

# INTELLIGENCE AND INSIGHT **economia**

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ISSUE 38 | ACCOUNTANCY | FINANCE | BUSINESS



**THE DEFICIT**  
BILLABLE HOURS  
**AUDIT CULTURE**

## Step up

As she prepares to become the first woman to take the top job at Grant Thornton, Sacha Romanovitch reveals her manifesto



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# *The recent UK general election campaign has seen almost all politicians, regardless of party allegiance, adopt a stance that is critical of the way business conducts itself.*

Politicians exist to garner popular support and tap into public opinion. If there has been a trend to anti-business rhetoric in politics, it is surely a reflection of a wider disaffection with business. By almost every measure the public trusts business less than ever. Part of the explanation for this is a tendency to see all businesses in the same, negative light.

Ed Miliband's early attempts to distinguish between "productive" and "predatory" capitalism captured the public imagination about as much as his talk of redistribution. And arguments that the jobs - not to mention the taxes that pay for public services - are created by businesses are prone to fall on similarly deaf ears.

By popular consensus, the big banks and big businesses are all in cahoots and all the fatcats at the top of all organisations are naturally only in it for themselves.

Entrepreneurs fare somewhat better in terms of popular support, the public seemingly more able to endorse those who have built a small business from scratch than those who have turned a small business started by someone else into a large organisation.

Who is to blame for this popular antipathy to so much capitalist endeavour? Well, according to at least one reading of the situation, much of the blame rests squarely at the door of the business community itself. Speaking at last month's ICAEW Annual Dinner, former J Sainsbury CEO Justin King laid the blame squarely at the door of his business colleagues.

King made an eloquent case that if the business community is comfortable with the idea that its social responsibility extends no further than doing the minimum they can legally get away with and no more, it has become its own worse enemy. King claimed it was "self-evident" that business has a moral duty to live up to higher standards than this.

King painted a powerful parallel between what makes any one individual a good citizen (which most people accept extends beyond merely obeying the law) and the idea that a different set of rules should apply to corporate citizens.

But what King confidently describes as "self-evident" is anything but obvious when it gets to trickier areas of business law, including tax. The portrayal of tax as a moral rather than legal issue makes many accountants and other tax experts uncomfortable. But the view that organising a company's affairs so that it pays the legally acceptable minimum amount of tax is part of management's duty to shareholders may become less appealing once customer protests (spread ever more quickly via social media) about tax avoidance cause reputational damage and loss of business.

King claims that one major problem business has is that senior figures from the business community want all leaders to engage in a "complicit silence" on matters of morality. If his diagnosis is correct, it is not only time to start talking about these issues, it is time to act.

## **The state of public finances**

When the UK government published its fifth Whole of Government Accounts in March, progress (of sorts) had been made on reducing the deficit. Although the 2013/14 accounting shortfall was £149bn (£76bn higher than reported under the traditional public sector financial reporting system), this was £30bn lower than the previous year.

But the International Monetary Fund has cast uncertainty on the current government's deficit reduction plan by forecasting the gap between spending and taxes to be a deficit of £7bn in 2019-20, compared with the Office for Budget Responsibility's forecast for a surplus of £7bn.

It's not unusual for the IMF to take a gloomier view than the OBR, which uses Treasury figures to make its forecasts of the public finances, and the IMF has famously been proved wrong in the past.

But it was a timely, or rather untimely, reminder for Britain's next government of just how tricky eliminating the deficit will be.

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Figures may vary depending on driving style and conditions. \*Offer available to business users only. Plus £1,254 initial rental. Price shown excludes VAT at 20% and is for a 36 month Contract Hire agreement for a BMW 116d ED Plus Hatch, with a contract mileage of 30,000 miles and excess mileage charge of 13.53p per mile. Applies to new vehicles ordered between 1 April and 30 June 2015 and registered by 30 September 2015 (subject to availability). At the end of your agreement you must return the vehicle. Excess mileage, vehicle condition and other charges may be payable. Available subject to status to UK residents aged 18 or over. Guarantees and indemnities may be required. The amount of VAT you can reclaim depends on your business VAT status. Terms and conditions apply. Offer may be varied, withdrawn or extended at any time. Hire provided by BMW Group Corporate Finance. BMW Group Corporate Finance is a trading style of Alphabet (GB) Limited, Europa House, Bartley Way, Hook, Hampshire RG27 9UF. <sup>†</sup>Test drive subject to applicant status and availability.





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# ICAEW in this issue

**"If a business's existing bank has refused them a further loan and set out some clear reasons why, then the owner might want to consult their chartered accountant and other equity investors and ask if there is a chance they might be right"**

**p38 David Petrie, head of corporate finance, ICAEW**

"WGA are their numbers, not ours – the lack of attention to those numbers by anyone but a very few people is an issue"

**p42 Martin Wheatcroft, ICAEW member and MD of consulting firm Pendan**



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ICAEW  
MEMBER  
Robin Edwards**

"You can imagine the potential implications of a major cyber attack on the City of London. It's right that the government are taking this seriously"

**p60 Richard Anning, head of the IT Faculty, ICAEW**

"The management reporting would have to use robust, neutral and measureable criteria to be measured against, and these would need to be consistently applied. It would be difficult to audit these robust criteria without having a tick-box culture"

**P74 Henry Irving, head of ICAEW's Audit & Assurance faculty**

"There is the risk that companies may face a legal challenge on the information they release – which does happen in small company accounting. And there is a possible risk that you get a deterioration in overall quality"

**P76 Nigel Sleigh-Johnson, head of financial reporting, ICAEW**

## MORE ICAEW COMMENT

**P16** Arthur Bailey, ICAEW president

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PHOTOGRAPHY: ZED NELSON

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

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**Diverted Profits Tax (DPT)** was one of the key features of George Osborne's 2015 Budget and will tax a company's "diverted profits" at 25%. How will the so-called "Google tax" alter the landscape?

### ECONOMICS

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EU accounting directive

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### PROFESSION

Robert Maas, consultant at CBW and tax practitioner with more than 50 years' experience, on why the media does not understand tax, and avoidance is a question for clients not advisers

### ELSEWHERE ONLINE

Record MG Rover fine slashed  
**Cross-party support on tax avoidance**

Women ACAs paid £37,000 less than male peers

### ECONOMIA A.M.

Look out for *economia a.m.*, our daily early morning news round-up  
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# In review

## THE INTERNATIONAL PICTURE

# €40bn

How much Greece, Portugal, Spain and Italy hold in deferred tax assets as core capital in their banking systems

### THE EUROPEAN COMMISSION

is considering whether to investigate Greece, Portugal, Spain and Italy over their treatment of banks' deferred tax assets. The investigation would determine whether deferred tax assets, or assets that are used to reduce the amount of tax a company will have to pay in a later tax period, could potentially constitute illegal state aid.

Nicolas Véron, senior fellow at economic think-tank Bruegel, told the *Financial Times* that the decision to investigate hinges on "whether the tax advantage resulting from the deferred tax assets is specific to the banking sector or whether it is sufficiently spread out across sectors to be considered a general tax measure".

Margrethe Vestager, competition commissioner at the European Commission, said: "The process is at a very early stage. We cannot prejudge whether a formal investigation is needed or the outcome of the Commission's assessment."

### ASIA SEES HIGH-FLYING SHARES

It's been a promising month for the Asian stock markets, with Japan's Nikkei index hitting a 15-year high. It closed up 0.8% on 8 April, its peak level since 2000. Shares reached a seven-year high in China and, in Hong Kong, the Hang Seng closed up 3.8% at 26,236.86, its highest level since May 2008 and its greatest percentage increase since December 2011.



## Profit drain on the Big Five banks

Britain's Big Five banks paid 60% of their combined profits in fines for misbehaviour and repayments to customers over the last four years, a report by KPMG has found.

HSBC, Barclays, Standard Chartered, Lloyds and Royal Bank of Scotland paid £38.7bn in penalties since 2011 - almost two thirds of their cumulative profits in the same period. The figure is said to include £24.4bn repayments to customers related to PPI payments, as well as fines issued by regulators to HSBC and RBS over their attempts to manipulate foreign exchange rates.

### Accountant's recovery fees 'distorted'

Accountants have been accused of "fleeing taxpayers" by charging the Crown Prosecution Service (CPS)



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as much as £600 an hour in recovery fees. The report by *The Independent* claimed that, even with a typical discount of 33%, some enforcement receivers charge three times as much as a QC to recover criminals' ill-gotten gains.

The figures relate to a charge sheet by Grant Thornton but the CPS is said to choose from a roster of 12 accountancy firms, which bid against each other for receiverships.

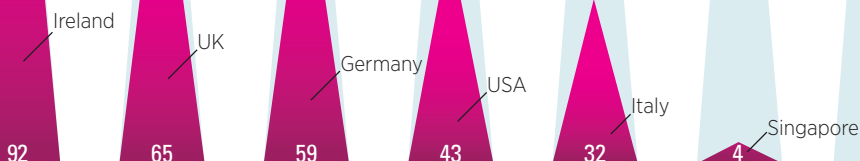
Speaking to *The Independent*, a Grant Thornton spokeswoman said: "In all cases where a receiver has been appointed, and costs have been incurred, these costs are subject to the scrutiny of the court with anything deemed unreasonable disallowed."

However, a spokesman for the Bar Council said: "If these figures are correct, the disparity between what barristers and enforcement receivers are paid does not make sense, and represents a distorted attribution of value to the contribution the criminal bar makes to our system of justice."

**£24.4bn**  
paid out by the  
Big Five banks  
in customer  
repayments  
related to PPI



Net percentage of businesses with optimistic economic outlook (Q1 2015)



Source: Grant Thornton International Business Report 2015

## Cadbury's £61m tax bill

Cadbury has been hit with a tax claim of Rs5.7bn (£61m) from India's directorate general of central excise intelligence, over claims it excised benefits from a "phantom" factory. The British chocolatier, which was bought by US-based food group Kraft (now Mondelez International) in 2010, is accused of claiming excise tax exemption on a factory in northern India that local media alleges does not exist. Cadbury denies the claims, saying: "The company will challenge [it] in appeal as we firmly believe we have correctly claimed exemption of excise duty."

## Spreadsheet errors huge cost to British business

One in five large businesses in the UK is experiencing financial losses as a result of silly or avoidable errors in spreadsheets, according to financial modelling company FIF9. It warned that 16% of large companies admitted to finding inaccurate information in spreadsheets more than 10 times in 2014. It also found that 33% of large businesses report poor decision-making as a result of spreadsheet problems or errors.

## Lufthansa fallout

Beleaguered German airline Lufthansa has set aside \$300m (£201m) to cover potential costs arising from the crash of one of its Germanwings planes in March. Under international law, the maximum "normal" compensation per passenger is set at \$157,000 (£145,000), regardless of the cause.

## Shell buys BG Group

Royal Dutch Shell is to buy British oil and gas exploration company BG Group in a deal estimated at a whopping £47bn. The deal, which could produce a company with a value of an estimated £200bn, is tipped to be one of the biggest of 2015.

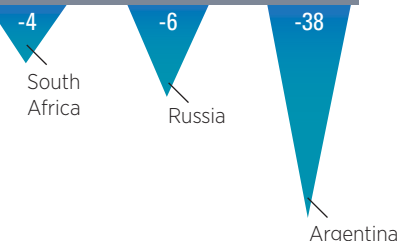
## NHS top UK priority

The NHS is the most important issue facing Britain today, a pre-election poll has found. Out of 965 participants, 41% said that the NHS was their top priority and 34% prioritised immigration. Financial issues lagged behind, with 30% stating the economy, and just 12% prioritising fair pay. For more coverage of the general election, turn to *The graph* on page 18.

**30%**  
of the UK electorate says the economy is their priority



ALAMY



## Quote of the month

"We're going to have **another financial crisis**. Brazil's already in **great trouble** with the strength of the dollar; I **dread to think** what's happening in South Africa; then there's Malaysia. We're **back to where we were**, and that is really frightening"

**Ann Pettifor** is author of *The Coming First World Debt Crisis*, which foreshadowed the financial crisis





## Good month Bad month

Our wide-reaching round-up of the winners and losers of the last month includes an American songwriter, the Greek government and an Italian fashion house



### DON MCLEAN

The singer-songwriter behind the cryptic hit single *American Pie* sold the original 16-page manuscript of the song for \$1.2m (£806,000) at an auction in New York. McLean told Christies: "I thought it would be interesting as I reach age 70 to release this, so that anyone who might be interested will learn that this song was not a parlour game."



### EUROZONE ECONOMIES

Business optimism in eurozone economies is moving towards pre-crisis levels, according to a report by Grant Thornton. It found that optimism increased to 38% in the first quarter of 2015, up from 13% in the previous quarter. However, business confidence in Eastern Europe fell to 6% in the same period, with Russian businesses particularly pessimistic.



### CAMBRIDGE

They may have won the 2015 Boat Race but Ted Loveday made sure Oxford didn't do a double over Cambridge in April when he led Gonville & Caius College to a 255-105 victory over Magdalen College on the BBC's *University Challenge* final.



### PRADA

Net income fell from €628m (£458m) to €451m (£329m) in the year ended 31 January 2015, well below analysts' estimates of €468m (£342m). It is the first time the Italian fashion house has reported a drop in net profit since it listed on the Hong Kong Stock Exchange four years ago. The slowdown is said to be a result of "ongoing economic uncertainty," as well as declining sales in the Asia-Pacific region.



### BSI

Swiss bank BSI was fined \$211m (£154m) by the US Department of Justice over its role in helping clients evade US taxes. Richard Weber, chief of criminal investigation at the Internal Revenue Service, said: "[It] sends a clear message to anyone thinking about keeping money offshore in order to evade tax laws."



### GERMANY

The Greek government called for almost £204bn from Germany in reparations for the Nazi occupation during the Second World War. But the German government says the issue was resolved legally years ago.



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# As I see it

Lesley Jackson is chief financial officer of Stock Spirits Group. She was previously chief financial officer of United Breweries, and group finance director at William Grant and Sons

I loved working for United Breweries in India. There are many practices of working in India that work better than in the West.

**My first six months in India were by far the biggest challenge in adapting to working and living in a different culture. You either love it or hate it.**

The best way to get things done as CFO? Have a great team full of people who are better than you are... then delegate.

