INTELLIGENCE AND INSIGHT

economia

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ISSUE 41 | ACCOUNTANCY | FINANCE | BUSINESS

SHIRLEY CAMERON

MOORE STEPHENS MERGER

CALLS FOR HMRC REVIEW

BEPS PROPOSALS

THE 2015 ACCOUNTANCY RICH LIST

This year's list commends the entrepreneurs: those who have created growth and value in industries as diverse as aviation, football, car sales, finance and leisure

With BMW Twin Power turbo engines, it's a given that the new BMW 3 Series 320d ED Plus performs well on the road. With an average fuel consumption of 74.3mpg and CO_2 emissions as low as 99g/km with BIK starting at 17%, it performs well at the petrol station too.

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The failure of Kids Company is also a defeat for the Big Society concept, the financial sustainability of charities and the role of trustees. What can we learn from this sad tale?

On the Annual Accounts, Reports and Evaluations page of its now redundant website, the charity set up by Camila Batmanghelidjh said it had a policy in place to assess risk and governance, something that would reassure a potential trustee. Kids Company is "an independently audited and evaluated organisation" it said, with "a robust management structure and rigorous procedures to protect against risk".

So why did the charity that was set up 19 years ago to help children from inner city areas, who had often faced physical and sexual violence, addiction, family breakdown and mental illness - a group unlikely to tug at anyone else's heart strings back then - close its doors amid claims of financial mismanagement, complacency and even sexual abuse?

According to Batmanghelidjh, the organisation was routinely audited in respect of its governance; management and financial accountability. "All were found to be exemplary." Yet others told it differently: government "bailouts" meant the charity had become complacent and there was nowhere near enough cash in its reserves for Kids Company to continue its programme of future activities.

A report in *The Guardian* quoting two former senior directors at the charity said trustees were repeatedly warned of the need to build up financial reserves or face going to the wall. "The trustees could very easily have said, 'You are not allowed to spend this,'" said the source.

If trustees are ultimately responsible for their charity, and the law grants them wide-ranging powers, then to be accused of falling so far short of their responsibility in this case raises many questions. Should it solely be the responsibility of trustees to maintain professional management and robust governance within a charity? Do volunteers without a professional qualification even know what good governance looks like? Could this deter volunteers from getting involved? Or did Kids Company not stand a chance, because a hand-to-mouth existence is all that charities are capable of post-recession?

According to Simone Abram at Durham University, many charities come close to the same fate as Kids Company every day. "Under the current and previous UK governments, charities have increasingly been used to replace the state as providers of public services... Faced with increasing demands for ever more detailed auditing information, yet denied any funding for the staff-hours required, is it any surprise that charities get into trouble?" she writes.

So much for Big Society then, which the think tank Civil Exchange says is dead anyway. There has been a "failure to target those in society who benefit least from society," it said in a recent study. This has created the "Big Society Gap", where those that need help the most experience it least.

What would make a bad situation worse is if professionals cool towards the role of trustee when charities need their skills and experience the most.

Accounting institutes retain role as regulators

Since you last received this magazine there has been a development on the EU Audit Directive and Regulation.

The BIS parliamentary undersecretary Baroness Neville-Rolfe confirmed in a statement that the FRC will be the UK competent authority for audit regulation, but legislation would be passed to require it to delegate regulator tasks to recognised supervisory bodies (RSBs) such as ICAEW.

The FRC will only conduct audit inspections, investigations and disciplinary cases in relation to public interest entities (PIEs) and oversee the work of the RSBs for other audits, she said.

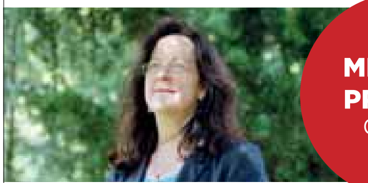
This means that no additional regulatory burdens have been put in place. The commitments given by Baroness Neville-Rolfe at the end of July now need to be enshrined in legislation.

But there is still work to be done, perhaps most urgently the need to clarify exactly how public interest entity is defined.

ICAEW in this issue

"The time has come for a general review embracing governance, management structure, culture, powers - and how they are used, service delivery, digital strategy, training, efficiency and effectiveness. It must also address the fundamental question of the adequacy of HMRC's resources. It needs an independent assessment not just of what is wrong but also of how to put it right"

p48 Paul Aplin, chairman, ICAEW Tax Faculty technical committee



66 MEMBER PROFILE Christine Grant

"The lines of control you have in a more traditional company are more diffuse in government. You find yourself dealing with a more complex range of stakeholders"

p60 Ross Campbell, director, public sector, ICAEW

"We argued strongly against a lighter version of IFRS. These are companies raising money from the public markets. Cost effectiveness is important, but so is investor protection"

P72 Nigel Sleigh-Johnson, head of Financial Reporting, ICAEW

"You have to ask if it's justified to use European law to impose an EU-wide regime to sort out inefficiencies in the regimes of particular member states"

P74 Charles Worth, business law manager, ICAEW

MORE ICAEW COMMENT

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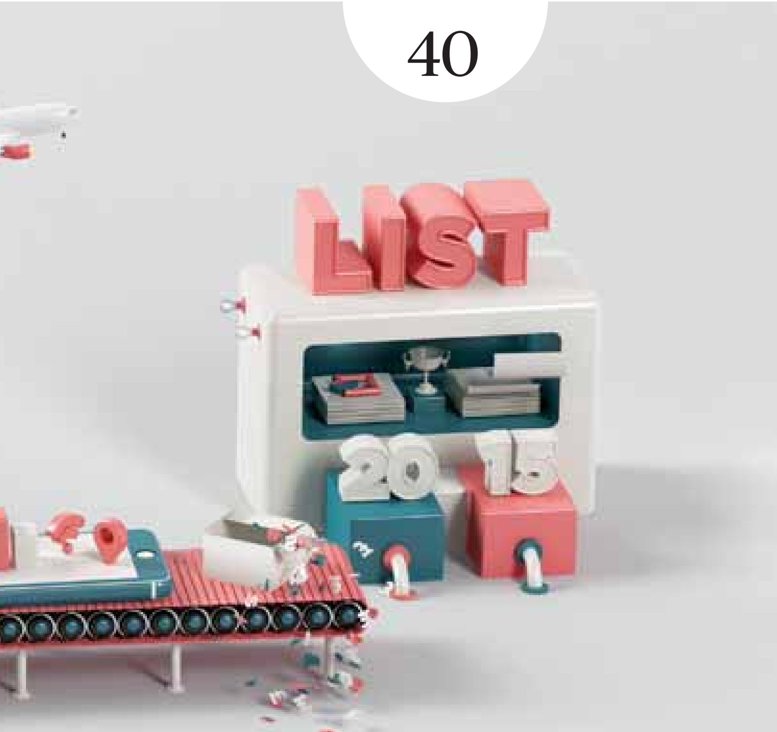

ILLUSTRATION: NURIA MADRID

Digital highlights
icaew.com/economia

There is more technical insight online, with daily news and weekly updates. Digital exclusives on the website this month include:

ECONOMICS
Were it a wrestler, the IMF would have a familiar set of signature moves. From Greece to Brazil, Argentina to Italy, the fund has full-Nelsoned governments and duplexed economies, says Rob Haynes. But, as its approach to a bail-out seems little changed since the late 1950s, is it fit for purpose?

WORK
Wellbeing, working environment and productivity are intrinsically linked, argues Sion Davies. So what should firms be doing to get their offices and culture up to scratch?

GLOBAL REVIEW
In this collection of essays, leading economists and academics look at the world in 2015. From education, to employment to productivity and debt

HMRC
What will the ruling in HMRC's favour in a £45m avoidance case with Abbey National Treasury Services mean for business and the Revenue itself?

LIFE
The best places to meet for a business lunch around the UK

ELSEWHERE ONLINE
SEC cracks £100m hacking case
Ban on invoice finances lifted
Co-op Bank censured

ECONOMIA A.M.
Look out for *economia a.m*, our daily early morning news round-up
icaew.com/economia

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COMBINED MPG
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In review

THE INTERNATIONAL PICTURE

$50k

Damages claimed by Certified Practising Accountants Australia against the New Zealand Institute of Chartered Accountants

NZ INSTITUTE ROW ENDS

The New Zealand High Court brought an end to a row between two accountancy bodies which had ended in one suing the other for defamation. The High Court rejected Certified Practising Accountants (CPA) Australia's suit for defamation and NZ$50,000 (£21,145) in damages against the New Zealand Institute of Chartered Accountants (NZICA). NZICA merged this year with the Australian Institute of Chartered Accountants to form the new Chartered Accountants Australia and New Zealand (CAANZ). CPA Australia said that NZICA has embarked on a "deliberate and aggressive campaign" to undermine its professional qualification, and said the institute has "overstepped the appropriate boundaries of rivalry" in flyers, news articles and at events.

UK AND GHANA FIGHT TAX

International development secretary and chartered accountant Justine Greening, together with financial secretary to the treasury David Gauke announced a new partnership that will see HMRC share tax information and expertise with the government of Ghana. It is hoped the partnership will help the west African country clamp down on tax avoidance and evasion and in turn to raise revenues and help fund health and education programmes and reduce aid dependence.

EY overhauls application process

EY has removed academic requirements from its admissions process, in a move it said would create a "more even and fair playing field for all candidates". Applicants were required to have a minimum of 300 UCAS points - the equivalent of three B grades at A level - and a 2:1 degree classification before applying to graduate, undergraduate and school leaver programmes. This goes further than a similar move by PwC in May, in which it scrapped the UCAS requirement.

For more accountancy news visit economia.icaew.com

Tax changes hit bookies' profits

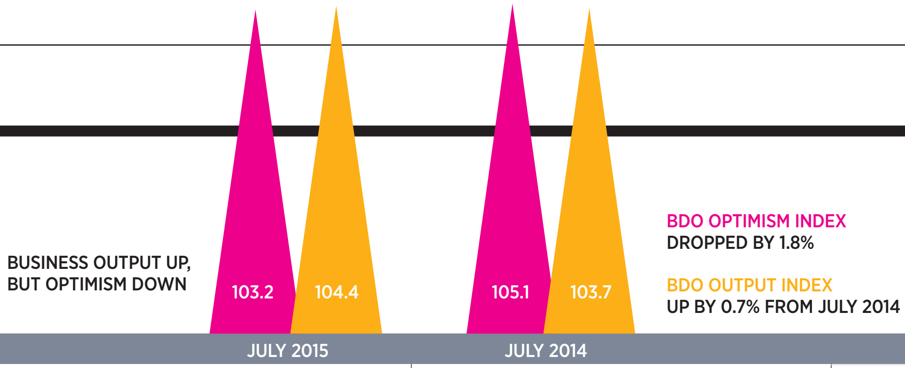
William Hill reported a fall in its half-year profits after being hit by changes to UK gambling taxes. The bookmaker paid an additional £44m in taxes this year, with contributions affected by the new Point of Consumption Tax and an increase in the Machine Games Duty rate. Chief executive James Henderson also predicted a further £1m to £2m knock to 2016 profits, following the introduction of the government's new National Living Wage.

£44m

Additional tax paid by William Hill this year after changes to UK gambling taxes

PwC gets clean bill of health from watchdog

PwC has become the first of the Big Four UK firms to be given a clean bill of health from the US audit watchdog following an inspection of certain audits of US-listed companies. The Public Company Accounting Oversight Board (PCAOB) said that inspectors had worked in co-operation with the Financial Reporting Council's audit quality review team. Entirely out of character [for the PCAOB], it found nothing wrong with PwC's practices, policies and procedures relating to audit quality and did not identify any audit performance issues - an announcement that was welcomed by the firm.



Source: BDO business trends report

Google investors welcome more openness

Google plans to report core business results separately from its more experimental ventures buoyed its market share: it's now worth $444bn. Investors said the restructuring into a holding company called Alphabet, where the current Google business will be just one division, will allow them to see more clearly how that core business – including YouTube – is performing. As *Wired* reported, Larry Page has lofty goals for Alphabet. Its new CEO Sundar Pichai will have to hit the ground running.

Big Four firms announce tie-ups to target SME clients

KPMG has announced a strategic collaboration with Market Invoice, an online funding platform, to help small businesses to access the finance and advice they need in order to accelrate growth. The move came just days after Big Four rivals Deloitte announced its alliance with cloud-based software providers Sage, which it said would help boost SME growth and "agility".

Buffett's biggest deal yet

Warren Buffett is buying US manufacturer Precision Castparts for $37.2bn (£24bn) including debt. Berkshire Hathaway will pay $235 a share in cash for the company, and will also take on its pension costs. Precision Castparts' pension promises to pay $2.84bn to its 10,300 participants, but was underfunded by $615m at the end of the last fiscal year.

Oxfam's annual income up 3%

Oxfam's annual income rose by £12m this year to £401.4m, according to its annual report. This 3% rise in total income was in spite of a 2.5% fall in take from its high street charity shops, which it blamed on a shortage of quality donated goods. In the year to 31 March 2015 it also saw a 2.5% increase in income from public fundraising of over £100m. Despite the positive figures, Oxfam GB CEO Mark Goldring said it had been stretched by the scale of global disasters in the year - including the outbreak of ebola in West Africa and ongoing conflicts in Syria and South Sudan.

GETTY IMAGES

£401.4m

Total income for Oxfam this year – a £12m increase from last year

An ancient crime

As if Greece's woes weren't deep enough, tip offs from tourists at one of the country's top archaeological sites could have revealed systematic tax evasion. According to Greek news and finance site TVXS, tax inspectors swarmed on the Minoan ruins at Knossos in Crete, finding 534 breaches of tax regulations in just one day. The till was left unplugged and tourists were not given any receipts for souvenirs bought. Before he resigned in August, prime minister Alexis Tsipras [pictured] and his government had vowed to crack down on fiscal fraud. Former finance minster Yanis Varoufakis had even reportedly said tourists should spy on shop owners.

Good month Bad month

New parents, a housing supremo and top-flight football clubs were up last month, while "the Machiavelli of Libor", Kids Company and whale aquariums all nosedived

NETFLIX EMPLOYEES

Now may be a good time to have a child if you work at Netflix US. The on-demand media giant revealed unlimited leave on normal pay for new mums and dads. The minimum federal maternity pay in the US is 12 weeks' unpaid leave. The company said its new policy forms part of its "freedom and responsibility" culture.

TONY PIDGLEY

Already one of the UK's wealthiest men, the co-founder of house builder the Berkeley group took home £23.3m this year. That's a huge increase on £3.8m last year, as he was handed a £19.8m bonus under a multi-year incentive scheme.

ENGLISH FOOTBALL CLUBS

English Premier League and Championship football clubs finally look to have settled on the path of financial responsibility and long-term profit. The latest BDO survey of football FDs shows that broadcasting revenues and the impact of financial restraint after the introduction of Financial Fair Play rules have prompted more financial stability.

KIDS COMPANY

Charity Kids Company was forced to shut its doors after nearly 20 years supporting vulnerable children and their families. Trustees reportedly ignored warnings over the need to build up financial reserves to protect the charity from financial catastrophe.

SEAWORLD

US-based SeaWorld, the subject of a critical documentary *Blackfish* in 2013, which claimed to expose animal cruelty, saw its net income drop by 84%, due to "brand challenges". The film argued sustained mistreatment of orca whales contributed to the deaths of three people. SeaWorld's share value dropped from $39 in 2013 to $18 last month.

TOM HAYES

The former UBS yen derivatives trader was sentenced to 14 years in jail after being found guilty of conspiracy to manipulate Libor. Described as the "Machiavelli of Libor" by investigators, he is the first person to be jailed over the inter-bank lending rate scandal.

GETTY IMAGES, REX SHUTTERSTOCK

As I see it

Shirley Cameron is director of finance and business at BBC Radio, BBC Strategy & Digital

PHOTOGRAPHY: FELICITY MCCABE

There is a particularly addictive brand of salt and vinegar crisps that I buy for the office. And then eat most of them myself.

I hate the old-fashioned view that accountants are dull and simply around to do the maths.

I run with a friend. We use the time to put the world to rights and complain about our work issues then try to come up with solutions. It's basically therapy for me.

If I could do it again I'd worry less. I've had a varied career without it being "planned" and I haven't finished yet.

CHILDHOOD AMBITION I spent a lot of time pretending to be a Radio DJ in my bedroom. I work in BBC Radio and music now - so I almost achieved that ambition. I was a precocious reader and thought I would do something literary, but while I loved reading I didn't enjoy studying English.

FIRST SENIOR ROLE The first time I felt I was really leading a team was as head of finance for TV News. We had to work out from scratch how the department would run, then how the finances would operate. I also took on line management of a multi-disciplinary team when we introduced new graphics to BBC Weather.

STAYING AT THE BBC I joined on secondment from KPMG and stayed because the challenges were so interesting and I liked the people. I've had eight different jobs here in corporate, operational and line management positions. I've worked in News, TV, Radio and our digital businesses with very different public service and commercial pressures. I can't believe I've been in the BBC for nearly 20 years.

CUTS AND COST REDUCTION I've worked on a lot of cost reduction programmes in the BBC, either for pure efficiency purposes to cope with reduced funding, or to reduce costs in one area to invest in another. The back office areas are rightly targeted ahead of editorial budgets, so we have made significant reductions to the cost of finance through outsourcing and a Centre of Excellence providing management accounting support. We have had to reduce the costs of running the BBC by 20% since 2010.

PROUDEST MOMENT I joined the Broadcasting House redevelopment project when it was running late and over budget. Getting it back on track with funders and the developer was a great learning experience. The completed building is so much better than before and it will be there long after I've gone.

From the top

Andrew Ratcliffe on how technology and even global warming impact on the profession

In 1976, the year I started my career, there were three significant events, although most people, myself included, were unaware of their significance at the time. First, the foundation of the G7, which made a commitment to work towards consistent economic strategies and to complete multilateral trade negotiations. Second, Steve Jobs and Steve Wozniack started a new company, Apple Computers, to develop and sell personal computers. Third, 1976 was the hottest UK summer since records began; we now know that the mid-1970s was the tipping point in understanding global warming.

These events illustrate the forces that have radically changed our lives over the last 39 years. Our lives, both professional and private, are now shaped by the globalisation of the world's economy, the huge advances in IT, climate change and our consumption of natural resources.

At ICAEW, we are always working to try and anticipate what these changes might be and how they will impact our profession, the businesses we advise, where we work, and society more widely.

In July we held our annual council conference where, thinking about the next 25 years, we developed possible future scenarios with four themes in mind - regulation, dynamic, the death of compliance and mergers and alliances. Our discussions were thought-provoking, reflecting the unique breadth and depth of experience among council members.

We talked about proactive regulation - how it is better to make sure that we are getting it right than trying to negotiate at the edges of compliance. Interestingly, this took us to a discussion of ethics: the 'how' of what good chartered accountants do.

We foresaw a time when traditional accounting functions, bookkeeping, accounts preparation and tax computations, are automated. The balance of what chartered accountants do will need to move from reactive compliance services to more proactive support. Business will increasingly demand people who understand them and who work with them to actively identify paths to success.

But technology brings opportunities as well as threats. It gives us the capability to gather and analyse large quantities of data to provide new insights into businesses. But security and privacy are growing issues.

Over the coming months, we will engage with all members on this. Michael Izza is leading the work and we will keep you informed as this develops. We welcome your contributions - after all, we are talking about the future of your institute. Email ben.everitt@icaew.com to find out more and to contribute your thoughts.

Have your say email *president@icaew.com*

PHOTOGRAPHY: DOMINIK TYLER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The Volvo XC60's new engine gives you six-cylinder pulling power with four-cylinder economy. And all from a premium Sports Utility Vehicle which combines comfort and style.
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Fuel consumption and CO2 figures for the Volvo Range in MPG (l/100 km): Urban 68.9 (4.1) – 19.1 (14.8), Extra Urban 85.6 (3.3) – 37.7 (7.5), Combined 155.2 (1.8) – 27.7 (10.2). CO2 emissions 237 - 48g/km. MPG figures are obtained from laboratory testing intended for comparisons between vehicles and may not reflect real driving results.

The graph

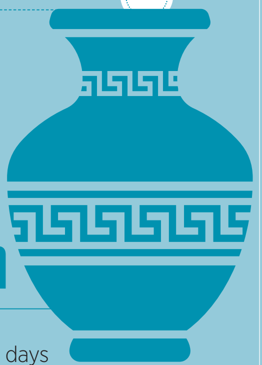
News from the last month, including Greece's very own crowdfunding bailout, the Vatican's off-book cash, HMRC's annual figures and the House of Lords in numbers

We all stand together
An **€86bn** (£60bn) bailout was finally agreed by eurozone ministers in August. The first payment due by Greece to the European Central Bank (ECB) is **€3.2bn**.

However, the Greek debt crisis sparked a **crowdfunding** campaign.

TARGET

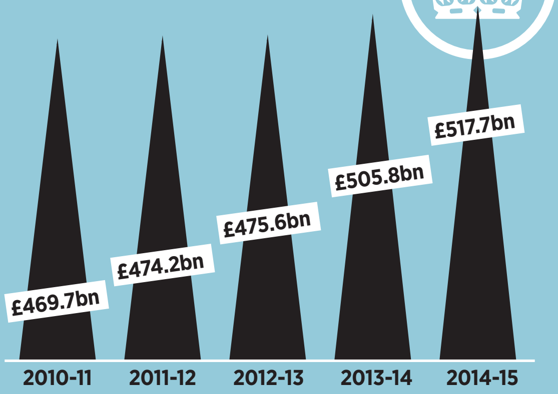
€1.6bn



Raised: **€1,930,577**
By: **108,654** people in **8** days

HMRC annual report and accounts

Revenue compliance yield (£bn):



HMRC customer services

70% of post in 2014/15 was handled within 15 working days, compared to **51%** in 2010/11, however this is down from **83%** in 2013/14.

73% of call attempts were answered in 2014/15, compared to **48%** in 2010/11, but this is down from **79%** in 2013/14.

Hidden Vatican wealth found off the books

€1.1bn

13 the number of raids carried out by the Serious Fraud Office in the 2014/15 tax year

House of Lords
Following the scandal of Lord Sewel, the House of Lords' relevance is under the spotlight once more:

783 peers
670 life peers
87 hereditary peers
26 bishops

£300 daily expenses allowed per peer for each day they attend the house

US presidential election 2016

17 Republican candidates

Democrat candidates **5**

£844,000,000

Amount Pearson is selling **FT group** for to Nikkei (it then sold 50% of its stake in **The Economist Group** for £469m)

PHOTOGRAPHY: INDIRA FLACK

Tales from the frontline

Richard Abbey, former managing director at Stroz Friedberg and head of the firm's global forensic accounting practice, discusses three decades of investigating fraud

My career began when I joined Arthur Young, an EY predecessor, in 1988 as part of their school-leaver programme. I did three years of training, gaining my accountancy qualifications before merging with the graduate intake for the ACA exams. I first found myself in forensic accounting at EY in 1994.

Back then it was a relatively new sector in the accountancy profession, dominated by firms in the US and UK. I worked on a number of investigative projects and, when EY set up a dedicated fraud investigation practice in 1995, I made a permanent move to forensic accounting.

Due to the nature of our assignments, and EY's position as a global firm in London, I often found myself travelling to different countries, which I loved. White-collar crimes – including financial crime and fraud – are often multi-jurisdictional and projects almost always had an international angle. It's rare that the actions and people we deal with are restricted to one country.

After leaving EY, I joined Kroll. I count my time there as one of my biggest professional achievements: growing the firm's specialist financial investigations practice from three people to 60, then pitching and winning multimillion-dollar assignments against the Big Four. Until recently I was head of Stroz Friedberg's global forensic accounting practice, after they bought my own practice Tyrian, which included some of my team from Kroll.

One of the reasons I wanted to join Stroz Friedberg was because of its prominence as a forensic cyber firm. Right now the company has teams working in South Africa, the US, Ireland, Italy, and France.

For me, the biggest threat in terms of financial fraud is cyber crime. Historically, the biggest threats came from within businesses; white-collar crimes traditionally needed both the motive and the opportunity. With the advent of cyber crime that is changing. Now, criminals have the motive from outside a business, and find opportunities to commit crimes through cyberspace. It's a worrying prospect for a lot of businesses.

Being able to help clients get to the root of a problem is satisfying. It's never nice to see clients in distress, but it's great helping them recover. For many businesses calling us in, it's the first time they've experienced this type of problem, but the fact we have been there before is often reassuring. It takes a lot of different skill sets to reassure and advise the clients, while simultaneously being very assertive about the processes you are about to take.

In the last five to 10 years, there has been a real rise in large scale regulatory driven investigations. Following the global financial crisis, companies have experienced increased pressure – by both regulators and non-executive directors – to be more proactive in addressing fraud and corruption. Tools like the new Senior Managers Regime mean that directors are now held even more accountable for the areas under their supervision. The possibility of jail is a motivator to supervise your team as much as possible.

One of the unique features of forensic accounting is that it is assignment and investigation driven. During quiet periods I find myself doing more marketing, or focusing on more proactive services such as fraud prevention. Executing projects can range from overseeing complex investigation work, with perhaps as many as 20 staff involved, or acting as an expert witness with just myself and two or three people in support.

I have loved every minute of every day that I have been a forensic accountant. The challenge of piecing together the evidence and finding the answer you're looking for is all part of the fun.

ICAEW news and events

Tony Blair visits Moorgate Place and urges Labour to not veer left, new bursaries for Malawi students, and Muslim woman accountants needed

NO TO LEFT TURN

Former prime minister Tony Blair returned to Moorgate Place recently to urge the Labour party not to return to an "old fashioned leftist platform".

"You win from the centre," he told his audience at Chartered Accountants' Hall. "You win when you appeal to a broad cross section of the public; you win when you support business as well as unions. You don't win from a traditional leftist position."

Blair was speaking in the light of the apparent swing to the left that could see Islington North MP and "old school leftie" Jeremy Corbyn elected leader of the Opposition, ahead of the more centrist candidates Andy Burnham, Yvette Cooper and Liz Kendall.

He warned the party that it would become unelectable if Corbyn did become leader. "We won elections when we had an agenda that was driven by values, but informed by modernity… when we gave working people rights at work including the right to join a union, but refused unions a veto over policy; when we understood businesses created jobs, not governments."

He warned that the party needed to regain economic credibility and urged it to develop a dialogue with business about its challenges and needs and, in particular, productivity, skills and a modern industrial policy.

This is not the first time Blair has visited Moorgate Place. Back in 1997, the Small Reception Room was the venue for a meeting between Blair, Gordon Brown, Margaret Beckett and Peter Mandelson which gave birth to New Labour.

FOUNDATION FIRST FOR MALAWI

The ICAEW Foundation is to provide bursaries for 10 accountancy students in Malawi to enable them to study for level 1 of the professional qualification.

This is the first time in its 10-year history that the foundation has agreed to support students overseas, although it offers several bursaries each year to students at UK universities who are facing economic hardship.

Malawi is one of Africa's poorest countries. Its population is 16 million, 85% of whom depend on subsistence farming, and it has major development challenges. ICAEW has been working in the country since 2011, with World Bank funding, and so far it has helped develop its accountancy profession and transform the accountancy body into a chartered institute. Malawi currently has around 600 professionally qualified accountants, of whom only 20 work in the public sector.

"For those who receive them, these bursaries will not just make a difference while they are studying but they will have a lasting benefit in terms of their future careers," said foundation chairman Gerald Russell.

icaew.com/foundation

WOMEN MUSLIM ACAs WANTED FOR STUDY

Westminster Business School (WBS) is looking for Muslim women chartered accountants to take part in a study about their experiences in the profession. The project will explore factors related to Muslim women accountants' prospects, experiences and perceptions of career advancement in the UK and France.

