire trucks, airport support vehicles, road sweepers etc) sectors. The group has offices and service centres in Kent, East Yorkshire and Hampshire, employs 50 people and currently has a turnover of about £8m.

Peter Fenton has been FD at the company since 2009. While conscious of the changing threshold for audit, he has not let this, or the fact that turnover was about £6m in the recent past, influence his view on the necessity of an audit for the company. “Even if we dropped down to £4.5m I wouldn’t be desperate to stop [the audit],” he says.

He advises businesses to incorporate threshold management within longer-term planning and expects more businesses to be affected by lower thresholds for tighter regulation around areas such as health and safety, or environmental effects, in future.

“You should be constantly looking ahead,” he says. “If you are going to approach a threshold you should be planning several years ahead, as you may not be able to implement all the systems and processes straight away.”

# A STATE OF INDEPENDENCE

Recent legislation has tightened definitions of employment and tax status for self-employed professionals and their prospective employers. Penelope Rance explores employment trends and looks at IR35 legislation

While headlines around the burgeoning gig economy have focused on legal battles between companies and putative employees over employment rights - we're looking at you, Uber and Deliveroo - the real growth market isn't at the zero-hours contract end of the scale but, perhaps surprisingly, among professional service providers.

Interim workers, mainly looking to downscale towards the end of their career and taking on short-term contracts, have been a useful resource for decades. But with nearly a third of Britain's 4.8 million self-employed workers now mainly composed of professionals and managers, contracting has a new face.

According to the Association of Independent Professionals and the Self Employed (IPSE), the country's two million highly skilled self-employed workers contributed £119bn to the UK economy last year. Along with independent IT contractors - the most long-standing group of professional giggers - independent lawyers, management and strategy

consultants, and finance professionals number highly. “The attitude used to be, ‘you’re a temp, that’s not a proper job’, but for finance professionals particularly, they can be much more proactive about what they do with their skills,” says Sarah Hunt, owner and managing director at recruiters Equity FD.

"In our experience, independent consultants have typically previously worked at major global firms. In general they have chosen to work independently, often as limited liability companies moving from project to project," says Chris Preston, managing partner, Odgers Connect, an arm of recruiters Odgers Berndtson set up to match senior contractors with high-level projects.

“These are the enterprise builders - they want to go in to offer advice to help move companies forward. In addition, there’s also an older group of senior consultants choosing to work independently as an alternative to not working at all, since beyond a certain age high-level positions in conventional

firms can be harder to come by.”

But shifts in the legal landscape, with a tightening up of the rules around how self-employment is defined, could have an affect on the professional gigging sector. With the reforms to the intermediaries legislation (IR35) that came into play in April (see box, below), individuals hired for public sector contracts through public service companies could find their self-employed status challenged. And with industry experts warning of an inevitable expansion of the rules into the private sector, these issues could eventually become universal.

### STAYING IN CONTROL

“The reality is that around 30% of contractors currently operating outside IR35 will find it hard to keep their outside IR35 status,” says Dave Chaplin, CEO of ContractorCalculator. “As we saw with the public sector, long-term contractors clearly caught by IR35 had no option but to accept inside status if they wanted to keep their current contracts.”

Relinquishing self-employed status has financial consequences for contractors. “The rules for the employed and self-employed have been under scrutiny in recent months and it is anticipated that there could well be changes to address the balance between how different ways of working are taxed,” says Sarah Ghaffari, technical manager, SME business tax in ICAEW’s Tax Faculty.

“To determine if an individual is self-employed for tax purposes, case law requires us to look at a number of factors, including how many clients the individual works for and length of the contract. The area of employed versus self-employed is very grey and will often require individuals to seek professional advice.”

IPSE believes a rethink of the nature of employment is necessary. It argues that there are definitions in law for what it means to be an employee, but not for genuine self-employment. IPSE Chief executive Chris Bryce says: “We clearly need some damage control around IR35, especially when we consider the impact it has had on the public sector. We desperately need the government to address this and respond accordingly with a more considered strategy. We are seeing some evidence that individual government departments are taking their foot off the pedal somewhat in response to the damage being caused to public sector projects.”

In March HMRC released a tool designed to help contractors work out if they fall inside IR35, but according to Chaplin, it

**“As we saw with the public sector, those long-term contractors clearly caught by IR35 had no option but to accept inside status if they wanted to keep their current contracts”**

fails to cover key areas of employment case law. “The tool states that ‘HMRC will stand by the result given unless a compliance check finds the information provided isn’t accurate’, which is no guarantee at all. Not only does it not mean anything, but the tool also gives a significant number of contractors an ‘unknown’ status. It does not provide the certainty to the market, which was their original goal.”

One of the defining pieces of case law around employment is now half a century old. *Ready Mix Concrete (South East) Ltd v Minister of Pensions and National Insurance (1968)* is still used as the basis to determine 90% of employment status cases. It established that for an employment contract to be in place there must be evidence of personal service and mutuality of obligation; that sufficient control must exist to create a master-servant relationship; and that there must be no other terms inconsistent with a contract of employment.

Many argue that this definition is a blunt instrument. “Too often the courts are relied upon to determine employment status,” believes Simon McVicker, IPSE director of policy.

“Policymakers need to develop a statutory definition for self-employment,” he says. The current tax system remains outdated, therefore the need to overhaul it with a more progressive and flexible system that fairly accommodates for those working in self-employment has

### IR35 RULES - WHAT DO THEY MEAN?

In force since 2000, IR35 is aimed at combatting tax avoidance by workers supplying services via an intermediary such as a limited company, but who, without the intermediary, would be an employee. IR35 hasn’t been as successful as government hoped and it has tightened the rule further by banning the public sector from engaging with contractors making use of personal service companies from April 2017.

“Disguised employees” engaged through personal service companies will have their contact payments treated as if they had been employees and taxed appropriately. The business owner will be responsible for meeting the costs and would have to recover the tax from the contractor. Genuine contractors, freelancers, interim workers or consultants should not be affected.

Whether someone is caught by IR35

is decided on a case-by-case basis by an HMRC inspector, creating a “notional contract”. In brief, the “tests of employment” are the level of control the client has over when, where and how the worker completes the work; whether the personal service of the worker is required; and mutuality of obligation. Secondary factors include if the employee is taking a financial risk, if they are “part and parcel” of the business, and provision of equipment.

HMRC can go back six years to see if previous contracts are in breach of IR35 and can force the contractor company to pay tax and NICs as if the contractee were an employee if so. When IR35 has been found to apply to a contract, the “deemed payment” is calculated on the limited company income. After deducting the PAYE salary, a 5% expenses allowance and any pension contributions, what is left is treated as a salary as if it were from an employer, with tax due on it.