**My guilty pleasure, or should I say, "part of the job", is a large gin and tonic.**



**EARLY YEARS** My initial contract was with Thomson McLintock in Birmingham (now KPMG). At the time it was difficult for women to progress and opportunities to move around within the firm were limited. I enjoyed audit but felt the lure of being on the other side of the fence.

**FIRST SENIOR ROLE** My first senior role was European financial controller for Albright and Wilson. The company didn't have regional FDs, only the group finance director, so there was a huge amount of responsibility. It was very exciting.

**INDUSTRY CULTURE** The regular updating of excise duty has been a relentless lever for governments to help fill fiscal budget gaps. But governments so often overlook the negative impacts that this can have on consumer behaviour - most importantly, the decline in consumption, often leading to an overall reduction in tax collected, but also the stimulation of black market alcohol.

**WOMEN IN DRINKS INDUSTRY** It is true that the alcohol industry has been stereotyped as male-dominated. But most consumer goods companies recognise you can't grow your business without appealing to female consumers. You can only exploit this opportunity if you employ women to help influence and stimulate these debates.

**BIGGEST CHALLENGE** Becoming CFO of United Breweries (UB) in India was a big hurdle. I was female, and foreign, and UB CFOs have always been local Indians. While the chairman, Vijay Mallya, had been very supportive of my appointment, it was hard being the lone voice representing all shareholders. The CEO of Scottish & Newcastle, Tony Froggatt, gave me some of the best advice I have ever had: "Always ask the right questions, and remember that the war was not there to be won so choose battles carefully."

PHOTOGRAPHY: FELICITY MCCABE



# From the top

**R**estoring trust between business and society could be a recurrent motif for my year. It's something that has been at the forefront of our minds at ICAEW, not least because of the bad press that has dogged business in the last few years over issues such as excessive pay, aggressive tax avoidance and boardroom diversity.

Business is, of course, chartered accountants' bread and butter. Our practising members advise 1.5 million businesses in the UK, while more than half of our membership works in business, many in senior positions. So it is deeply concerning that, against a background of growing economic confidence, public trust in business continues to fall. In 2013, the Edelman Trust Barometer showed that British businesses were the fifth most trusted in the world with 70% of people supporting them. Today that has plummeted to 52%.

The need to reverse this particular public perception is something we cannot choose to ignore - which is why we have been developing ideas to help restore trust in business. We believe that a healthy business sector is good for society - it provides more jobs, benefits for the community and an increased tax contribution for the exchequer.

One of our first targets is corporate governance. ICAEW was instrumental in coming up with the original code - indeed Sir Adrian Cadbury wrote it here at Moorgate Place - but it's become too long, too detailed and too focused on shareholders. Today's business needs to respond to wider stakeholder interests.

We have spent the last two years considering the fundamental issues for business such as what are companies responsible for? And what should the overarching principles of corporate governance be? While it is still a work in progress, we do think that lay people should be able to hold businesses to account

and that businesses should explain their purpose and behaviour in response. This should also cover stewardship of our environment because what's good for our planet is good for business's future.

Investing in skills, particularly for young people, is another way of winning trust and we were delighted when our business manifesto proposals on compulsory work experience in the school curriculum and better careers advice were picked up in parties' election pledges.

The lack of trust in business has the potential to affect all our futures negatively, which is why we would welcome ideas on ways to bridge the gap ([icaew.com/newchallenges](http://icaew.com/newchallenges)). Let's disprove the old saying: "Trust is like a mirror. Once it's broken, you can never look at it the same again..." ■



Have your say  
email [president@icaew.com](mailto:president@icaew.com)

**ICAEW president Arthur Bailey on how and why business must win back public trust**



PHOTOGRAPHY: DAVID HARRISON



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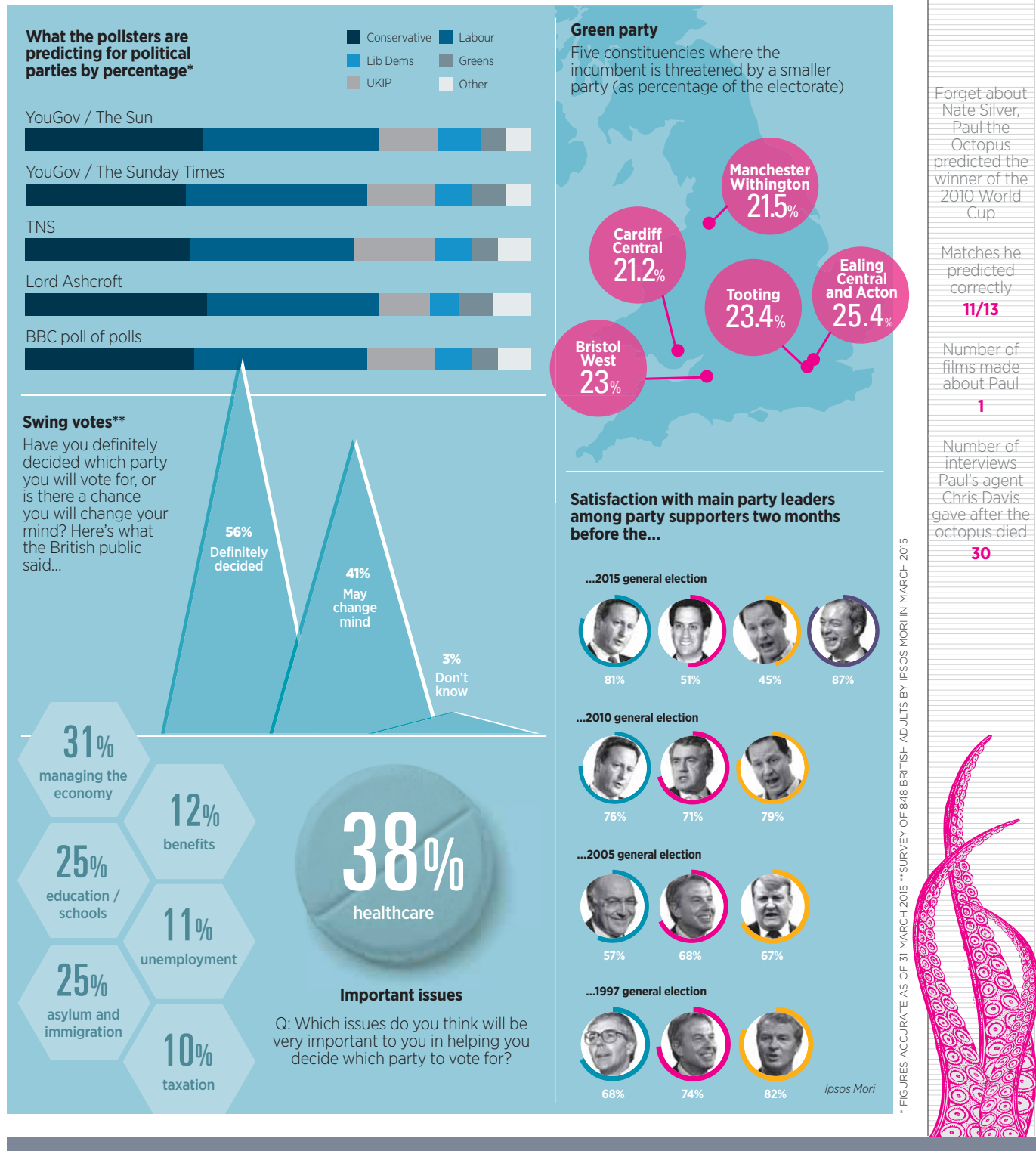
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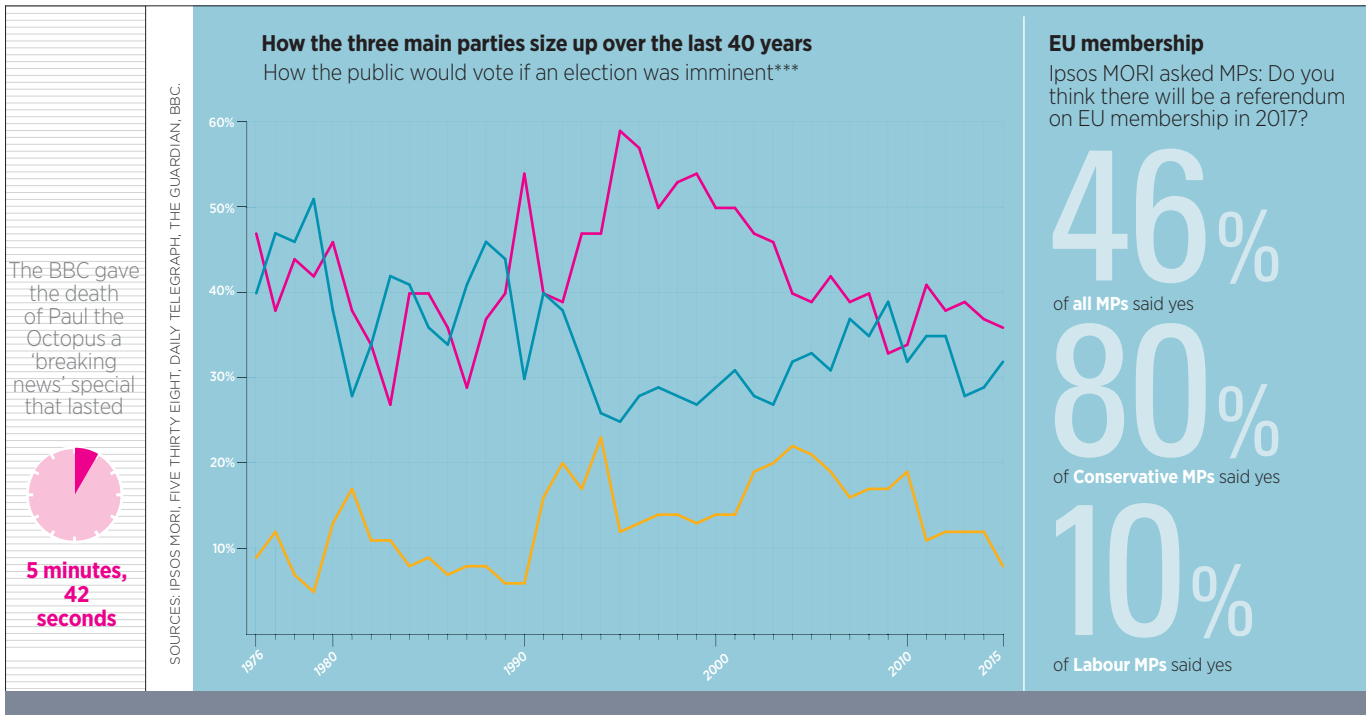
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# The graph

This bumper general election edition looks at voters' key concerns and intentions, the popularity of the party leaders, and what the pollsters are saying







What if we train them  
and they leave?

CFO

**★ OUTSTANDING ACHIEVER**  
 Ruby McGregor-Smith CBE, the first Asian female CEO of a FTSE 250 company, has won this year's ICAEW Outstanding Achievement award. McGregor-Smith, who is currently chief executive of Mitie, the strategic outsourcing company, won the award for her exceptional contribution to business and diversity initiatives.

On receiving the award at the ICAEW annual dinner, she said: "I am thrilled to receive this award. Throughout my career, I've worked to improve business and to unlock opportunities for others, so it's fantastic to be recognised by my profession in this way. I encourage other chartered accountants to keep striving in their careers, particularly women, and realise their potential in business." McGregor-Smith, who moved to England from Lucknow, India, when she was two years old, qualified as a chartered accountant

pledges to ensure that teenagers have face-to-face careers advice and that compulsory work experience should be included in the school curriculum.

Commenting on the pledges, ICAEW director of global student recruitment, Sharon Spice, said: "Careers advice must make work experience a priority. We have a ticking time-bomb of skills shortages in businesses today. Employers, government, educational institutions and professional bodies must work together to channel talented people into jobs where their skills are most needed - and not wait until businesses are unable to fill vacancies because of a lack of skills."

She stressed the importance of ensuring that young people have the right information about all the different ways to access a career. "In doing so, it will help businesses attract the talent they need to grow, who have the soft skills and work-readiness they crave."

**★ UNITAR OPPORTUNITIES**  
 ICAEW has signed a memorandum of understanding with UNITAR International University in Malaysia. As a result, the ACA syllabuses will now be incorporated in UNITAR's BA (Hons) in accounting and CFAB into its BA (Hons) degrees in information technology, business administration and finance.

The agreement also creates opportunities for selected UNITAR students wishing to train as ACAs to participate in internship placements.

UNITAR chief executive Wan Ahmad Saifuddin Wan Ahmad Radzi said that the inclusion of ICAEW modules would provide opportunity, access and a new learning perspective for UNITAR's students. "UNITAR is determined to boost the standard of education in our campus to an internationally recognised level." Integrating the ACA modules with the degrees would provide "a seamless pathway for graduates into the ICAEW professional route," he added.

The UNITAR MoU is the latest in a series that ICAEW has signed with Malaysian universities. Since the first, with Sunway TES in 2004, around 300 Malaysian students have qualified of whom 12 have won top prizes in the ICAEW exams.

**300**  
 The number of Malaysian students who have qualified since 2004

## EVENTS

### ■ 8-14 MAY PROFESSIONAL ETHICS AND INTEGRITY ROADSHOW

Ethical behaviour is fundamental to an organisation's risk management and integrity is at the heart of ethical behaviour. This ICAEW roadshow will explore the challenges facing businesses today drawing on ICAEW thought leadership and using case studies to illustrate. Hanoi, Jakarta and Singapore

### ■ 13 MAY M&A OF SOLE PRACTITIONERS

Practices will need to consider their future at some point, whether for succession planning or expansion purposes. This seminar will consider innovative ways of protecting, withdrawing or increasing your investment in the business. Bolton

### ■ 19 MAY AND 21 MAY ICAEW SOLICITORS GROUP CONFERENCES

Both conferences will tackle the subject of competing for profit in the new world. Presentation from John Machell QC, Serle Court, on the difficulties in partnerships. London (19 May) and Manchester (21 May)

### ■ 20 MAY FINANCE DIRECTORS' CONFERENCE

This one-day event is aimed at exploring global uncertainty and providing insight on the impact it will have for every finance director in every business. IFS director Paul Johnson will comment on the UK election results in a keynote speech and a panel will debate overcoming boardroom conflict and winning unavoidable battles with the CEO. London

## ICAEW news and events

### An outstanding achievement award, Labour embraces ICAEW skills proposal, and a new MoU

with BDO in 1991. Since then, her career has gone from strength to strength. In 2010, she was named business woman of the year in the Public Life Awards, and has been ranked in the *Financial Times* top 50 women in world business.