Pauline Gleadle, professor of accountancy at WBS, who is carrying out the research with Professor Rania Kamla of Heriot-Watt University, Edinburgh, and Dr Nihel Chabrak of the United Arab Emirates University, explains that they have chosen the two countries because of their very different state policies on diversity and multiculturalism. They are looking for interviewees working in the UK as professional qualified accountants within a variety of organisations excluding universities.

All interviewees and employers will be anonymised. If you are interested in participating, email p.geadle@westminster.ac.uk.

20 The number of professional accountants in Malawi's public sector

EVENTS

9 SEPTEMBER
COMPLAINING TO AND ABOUT HMRC
Advice on whether to complain (or not), how to go about it and achieve your objectives, and the importance of behaviour in tax investigation cases. Leicester

17 SEPTEMBER
FINANCIAL CONTROLLERS' CONFERENCE 2015
This one-day conference is designed to bring financial controllers up to date with the latest trends, technical know-how and thinking, as well as giving them a clearer insight into their own responsibilities and the role of the finance department in supporting broader corporate aims. Open to non-members. London

29 SEPTEMBER
CHARITY CONFERENCE
A full-day conference with key technical updates and sector insights from industry experts. The keynote address is from Andrew Hind, Charity Finance, on the opportunities and threats likely to shape the voluntary sector's future and how charities can best respond. Manchester

9 OCTOBER
BUSINESSFUTURES CONFERENCE
An impressive, eclectic, line-up of speakers including Sam Willis, a leading authority on maritime and naval history; author of *Planet Ponzi* Mitch Feierstein; and Professor Brian Cox, co-presenter of Radio 4's *The Infinite Monkey Cage*. The conference will be chaired by Konnie Huq, the longest-serving presenter of *Blue Peter* and a Cambridge economics graduate. The aim is to involve up to 400 younger ICAEW members in shaping ICAEW's long-term policies for the future. Coventry

Michael Izza

"The UN's aim of creating a fairer and more equitable world is one that we support"

Later this month, the UN will hold a summit in New York at which the 193 member governments will consider adopting the post-2015 development agenda, described as a "plan of action for people, planet and prosperity". At the same time, it will launch 17 sustainable development goals (SDGs) which have been designed to build on the millennium development goals (MDGs) and take the agenda forward.

The aims of the MDGs were straightforward, intended to reduce all aspects of extreme poverty - income poverty, hunger, disease, lack of adequate shelter, and exclusion - and promote gender equality, education and environmental sustainability. To a significant extent, they have been successful: incomes have gone up, average life expectancy has increased by two years and an additional 8% of the developing world's people has access to water. But the MDGs expire soon, and the SDGs will take us to 2030.

The reason I am telling you all this is because the SDGs, with their broader sweep, will inevitably impact on us as a profession. First, they increase the number of goals to 17 but they also contain 169 different targets. Unlike the MDGs, the UN wants their application to be universal. And they have to be paid for: estimates put costs at $17trn (£11trn), the burden of which will probably fall largely on the developed world.

At ICAEW we have been anticipating the SDGs, and focusing on the five goals that fall under the "prosperity" umbrella: they cover access to affordable, sustainable energy for all; sustained, inclusive and sustainable economic growth, with full and productive employment and decent work for all; resilient infrastructure, sustainable industrialisation and innovation; reducing inequality; and safe cities and communities.

Many of the projects we undertake (capacity building, access to the profession, business futures, productivity and infrastructure, to name but a few) come under one or more of the goals. Our sustainability team is leading a project looking at economic success beyond GDP and profit. We also host the Natural Capital Coalition, considering how businesses can build consideration of nature into decision-making. And in partnership with six universities, we are running a series of seminars, sponsored by the Economic and Social Research Council and entitled "Architects of a Better World: Building the Post 2015 Business Engagement Architecture".

The UN's aim of creating a fairer and more equitable world is one that we support and we will be investing time, resources and effort in helping to bring that vision one step closer.

If you would be interested in learning more about ICAEW's sustainability work, visit icaew.com/sustainability

Michael Izza
ICAEW chief executive

TOP 5 MOST READ STORIES ONLINE

1. Deloitte quits Rangers audit over staff intimidation
2. Deloitte and Sage announce tie-up
3. Many ages of the accountant: late twenties
4. GT fined £975k over Manchester Building Society audit
5. The key to a successful spreadsheet

Your feedback

BREAKING THE MOULD

How pleasing it was to read Robert Maas' rumination (*Tales from the frontline*, July/August). Many will have affectionate memories of encounters with Mr Maas, not least those who have now left what was once called the Inland Revenue. He is of the mould of such as Philip Hardman of whom I'm afraid many now masquerading as tax 'experts' will know little, his pride being that he was not an expert but thought of himself as a tax specialist - he was.

James Gibson FCA

AUDIT REGULATION

In *Keeping tabs on audit* (June), Liz Loxton concludes that audits have improved. However, she identifies an issue that was supposed to have been addressed when the FRC was formed and audit quality review was moved to it from the ICAEW and other bodies a decade and a half ago.

The primary aim then was for the audit monitoring process to be seen to be independent of the professional bodies. At the same time, the emphasis was on the nature of the monitoring process.

There was concern that the monitoring process was over-concentrated on procedures. The new arrangements were expected to monitor a further dimension: the judgements that the auditor made. Essentially, this meant the new regulator was to make judgements about the judgements that the auditors made about the judgements made by the accountants and directors of the companies audited.

In every area where some form of monitoring takes place, the approach is to be concerned with inputs and processes, to measure what can be measured, to tick the boxes. How can we expect anything more from accountants, auditors and regulators?

It is possible that there is no answer to this problem. If there is one, it is to look outside the usual suspects to find regulators who can take a different kind of view. Without a breakthrough of this twitter.com/economiamag • facebook.com/economiamag • linkedin group • economiamagazine

kind, *economia* in the year 2030 will contain an article regretting that audits and regulation remain process-driven.
Jake Claret FCA

TOTAL EGGSASPERATION

I was so happy to see a new section of *Life Skills* (July/August) which was all about how to poach an egg. Regarding myself as an educated person who enjoys reading the usual high-level news articles and technical updates, I could not help thinking how I had managed to get through life so far without this article. The inclusion of pictures and the 'essential kit' I thought was a genius addition to such an important use of a whole page of a professional magazine. Also I could not help but think that if *economia* was read by a non ICAEW member, then this article would only strengthen the impression people have of our profession. Might I suggest that the next article includes something like how to sharpen a pencil or breathe in and out.

On a serious note, keep up the good work, I do enjoy the magazine.
Terri Stevenson

TAX SYSTEM OVERHAUL

I read with great interest the winning entry from Alexandra Moss (*ICAEW news and events*, July/August) on taxation of the family home. It was well researched and definitely thought provoking. Of course she would have to update it after the exacerbation of the problem by the new triumphalist Tory government.

One of the quotes she highlights: "In most cases, the rise in value of a person's home has not been brought about by their acumen and hard work, but by a period of low interest rates, economic growth or by the good fortune of having good public amenities close-by." She points out that the tax take from CGT & IHT is small. Why on earth should veteran broadcaster Joan Bakewell and her kin, with an unearned gain of £1.2m on an outlay of £12,000, as she boasted recently, get away with paying zero tax? Of course such tax should have the option of being rolled over until death and should be adjusted for inflation, but in any sensible system that gain would be taxed. With the future problems of pensions and care costs hanging over the younger generation surely this sort of radical thought is essential? Apparently in our short-termist democracy that sort of change is politically unacceptable.

I am retired and see the likelihood that the grandchildren of my generation will be worse off than us pensioners as abhorrent. Surely not everyone is self-serving and a majority would see the necessity for radical change to our tax system to avoid or at least mitigate that situation?
Bob Pigeon, FCA

Online comments on Julie Matheson's opinion piece about the FRC's stance on dishonesty

What a pity the same moral high ground is not occupied by these regulatory bodies when firms are publicly rebuked for complicity in promoting tax-"saving" schemes, or their docile roles in corporate failures such as Enron and every other instance where the profession fails the general public.
Barrie Jones

The sanction imposed against Diane Jarvis is entirely appropriate. Dishonesty has no place in our profession. How can public trust be maintained in a profession if lapses of integrity are tolerated? The FRC performs a vital role in helping maintain the standards of conduct of accountants. Well done the FRC.
MB

Online comment on the June cover profile of Peter Harrison

I had the pleasure of sailing with Sir Peter in St. Tropez a few years ago. One night we watched *The Third Man* together as we shared a bottle of wine and during the wee morning hours that followed, he told me about his business career and the commitment he made to start it. A fascinating man and a good sailor.
Brian Keelan

Online comment on Yanis Varoufakis's *The damage of deferring Greek debt restructuring*

Sovereign finance is unrelated to corporate finance and the core principles of the two should not be confused. Whereas corporate finance is purely based on a set of clearly understood, tried-and-tested principles, sovereign finance is based on political, geostrategic and sociological principles. The inclusion of Greece in the euro club was entirely political. On strictly financial principles it would would not have stood a chance of inclusion. Trying to apply financial, rather than political principles after the inevitable meltdown of Greek finances is foolish and futile.
George Dutton

I find it extraordinary that so many people are taken in by this narcissist. He has proved, I suppose, a couple of theories: charisma and self-confidence can get you anywhere, even into *economia*; hypocrisy as a rich politician playing with the lives and savings of your voters has no personal cost. Theoretical economists do less harm winking at their female students in classrooms than they do charming naïve journalists looking for a sound bite.
Paul Samengo-Turner

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Jason Cowley

"The Labour Party is evidently traumatised by an election defeat that it never saw coming"

These past summer weeks it has seemed as if the Labour Party has been gripped by a kind of fever, aka 'Corbynmania'. If you speak to senior members of the shadow cabinet you hear the same phrase over and again: "Things are just terrible!" Alan Johnson, the former home secretary and the party's most popular politician, has spoken about the "madness" afflicting the party.

Yet, at the same time, there has been a surge in party membership as many of those who became disaffected in the Blair years return. They have been joined by the idealistic young who have signed up after being inspired by the leadership campaign of the veteran left-winger Jeremy Corbyn, who is 66.

Corbyn's public meetings have been something to behold: they are more like rallies, in fact. In an age of deep cynicism with Westminster politics this unlikely rebel has inspired a deep connection.

At the time of writing, polls indicate that Corbyn, who has the financial backing of the big unions, is almost certain to become the next leader of the opposition. He originally struggled to secure the 35 MPs' nominations necessary to enter the contest of four, and began as the 100-1 outsider.

A WEAKENED STATE

A serial rebel from the radical left of the party, Corbyn has spent much of his career since becoming MP for Islington North in 1983 defying the party whip. Bearded and ascetic (he is a vegetarian and teetotal), Corbyn is an unapologetic, indeed unreconstructed, socialist. His political hero is Tony Benn, whose hardline positions contributed so much to the split in the Labour Party in the early 1980s, when moderates broke away to set up the Social Democratic Party.

Corbyn supports withdrawal from Nato and the abolition of Britain's independent nuclear deterrent. He is deeply eurosceptic and is in favour of a programme of widespread nationalisation. I've interviewed him and can confirm that he is principled: he knows what he knows and no one can persuade him otherwise. Whether he would be able to command the loyalty of his fellow MPs is another matter.

So what is going on? The Labour Party is evidently traumatised by an election defeat that it never saw coming. Yet rather than respond to defeat with chastened good sense the party, after the sudden resignation of Ed Miliband, plunged straight into a leadership election under revised rules that allow anyone prepared to pay £3 to register as a 'supporter' to vote in the contest.

The revised rules have significantly weakened the influence of the party's MPs. Worse still, Labour has made itself vulnerable to possible outside manipulation and 'entryism' from the extra-parliamentary Left. In the circumstances, this is an extraordinary act of self-harm by a party that, as some of its own MPs are saying, is suffering a kind of collective breakdown.

TIME FOR A CHANGE

Corbyn is neither a demagogue, nor street fighter or platform orator in the style of George Galloway. He is mild mannered and quietly spoken. His appeal lies in the clarity of his message – he has no need to triangulate or equivocate – and his personal style. "To be without style was his style," Clive James wrote of the former Australian prime minister John Howard. The same could be said of Corbyn.

In his book *Ruling the Void* (2013), the political scientist Peter Mair described how the old post-war political order was crumbling as populists of a leftist, rightist and nationalist bent thrived throughout Europe. In the aftermath of the financial crisis and with governments committed to cutting public spending, many feel helpless when confronted with the forces of globalisation and the weakening of the welfare state – just look at Greece.

Against this backdrop, Corbyn's re-emergence as an anti-austerity cheerleader makes sense. Whether he succeeds in seizing control of the Labour Party is still far from certain because of the vagaries of the Single Transferable Vote, the system under which the leader is elected. But perhaps he does not need to win to have won. The Labour Party has been changed by this summer of "madness". Its members and supporters have spoken loudly: "We've had enough, and we want change."

Jason Cowley is editor of the *New Statesman*

Dambisa Moyo

"A publicly-financed infrastructure programme could transform the prospects of US workers"

When a major highway bridge in California collapsed in July, the impact on the entire south-western United States once again highlighted the country's serious infrastructure problem. In a sense, the world's largest economy is falling apart.

Ideological aversion to public sector investment, together with the endemic short-term thinking of those who write budgets, has kept spending on roads, airports, railways, telecommunication networks and power generation at levels far below what is needed. And yet the problem can no longer be ignored. If the US does not act quickly to provide its fragile economic recovery with a solid foundation of modern infrastructure, it could find itself sinking slowly back into stagnation.

A 2013 report by the American Society of Civil Engineers gave the US a pathetic overall grade of D+ for its infrastructure. The report cited numerous state-specific shortcomings, including Michigan's "88 high-hazard dams and 1,298 structurally deficient bridges" and the "$44.5bn (£28.5bn) needed to upgrade drinking-water systems" in California. It concludes that a $3.6trn investment (one-fifth of the country's annual GDP) will be needed by 2020 to boost the quality of US infrastructure.

FRAGILE ECONOMIC RECOVERY

At a time when the economic recovery remains fragile, a publicly-financed infrastructure programme could meaningfully transform the prospects of US workers, providing new employment opportunities for low and unskilled labour. Meanwhile, scaling up infrastructure spending could provide an often-overlooked opportunity for long-term institutional investors. Pension funds, insurance companies, and mutual funds in the US manage combined assets totalling roughly $30trn, and they have been struggling to find investments that match their long-term obligations. Persistently low interest rates have been particularly challenging for pension funds, which face rising liabilities (calculated on a discounted basis).

IDEALOGICAL OBJECTIONS

A large-scale programme to reboot America's crumbling infrastructure would go a long way toward addressing this gap between assets and liabilities, providing pension funds with investments with long time horizons (and thus guaranteeing the incomes of tomorrow's retirees) while leveraging private capital for the public good. In fact, US pension funds are already investing in infrastructure, but they are doing so in Canada, Australia, the UK, and the Netherlands.

Sadly, ideological objections and partisan politics are likely to strew obstacles in the path of any effort to modernise America's infrastructure and create such opportunities at home. Public-sector investment invariably rekindles the age-old struggle between those who insist that government should stay out of efforts to create jobs and those who believe that part of government's role is to put underutilised human resources to work.

One way to avoid this bottleneck would be for Barack Obama to establish a bipartisan Infrastructure Commission tasked with finding solutions to the problem. This would operate much like the bipartisan National Commission on Fiscal Responsibility and Reform, established in 2010 to address America's fiscal challenges, or the military base closing commissions of the 1980s and 1990s.

By splitting the responsibility between the country's two main parties, the commission would free its members from the pressures of day-to-day politics and allow them to concentrate on the health of the economy. Congress would then hold an up-or-down vote on the commission's recommendations.

The US has put itself on a precarious path. Low interest rates, the dollar's continuing role as the world's main reserve currency, and the capacity of the public sector to increase spending make the case for higher infrastructure spending compelling. In the 20th century, the US government spent billions of dollars to rebuild the European economy. Its project for the first half of this century should be to do the same at home.

Dambisa Moyo is the author of *Dead Aid*, *Winner Take All*, and *How the West was Lost*


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Joined-up thinking

Simon Gallagher and **Jon Randall** are steering century-old Moore Stephens through a period of growth, change and merger with venerable institution Chantrey Vellacott. They tell Julia Irvine how they are doing it

Photography: Suki Dhanda

It takes a certain kind of courage and insight to recognise that if your long-established, traditional family firm is to survive and grow, it needs to change pace and transform itself. Even more so, if you have been at the helm as its managing partner and, more recently, its senior partner, and just seen it through the worst recession since the 1920s.

But this is precisely what Richard Moore, latest scion of the family that gave its name to mid-tier firm Moore Stephens (MS), did two years ago as the recovery began to strengthen. He instigated a strategic review with a view to building on the 107-year-old firm's strengths as a shipping, insurance, financial services and public sector practice, broadening its offering and placing it firmly in the centre of the top 10 accountancy firms rather than "hanging on the end" in 10th place.

And then he placed the responsibility for implementing it largely in the hands of two "newbies", Simon Gallagher, newly-elected managing partner, and Jon Randall, who joined MS from Baker Tilly as chief operating officer on 3 November 2014 – the day Gallagher started in his new role.

The two have complementary skills: Gallagher, whose background is in insurance (including a stint working in a line finance role in an insurance company), joined the firm from KPMG in 1999 and brings with him external experience as well as an insider's in-depth knowledge of the firm, while Randall offers the outsider's perspective, having moved across after 18 years at BT advising professional services practices on growth strategies before becoming the firm's COO in 2010.

Gallagher says that during his time at MS, the firm had grown, bringing in new people and partners. In 2010, as the recession was showing signs of ending, the London practice moved into 150 Aldersgate Street which had some 17,000 extra sq ft of space. “It was part of the expansion plan,” he says. “We created some capacity here. We just never quite managed to marry the market opportunity up to the capacity we were carrying.”

SHAKE UP

Part of the problem was that the recession lasted longer than anyone expected. “I don’t think we consciously hunkered down but in reality, that is what we ended up doing,” he continues. “I think your strategic investment slows down, the risks you are prepared to take are less. Nevertheless, we did very well throughout that period. We managed to keep the headcount stable but yes, we didn’t make the great strides that we might have hoped for.” The firm did, however, maintain its niche markets and its client base and it invested in an IT practice which has proved so successful that it regularly competes at the top end of the market.

Gallagher sees this as a “great strength for us to play on because a lot of the services that we deliver will undoubtedly be affected by new ways of doing things deploying new technology”.

The realisation that the growth the firm wanted was not going to happen without a serious step change led to the strategic review. Gallagher was a member of the team tasked with developing a vision for the future. “Two years ago we really started to look into the market and understand what our competition was doing. It was quite a structured process – we went through a lot of consultations with partners about what we wanted to be, what the vision looked like.”

“We have to make sure that we can reward partners and staff and continue to reinvest”

At the core of the vision are, of course, clients and the firm’s strong client care principles. But Gallagher and Randall are only too well aware of the problems firms face in retaining professional staff as the economy grows. Competition is already intensifying, with larger firms boosting their own headcounts by poaching from a shrinking pool of talent. MS decided to fight back with better staff incentives such as an improved learning and development platform, faster access to promotion and reward schemes.

“What we are dealing with here is really a significant evolution with some fundamental changes,” Gallagher says. “We are looking at reshaping the firm. That requires a cultural change because we’re saying well actually we want to be more proactive, more outward-looking, more deliberate about what we do. You’ve got to bring along certain behaviours to make that happen. So we’ve been working on reshaping the culture and redefining the reward mechanisms, starting to work on new processes for staff and partner appraisal, all the things that are quite basic but essential to make a professional firm work really well.”

So far, the firm has shaken up its governance structure, introducing an oversight board, a management board and a matrix structure with service lines running clearly through it. This is designed to open up the organisation to a larger number of people and to expand the number of leadership positions. “When you create a more complex structure with more nodes of responsibility on it, it creates an energy and empowers people to do things,” he explains. “In return, it has to deliver back the right economics. We have to make sure that we can reward partners and staff and continue to reinvest.”

There are new staff benefits, individual and group incentives, a pay review to ensure all are in line with market rates, a job title review and a firm-wide profit share for staff (not partners). Aldersgate is being refurbished to accommodate a more open-plan arrangement and this month the former London office of Chantrey Vellacott (CV) will move into the spare space.

MERGER OPPORTUNITY

The 1 May merger of these two old firms (CV was founded in 1788) was the step change the firm was looking for, says Gallagher. “I’m not sure you can ever really plan a merger in the true sense. It’s always going to be partly opportunistic because you could never define exactly the characteristics of the firm we would want to merge with and attain them all. But I have to say the CV merger presented itself as the perfect opportunity – the size, the scale, the shape, just worked really well.”

Early planning was critical in ensuring that the merger came off. Much of this, he says, was down to Randall, who joined MS just as the two firms were beginning discussions. Randall says he chose MS because he saw “a fantastic opportunity to grow something and to put into practice at another firm all those things that I had been doing for clients and for Baker Tilly".

His priority as the new COO was to take the discussions forward. "That's what I spent most of my first six months doing, but alongside that we had started to put flesh on the bones of the strategy and initiated changes. The merger became a catalyst. The two things have tied in together phenomenally well. It's not quite which came first, the chicken or the egg, but we had a vision that we wanted to change the firm in a certain way and CV was very much in line with that, and because of the merger we were able to accelerate the changes."

ON TRACK

It would be wrong to focus on the London office alone (even though it is by far the largest element of the combined firm) because a major strength of the merger is what it brings to MS both in the UK and internationally - a stronger UK network.

The firms had little overlap in terms of services; CV has one of the leading owner/managed business practices in the country as well as a significant tax advisory service and not-for-profit client base. It was also particularly strong in the Midlands and Thames Valley, two locations regarded as key by MS. And both firms have similar philosophies, particularly about the value of the partnership model.

Both Gallagher and Randall think that it will take around three years to fully embed the changes, at the end of which, they say, they want to be the leading mid-tier practice. Randall explains: "We see the market as being the Big Four, then the next three and then we want to be top of the next level, but actually competing against the top four and the next three in our chosen markets and sectors and services. So in sectors such as shipping, insurance and financial services, we will happily compete with the top four. Public sector, happy to compete with the top four, and in some of the areas, like property and construction, we can compete with any of the four plus three."

If there's a problem, he adds, it's that the partners are so excited about the future, they want everything to happen at once. "I thought we were going too fast but the partners and staff would like us to go even faster. It's not physically possible. We need this period of integration to consolidate the changes we have prioritised for this year. We can't do it all at once."

Gallagher agrees. There is more change in the pipeline longer term but the firm needs the economics to support any further investment. He doesn't rule out doing further M&A transactions, for example. "The reality is that, if we do want to be a leading mid-tier player, we have to be firmly at the upper end of that mid-tier, and that means further investment. I don't think you can do all of it organically.

"The current merger has helped us enormously because it has given us a leap up. It's only changed our UK ranking by one position but I think mentally we are on that path now, we feel as though we're travelling."

"We had a vision that we wanted to change the firm in a certain way, and CV was very much in line with that"

CHANTREY VELLACOTT

It's not often that accountancy firms are described as "the attractive girl on the dance floor with partners queuing up to dance" but that's how Mike Tovey [below], former managing partner of Chantrey Vellacott (CV), remembers the heady days before the firm agreed to merge with Moore Stephens.

Boosting morale The firm had just come through a really tough recession and was in the process of transforming itself into a streamlined, focused and profitable business when it found itself suddenly in great demand. For Tovey, it was the culmination of a rollercoaster ride as managing partner, a role he took over in 2003. At the time, the firm was in a bad way - unprofitable, tight cash flow and low partner morale - but he was convinced it could do better. "I wanted partners to be able to lift their heads and look the world in the eye."

Changing world His way of fixing the problem involved common sense plus a more collegiate approach. It worked. Profits grew every year over the next five years and in 2008 CV produced its best results so far (£25.3m fee income). "But the world had changed by then. In 2008 when Lehman Brothers collapsed, we didn't think it was affecting us much. The bank squeeze hadn't really shown itself to have long legs and we thought this is good because we have got some long-standing clients who weren't dependent on the capital markets. But it was just a lag and the recession caught up with us with a bang. Our 2009 results were very poor, 2010 also. That was a very challenging time."

The perfect partner Tovey admits that the firm was slow to respond and it took some tough action to get back on track. "By 2011 we could see light at the end of the tunnel. It seemed the right time to embark on some strategic thinking and planning."

The five-year plan (2012-2017), he says, was about growth, playing to the firm's strengths geographically (London, the Thames Valley and the Midlands) and sectorally (owner/managed businesses and not-for-profits), and discarding peripheral activities. "If we didn't grow, we couldn't remain independent. We always acknowledged Plan B, which was to seek a merger."

Fortunately, the second half of 2012 saw a return to form: in 2013 CV once again generated record profits (£30.8m) and in 2014 underwent a rebranding exercise ("It was terrific. We started making a lot more noise in the market. We could afford ourselves a little smile").

In spring 2014, CV was approached about a possible merger and the wooing began. At one stage most of the larger mid-tier firms were lining up but it was 10th-ranked MS which proved to be the perfect partner.

FIT FOR LENDING

Issue eight

The concept of microfinance is best known in the developing world but is also available in markets such as the UK. So is it the panacea for entrepreneurs who would otherwise struggle to find finance? Nick Martindale reports

For many entrepreneurs, microfinance may not be something with which they are instantly familiar, or if they are it's likely to be in a vague, fluffy, charity-type way which conjures up visions of providing loans to farmers in far-flung parts of the world so they can purchase extra animals or equipment to help improve their family's income.

The notion, though, is more developed than that, and far more controversial. In its loosest sense it is a means of providing relatively low levels of finance to individuals and entrepreneurs, with at least some kind of social value or philanthropic aspect attached.

In its original form, as pioneered by Muhammad Yunus, the Bangladeshi social entrepreneur who founded Grameen Bank to provide finance along these lines in 1976, it also includes a peer-to-peer element, whereby individuals would club together to borrow and step in to help those who may struggle to repay moneys loaned.

"Microfinance is simply the provision of financial services for poor people," explains Dr Ajaz Khan, senior microfinance advisor to Lendwithcare.org, part of CARE International. "This includes the provision of small loans as well as savings facilities, insurance and money transfer. Many of the organisations that pioneered the development of microfinance had an explicit social development mission and also focused on promoting financial literacy and provided basic training in bookkeeping, planning and business management." In recent years, the focus has shifted from donor-led organisations such as the World Bank and the UK's Department for International Development (DFID) towards more commercial lending, seeking to generate economic returns, he adds.

The concept, however, has proved controversial, with some arguing it has done little to empower those in need of assistance and even suggesting it has effectively locked entire economies into a perpetuating cycle of poverty. Milford Bateman, visiting professor of economics at the Juraj Dobrila University of Pula in Croatia and author of *Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism*, has spent much of his professional life questioning the concept.

"Initially when it was driven by the non-governmental sector it seemed to me to be a way of trapping poor people in very unproductive, informal businesses and there is no evidence on record that such a quantity of these businesses have anything to do with sustainable development," he says. "In fact, developing countries that have made a success in terms of enterprise development have gone away from the informal economy and moved towards the more formal SMEs to take advantage of economies of scale, technology, innovation and worker training."