**“Corporate clients who have historically bought consulting services from traditional firms often tell us that they now prefer to work with independent consultants”**

become abundantly apparent.”

For some, however, legislative changes will make no difference to their working practices. Sarah Walker, an independent consultant specialising in corporate strategy and private equity, who previously qualified with Deloitte, says: “There are very clear guidelines and rules in place. I rely on experts - I’ve got a great lawyer and accountant supporting my company - to make sure that I’m adhering to IR35 and other rules. It’s not stopping me from taking on work. I’m very clear on what I can and cannot do. There’s not a huge amount of ambiguity for me.”

For private sector employers, while the onus of defining the employment status of independent workers may soon fall on them, there has been no fall off in the hiring of senior professionals on a contractual basis.

According to a survey by Odgers Connect, external economic pressures are behind the decisions of almost 90% of companies to bring in independent consultants. “Corporate clients who have historically bought consulting services



#### CHANGES TO THE TAX REGIME

From April 2017 there were changes to the way the IR35 rules are applied to off-payroll working in the public sector. Where the rules apply, people who work in the public sector through a personal service company (PSC) pay employment taxes in a similar way to employees. The responsibility for deciding if the legislation should be applied shifted from the worker's PSC to the fee-paying public authority. If a public authority employs a worker through an intermediary, the authority must decide whether the off-payroll working rules for the public sector apply. If the rules apply, the fee-payer will calculate income tax and national insurance contributions (NICs) and pay them as if the worker was an employee. This will be deducted from the PSC's fee. The PSC can set the income tax and NIC deducted by the fee-payer against its own income tax and NIC liability in the tax year.

from traditional firms often tell us they now prefer to work with independent consultants,” says Preston.

“In the business landscape these types of engagements have been happening for well over a decade, but it’s started to gain traction and prominence in the last three years. The vast majority of purchasers are CFOs. They want to control the consultancy spend, which can be quite difficult,” he says.

Additionally, Preston points out: “Consultancy is business case-led, and you can’t budget for that at the start of the year. There’s also a challenge around making sure consulting spend doesn’t run away with you. For growth, businesses need to take advice, and an independent consultant can be the flexible, cost-efficient answer to their business needs.”

#### MAKING IT AFFORDABLE

Shaun Holdcroft is executive director of homes and customer experience for housing association North Hertfordshire Homes, who last year developed a strategic plan to provide as many affordable new homes as possible. “No one was available with the skills to be able to guide us through the exercise,” said Holdcroft. “We looked externally for someone who could work with us for a 12-week period to get us from a clear idea of our principles to having a deliverable plan.”

They hired independent consultant Barry Trout to push the plan forward. “He has a strong set of skills that led him to playing a role in a flexible environment and hit the ground running. Now we’re at a place where plan is signed off and we’ve launched into a programme of work. We would not be at this place if we had not brought him in.

“In an organisation like ours - a not-for-profit - a key driver for us is the issue of opportunity cost. If we are efficient in delivering our core landlord services, the money that frees up can be put towards building more homes for the public good. Being able to tap into independent talent furthers our ability to do that.”

The Office for National Statistics reports that the gigging sector was worth half a billion pounds in 2014, but estimates it may be worth up to £9bn by 2025. Meanwhile, PwC predicts growth of over 30% per year between 2015 and 2025. It forecasts that the industry could be generating £18bn in revenues and facilitating £140bn worth of transactions in the UK alone.

It looks like there will be no slowdown in the professional gig economy any time soon. ●



# GETTING THINGS RIGHT

With operations based in Belfast's financial district, Arkk Solutions is keen to make sure team members are as happy as the clients, thanks to a programme of training and quality measures geared towards top-level iXBRL tagging

Responding to the latest taxonomies and changes from HMRC, Arkk Solutions has spent the past 12 months developing the knowledge within its tagging team. Key to efficiently and actively delivering financial statements tagged and converted to iXBRL to over 500 clients is keeping the team's skills up to date.

General manager Lucy Gordon says that as well as her staff being on hand to answer complex client queries, they have developed processes to identify any inconsistencies on first review. "Time spent on the overall tagging process has been significantly reduced," says Gordon. "This means we're able to offer more high-quality, quick turnarounds. Our clients often have to prepare their accounts at the last minute, and it's vital we can tag accurately and effectively in as little as 48 hours."

Having a second or third pair of eyes on each of the client accounts helps to smooth the manual parts of the process involved in tagging accounts, which would otherwise be susceptible to error. The tagging department is split into two teams, with each team having their own clients. This means that all files for one client will be tagged and reviewed across a small number of people, ensuring all files are consistent.

Key to the progression of appropriate staff skills has been the development of an eight-week training programme, which has borne fruit over the past year. New hires are paired with a senior team member, an expert tagger within the business who can assist them with all their queries while they train. Working from the base up,

recruits shadow for the first four weeks, moving on to tagging the more basic files as their supervisor checks for quality. "This will continue until the new hire feels comfortable to tag on their own," adds Gordon. "Once they are at a standard where the amendments on their files are lower than 20%, they will be introduced to additional taxonomies, tax computations and more complex files."

Gordon adds that recruits also go through a customer training programme. This consists of on the floor training, role plays and team exercises, all of which help develop the Arkk Solutions culture, focused on positivity and responsiveness.

The set-up of Arkk Solutions' iXBRL team means they can move to solve problems quickly. Being based in Belfast and close to clients gives the tagging operation a deeper understanding on deliverables, and in turn allows the team to better support their customers.