Mark Spofforth, chair of the award's judging panel, described McGregor-Smith as a role model in the profession. "She is a shining example of an ICAEW Chartered Accountant."

**★ SKILLS PLEDGE**  
 ICAEW scored a major hit with its business manifesto in the run-up to the general election when its proposals for widening young people's skills base were taken up by Labour.

Among the party's election promises revealed last month were

## Career clinic

Non executive director – or non essential? With a little help from his son, Mark Freebairn debates whether the role is a linchpin – or superfluous

I was in the car with two of my sons recently and I had to take a call from a colleague who mentioned that we were going to pitch for an assignment to recruit a chairman. As soon as the call ended, my eldest son asked me what a chairman was. This resulted in a very long conversation that ended up with me trying to explain to them how share ownership works, using a pretend T-shirt company, which my three sons and I had magically created (products will be in all good retailers for Christmas).

In a desperate attempt to find a way of explaining what a chairman was and what they did, I started explaining what my chairman did. And that meant I had to explain I was a non-executive director (NED). This led to one of the quotes of my life. My eldest son, Will, sat there for a moment and then turned to me and said: “So, are you really a non-essential director?”

Everyone I have told this story to has instantly appropriated the phrase as their own and I’m very happy about that. As is Will. But it’s also perturbed me. While it’s a funny slip of the tongue, too many people have essentially assumed that it’s also true.

And that is a significant problem because I know from personal experience that non-executive directors are incredibly useful and valuable to the organisations they support.

The reason NEDs are seeing their time commitments to businesses increasing is because they are being asked to do so much more. It’s not just governance and board meetings. It’s mentoring and advising and using their experience to help management do better than they might have done. Of course, it’s making sure shareholders are as well protected as they can be, and guaranteeing that governance is taken seriously and managed well for the good of the business. I’m internally doffing my cap to my audit chairman as I write this.

I know how much CFOs value a strong audit chairman because so many tell me. They want to be challenged where that challenge is useful. They want to have a strong partner they can debate these issues with. They want an experienced individual that they can bounce ideas off, as every executive does. So while non-essential director may be funny, it’s most definitely not true.

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and they stay?

CEO

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**T**he 100 Group is only as relevant as its members. I want to continue to focus on giving big business a specific voice and making sure the UK stays competitive. So making The 100 Group an interesting forum where members communicate is at the centre of my approach for the next couple of years. I've had valuable conversations with other CFOs in The 100 Group. You can calibrate your organisation - work out what is realistic instead of putting up a goal you can't deliver.

We're not lobbyists, but we have a view. We use The 100 Group Total Tax Contribution survey to bring facts to the debate. We also focus on four areas: tax, capital markets, accounting and technical, and pensions. We represent 100 of the largest companies in the UK, which is, hopefully, a serious input.

Big businesses employ enormous numbers of people, generate huge

have information, move resources around, and allocate capital in a consistent way.

When I came on board at GSK I laid out a clear financial architecture, supporting growth at the top line, driving margin through the P&L, driving earnings per share faster than sales growth and converting more earnings to cash, which we reinvest or give back to shareholders. This means our pharmaceuticals, vaccines and consumer businesses can be consistent.

I'm excited by what we have done to simplify and streamline operations, delivering nearly £6bn of cost savings in five years with more to come.

In a business with R&D at its centre, bringing forward as many significant new products as we've done in the past couple of years is unusual. You often get one blockbuster, then nothing for five years. Yet we've had more FDA [US Food and Drug Administration] approvals than any company among the large caps in our sector during the past 10 years, allowing us to focus on high-profile projects like the malaria vaccine or responding to the Ebola crisis.

We agreed the Novartis transaction last year, a complex asset swap. We pulled off a deal everybody said was impossible and we've transformed the portfolio. That creates the balance and stability on our top line that we were looking for. M&A should always be underpinned by industrial logic if it's going to be successful.

M&A is what I always wanted to do and, after an unusually generalist two-year training at SG Warburg, M&A became my career. I loved it all, and met some amazing people. Warburg's was a collegiate culture - very clever - and it's how I operate now.

At Goldman Sachs I was more senior, driving the UK investment banking business and then the European mergers business. I built up strong relationships with Vodafone, British Aerospace, GSK, Boots... I did transactions with them, year after year and feel I really contributed to reshaping those companies. In 1995, Vodafone was a small UK cellular operator. Seven years later, it was the company it is now.

I was also involved in the merger that created GSK. I got to know Andrew [Sir Witty, CEO of GSK] and that's why I'm sitting here. ■

## Tales from the frontline

**Simon Dingemans, CFO at GlaxoSmithKline and chairman of The 100 Group, on big business and the economy**

amounts of wealth, pay significant sums in tax. You need an environment that allows big businesses to thrive: otherwise where are all the jobs going to come from?

Last year was challenging for GlaxoSmithKline (GSK). We saw pressure on existing products before we built up the scale of new ones. We had supply issues in our consumer business. The US market, one of our biggest, had seen significant structural change with more price pressure coming in.

My job is to help the company react to those pressures and we announced a restructuring programme around our pharmaceutical and R&D businesses. Flexibility and variability in your cost base are vital. You have to





PHOTOGRAPHY: NICKY JOHNSTON

# Michael Izza



## “Tax policy is part of the competitive armoury of the nation state”

During recent visits to Brussels, it struck me that tax has now become as big an issue for our profession in Europe as statutory audit was two years ago. Both the European Commission and Parliament have got the tax bit between their teeth now and the issue is high up on the political agenda.

Of course, tax has been under the spotlight in Europe since 2012 when the commission launched its Action Plan to tackle tax evasion and corporate tax avoidance. In 2013, the commission announced it would be looking at whether tax practices in member states comply with EU state aid rules; this has now led to specific investigations into whether Luxembourg, Ireland and the Netherlands allowed multinationals to take advantage of their tax systems to reduce their tax burden.

More recently, the commission launched its tax transparency package which proposed the automatic exchange of information on cross-border tax rulings and considered the feasibility of extending country-by-country reporting. And there is another Action Plan in the pipeline which is likely to focus on measures to make corporation tax fairer and more efficient in the single market.

The European Parliament now has its special (if time-limited) committee, TAXE, set up in the wake of Luxleaks to look into member states' tax rulings in the context of state aid and competition. Since sovereign tax policy is part of the competitive armoury of a nation state, it is entirely possible that the committee's findings could be highly controversial. The profession needs to be prepared for this to translate into the equivalent of our statutory audit reform issue for this parliament.

Last week, I attended a day-long conference in Brussels organised by the Fédération des Experts Comptables Européens (FEE), on “Tax policy: a matter for society as a whole”. During the day I participated in a lively panel debate on the tension between cooperation and competition with, among others, Pierre Gramegna, the Luxembourg minister of finance. His presence there, alongside that of such serious heavyweights as Pascal Saint-Amans, director of the OECD's Centre for Tax Policy and Administration, and Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, underlined just how important tax policy has become to the international community. This is not an issue that is going to go away anytime soon.

I believe that, as rocky as the ride on tax has been so far for us as a profession, it is about to get worse. And if you are reading this somewhere in the world outside Europe, thinking that it doesn't apply to you, be warned. It is probably coming to a government near you soon.

Michael Izza  
ICAEW chief executive

# Your feedback



## TAX – EVASION OR AVOIDANCE?

I had always thought that although evading tax was illegal, avoiding tax was not only legal but it was the duty of citizens to arrange their affairs so as to avoid as much tax as possible. If this is no longer the case, I would appreciate being enlightened.

Alastair Gould

Planning one's tax affairs in the most efficient manner that the law allows should not be regarded as reprehensible. It is sensible tax planning. If objection is taken to any particular aspect, the remedy is to amend the law.

However, artificial tax schemes are an entirely different matter. If the profession is to survive, the lack of concern for professional standards of integrity revealed by these schemes needs to be addressed by the Council of ICAEW.

Michael R Nathan FCA

## Online comment on whether tax evasion is a moral question for advisers or for clients

The avoidance/evasion debate is always couched in terms of “is it illegal? No? Well then, it's avoidance”. This is just wrong. All tax in the UK is imposed by laws being passed. If you do something (a scheme) and it doesn't work you have, by definition, broken the law. If the press and PR firms in particular adopted this as their benchmark - yes, we know we broke the law, and yes it cost us a lot of tax - then I suspect the avoidance industry would lose a lot of corporate customers!

Agents must share the blame here, as many of the flashy offices and glitzy surroundings are paid for by those firms marketing schemes to clients. Contingent fee schemes - how can they possibly be justified? At least have the courage of your convictions and not sell on a contingent fee. But then, if you do, no one would pay the fee you think you deserve! So it returns to morals after all!

Brummie

## TOP 5 MOST READ STORIES ONLINE

1

Moore Stephens to merge with Chantrey Vellacott

2

KPMG auditors charged over Bulgarian bank collapse

3

Tax avoidance is moral question for clients, not advisers

4

PwC tops graduate employer table again

5

HP sues Autonomy pair for \$5.1bn



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<p>Is it being suggested that a tax practitioner has a duty to go looking for some dodgy promoter of tax avoidance schemes if that's what his client wants? Aside from any moral issues, the tax practitioner might not want to associate himself with the inevitably high (and probably unacceptably high) levels of risk involved.</p> <p>Scheme promoters are in business like anyone else and can do their own marketing without relying on some non-existent obligation for people to refer gambling clients to them.</p> <p><b>M Richards</b></p> <p>The more flagrant schemes look iffy in practical as well as moral terms (is a DJ really a car dealer, for example?) so a sound adviser would steer a client clear of them without needing to debate their morality.</p> <p>Much of the blame does lie with the government for providing such complex and sometimes unfair rules. However, to say the moral issues rest entirely with the client is dodging responsibility and the profession needs to up its game in this respect if it is not to lose public credibility.</p> <p><b>D James</b></p> <p>I don't think the media is challenging tax avoidance where it is justified, like using ISAs to avoid tax on savings. But there have been too many "clever" schemes that are shams to avoid tax and this seems to be supported as avoidance rather than evasion by the professional community which is providing these schemes.</p> <p>Tax practitioners sell their services in providing these schemes to their wealthy clients, even if not actively promoting them, and they therefore cannot pass off all responsibility to their clients. What the accountancy profession has to recognise is that more is expected of it than simply providing a service that can be legally justified.</p>	<p>Our current financial position requires more than this and the richest people and businesses in this country should pay their fair share of tax like the rest of us.</p> <p><b>Bob Branson</b></p> <p><b>MEMBERSHIP RECORD BID</b></p> <p>I read with interest the "membership record" letter in <i>economia</i> March. My father, Gerald Anthony Gould, is a current member and has been since 1950. My daughter, Heather Louise Stacey, has been a member since 2008 and I have been a member since 1978. Three generations, all members for the past six years.</p> <p><b>Alastair Gould</b></p> <p>Congratulations to Lady Morpeth's family in having three generations as members in 2014. I daresay our's is not the record either but my father was a member from 1957 to 2005, I joined in 1970 and my daughter Jeanette in 2003. I had no idea of a career when leaving school and have often since said that if my father had been a coalminer so would have I. Not so sure about my daughter though!</p> <p><b>Peter Delaney</b></p> <p><b>Online comment on whether the 50p rate of tax should be reintroduced</b></p> <p>If Ms Srbllion (<i>Is reintroducing the 50p rate of tax a good idea?</i>) really cares about re-balancing the tax burden what she ought to be concentrating on is VAT, a regressive tax and a greater burden for those on low incomes, rather than politically-inspired tinkering with marginal tax rates with a questionable record of raising revenues.</p> <p><b>Kerry Stephens</b></p> <p>Why does this publication seem more like the <i>Communist Manifesto</i> with every passing year? A rate of 50% isn't tax (NB + 2% employees &amp; 13.8% employer's National Insurance), it's theft/extortion.</p> <p>As usual one contributor argues common sense/facts, the other spouts</p>	<p>emotional, envious, neo-liberal clap-trap. The obvious, sensible thing to do is to make the maximum rate 30% and abolish the upper limit to the 12% Employees NI, so the maximum rate of total deductions is 42%, which is high enough. Simple and effective: therefore no chance of it happening.</p> <p><b>Anonymous</b></p> <p>For those lucky enough to be in the top rate band I would also add that there is always going to be a debate about the morality of large packages at many multiples of the national average, but to effectively take over half of someone's pay because they can afford it is of even higher moral dubiousness.</p> <p>I cannot ever agree to the concept of tax being in excess of half of a person's pay, and when we talk about tax we should include not just income tax but NI (including employers') and VAT. For employment income we are already way past 50% when these are factored in - enough is enough! The UK tax system is so flawed and unfair it would be a good idea to try and fix it and not fiddle with parts of it. Possibly the topic for another debate though.</p> <p><b>Paul T</b></p> <p>The <i>economia</i> website is regularly updated with news and technical stories. To join the debate, visit <a href="http://economia.icaew.com">economia.icaew.com</a></p> <p>Either email us at <a href="mailto:editorial@icaew.com">editorial@icaew.com</a>, comment online, or write to us at <i>economia</i>, Progressive Customer Publishing, 20 Farringdon Road, London EC1M 3HE.</p> <p>Letters and comments may be edited for clarity and space.</p> <p>Views expressed by letter writers are not necessarily shared by ICAEW or <i>economia</i>.</p>

# Bronwen Maddox



## “Israel’s electoral campaign was dominated by economic concerns, and Israel’s longer-term prospects”

It is hard to have a conventional conversation about the economy in the Middle East now, even in Israel. Iran, its nuclear programme and its ambitions in the region, including the chaos of Syria, dominate conversation. That was the theme that secured Benjamin Netanyahu a surprisingly solid electoral victory and return to office in March.

Israel’s electoral campaign, however, was dominated by economic concerns: lack of housing, the cost of living, and Israel’s longer-term prospects, both bright and immensely fragile, undermined by powerful demographic factors. As Netanyahu puts together his new coalition government, it is worth returning to those questions – as voters surely will. They matter for Israel’s future stability, and they matter for the stability of the region, too.