Indeed, in places such as South Africa, India and Mexico, all it has done is to lumber people with multiple loans, he argues, suggesting it is little

$1.25

Microfinance clients are often just below or above the poverty line, commonly defined as earnings of US$1.25 a day

€6.3m

Microfinance Ireland has supported 1,000 jobs through 413 micro enterprises with loans of €6.3m since September 2012

$613m

The European Investment Bank's active microfinance portfolio as of December 2014

8

FIT FOR LENDING

Issue eight

more than a Ponzi scheme. "You're taking a loan from one player to pay off something from before and then the whole game of cards collapses," he says.

Maren Duvendack, a lecturer in the School of International Development at the University of East Anglia and Norwich, recently conducted a review on behalf of DFID. It concluded that the impact of microfinance was "at best zero". She says: "What I saw in the field is that usually the amounts of money are just too small to really support micro-entrepreneurs. The amounts offered could maybe get somebody started but often they're used for something very different, for school fees or weddings, so obviously it cannot have an impact because it's not being used for the intended purpose."

Unsurprisingly, these views are not shared by the microfinance houses themselves. Ramesh Ramanathan is chairman of Jana Group, an organisation that aims to help tackle urban poverty in India. "All those studies are really only looking at microcredit, which only gives small amounts of group loans," he says. "We need to look at microfinance in a more holistic way. First of all it can't just be a loan but a whole bundle of financial services, and secondly you need to look at whether you've stayed with them and given them larger-ticket loans."

His own organisation has evolved from its origins of lending small amounts to groups of women to larger "enterprise" loans worth up to £50,000. "We saw that about 30% of our clients on the group loan side had the ability to grow out of that and start dealing with us directly, but then we needed to service them with a different credit model because the group-based model didn't work," he says. "Most of the businesses on the enterprise side have an average loan of around £10,000, and tend to employ up to five people, so they're not just owner-employed." He does admit, however, that it

1%

World Bank Gallup Survey: in 31 countries, fewer than 1% of people would borrow from banks

"The challenge is, do we do nothing, or do we find a way of trying to improve the way this works?"

can be very hard to police what the smaller loans are used for, although there are validation measures in place on the enterprise side of the business.

There are also, undoubtedly, cases where people's lives have been helped at a very individual level, providing enough income for families to make a living and children to continue to attend school; creating something of a moral dilemma. "You need to look at what the alternative is, and basically that is to do nothing," says David Petrie, head of corporate finance at ICAEW. "If we're saying we need to protect people from themselves then that is a challenging moral position to take as well. People choose to take out these loans because they are a viable proposition but what they also need is access to sensible advice. The challenge is: do we do nothing, or do we find a way of trying to improve the way this works?"

Nor is the concept confined to the developing world, even if this is where its roots lie. The Fredericks Foundation was started in 2001, when entrepreneur Paul Barry-Walsh started thinking about the opportunities he'd had on his way to building his business, and how much more difficult it would have been without a comfortable upbringing and good education. The organisation initially targeted those who wouldn't get bank loans – such as single parents and ex-offenders – but who had a viable business idea. "If you go to a bank for finance and you haven't got security, no matter how good your idea and your credit history is, you're not likely to get funding at our level," says Charles Dodwell, chief executive.

20%

Microfinance still reaches less than 20% of its potential world market

He also refutes accusations of limited economic impact. "There's a perception that we just help one or two-man businesses, and we do help a lot of lifestyle businesses, but there are a lot of other businesses too with the potential for growth in the future," he says. "We would argue they make quite a financial impact on their communities, which is out of all proportion to the size of loan, because they're getting people off benefits and enabling people to support their own families." Every business it backs creates two jobs, he adds.

Last year, meanwhile, saw the launch of Grameen in the UK; set up on similar lines as the original Grameen Bank and facilitated by Glasgow Caledonian University, where Yunus is now chancellor. In the past 12 months, it has made 101 loans to new start-ups and existing small businesses in and around the Glasgow area which are not served by any financial services, initially of £1,000, for up to 52 weeks, and a maximum loan of £5,000 after three years. "After that we'll give them as many £5,000 loans as they need," says Kevin Cadman, chief executive of Grameen Scotland Foundation, trading as Grameen in the UK. "Our job is to get that business established so they can then walk into a mainstream bank."

The basic Grameen model remains the same, he adds, including the need for would-be entrepreneurs to form themselves into groups of five, which meet on a weekly basis and pay their loans back in front of each other.

Significantly, the type of business looking for support has not been as expected. "We thought initially we were giving money to people who were setting up in business but now probably 75% of our clients are already running a small business but they're struggling," he adds. "That's probably a bad reflection on the UK."

There are also examples of larger initiatives, backed by banks or government bodies. The London Loans Fund, supported by GLE oneLondon, Lloyds Bank and the European Investment Fund (EIF), offered loans of up to £20,000 to 270 small and medium-sized firms based in the capital, as part of the Progress Microfinance initiative, while a separate deal between the European Commission and the EIF announced in June means social and micro-enterprises in Europe can access a loan pot of €500m between 2014 and 2020.

Other initiatives operate on similar principles, without necessarily using the terminology "microfinancing". In 2013/14, some 6,791 young people joined the Prince's Trust Enterprise programme;

Case study: Surf's up

Benjamin Clifford (left) had been surfing for around 10 years when he decided to volunteer at a one-off weekend event to introduce children with autism to the sport. He was so inspired that he set up a regular session with a local surf school and later took on a job at a school for children with disabilities. When that role came to an end, he decided to start up his own business, running a surf school for children with disabilities on the Gower Peninsula in south Wales. "I really wanted to start it but I didn't know how to go about it," he says. "I have dyspraxia and it makes it hard to visualise how to do things in a methodical way. I knew I needed some support to get things off the ground."

He turned to the Prince's Trust, and attended a week-long enterprise course designed to help him start up in business. Alongside this he also received a small grant, which he used to bring in a trainer and assessor to check his safety procedures were sufficient, and a further award of £1,000 which went towards specialist kit. He was also offered a loan, which he turned down, but in hindsight feels he should have accepted.

Today, Surfability runs a number of regular sessions and Clifford is hoping to hire another coach to help with increased demand. "Last summer we were having 30 to 50 participants per week with all nature of disabilities," he says. "Those are really big numbers in terms of disability sports."

an initiative which provides a range of support, including grant finance and access to loans. Lord Young's Start Up Loans, supported by the British Business Bank and £330m of government funding, also offers loans of up to £25,000 for businesses aged less than 24 months, with an average loan size of £5,500.

To date, the scheme has loaned £150m to more than 28,000 businesses.

There are certain situations where microfinancing could be the best fit for particular entrepreneurs, believes Ben Hughes, chief executive of the Community Development Finance Association, which looks after the UK's microfinance organisations, among others. "It is the traditional riskier, unfundable and uninvestable but eminently viable end of the market where mainstream investors feel the risk profile doesn't fit," he says.

"But a big mitigation in risk management is the relationship a community development finance institution has with the borrower. The lending model is very person-focused, so it's not just going into a slightly faceless institution and filling in an application form and either getting your money or not."

1,700

Small microcredit operations have existed since as long ago as the mid-1700s

In some ways, however, the biggest issue with microfinance is not the theoretical debate over its long-term economic impact or whether it can be successfully transferred to the developed world. It's more the fact that not many people have heard of it, and don't necessarily consider it when looking for business investment.

"Despite the fact we have been going as a movement for 15 years we're still largely invisible," admits Dodwell.

"It's immensely frustrating. The people who really understand what we're trying to do are businesspeople, and when you explain it to them they very often get involved and contribute generously with their time and money. But getting that message out there is not easy."

"The lending model is very person-focused, so it's not just going into a slightly faceless institution"

Case study: Time for tea

Elube Chirwa (left) lives with her husband, five children and grandmother in the village of Kabawalk, in Malawi. She had previously taken out loans from The Microloan Foundation to cover the cost of buying charcoal, which she would resell at a market. "It was very time-consuming since I needed to travel far to sell the charcoal, and it was not making any profit," she recalls.

With a good record of paying back the money she had borrowed, she was offered a larger amount and used this to purchase stock to set up a tearoom, selling tea, coffee and scones.

The business now has a regular customer base, and Chirwa is already eyeing expansion: "In the future I'd like to be able to make more scones so I can sell them at the trading centre. This loan has helped my family a lot. I can now provide food for my children. I struggled to do this before. Now I can send them to school as well."

THE REAL COST OF BAD ADVICE

Direct Line for Business has launched Professional Indemnity Insurance, which covers costs if you've provided inadequate advice, services or designs that cause your client to lose money

Small and medium-sized businesses, often described as the drivers of economic growth, are being encouraged to embrace the upturn with all of its latent opportunity. But with growth comes risk and in a globalised economy, these risks are becoming more complex and harder to predict. Businesses face and fear data breaches, cyber losses, cash flow and liquidity risk, and political uncertainty.

Direct Line for Business, underwritten by U K Insurance Limited, has a range of insurance packages to suit different small business customer needs, and has sold over 350,000 policies. As Nick Breton, Head of Direct Line for Business, explains: "We have entered the market because our customers tell us they want Direct Line to offer Professional Indemnity Insurance. And it allows us to offer a full set of Small Business Insurance products to cover all eventualities."

THE RISKS OF GIVING WRONG ADVICE

In a perfect world all your customers would pay on time and be delighted with your work. In the real world, some customers refuse to pay and allege your advice was misleading. A handful will seek to claim against your business for compensation.

All professionals make mistakes and these can often be easily fixed. But some clients are never satisfied and argue that your advice has cost them money. Even if untrue, the legal costs of defence are high; reputation and brand value could be compromised.

Your existing business insurance may cover liability and legal costs but not against allegations of misleading advice. For this you need a Professional Indemnity Insurance Policy.

This is important as some industry bodies demand that all their members have cover. But many professionals - whether sole traders, companies or partnerships - have no cover at all. Many local authorities or large companies will only use organisations who can prove that they carry professional indemnity insurance.

Negligence claims against small businesses giving advice have been on the rise in recent years, and lawyers that defend such claims say numbers are expected to continue to grow. This is due to an increased reliance on the advice of professionals, claimants' raised awareness of their legal rights, and the increasingly complex nature of work carried out.

YOU MAY NOT HAVE COVER BECAUSE...

- You wrongly believe that your office policy protects you
- You believe none of your clients will sue you
- You think you will never make mistakes
- You do not understand certain aspects of the policy

COVER INCLUDES...

- Breach of professional duty
- Defence costs
- Dishonesty of employees
- Libel or slander
- Infringement of intellectual property rights
- Loss of documents and data

POLICY BENEFITS

- From £100,000 to £2m of Professional Indemnity cover as standard
- Compensation up to the policy limit
- Cover for your defence costs, such as lawyers and court costs
- Access to your own specialist claims handler should the worst happen
- No admin fee for changes made during the policy period
- Access to our free 24/7 legal helpline

NEED TO KNOW

To succeed in a claim for negligence, the claimant must prove that the professional owed a duty of care, that they acted in breach of that duty, and that the breach was the cause of financial loss.

And with a recent Direct Line for Business survey revealing that 320,000 small businesses had been affected by professionals giving them bad advice, this is clearly a live issue. On average, these businesses lost £20,000 but costs can be anything up to £100,000.

The research found that IT consultants are most at risk of giving damaging advice, but accountants and PR consultants are not exempt - they are also held accountable for bad advice that has negatively impacted clients.

The Direct Line policy meets the requirements of the major accountancy professional bodies. Its Professional Indemnity Insurance covers costs if a client claims you provided inadequate advice, services or designs that caused them to lose money.

For more information and to find out how little it costs call: 0345 878 5555 Or visit: directlineforbusiness.co.uk/professional-indemnity-insurance

Last year *economia* published its first Accountancy Rich List. Compiled by **Philip Beresford**, the man behind *The Sunday Times Rich List*, the response was extraordinary and we were inundated with letters and comments. Three of the top-ranked members went on to feature in this magazine and it was the most popular story in economia.icaew.com history.

So this year we've done it again. Online you will find the full list of the UK and Ireland's 100 wealthiest accountants, plus the top 15 worldwide, while on these pages Laura Powell picks 10 inspiring entrepreneurial chartered accountants and finds out how they made it

STEPHEN LANSDOWN **Rich list ranking 5 (-) £1,350m, FINANCE**

Lansdown is the ultimate poster child for accountants turned entrepreneurs. Hargreaves Lansdown began life in 1981 as a start-up, based in the bedroom of a Bristol cottage and grew into one of the UK's best-known financial services firms, valued at £6bn – netting Lansdown and his co-founder Peter Hargreaves (number three on this list) fortunes of £1,350m and £2,010m.

Their success boils down to a fastidious work ethic; a determination not to borrow excessively; and always keeping an eye on the client. Hargreaves and Lansdown alternated touting for business, with Hargreaves going on odd days and Lansdown on even days. One always stayed back at HQ (the bedroom) to man the telephone in case a potential client rang. Even today Lansdown is adamant that successful management isn't about sitting in an "ivory tower" but about engaging with clients.

The pair met as recently-qualified chartered accountants at the Bristol branch of Touche Ross & Co (now Deloitte). While Hargreaves was more of a marketing man with an eye on profit, Lansdown preferred to focus on the bigger ideas – one of which was to target the accountancy sector. And it worked. Asked what made their double act a success where others failed, Lansdown, who has since stepped down from his NED role to focus on his other business interests, including Bristol City FC, told one interviewer: "Like opposite poles of a magnet, we attract each other."

HOW HE MADE IT "It was a combination of marketing our business, getting clients or potential clients on board and then convincing them to do business with us."

ILLUSTRATIONS: NURIA MADRID

TONY FERNANDES Rich list ranking 20 (20) £392m, FOOTBALL AND AVIATION

Tony Fernandes has been nicknamed "the rock star of the airline industry". One industry insider even claims that he is often mobbed by fans at airport departure gates. An exaggeration, perhaps, but the Malaysia-born, England-educated, ACA-qualified Fernandes has an impeccable CV. His roles include stints as youngest-ever managing director of Warner Music, founder of the Tune Group, owner of Caterham F1 racing team and, most famously, chairman of Queen's Park Rangers FC.

The role that best sums up his entrepreneurial flair is undoubtedly CEO of AirAsia – the Malaysian no-frills airline he bought for roughly 25p in 2001. Fernandes remortgaged his house and appealed to friends, relatives and investors for handouts, later admitting: "You've got to have balls or you've got to be insanely stupid [to do this]." Two years later AirAsia was turning profits, with its fleet size standing at 184 and annual passenger load surpassing 45 million.

Fernandes is often seen on the ground visiting staff. He also leads AirAsia's Culture Department, whose purpose is to make people happy. "We have very strange ways of doing things. But it works... The diversity is actually our strength."

Of opening a new flight route to Boracay in the Philippines, one his competitors hadn't yet tapped, he said: "I'd never been to Boracay until I was 50. Then I went there and thought 'this is the most beautiful place in the world'. So I came back and said 'let's start a route there'. Flights are full. Malaysians are coming by the planeload."

HOW HE MADE IT Mark Donnelly, chief operating officer at Queens Park Rangers, says: "His work ethic, vision, enthusiasm and passion for all his businesses can't fail to rub off on you. He is a believer in empowering teams. He's got great instinct and like many successful entrepreneurs sees opportunities and makes things happen."

MATT MOULDING Rich list ranking 47 (-) £105m, RETAIL

Moulding was 32 when he founded online retailer The Hut Group. He resigned from a high-flying job as chief financial officer of 20:20, the distribution division of the Caudwell Group, and remortgaged his house. Today he acknowledges: "I must have been pretty dumb. I had no experience in online or in entertainment." Eleven years later, Hut is valued at £500m, with backers including ex-Tesco boss Sir Terry Leahy and ex-Marks & Spencer chief Sir Stuart Rose. Despite having shrewdly sold a share to an American private equity operation, Moulding retains a 21% stake.

Success is down to nerves of steel – after he had scrabbled together £500,000 to get started he quickly found himself haemorrhaging money but he stuck with it. His business pedigree is impeccable – accountancy training at Arthur Andersen, then eight years at 20:20, where he led the £365m sale to a private equity firm. And hard graft also played its part – Moulding did everything himself, from IT to marketing, and ploughed on even when the Caudwell Group decided not to back him.

HOW HE MADE IT "When I set up The Hut I wasn't trying to be some big-time Charlie, it was just an extension of what I was already doing."

DAVID ROSS Rich list ranking 7 (8)
£1,100m, MOBILE PHONES

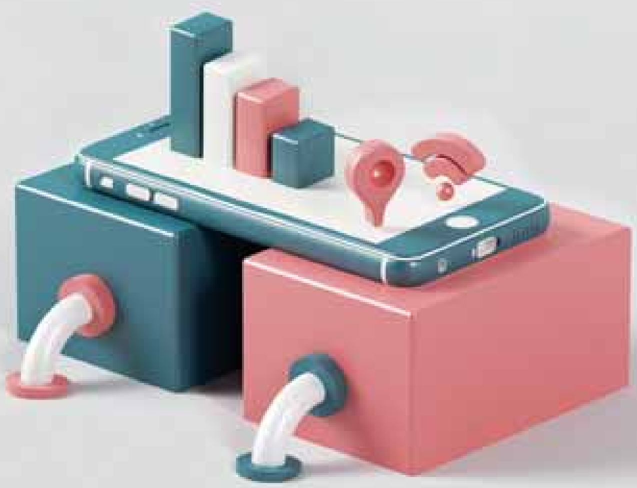
Ross was educated at Uppingham School, read law at Nottingham and qualified as a chartered accountant at Arthur Andersen. But the entrepreneurial move that really made his fortune (and cemented his status as Grimsby's first billionaire) came in 1991 when he joined forces with his old Uppingham chum Charles (now Sir Charles) Dunstone who had recently started a new mobile phone business. With £6,000 and a humble base in a friend's flat, Dunstone and Ross began building what is now the largest independent phone retailer in Europe, Carphone Warehouse.

Although business life since hasn't been all plain sailing, Ross remains stoical. On his attempt to save ailing energy provider Cosalt he told the *Nottingham Post* in 2011: "Nothing ventured, nothing gained. I'd say there are times in your life when you learn things and others when you do things. There's been an interesting learning curve."

HOW HE MADE IT By spotting a gap in the market and taking a punt on a start-up with a fellow budding entrepreneur.

"There are times in your life when you learn things and others when you do things. It's an interesting learning curve"

DAVID ROSS Rich list ranking 7



RICH LIST 100

1 (4)	**DENISE COATES & FAMILY** Online betting **£2,350m**
2 (2)	**ALAN PARKER** Retailing **£2,280m**
3 (1)	**PETER HARGREAVES** Finance **£2,010m**
4 (3)	**FARHAD MOSHIRI** Industry and football **£1,360m**
5 (-)	**STEPHEN LANSDOWN** Finance **£1,350m**
6 (5)	**SIR BRIAN SOUTER & FAMILY** Transport **£1,115m**
7 (8)	**DAVID ROSS** Mobile phones **£1,100m**
8 (13)	**ZAMEER CHOUDREY & FAMILY** Cash & carry **£975m**
9 (7)	**JASMINDER SINGH & FAMILY** Hotels **£910m**
10 (6)	**PAUL COULSON** Industry **£884m**
11 (-)	**EUGENE SHVIDLER** Industry **£860m**
12= (10)	**DAVID BROMILOW** Media **£650m**
12= (11)	**PETER HARRIS & FAMILY** Leisure **£650m**
14 (15)	**MICHAEL O'LEARY** Aviation **£578m**
15 (9)	**JOHN REECE** Industry **£500m**
16 (16)	**LORD EDMISTON** Property and car sales **£472m**
17 (18)	**RAMESH & PRATIBHA SACHDEV** Care homes **£418m**
18= (22)	**MANFRED GORVY & FAMILY** Food distribution **£400m**
18= (14)	**PATRICK MCKENNA** Media **£400m**
20 (20)	**TONY FERNANDES** Football and aviation **£392m**
21 (19)	**SIR MICHAEL BIBBY & FAMILY** Convenience stores and finance **£370m**
22= (21)	**SIR MARTYN ARBIB & FAMILY** Finance **£350m**
22= (17)	**IAN SUTTIE** Oil and property **£350m**
24 (31)	**MICHAEL GOOCH** Finance **£250m**
25 (24)	**TONY BRAMALL & FAMILY** Car sales **£208m**
26 (27)	**SIR PETER HARRISON & FAMILY** Networking **£198m**
27 (26)	**ROBIN BARR & FAMILY** Drinks **£197m**
28 (12)	**NEIL HUTCHINSON** Internet **£195m**
29 (29=)	**NORMAN SPRINGFORD & FAMILY** Hotels **£184m**
30= (28)	**KEITH BRADSHAW & FAMILY** Car sales and property **£180m**
30= (32)	**GEORGE BURNETT** Construction **£180m**
32 (36)	**DUNCAN SINCLAIR & FAMILY** Property **£172m**
33 (33)	**JOHN GRIFFIN & FAMILY** Taxi services **£170m**
34 (29=)	**BRIAN SCOWCROFT & JANET LEFTON** Property and insurance **£160m**
35 (61)	**WILL ROSEFF** Betting shops and online gaming **£148m**
36 (45=)	**JIM FLAVIN** Industry **£142m**
37 (39=)	**SIMON DOLAN** Business services **£140m**
38 (34=)	**ANWAR & YAKUB PATEL** Pharmacies **£135m**
39 (-)	**KEVIN COYLE & FAMILY** Recruitment **£130m**
40= (-)	**SIR ROD ALDRIDGE** Outsourcing **£125m**
40= (35)	**HAROLD SHER** Metal trading **£125m**
40= (23)	**CHARLES WIGODER** Utilities **£125m**
43 (66=)	**PAUL & HELENA JEFFERY** Care homes **£124m**
44 (36=)	**LOCHLANN QUINN** Industry **£123m**
45= (39=)	**ALAN MCINTOSH** Finance **£115m**
45= (38)	**MAYANK PATEL** Finance **£115m**
47 (-)	**MATT MOULDING** Retailing **£105m**
48 (42=)	**BRIAN CONLON** Finance **£104m**
49 (39=)	**THE DUKE OF RICHMOND & GORDON & FAMILY** Property **£100m**

SIR NIGEL RUDD **Rich list ranking 79= (71=)**
£50m, INDUSTRY

The City serial dealmaker who presided over the sale of Invensys, Boots and Pilkington Glass; Rudd, present chairman of BBA Aviation, made his fortune in a series of savvy entrepreneurial moves. While still in his early 20s he purchased a small housebuilder for £10,000. It made him £600,000 from property deals by his early 30s and helped him amass a £50m fortune 50 years later.

One former business partner put Rudd's success down to his decisiveness in the boardroom and "perceptive eye for an opportunity". Others have credited it to his down-to-earth "maverick" style or the fact he is a "whizz with figures". Rudd himself, meanwhile, says it's about employing the right people.

HOW HE MADE IT "I'm not afraid to employ someone who's at least as good as me and allow them to fulfill their potential."

KEITH BRADSHAW **Rich list ranking 30= (28)**
£180m, CAR SALES AND PROPERTY

When Bradshaw returned from West Africa in the 1970s, then aged 30, he ploughed his savings into setting up a number of private companies, including BP Nursing Homes (now Takare), which would later be sold to BUPA in 1998 for close to £300m. This earned Bradshaw a big enough nest egg to retire young. But what really made his fortune was his next move - investing his wealth into further business ventures; Coventry-based car dealership Listers, now worth an estimated £200m, as well as a flourishing musical instrument distributor and a sizeable property portfolio.

HOW HE MADE IT By investing his profits from his first successful venture into his next. And his next.

PETER HARRIS **Rich list ranking 12= (11)**
£650m, LEISURE

The man behind Bourne Leisure - the operation behind Butlins, Haven and a host of country house hotels in the UK - started out by buying a single caravan park in Whitstable, Kent, in 1964. Fifty years later the group is valued at a whopping £1.1bn. Harris's reported £400m stake, together with his £250m racing interests and majority stake in spread betting operation Spreadex, secure his place as one of the richest men in Hertfordshire and one of the wealthiest accountants in the world.

HOW HE MADE IT Spotting new opportunities. He came up with the idea of buying a caravan park after being sent to audit one as a young chartered accountant.

"Specialise, grow business organically, and home-grow a strong management team"

ALEXANDER BADENOCH Rich list ranking 63=

"I'm not afraid to employ someone who's at least as good as me and allow them to fulfill their potential"

SIR NIGEL RUDD Rich list ranking 79

DAVID BROMILOW Rich list ranking 12= (10) £650m, MEDIA

Shrewd financier Bromilow deserves his place in this list just for turning around ailing sports company adidas in the mid-1990s and making a rumoured £600m when he subsequently sold his stake. His smart business decisions include replacing top management and relocating manufacturing plants. Bromilow, now based in Thailand, went on to make £150m from the sale of his medical publishing business, MediMedia.

HOW HE MADE IT By taking a risk on a failing company and turning it around – then knowing when to bow out.

STUART WILLIAMS Rich list ranking 90= (92=) £40m, RETAIL

Topps Tiles was started in 1963, but only when Williams and his business partner Barry Bester bought it in 1995 did it become a household name. Williams went on to steer it through an IPO in 1997 and increased the number of stores to 316.

HOW HE MADE IT By getting on with it. As Luke Johnson of Risk Capital Partners said: "Stuart is a case study in modesty."

ALEXANDER BADENOCH Rich list ranking 63= (57=) £70m, RECRUITMENT

Badenoch's recruitment business capitalised on a sector he knew - accountancy. An ACA, he went on to sell Badenoch & Clark to a US recruitment operation and received an estimated £58m for his 80% stake - then repeated his success story with his next recruitment business, the Venn Group.

HOW HE MADE IT By following his own tried and trusted formula: "Specialise; grow business organically; and home-grow a strong management team."