By delivering direct communication, recognising and adding value, and supporting larger customers with their increasing volume of documents, Arkk Solutions delivers a high quality service to its UK and Irish clients. ●



General manager Lucy Gordon says having her team in Belfast saved time and improved team communication

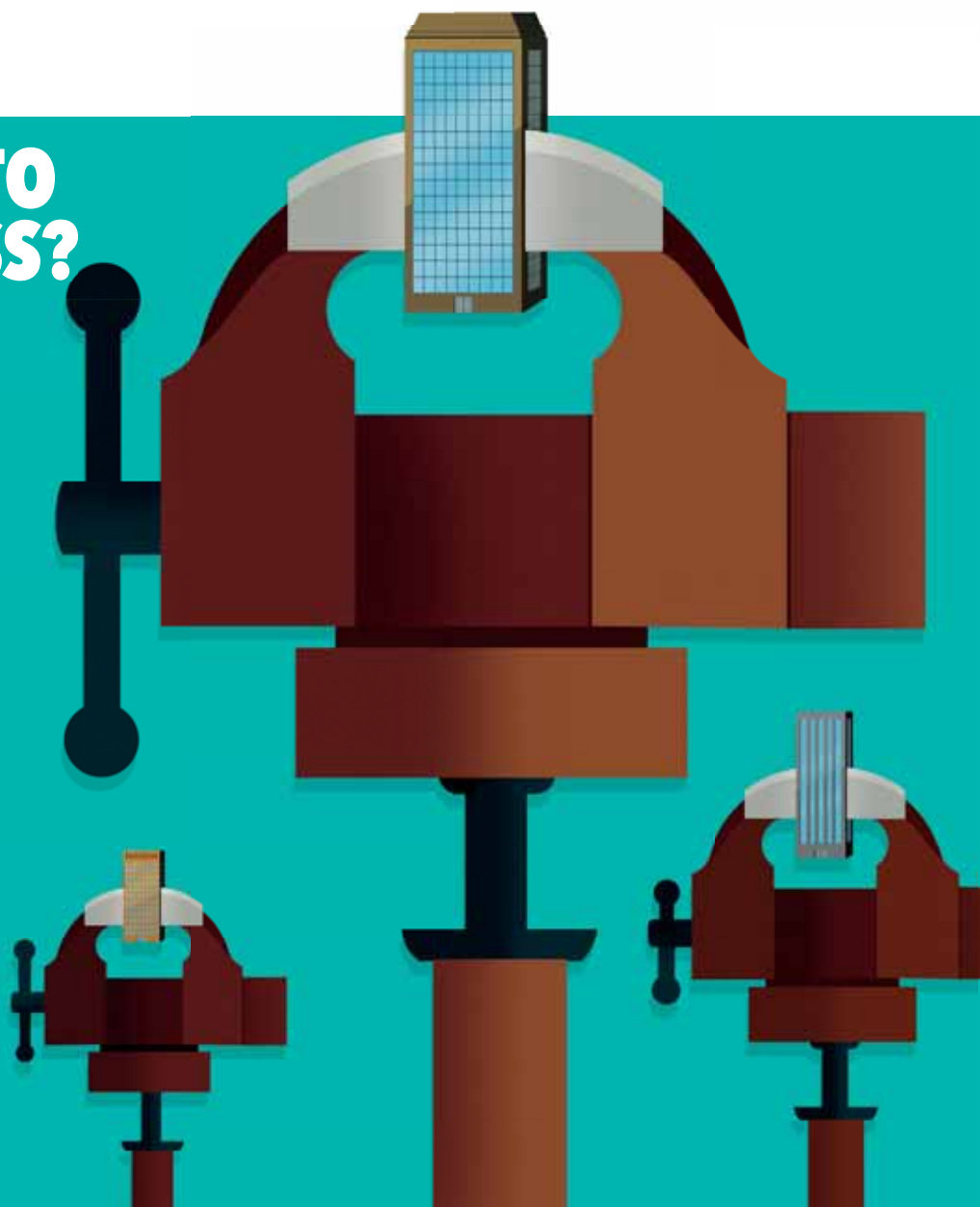
## arkksolutions

For more information about nearshoring iXBRL tagging for your business, visit [arkksolutions.com/ixbrl](https://arkksolutions.com/ixbrl)



# PLEASURE TO DO BUSINESS?

Recent changes to law aim to make the UK a more attractive business destination. David Craik asks a range of CFOs if the rules pass muster



Despite the relentless back and forth of one of the most remarkable general elections in recent history, the Conservative government set out its legislative agenda through the Queen's speech to parliament in June. Though there was little proposed for business, finance directors (FDs), chief financial officers (CFOs) and company secretaries still had to pay attention to proposed legislation that alters the way their companies are structured or do business. Changes did not come as a surprise given the amendments that have already been made to company law over the past two years, some of which are still in the process of being enacted.

One of the most extensive pieces of legislation over the period has been the Small Business, Enterprise and Employment (SBEE) Bill, which gained Royal Assent in 2015. Its aim was to

make the UK a more attractive place to start, finance and grow a business and reduce the barriers that many small businesses face in their drive to innovate, grow and compete.

## DISSECTING THE BILL

Each relevant business with an annual turnover of £36m or more has to provide information such as standard payment terms with suppliers, average time they have taken to pay the suppliers and details of the proportion of invoices that they have paid beyond agreed terms or within 30 days and over 60 days.

The other major part of the SBEE bill looked at corporate transparency. In it companies had to identify and register people with significant control (PSC). The requirement to keep and maintain a PSC register came into force on 6 April 2016.

Publicly traded companies are exempt from the requirement to produce this new register as they already report this type of information, but for others the PSC regime is compulsory.

## THE GENDER PAY GAP

Every business with more than 250 employees needs to bear gender pay gap reporting in mind. Depending on who works for the organisation, this could be a complex task, as the definition of employee used in relation to this threshold includes: people who have a contract of employment with your organisation; workers and agency workers (those with a contract to do work or provide services); and some self-employed people (where they must personally perform the work).

Any business that may be closing in on the 250-employee threshold should be planning ahead for the point where

the threshold is reached.

Employers must both publish their gender pay gap data and a written statement on their public-facing website, and report their data to government online using the gender pay gap reporting service.

If your organisation has fewer than 250 employees, it can publish and report voluntarily but is not obliged to do so.

There were also a number of key employment regulations such as new financial penalties for employers who fail to pay employment tribunal awards or sums due under certain settlement agreements and an extension of the financial penalty for failure to pay the national minimum wage.

### THE ENTERPRISE BILL

Another important piece of legislation was the Enterprise Bill in 2016, which looked to cement the UK's position as the best place in Europe to start and grow a business.

Regulations included the establishment of a small business commissioner to empower small businesses to resolve disputes including payments, a business impact target to ensure greater transparency around the impact of regulations on business and reform of the business rates appeals system.

So, what have CFOs made of these changes? What have been the best and worst in their eyes?

### EXPERT OPINIONS

*Business & Management* contacted around 15 CFOs for comment on the changes with many, perhaps surprisingly, stating that they did not have an opinion, were not aware of the specific changes or felt there had been little or any difference.