Start with the housing crisis that has consumed voters for years. The cost of housing overall has shot up by more than half since 2008, although the government estimates that the rise in the past year has been only 5%. The decision by the Bank of Israel to cut interest rates to an historic low of 0.1% has only contributed more impetus to the rise. Tel Aviv has the highest costs per square foot in Israel, but the phenomenon is evident across the country. International comparisons rank it about 12th in price per square metre, just after Tokyo and Mumbai. Anger at the inability of young couples, in particular, to buy or to afford rents has led to street protests.

### THE LAND ISSUE

Why? Land is expensive in the areas where people most want to live. Transport links are poor, traffic jams worsening, and people forced into ever longer commutes. Wages of foreign workers doing the “wet work” of construction – working with cement, and so on – are high, as the number regularly undercuts the quota set. Prices of raw materials such as cement are high, given lack of competition.

Successive governments have used the demand for property to justify their announcements of building new housing units in East Jerusalem and the West Bank, despite international condemnation that these are illegal under international law and further undermine hopes of a “two-state solution”.

But while the numbers built there are significant in terms of damage done to that goal, they are not high enough to solve Israel’s housing problem.

There are wider problems, too. GDP growth is now rebounding, after the war in Gaza last summer cut growth (although contributions from the Tamar gas field almost compensated, according to the Bank of Israel). The Economist Intelligence Unit estimates that GDP will grow by an average 4.5% per year from 2015 to 2019, provided the global economy continues to recover, and Israel is not drawn into conflict in the region. It is helped by the development of the gas field, discovered in 2009, and the strength of the high tech sector.

### SOCIAL PROBLEMS

But it also faces significant social problems that can jeopardise its future growth. Dan Ben-David, a social scientist who until February ran the Taub Center for Social Policies in Israel, has been for years the director of its annual report *The State of the Nation*, delivering an analysis described as “like a bombshell”. Key indicators are falling far behind OECD levels because of a lack of investment in infrastructure – the traffic jams are a real cost – and in education. The education level of Orthodox and Israeli Arab children is improving, but from a low base. In 2012, productivity (adjusted for purchasing power parity) was just over two thirds the OECD average, having started at a similar level in 1970. That undermines the prospect of rises in wages and the standard of living.

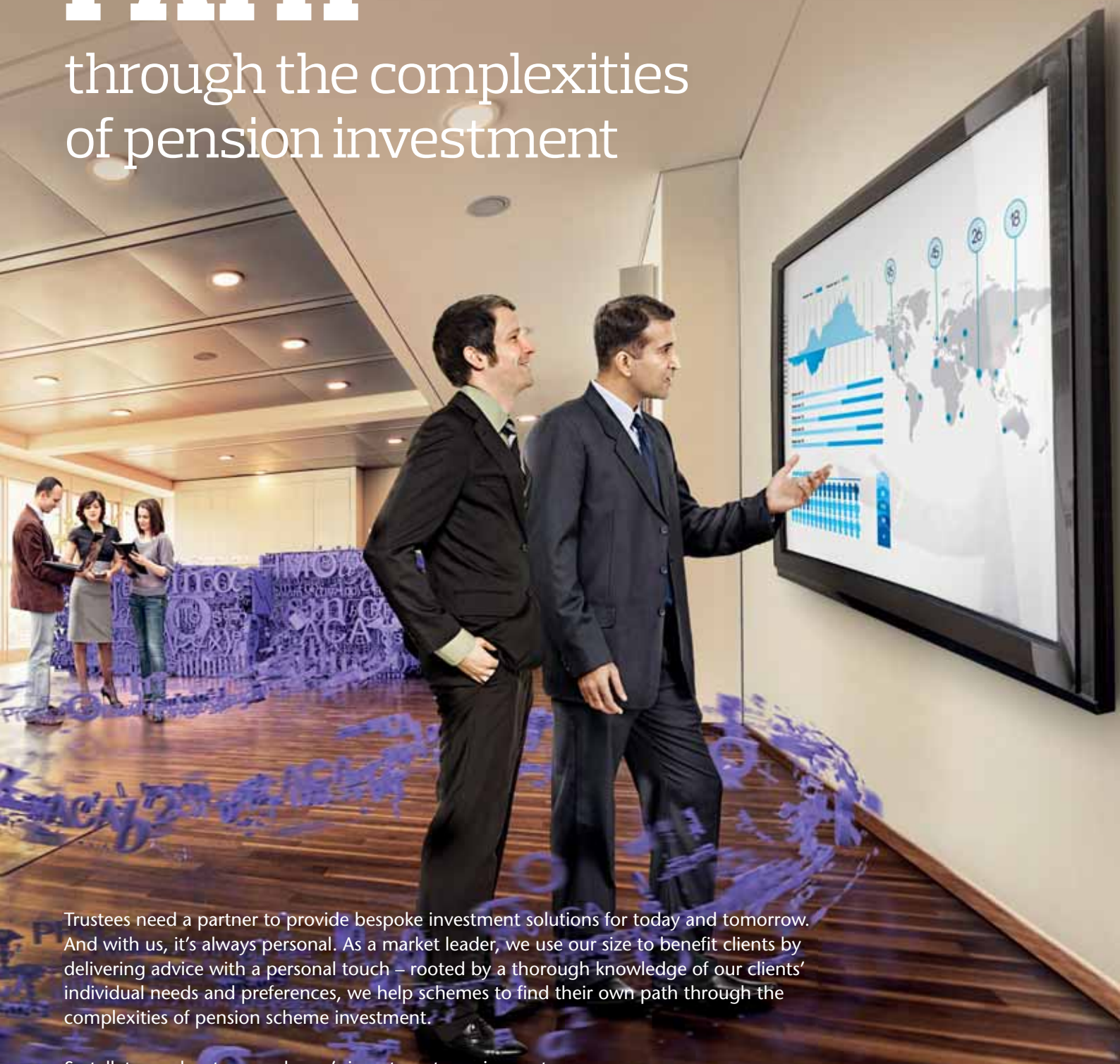
Israel also faces the risk of more coordinated international opposition to its building of settlements on the West Bank; particularly from Europe, that could inflict real damage.

Israel is not a country where the cost of living or the economy in general can ever be the staple conversation. Security dominates; the failure to advance towards a deal with the Palestinians should do so too, although was noticeably absent from the election campaign. But it is worth Israel’s leaders trying to hold a direct conversation about its considerable, neglected economic problems while its continuing successes make those still tractable.

Bronwen Maddox is editor of *Prospect* magazine

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# George Magnus



## “China may now see the Bretton Woods system as too inflexible to cope with the changing structure of the world economy”

The decision by the UK government to join the Asian Infrastructure Investment Bank (AIIB) as a founder member has spawned a bit of a storm. Other major countries that had been sitting on the sidelines or showing solidarity with the US and UK, such as Germany, France and Italy have decided to follow the UK example. Australia and South Korea have also decided to join but Japan has declined, for the moment at least. The US, which has been standing aloof from the AIIB, accused its close ally of a “constant accommodation” of China – a stern rebuke. What’s all the fuss about?

China has been expressing its dissatisfaction with a US-shaped global financial system, particularly the fact that important reforms of the International Monetary Fund, designed to bolster its voting rights and those of other emerging markets, have been stalled in the Congress since 2010. China may now see the Bretton Woods system of global governance created after the Second World War as too inflexible to cope with the changing structure of the world economy. It has taken matters into its own hands.

Last year saw the birth of the New Development Bank, created by the BRICS economies as a sort of alternative to the World Bank. More significantly, perhaps, China took the initiative to set up and provide half the \$100bn of capital for the AIIB, which is supposed have its Articles of Agreement in place by June and to be up and running by the end of the year. It also took full responsibility for launching a \$40bn infrastructure development fund as part of the new Silk Road Economic Project, designed to ‘connect’ by land and sea the old trading routes from western China to the Mediterranean.

### FUNDING INFRASTRUCTURE

The UK’s commercial relationship with China is of rising significance. It was the largest recipient of Chinese foreign direct investment in 2014, which has gone into a variety of areas, including railways, energy and water. Thames Water, the UK’s largest water company, is 10% owned by Chinese interests. Some people estimate that about £100bn of new infrastructure investment could occur by 2025. The prime minister and the chancellor led the largest

ever UK trade mission to China late last year in an attempt to boost the paltry 2% share of UK exports to China. And the chancellor has welcomed Chinese bank branches in the City, and moved to make London the most significant offshore trading centre for the renminbi instruments outside Asia.

### SHAPING THE NEW

There is little doubt that the UK also sees potential commercial advantages, for example in exports and business and professional services, by being a founder member of an institution that looks set to shape the Asian financial system, regardless. A much-quoted 2010 report by the AIIB’s Bretton Woods rival, the Asian Development Bank, concluded that Asia’s infrastructure deficiency between 2010-2020 amounted to \$8.2trn, equivalent to about 4% of Asia’s GDP. Much of this was needed in less developed parts of China, but also in India and other parts of South Asia. India’s new government has prioritised power generation and transportation as key areas in its economic strategy, and so would be a strong supplicant.

China’s motives are also not altruistic. It sees political advantage in the implementation of its own global and regional financial diplomacy, and wants to diversify away from bilateral financial lending programmes that haven’t worked out well. It also wants to move from resource access investments to opening up markets for its cement, steel and construction equipment sectors.

Ironically, the AIIB will most likely be a US dollar-centric institution, and it will have to resemble its Bretton Woods counterparts if it is to be a credible lender that checks the boxes on transparency, governance and creditworthiness standards. The spat over the AIIB, deep down, is about the rules, systems and institutions that are going to preside over future economic and political relations in Asia and beyond. China seems to be risking a fragmentation of global finance. The US seems to be petulant.

The one thing they agree about is that the AIIB symbolises a struggle over foreign policy, diplomatic kudos, and economic and military security.

George Magnus is an independent economist and former senior economic adviser at UBS

# Morgen Witzel



## “Cultural failings at some companies are sometimes so deep rooted they would fail no matter who ran them”

When something goes wrong in business, when a company collapses or when a serious blunder occurs, fingers point at the people at the top. When an HSBC subsidiary was accused of aiding tax evaders, chief executive Stuart Gulliver had to face the critics; when Tesco was accused of overstating its profits by £250m, senior executives took the blame.

There is nothing wrong with holding senior executives to account, but we need to be careful. Changing the chief executive in the aftermath of a failure or a scandal often solves very little. The real reasons for failure can be all but invisible to the outsider, and are rooted deep in company culture.

The leader is not always responsible for the failure. Fish do rot from the head, but sometimes the cultural failings are so deep rooted that the company would probably fail no matter who ran it. These companies are characterised by cultures of incompetence, sets of beliefs and ways of doing things that propel them towards the precipice.

What do these cultures of incompetence look like? They come in several forms. One is good old-fashioned arrogance. Companies become so persuaded of their own superiority that they believe no one can touch them. Accordingly, they think they are bulletproof.

### FAILING TO SEE THE CHALLENGE

Famously, Motorola was so convinced of its own superiority in mobile phones that it failed to invest in digital technology until it was too late, and lost market leadership to Nokia. A couple of decades on, and where is Nokia? Fighting for its life because it failed to see the challenge from smartphones until it was too late.

Lack of knowledge is another key killer of companies. Watch out for any business where the culture does not privilege the generation of new knowledge and the challenge and stretch that comes with it. If people are doing things because that's the way we've always done things, watch out. This is a company that is just asking to be overtaken by its competitors and either fade away or be wiped out.

The obsession with winning is another cultural failing that affects many companies. They become obsessed with market share, scale, profits, size. Royal Ahold and Nortel are two examples of companies that saw growth as a goal in its own right. They grew too far, too fast, too soon, and collapsed.

Tesco's strategy has emphasised continued growth and preservation of its status as market leader for years. Now it is in trouble. Coincidence? Not at all. Any company that chases growth at the expense of all else is putting itself at risk. Why? Because the real purpose of a business is not to grow. It is to serve customers. If it does that well, continuously, then growth will come as a by-product. But growth should never be a goal in its own right.

### MOST DANGEROUS CULTURE

Perhaps the most dangerous kind of culture is one where people simply stop caring: about the business, about their customers, about their colleagues. They no longer know why the business exists or what its purpose is. They simply turn up, do their job and get paid. At best, these companies are delivering half-hearted service and are failing to innovate. At worst, they are breeding cultures of cynicism which drive out the best people and open the door to wastage and corruption among those who remain.

How do we spot these cultures? Often it is simply a matter of looking around. How do people in the workplace interact with each other? Do they seem happy and spontaneous, or glum and depressed? Do they seem to like their work, or is it just a chore? Do they appear motivated or demotivated?

Once these cultures of incompetence are in place, it is very difficult for a CEO to shift them. Euan Sutherland found this out when he tried to reform The Co-operative; his plans were thwarted by an entrenched culture, and he was forced to resign. The best option is making sure these cultures never take root in the first place. Watch the culture of your organisation, how it is evolving and changing, and dig out dangerous cultures before they can take root.

Morgen Witzel is  
author of *Managing  
for Success*

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# I'm a believer

As **Sacha Romanovitch** prepares to take the reins from Scott Barnes at Grant Thornton, she tells *economia* how she intends to make her own mark as CEO

Photography: Zed Nelson

**R**eally, Sacha Romanovitch should be intimidated. As CEO-elect of Grant Thornton, she is about to step into the shoes of Scott Barnes, a CEO so revered his board unanimously voted him as global chairman, and a CEO so successful he reached his financial target for the firm a year early. As the first woman to take the reins of a major accountancy firm, Romanovitch's arrival has also catapulted her firmly into the limelight, so all eyes will be on her when she takes the top job next month. Even so, she isn't intimidated in the slightest.

"There was one moment where I had a big gasp of 'oh my gosh'," she says. "But now I'm just excited." So does anything worry her? "No. And not a lot keeps me awake at night because I meditate and practice yoga." She pauses. "Though any leader who's honest has a bit of imposter syndrome where you think 'they're going to find me out'. But that's human." The last time she felt intimidated, she says, wasn't in









## **“The people around me believed you could change the world, so I believed I could change the world”**

the office at all; she was riding a jet ski in the Maldives. “We’re doing 30mph and I’m absolutely terrified and I’m thinking, ‘holy cow, this is really scary’, but my son was on the back saying, ‘go faster mummy, you can do this, you’re a CEO.’”