50 (44) **MICHAEL WINTERBOTTOM** Industry **£92m**
51= (47=) **SOLOMON POTEL & FAMILY** Construction and property **£90m**
51= (-) **IAN READ** Pharmaceuticals **£90m**
53 (45=) **CARL MCCANN & FAMILY** Food distribution **£86m**
54 (52=) **JOHN & JAMES PIRRIE** Industry **£85m**
55 (51) **SIR MICHAEL HELLER & FAMILY** Property and mining **£83m**
56= (49=) **MICHAEL & CHRIS MILLER** Industry **£80m**
56= (71=) **JOHN NEWMAN** Industry **£80m**
58= (52=) **NICHOLAS COOPER** Insurance **£75m**
58= (52=) **MICK DAVIS** Industry **£75m**
58= (49=) **TOM & ALAN FERGUSSON** Industry **£75m**
58= (52=) **ANDREW & SHARON TURNER** Finance **£75m**
62 (47=) **EDDIE KILTY** Industry **£73m**
63= (57=) **ALEXANDER BADENOCH** Recruitment **£70m**
63= (57=) **ROBERT MORTON** Investments **£70m**
63= (57=) **SIR ROBERT MURRAY & FAMILY** Industry **£70m**
63= (57=) **STEWART NEWTON & FAMILY** Finance **£70m**
67 (62) **RAHUL & RITA SHARMA** Travel **£65m**
68= (71=) **SATISH CHATWANI & FAMILY** Hotels **£60m**
68= (56) **AIDAN HEAVEY** Oil **£60m**
68= (78) **KILLIAN HURLEY & FAMILY** Construction **£60m**
68= (66=) **GRAHAM MELLSTROM & FAMILY** Property **£60m**
68= (63) **SANJAY SHAH** Finance **£60m**
73 (64) **NOEL & MIRIAM O'CALLAGHAN** Hotels and property **£58m**
74= (71=) **MATTHEW ALLEN** Finance **£55m**
74= (68=) **AVNISH GOYAL & FAMILY** Care homes **£55m**
74= (-) **RICHARD NORTHCOTT** Retailing **£55m**
74= (65) **DAVE RICHARDS** Automotive and property **£55m**
78 (68=) **GEOFFREY ELLIOTT** Pharmaceuticals **£52m**
79= (79=) **CRAIG BENNETT** Mobile phones **£50m**
79= (71=) **STUART HOWARD** Insurance and leisure **£50m**
79= (71=) **SIR NIGEL RUDD** Industry **£50m**
79= (71=) **PAUL WALKER** Software **£50m**
79= (71=) **PAUL WALSH** Drinks **£50m**
84 (79=) **BARRY HEARN & FAMILY** Football and sports promotion **£48m**
85= (79=) **MALCOLM & GUY BROOK** Industry **£45m**
85= (79=) **TERRY BROWN & FAMILY** Football and property **£45m**
85= (79=) **ANDREW PRITCHARD** Retailing **£45m**
85= (-) **COLIN TETT & FAMILY** Property **£45m**
89 (84) **TIMOTHY ELLIOTT & FAMILY** Industry **£44m**
90= (85=) **TONY BARRY & FAMILY** Tea **£40m**
90= (85=) **JOHN MORLEY** Fashion and property **£40m**
90= (68=) **SIMON SHAW** Finance **£40m**
90= (85=) **GEOFF SQUIRE** IT **£40m**
90= (92=) **STUART WILLIAMS** Retailing **£40m**
95 (88=) **HOWARD KILROY** Industry **£39m**
96 (90) **JOHN CLOHISEY** Retailing **£38m**
97= (92) **MATTHEW BROWN** Accountancy services **£35m**
97= (96) **STEPHEN HEMSLEY** Pizzas **£35m**
97= (92=) **MARK REID & FAMILY** Biotechnology **£35m**
100 (98=) **DEMETRIOS KOUNNIS & FAMILY** Property **£34m**

Is the UK turning into a tax haven?

YES *Margaret Hodge*
While the government deserves credit for progress achieved through the OECD on issues such as country-by-country reporting, it has engaged in an international race to the bottom on tax. Its Patent Box tax relief allows companies headquartered in the UK to pay a lower rate of corporation tax without requiring the underlying activity to take place here. Patent Box came under investigation as a potentially "harmful tax practice" by the EC and the government has been forced to amend it.

The head of tax at the OECD singled the UK out for weakening its Controlled Foreign Companies (CFC) rules when most other countries are strengthening theirs. Companies can now pay corporation tax of just 5% on profits from overseas finance companies. In a 2013 brochure to clients, KPMG explained that the UK's CFC rules "will now apply only to narrowly targeted classes of profits" and welcomed the "introduction of an attractive offshore finance company regime". The brochure promoted the UK as a holding company location. The government's commitment to "tax competition" is not about bringing real jobs and growth to the UK. By incentivising companies to locate themselves here without them bringing real economic activity, the government risks creating a tax regime that increasingly bears the hallmarks of a tax haven.

NO *Philip Booth*
A tax haven levies certain taxes at a zero or very low rate and combines this with limited information flows to other countries' tax authorities and a lack of transparency in law making. By the accepted criteria, the UK is not a tax haven.

Most cited examples of tax avoidance fall apart after analysis. For example, UK Uncut campaigned against Vodafone for not paying UK taxes on profits already taxed in Germany.

There are, though, some grey areas. Companies such as Starbucks seem to use tax havens to reduce their taxable profits, but Britain is not the tax haven in this case - the tax haven is Holland. And intellectual property gives rise to issues that can be reasonably disputed. HMRC can challenge the transfer pricing basis used by Starbucks. However, the intellectual property within the brand value is responsible for a large proportion of Starbucks' profits; that brand was not created here; and there is no clear case that the profits on that intellectual property should be taxed here.

There are areas where the UK is getting too close to becoming a tax haven. The Patent Box gives favourable tax treatment to new innovations and we have long-standing tax benefits for the film industry. These moves are applauded by politicians who believe that they know better than the markets how capital can be allocated. To stop tax avoidance, we need low, flat taxes with few exemptions.

Margaret Hodge
We do need to radically simplify our tax system. We have more than 1,000 different tax reliefs in the UK, including £100bn worth of tax "expenditures" designed to encourage behavioural change - each creates opportunities for avoidance and evasion.

But simplicity is not the same as low (or no) tax. We need a full review of the UK's tax relief bill with a view to abolishing those reliefs that have become a mechanism for avoiding tax. That's the way forward, not introducing a low, flat rate of tax that incentivises businesses to locate their headquarters here but not real economic activity.

On transparency, the British government is also on rocky ground. The chancellor trumpets his support for country-by-country reporting - on where companies really employ people, hold assets and pay taxes - but behind closed doors is resisting efforts for this information to be opened up to public scrutiny rather than only shared with tax authorities. The government's insistence on maintaining a veil of secrecy over the relationship between corporations and tax authorities is worrying alongside promotion of "tax competition" and HMRC's history of failing to properly challenge the tax affairs of companies like Google.

Philip Booth
Tax havens help ensure returns from investment

YES *Margaret Hodge*
Labour MP for Barking & Dagenham

NO *Philip Booth*
programme director, Institute of Economic Affairs

vehicles are not taxed several times over and that those who should not pay tax on investment returns can legitimately avoid tax. The fund management industry, social investment schemes and many other forms of important economic activity rely on tax havens so they can operate without paying taxes that the system should not be levying.

The UK has an incoherent tax system with exploitable loopholes created by politicians who believe that they know best and who want to encourage particular types of economic activity. We sometimes also tax returns to capital several times over through various combinations of corporation tax, income tax, capital gains tax, inheritance tax and stamp duty on transactions. We need real tax reform. We should not have exemptions and reliefs that can be gamed by the rich and the sophisticated.

We should have a single, flat, low rate of tax on returns to shareholders, regardless of where a company earns its profits. In other words, we should tax the owners and not corporations.

Margaret Hodge

We clearly agree on the need for simplification and the removal of loopholes that are open to abuse - and the onus is on us parliamentarians to get the law as clear as we can. But for me - and this is perhaps where the fundamental disagreement lies - there is a moral dimension to this debate. However frustratingly complex our tax system is, for companies or individuals to deliberately exploit that complexity to avoid tax is simply wrong.

No corporation can function without a skilled and healthy workforce; or without roads, transport and other essential infrastructure - all funded from the public purse. They should therefore pay an appropriate contribution in tax based on the profits they make from their economic activity in the countries where they do business - not cheat the system by using complex devices to artificially shift profits into tax havens out of reach of the taxman.

I welcomed David Cameron's 2013 promise to "knock down the walls of company secrecy" and require UK tax havens to publish a register of who owns and benefits from companies registered there. But not only has the government failed to deliver, some of the tax policies it has pursued do put the UK at risk of increasingly resembling a tax haven.

Philip Booth

We agree the corporate tax system should not be used to encourage investment in particular economic activities. FA Hayek addressed *The Road to Serfdom* to the "socialists of all parties", realising that the instinct to intervene in the economy was a cross-party problem. Certainly, George Osborne has demonstrated this to be the case, and it is gratifying to see criticism of tax reliefs from the Labour Party.

Problems of avoidance are greatest either when complexities exist within the tax system or when tax is charged at penal rates. The US is the prime example, with US companies encouraged to pile up cash offshore because of the tax penalty on repatriating profits. There will always be some incentives for avoidance whenever and wherever corporates are taxed more highly than their owners.

For example, it is the intention of tax law that pension funds are not taxed on the returns on their investments. But, because corporations are taxed at source on profits, pension funds are de facto taxed on equity returns. Before 1997 this was partly relieved by repayment of dividend tax credits.

It would be better to return to a corporate tax system where owners are taxed directly on the returns on the shares they own (either attributed earnings or dividends) according to their own tax position. That used to be the basis of corporate tax and this, together with the removal of loopholes, would see the end of corporate tax avoidance. But, for all the problems of the UK tax system, Britain is not a tax haven.

"We need real tax reform, not exemptions and reliefs that can be gamed by the rich and sophisticated"

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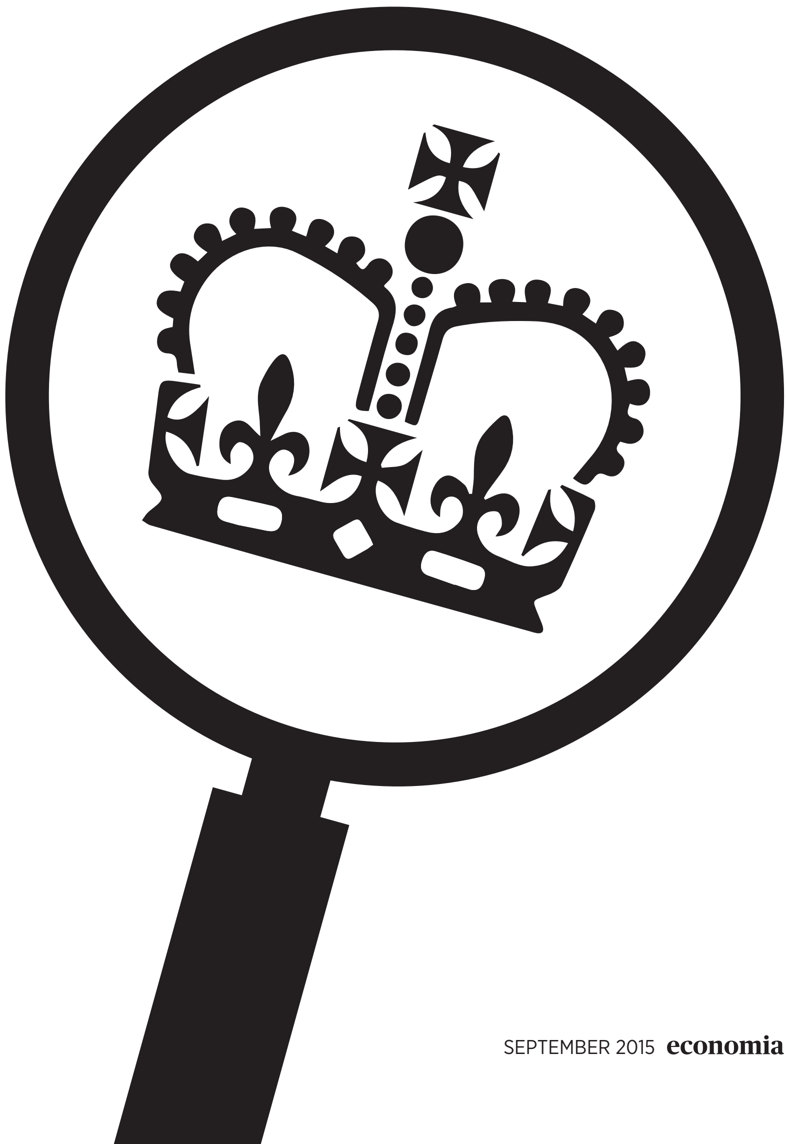
Sierra Leone's revenue problem
Tax exemptions and transparency issues are a damaging cocktail for one of the world's poorest economies

Use of tax havens is falling
New research says the number of companies with a wholly owned tax haven-based subsidiary has fallen

“HMRC needs an independent assessment not just of what is wrong but of how to put it right”



HMRC failed to answer more than

7 million

phone calls in 2014/15

Labour may have to wait five years before undertaking its review into the culture and practices of HMRC, but others have taken up the cudgels for immediate action, as Paul Golden discovers

There are many reasons why a number of individuals and professional bodies believe that a decade after HMRC was formed by the merger of the Inland Revenue and Her Majesty's Customs and Excise, at least some elements of the merged entity need to be reviewed.

Tax is always a contentious issue, and never more so than during periods of austerity. On the face of it, HMRC doesn't seem to be doing too badly - it collected a record amount of tax revenue in 2013/14 (£505.8bn), and tax credits error and fraud have never been lower, despite having £235m taken from its budget.

It's this latter point that underlies the continuing complaints about service levels and the growing calls for review, reckons Anita Monteith, technical manager at the ICAEW Tax Faculty.

"Government accounts on a cash basis, so we are more likely to see investment at the start of a parliament because any expenditure on tax collection will only bear fruit a few years down the line," she says. "There is probably a general acceptance that greater investment in HMRC would lead to a higher tax take, but the message is that there is no more money to spend."

Her expectation is that some sort of review is likely on the basis that 10 years is a logical period after which to analyse the workings of a new (albeit merged) entity. However, she is clear that any review should not be conducted simply as an exercise in "Revenue bashing" and says that most external experts would be likely to take a measured view.

In June, HMRC announced that it was allocating £45m to improve customer service, adding 3,000 staff to its customer service teams as well as moving some 2,000 staff temporarily from other parts of HMRC to help with the tax credits deadline and letters and forms. This followed an admission by its chief executive that service standards were not good enough.

An HMRC spokesperson points out that it is constantly under independent review by bodies such as the Public Accounts Committee (PAC), National Audit Office (NAO) and Treasury Select Committees, with more than 250 recommendations made by external scrutiny bodies in 2013/14.

Paul Aplin, tax partner with AC Mole & Sons and chairman of the ICAEW Tax Faculty technical committee, accepts HMRC's point but adds that these reviews were restricted to particular areas. He is calling for a comprehensive review: "In the early days there were also capability reviews. What I am calling for is to examine whether the 2004 O'Donnell Review's aspirations have been met and to reapply those aspirations to the very different world HMRC now operates in - or consider whether to set new ones."

Any review must be comprehensive, independent and informed, and must have the confidence of taxpayers and those who work within HMRC, he adds. "The time has come for a general review embracing governance, management structure, culture, powers - and how they are used - service delivery, digital strategy, training, efficiency and effectiveness. It must also address the absolutely fundamental question of the adequacy of HMRC's resources."

Aplin's preference would be for the review to consider the balance between revenue-raising, cost-cutting and service delivery. "It is not enough for HMRC to self-assess its performance when the imbalance is so marked; it needs an independent assessment not just of what is wrong but also of how to put it right."

While Aplin is critical of some decisions taken by HMRC's management, he also acknowledges that budget cuts have been taking their toll for a decade - five years before other departments faced austerity measures. "Headcount has fallen by 40%. Service levels are unacceptable. If resources are cut further, service levels will continue to decline. It is a staggeringly obvious case of cause and effect and it is both unreasonable and unrealistic to expect HMRC to be able to deliver improvements if it is constantly facing resource reductions on this scale."

Ironically, Judith Freedman, Professor of Taxation Law at the University of Oxford, says some of the problems facing HMRC are down to the structural reforms recommended and introduced as a result of the O'Donnell Review.

"Some of O'Donnell's recommendations were sound - for example, bringing customs together with Inland Revenue - but placing policy functions purely into the Treasury was a mistake

HMRC staff headcount has fallen by

40%

in the past decade

and means there is not enough input into policy from operational staff. There have been improvements, but not enough. Any new review would have to address that issue and the main thing would be to propose new resources – HMRC needs better trained staff and more of them."

HMRC's management structure is wrong, resources are inappropriately focused, there is insufficient accountability and it is an embarrassment that permanent secretaries are being called before the Public Accounts Committee because there is no one else to hold them to account.

That is the view of Tax Research UK director Richard Murphy, who says a thorough review of the governance of HMRC is required and that it is "absurd" that HMRC's board is made up of representatives from the large business community and its advisers "who between them represent about 700 tax payers when there are 31m income tax payers in the UK." He continues: "It is also absurd that parliament has almost no resources available to it to scrutinise HMRC. Margaret Hodge may have done well, but it was despite the NAO and not because of it – indeed, the NAO fought long and hard to deny information on HMRC to the PAC. That is wholly unacceptable and must change, which is why I suggest there should be an Office for Tax Responsibility reporting straight to the PAC that can properly audit HMRC and tax policy."

Murphy adds that any review should look at the resourcing of HMRC and should have representation from beyond big business and the tax profession. If government cannot be persuaded to implement a review, employers' groups, professional bodies and trade unions should work together, he says.

He accepts that funding would be an issue, but says a relatively limited number of people producing a report on a timely basis could have a significant impact on taxation in the UK during the next 10 to 20 years.

Jolyon Maugham QC, barrister at Devereux Chambers, suggests that one of the key weaknesses of HMRC in its present structure and approach is its unresponsiveness to public demands for transparency around matters of public interest.

"Another shortcoming is the absence of a minister for HMRC, which means it lacks political accountability. It has been suggested that this is because a minister might be able to access the affairs of individual taxpayers and this would clearly be undesirable. But this confidential kind of access could easily be controlled and recorded, to provide accountability."

Freedman believes that unless customer service is improved, tax morale will decline further. "The majority of people comply with tax laws and we need more emphasis on providing them with a proper service to keep up their compliance."

Maugham agrees that the success of self-assessment depends on public confidence and suggests that the government is fearful of a review because it does not want it to conclude that resourcing constraints have impacted on the ability of HMRC to reduce tax avoidance and evasion.

"A review could proceed on the basis that HMRC has to operate in a constrained funding environment," adds Maugham, who says it is difficult to blame senior management for all its failings. "It is the governance structure that leads to failings in management or at least the suspicion of management not acting in the public interest, rather than the quality of management staff working in HMRC."

Many of the requests for a comprehensive review of HMRC stemmed from the recent election campaign, when the Labour opposition expressed the view that the organisation was contributing to unfairness in taxation. However, Patrick Stevens, tax policy director at the Chartered Institute of Taxation, is unconvinced that such requests are particularly helpful. "In terms of resources, the move to digital processes means HMRC will be able to do more with fewer staff than it had when it was established and with even fewer people than it has now," he says. "The problem is that there is a disparity between the rate at which staffing is being cut and the capacity to manage this change."

While accepting that the tax system is far from perfect, he does not believe that a review would pick up on everything that is going wrong and suggests instead that some of the challenges facing HMRC should be discussed openly with management.

"This needs to be done by people who can get to the heart of what is going on and who do not feel constrained by any expectations of what they recommend," he adds.

Monteith reckons HMRC would benefit greatly from having an accountant in charge of the organisation and a chief finance officer representing it at the Cabinet table, and Stevens agrees that unless, and until, it is managed like a business, it is impossible to apply normal management techniques to its work.

"One of the questions begging to be asked is whether there

£505.8bn

Record amount of tax revenue collected by HMRC in 2013/14

are people with the appropriate management expertise in the right places," he says. "Many of those in the management structure are from a tax background and may not have significant experience in change management."

According to Stevens, there is an understanding at government level that HMRC should be better resourced and that there would be value in an independent assessment of how improvements might be made since this kind of independent verdict would make any recommendations harder to ignore. "I am not against external scrutiny - my suggestion would be to focus on specific areas," he concludes.

Lynne Oats, professor of taxation and accounting at University of Exeter Business School, is another who believes that an independent review of the workings of HMRC would be helpful. But she also observes that so much has changed in the decade since it was established there would be little point in going back to the original aspirations of the merged entity. She says a review would need to be conducted in light of recent developments. "It would need to cover issues relevant to any big department or organisation," she says. "For example, are the performance measurement metrics fit for purpose? Issues of particular relevance to HMRC should include the impact of changes to training and development, especially inspector training."

On the question of whether decisions taken by senior management have always proved to be in the best interests of either the organisation or taxpayers, Oats says there is insufficient information already available in the public domain to make such judgements.

"The sensationalist treatment of this and similar issues by the press and tax campaigners has potentially undermined public confidence unnecessarily," she says. "HMRC is much like all very large, bureaucratic organisations, and a careful balance needs to be struck between necessary and unnecessary change. It is difficult to assess the resource needs of HMRC because there is so much technological innovation going on right now - it is a constantly moving target."

According to Jonathan Isaby, chief executive of the TaxPayers' Alliance, while an independent review of HMRC might be an interesting exercise, many of the errors it presently makes are a result of the tax code it is attempting to administer. "At more than 17,000 pages," he says, "the level of complexity involved is ludicrous and that means that HMRC is simply unable to notice when people are not paying the right amount of tax or are being over-taxed. Ultimately, taxes should be low, simple and compulsory. If we could slice our tax code down to size, restore trust in the system and reduce the incentives to find loopholes, the job of HMRC and its employees would be far easier."

"The move to digital processes means HMRC will be able to do more with fewer staff than it had, and with fewer people than it has now. The problem is there is a disparity between the rate at which staffing is being reduced and the capacity to manage change"

On international comparisons, HMRC is failing to perform, he adds. "But though it does make errors, often avoidable ones, this is a product of the system it is attempting to administer."

When asked whether it is possible to objectively compare the efficacy of tax authorities to determine how HMRC stands up to the performance of its counterparts in other countries, Oats warns that benchmarking performance between countries is fraught with danger because of the differences in economic, social, cultural and institutional conditions - let alone the historical baggage that all tax authorities have to deal with.

"However, it is nonetheless worthwhile looking at processes and procedures in other countries for potentially useful ideas on new ways of working, so long as adoption in the UK is carefully thought through in terms of context," she concludes.

TAXtools

ICAEW's Tax Faculty offers help for tax advisers via its online Taxtools kit. This includes HMRC contacts (telephone numbers and email addresses) to help direct you to the part of HMRC you need for resolving issues and to advise on the best method of contact to use. There is also a guide on HMRC toolkits with information and guidance on how they may be used. Plus, what to do if you find yourself in the position of having to make a complaint to or about HMRC.
icaew.com/tax

Fit for PE

At a recent Baird Capital roundtable debate in association with *economia,* top business executives assessed the value and contribution of the private equity industry and, specifically, the role of the CFO in SMEs. Adrian Holliday reports

The private equity (PE) industry has sometimes suffered poor press. A number of firms came under fire for some of their practices and have not always done a good job of explaining their role to the public. But its proponents argue that PE is maturing as an industry and supports a growing number of ambitious British SMEs, offering an alternative funding opportunity at a time when traditional routes to lending have been blocked.

So why is there a gap between how PE is perceived and what it does for SME growth? PE brings not just cash but discipline and accountability to growing businesses leaving them – so the hope goes - bigger, more valuable and better run. Not all businesses are built on bank lending, even in good times.

These issues and more were aired at a recent Baird Capital roundtable debate in association with *economia*. For good reason, the role of the chief financial officer (CFO) and the finance function was at the forefront of the discussion. After all, it is the CFO who is often responsible for deciding whether PE funding is the right route for their business.

The CFO has a pivotal role in helping a business to grow and this role gets much more scrutiny and investment in PE-backed businesses. The benefits can be seen as the finance function comes to play a more central role in decision making.

Getting an entrepreneurial management team to invest in a finance function is key, confirmed Dennis Hall, managing director, portfolio operations, Baird Capital. The CFO is the most important person after the MD, agreed David Craig, joint chief executive at recruiter Walker Hamill. "We've started building pipelines of CFOs so we get to know them before they exit rather than when they exit," he said.

MASTER AND COMMANDER

However, some entrepreneurs still fail to understand the role of a CFO. Steve Ashton, an independent chairman, thought some nuanced repositioning might be in order. He felt that finance could be more of a "critical friend" to the CEO, supplying more objective, independent advice in the process.

"It's important for a CFO to ask what value they are delivering," said Ashton. "A sensible CEO will understand that. But some entrepreneurs will find that a challenge. They will think 'I do that, I just need a CFO to count the money'. With a sensibly-structured business, that critical friend is the key piece."

For Ian Sale, managing director, acquisition finance, commercial banking, Lloyds Bank, this challenge is vital for the bank manager, too. "The bank can see that dominant CEOs are very capable, but because bank managers worry a lot, we like to see that challenge [from the CFO] to what the CEO is saying. We like someone asking 'is that right? In some ways the CFO is a diplomat but also an enforcer."

OVERSEAS EXPANSION

With UK growth only slowly picking up, many businesses are considering overseas expansion. Making that commitment to go beyond your national borders can seem perilous, especially if your net worth is wrapped up in your business. That's why, says Andrew Ferguson, managing director, Baird Capital, accelerating a global growth strategy can often be "a catalyst for seeking PE or a partner to take on those risks".

This rang true for Helen James, CEO of Investis, a digital corporate communications company. Global expansion was a big driver for partnering with a PE company in 2014. If PE can help a business with ambitions to aim high and realise those aspirations, then why not try it, why not be more like the US, James reasoned. "Even though we were a tiny UK company with revenues of £25m we suddenly became number two in the market; we felt this was the moment," she says.

James remembers asking the CEO of a competitor business in the US about his ambitions for his $8m company. "Without flinching he said he wanted to be a $2bn company. I remember thinking you would never get that answer in the UK," she says.

Forward planning is crucial for expansion, particularly around recruitment. Andy McRae, CEO, Red Commerce, worried that smaller UK businesses tended "to have an owner-founder-DNA culture, and that a big challenge is succession. They don't have tomorrow's managers." He continued: "For an SME it's the people mix that matters, and that includes a succession plan." Baird Capital's Ferguson agreed. "How many businesses have we found over the years where there's just nobody below the person who runs it or owns it? No

Facilitator
Richard Cree, editor-in-chief, *economia*
Participants
Steve Ashton, independent chairman
Mike Bell, CFO, Clearwater Group
Richard Chapman, partner, ECI
David Craig, joint CEO, Walker Hamill
Andrew Ferguson, managing director, Baird Capital
Dennis Hall, managing director, portfolio operations, Baird Capital
Helen James, CEO, Investis
Andy McRae, CEO, Red Commerce
Ian Sale, managing director, acquisition finance, commercial banking, Lloyds Bank
Stephen Segal, CFO, Spencer Ogden Group

"We need to employ sustainable, repeatable practices that are going to keep generating competitive returns. It's about growth and investing in the company"

ANDREW FERGUSON, BAIRD CAPITAL

PHOTOGRAPHY: SOPHIA SCHORR-KON

thought has been given at all to the next layer or the next succession. I think that's where private equity is a step above and can help, because we are thinking about the next round."

UNDERSTANDING BUSINESS

Another aspect of the CFO's role, according to Stephen Segal, CFO, Spencer Ogden Group, is about explaining underlying organisational risks to people who may not have a core understanding of it. "As you get into larger and larger organisations," he said, "you become that much more front-facing and investor-relations oriented. The work becomes more of the PLC type of stuff. A good CFO is someone who understands the point of the business, who has a gut feel."

But don't take this gut feel for granted, warned Mike Bell, CFO, Clearwater Group. "You've got to get beyond that stuff. It's about having a CFO who can provide that data and analysis, that I don't think some small businesses can." This is a pertinent point for the UK, as one of the key strengths, and weaknesses, of the UK economy is that it is built on a bedrock of millions of SMEs.

Meanwhile Richard Chapman, partner, ECI, worried that private equity appeared to suffer from an outward lack of confidence. He urged businesses to get out there and recruit with confidence. "We need to shout more about our CFOs who have made a lot of money. We've got a few. We need to say, you're a great talent and if you come here you will make money, have fun and learn a lot."

PICK YOUR PARTNER WITH CARE

But choose your partner wisely, was the message from around the table. What sort of shape is the fund in, and is it willing to share that with you? Although James feels that Investis is in a "genuinely" better place after PE backing, "we didn't pay enough attention to the private equity fund itself, where it was in its cycle and how that can influence you".

"The stage of the fund, whether it needs a quick exit or is at an earlier stage, these things have an impact," James added. "I don't think there's enough openness or sharing about that. Ultimately, if you've aligned goals on your board, then it's fantastic."

Ferguson agreed. "Pick your backer carefully. Do your diligence. As an industry we need to employ sustainable, repeatable practices and policies and approaches that are going to keep generating competitive returns. In an ever increasing competitive environment where you pay the market rate and you're not doing financial engineering, it's about growth and investing in the company. It's hard to get that message over constantly."