But some were more vocal. Andy Blackstone, FD at advertising agency M&C Saatchi, says legislation on late payment fits in well with its current company policy of ensuring fair arrangements with its suppliers despite the misuse of invoices by larger firms. "You get the classic squeeze from the top when larger companies push the days and delay purchase orders," he says. "We believe we have a moral duty to ensure that our suppliers stay in business. But will the legislation have an impact and make companies change their ways? Perhaps helping the banking system to be more efficient

**"We believe we have a moral duty to ensure that our suppliers stay in business. But will the legislation have an impact and make companies change their ways?"**

**Andy Blackstone, FD, M&C Saatchi**

**"They make a lot of noise when they come out, but legislation like this is a much smaller deal in reality. You get on with it, you deal with it as best as you can"**

**Stefan Payne, CFO, Titan Airways**

**"I feel really strongly about freedom of movement of people. This is one of the most important things for our business right now"**

**Kim Coles, FD, Lush**

would be more helpful."

However, he is scathing about the PSC requirements. "I get the idea around the PSC but it is more bureaucracy, which means we have to publish every single subsidiary group in our annual report and give all their registered addresses," he states. "But what use will this information be to anyone? Perhaps it is of use to suppliers looking to find out if a company is owned by, say, someone shady from Russia, but will that ever really be reported in a PSC register?"

Stefan Payne, CFO at Titan Airways, is phlegmatic about the legislative changes. "They make a lot of noise when they come out, but legislation like this is a much smaller deal in reality. You get on with it, you deal with it as best as you can," he says. "The extra work is frustrating, but as a CFO I believe there are bigger things for us as a business to worry about."

### OTHER ISSUES

Payne actually outlines the gender pay gap reporting legislation - which from April 6 2017 requires employers with over 250 staff to publish gender pay gap figures and gender bonus gaps annually - as being particularly problematic in terms of extra administrative burden.

"We tend to have pilots who are males and cabin staff who tend to be females, so any pay gap we publish will have a disproportionate view to it," he says. "The work to present the information has been long but what does it say? Our pay scales don't account for gender. There is no difference with people doing comparable jobs. Sometimes legislation adds complexity to business and you ask yourself 'what have we got out of it? How have we improved?'"

### YET MORE LEGISLATION

And there is more company legislation around the corner. The Conservative manifesto described updating the rules that govern mergers and takeovers, including requiring bidders to make clear their intentions from the outset, make executive pay packages subject to strict annual votes and the publications of ratios of executive pay to broader UK workforce pay. Better corporate governance may potentially include worker representatives in the boardroom.

The manifesto also outlined plans to double the immigration skills charge levied on companies employing migrant workers.

### EXPECT THE UNEXPECTED

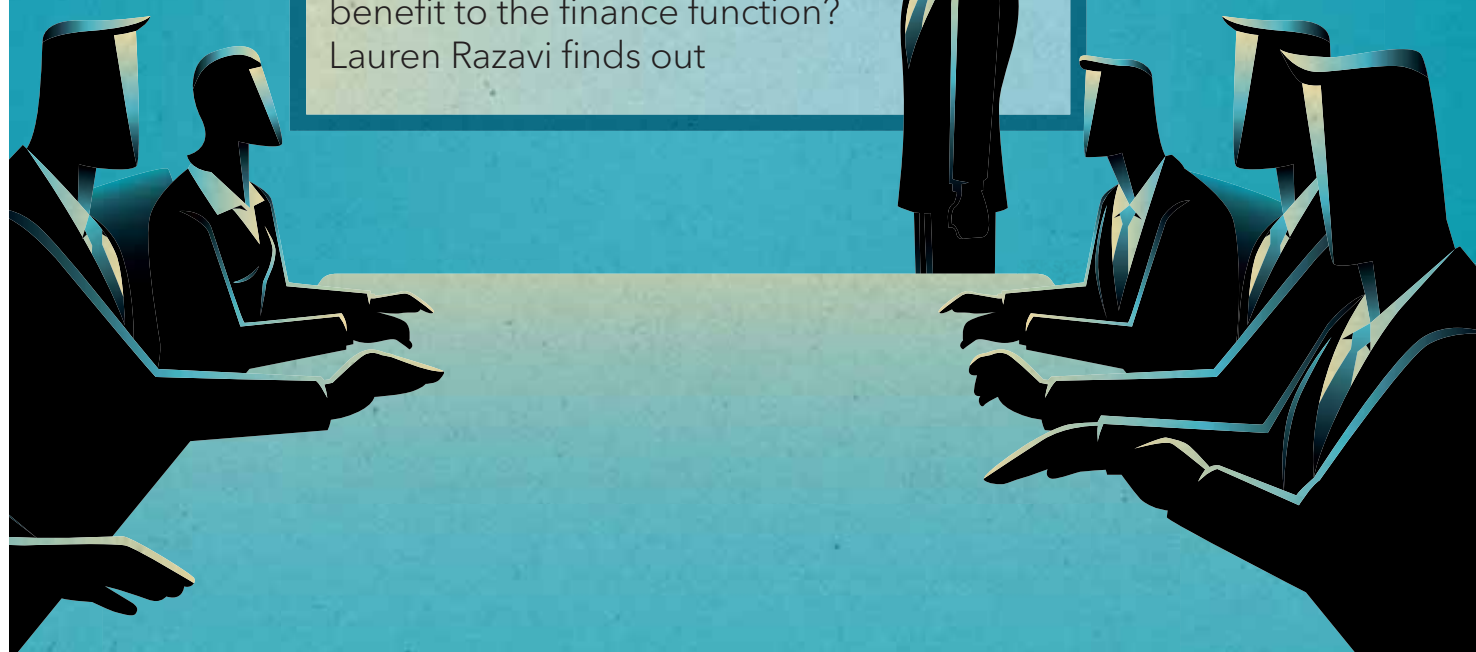
What do CFOs expect? "Both the Labour and Conservative manifestos showed that there was more red tape they would like to give us," says Blackstone. "With workers in the boardroom there are questions around how you define a worker and with fair pay there are complications around the fact that most of our board get their rewards through dividend flow. It is more bureaucracy."

He believes that any debate over the future legislative vista will be unclear because of the unknowns surrounding Brexit: "It will change so many things. How will it be interpreted and when it comes to trade and imports and exports what will it mean regarding red tape and possibly extra and more complicated administration?" ●



# AUDIT: WHAT CFOs WANT

The main purpose of an audit is to satisfy an organisation's shareholders, but is that the only benefit to the finance function?  
Lauren Razavi finds out



With the purpose of an audit being enshrined in law - to provide assurance to shareholders - it is entirely understandable that most dialogue around audit is concerned with what CFOs can do to guarantee smooth running of the process. CFO training programmes often include sessions on what audit committees want from CFOs.