That Romanovitch’s leadership style is vastly different from Barnes’s is an understatement. Asked to sum up his style in three words, she boils it down to one: “Yorkshire”. Her own, she says, is “like India”. She explains: “Scott is straightforward. He’s focused and direct, hence Yorkshire. Whereas I’d call myself India because it’s full of colour and buzzing with energy.”

Barnes and Romanovitch were both educated at Oxford University (Romanovitch with an MA in chemistry), then qualified as ACAs and have gone on to become CEO of Grant Thornton. But whereas Barnes trained at Arthur Andersen, Romanovitch qualified at a smaller Windsor-based firm, which later merged with Grant Thornton, where she has remained, with the exception of a year-long sabbatical in India. Defending her “lifer” career, Romanovitch says: “I have met people who have worked in lots of different firms and who are still terribly closed, but I’m a person who looks out.”

She accelerated quickly from partner to managing partner of tax and audit practice in London, and is currently head of London Advisory, the largest and fastest growing part of the firm, as well as head of people and culture. Although that’s not an obvious feeder role to CEO, nor is it fluffy. “Culture is the hard stuff. Anyone who thinks it’s soft hasn’t understood it,” says Romanovitch.

But what really sets Barnes and Romanovitch apart are their goals. In 2012, Barnes set a financial target to

hit a turnover of £500m by 2015, which he achieved a year early. But as Romanovitch explains, the remit now is to evolve the focus from profit, scale and market share to value creation for clients; to be seen as the “go-to firm for growth”. She still intends to double bottom-line profits by 2020, although she declines to set a target for revenues “because there are a lot of players chasing top-line growth and that can be a bit of a fool’s game”. Pre-tax profits stood at £81.2m in 2014 and Romanovitch wholeheartedly believes her target is “sensible”. Though she emphasises it is nowhere near as important as her main target: to make Grant Thornton known as “the firm that is really helping to shape the UK economy”.

She explains: “I want us to be an advisory firm that is able to provide assurance services that support the trust and integrity of markets. And I want any business that wants to grow to see Grant Thornton as the place to come.”

This is admirable in theory, but how it will work in practice is harder to get out of Romanovitch. There is a clear focus on the advisory practice, she says, which grew by 15% last year, rather than on tax or audit. And this is an important distinction: she sees the firm as a broad-based advisory firm rather than a narrower accountancy practice. And she doesn’t view this as a change in direction but as an “evolution”. She says: “Scott and the team earned us the right to step into this space.”

But the parameters of that space aren’t exactly defined. “In many respects our main competitor hasn’t emerged in the marketplace yet,” she explains. “I see them as the new entrants and disrupters as opposed to established firms.”

The specifics of her plans are laid out in a meaty 12-page manifesto, which Romanovitch began creating a year ago when she decided to apply for the CEO role. She covered the walls of the sewing room (she has been interested in design and couture since she made and sold ball dresses to support herself at university) in her Devon home with paper and began brainstorming. This was later reduced to a manifesto, written somewhat incongruously in a bling New York apartment formerly owned by music star Moby, which Romanovitch rented on her way to a global partners meeting. “It had glass chairs and a huge glitterball,” she says, laughing.

Yet the manifesto is a document she takes seriously, based as it is on a series of philosophies she describes at length. “I believe there needs to be a massive shift in what business is doing for the UK economy to make sure it is relevant in the global economy. Mid-sized businesses are going to be the engine of that growth. That’s a massive opportunity for Grant Thornton.

“You have the shifting world and economy in terms of what’s valuable; you have the shift of power to the east; you have the social system in the UK whereby you know that not everyone is contributing to the economy; plus we’re addressing the challenges from 2007 – is the UK still seen as a trusted economy?”

After reeling off a list of further questions, she pauses. “I’m going off on a tangent,” she says. “You’re going to have fun trying to unscramble this.” In

essence, Romanovitch's premise boils down to three things: in order to get the economy "on track" she believes the UK must first ensure it is an easy and attractive place to do business, that there is trust and integrity in financial markets and that businesses can thrive. "Those things are really important but to some degree they are all broken. What drives me is working out how to fix them."

So how does Grant Thornton fit into tackling those issues and helping to drive sustainable business growth? Romanovitch believes that her firm is uniquely placed to support its clients as well as influence the agenda by speaking out on issues that really matter. Asked how she might instigate change, she talks about creating an "innovation culture" and providing a framework for everyone in the firm to bring their ideas forward. Romanovitch is adamant that her leadership style is open door. (In fact, she doesn't even have her own office, never mind a door.) "We're starting to remove the hierarchical nature of the business," she says.

So can people come to her directly with ideas? "Yes they can. And they do. And they get implemented." She gives an example where a group of trainees suggested creating a recruitment blog and completely changing how Grant Thornton engaged with people on campus. She agreed and today Spilling the Beans is an award-winning social media campaign.

When asked what makes her successful, Romanovitch says: "The people around me believed you could change the world, so I believed I could change the world. I came up through quite a matriarchal culture. I was adopted at 18 months old. My mother had three sisters above her, all strong and definite women. I went to an all-girls school and then an all-girls college."

Romanovitch doesn't shy away from the gender issue. When her appointment was announced, the focus was on her being the first female CEO of a major accountancy firm. In many ways, her gender took centre stage before her credentials in the ensuing press coverage, which must have been irritating. "Actually, I look at it as an opportunity to discuss what diversity really means," argues Romanovitch. "Diversity goes much deeper than gender, colour or sexuality."

Nor does she see her appointment as especially revolutionary in the struggle for women to be appointed to top roles. She simply sees herself as an individual with a unique set of circumstances that worked out well.

"I couldn't do what I do if I didn't have a husband who is supportive and at home full-time with our children, so I'm uncomfortable when people say 'if she can do it, anyone can'. That's nonsense. I made choices that were right for me and my family. They won't be right for others."

She is, however, comfortable with the public-facing side of her new role. Likewise, she is at ease with the pressures of being a chief executive in the Twitter age. She's good at it too, with 1,500 followers, double that of Barnes. "I love, love, love Twitter," she says. Asked whether she is concerned that what she says off the cuff will stick with her, she is clear that she



isn't. "I don't tend to have regrets. I wear my heart on my sleeve and say what I believe. Other people may believe differently. But this is me."

Which brings us back to her unshakeable self-belief that she could, as she puts it, change the world. This is something she has been reflecting on during the year-long CEO election process, which coincided with her mother being hospitalised. "I was spending three nights a week in the hospital with Mum and she started giving me anti-pep talks," says Romanovitch.

"She'd say things like: 'You know that what you're doing doesn't matter, don't you? It doesn't make a difference.' And I'd say: 'If I believed that I'd have no reason to go on living.' I have to believe that what we do matters." She continues: "If you're led by that belief then anything really is possible." ■

#### BIG ISSUES IN BRIEF: SACHA ROMANOVITCH

**In or out of the EU?** In. Britain's ability to influence the global economy as part of Europe is greater than it is on its own.

**Audit reform, good or bad?** Good. We need an audit system that delivers trust and integrity.

**Does more competition mean improved audit quality?** Not necessarily. Anything that causes businesses to think about what they need from audit and how best to deliver that is a good thing, though.

**Are mid-tier firms equipped to audit FTSE100 companies as effectively as Big Four firms?** I think so. Though the auditor needs to be of a certain scale to have the resources to deliver it.

**Who is best placed for professional oversight of audit - ICAEW or the FRC?** In terms of oversight, the FRC. In terms of quality of auditors, ICAEW.

**Is the FRC fit for purpose?** It's evolving. At its best, it works in an inquisitorial rather than accusatorial style. I'd like more of that.

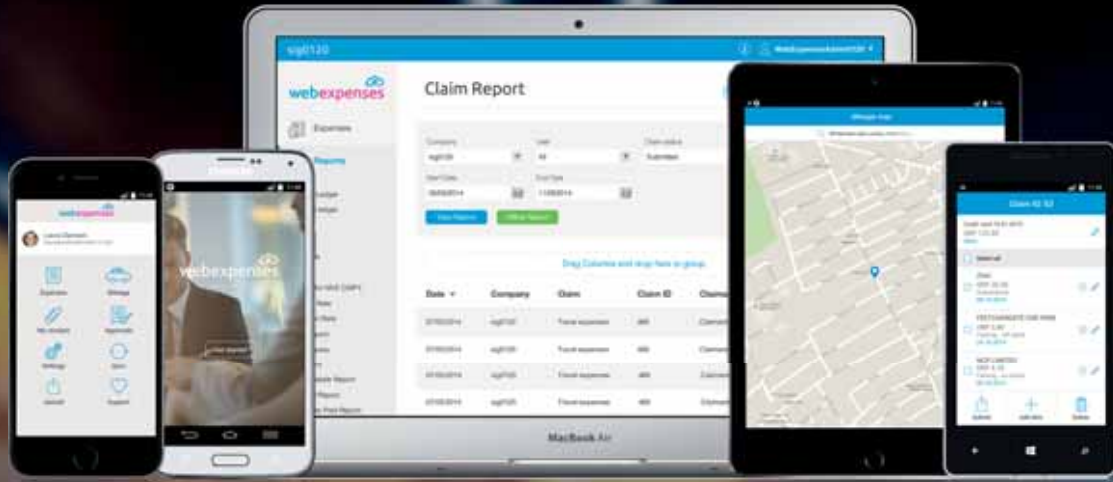
**Is it doing enough of that at present?** For people undergoing regulation, it can feel tough. You can conduct reviews in a really constructive way. I'd love it to always happen like that.

**Media coverage of tax evasion - fair or overblown?** Media coverage has missed the point; tax is a cost of doing business. Government has a responsibility to create a fiscal regime that balances raising funds for the exchequer with the cost of doing business.

**How difficult is it for you in the current climate to help your clients minimise their tax bills?** Our job is to help them look at it as a sensible cost of business, paying a fair amount, but not too much.

*Sacha Romanovitch is a member of economia's Editorial Advisory Board*

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Traditional banks are feeling the heat from a new generation of lenders able to make decisions and loan money in days rather than months. Is it all good news for small businesses? Nick Martindale reports

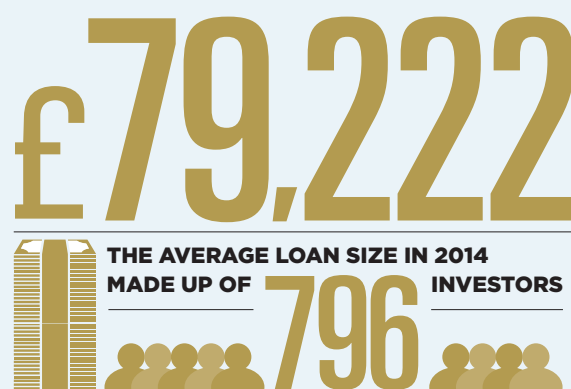
The lending situation is beginning to improve again for SMEs and in the ensuing years their options have changed as well. In a 2014 report on competition by the BBA, the organisation acknowledges the rise of challenger banks and sources of alternative finance and admits that competition has become fierce among some segments. "It seems to be particularly the case in the business banking area that niche providers of finance are able to enter the industry." The BBA claims to welcome competition and wants the playing field to be fair to all.

One of the consequences of the dearth of conventional bank lending during the past few years has been the emergence of alternative sources of finance, with P2P business lending - where investors lend to businesses through an online platform, either directly into individual companies or as part of a package devised by the provider - proving particularly popular.

The UK Alternative Finance Industry Report 2014, produced by the University of Cambridge and the charity Nesta, revealed that this form of lending rose by 250% during 2014 to a total of £749m.

The government has been keen to support this development as part of its Business Finance Partnership scheme, investing £20m in 2013, through the largest P2P business lender, Funding Circle. A further £40m came from the government through the same platform in 2014

## Peer-to-peer business lending statistics



David Petrie, head of corporate finance, ICAEW

*"There may be other, more efficient, ways of funding growth than simply extending the debt facility"*

under the British Business Bank Investment Programme. A number of reasons make this source of borrowing attractive to small businesses. First is the convenience of P2P borrowing when compared with the conventional high street banking route, suggests David Petrie, head of corporate finance at ICAEW. "The most effective P2P lenders have made the process very user-friendly," he says.

"It is possible to apply online for funds without having to head into a high street branch, and this is in line with the way society procures its goods or services, whether it's clothes, groceries or business loans."

The speed with which businesses can receive a decision about lending and actually receive the approved funds is particularly attractive compared with more conventional forms of finance.

"If you're a small or medium-sized business owner, you're very busy with your own business and don't

## Invoice factoring



An alternative form of peer-to-peer business lending revolves around invoice factoring, effectively allowing investors to lend money to businesses on the strength of individual invoices.

This is a similar service to that provided by traditional banks or invoice factoring and discounting firms, says Clive Lewis, head of enterprise at ICAEW, although with one major difference. "Conventional factors and discounters usually want businesses to offer them their whole sales book," explains Lewis. "With some of the P2P lenders they will accept one invoice, so it's much more flexible."

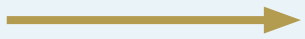
The other main advantage, says Paul Crayston, a spokesperson for the largest provider, MarketInvoice, is the speed with which businesses can access finance. "To set up an invoice finance facility with a bank takes about six weeks on average," he says. "We say 24 hours but it's normally quicker than that." P2P invoice discounters tend to advance between 80% and 90% of invoices, he adds, rather than 50% which is common among traditional lenders.

Just like loan-based P2P business lending, P2P invoice financing is growing fast. Some £270m was lent to SMEs in this way in 2014, an increase of 174% on the year before, according to the UK Alternative Finance Industry Report 2014.

Source: UK Alternative Finance Industry Report 2014

# 33%

**OF BORROWERS BELIEVE THEY WOULD HAVE BEEN UNABLE TO ACCESS FINANCE ELSEWHERE**



# 63%

**OF BUSINESSES SAW A GROWTH IN PROFIT AS A RESULT OF INVESTMENT**



# 53%

**OF BUSINESSES EMPLOYED MORE PEOPLE AS A RESULT OF INVESTMENT**



necessarily have the time to make an appointment with your bank manager, ask for a loan and then wait a month or two to get that money," contends Sam Ridler, executive director of the industry group Peer To Peer Finance Association (P2PFA). "We find that quite a lot of business owners are making applications at the weekend or in the evening, and a company such as Funding Circle is able to fund loans within two weeks."