Saturday Sunday Monday Tuesday Wednesday Thursday Friday

A DAY IN THE LIFE

After qualifying at Arthur Andersen, **Stephen Williams** pursued a dream career in media working for Walt Disney, ITV Digital and Sky. So why on earth did he give it all up to buy Poole Farm Feed Centre? Amy Duff trails him for a day to find out

PHOTOGRAPHY: DAVID HARRISON

Stephen Williams has swapped a three-hour round commute for a walk to his business within seconds

HOW I CHANGED CAREER

I wasn't destined to go to Arthur Andersen. I was sponsored through university by British Gas but due to a huge restructure they decided not to take any more graduates. There was an Andersen type; bright young go-getters, full of confidence. You could be partner by the time you were 30. I qualified in 1996 and left before Enron. I worked for Walt Disney, ITV Digital and then Sky. Disney was my favourite; it was very American with numerous deadlines and complex reporting structures, but it was a bright bunch of people who knew how to have fun. In between ITV Digital and Sky I did consulting, flying out to Guernsey every week for a year and a half to commercialise and privatise Guernsey Telecoms. That was an incredible experience. [My wife] Jo's parents set up their business 18 years ago and we decided to buy it in 2009.

MY RESPONSIBILITIES

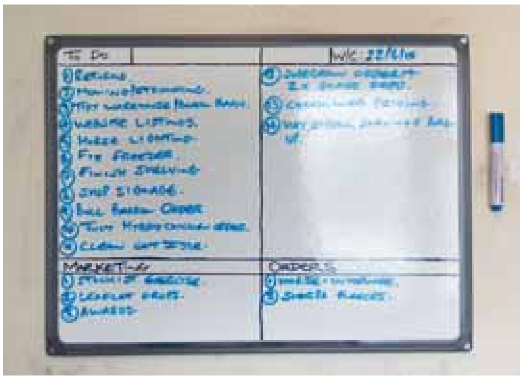
When we first came to Poole Farm in Great Yeldham in Essex I trained to use a forklift and I went to agricultural college, qualifying as a Suitably Qualified Person in veterinary medicines. If you have more than 50 chickens at any one time you have to be registered with Defra. We bought 30 to start with. Neither of us could hold them. Now we know all about the pecking order. We've even written articles for publications. We also make a garlic supplement for horses, producing thousands of kilogrammes per year. When we bought the business the turnover was around £450,000, it's now about £700,000 and our aim is to get it up to £1m in the next few years. We've won UK Pet Retailer of the Year 2014 so do we now take this model, go for venture capital backing and do a roll out? I still do consultancy projects as well as run my own business. I'm in a lucky position that I can pick and choose the projects I take on.

MY TYPICAL DAY

Normally on a Tuesday I drive into our nearest town to do the banking (we get a lot of cash). I do month-end or year-end accounts and the technology: website listings, eBay, Facebook, Mailchimp and so on. I pay the suppliers and do payroll: believe it or not people here like to get paid weekly. We want to add a coffee shop to our business and have completed all the planning requirements, which involved the submission of business justifications, satellite imagery, and environmental health discussions.

Horse feed supplements are a source of revenue

He may miss crossing paths with Johnny Depp at Disney Studios but to compensate he has horses and a forklift truck



"I miss all the razzmatazz: meeting the stars, big parties, whole teams of people working for you and the associated status. But I don't miss having numerous bosses and reporting lines, late night conference calls and the 24/7 culture"

MY RITUALS

I normally get up about 6am and make everyone a cup of tea. I lay the breakfast and then watch a bit of Sky News in bed, shower all the kids and Jo gets them dressed. If we're lucky we have breakfast together and then bundle the kids off to school. I have a window between 8.10 and 8.30 to get the shop opened up. We call my in-laws the web fulfilment and distribution team. They come in at 9am and package up our internet sales. It used to take me about 90 minutes each way to travel to Disney with the BlackBerry on the go. Now it takes five seconds to get to work, no BlackBerry. I miss all the razzmatazz: meeting the stars, big parties, whole teams of people working for you and the associated status. But I don't miss having numerous bosses and reporting lines, late night conference calls and the 24/7 culture.

THE CHALLENGES I'VE OVERCOME

Funding [the business] was interesting. I'd resigned from Disney and we needed money to buy the house, business and assets at Poole Farm. The bank initially said no. In the end we got a mortgage, a vendor loan and a business loan for cash flow, but negotiations were tense. We had some dark days - at one point we thought we were going to run out of money. But we started aggressively marketing the business to boost customer numbers and renegotiated contractual terms with all our major suppliers and staff. Planning permission for the coffee shop was a nightmare. You need a bit of fight in you.

A typical day for Williams means turning his hand to anything – although his ACA training has helped transform the business

INDUSTRY QUIRKS

It's taken us six years to find the right staff. Rather than appraisals, career paths and discussions about business performance our team just want to do a day's work and go home at 5.30pm; shortly after that it's tumbleweed. We're called the Poole Farm Feed Centre: lots of people think we're in Poole, or people call me Paul. We did toy with changing the name of the business but there's heritage there. Chickens, smallholdings and natural pet food are all big at the moment.

HOW THE ACA HELPED MY CAREER

When I came here I was asking, what sells well? It was all based on gut feel and experience. Everything was paper based so we set up an accounting system. I applied all those analytical skills [from the ACA] to customer numbers, revenues, suppliers' rates. I did lots of analysis; forensic stuff in terms of key drivers. We looked at the major costs - suppliers, wages - and started driving them down. We had an issue with one of the employees and next we were learning about drafting compromise agreements. Then we needed a security system so we connected a network of webcam/IP cameras ourselves. If you set your mind to it, there's a lot you can do.

THE HABITS OF AN ACCOUNTANT

I don't trust anybody! As an accountant you always want to verify what anyone says: I never believe anyone shouting a price to me, I always have to look back at our price listings.

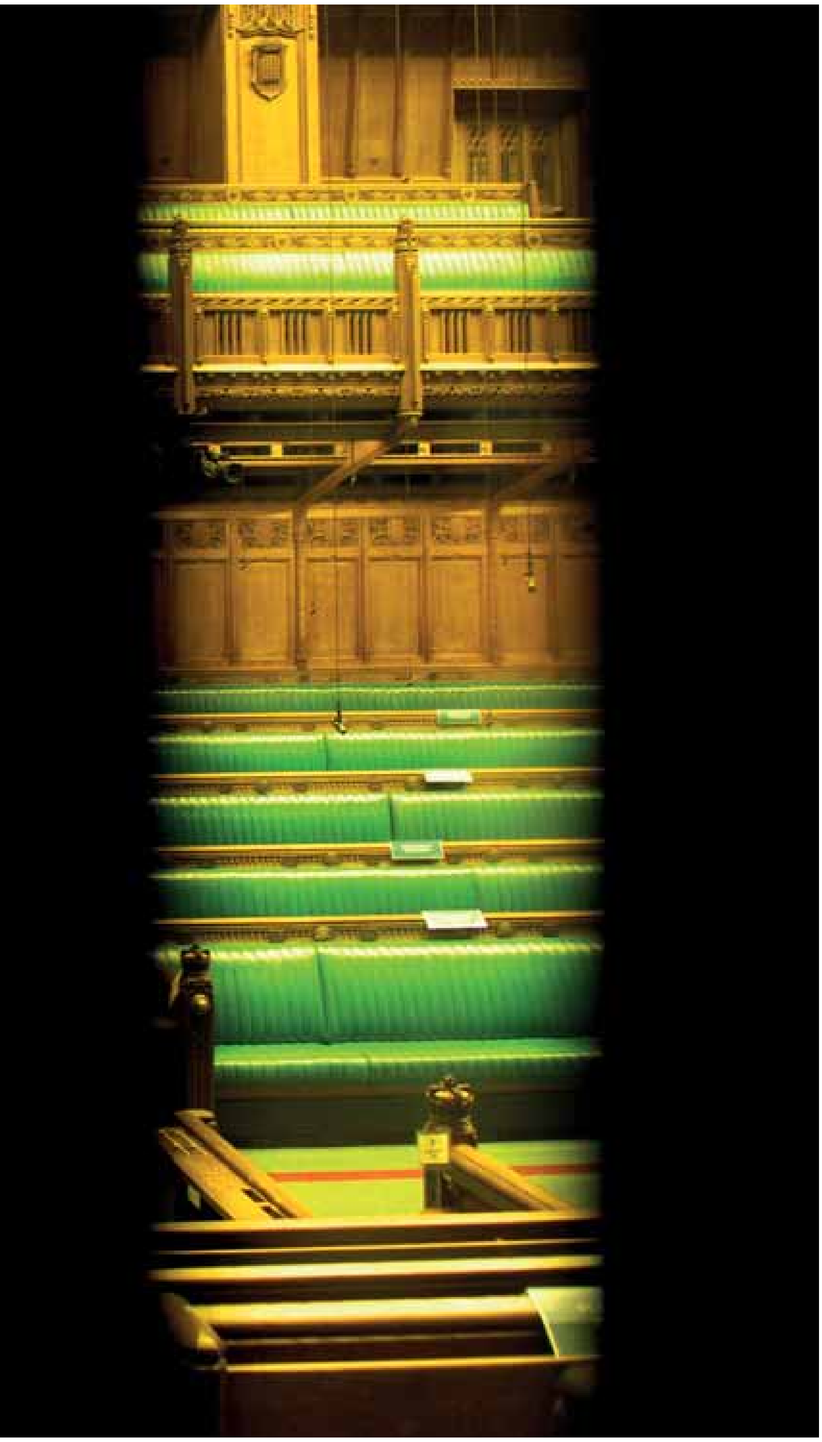
"When I came here I was asking, what sells well? It was all based on gut feel. Everything was paper based so we set up an accounting system. I applied those analytical skills [from the ACA] to customer numbers, revenues, suppliers' rates"

Working out Westminster

If you've ever thought Whitehall needs more accountants, ponder this: the profession is already well represented there. **David Adams** meets some of them and asks: what do accountants bring to government?

There are currently more ACAs in government - in senior civil service roles, or as politicians - than ever before. On the political side, these include Justine Greening, secretary of state for international development; junior ministers Nick Gibb and Karen Bradley; and chief whip Mark Harper. Another nine chartered accountants sit on the back benches: eight Conservatives and one Labour. More accountants in government would be a good thing, says Ross Campbell, director, public sector, at ICAEW, but formerly deputy director for government financial reporting at HM Treasury. He also held senior positions at the Ministry of Defence (MoD) and the National Audit Office, but began his career in the private sector.

"Government really, really needs strategic finance management



skills," says Campbell. "But it tends not to have invested as much as private sector companies in the skills and management systems needed. The lines of control you have in a more traditional company are more diffuse in government. You find yourself dealing with a more complex range of stakeholders. You see people come in from outside and then leave 18 months later, hugely frustrated, because they haven't learned how to make things happen."

Yet he has plenty of praise for the civil service and many of the politicians he worked with: "In many ways we are one of the best administered countries in the world – but there's still a lot of room for improvement." He does not rule out a return at some point.

So what do the current crop of Westminster ACAs think about working in government and what do they hope to achieve during their residence within the corridors of power? *economia* finds out…

ALAMY, PA PHOTOS

Nigel Mills

"The most rewarding things are when you get to help someone who's got a real problem"

Nigel Mills has been Conservative MP for Amber Valley in Derbyshire since 2010. He qualified as an ACA in 1999 and has worked for PwC and Deloitte. He is probably best known for having been caught playing Candy Crush on his iPad during a meeting of the Work and Pensions Committee in 2014. But to focus on this would be unfair (and hypocritical, for many of us). Mills was an effective member of the committee and continues to serve on the Administration and the Northern Ireland committees. He has also now been elected to the influential Public Accounts Committee.

He has been prepared to stand up against his party leadership when he felt it necessary – he was one of a handful of Conservative MPs to vote against military action in Syria. He was named Parliamentarian of the Year by *The Spectator* in 2013; and at the 2015 election increased his majority in Amber Valley, a marginal constituency, from 536 to 4,205.

Mills says his accountancy background, particularly his tax knowledge, has come in handy in the Commons and when helping constituents. It did take him a while to adapt to life as an MP. "Working for one of the Big Four accountancy firms you do long hours, but you get more of a Monday to Friday experience," he says. "You're also doing similar stuff every day, whereas being an MP you get so much variety in your work."

Asked what he would like to achieve, he says his ambition "is to do a good job for my constituents". He "wouldn't mind a crack" at a ministerial career, but would have to think carefully about giving up the capacity to speak freely on particular issues.

"The most rewarding things are generally when you get to help someone who's got a real problem," he says. "The flipside is when there are things you would like to see happen that just can't be done."

Jonathan Moor

"I've never worked harder"

Jonathan Moor is director general, resources and strategy group, at the Department for Transport (DfT). He trained with Touche, Ross & Co in the late 1980s before working for the Audit Commission, where he became FD. He joined the DfT in 2003. He says his current role is really more like being a COO than a FD.

He has seen some significant changes in the civil service over the years. "It was much more hierarchical, much more bureaucratic before," he says. "We now have a very strong focus on efficiency. I've never worked longer hours, never worked harder than I do now. We work just as hard, if not harder, than people in the private sector. I also think the civil service has good values about being a good employer. People are focused on delivering value and they want to make a difference.

"There's a huge challenge ahead of us, in the shape of the Spending Review. It's quite difficult to see how we're going to cope. We have to find this very difficult balance between saving money and also doing what the public requires us to do. But that's what gets me up in the morning – the excitement of being part of something that impacts on peoples' day-to-day lives."

He would certainly like to see more accountants within government, but believes pay and conditions will need to change if they are to be attracted in significant numbers. "The government needs to realise, if it wants to attract commercial skills, it's going to have to pay for them."

Craig Mackinlay

"It is remarkably different [from accountancy], but rewarding and exhilarating"

Craig Mackinlay is the man who stopped UKIP leader Nigel Farage becoming an MP at the 2015 General Election, winning Thanet South in Kent by 2,812 votes. It must have been strange for them both, because they have known each other for over 20 years and were once good friends: "I used to be his accountant!" Mackinlay points out. He is also a former deputy leader of UKIP.

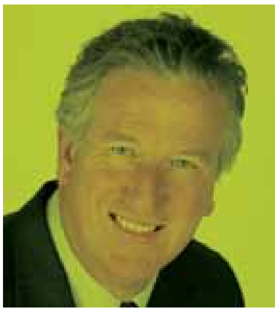
He grew up in a business environment: his father ran a chain of greengrocers and later a successful garlic importing business. But it was the failure of the European Exchange Rate Mechanism and the negotiation of the Maastricht Treaty in the early 1990s which galvanised him into political activism.

In the 1992 election he stood as a parliamentary candidate for the Anti-Federalist League, the forerunner of UKIP, in Gillingham. "UKIP was quite an academic party for many years," he recalls, "based on worries about the cost of the EU and the democratic deficit. Later it became something rather ugly."

He defected to the Conservatives in 2005, and became a local councillor in Kent. As a councillor, a magistrate and an accountant in practice (he is still a partner at a small firm in the county), he says he learned a great deal about other industries – and about people.

He is now a member of the European Scrutiny Committee and the Work and Pensions Committee. It is taking a while to get used to life as an MP: "I've always worked for myself and am used to being in control, but Westminster controls you. No two days are the same – I met Lionel Richie the other day! It is remarkably different [from accountancy], but rewarding and exhilarating."

And did he really believe Nigel Farage's pledge that he would give up politics if he lost? "I took it with a pinch of salt. But I also thought 'You silly man' – because I knew we'd win."



David Mowat

"You learn, make the most of it, try to do a good job"

David Mowat, Conservative MP for Warrington South, says he's not sure he should be in this list, because he is "a lapsed accountant". "I did the exams a long time ago," he says. "I worked for Accenture before I became an MP, so that's a consultancy, not an accountancy firm. And before I was an accountant I was an engineer."

Mowat became global managing partner for energy at Accenture, running a £500m turnover business. When he left, he decided to get more involved in politics, first by becoming a councillor in Macclesfield. He also chaired Fairbridge, a Salford-based charity which works with young people from economically disadvantaged backgrounds.

What was it like coming to the Commons? "It was exciting. Some people would say, 'isn't it a bit tedious no longer being in charge?' But you've got to be a bit humble in going into a new world. You learn, make the most of it, try to do a good job."

During his first five years as an MP, Mowat was a member of the Scottish Affairs Committee and of the Joint Committee working on the Draft Financial Services Bill, while serving as a Parliamentary Private Secretary to Treasury minister Greg Clark. He has now been elected to the Public Accounts Committee.

His favourite part of the job is speaking in the House of Commons – but he also thinks there's too much talk and not enough action in politics: "In business there's a lot of onus on eventually doing things."

Iain Walker

"The need for strong corporate leadership in Whitehall is greater than ever"

Iain Walker is director of finance and a member of the management board at the Foreign and Commonwealth Office (FCO). He trained as an ACA with Ernst & Young during the 1990s, working in banking and capital markets, but then spent two years working for a NGO in several different African countries.

When he returned to the UK he took on a financial role within the Department for Environment, Food and Rural Affairs (DEFRA), then worked in the prime minister's Delivery Unit in the Cabinet Office, before relocating to Edinburgh for two years and working for PwC. Finally, in 2010, he returned to London to join the FCO.

Walker thinks finance as an issue now has a much more prominent role in government than it did five years ago. "How we make finance ever more central to the decision-making process is what I'm focusing on," he says. "The need for strong corporate leadership in Whitehall is greater than ever."

Iain Wright

"People are incredibly friendly and approachable"

Iain Wright (profiled in this magazine in July 2013) became the MP for Hartlepool in a 2004 by-election following the resignation of Peter Mandelson. Having served in junior ministerial roles in Gordon Brown's government, he is now chairman of the Business Innovation and Skills (BIS) Select Committee. He is the only ACA on the Labour benches.

"I've always been Labour," he says. "Growing up in the north-east in the 1980s made me become political – seeing industry wiped out." He has a degree and MA in History, but trained as an accountant and worked for Deloitte & Touche from 1996 until 2003, then for the One NorthEast Regional Development Agency.

"I wouldn't have wanted to be an MP for anywhere other than my home town," he says. "I was in the right place at the right time: Peter Mandelson resigned and I was a local councillor and treasurer of the local party. I thought I might never get the chance again."

Arriving at the Commons was "pretty daunting", but it is "a fantastic place to work: people are incredibly friendly and approachable".

Anne-Marie Trevelyan

"There is so much to fight for on behalf of the people who sent me here"

Anne-Marie Trevelyan, the only female ACA among the UK's MPs, was elected as Conservative MP for Berwick-upon-Tweed in 2015. She qualified as an ACA in 1992 at Price Waterhouse in London, then worked for private companies before moving north and setting up her own financial consultancy in 1997.

She now sees herself as a politician with a financial focus: "I do all my campaigning with a forensic head on – for me it's all about following the money." She is delighted to have been elected to the Public Accounts Committee.

The House of Commons is "not like a normal office", she says. "Working out how to get involved in the areas that are going to be most interesting is the biggest challenge. But just not getting lost is my main focus at the moment!"

Those political interests include improving education, particularly around maths and financial literacy; and simplification of the tax system, as well as local issues. She says: "There is so much to fight for on behalf of the people who sent me here."

Other ACAs working in Westminster

Justine Greening
MP for Putney, Roehampton and Southfields, was international development secretary in the last government.

Peter Bone
MP for Wellingborough.

Nick Gibb
MP for Bognor Regis and Littlehampton

Karen Bradley
MP for Staffordshire Moorlands and formerly minister for modern slavery and organised crime at the Home Office

Mark Harper
MP for the Forest of Dean and formerly minister for the disabled

Jeremy Lefroy
MP for Stafford

Alok Sharma
MP for Reading West

Kit Malthouse
MP for North West Hampshire and former deputy mayor for policing in London

TIME TO SEE THE CORPORATE COLLECTIVE

33

GODFREY REHAAG outlines a practical solution to make business work better for all those involved in it

It's been decades since people started to call for the corporation to somehow reflect its responsibilities to a wider range of stakeholders than just its shareholders, and to share more fairly the rewards of its activities. Yet despite all that's been said, frankly nothing has tangibly changed.

And a good thing too, says the business and investor community - for they argue that this is because the existing corporation works. It delivers the goods, while the argument of the activists is dismissed as "worthy waffle" (to quote *The Economist*). But they are wrong, too. There is much wrong with corporations, and they need a solution that doesn't involve stifling regulation and the loss of entrepreneurship.

So here it is - a practical solution. There is only one way of involving a wider range of stakeholders while promoting the vitality of business activity, and that is to make the framework for enterprise - the structure of the corporation - fit for purpose. The corporation is like a Victorian steam locomotive: it needs replacing with a more modern, dynamic structure to make it work better for all those involved, specifically by removing the dominance of capital as the sole source of enterprise and the owner of economic activity, and promoting the opportunity and incentive for all types of contribution to economic activity to participate in the corporation and share in the benefits it brings.

WHY DO BUSINESS ANYWAY?

The corporation is peculiarly lop-sided; it is owned by only one of the parties contributing to economic activity, and it is rigidly permanent in doing so. To see why that is wrong we need to take a step back, and ask why we humans do business in the first place. It is because we don't live alone and make our own clothes, find our own food, and make our own shelter. Because we live in a social setting that shares those tasks and then shares the outcomes. We each do only that which we are good at, so we need a mechanism to pull all this "division of labour" together. That's the corporation: it takes everyone's efforts and converts them into goods and services that satisfy their needs - and that also, along the way, rewards those efforts.

What's wrong is that the traditional corporation asserts that the provision of capital is the only important participation, so it should be in charge, while all other participators should be treated as economic servants. As a result, all these others get squeezed so as to provide profit for the capital providers. The problem here isn't necessarily the primacy of capital - there are times when risk capital is undoubtedly the most important participator. The error is the idea that a corporation should be permanently owned by someone who has given only one type of contribution to it at some stage in the past.

Share capital is usually only "risk capital", and therefore worthy of share ownership, for a short period (normally the first few years) of its actual provision: once a company becomes established, the share capital tends to be no different from bank borrowing; in many cases the original share capital could even be repaid. Yet those original capital providers (or those to whom they have since sold their entitlement) will own the company (or their share of it) for ever more.

That is what is wrong. We need to make the company more flexible so that different participators can share in the "equity" in different proportions at different stages of its life. The equity is the ownership that gives rights to control of the company and at the same time gives the rewards - ie, the net profits from trading. In the present rigid model, equity and share capital are one and the same. In a more flexible company, equity would be available for risk capital providers at the start, then switch to those upon whose contribution the company depends afterwards, such as the directors, the management and the workforce. Sharing the equity should be a more temporary phenomenon, applying only for the period during which the related contribution is critical. Perhaps later the company may be in difficulty and need risk capital again - at that point, most of the equity could then be offered again to the risk capital providers.

This is simple and practical to organise with a different form of constitution. By vesting the power of the initial equity in the directors, who are at the heart of business activity, they are then able to bargain with each of the subsequent participators in sharing out that equity in the form of 'equity units'. This in fact follows the natural course of events in practice. Under free market principles, the directors would then part with portions of the equity to those who are the most critical participators in the corporation. Equity is only made available for limited periods (say a five- or 10-year term or during the contributor's employment).

There is flexibility in recognising that, at different stages, different parties are the most critical. Initially it is usually risk capital, sometimes marketing experts and directors. Once established, it is bound to encompass the majority of the core workforce - but probably not every employee, as some will be employed on a casual or temporary basis, but it will include all those with a commitment to the company. Holding equity units does entitle the holder to both an appropriate share of the current profits and a proportionate share in the control of the business.

A FRESH APPROACH

Such a company would be organic, as it would respond to prevailing circumstances and adapt to conditions. It would be dynamic rather than static, as it always and only rewards those whose contribution (in whatever form) is most critical at the time, rather than a capital contribution in the historic past. It would encourage business activity because it rewards those who promote it, so there would be real economic growth. It would make business work better for all those involved in it. Most importantly, it would reduce inequality - there would be an automatic redistribution of wealth, but specifically to those helping to generate it, whatever their contribution to society, and away from those simply in possession of idle capital.

The new type of equity holder would be more actively interested in their company compared with the present disinterested shareholder. Core employees would become participators in economic activity and share in the rewards. The gross inequality that is most pronounced would begin to reduce, and the mere possession of capital would be rewarded much less than those who constantly recycle it in new, risky enterprises. Directors would have a more valid and meaningful reward structure that is precisely the same as for capital providers and workforce - at long last they'd all be on the same side.

Hostile takeovers (similar to empires controlling remote colonies) would be more difficult as shares would no longer give permanent ownership and dominion. Directors would cease to rule like a one-party state as there would be much more active supervision of them. The corporate mission would be something to be decided by the current body of those most involved, not something imposed from above by remote investors whose sole concern was an increase in the share price. As a corporation becomes more successful, its cost of capital would fall (instead of rising as at present), so that more of the profits would then be available for those upon whose efforts the business now depends, such as the workforce.

THE DRAWBACKS

The biggest criticism of this proposal is it reduces whatever advantages the feature of capital incentive is likely to have. Equity units (used in the new model) are designed to fairly distribute to participators the income arising from the economic activities of a corporation, and to provide the control of it in an effective way. They would do this more efficiently than a traditional share. What they do not automatically do - but what a traditional share does - is reward anyone for the capital value of a person's contribution.

The best incentive under the proposed model is through "post-active payments". When a person's contribution to a company ceases, they would normally cease to hold active equity units and therefore cease to share in profits after that date, but in the case of really key participators, they could bargain for five, 10 or 20 years of benefit from the units beyond the date of leaving. The traditional share, however, gives you a right to a share in the earnings of the company for the rest of the company's existence. This is the nub of the issue here. By contrast, equity units under our proposed new model offer you an appropriate share of current income plus perhaps five or 10 years of future earnings.

What exactly is the value of an individual's contribution to the economic activity of a corporation? It is the additional net surplus arising or anticipated to arise as a result of that contribution. In other words, it is the appropriate share of the profits arising now (in the current year) and possibly in the next few years to come. The benefit is not likely to last to the end of the company's life, as others will be making further and better contributions later. In the proposed model, this benefit is what the individual will receive her share in: the appropriate portion of the current surplus, plus her share in the surplus for the foreseeable future. Compare this with the incentive of traditional shares: they bring the possessor a share in the profits for the current year, plus the profits for the foreseeable future - and then the profits for ever more to the end of the company's life. Which reward is more appropriate?

The response to the problem of "capital incentive" is quite simple: if an individual's contribution is likely to have value to the company beyond the current year's trading, that contribution deserves an extension of the period for which the individual gets benefit from their equity units - the precise period depending solely on an estimate of the likely period for which the benefit is expected. The amount of benefit is exactly what actually arises over that subsequent term. It could not be more tailor-made.

The traditional capital-based corporation excessively rewards the early (capital) investors; the market then rewards successive investors who replace them; and this in turn forces the company to squeeze its other participators (employees, suppliers and customers) more to maintain current investors. The outcome is inevitably increasing gross inequality in wealth, without adding anything to society. In an inflationary environment, traditional shares tend to see growth in value, but this is not "economic growth". It does not put more products or services into more people's hands. It increases extremes of inequality by adding to those with existing wealth, squeezing it from other participants.

The capital-based corporation that causes all this is as outdated an economic model as the idea of owning slaves, or of having a colonial empire. It is concerned with the benefits of an activity solely and exclusively for a single participator - the party with capital or power - rather than the overall interests of the community as a whole. It is time to replace it.