A recent Deloitte CFO Lab report on the subject included a wishlist of attributes such as strong partnering with CEOs and other leaders, confidence in finance talent, command of key accounting, finance and business issues, insightful forecasting, effective risk management and clear, concise stakeholder communications.

As increased emphasis is being placed on an open, three-way dialogue existing between the CFO, the audit committee and the external auditor, it is no longer a

facetious question to ask what function an audit satisfies for the CFO. Can greater value be extracted when looking at the audit process from their perspective?

Although ICAEW's Audit & Assurance Faculty *Audit Quality* report reminds us of the explicit purpose of the statutory audit, it concedes there is still much value to be had for stakeholders other than shareholders. While "in normal circumstances, the auditors owe no duty of care" to them, it states the audit can nonetheless give assurance and "help to reinforce confidence and trust in financial reporting".

## NOT JUST FOR INVESTORS

Mark Kennedy, lead partner at Mazars, agrees the audit has been designed for investors, but states that it can be a model for compliance. "The UK is a leading legislative model that is copied in lots of other countries," he says. "This

model has built a system where the auditor is required to comment on compliance, legislation and regulation. So legislative compliance is a byproduct rather than the key focus of an audit."

While the CFO becomes instrumental in the transmission of positive messages such as those around compliance, they are first required to not only anticipate but also eliminate anything unexpected from the accounts.

The fact that the CFO traditionally derived little benefit from an audit, while the pressure of dealing with it sat squarely on their shoulders, has almost certainly fuelled the long-held cliché of an adversarial relationship existing between audit committee and CFO. But in the past few years, changes have been made that increase accountability on auditors, notably the requirement for mandatory auditor rotation. There have also been changes to audit committee

reporting. At the same time, surveys of CFOs and other senior management have reported improvements in relations between CFOs and audit committees.

Simultaneously, while accountability in statutory audit has been tightened up, the raising of the threshold in 2016 to £10.2m (see [tinyurl.com/BM-AuditExemptFAQ](https://tinyurl.com/BM-AuditExemptFAQ)) has resulted in more than 90% of UK registered companies no longer being compelled to have an audit. This legislative shift has changed the way CFOs view auditing (see the cover feature on page 18) and has amplified the degree to which they must evaluate the value of undertaking an audit. Without being obliged to audit, the decision for many SMEs becomes a fairly straightforward question of return on investment.

“It’s shareholders who get the most value from audits while, for CFOs, they’re seen as more of a necessary evil,” adds Kennedy. “The best that financial teams are going to get from an audit is a piece of paper declaring there are no major problems with the accounts.”

### THE THREE Es

What of the audit itself, and opportunities to make it less onerous for the CFO? The ‘three Es’ of economy, efficiency and effectiveness can at times seem to be something of a white whale. Even the most streamlined audit can end up interfering with the daily running of any business.

“It makes for a relative intense couple of weeks after year-end while the auditors are in the office,” says Kevin Ronson, CFO at voices.com, an online marketplace for voice actors. “The business must continue to run as normal, but you also need to be available to ensure they get what they need in a timely manner.”

With the introduction of more sophisticated automations and innovations in audit, there is scope to turn it into a less invasive practice. Predictive analytics use a complicated mixture of data mining and machine learning to anticipate potentially dangerous accounting areas. Effectively, this helps auditors to identify and target risks, reducing the amount of blind digging they have to do.

“From a CFO’s perspective, the only ‘E’ of real importance is the economy,” says Ronson. “It is up to the auditor to ensure they can do it efficiently. As for the effectiveness, that is really for the outside party as, ideally, a CFO should already have full confidence in their numbers before an audit.”

When questioned about what they want most from an audit, many CFOs say

**“It’s shareholders who get the most value from audits while, for CFOs, they’re seen as more of a necessary evil. The best that financial teams are going to get from an audit is a piece of paper declaring there are no major problems”**

they are looking for a “single source of truth”. They want one version of any given piece of data without duplications, and a group of individuals destabilising their single source can be inconvenient. Audits are designed to isolate human error, but even those trained to spot them can miss them (refer to any major accounting scandal of the past five years, and finger pointing at auditors has featured). However, is the saviour coming with the implementation of artificial intelligence (AI) and macro-analytics on big data?

### AUDIT COMMITTEES AND THE CFO

Even when there is no audit performed, audit committees can still provide assistance. A consultation of 32 audit partners and CFOs about the audit committee’s relationship with CFOs by Tapestry Networks and EY in the US identified multiple ways the audit committee could contribute to the relationship besides assisting with the audit itself.

Interviewees suggested audit committees can support and champion the CFO by giving feedback to them on performance, staffing and succession planning in real-time, as well as offering commentary on the quality of culture in the finance function. This could include information on whether the team required more staff, or individuals better tailored to roles.

Audit committees and their chairmen could also offer mentorship and educational support, particularly around



best practice with their overview of other businesses. CFOs reported that the relationships were improved by their having access to the other members of the committee as well as the chairman. Former CFOs, they suggested, were among the best audit committee members. Areas of knowledge weakness that needed addressing on audit committees tended to be in IT and M&A.

Audit committees were also helpful to CFOs when standing up against CEOs making poor decisions, and helping to steer boards away from bad projects or even regular demands for excessive amounts of information.

A KPMG and Financial Executives International Canada report, *The CFO and the Audit Committee*, similarly found areas where the audit committees and chairmen could better assist the CFO.

This included being open to communication from the CFO between formal meetings and setting aside time to speak about issues that need ironing out, acting as the CFO's sounding board and undertaking training. Some CFOs reported instances of over-involvement from the audit committee, and boards being too cosy with them, which could affect trust. This was said by some CFOs questioned to be ameliorated by making sure audit committees had a clear role set out for them in board packs.

In this report, the existence of a three-way dialogue between CFO, audit committee and external auditors was said to work well by 89% of interviewees. It stated: "Successful audit committee

#### AUDIT INSIGHTS: AN ICAEW SERIES

Since 2013, ICAEW has been regularly producing Audit Insights, a series of reports allowing auditors to bring their market sector knowledge to the fore.

Focusing on the key challenges faced as well as future opportunities, the publication themes so far have included banking, retail, manufacturing, cyber security, construction, insurance, corporate reporting, small businesses, data analytics and charities.

Pioneered by the Audit & Assurance Faculty, the reports have been written in collaboration with other ICAEW faculties and their networks of expert members.

Past publications are free to download from the web page [tinyurl.com/BM-AuditInsights](http://tinyurl.com/BM-AuditInsights)

relationships feature trust, respect, professionalism, collaboration, openness and transparency."