The flexibility of such loans - most lenders allow repayments in full at any time and without any penalties - is a further attraction for SMEs, making the loans suitable for short-term finance.

"This makes it good for bridging finance or financing seasonal businesses," says Daniel Rajkumar, managing director of Rebuilding Society. "It's quite easy for them to reapply, either with us or somebody else, to re-finance the debt. We deliberately kept it like that because the finance

industry is really fragmenting, and different people are finding that they need different forms of finance at different stages."

Andrew Holgate, managing director of P2P platform Assetz Capital, points out that businesses often find finance they would be unlikely to receive from traditional banks. "This is partly because we have different capital requirements and partly because we can afford to take the time to assess businesses on individual merit rather than a balance sheet and an online checklist," he says.

Nicola Horlick, CEO of Money&Co., set up her business in direct response to small and medium-sized firms struggling to find finance. What has surprised her, though, is the number of well-established businesses in need of larger sums of money.

"I assumed it would be much smaller businesses - not early-stage ones, because we wouldn't lend to start-ups, but businesses that were three or



**Andrew Holgate, Assetz Capital**

*"We have different capital requirements and we can afford the time to assess businesses on individual merit rather than a balance sheet and an online checklist"*

four years old - which were finding it harder to borrow," she says. "Our average loan size is over £300,000 and rising, so by mistake we've discovered a space for larger SME loans."

Companies that are profitable, but have few tangible assets have found it especially tough to raise funds, she adds. "Often they take on a new contract or need to add something in terms of capacity or storage that involves a substantial amount of money and they can't get their hands on that."

Yet should businesses - or investors - have concerns over this new source of finance? Petrie broadly welcomes the trend and believes banks in particular will have to find a way to respond to the trend, but he warns that P2P lending should not be seen as a source of easy money.

"If a business's existing bank has refused them a further loan and set out some very clear reasons for the refusal, and if the business has tried one other established provider and received the same explanation, then the owner might want to sit back, consult their chartered accountant and other equity investors in the business and ask if there is a chance they might be right," he suggests. "There may be other, more efficient, ways of funding growth than simply extending the debt facility."

Martin Coyne, managing director of SME funding service Aedesia Limited and a partner at Birmingham-based accountancy firm Poppleton & Appleby, highlights two

concerns. "The first is the nature of the investors themselves," he says.

"Some platforms allow investors in for as little as £20. They see an investment opportunity and rush almost lemming-like into the deal without taking the time to even read the proposal. You can imagine the difficulty of even a simple £50,000 loan which could have a syndicate of 1,000 investors. Communication and decision making can be very time-consuming."

Another concern is the lack of a clear funding recovery policy on some platforms. "When a business gets into difficulty, the interests of the directors can often diverge from the interests of the lender," he adds. "In any decision to lend you need to ask what the recovery process actually is and who is likely to be carrying it out."

The industry is aware of these concerns, and is working to address them. The P2PFA, says Ridler, was set up as a self-regulatory body and had already applied a number of operating principles, prior to the regulation by the Financial Conduct Authority, which arrived in April 2014.

"The main thing is that all the P2P platforms have a due diligence process," she says. "You can't just put information up there; you have to apply almost like a bank loan and you go through a procedure of being checked. Quite often there will be a phone call to check why you need the loan and, if it's a large business loan, there may also be a visit to confirm the purpose of the loan."

## Case study: Newton Farm Foods

Newton Farm Foods is a family-run butchery and farm shop based in Newton St Loe, near Bath. In 2014, it sought finance to expand its café area, confident this would help the thriving business to grow.

"We heard about peer-to-peer lending and the government investing in it, so we thought we'd go down that route," says Celia Gay, co-owner. "We didn't go to the banks because they take so long and never give you a straight answer, and we wanted to move on quite quickly."

Through Funding Circle, the business borrowed £60,000, at a rate of 10%, from 915 people over a three-year period, although Gay expects to pay this back before that time is up. "We've put in a really good catering kitchen and have converted the barn into a seating area with an outside area as well," she says.

The process started in March, she adds, and building work was complete by July. "The only thing that surprised us was the speed of it," says Gay. "We knew within 48 hours that we would get the money and the whole process only took a couple of weeks."

## HOW TO... attract peer-to-peer business lending

- 1 DO YOUR HOMEWORK** and research the various providers
- 2 HAVE A HEALTHY BALANCE SHEET** and show you're profitable
- 3 BE PREPARED** to provide at least two years' management accounts
- 4 BE ABLE TO ANSWER QUESTIONS** from potential lenders
- 5 BE PREPARED TO ACT** quickly and ready to receive funding



**Martin Coyne, Aedesia Ltd**

*"Some platforms allow investors in for as little as £20. They see an investment opportunity and rush almost lemming-like into the deal without even taking the time to read the proposal"*



# £60,000

FUNDING CIRCLE LOAN AT A  
RATE OF 10%



conventional cash and share options may result in a sharp rise in the amount of money being invested.

But some in the industry are concerned about the possible implications. “We’re debating internally about what we think is right,” says Stuart Lunn, CEO of LendingCrowd. “By having institutional capital coming onboard it moves further away from the original peer-to-peer concept.

“But it allows the platform to scale up much more quickly, gives greater choice to borrowers and allows them access to capital to a greater extent. The danger is that institutional capital may crowd out the individual investors.”

Another development is likely to be in how high street banks respond to the challenges posed by P2P lenders, either by improving their own processes or entering into referral arrangements, such as the recent tie-ups between both Santander and RBS and Funding Circle.

“Where banks can’t help their customers they will then signpost that business towards us,” says Natasha Jones, a spokesperson for Funding Circle.

“That doesn’t mean we will automatically list them on the market, but it should help with raising awareness. The truth is we’re still right at the beginning of this.

“We’re experiencing a huge amount of growth, and demand from businesses is growing day by day, but it’s still a small drop in the ocean compared with how much banks lend.” ■

Investors, meanwhile, are being encouraged to take a conventional investment approach of building up a diversified portfolio, and avoid targeting only businesses in particular sectors.

Platforms also have to agree to have arrangements in place to ensure an “orderly run-off” of customer contracts in the event that the platforms themselves go out of business.

The market itself is constantly evolving, with the emergence of funds through which investors can put money into businesses without necessarily knowing what they are investing in, a move many are monitoring closely. UK Bond Network, for instance, offers fixed-rate bonds to investors and handles all investment decisions - and risk - itself.

“A drawback of P2P has been the lack of certainty for those looking for funding; a business might be accepted



**Natasha Jones, Funding Circle**

*“We’re experiencing a huge amount of growth and demand from businesses is growing day by day, but it’s still a small drop in the ocean compared with how much banks lend”*

onto a platform but ultimately not get funding,” says Chris Maule, CEO and founder.

“We can give businesses this certainty of funding, meaning if they pass our credit assessment process, they know they will get the funding they require.”

This allows borrowers to come up with different propositions for investors, he says, perhaps offering a performance-related upside in exchange for a lower headline interest rate.

Wellesley & Co, meanwhile, has recently launched an ISA bond, and invests an unspecified amount of its own money in every deal in a sub-ordinate position to its lenders, meaning it would lose its money before investors lose theirs.

Proposals made by the government to create a third category of ISA around P2P lending - to individuals and businesses - alongside the



£179bn

# HOW DOES GOVERNMENT PAY OFF A DEFICIT IT CAN'T DEFINE?

And is it in the country's interest to be debt free?

**Jane Simms** investigates and asks: what would the chief financial officer at the Cabinet table advise?



£15bn



£179bn



At the time of writing, the UK's estimated budget deficit for 2014-2015 stands at an eye-watering £64bn. Except that number is wrong: it's bigger. In reality, it's probably double that. The figure is based on the National Accounts, the government's historic way of reporting its financial position. Four years ago, the government introduced Whole of Government Accounts (WGA), a way of accounting similar to that used by businesses around the world in accordance with international generally accepted accounting standards (GAAP). In 2012-2013, the latest year for which WGA are available, the accounting deficit of £179bn was £94bn more than the £85bn reported in the national accounts that year. So it's not unreasonable to suggest that the UK's accounting deficit today is at least twice the "official" figure reported in the National Accounts.

WGA is a set of consolidated financial statements for the public sector, based on 3,800 organisations across central government, devolved administrations and local government. The main difference between the two sets of accounts is that the financial statements incorporate an integrated balance sheet that includes government assets and liabilities. WGA showed £49bn in higher charges for public service pensions, £35bn from the accounting for assets and £16bn for nuclear decommissioning, clinical negligence and other obligations.

The balance sheet at 31 March 2013 reported net liabilities of £1.6trn - £400bn higher than the public sector net debt of £1.2trn reported at the time, despite including in the balance the substantial assets owned by the government.

Martin Wheatcroft, an ICAEW chartered accountant and managing director of consulting firm Pendan, co-authored a detailed chapter on WGA in the Institute for Fiscal Studies' (IFS) 2015 Green Budget, launched on 4 February this year. But the forensic comparisons between the two sets of numbers amount to far more than an interesting academic exercise. As the Public Accounts Committee (PAC) noted in January, when the 2012-2013 WGA figures were published: "The WGA is a key means by which parliament holds the government to account for its management of public finances, including its progress in delivering fiscal consolidation measures."

But, says Wheatcroft, while the government gets "full marks for advancing some of this - WGA are *their* numbers, not ours - the lack of attention to those numbers by anyone but a very few people is an issue".

Revealing the true state of the nation's financial health, as these numbers do, should give policymakers the information they need to make more informed decisions on the long-term financial challenges they face, and reduce their traditional narrow focus on how much money they need to keep the lights on today and tomorrow. The more comprehensive and transparent reporting implied by WGA - and the will and capacity of governments to act on it - should also help to rebuild

"The WGA is a key means by which parliament holds the government to account for its management of public finances, including its progress in delivering fiscal consolidation measures"



The £92bn of spending cuts planned for the next parliament, challenging in themselves for a country that has endured five years of austerity, might not be sufficient to return the current budget to surplus

much-needed trust and confidence among businesses and the general public.

PricewaterhouseCoopers' 2015 Global CEO Survey found that 72% of CEOs were "somewhat" or "extremely" concerned about fiscal deficits and how governments are dealing with them. And while a joint survey of 10,000 Europeans conducted in 2014 by PwC and ICAEW suggested that the British public's confidence in the government's ability to finance core public services in the future is slightly above the European average, respondents might be less sanguine if they understood the true deficit position.

What's more, confusion in government itself between debt, deficit and borrowing doesn't inspire confidence in its ability to reduce any of them.

In a party political broadcast in 2013, prime minister David Cameron declared that the government was "paying down Britain's debts". It isn't. The UK's net debt (total debt that has been built up over many years by many governments, minus the government's liquid assets) has more than doubled during the past six years, largely because the government borrowed to help us through the financial crisis and recession. The debt-to-GDP ratio has risen sharply since 2007 and the Office for Budgetary Responsibility claims debt will continue to rise - at least for as long as the government has to keep borrowing to service it. According to Deloitte's *The State of the State*

**"If we had another crash our ability to recover would be much lower"**

2014-2015 report, interest payments on central government debt reached £1bn per week during the period, which means the government was spending more on servicing debt than it spent on education.

The current budget deficit, or surplus, is the difference between what the government spends and what it receives (in tax). The current budget deficit is being reduced, but not as quickly as hoped - largely due to weak tax revenues. It may seem remarkable in today's climate of deficit-reducing austerity that between 1998 and 2001 we had four straight years of surplus, and that every year between 1947 and 1974 there was a surplus. The government (and the opposition) want to return the current budget to surplus in the next parliament and, once it does, start to chip away at the accumulated debt - provided the budget stays in surplus.

At the moment the government is borrowing largely to pay down debt and reduce the deficit, but it also borrows to invest in things like infrastructure - and, say economists, it is currently doing far too little of the latter. When the government is running a budget surplus it may still need to borrow to cover its investments.

So, as Wheatcroft says, borrowing isn't necessarily bad and may potentially be good. "But that's a judgement. However, the value of WGA is that they show you where you are heading. So, when you're working out how to pay back or inflate away £1.5trn of debt, you can also see the additional £1trn of pension liabilities that you need to factor in."

But, while the balance sheet is a good indicator of the health of any organisation, Wheatcroft points out that a big negative balance sheet is acceptable, provided the organisation can generate revenue to cover it. Bill Robinson, chairman, economics and regulation and acting chief economist at KPMG, agrees: "There are OECD countries with debts as high as 200% of GDP, and they are performing well. For example, Belgium has a very big debt and it is a prosperous country."

The problem is, the UK government's ability to generate tax revenue is less than it might have hoped. The PAC concluded recently that tax receipts are not high enough to allow the Coalition to deliver its deficit reduction plans and there seems small hope of improvement on this front. "Our research suggests that tax revenues are permanently weakened," says Soumaya Keynes, research economist at the IFS.

The reason is that despite ostensibly rising employment many of the new jobs are low paid and a large proportion of the rapidly growing cohort of 'self-employed' are actually under-employed. This means that the £92bn of spending cuts planned for the next parliament, challenging in themselves for a country that has already endured five years of austerity, might not be sufficient to return the current budget to surplus.

And the combination of high debt and debt interest contribute to the tax burden, which acts as a disincentive to work, says Robinson.

But there are some who believe we should be paying more tax, not less. David Heald, professor of accountancy at Aberdeen Business School, and an expert in public sector accounting reform, is one of them. He believes the UK's deficit is so high because our economy was, and still is, so heavily exposed to financial services and because successive governments have been complacent about tax revenues - to which the financial services sector has contributed disproportionately.

## WHAT WOULD YOU DO TO HELP REDUCE THE BUDGET DEFICIT IF YOU WERE A CFO AT THE CABINET TABLE?

**Tristan Price, group FD of MP Evans and formerly of the Foreign Office**

1. Push for a separation of policymaking from the execution of decisions and bear down relentlessly on the processes that deliver that execution to make them more efficient.
2. Discourage rapid changes in what people are expected to deliver when these actions are down to the whims of ministers who come and go with elections. I'd make people recognise the "switching cost" in terms of time, effort and money.
3. Persuade civil servants to stay in their posts for longer to see through major policy changes.
4. Reduce upwards reporting to a minimum.