A chartered accountant and chartered tax adviser, having retired from practice Godfrey Rehaag now spends his time on writing and research. His book, Inequality: A Practical Solution *is available in Kindle form on Amazon and is soon due out in print*

Talking the walk

ICAEW member **Christine Grant** reflects with Peter Taylor-Whiffen on a career path that has taken her from trainee accountant to director of services at the Ramblers

I've always thought that as long as you're clear about the path you want to take, and give yourself the right tools to do it, then with a bit of good fortune you can work round any obstacles and get to where you want to be."

Christine Grant is summing up the secret of her career success so far. But in a neat parallel, these words are sound advice for the members she looks after as director of services for the Ramblers.

To take the analogy further, Grant's journey to this point has seen a variety of landscapes and a couple of sharp left turns. But she says she has been prepared for every step – thanks to her training as an accountant.

"It has never let me down," she says. "I made a conscious decision at the outset of my career to train as an accountant because I thought it would give me the business skills I needed to do most things. Those skills have never failed me."

Grant took up her current post two years ago after a career which began as a trainee at Pannell Kerr Forster (PKF) and diversified into education and membership organisations, where her remit stretched further than accountancy. But being involved in business had been part of Grant's master plan from back when she was growing up in Ellesmere Port, Cheshire.

"I wasn't obsessive about numbers but they seemed to like me. So I went to Manchester University to study economics and social studies and came to London to gain a bit of experience in a business environment and then return north. But I never did go back – that was 1983 and I've been in London ever since."

After seven years at PKF she moved to Hays Allan (now haysmacintyre) as assistant manager before becoming audit manager at Bourner Bullock and then senior audit manager at BDO.

"I really enjoyed professional practice," she says. "It exposes you to so many different types of business. And I like the variety of numbers. They're only as useful as the context you put them into, but there are so many ways you can pull them all together."

In 2000 Grant "realised life might now be more interesting elsewhere". So she became group accountant at Kensington-based Raglan Properties and, apart from a brief stint as director of finance at Enfield College, spent much of the next 13 years overseeing the finances of various unions, taking senior roles at the Medical Defence Union, Unison, Amicus (during its merger with the TGWU to create Unite) and latterly the Public and Commercial Services Union.

"I like membership environments," says Grant, who also achieved an MBA at Strathclyde University in 2008. "From the word go I haven't just liked numbers, I've liked responsibility, and at the PCS I had responsibility to nearly a quarter of a million members. And as I was in charge of finance, membership, IT and pensions administration, there was a lot going on."

Public service seems to be something of a theme for Grant. Since she left the PCS for the Ramblers (which rebranded from the Ramblers Association in 2009), Grant has become a trustee at Community Focus, a multi-arts centre in Barnet, north London, and has finished training to become a magistrate. So is community stewardship important to her?

"I'd never looked at it like that," she says, "although I really enjoy working for organisations whose aims I support. The unions have clear objectives, as do the Ramblers. In the past 15 years I have been unafraid to take risks in my choices into environments where change is present and the outcome is unclear. But the roles on offer provided me with the experience I sought."

Getting her current job was fate, she says. "I've always been a rambler – not a fitness fanatic or someone who walked 50 miles, but I like a stroll. One day I looked on the Ramblers' site and they happened to be advertising this job, which suited me perfectly.

"I love it here as I'm doing a bit of everything – finance, HR, IT, membership recruitment and retention. Basically, everyone walks and I support them! The people are great and I like working with budgets – but I like to spend them, too. I'm much more involved in the operational side.

"It's a great time to be at Ramblers," she adds. "We're in our 80th year and it's such a vibrant place to work. We're halfway through our current five-year business plan – that strong sense of direction appeals to me. The Ramblers is a great organisation that does fantastic work on rights of way and promoting walking.

"But at a time when membership of all organisations is on the decline, we have to offer something to attract subscriptions from people who, let's be honest, could meet for free on Facebook. But we're doing that – we've realigned staff structures, redesigned the website and are developing a mobile site for people to use on their phones during a walk. Our membership has stabilised and is now starting to grow again. It's fantastically exciting."

And, of course, Grant still uses her core accountancy skills. "Finance is the calmest place to work in the organisation, although with property lease renewals and an historic pension scheme to manage, there's always something going on."

Naturally, she continues to enjoy rambling herself. "I like walking along the Thames Path – our offices are on the Albert Embankment and I love strolling near Vauxhall Bridge. But I also love green spaces. Where we [her partner is also a chartered accountant] live in north London, a five-mile walk can get us to Hampstead or Alexandra Palace. And I love riverbanks, too. Walking is a wonderful, spiritual pleasure."

Living in the capital also gives plenty of scope for further pastimes. "I love classical music so we go to the Proms every year. And I've been an Arsenal fan since the days of Charlie George, so we go to watch them too. I spend my days using my brain so it's good to simply relax.

"I've been fortunate," adds Grant. "I'm not someone who is thrilled by routine and I've been lucky to avoid that. I've adapted along the way and become more assertive. I'm delighted to be doing something I enjoy. The road ahead looks pretty good, too."

PHOTOGRAPHY: CLARE HEWITT

CAREER IN A NUTSHELL

2013-present director of services, Ramblers
2009-2013 director of finance, secretary to the pension trustees, PCS
2008-2009 director of finance and estates, Enfield College
2006-2007 director of finance, Amicus
2002-2006 financial controller, UNISON
2001-2002 financial controller, MDU
2000-2001 group financial accountant, Raglan Properties
1997-2000 senior audit manager, BDO
1991-1997 audit manager, Bourner Bullock
1990-1991 assistant manager, Hays Allan
1983-1990 trainee to supervisor, Pannell Kerr Forster

Technical
Key developments

Our at-a-glance guide to the latest measures practitioners need to know

AUDIT

ICAEW CONCERN ABOUT CASS AUDITS EXPOSURE DRAFT

ICAEW has issued a warning over new standards on providing assurance on client assets (CASS).

The Financial Services Faculty issued the warning in its response to the exposure draft (ED), telling the Financial Reporting Council (FRC) that its proposed draft standard on how CASS assurance is given to the Financial Conduct Authority (FCA) may contain too little guidance for smaller CASS audit firms in particular.

The faculty says that in moving away from the previous CASS audit Bulletin to the standard, "a significant body of useful material" has either been deleted or moved to the contextual material accompanying the ED.

It is also worried about the limited recognition of proportionality and limited scope for the CASS audit to adopt a risk-based approach in terms of reliance on controls testing and materiality thresholds which would be normally used under other assurance frameworks.

Other areas of concern include the FCA's reporting format, lack of detailed guidance on special reports and clarification around what constitutes a "reasonable level of testing".

icaew.com

ICAEW TO RETAIN AUDIT REGULATION

The government has confirmed that the structure for audit regulation will remain the same when the Audit Directive and Regulation are implemented in the UK.

In a written statement, BIS parliamentary undersecretary Baroness Neville-Rolfe said that the FRC will be the competent authority for audit regulation but legislation will require it to delegate regulator tasks as far as possible to the recognised supervisory bodies (RSBs), including ICAEW.

"Overall this would mean the FRC would only have to conduct audit inspections, investigations and disciplinary cases in relation to public interest entities (PIEs), and would oversee the work of the RSBs for other audits," she said.

The government has also confirmed that all PIEs will be required to put their audit out for tender every 10 years and change their auditor every 20 years.

Neville-Rolfe also made it clear that statutory provision for the regulation of accountants is a non-starter.

gov.uk

IAASB ON FINANCIAL STATEMENT DISCLOSURES

The International Auditing and Assurance Standards Board has made revisions to 15 International Standards on Auditing to focus auditors more explicitly on disclosures throughout the audit process and to drive consistency in auditor behaviour in applying the ISAs' requirements.

It has also issued a publication, *Addressing Disclosures in the Audit of Financial Statements*, which describes financial reporting disclosure trends and their implications from an audit perspective, and emphasises the guidance that the revised standards offer auditors in addressing disclosures.

iaasb.org

BUSINESS

ELECTION BOOST TO CONFIDENCE

UK business confidence has improved for the first time in 12 months following a decisive election result, according to the latest ICAEW/Grant Thornton UK Business Confidence Monitor (BCM). But despite the improved outlook, confidence is still well below the all-time high of a year ago, with businesses reporting a mood of uncertainty about the medium term brought on by the chronic skills shortage and muted investment expectations.

ICAEW director of business Stephen Ibbotson said: "A rate rise is expected at the turn of the year, and the living wage, apprentice levy and dividend tax changes announced in the Budget far outweigh the benefits from a corporation tax cut. We want capital investment to improve but the annual investment allowance has been set at a lower level than companies are used to. The government needs to keep a watchful eye on how these measures affect businesses in the medium term."

COMPANY

STRIKE LAWS TO BE TIGHTENED

The government is consulting on controversial new reforms designed to strengthen the UK's strike laws.

The Trade Union Bill will set a mandatory 50% threshold for ballot turn-outs in general and an additional threshold of 40% of support to take industrial action from all members eligible to vote in key sectors such as health, education and transport.

Other proposals, aimed at improving union practices and increasing transparency, set a four-monthly time limit for industrial action so that mandates are always recent. Ballot papers will have to carry a clear description of the dispute and planned industrial action so that union members know what they are voting for. There will be safeguards for non-striking members of a workforce so they can go about their business without fear of intimidation. The deadline for comments is 9 September.

gov.uk

RELATED UNDERTAKINGS

Changes to the way companies meet the requirements of s409, Companies Act

2006 came into operation on 1 July. For accounts signed on or after that date, groups no longer have the option of listing their principal subsidiaries in the accounts and attaching a full list to their next annual return. If they fail to attach a list of subsidiaries to the accounts, they will have to file a set of amending accounts in order to fulfil their filing requirements.
gov.uk

PROTECTION OF DESIGN RIGHTS

BIS has come up with new proposals that would mean UK designers would no longer have to include a design number on products to be confident of recovering damages for infringement. Under the proposed measures, designers would be able to make their products with a web link, rather than the registered design numbers. This would notify third parties of the relevant registered design rights and keep information up-to-date as intellectual property rights change.
gov.uk

FINANCIAL REPORTING

FRS 105 TAKES ITS PLACE IN THE STANDARDS SUITE

The FRSSE is no more - it has been replaced by FRS 105, *The Financial Reporting Standard Applicable to the Micro-entities Regime*.

The FRSSE's withdrawal is among a raft of accounting changes published by the FRC which update and simplify UK and Ireland accounting standards in the light of the new EU Accounting Directive.

As well as the new FRS 105, they include a new section 1A, *Small Entities,* for FRS 102 and other amendments necessary to ensure continued compliance with company law. The FRC has also published an *Overview of the Financial Reporting Framework*, which describes the framework applicable for accounting periods beginning on or after 1 January 2016 and includes key differences between the FRSSE and the new requirements set out in FRS 105 and s1A of FRS 102.
frc.org.uk

DRAFT FRAMEWORK NEEDS URGENT WORK

The FRC says that the draft new conceptual framework urgently requires further work before completion. In particular, it highlights flaws in the description of the purpose of the statement of profit or loss and in other comprehensive income.

In a recent statement expressing the "tentative views" of the FRC's accounting council on the International Accounting Standards Board's (IASB) exposure draft, the regulator "notes" that the description of the purpose of the statement of profit or loss is "a useful first step" but expresses its disappointment that the proposals are not based on "a holistic and fundamental analysis of the concept of financial performance. Such an analysis would clarify terms such as 'profit', 'return' and 'performance'," it says. "In the absence of such an analysis, there is no basis for the exposure draft's proposals."

It points in particular to the presumption of recycling for all income and expenses initially reported in other comprehensive income. This seems to require the inclusion of recycling adjustments - which are not income and expenses of the period - in profit. The presumption, it suggests, cannot be supported without an explanation of the significance of recycling adjustments. "It is not satisfactory for the conceptual framework to contain unsupported assertions and presumptions."

The FRC does welcome the IASB's change of heart that sees a greater emphasis on stewardship and the concept of prudence reinstated in the framework.
frc.org.uk

IFRS 15 IMPLEMENTATION DEFERRAL CONFIRMED

The IASB has voted to delay implementation of the revenue standard, IFRS 15, by a year. This means that the standard will now apply to financial years starting on or after 1 January 2018.

The delay will give the IASB more time to consult interested parties on specific amendments to the standard to clarify some of the requirements and to give examples to help implementation.

IFRS 15, *Revenue from Contracts with Customers*, was a joint initiative with the US Financial Accounting Standards Board (FASB) which has also agreed to defer implementation for a year for similar reasons.
ifrs.org

BUSINESS MODEL REPORTING – LAB NEEDS HELP

The FRC's financial reporting lab is calling for companies, investors and analysts willing to participate in a series of projects considering disclosure in business model reporting, principal risk reporting and viability statement reporting.

It particularly wants participants from the smaller quoted company sector, given the importance of good reporting in the absence of analysts' reports.

The aim of the projects is two-way: to help companies understand how the investment community uses the disclosures in its decision-making processes, what information is the most useful and how it could be best presented, and to provide investors with a better insight into the way companies develop and use their business model.

The first project will take place this autumn. The lab would like to hear from prospective participants by 15 September. Email FinancialReportingLab@frc.org.uk

TAX

DIVIDEND TAX DIVIDE

A lively debate is developing among tax practitioners about the new dividend tax rules announced in the Summer Budget. These will see the introduction of a universal £5,000 dividend allowance, above which dividends will be taxable at new, higher rates.

The profession has been inundated by inquiries from worried clients as the implications of the changes sink in. Some experts claim that the new rules will hit both wealthy investors and lower income shareholders. Participators in an ICAEW debate responding to an ICAEW tax blog (bit.ly/1VKIU61 - 17 July) are divided between those who believe that the changes are unfair for small business owners and pensioners, and those who think they create a more level playing field.

The ICAEW Tax Faculty has recorded a webinar, held last month, with suggestions for practitioners on how to prepare clients for the changes while ICAEW practice committee chairman Peter Hollis is calling for practitioners' views on how they think the tax will affect advice on incorporation (email phollis@hollisco.co.uk).

icaew.com

INCOME TAX AND NIC – THE OPTIONS

The ICAEW Tax Faculty has published a timely briefing paper for non-specialists and decision-makers on closer alignment of income tax and national insurance contributions. *Income Tax and NIC - Four Options: a Hard Choice* considers the pros and cons of keeping the status quo, biting the bullet and going for a full-scale merger, demerging NIC and taking it back to its roots as a contributory-based insurance system, or going for real improvements rather than a "sticking plaster" approach.

The paper admits that there are no quick fixes or easy solutions and that substantive reform will require hard choices which could have "profound consequences" for UK taxpayers. It also suggests that the government should wait until auto-enrolment and the change to a higher flat-rate pension are embedded and evaluated before deciding on any long-term action.

At the end of July, the Treasury asked the Office for Tax Simplification to prepare a report on closer alignment ahead of Budget 2016.

icaew.com

ER CHANGES CATCH FAMILY BUSINESSES

The changes to entrepreneurs' relief in March this year are having an adverse effect on normal business transfer arrangements - including passing family businesses on to the next generation, according to the ICAEW Tax Faculty. The provisions have turned out to be so restrictive that they are beginning to stifle growth, contrary to government policy.

In a letter to HMRC, the faculty says that the impact of the provisions in the 2015 Finance Act, which were originally meant to focus on stopping unacceptable tax planning arrangements, is actually "more widespread" and they are catching normal business transfer arrangements that are not tax motivated. As a result, they have the potential to deny thousands of family partnerships the benefit of the relief which reduces the tax take from 28% to 10%.

The faculty says that there are a number of major areas where the legislation needs reconsidering. In particular, it is concerned about the restriction on the availability of the relief both for retiring partners where they are associated with one of the participators or have retained a minority interest in the successor company, and for retiring sole traders where they are associated with a participator in a purchasing company.

The faculty has offered to discuss the "unintended consequences" of the legislation with HMRC to see how the rules can be changed to minimise or eliminate the number of genuine commercial structures adversely affected by the changes.

SUMMER FINANCE BILL 2015

The Summer Finance Bill 2015, which brings into effect many of the measures in the emergency Budget on 8 July, has been published.

It includes provisions to rule out rises in income tax rates and VAT for the duration of this parliament, and to increase the personal allowance to £11,000 in 2016/17 and £11,200 in 2017/18, the 40p rate of tax threshold to £43,000 in 2016/17 and £43,300 in 2017/18 and the effective inheritance tax rate for married couple and civil partners to £1m in 2020/21.

The Bill will cut the corporation tax rate to 19% in 2017 and 18% in 2020 and set the annual investment allowance at the permanent higher level of £200,000 for the rest of the parliament.

It will also introduce a new 8% tax on banking sector profits from January 2016, restrict pensions tax relief for top earners by reducing the annual allowance for those with a total income of over £150,000, and tighten up the rules to tackle tax evasion, avoidance, tax planning and tax compliance.

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

Raising the bar on small company reporting

The FRC's report on the standard of reporting from smaller listed and AIM-quoted companies opens debate on the practical issues of resources and reasonable expectations. Liz Loxton reports

Financial Reporting Council proposals to encourage greater focus on the standard of reporting within small-quoted companies represent a wide ranging foray into this area of debate. The watchdog's report *Improving the Quality of Reporting by Smaller Listed and AIM-Quoted Companies* covers off corporate governance, management issues, the reporting framework and touches on training and CPD.

The FRC has garnered praise for taking a pragmatic and fair-minded approach. At the Quoted Companies Alliance, for instance, Colin Jones, deputy chairman of the corporate governance expert group, says the overall tone of the consultation document was helpful. "There was a fear that they were going to be very critical rather than take into account the time and resource issues these companies have to meet quite onerous requirements," he says.

That said, the report begins with the premise that while the reporting system within this group is not fundamentally flawed, the quality of reporting and the level of attention paid to generating annual reports is lower than within larger listed companies. Its survey of investor opinion, meanwhile, found that investors rely on good quality reporting when looking at investing in smaller quoted companies and that 87% considered the annual report to be an important source of information for taking investment decisions. In fact, 27% said it was their primary source.

The FRC's report fits into lively international debate on how the smaller company sector can use capital markets to raise growth funds. The policy sentiment from the UK government and the EU is that smaller companies are vital for long-term sustainable growth and can bolster economies that are moving into recovery.

In February, the EU published its green paper *Building a Capital Markets Union*, which includes an ambitious programme to lower barriers to capital market entry by 2018. The FRC's Capital Markets Conference in June included a focus on the potential of international markets as viable sources of funds for smaller listed companies in search of growth capital.

To that end, the FRC is keen to provide evidence that will help connect the dots in a line from overall economic prosperity to individual markets functioning with a strong dialogue between companies, analysts and investors. In particular, the report serves to dispel the myth that investors pay little attention to annual reports within the small company sector.

The idea that annual report production is a compliance exercise rather than an activity that adds value means that boards deploy inadequate resources for their production, the report argues. Paul Lee, head of corporate governance at Aberdeen Asset Management, who spoke at an FRC event staged to highlight the report's findings, agrees. "Annual reports matter. It is not a surprise to see that being the result of the FRC survey," he says.

There is, he believes, a practical reason why the myth prevails. "The reason companies are under the misapprehension that the annual report does not matter is that they tend to get out and talk to the market after publication of the prelims and before the publication of the annual report - inevitably the discussion is about the prelims rather than the (unpublished) annual report. And the market moves when the prelims are produced because that's digested information provided for that purpose - and discussed by brokers to generate trading activity - whereas the annual report takes

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longer to digest, and is read by investors over a period of time rather than assessed in a morning or single day," he says.

Another strand within the FRC's work on smaller listed companies is to identify areas where preparers struggle, and then promote debate on where it might help, says Phil Fitz-Gerald, head of supervisory enquiries at the FRC. It would be a natural step, for example, for the FRC Financial Reporting Laboratory to highlight small company case study work and generate best practice examples. The FRC will also include specific consideration of smaller quoted companies in its Clear & Concise reporting initiative.

The report also mentions the idea of more focused training for finance professionals and CPD input. There are concerns around how this might work, however. The issue of time and resources remains, says Jones. "Getting participation at that level is difficult," he says.

The exercise also served to crystalise market views on the right reporting framework for smaller-listed companies. "The overwhelming response from investors and preparers was that IFRS was the right framework from the point of view of consistency and comparability," says Fitz-Gerald. "But it does give rise to accounts which might be long and contain information that's overly complex for companies of this size."

Nigel Sleigh-Johnson, head of the financial reporting faculty at the ICAEW, says: "We often get asked whether IFRS is the best set of standards for smaller listed companies, so its inclusion [in the report] is welcome.

"I don't think the answer is changing framework. We argued strongly against a lighter version of IFRS. These are companies raising money from the public markets. Cost effectiveness is important, but so is information for investors."

Given the scope within IFRS to make disclosures appropriate to the company's business model and activities and FRC's remit to encourage accounts that are fair, balanced and understandable, looking at how companies can maintain their adherence to international standards while also keeping to a concise length will be a future focus, says Fitz-Gerald.

"We argued strongly against a lighter version of IFRS. These are companies raising money from the public markets. Cost effectiveness is important, but so is investor protection"

"We will look at areas where we could help this issue," he says. While smaller companies have a clear disadvantage in terms of resourcing, they have a key advantage on this front, Lee says.

In essence, it boils down to the relative simplicity of their structure and business models. "They don't tend to have the derivatives and pension issues that clutter large company accounts – and certainly one hopes that the disclosure initiative will encourage more to expel such information from their reporting so that clutter and irrelevance is reduced.

"More fundamentally, their businesses are generally simpler and so can be described more straightforwardly," he says, adding that their lesser resources also make it easier to establish a strong narrative and tone throughout their accounts. "This is something that comes across strongly for investors and is a powerful and positive signal about the good sense of the controlling mind of the organisation.

Large company accounts written by committee obscure the controlling mind of the organisation – or worse, tend to give the impression that there is no mind fully in control – while smaller companies can more easily send the message that there is a controlling mind genuinely running the show. Company reporting can and should display this sort of intelligence."

The report has provoked interesting debate around the role and independence of auditors. There may be an underestimation on the FRC's part, Nigel Sleigh-Johnson suggests, on how much auditor input there is on report generation.

Ethical guidelines prevent preparation, but audit firms still make a contribution to the process, he says. "It doesn't mention the idea of companies paying other firms for help with compiling accounts. There is a cost, of course, and often little budget for additional staff. But there is a useful message from the FRC we all need to think about: how we support small companies," he says.

Overall, the report has been well-received, but there are concerns from the QCA about the focus of the report and potential omissions at the smaller end of the small-listed-company spectrum. "My fear when I read the scoping of this and the size of the companies the FRC looked at," says Jones, "is that there is a concentration on companies with market capitalisation of £5m to £100m. But there are lots of companies below that. And there's a question of proportionality in terms of what you can expect of smaller companies. The FRC is going in the right direction, but it is still fairly big company focussed, rather than asking – what does a smaller company need to do – and working from the bottom up."

Visit icaew.com/frs for tips on how to manage reporting requirements

Boosting European expansion

A European Directive looks set to cut red tape to help SMEs and individual entrepreneurs operate in other member states. Rachel Willcox reports

With Euroscepticism gaining traction across all member states, and the Greek debacle doing little to quash discontent, attempts by Brussels to reduce the bureaucracy facing small and medium-sized businesses have moved up a gear in the last 18 months in an attempt to curb "Brussels bashing".

According to Eurobarometer statistics, nearly three out of four EU citizens think Brussels creates too much bureaucracy. Even the European Commission accepts that today's SMEs - the "lifeblood" of the European economy - face too many barriers that hamper their economic activities across European borders. But it also recognises the essential role that SMEs have to play in strengthening the EU economy, prompting a number of European proposals designed to soften the administrative blow.

The most recent is a European Directive put forward by the European Commission on 9 April last year aimed squarely, it says, at addressing some of the obstacles SMEs and individual entrepreneurs face when looking to carry out their activities in other member states.

The Directive on single-member private limited liability companies, in draft form since 28 May, sets out to standardise the requirements for the creation of companies with a single shareholder, remove the burdensome process of registering subsidiaries and thus make it easier - and cheaper - for the EU's 5.2 million single-member private limited liability SMEs to be active outside their own country.

Huge disparity between national company laws is a thorn in the side for many SMEs with European aspirations, the Commission warns. It blames the complexity and cost of different company registration processes for contributing to the fact that only a small number of SMEs (around 2% according to EC figures) operate abroad, in the form of a subsidiary, branch or joint venture.

The Directive does not introduce a new legal form at a European level but offers a common framework and calls on member states to provide in their national legislation a company law form for single-member private limited liability companies with the same requirements across the EU, and a common name - Societas Unius Personae (SUP).

A major innovation in the draft Directive is that the SUP can be registered online using templates of articles of association provided by member states. The registration of the SUP must be completed within three working days and the Directive states that it should be possible for all communication between the body responsible for registration and the founder to occur electronically.

While attempts to slash red tape for firms in the UK have resulted in a streamlined business registration process allowing SMEs to incorporate easily and cheaply online with Companies House, the same cannot be said of some other EU countries, such as Greece - currently 61 in the World Bank's Doing Business 2015 rankings, where experts say onerous regulations are in part to blame for a huge grey economy.

A UK government Department for Business, Innovation & Skills (BIS) spokesperson said: "We broadly welcome EU plans to cut red tape for SMEs who want to operate across the continent by reducing the costs and administrative burdens involved. This proposal also fits well with the digital single market agenda. The directive is still under negotiation and the UK will continue to engage to ensure the best possible outcome for UK entrepreneurs."

Charles Worth, business law manager at the ICAEW, says there is more that could be done to help level the playing field for companies with their sights set on European expansion by making sure that SMEs can operate through branches or establishments easily and efficiently. And he is not alone in wondering if the Directive signals a desire by the Commission to have a bigger say on European harmonisation of company law.

"You have to ask if it's justified to use European law to impose an EU-wide regime to sort out inefficiencies in the regimes of particular member states," he explains.

While this Directive focuses on the speed and ease of incorporating, an amendment to the Anti Money Laundering Directive backed by EU legislators in January will see central registers in EU countries listing the utimate owners of companies and open to both the authorities and to people with a "legitimate interest", such as journalists. The UK intends to make its register of "people with significant control" open to the public. "It's an additional disclosure regime in the UK that is creating a great deal more red tape."

Richard Edmundson, PwC Legal partner and head of corporate and international business reorganisations, agrees that the implications of the Anti Money Laundering Directive, and specifically the issue of client ID checks, have so far not been adequately addressed by the Directive. He says: "I haven't seen any proposals but that must be dealt with." He also warned that removing the need for lawyers, notaries and translators could result in a backlash across those professions in certain countries.

Although the SUP promises simplification, it also offers the potential for abuse, warns Dr Norbert Morawetz, an expert in

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entrepreneurship and starts-ups at Henley Business School. "Companies may set up subsidiaries in countries with lower taxation, even if they don't have much interest in internationalising. There's a fair chance there will be a bit of tax abuse going on."

Nonetheless Morawetz is confident the Directive is good news for swathes of European businesses. "Small countries such as Slovenia, a country of two million people with a small domestic market, work cross-border all the time and are born global. It's a good thing for them. Considering the growth in flexible working and self-employment, I think this recognises that the economic landscape has moved on and the law needs to change to reflect that."