In the role of building trust and confidence in the audit, the CFO is responsible for translating dry numbers and statistics into a comprehensible story for everyone concerned. "The best audits extensively cover the key risks of a business or sector and focus less on arbitrary box ticking," says Mike McElhatton, CFO for service design company Nile. "Management has a responsibility to highlight key risks and issues within a business, and audits are the best way to achieve that."

#### BIG DATA AUDITS AHEAD

The increased availability of transactional data and cloud-based accounting software means that auditing with conventional sampling techniques could become a thing of the past. Instead of dipping into a selection of items in order to generate a representation, big data analysis provides an analytical overview that leaves nothing out. It gives CFOs a dynamic view of all available data in real-time.

One significant bonus is that this collected data is easier to isolate and translate into the story CFOs have to tell. The integration of data beyond pure transactional reports permits more effective cause and effect identification, yielding evaluation and strategy simultaneously.

Another survey of FDs on the efficacy of the audit function by *Financial Director* suggested that the 21st century auditor needs to be faster than ever at providing accounting guidance - another area potentially where advances in AI around so-called 'regtech' could be of benefit over time.

For SMEs, this type of automated data reconciliation may seem a long way off. While the technology is still under heavy development for now, the days of being obliged to submit to an annual audit by on-site personnel may eventually be superseded by real-time audits. Rather than having to balance everyday operations with regulatory compliance, auditing could become a fluid, ongoing activity that is inexpensive and performed passively.

For now though, CFOs can continue to merely decide where on the spectrum an audit falls for them; is it an unwelcome obligation, an opportunity to be exploited for other value, or something in between, depending on the scope of the business involved? ●





# TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

## 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](https://icaew.com/frf)**

### IFRS 17 INSURANCE CONTRACTS

The IASB has issued IFRS 17 *Insurance Contracts*. This replaces IFRS 4, which was brought in as an interim standard in 2004 and gave companies dispensation to carry on accounting for insurance contracts using national accounting standards. This resulted in a multitude of approaches being allowed and made it difficult for investors to compare and contrast the financial performance of otherwise similar companies.

IFRS 17 requires all insurance contracts to be accounted for in a consistent manner, with insurance obligations accounted for using current values rather than historical cost. This information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but

companies can apply it earlier. EU preparers will not, however, be able to adopt the new standard until it is endorsed by the European Commission.

The Financial Reporting Faculty is hosting a webinar on 31 October providing an overview of the new standard and how it will affect you and your clients. This webinar is free to Financial Reporting Faculty members.

Read the press release at [tinyurl.com/BM-Overhaul](https://tinyurl.com/BM-Overhaul)

### IFRIC 23 PUBLISHED

The IASB has issued IFRIC 23 *Uncertainty over Income Tax Treatments* to specify how to reflect uncertainty in accounting for income taxes.

IAS 12 *Income Taxes* specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. For example, it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment.

IFRIC 23 provides requirements that add to those in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

IFRIC 23 is effective from 1 January 2019. See more at [tinyurl.com/BM-IAS12](https://tinyurl.com/BM-IAS12)

### IFRS 16 LEASES

The publication of IFRS 16 *Leases* finally brought to a close a debate that has lasted for a generation. The age-old distinction between finance leases and operating leases is no more, meaning that, for the first time, almost all leases will appear on the balance sheet of the lessee.

This will involve significant change ahead for many lessees, particularly those that currently have a significant number of material operating leases. The standard may also have important implications for the information systems, processes and internal controls of such entities.

The faculty has therefore published a special one-off publication designed to help you plan for the change that lies ahead. This is freely available to all.

Download *IFRS 16: Putting Theory into Practice* at [tinyurl.com/BM-IFRS16](https://tinyurl.com/BM-IFRS16)

### IAS 16 - PROPOSED AMENDMENTS

The IASB has proposed narrow-scope amendments to IAS 16 *Property, Plant and Equipment* to reduce the diversity in

application of the standard.

IAS 16 establishes principles for recognising and measuring items of property, plant and equipment-as-assets.

The proposed amendments would prohibit deducting sales proceeds from the cost of an item of property, plant and equipment while that asset is being made available for use. Instead, the company would recognise those sales proceeds and related costs in profit or loss.

Exposure Draft ED/2017/4 *Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16)* is open for comment until 19 October 2017.

Read the press release at [tinyurl.com/BM-ExpDraft-Plant](http://tinyurl.com/BM-ExpDraft-Plant)

## FUTURE OF CORPORATE REPORTING

The Financial Reporting Faculty has published its latest thought leadership report, *What's Next for Corporate Reporting: Time to Decide?* as part of its Information for Better Markets Initiative.

The future of corporate reporting is a subject attracting much attention of late. Yet despite much discussion and debate on this topic, fundamental change has been slow and inconsistent.

Our new report captures some of the thought-provoking views shared by key stakeholders on this subject, including whether companies are reporting the right information to the right stakeholders in the right way; it asks if there is more to be done to ensure corporate reports are meeting the needs of users.

The report also highlights a number of issues singled out as barriers to change and identifies principal policy options for further consideration and debate.

Read the report at [tinyurl.com/ICAEW-Corp-Reporting](http://tinyurl.com/ICAEW-Corp-Reporting)

## FRS 101 FAQs

FRS 101 *Reduced Disclosure Framework* permits “qualifying entities” to apply the recognition, measurement and disclosure requirements of EU-adopted IFRS, but to take advantage of certain disclosure exemptions in their individual financial statements. This is an attractive option for some; for example entities that voluntarily apply EU-adopted IFRSs.

The Financial Reporting Faculty has updated its FAQs *Introducing the Reduced Disclosure Framework*. This is free to download at [tinyurl.com/BM-FRS101](http://tinyurl.com/BM-FRS101)

## TAX



### NEWS AND UPDATES FROM THE TAX FACULTY WEEKLY NEWSWIRE.

VISIT [ION.ICAEW.COM/TAXFACULTY](http://ION.ICAEW.COM/TAXFACULTY) AND CLICK THE SIGN-UP LINK TO SUBSCRIBE FOR FREE

### TAXABLE DIVIDEND AND INTEREST INCOME BELOW THE THRESHOLD FOR A SELF-ASSESSMENT TAX RETURN – THE PROCESS CLARIFIED

The criteria for filing a self assessment tax return have been updated and for 2016/17 a return is required where your income from savings or investments was £10,000 or more before tax, or your income from share dividends was £10,000 or more before tax.

This begs the question about the process for those who have income from dividends and/or interest which is below these limits but on which tax is due (eg, because the income exceeds the personal savings allowance/dividend nil rate band). The information on GOV.UK is incomplete on this point.