**A former government finance director**

1. Continue to bear down on social security benefits.
2. Introduce a modest increase in tax levels.
3. Review very large contracts, particularly contracts in the Public Finance Initiative area, where government asserts it has transferred risk and is paying a high premium for doing so. Ultimately, the risk has not been transferred because the private sector contractor just walks away when the financial going gets rough. PFI is an example of where decision-making on an adjusted cash basis by the Treasury – rather than on a longer-term financial and economic basis – leads to the wrong decisions.

**Martin Wheatcroft, ICAEW**

1. Fully implement financial accounting and change our government culture to the point where the chancellor stands up and talks about the £179bn accounting deficit rather than the £85bn current deficit.
2. Develop clear, long-term strategies for the big financial questions that are facing the country. Instead of focusing only on ways of trying to find a few extra billion pounds for the health service this year, I'd come up with a 10- to 20-year plan based on what we can clearly see is needed for the health of the population. Clearly, the Treasury does have long-term thoughts, but so far has not produced strategies that have been presented and debated publicly.
3. Improve and simplify government processes, especially in the areas of taxation and benefits. These are overly complex and consume a great deal of administrative time and money.

Heald explains: "In my view the Labour government in the first decade of this century could be criticised for not running a surplus when the economy was doing so well. There was a lot of froth in the economy from the financial services sector and opportunities to do things about tax were not taken at a time when there was plenty of money around to have done it."

However, Heald continues: "Far more significant than this was the damage to public finances caused by the 2008 crash - having to bail out the banks, in particular - and our very slow recovery. In 2008 our net debt ratio was about 40% (of GDP) and it is now around 80%. If we had another crash our ability to recover would therefore be much lower. I worry that the UK is still vulnerable because of the size of our financial services sector and the fact that there is a question mark over whether it is better regulated now than it was seven years ago."

Heald thinks tax increases will now be inevitable during the next parliament. He also believes that our finances would be in a much stronger position had the government balanced spending, taxation and investment more carefully during the past five years.

"Since 2008 we have made the mistake of cutting too much on capital," Heald says. "That's a very unwise move given how fast the population is growing, but it is quick and easy to do and the employment consequences are more diffuse and less immediately obvious than other strategies."

Arguably, a healthier balance between taxation, spending and investment for the longer term will evolve as financial accounting becomes increasingly embedded in government, and as reforms designed to improve the quality of financial people, skills and practices within government take a stronger hold. ICAEW believes change would be accelerated if the government appointed a CFO who would be accountable to the cabinet and provide financial leadership across the whole of government, including local government. Critically, this individual would provide strategic advice to policy makers that would transcend party-political boundaries. ICAEW started to promote this agenda in a publication launched in June 2013 entitled *A CFO at the cabinet table?*

But scepticism remains about the practicality and desirability of such a role. The former finance

## “Since 2008 we have made the mistake of cutting too much on capital”

director of a central government department, for example, believes that any such appointment would, by definition, be political, which would immediately reduce its stature and effectiveness. Having a CFO accountable to the cabinet would represent a fundamental change in the relationship between the civil service and ministers, he maintains. “At present the cabinet secretary advises cabinet, the permanent secretary at HM Treasury advises the chancellor, and the chancellor addresses cabinet. The cabinet is the executive and it is a political body.

The new director general of public spending and finance within HM Treasury [created just over a year ago] merged two previous roles - that of lead official on government spending plans and that of head of the accounting and financial management profession in central government. This post has a formal management relationship with finance directors across government in a way that ICAEW’s proposed cabinet CFO role would find difficult to do because of its political nature.”

He also believes that the “fundamental and controversial” reform required to remove the distinction between the political executive and the apolitical civil service within government - something he sees as necessary to the introduction of the kind of CFO role ICAEW envisages - would be counter-productive: “It would distract from improving effective financial management and planning.”

He continues: “By the same token I don’t understand how a cabinet-accountable CFO can be responsible for financial disciplines in local authorities, which are creatures of statute, without introducing primary legislation to remove the present statutory independence of local authorities.”

Finally, he adds: “The implication that financial discipline and accounting rigour in large corporations is somehow superior to that in government is misplaced hubris. I recall a discussion with a senior board member of one of the large clearing banks, and he was in no doubt that if the rigours of government accounting standards as set out in the Government Resources and Accounts Act applied by the National Audit Office were applied to his and other banks, rather than only the ‘true and fair view’ requirement, then his and other banks’ accounts would be qualified.”

Nick Jones, director of PwC’s public sector research centre, says that while best practice exists in both private and public sectors, his firm’s research, including its recent *Leading from the Front* report, suggests that finance directors from both sides are slow to seek and share best practice from and with each other.

FDs from both sides need to strike a balance between three critical roles, says Jones: driving efficiency, maintaining compliance and control, and providing insight. “The balance is different in the two sectors and while those in the public sector might need and want to spend more time on insight, they are perhaps pushed more towards compliance and control,” he says.

Clearly, government and business are different beasts. They face different sets of challenges, work to different time-scales and have different objectives, so the measures of their success are likely to be different too.

For all of this, says Wheatcroft, “government isn’t so different that it doesn’t need to worry about this accounting stuff, because accounting provides the information you need for well-informed decision-making”. ■

There are OECD countries with debts as high as 200% of GDP, and they are performing well. Belgium has a very big debt and it is a prosperous country”

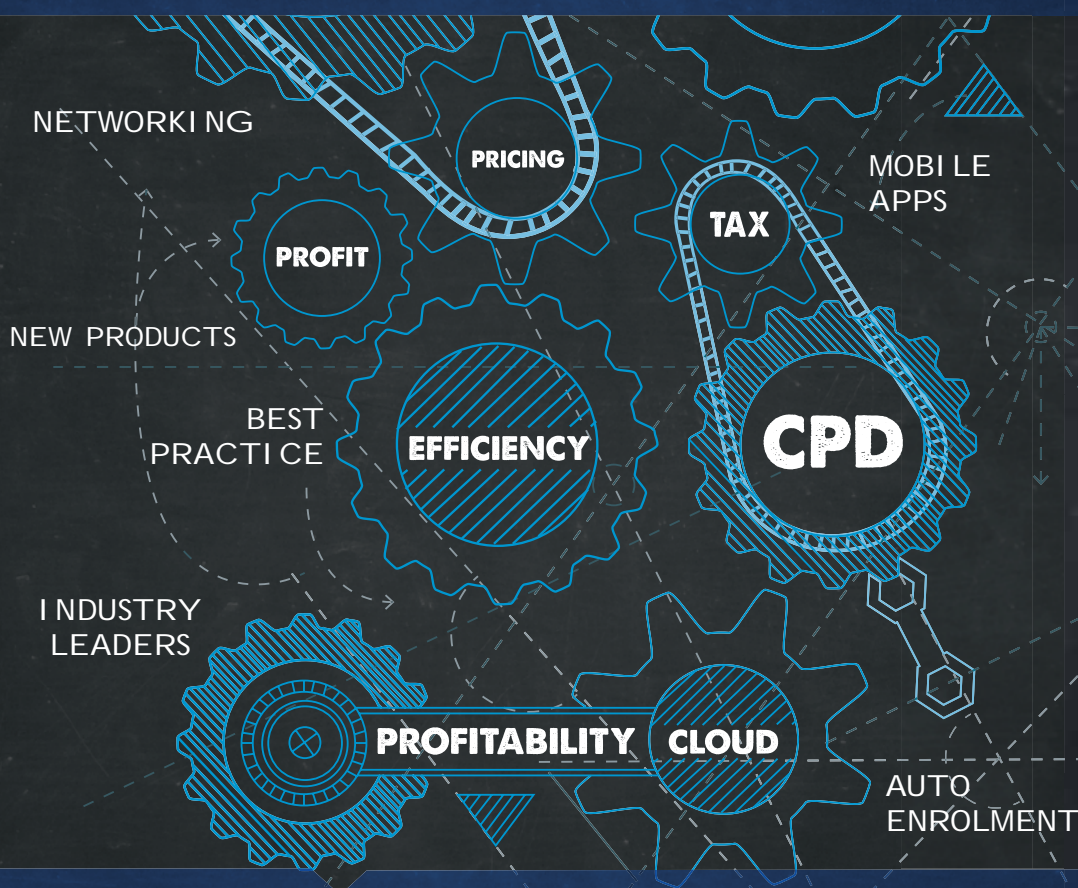


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# Is VAT the most effective tool to fill the hole in public finances?

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## **YES** *Ben Southwood*

Economists argue that tax authorities should be as neutral as possible between decisions, because the alternative ‘distorts’ decisions – making people pick things they’d otherwise skip. Undistorted, governments could get a higher tax take and consumers could consume in patterns they prefer.

This is why VAT – especially a broad-based VAT with the same rate on any and every good – is one of the most efficient taxes, with among the lowest ‘deadweight losses’ (costs to someone that don’t also give a benefit to someone else) of any of them.

Income tax is close but has a key flaw: it taxes future consumption higher than current consumption. Not only does this incentivise consumers toward buying stuff now instead of buying it later or giving their money to their kids, it has the baleful side-effect of clamping down on the funds available for investment.

A revalued, revamped council tax made to be more like business rates effectively taxes the ‘consumption’ of property services and land values, making people use it much more efficiently. It’s a bit like broadening the VAT base to hit consumption it might otherwise miss.

## **NO** *Scott Corfe*

Getting the deficit down is going to have to be addressed primarily through spending cuts. Not for ideological reasons, but because the UK is reaching its taxable limits in many areas. CEBR’s own research shows that increasing the top rate of income tax would lead to lower revenues for the government as talent leaves the country. The scope to extract more money from the tobacco and alcohol sectors, which are in decline, also seems limited.

A VAT increase may raise tax receipts – indeed the increase in VAT to 20% has been one of the few sources of significant tax revenue growth in the current parliament. But the economic costs of another increase would be negative. The rise in prices and in turn inflation would kill off the nascent return of rising living standards in the UK and deflate the consumer-led recovery, which is currently generating solid economic growth.

## *Ben Southwood*

The one flaw in VAT is its regressiveness. If it’s charged (as it is now) on each individual purchase then it inevitably hits those who consume more relative to their income or wealth.

But it needn’t be this way: the ‘progressive consumption tax’ would tax total consumption (income minus saving); it could exempt the entirety of low income households’ consumption and kick in at much higher rates on luxury consumption.

Alternatively VAT could be charged as it is now, but with a rebate of say, £5,000, for everyone. VAT has its flaws, but it’s clearly among the least inefficient areas of the UK’s tax system, and could be the best way to raise extra revenue.

## *Scott Corfe*

Cuts to government spending are a more sensible way of achieving fiscal consolidation at present, especially when one considers the timid nature of the government’s spending cuts in the current parliament. We estimate that government spending (inflation-adjusted) was actually 1% higher last year than it was in 2010 – hardly deep austerity.

Spending cuts may be unpopular with the electorate – but another VAT rise would probably be more so. The reality is that there is significant scope for policymakers to make substantial savings in protected areas such as healthcare and foreign aid without compromising on quality. They should be bolder and willing to make efficiency gains here.

## *Ben Southwood*

Although I would prefer spending cuts to pretty much any tax hikes, right now we have a rare opportunity where a given tax increase may conceivably be better even than spending cuts.

This is base-broadening. The UK’s VAT system verges on nonsensical. For example, about £6bn goes to zero-rating new builds, while extending or improving buildings fetches the normal 20% rate. Undoubtedly there seemed to be a good reason for this at the time, but its effect is to encourage builders to demolish perfectly good stock and rebuild it from scratch.



**YES** *Ben Southwood*  
Head of research,  
Adam Smith Institute



**NO** *Scott Corfe*  
Assistant director,  
Centre for Economics and  
Business Research (CEBR)

The zero rates on ‘essentials’ such as food are badly targeted as poverty relief – a uniform VAT rate would make sure no one with less than average income was any worse off and we’d still have billions left to pay down the deficit. Broadening the VAT base would enhance efficiency, preserve fairness, and leave us with enough to close the budget gap.

#### *Scott Corfe*

The key issue for me is that the government doesn’t need to raise any taxes at all, it just needs to get a grip on spending. Despite all the talk of austerity, the UK is still in a situation where government spending this year will still be higher than in 2010, even after you adjust for inflation. The reality is that the chancellor gave up on any real efforts to cut spending in the second half of the current parliament. It was far easier to go for economic growth and kick difficult fiscal problems down the road and into the next parliament. This is why the UK still finds itself with a public sector deficit of £90bn per year.

This £90bn hole needn’t be tackled through tax rises, especially when there are so many ways to control government spending without leading to worse outcomes for public services. It’s what you do with the money that matters – and policymakers should be getting creative in making efficiency gains across all departments. Nothing should be ring-fenced financially – we should be protecting outcomes for public services, not money. We should be focusing on major inefficiencies in government spending before ramping up VAT.

#### *Ben Southwood*

I like spending cuts as much as Scott, and I’d like to see a state that took up far less of the economy, but

**“We should be focusing on major inefficiencies in government spending before ramping up VAT”**

without identifying specific areas to cut, it’s hard to see what obvious inefficiencies remain. Real departmental spending is down about £50bn per year from the 2010 peak – the ‘annually managed expenditure’ remaining is much harder to cut and includes welfare, pensions and debt interest.

We could end the NHS and education ring-fences, and cut into their combined £170bn budget, as Scott suggests, but this is venturing into the realm of extreme implausibility.

VAT base-broadening could seem to suffer from the same political considerations; who wants items they consider essential to go up in price? But it eliminates so much irrationality in the system that it effectively gives us free money to play with.

Charging 20% on every good would raise about £30bn if we compensated no one. If we made sure the bottom half of the income distribution didn’t lose out we would still have far more than half of that to put towards a smaller deficit. Given the constraints we’re working in, VAT reform is a practical way to raise efficiency and close the deficit.