Others, meanwhile, express concern that a simplification of the company registration regime will result in more of a slap-dash attitude to other regulatory requirements. Danielle Stewart is a partner at Baker Tilly and a member of the European Financial Reporting Advisory Group's SME committee, where she advises the EC on matters concerning financial reporting regulations and company law directives. "If you're forming a company in another jurisdiction you need to think about the fact that there are different rules and regulations," she says. "Setting up is one thing but you also need to think about your reporting and tax-paying obligations."

The Directive also proposes that capital maintenance requirements – the obligation to pay in a minimum capital amount and to maintain it for the duration of the existence of the company – are replaced by a balance sheet/insolvency test. In order to ensure adequate protection of creditors and other stakeholders, member states will have to ensure that their national laws provide mechanisms to prevent SUPs from being unable to pay their debts.

Despite harsh criticism, especially from Germany, the abolition of the capital maintenance rules would also significantly simplify the transfer of funds within corporate groups. The Commission maintains that the rules will ensure a high level of protection to creditors.

Political motivation aside, the appetite for an SUP seems strong. A consultation with stakeholders including businesses, trade unions, academics and investors, conducted in April 2013 found that 86% agreed that the overall participation of SMEs in cross-border activities in the EU was low in relation to their potential.

It also found that 63% of the 500 respondents (including three-quarters of companies and 52% of business federations) supported a legislative initiative on single-member private limited liability companies to encourage and or facilitate an increase in SME cross-border activity.

Christopher Bovis, professor of business law at Hull University Business School, is confident the new Directive will dramatically boost SME cross-border expansion from the "miserly 2%" of the total corporate mobility volume that SMEs' physical presence makes up in other EU member states, to at least 5-7% and potentially 10%.

"First, the red tape is reduced, therefore there is less hassle on the part of the SME that wants to expand; second, the liability of the single shareholder is capped to the subscribed capital of the SUP, which is a major relief in corporate governance terms," he says, adding that UK SMEs should welcome the introduction of such measures. "They have a tradition of being outward looking and have a sizable interest in many economic sectors. If the new system facilitates their expansion, they will grasp the opportunity."

Not everyone shares his optimism. As a red tape challenge champion for BIS, Danielle Stewart welcomes any attempts to slash bureaucracy "as long as it solves more problems than it causes", she says. However, she remains unconvinced that the move towards harmonisation of company registration processes will have any discernible impact on cross-border expansion.

"I have a portfolio entirely made up of companies with a global flavour. Just because you have new rules to make things easier, they are still new rules for them to get their heads around. The reason people have problems setting up business in Europe is down to the fact that we all operate in a different way."

Changing tack over tax

Changes coming from discussions on the international tax system are already affecting UK groups, as Caroline Biebuyck finds out

Are you involved in overseas business? Then hold on to your hat. The world of international tax is changing - and fast. Public pressure and a realisation of how much cash-strapped governments could gain from new base erosion profit shifting (BEPS) rules have pushed the OECD and G20 BEPS project into overdrive, with the final proposals due for release in October. The different actions are at various stages, a few final while others are the subject of furious negotiation, if not downright disagreement. But the one message that's coming loud and clear from the talks is that the rules are changing dramatically. "Companies that have their head in the sand and think they can carry on as they have always done need to think again," says Ian Young, ICAEW Tax Faculty technical manager. "Gaming the system in the way people used to in the past won't be an option any more. Companies will need to think quite seriously about what to do."

Businesses should already be gearing up for country-by-country (CBC) reporting of their tax and profits. New CBC requirements will cover accounting periods starting from next January, meaning companies with a December year-end will be reporting their 2016 results in a CBC template to their tax authorities by the end of 2017.

To be ready for this, companies need to check their accounting systems are capable of producing the CBC report; the better prepared are already doing dry runs using last year's financials. But they should also be thinking about how the report will be interpreted, considering whether they need to have a stronger transfer pricing defence file - or even think about restructuring.

While the information in the CBC report won't be audited, it will need to be able to stand up to scrutiny. For instance, there is a question about how it maps to financial statements, says Chris Morgan, head of tax policy at KPMG. "If the figures don't tie into the accounts, will tax authorities start to pose questions?" he asks. While the current OECD proposals state the information will only be shared between tax authorities, in July the European Parliament approved a CBC reporting obligation on multinationals to "openly declare the taxes they pay in each country they operate in."

"Would you want your report to be on the front page of the *Financial Times* or the *Daily Mail*?" Morgan asks. "If not, be prepared to explain why you are paying tax where you are."

While there was little dispute in BEPS talks over transparency actions, areas in the substance workstream, such as transfer pricing and permanent establishment, have proved to be far more controversial. The basic idea is that profits should arise where the substantial activity that earned them took place. This means asking questions such as: who creates value in an organisation, where they do it, how they do it, and are they are being adequately rewarded for it in the territory in which they operate? "In general terms, the developed world says profits should be attributed to where the producers and consumers are, the US says it should be where the innovators and entrepreneurs are, and the EU sits somewhere in between, probably closer to the US," says Matthew Mealy, international tax services partner at EY.

"While companies are paying close attention to this we're not seeing transformational change because there is no consensus or clear conclusion."

Instead there is unilateral action, such as the diverted profits tax (DPT) brought in by the UK government in its April Budget this year. The first part of the DPT follows the current BEPS position, so that if a company has activities in the UK but does not recognise a permanent establishment and does not tax that activity here, the DPT will apply to ensure it does. However the second leg of the DPT goes further, with an economic substance test, says Stella Amiss, international tax partner at PwC. "It says that if you make a payment out of the UK and the payment is made to something which is subject to low tax and there isn't enough substance to justify the payment, then the DPT might apply."

The first test, on the permanent establishment, answers some of the criticism levelled at multinationals that have a large presence in the UK and trade with UK customers. This led to DPT being dubbed the "Google tax", but it was Amazon that blinked first, announcing in late May this year that it had revamped its tax structure in Europe so that it was starting to pay tax on its sales in the countries in which the sales were made (including the UK) rather than paying tax in its European base of Luxembourg. The background to the second DPT test is that transfer pricing has historically looked at the direct counterparty to a transaction, ignoring what has happened further on up the supply chain.

The new law allows HMRC to look to the ultimate destination of profits to work out whether to impose a DPT charge, says Mark Simpson, partner at law firm Squire Patton Boggs. "Companies can look to agree adjustments to their transfer pricing arrangements to do whatever DPT would have done - effectively limiting the deductibility of costs - so as not to suffer the 25% tax charge."

DPT is aimed at companies that have used the old permanent establishment rules to minimise their UK presence or used the old transfer pricing rules to minimise the allocation of profits between a UK and an overseas entity, says Bill Dodwell, head of the Deloitte Tax

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"If you use the tools and techniques of international tax planning to achieve significant low-tax income, your tax affairs will become more complex"

Policy Group. "The government is essentially saying, you've done something cute to avoid having a taxable presence, almost certainly the new BEPS rules will mean you will have a taxable presence in the future, but we would like some diverted profits tax on that now," he says. The UK's international partners have criticised it for introducing the new tax. "There are no guarantees this will be consistent with where the recommendations land or how different territories decide to implement it to work in a way that is consistent and that avoids double taxation," Amiss says. "Australia has introduced its own DPT, and it's different from the UK version. Other countries may bring in similar taxes before October."

The final BEPS workstream, and one which has generated activity in global groups, is coherence - dealing with technical arbitrages between different tax regimes. This includes areas such as hybrid mismatches, where shares in one country are treated as debt in another. Groups need to think about how the new rules will affect their financing, considering whether they need to restructure or change in a way that falls outside the rules that are being introduced. "This activity is not strategic or global - it very much depends on where you have your footprint and what kinds of structures you have," explains Mealy.

Amiss's advice for companies is to highlight their key risk areas in the different BEPS workstreams. "At the moment there are tight rules on how long you spend in different territories and whether that creates a taxing obligation," she says. "If these rules are ripped up, that has implications on how you pay tax, your compliance requirements in different territories and your contracts. Changes in the tax cost on a long-term contract could affect the contract's viability."

Whatever agreement is reached on the 15 BEPS action points, a big question hangs over execution. The combination of a unique tax system and political stalemate in the US suggests there will be no major changes there until at least after the next presidential election - and possibly not even after that.

"I suspect the OECD can say what it likes but member states will drag their heels in implementing anything co-ordinated," says Simpson. If the US, or other countries, backed off, there would simply not be a global approach to all the issues. "Some countries would implement the BEPS recommendations, giving the potential for double taxation," says Morgan.

Whatever happens, companies can look forward to more work, more volatility, increased complexity and tax rates creeping up. "There will be profound changes to the way international tax works and to the way individual regimes tax business," Young cautions. The increased complexity means companies need more resource and capability, says Mealy. "If you use the tools and techniques of international tax planning to achieve significant low-tax income, your tax affairs will become more complex. There will be more to do - the law will change more quickly and the enquiries will be tougher due to the disclosures in the CBC report."

Francis Clark: Rock solid

Xenia Taliotis profiles a truly local firm built on a strong business plan, and that likes to keep everything under one roof

Francis Clark was founded in 1919 by Francis S Clark in Newton Abbot. Now with 49 partners and employing more than 400 staff and with seven offices in the South West (in Salisbury, Exeter, Plymouth, Taunton, Tavistock, Torquay and Truro), it is one of the largest and most prestigious firms in the area, proud of being a truly regional practice. The firm's reputation, says partner and family business expert Paul Giessler, rests on giving excellent service, based on a grass roots understanding of the issues that concern its clients. "One of our defining characteristics is that we're part of the fabric of the businesses we work for; we're completely embedded in our local communities and so face many of the same issues, which gives us an insight into how we can best help them."

It's essential, he says, that Francis Clark remains on its clients' doorsteps because the firm is all about offering a personal, face-to-face service.

"We don't want to be a satellite firm, dropping in only to troubleshoot for clients," says Giessler, "and we don't want to set up elsewhere. This is our region, and we've been here for nearly a century. What works best for us, and for our clients, is us being in close contact and proximity so we can address any concerns before they become problems," says Giessler.

Finding the right balance between being a specialist firm and a general practitioner has served Francis Clark well. The generalists, says Giessler, are out in the market place, finding clients and then building and maintaining strong relationships with them, while the specialists step in whenever needed. "Essentially we're a general practice," says Giessler, "but we employ in-house specialists, which means we never have to leave our clients wanting or needing to go elsewhere for advice. Highly specialist firms lose business from clients who need day-to-day accountancy services, while those with no in-house specialists lose out when clients need expert advice. Our model relies on having both."

Francis Clark has numerous specialisms, including VAT (it won VAT consultancy of the year in 2014 at the LexisNexis Taxation Awards), not-for-profit and corporate finance, for which it recently won Corporate Finance Advisory Team of the Year and Deal Maker of the Year at the South West Insider Dealmaker awards.

Another specialism is family business, and the firm has been actively involved with the Family Business Growth Programme (FBGP) since it was launched in 2012. The programme, which was set up by Clinton Devon Estates in partnership with the

LESSONS LEARNED

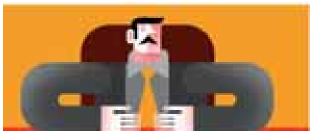
1 A willingness to learn is fundamental to progress, and the practice has taken on many valuable lessons over the decades – the most important one of which is "**to thine own self be true**". Giessler says this is the one piece of advice he would most like to pass on to other firms. "You really do need to have the strength of your own convictions, to know and stick to what you stand for. If you lose sight of that, you lose sight of everything."

2 He admits that this hasn't always been easy: "There have been times when we've looked over our shoulders at what our competitors are doing, and had a knee-jerk wobble, had a moment of thinking maybe we should adopt some of their practices or go after different types of business. But then we've thought about what that would mean and realised that it wouldn't work for us. My mantra is '**you won't make it if you fake it**' – it's as simple as that, so I would urge all young practices to build an identity based on their core values and to always think about that as they grow."

3 **Of equal importance is having a long-term business plan**. Francis Clark holds a strategy conference every five years to draft, in considerable detail, its growth, profit, staff and marketing goals for the next five years. It's not a plan that sits on the shelf, but one that is regularly reviewed. Developing staff is key, but again, the question is one of balance, of promoting people from within while also keeping an eye out for outside talent who'll be able to take the firm into its next century.

4 "Developing our people is critical to survival," says Giessler, "and **any firm serious about its future will spend big sums training and retaining its staff**. Francis Clark promotes people on merit – when they've earned their partnership; if you do otherwise, if you promote because you've suddenly found yourself needing a partner, then you'll soon regret your decision."

5 **The firm has a rising stars programme designed to spot and nurture those who have the potential to soar**, and headhunts to fill any gaps in its staff resources. Recently it has recruited a full time director of marketing, for instance, who'll help create a stronger brand for the firm.



Founded in 1919 by Francis S Clark in Newton Abbot

Sees itself as a truly regional firm and all expansion has been in the South West

Seven offices in Salisbury, Exeter, Plymouth, Taunton, Tavistock, Torquay and Truro

Now employs over 400 staff, including 49 partners

Areas of expertise include VAT, not-for-profit, corporate finance and family business

One of 24 professional firms to have been invited to participate in the Family Business Growth Programme

University of Essex and with a government grant of £2.9m, gives family businesses from Devon and Somerset access to specific expertise from professional firms and advisers.

"Three quarters of our clients are family businesses," says Giessler. "They're hugely important to us, but beyond that family-run concerns are of huge importance to the country as a whole, contributing £1.1trn to the economy. And yet they rarely survive beyond the second or third generation, mainly because of poor - for which, in many cases, read no - succession planning. We became involved with FBGP so that we could help our clients. We have great expertise in this area already, but it was good to share and exchange knowledge with other professionals and to see if there was anything we could be doing differently.

"We're constantly evolving to stay ahead, not only of our competitors but also of our clients," says Giessler. "We've got clients who've been with us for four or five generations but now that the grandchildren and great-grandchildren are joining us, we need to be able to talk to them in their language and to fit in with how they want to work. As a for instance, we're spending an eye-watering amount on technology so that we can communicate across all platforms, and with all people, while still remembering that technology means different things to different clients: to our older clients, it may mean something as basic as sending them the odd email; to their grandchildren it probably means doing everything remotely. The important thing is to find the right solution for each individual. You can't cling on to the past or be scared of the future. You have to throw your arms wide open and embrace it."

> "The important thing is to find the right solution for each individual. You can't be scared of the future"

For any practices looking to manage growth, Giessler has this advice. "Some firms go all out, sometimes acquiring other firms that aren't a good fit for them - a course of action that is more likely as not to end in failure."

What he does recommend is building relationships and getting out to meet new contacts. "People often find the thought of networking quite off-putting", says Giessler, "but it needn't be."

KEYS TO SUCCESS

Francis Clark has enjoyed excellent growth even through the toughest years of the recession, mainly by gradually building its client base, through networking, referrals and added value for clients. "Our industry is littered with the remains of firms that have paid the price for going after rapid expansion without having the profitability in the business to support their growth," says Giessler. "You must never, ever take your eye off your profit line.'"

Much of its new business comes from referrals; it's the most recommended firm in the South West and it works hard at remaining so by going out and forging new contacts. Networking's not about schmoozing, says Giessler, but about "having good conversations with new people and hoping you've made a decent enough impression for them to contact you if they need an adviser".

There have been a few mergers along the way – but always with firms that have had a similar approach, and the firm has walked away from offers that have come from practices that have looked attractive from a numbers perspective but whose ethos was at odds with theirs.

Francis Clark prospers because it has a rock-solid business plan and the right staff to execute it. "I've come across other general practice firms that sub-contract difficult cases, or refer clients on to others, but that's not how we operate. We like to keep everything under our roof so that we can deliver what our clients want."

BUSINESS ADVICE

Tax on dividends

Although much of the recent Budget was geared towards making the UK more competitive to ensure that it remains a desirable place to do business, there was a blow for small business owners: a 7.5% increase in the effective rate of tax on dividends. As Nigel Syson at Haines Watts writes on ICAEW's Business Advice Service Blog, this is an unwelcome change for entrepreneurs, who have traditionally been given the flexibility to determine how they are remunerated from their businesses - salary, dividend and/or pension contributions. Dividends are more tax efficient than salaries, while pension options are being steadily reduced.

"Many [of our] clients have fixed their income at just below £100,000 to avoid the penal rates of tax in force for income between £100,000 and £120,000," explains Syson. "Regrettably, the Budget did nothing to address this anomaly. I suspect if this penal tax band was removed a significant number of those clients whose income has been capped at £100,000 would be prepared to increase their income further and thus improve the tax take - an example of the Laffer curve in action. The government will raise £1.5bn through this measure, money which many entrepreneurs will feel would have been better left with them as a reward for their risk taking. In practice, this means that careful tax planning is more important than ever."

ILLUSTRATION: MARIA CORTE

FOR MORE INFORMATION
businessadviceservice.com
icaew.com/taxfac
icaew.com/members

Business clinic

Ahead of our new regular practice advice clinic, ICAEW Support Member Carol Warburton tells us how she helps peers in need

There are 52 chartered accountants who act as voluntary support members each year for ICAEW: their role is to offer confidential support to their peers on anything from regulatory matters to the death of a partner. Carol Warburton is one such member. A director and audit specialist at Cardiff-based practice KTS Owens Thomas, she has been doing the role for seven years, she says, "because I'm in practice and involved in practice issues, so I thought some of my knowledge would be useful to share with others."

The Support Members scheme offers advice, guidance and support as soon as it's needed, says Warburton, and most enquiries tend to be around regulatory areas, although the big issue through and after the financial crisis was unemployment and redundancy. Queries relating to technology are also starting to become more common. So by regulatory issues, what does she mean? "As a practice member we are required by ICAEW to meet certain standards, rules and guidelines. Sometimes members are found to be lacking in particular areas and they have to deal with the consequences of that. They turn to us at that point," she says.

Whether it's a disciplinary issue or investigation, or a member phoning up to pre-empt something, such as a partner leaving, the Support Members scheme is available to help. "We make sure that on a practical, humane level, matters are dealt with well, negotiated well, but also that members don't drop the ball in terms of the regulatory requirements that might be upon them."

Warburton says she has never spoken to a member who has deliberately flouted the rules. "They trip over these things and it's part of a whirlwind of issues that might happen at any point in time," she says. The issues tend to be more practical than ethical, simply because chartered accountants are "hard-wired" to protect public interest. "Your ethical rules are very strong," she explains. "They're the fallback, the core of everything we do. In fact, that's what causes conflict sometimes, because members will find themselves in a situation where their professional understanding puts them in a very difficult situation. The ethical requirements are so heavy upon them that they become quite stressed."

Although Warburton doesn't single out anything alarming on the horizon for practices, she does see succession planning as an issue. That's why it's useful that the service is also available to members' families, she says, adding: "When members speak to us, they speak to us on a confidential level." So if a member feels embarrassed about raising an issue directly with ICAEW, they can go to a support member who has the experience to help. "We don't have to report anything, so they can open their hearts," she says.

Carol Warburton
ICAEW Support Members scheme

Report listings

These reports are summaries. Further information is available from icaew.com/publichearings or from the Professional Conduct Department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Barry Koten, 16 Whitethorn Gdns, Hornchurch, Essex RM11 2AL
Complaint He failed to comply with a written assurance he gave on behalf of his firm, Koten & Co, that he would complete a review of the firm's compliance with the Clients' Money Regulations (CMR) on an annual basis.
Order Reprimand, £1,200 costs.

● Philip De Figueiredo, Le Jardin, La Rue Du Vieux Menage, St Saviour, Jersey JE2 7XG
Complaint He was sentenced to six years' imprisonment (later reduced to two years) by the Supreme Court in Queensland for involvement in two conspiracies to commit tax fraud in Australia.
Order Exclusion, £3,900 costs.

● Abul Nuruzzaman, 35a Westbury Ave, London N22 6BS
Complaint He failed to comply with written assurances he gave on behalf of his firm, N Zaman & Co, following a QAD visit, that he would ensure the necessary requirements for the terms of engagement would be given to all clients in compliance with the guide to professional ethics, and review his approach to preparing limited company accounts to ensure full compliance with disclosure requirements.
Order Severe reprimand, £3,500 fine, £3,000 costs.

● Anthony Mehigan, 10 Charles II Street, London SW1Y 4AA
Complaint For around eight years, he engaged in public practice without professional indemnity insurance (PII) in breach of regulation 3.1 of the PII regulations. As a director of NT advisors, a limited company that later became an LLP, he approved the 2006, 2007, 2008 and 2009 financial statements which stated that they were exempt from audit when they weren't because either the balance sheet total or the turnover was in excess of the audit threshold at the time.
Order Severe reprimand, £7,500 fine, £10,000 costs.

● Richard Brown, 1 High Street, Roydon, Harlow CM19 5HJ
Complaint In November and December 2011, he signed two accountant's reports on behalf of his firm, Richard Brown & Co, under Ministry of Justice Claims Management Service Regulations – Client Accounts Rules 2006 when he was not qualified to do so.
Order Reprimand, £1,000 fine, £5,000 costs.

● EY LLP, 1 More London Place, London SE1 2AF
Complaint On or before 13 August 2009, in connection with the IBR engagement, the firm failed to identify and/or evaluate threats to compliance with the fundamental principles, contrary to the Code of Ethics, because the firm's policies, procedures and/or systems put in place to prevent the firm, its partners and/or employees from accepting engagements which would be contrary to the Code, were in this respect poorly designed and/or poorly executed and/or not complied with. As a result, the firm failed to disclose to its prospective client, X, that neither Margaret Mills, nor any other EY insolvency practitioner, could accept any subsequent formal insolvency appointment and to provide the opportunity for X to withdraw instructions as a result of the disclosure of this impediment; and so it failed to provide an opportunity for X to disclose the intended IBR engagement and EY's impediment to its secured creditors to allow the secured creditors the chance to object to X appointing EY. The failure to take such steps meant that the firm's acceptance of the IBR engagement was contrary to the Code of Ethics.

On or before 15 September 2009, in connection with its engagement to carry out additional work to the IBR engagement in order to plan for the contingency of the administration of Y, the firm failed to identify and/or evaluate threats to compliance with the fundamental principles contrary to the Code of Ethics because the firm's policies, procedures and/or systems put in place to prevent the firm, its partners and/or employees from accepting engagements which would be contrary to the Code, were in this respect poorly designed and/or poorly executed and/or not complied with. This led to the firm accepting an engagement that was inappropriate for it to accept.

On or before 26 November 2009, in connection with the appointment of Mills and Mr X as joint administrators of Y, EY failed to identify and/or evaluate threats to compliance with the fundamental principles contrary to the Code of Ethics because the firm's policies, procedures and/or systems put in place to prevent its partners and/or employees from accepting engagements, which would be contrary to the Code, were in this respect poorly designed and/or poorly executed and/or not complied with. This led to the firm's failure to prevent Mills and Mr X from accepting the engagement which was inappropriate for them to accept.
Order Severe reprimand, £250,000 fine, £95,000 costs.

● Margaret Mills, 1 More London Place, London SE1 2AF
Complaint On or before 13 August 2009, in circumstances where she should have known that the IBR engagement may lead to a formal insolvency appointment, she failed to ensure that EY disclosed to its prospective client, X, that neither she nor any other EY insolvency practitioner could accept any subsequent formal insolvency appointment and to provide the opportunity for X to withdraw instructions as a result of the disclosure of this impediment; as a consequence, she failed to provide an opportunity for X to disclose the intended IBR engagement and EY's impediment to its secured creditors to allow the secured creditors the chance to object to X appointing EY. The failure to take such steps meant that EY's acceptance of the IBR engagement was contrary to the Code of Ethics.

On or before 15 September 2009, she failed to take any, or any adequate, steps to prevent EY from accepting an engagement to carry out additional work for Y so as to plan for the contingency of its administration ("the Contingency Planning engagement") when she should have known that the engagement may lead to an insolvency appointment that would not be appropriate for her or any insolvency practitioner at EY to accept. The failure to take such steps to prevent the acceptance of the engagement was contrary to the Code.

On or about 26 November 2009, she accepted the appointment as administrator of Y contrary to the Code as Ernst & Young Société Anonyme, an EY associate, had carried out audit-related work for Y in the previous three years. Between 26 November 2009 and 1 December 2011, in connection with her appointment as administrator to Y, she failed to make and/or retain sufficient records contrary to the Code of Ethics.
Order Severe reprimand, £15,000 fine.