Untaxed income below the thresholds for self assessment must be reported to HMRC by phoning the HMRC contact centre (0300 200 3300) or the agent line.

Where possible HMRC will collect the tax due on this income by making an adjustment to the taxpayer's PAYE tax code. Where this is not possible (because there is no source of income liable to PAYE, or the PAYE income is insufficient to take the adjustment), HMRC will put the taxpayer into self assessment and issue a tax return.

HMRC generally carries tax code adjustments for interest and dividends forward to subsequent tax years; in such cases it will be important to monitor tax codes and to notify HMRC if the amount of income changes.

### HMRC'S CURRENT CAMPAIGNS

For some years HMRC has run a series of campaigns – opportunities for taxpayers to come forward and bring their tax affairs up to date. Each campaign is targeted at a specific taxpayer group or type of taxable activity.

HMRC has been updating its guidance on the campaigns that are open. We thought it would be useful to summarise the current campaigns and explain how a taxpayer with arrears – whether or not they fit the terms of a campaign – can

contact HMRC to ‘come clean’.

There are three current campaigns. Unlike some previous campaigns, there is no closing date for taking advantage of these.

### Let Property Campaign

This is aimed at individual landlords letting out residential property in the UK or abroad who have not declared their letting income.

### Second Incomes Campaign

This is aimed at employees resident in the UK who have additional freelance or self-employed income.

### Card Transaction Programme

This is aimed at those in business who accept credit or debit card payments but have not declared that income to HMRC.

In all these cases, the taxpayer must notify HMRC and then make a disclosure and pay the tax within 90 days. The taxpayer has to self-assess the tax and any penalties, although each campaign does offer a helpline. HMRC may allow time to pay, depending on circumstances. Agents can notify and make disclosure on behalf of clients.

### Disclosures outside the current campaigns

If a disclosure can't be made under a current open campaign, you can use HMRC's online Disclosure Service at [tinyurl.com/HM-Rev-Disclose](http://tinyurl.com/HM-Rev-Disclose) or telephone the voluntary disclosure helpline on 0300 123 1078.

HMRC notes that if you make a full and voluntary disclosure of all unpaid liabilities, you can usually expect a lower penalty than if it had raised an enquiry or compliance check without the disclosure.

If the undeclared UK tax relates wholly or in part to an offshore issue, you can use the online Worldwide Disclosure Facility (WDF) at [tinyurl.com/BM-GOV-WDF](http://tinyurl.com/BM-GOV-WDF)

However, while this route may be suitable for simpler disclosures, it may not be ideal for more complex cases, even though (in an update on 15 June 2017) HMRC now allows an additional 90 days to make a disclosure for such cases.

If tax fraud is in point, it may be better to ask HMRC to deal with the case under the Contractual Disclosure Facility (*Code of Practice 9* [tinyurl.com/BM-GOV-CDF](http://tinyurl.com/BM-GOV-CDF)), which provides immunity from prosecution (which the WDF does not). It is also advisable to take specialist advice in complex cases and those with an offshore element or involving fraud.

## SHOULD NON-RESIDENT COMPANIES OWNING UK PROPERTY BE TAXED TO CORPORATION TAX OR STICK WITH INCOME TAX?

ICAEW has responded to the consultation *Non-resident companies chargeable to Income Tax and non-resident CGT* published by HMRC on 20 March 2017. This consultation is about how certain non-resident companies with UK-source taxable income and/or gains on disposal of UK residential property could be brought within the corporation tax regime. Our response is at [tinyurl.com/BM-REP6917](http://tinyurl.com/BM-REP6917)

The taxation of property in the UK is very fragmented, the legislation has been built up piecemeal over a number of years and the system would benefit from an overall review rather than yet more tinkering at the edges.

The purported reason for suggesting this change from income tax to corporation tax is to ensure that non-resident companies renting out UK properties do not escape the interest restrictions and loss restrictions applicable to corporates. It is not clear from the consultation how many such non-resident companies exceed the £2m *de minimis* for interest relief and £5m *de minimis* for loss relief, and as such we do not know what the tax loss might be if the change is not introduced. Without an analysis of the potential tax lost it is difficult to know if a change to the system is worthwhile; more information is needed from HMRC.

If the majority of affected companies do fall below the *de minimis* for interest and loss relief should those companies be put to the trouble of changing for the sake of the minority? As stated in our *Ten Tenets for a better tax system*, the tax system should be constant and changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

The reasons for using a corporate vehicle are manifold and those who do not want to be within the corporation tax regime for whatever reason could change their structure, for example to a limited liability partnership – so the “lost tax” may remain lost.

If the proposed switch to corporation tax does go ahead, steps will need to be taken to ensure such companies do not yo-yo in and out of having to comply with the Making Tax Digital regime for income tax and then corporation tax.

## EMPLOYMENT LAW



**THIS SECTION IS SUMMARISED FROM THE BULLETINS OF VARIOUS LAW FIRMS AND ASSOCIATIONS. NONE OF THE INFORMATION IN THIS UPDATE SHOULD BE TREATED AS LEGAL ADVICE**

### VICTORY FOR WORKERS ON OVERTIME AND HOLIDAY PAY

A landmark tribunal has found in favour of refuse workers whose overtime was not included in calculations for holiday pay.

The waste collectors worked for Veolia Environmental Services in the London boroughs of Camden and Bromley.

According to Unite the union, which supported the workers, Veolia had claimed Brexit had been given as a reason for not taking overtime into consideration. However, this argument was not advanced in court and the case was over in two days.

The tribunal heard that voluntary overtime was performed with regularity, and could be considered “part of normal pay”. It ruled that voluntary overtime should be included when calculating the holiday pay of the claimants in the case for the first 20 days of their holiday pay. This is in line with EU law.

Under UK law, contractually guaranteed overtime remains part of the calculation for the first 28 days of holiday.

### HOLIDAY PAY: CARRYING OVER INTO SUBSEQUENT YEARS

A European court has agreed that a worker’s entitlement to paid holiday can be carried into subsequent years when that holiday was not taken because the employer had refused to pay it.

In *King v The Sash Window Workshop*, the CJEU asked: “Can the right to paid annual leave be extinguished by Member State law on the basis that Mr King did not take steps to invoke the right to paid annual leave until the employment relationship was terminated?”

The court looked at regulation 13(1) permitting four weeks’ paid leave per year, and the clause that states the holiday entitlement will be lost if not taken, the circumstances of leave or payment in lieu being granted around termination of employment (regulations 14-16), and also regulation 30 that permits an employee to make a complaint should their

rights be refused by an employer.