Members facing disciplinary proceedings who need help and support can call ICAEW's Support Members scheme in confidence on 0800 917 3526

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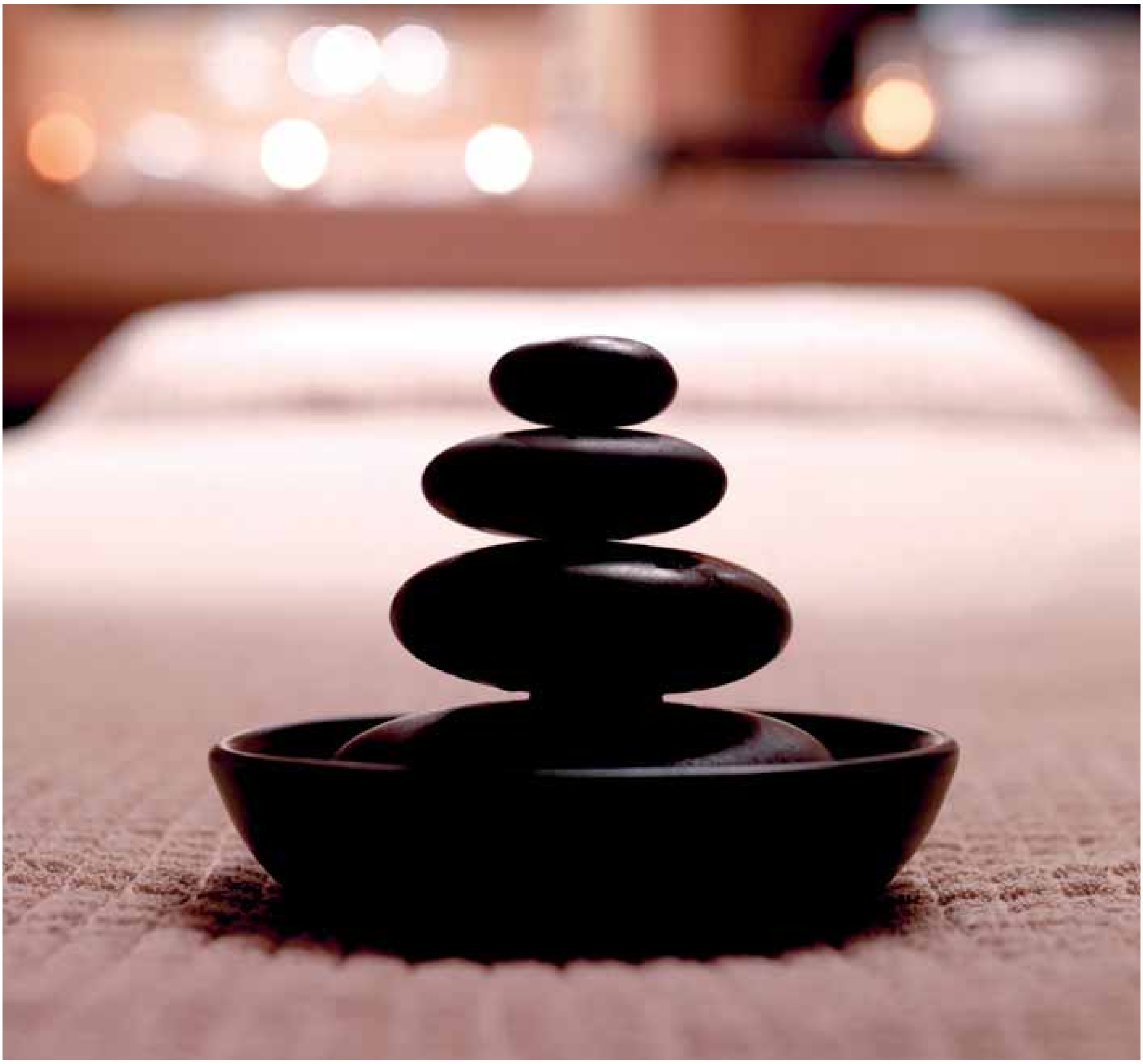
Life

reviews/food/skills/people

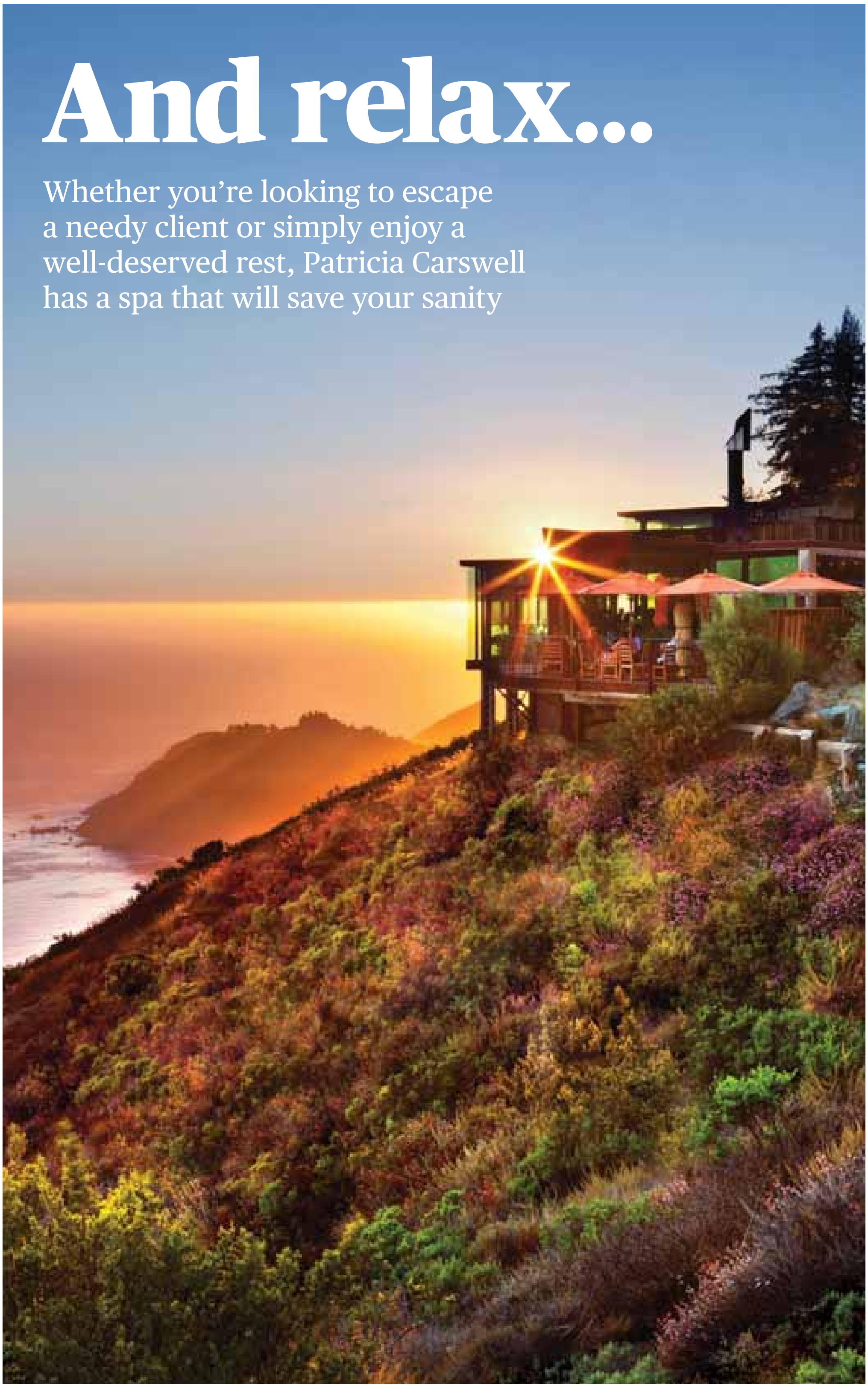


GALLERY STOCK

this month:

wellbeing

Spas The best retreats for fun, therapy or repair **Reviews/previews** Melbourne, art and late summer sun getaways **Restaurants** Fresh food **Life skills** How to find fitness **Life after work** Bruce Elkins



And relax...

Whether you're looking to escape a needy client or simply enjoy a well-deserved rest, Patricia Carswell has a spa that will save your sanity

01/

1. BEST FOR: TIME AWAY FROM THE KIDS

Post Ranch Inn, California, USA

This adults-only spa in Big Sur is breathtakingly romantic, with infinity pools, ocean views and treatments for two in its couple's treatment rooms - one with a woodburning stove and another with a walk-in couple's shower. Take a massage lesson, have a yoga class for two or go on a private guided hike in the Redwood canyons.

It's about romance, but there's nothing cheesy about it; the view does most of the work, and many guests are there for the daily yoga and the nature-based treatments - think wildflower facials and resonance ritual massages.

The spa offers packages suited to couples, such as the Romance at the Ranch and the Hideaway package.

Hideaway package $2,093+tax pp for two nights, low season

postranchinn.com

Michelin-star dining – but without the high calorie count: never has dieting been so delicious

2. BEST FOR: REVERSING THE EFFECTS OF BUSINESS LUNCHES

Les Prés d'Eugénie, Eugénie-les-Bains, France

If your waistline is feeling the effects of your lifestyle but you don't want to settle for limp lettuce, this spa, on a grand estate in the south-west of France (where else?) is for you. The restaurant, which has three Michelin stars, has a slimming menu that changes daily and manages to cram a mouth-watering starter, main course and dessert into a startlingly low 600 calories.

The spa itself offers a seven-night "Ligne Impériale" package that includes a mix of slimming treatments including Decléor slimming rituals, kaolin baths and hydro-massage as well as a dietetic consultation and use of the fitness suite.

Six-night, full-board "Ligne Impériale" package from €2,920pp

michelguerard.com

3. BEST FOR: STRESS RELIEF

Nirvana, Berkshire, UK

When stress levels rise, you need to chill - and few places are better for this than the Nirvana Spa. Its best-known offering is the celestial flotation in spring-fed, Dead Sea salt water beneath a starry night sky. The weightlessness promotes the production of endorphins and helps reduce muscle tension, blood pressure, heart rate and oxygen consumption; the mineralised warm water (21 minerals in total) calms nerves and helps conditions such as eczema.

More traditional spa treatments - including some designed for men - are available, and day packages include lunch or supper in the Chef's Grill and Salad Bar, which offers prettily-presented light food.

Day package, including 30-minute celestial flotation, from £105

nirvanaspa.co.uk

4. BEST FOR: ESCAPING FROM DIFFICULT CLIENTS

Rosewood Mayakoba, Playa del Carmen, Mexico

When the phone won't stop ringing and the nightmare client is on your back, you need to find a spa where there's no chance they'll track you down. The Rosewood Mayakoba is that place. Not only is it in faraway Mexico, the spa itself is on a private island, so nobody's going to bother you.

The beachfront spa is on a mile-long stretch of sand, north of Playa del Carmen, and has a championship golf course in case you're missing the greens. The spa itself - a retreat within a retreat - opens onto the jungle and has therapeutic plunge pools, steam grottos, saunas, a meditation platform, pool and relaxation deck.

Low season prices from £1,193pp per week

rosewoodhotels.com/en/mayakoba-riviera-maya

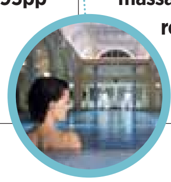
5. BEST FOR: SCREEN-STIFF SHOULDERS

Grand Resort, Bad Ragaz, Switzerland

Long days hunched over a desk and screen can leave you full of knots. If your body needs as much attention as your mind, you need to head for this thermal bath resort, with its own medical centre.

The treatments range from check-ups to rheumatology and orthopaedics and the resort is as gleamingly efficient as you would expect from a Swiss clinic without being spartan. The restaurant has a Michelin star, the rooms range from ultra-modern and hip to the regally traditional and the thermal baths are dreamily therapeutic.

Rooms from CHF345pp per night; seven-night health week with wellbeing package, half-board, six medical body massages, and daily fitness and relaxation sessions from CHF335pp per night



resortragaz.ch/en

The clear, turquoise waters of the Maldives will send you home with a fresh view of life

6. BEST FOR: GETTING OUT OF A RUT

Per Aquum, Huvafen Fushi, Maldives

If life feels humdrum, a visit to Per Aquum in the North Malé Atoll could be what you need. If the clear, turquoise waters and super-luxe surroundings aren't enough to put a spring in your step, the underwater Lime Spa should startle you back to life. The 180-minute Lime light ritual massage, in an underwater treatment room, could take the most jaded soul to another realm.

There are plenty of unusual activities to get you out of your routine, too. Take an expedition with a marine biologist to photograph manta rays, go on a dolphin cruise or dine at Vinum, the resort's wine cellar.

Per Aquum Huvafen Fushi Signature Escape (minimum two nights): from $1,155 per room per night

huvafenfushi.peraquum.com

7. BEST FOR: THE YEAR THERE'S NO PAY RISE

York Hall Day Spa, London, UK

Not every year is a bumper one, but even if you are tightening your belt, you can try this not-for-profit spa in Bethnal Green. Tower Hamlets residents' concession prices are as low as £9 for a three-hour session, and non-residents pay a maximum of £25. This isn't a shabby council facility: it's magazine-fabulous all the way.

The thermal spa is set in one of London's oldest Turkish baths and includes two aroma steam rooms, a tepidarium, caldarium, laconium, sauna, ice fountain, monsoon shower, hammam, plunge pool, bucket shower and relaxation lounge. Guests can book beauty and relaxation treatments, and spa packages.

Three-hour thermal spa session: £25 non-residents, £20 non-resident spa LONDON card-holders

spa-london.org/yorkhall

8. BEST FOR: THE CITY-WEARY

Park House Hotel and Spa, Sussex, UK

If your office overlooks a car park or you're sick of the city then this retreat in Midhurst is what you need. On the edge of the Sussex Downs, the spa has a pastoral atmosphere and a hotel with country house style. In the grounds there are facilities for tennis, croquet and bowls, golf and outdoor swimming. Fly-fishing is available nearby and, in the winter months, it hosts shooting parties.

However, there's nothing old-fashioned about the spa, with treatments from a spirulina body wrap to a chocolate sensation body treatment - some aimed purely at men.

Midweek spa break (Monday to Thursday): £190pp per night, including use of spa and leisure facilities (based on two people sharing a room)

parkhousehotel.com

9. BEST FOR: THE TIME-STRETCHED BUSINESS TRAVELLER

Plaza Premium Lounge, London, UK

Going to a spa is all very well, but what if your holiday allowance doesn't stretch to time away? This spa allows you to relax and have a treatment without taking precious time out from your schedule. In the surroundings of Terminal 2A at Heathrow - already home to a Heston Blumenthal cafè - this is a cocoon of calm, with Asian-chic styling and soothing surroundings.

Located in international arrivals, the spa offers massages (with or without a shower) and you can opt to use the spa's lounge or book a private resting lounge for a set number of hours.

Massages start at £25 for 15 minutes and up to £90 for an hour. A shower is £15 and a room for three hours is £60

plaza-network.com

10. BEST FOR: RESPITE FROM 18-HOUR DAYS

Shreyas, Bangalore, India

Long hours and modern life can leave you burned out and exhausted. Shreyas is the answer. Although billed principally as a yoga retreat - which it does brilliantly - it has one of the most peaceful spas in the world. You will find yourself being massaged in a tent, with just the sound of an Indian crow cawing and the rustle of wind in the coconut fronds.

For a challenging escape from the pressures of life, you could opt for a seven-night silent retreat, where you remain in silence for four days and receive a wellness consultation both at the beginning of the stay and at the end of the silent period.

Silent package: $2,540 full board, including four massages, several relaxation and yoga sessions and twice-daily group yoga

shreyasretreat.com

Health in a pill?

When you're frazzled, working long hours and juggling 1,001 commitments, it's tempting to resort to supplements if you don't have time to cook from scratch. But they lack many benefits of "real" food, particularly fibre and phytonutrients that protect against life-threatening illness. So, use supplements as a bonus, remember that herbal doesn't mean the same as safe, and avoid potentially harmful mega-doses by sticking to 100% of the RDA.

TRAVEL

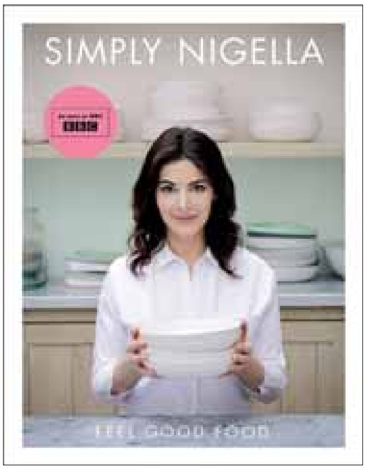
Tuscany To make the most of the dying days of summer, there's an eccentric twist to be had on September sun in Tuscany. The 18th century Villa De Lanfranchi, close to Lucca, is a gallery of curios and artworks, set in private grounds next to a centuries-old botanical park. Peacocks and parrots stalk the lawns, while frescoed ceilings adorn the airy rooms. An open-air cinema offers midnight screenings of 6,000 titles, while the strains of opera regularly waft through the balmy nights. Sleeps 14 in seven rooms, from £3,778 per week. ***villaannamaria.com/en***

FESTIVAL

London's largest festival of architecture and design is 23 this year. In a celebration of the buildings, places and neighbourhoods where Londoners live and work, 850 buildings will be open and free to access from 19-20 September. Last year's highlights included the Moorgate Crossrail site and a Victorian terrace, altered and extended to become fully sustainable. ***openhouselondon.org.uk***

BOOKS

Simply Nigella: Feel Good Food She's back with a recipe book that promises simple and satisfying recipes to fit the rhythm of our lives. Published on 8 October. ***nigella.com***



ART

Tate Britain will display around 70 paintings and drawings by Frank Auerbach, the German-born, London-dwelling artist regularly compared to Francis Bacon and Lucian Freud. The show is curated by Catherine Lampert, who has sat for him in his studio every week for 37 years. Starts 9 October. ***tate.org.uk***

TV

TV devotees should be kept occupied over the coming months. *The Walking Dead* returns for its sixth season in October, while Netflix has new comedy *Master of None* by the writers/producers of *Parks and Recreation* in November. And *This Is England '90* by Shane Meadows airs on Channel 4 this month.

Autumn leaf Balenciaga's silver-tone leaf brooch is decorated with crystals. Price £665 ***net-a-porter.com***

ACCESSORIES

Seen embellishing dresses and jackets on the runway at Prada and Givenchy, the brooch is back in fashion. If you have cash to splash on your accessory, Vivienne Westwood, Balenciaga (left) and Oscar de la Renta all have beautiful pieces. If you have a budget, Oasis, J Crew and Accessorize on the high street all have cheaper alternatives. And if you can't wait until pay day, seize a brooch from your granny.

TRAVEL

Looking for some late summer sun and 'me' time? The adults-only Barceló Teguise Beach in Lanzarote near Las Cucharas beach on the island's east coast reopened in July after a complete transformation. Modern, all-white interiors reign supreme, while Balinese-style beds line the pool, which has a bar and DJ sessions. There's also a spa, restaurant and excursions to local vineyards. ***barcelo.com***

MUSIC

John Grant's new album, *Grey Tickles, Black Pressure*, is released in October. Written in Iceland where he lives and recorded in Dallas, Grant says his latest work is "unmistakably me" but more fun. He plays the Hammersmith Apollo on 12 November.

MOTORING

Mazda MX-5 M4 launched at the end of August with just enough time for British drivers to enjoy the last of the summer sun with the top down. Motoring enthusiasts say the car is light, nimble and great fun to drive. It's also relatively cheap to buy and economical to run. Prices range from less than £19,000 to around £23,000, which means the MX-5 costs marginally more than the Mini Roadster. ***mazda.co.uk***

Where to eat in... MELBOURNE

1.

McConnell's Cumulus Inc
Go to Melbourne's art and fashion precinct, Flinders Lane, for Andrew McConnell's acclaimed food – charcuterie and oysters shucked to order.
cumulusinc.com.au

2.

Town Mouse
Chef Dave Verheul and restaurateur Christian McCabe make inventive cocktails (G&T with Campari) and great food (profiteroles with goats' cheese) in chilled out Carlton.
thetownmouse.com.au

3.

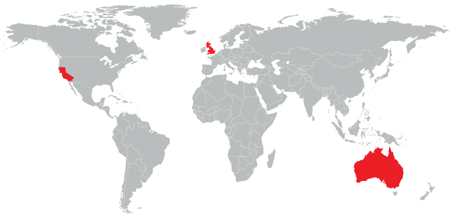
Da Noi
With a daily changing menu focusing on Sardinian recipes, Pietro Porcu's cosy restaurant in South Yarra is consistently rated excellent by its clientele.
danoi.com.au

Dish of the Day
"Chunky grouper ceviche in a bowl hewn from pink Himalayan salt"
Yashin Ocean House

Restaurants

fresh food

Penelope Rance gets fresh with some of the world's finest just cropped, caught and cooked food



Yashin Ocean House, South Kensington, London
yashinocean.com

Drawing inspiration from its Victorian mews setting, Yashin Ocean House is all distressed walls and iron streetlamps. One wonders what the Victorians might have made of the Japanese fare on offer; raw fish and delicate jellies over crispy rice - even the modern London diner might be surprised at the chef's combination of fresh, sweet and smoky flavours.

Just as the jade green, sharp-edged bar meshes with exposed brickwork, so the addition of spun sugar to ishiyaki sukiyki - wagyu beef shoulder cooked at high heat in a stone bowl - works well. Wagyu also appears atop shapely nigiri, seasoned with parmesan and seared with a blowtorch, the flavour reminiscent of grilled eel with depth.

The barely cooked theme continues with chunky grouper ceviche in a bowl hewn from pink Himalayan salt, adding to the power of the marinade which takes only a minute to cure the fish. The raw seafood peaks with the "sashimi island without soy sauce" (a lack of condiment the waiting staff were keen to underline, lest one dare to demand bowls of salty ink). Of the six sashimi presented, the salmon with vinegar cubes and tuna with truffle-infused ponzu jelly are the winners.

Foie gras miso dengaku proves another surprise, the richness of the paté tempered by sweet miso and crumbling sesame crackers. Such delicacies fade, however, in light of the hone kawa senbei, umami mackerel bone and fish skin, served with wafer-thin baked root vegetables. Despite the dish's fragile nature, crunching through the bones feels medieval.

A fine Rheingau Terra Montosa Riesling, paired with the sashimi, works better with the less-seasoned fish than those piled with extras. And with the beef, hot sake in metal cups: both impractical and failing to excite. Never mind: a mere hiccup in the face of the excellent chilled sakes on offer.

Breakfast

Primo Patio Café, San Francisco
primopatiocafe.com

Nothing's fresher than a Caribbean breakfast in a sun-washed San Fran street. Bright parasols mirror the food and all-day breakfast means you can switch to island time. The scramble has eggs, spinach, mushrooms, roasted peppers, onions and garlic – but freshest is the Belize Burrito – Bay shrimp, cumin rice, garlic yoghurt sauce and salsa fresca light up your taste buds.

Lunch

Vegie Bar, Melbourne
vegiebar.com.au

Vegan, raw, juice detox: choose your health kick, and Vegie Bar will provide. I've never left here feeling hungry. Tofu and quinoa burger may sound too Paltrow for a foodie, but it comes in a brioche bun with avocado, sriracha mayo and sweet potato chips. Asian mains such as gado gado and mee goreng are peanut-slathered, just-cooked winners – and then there's pizza. The Vegie Special smoothie is also a must-have. All good comfort food.

1. Push-ups to test upper body strength. Hands and toes on the floor, back straight, lower your chest until it touches the ground. Do as many as possible until failure.

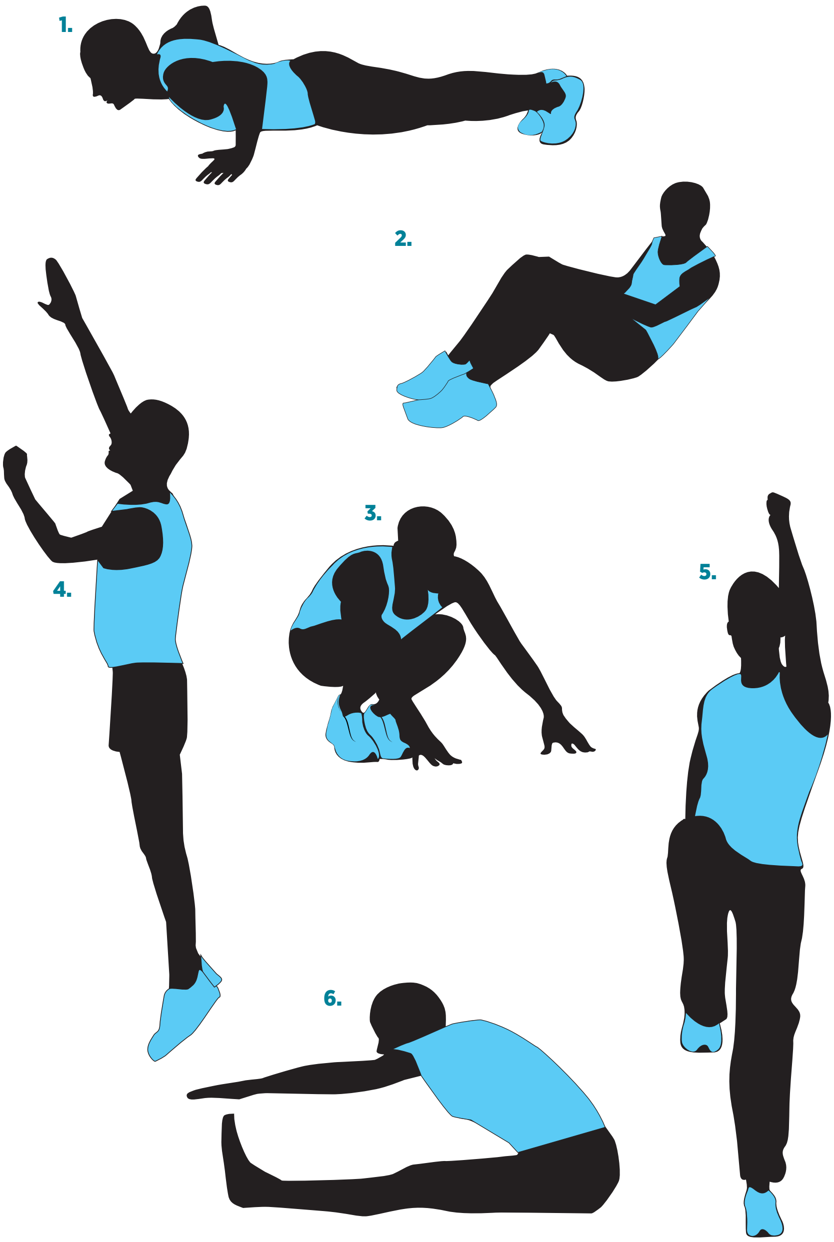
2. Sit ups to test abdominal strength. Lie on your back with knees at right angles, feet flat on the ground, hands on your thighs. Raise your chest until your hands slide to touch your knees. Count how many you do in one minute.

3. Squats to test lower body strength. Stand in front of a chair with your feet shoulder-width apart. Squat down, lightly touch the chair, then stand back up. Keep going until you're fatigued.

4. Vertical jump to test explosive leg power. Stand side-on to a wall and chalk the highest point you can reach with the hand closest to it. Stand a little away from the wall and jump to mark the wall at the highest point possible. The distance between standing reach height and jump height is your score.

5. Step test for aerobic endurance. Step on and off a 12-inch step for three minutes. Remain standing and immediately count your pulse for one minute – this is your score.

6. Sit and reach to test flexibility. Sit with legs extended, soles of the feet against a step. With a ruler on top of the step, lean forward to measure your furthest reach. If you can't touch your toes, your (negative) score is how far before you reach your feet.



How to...

... Find your fitness with help from Rob Wood, creator of topendsports.com

ESSENTIAL KIT

Enough space to swing a cat; a wall; chalk; a step; a chair; a ruler; a watch.

TIPS

Re-test on a regular basis; try to keep conditions, movement and location the same to ensure consistent results. These tests are designed to quickly gauge general fitness and create a benchmark for future testing. For full descriptions of the tests, and fitness tables to rate your results, visit **ecomomia.icaew.com**

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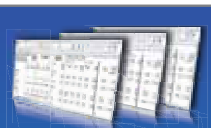

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FINANCIAL CLAIMS

A life well lived

Bruce Elkins has dedicated the past 25 years to raising money for charity. He tells Xenia Taliotis how he plans to bow out with his greatest fundraising challenge yet

Bruce Elkins, partner at Southampton-based Wilkins Kennedy, has a quotation usually attributed to former British prime minister Winston Churchill as his personal mantra. It's not one loaded with sarcasm or wit, neither is it likely to rally his colleagues to do battle. Rather it is something that fully encapsulates his own philosophy: "We make a living by what we get, but we make a life by what we give."

If a life can indeed be evaluated in this way, then his will be considered rich and well-lived, because this year alone Elkins aims to raise £25,000 for charity, taking his total for the past 25 years to £250,000.

"My mother died from kidney cancer in 1990," he says, "and I wanted to do something in her memory and to raise funds for Wessex Cancer Trust. I took part in the inaugural Totton Triathlon in June 1991, raising £2,500, and was so buoyed by all the support and goodwill I received that I decided to do something similar the following year."

Since then Elkins, always a keen sportsman, has run, swum, walked and cycled thousands of miles to raise funds. This year he will swim 25 miles, run 250 miles and cycle 2,500 miles to reach his quarter-of-a-million pound goal.

"This will be my 25th year of fundraising," he says, "and I want to bow out having achieved my target. I've done various challenges over the years, including an eight-day, 685-mile cycle ride to all the Premiership rugby clubs in England, two marathons, a half Ironman [which he did just six weeks before a hip resurfacing operation] and cycling in the Dolomites, so it's time to take a break. And my family, friends and colleagues need a rest too, because they've supported me through every single mile, giving their time and their money to my causes – I couldn't have done it without them."

Through all the brilliant experiences and wonderful memories Elkins has formed, there is one year that stands out in his memory – 2012. "That was so special, for many, many reasons," he says. "For a start 850 people took part in our 123 decathlon events, raising £100,000 for charity; my wife and I celebrated our 30th wedding anniversary; one of my daughters got married; and I was an Olympic torch bearer."

Elkins carried the torch for his services to sport, though he was also nominated for his services to charity. The sports services were primarily the junior triathlon he organised, which had 2,700 children taking part.

It's an achievement he feels very proud of. "I must admit it was emotionally charged, but then I find all events where thousands of people come together to do something for others very moving. That's why I'm so looking forward to the 25-mile walk we have planned for this year – my target is to sign up 250 people to do that. That would really make my year."

If you would like to help Bruce Elkins reach his £250,000 total, visit justgiving.com/bruce-elkins1

PHOTOGRAPHY: RICK PUSHINSKY