During concluding remarks, they said: “If a worker does not take all or some of the annual leave to which he is entitled in the leave year when any right should be exercised, in circumstances where he would have done so but for the fact that the employer refuses to pay him for any period of leave he takes, the worker can claim that he is prevented from exercising his right to paid leave such that the right carries over until he has had such opportunity to exercise it.”

Read the full case outcome at [tinyurl.com/BM-KingSash](http://tinyurl.com/BM-KingSash)

### CAREER BREAK: MAJORITY ARE PROVIDING CARE

Most workers who take a break from their career do so to look after other people.

According to the Chartered Institute of Personnel Development, the CV-Library poll of 1,200 people found the majority are involved in caring for a child (30%), followed by 25% looking after other members of the family.

A further quarter of respondents took a break to go travelling, while 21% returned to education and 16% started their own business.

When asked how hard it was to return to corporate life, 73% of those surveyed reported difficulties, and 68% would welcome assistance in getting back into the workplace.

Katerina Rudiger, CIPD chief community officer, told *People Management*: “Parents and carers returning to the labour market after a break can struggle with a number of issues including lack of confidence and identifying their skills, as well as lack of flexible jobs and employer perceptions.”

Earlier this year, Theresa May announced a £5m fund for ‘returnships’ to help parents return to work.

### LOWEST UNEMPLOYMENT FIGURES FOR 42 YEARS

The Office for National Statistics (ONS) says that just 1.53 million people were officially unemployed in the three months to April – the lowest number since 1975.

But as the number of people employed, 31.95 million (74.8%), hit its highest level since 1971, the ONS also reported a drop in average earnings.

The effects of inflation, the Labour Force Survey said, created a 0.6% fall in real terms over the same period in 2016. ●



# ON A LIGHTER NOTE



## WORMS IN SPACE

Re-writing DNA is something normally restricted to science fiction programmes, but researchers from Tufts University in the US discovered that solar radiation is capable of reprogramming DNA in simple organisms. A set of dissected planarian flatworms, used in biological studies because of their impressive ability to regenerate, were sent to the International Space Station for five weeks. One of the amputated worms regenerated into a double-headed specimen and when cut in half again, the headless middle section grew back both heads, indicating a permanent change in its DNA.

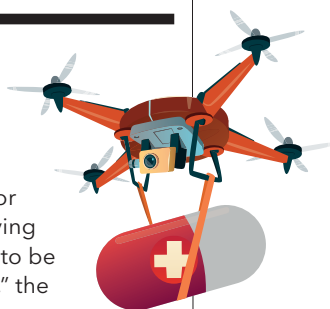
"As humans transition toward becoming a space-faring species, it is important that we deduce the impact of space flight on health," said Junji Morokuma, lead author of the study.

## DRONES COULD SAVE YOUR LIFE

Researchers from Karolinska Institutet in Stockholm looked at the efficacy of drones, compared with ambulances, at resuscitating cardiac arrest patients.

Drones controlled by emergency services and carrying automated external defibrillators were despatched to the person making the 999 call. The specially adapted drones completed the journey in

about five minutes compared with an average of about 21 minutes for an ambulance. "Saving 16 minutes is likely to be clinically important," the researchers wrote. Survival rates drop by 10% for every minute that passes without CPR.



## LOBSTERS ON ICE? NOT ON OUR WATCH

The Corte Suprema di Cassazione (Supreme Court of Cassation) - Italy's equivalent of our Supreme Court - ruled last month that placing lobsters on ice in restaurant kitchens caused them "unjustifiable suffering" before being cooked and eaten. Judges upheld the decision of a lower court and



ordered the owner of a restaurant near Florence to pay €5,000 in fines and fees. "The suffering caused by detaining the animals while they wait to be cooked cannot be justified," the judges wrote, adding that lobsters should be kept in oxygenated water tanks at room temperature.

**\$10bn**

ANTICIPATED CHARGE FOR A RETURN TRIP TO MARS

**70%**

SURVIVAL RATE FROM CARDIAC ARREST IF TREATED BY DRONES IN THE FIRST 3 TO 5 MINUTES



## FANCY A TRIP TO MARS?

Elon Musk has firmly set his sights on Mars and is pouring investment into the development of rockets capable of launching 300 metric tonnes to low Earth orbit (about 1,200 miles from the surface). By comparison, Nasa's Saturn V moon rocket, the current record holder, can only carry 135 metric tonnes. He envisages ferrying fee-paying passengers to Mars and back for as little as \$200,000 a head. Nasa currently is budgeting for \$10bn per person. "There is a huge amount of risk. It is going to cost a lot," Musk wrote. "There is a good chance we will not succeed, but we are going to do our best and try to make as much progress as possible."

## PUTTING A PRICE ON CITIZENSHIP

Those seeking to avoid Brexit discussions and related UK politics may be interested to know of the \$2bn global industry of citizenship sales. Top of the list is Malta, reportedly offering citizenship and an EU passport in exchange for \$1m of investment. There are also much cheaper offerings from nations in the Caribbean such as St Kitts and Nevis, which, according to the latest stats available, generates 40% of government income through sales of citizenship.

Dominica offers passports for no more than \$100k, and you don't even have to visit the island. Henley & Partners, a specialist firm in citizenship based in Switzerland, commented: "Any wealthy person should have more than one credit card, in case one doesn't work. And likewise, more than one passport."

**€5k**

FINE FOR KEEPING A LOBSTER ON ICE BEFORE COOKING



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1. L200 Series 5 Titan rental shown is for manual transmission. Business users only, subject to status provided by Shogun Vehicle Leasing (a trading style of Lex Autolease Ltd, SK3 0RB). Excess mileage charges of 11.4p plus VAT per mile. Vehicle must be returned in good condition to avoid further charges. The offer is valid for new vehicles registered between 29th June and 27th September 2017, whilst stocks last. Other terms and mileages are available on request. Available at participating dealers in the UK (EXCLUDES Channel Island and I.O.M) subject to availability. Offer cannot be used in conjunction with any other offer and is correct at time of going to print. The air conditioning system contains fluorinated greenhouse gases. Chemical name: HFC-134a. Pre-charged weight: 0.52kg. Global-warming potential ratio: 1430. Converted CO<sub>2</sub> weight: 0.74t.



# An easier way to produce statutory accounts that tell your company's unique story

There is a global initiative to make statutory accounts and financial reports more meaningful, relevant and company specific.

While the initiative has many advocates, it can prove challenging to implement due to the inherent limitations of the templates and template based tools many companies are using to produce their accounts.

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