#### *Scott Corfe*

The point about tax broadening is interesting and I completely agree that we should be looking to expand the tax base. One of the problems created by the current chancellor is that the tax system is becoming increasingly top-heavy – the number of basic rate income taxpayers has declined since 2010, while there has been a surge in the number of higher and additional rate payers. This tax structure is likely to be a revenue-loser in the long run, as top talent is deterred from moving to the UK. It is also likely to lead to much more volatile tax receipts.

Increasing VAT or reducing the number of items that are zero-rated would be one way of making the tax system less top-heavy. But it’s a political non-starter. We know from the pasty tax debacle that tweaking VAT on certain items can be a PR disaster. The furore from increasing VAT on utilities and other food items would be even greater than with the pasty tax. The most realistic way of getting the deficit down is to get to grips with excessive levels of government spending. ■

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#### MEPs call for VAT changes

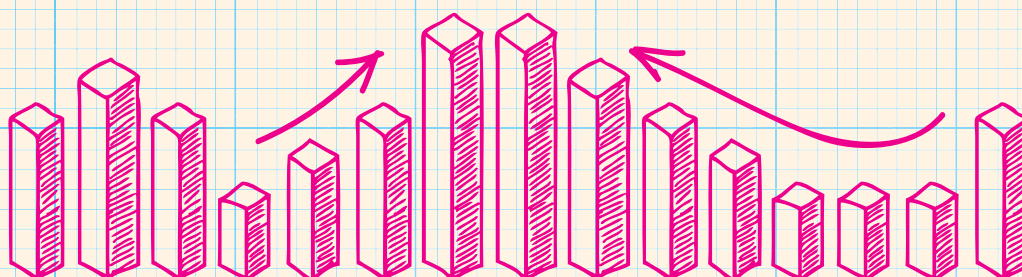
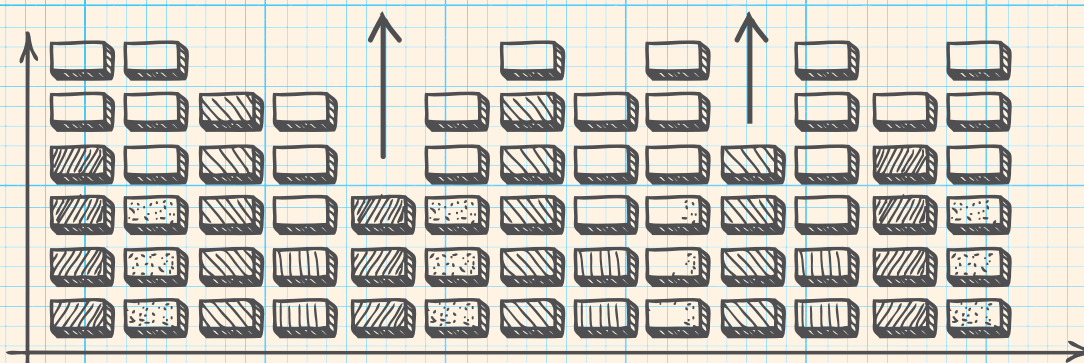
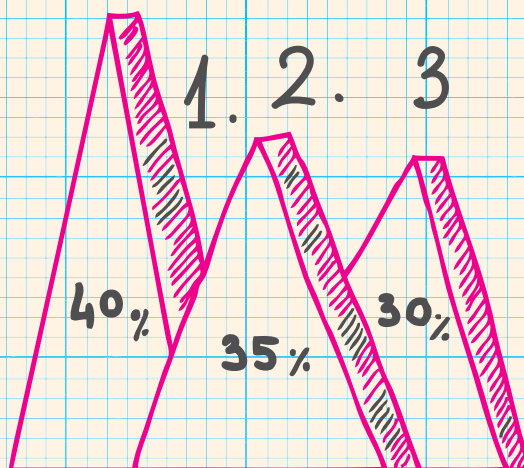
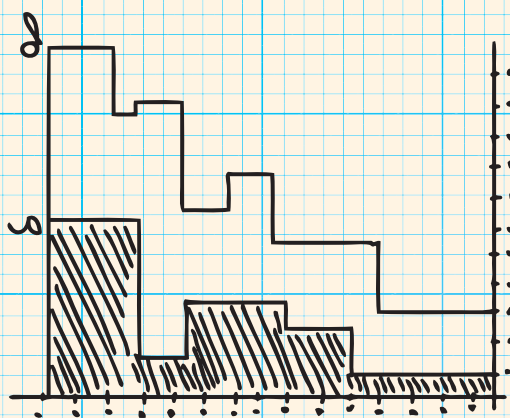
MEPs are calling on Jean-Claude Juncker to revise EU VAT laws

#### Ebooks lose VAT battle

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## And our survey says...

As the UK goes to the ballot boxes in the most uncertain general election for a generation, Xenia Taliotis finds out what part the pollsters play in taking the public's political temperature

In 2008, Nate Silver's FiveThirtyEight.com blog famously predicted the results of the 2008 US presidential election (calling 49 of 50 states correctly) and the 2012 election (50 out of 50). Silver now interprets data to predict such things as Oscar winners and the geographic distribution of support for gay marriage, and is in *Fast Company's* most creative people in business list. He even has a website - [isnatesilverawitch.com](http://isnatesilverawitch.com) - devoted to him. "While we on the *Is Nate Silver* a *Witch* editorial board are strict rationalists, Mr Silver's performance has been uncanny enough to raise small but significant doubts as to whether his methodology is entirely of this world," states the home page.

Ahead of the general election in the UK this May, the newspapers were awash with polls. In the previous parliament alone, more than 2,000 political surveys were conducted with hundreds more expected before 7 May. They indicated an electorate grown weary of the mainstream parties and looking for alternatives. In the past this would have resulted in tactical or protest voting, meaning nothing more than lost votes for the big two (three, if you want to be kind to the Liberal Democrats). Now though, voting for the Greens, the SNP, UKIP and Plaid Cymru will have cost seats.

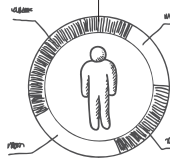
This fragmented political landscape has made polling a far more tricky game to be in. It was never easy - not even in the good old days when the BBC's swingometer only oscillated between two colours - but now that there are more parties grabbing a share of the pie the whole business has become fraught with conundrums. No one has been predicting results Silver-style.

"It will be one of the most unpredictable elections we've ever had," said Dr John Curtice, professor of politics at Strathclyde University, president of the British Polling Council and a world authority on electoral behaviour. "If, as seems likely, no party wins a majority, all manner of horse-trading will take place before we find out who'll end up behind that black door, no matter what Cameron and Miliband are saying now. There are so many possibilities - Labour and SNP; Labour and SNP and the Greens; Conservatives and UKIP; Conservatives and the Democratic Unionist Party - that it's impossible to say who will end up with whom after 7 May."

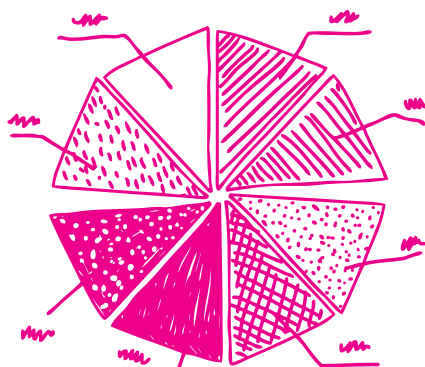
When *economia* asked leading pollsters YouGov, Populus, ComRes and Ipsos Mori - all of which poll for newspapers - to call the result, they were reticent. Speaking at Impact, the Market Research Society's conference in March, Andrew Cooper, founder of Populus (a man considered by the late Philip Gould to be among the best political pollsters of his generation), said the only thing we could be certain of was an "extraordinary car crash".

He added: "We don't have a party with broad enough appeal to win a majority, which will make for a very complicated election. And we've got marginal seats where the winning candidate is likely to have only about 20% of the vote; that's not good. Our next prime minister, whoever it is, will end up leading a messy government."

Modelling an outcome from such a muddle is complicated: there are too many variables to consider, including even the fact that we've been told to expect a hung parliament. This, says Adam McDonnell, research executive at YouGov, will throw some of us



**“George Gallup, the father of modern polling, came up with the soup analogy. He said if you stir a pan of soup properly, you’ll only need a taster to find out whether it’s too salty”**



into a flap on election day because we won't know how to vote in response to that information. "We're in uncharted waters - we can't use the past to forecast the future because we've not gone into an election like this one before."

The best that our pollster can do - indeed the only thing they ever promise to do - is provide us with snapshots of general trends and public mood swings in response to, say, the Budget, or a big issue story. No pollster in the country can give a definitive answer to the question of whether points can result in winning new seats. It is, says Laurence Stellings, associate director of Populus, "the million dollar question".

When really pressed on who'll end up with the keys to Number 10, Stellings says we're likely to end up with "a tangled Labour-led government". This is not because Miliband has the edge with voters (although in April he had overtaken David Cameron as the most popular political leader for the first time) but because he has a bigger pool of potential coalition partners to negotiate with. "There's no chance of either of them winning a majority, so it will come down to who can get enough support from the minority parties," says Stellings. "Miliband could go to the SNP, the Greens, even the Lib Dems, whereas Cameron's looking more isolated. Even if he holds onto the Lib Dems, their share of the vote is likely to be so greatly reduced that he'll need the support of a third or even fourth party to give him a majority. It's going to be tough."

The prognosis from the other polling companies is much the same, which is hardly surprising given how similar their methodologies for collecting data are.

"Pollsters acquire their samples through one of two methods; random sampling or quota sampling," says Curtice. "Random sampling is just that - selecting people by random digit dialling or the random selection of postal or email addresses and asking those selected to take part in the survey. Quota sampling involves setting quotas that match the profile of the population and then instructing interviewers to find respondents who

match that profile. We know from the most recent census, for instance, that 16% of the population is aged 65+, 83% live in England, 8% in Scotland, 5% in Wales and 3% in N Ireland, so polling companies use those percentages as quotas and ensure, by careful selection and by weighting, that their samples reflect those percentages."

YouGov is one of the many companies that uses quota sampling. With five voting intention surveys per week, it was the most frequent assessor of public opinion; it is also the only solely online pollster. You'd think this would create problems of bias, that YouGov's samples wouldn't be sufficiently representative because they don't include the 14% who, according to the latest (2013) figures released by the Office for National Statistics, have never used the internet. But McDonnell says highly-sophisticated weighting methods compensate for this, and also for the fact that its panel is made up of people who have chosen to be surveyed, rather than people selected at random.

"Our samples are specially designed to give us a representative sample," says McDonnell. "We know who our members are, so we can select the correct proportion of men and women, young and old, Scottish and Welsh, and so on, to take part and then we weight accordingly."

YouGov has a UK panel of 400,000 people and samples about 1,500 of them each time, which is about average - the range being somewhere between 1,000 and 2,000. It's an interesting fact about sampling, says Ben Page, chief executive of Ipsos Mori, that 1,000 responses, providing they are random, can accurately represent the views of a nationwide, or even worldwide, population.

"What makes your poll accurate is not how many respondents you've got but how good your sample is and how good you are at weighting the data to match the profile of the population," says Page. "If you've done your job well, have got a representative sample, have asked the right questions in the right order, your



1,000 people will give you an accurate - within a margin of error of between 1% and 3% - idea of how the other X million or X billion people think. George Gallup, the father of modern polling, came up with the best way of explaining this with his soup analogy. He said that if you stir a pan of soup properly, you'll only need a taster to find out whether or not it's too salty."

Like YouGov, Ipsos Mori uses quota sampling, but based on 1,000 monthly telephone interviews that are selected through random digit dialling. "We used to do our voting intention surveys face-to-face until 2008," says Page, "but made the switch to telephone polling because of cost, time - your data is almost out of date by the time you've finished and reported your field studies - and reliability of response. People tend to be more honest when they're on the other end of the phone than when they're talking to you in person and will more readily admit to behaviour that is perhaps considered 'anti-social,' such as saying they've no intention of voting, or are going to vote for an unpopular party."

Speed and cost are also why more and more companies are running internet polls. "Most polls are commissioned by newspapers or broadcasters," says Tom Mludzinski, head of political polling at ComRes, "which need headline stats very quickly, so there's no way we can do face-to-face interviews." ComRes was doing fortnightly surveys, polling 2,000 people online and 1,000 on the telephone, but went weekly closer to the election. "Broadly speaking we use the same methods as our competitors. We use random-digit dialling for our telephone polls and contact people who are on our panel or through random emailing for our online surveys."

"We ask about voting intention but also aim to find out about the broader picture. It's important to see how people are responding to pertinent issues of the day and how far those issues are likely to influence voting behaviour. Top-line concerns include the NHS and immigration - so you'll find both of those on every

### WHEN THERE'S NOT A GENERAL ELECTION ON...

Political polling is actually a very small part of business for analysts such as Populus, Ipsos Mori, ComRes and YouGov. It is regarded across the industry as a useful marketing tool and good for branding, but doesn't contribute much to the revenue stream.

The big, lucrative contracts are with corporates, where the work is diverse and technically groundbreaking. As Hannah Millard at Ipsos Mori explains: "We pride ourselves on constantly innovating and this includes finding new ways to explore society and business. We use neuroscience, implicit reactions, ethnography, online communities, social media monitoring and analysis, focus groups and a wide range of survey techniques."

Laurence Stellings at Populus says the company uses data to help organisations understand their reputations, how they are perceived, what the risks to them are, and how they can better manage them. "Lots of what I do is in applying political research techniques to the commercial world, and taking the commercial research techniques to the political world," he says. "We're now regularly producing 'warbooks', which are typically used in political campaigns, for corporate clients. They summarise huge volumes of research, data and conclusions for senior management audiences, and provide the evidence base for stakeholder and reputation management."

party's agenda." How you frame your questions has a huge impact on the answers you'll get: "there's an art, a science almost, to writing and sequencing questions for polls," says Stellings. Like Lord Ashcroft Polls and YouGov, Populus (which was doing twice-weekly telephone and internet polls, with a sample of 2,000), was prompting for UKIP in the primary list of political parties, rather than first filing them under 'other'.

"Our business is all about getting as close to the right result as possible, which you're not going to get if you ask leading questions. For instance, you must never give the impression that there's a wrong or right answer or that it's reprehensible not to vote or you'll get results based on lies. We stake our reputation on our accuracy. Our polls are checked against a range of demographic criteria to ensure they're representative and we weight by sex, age, social class, work status - even how many cars the household has."

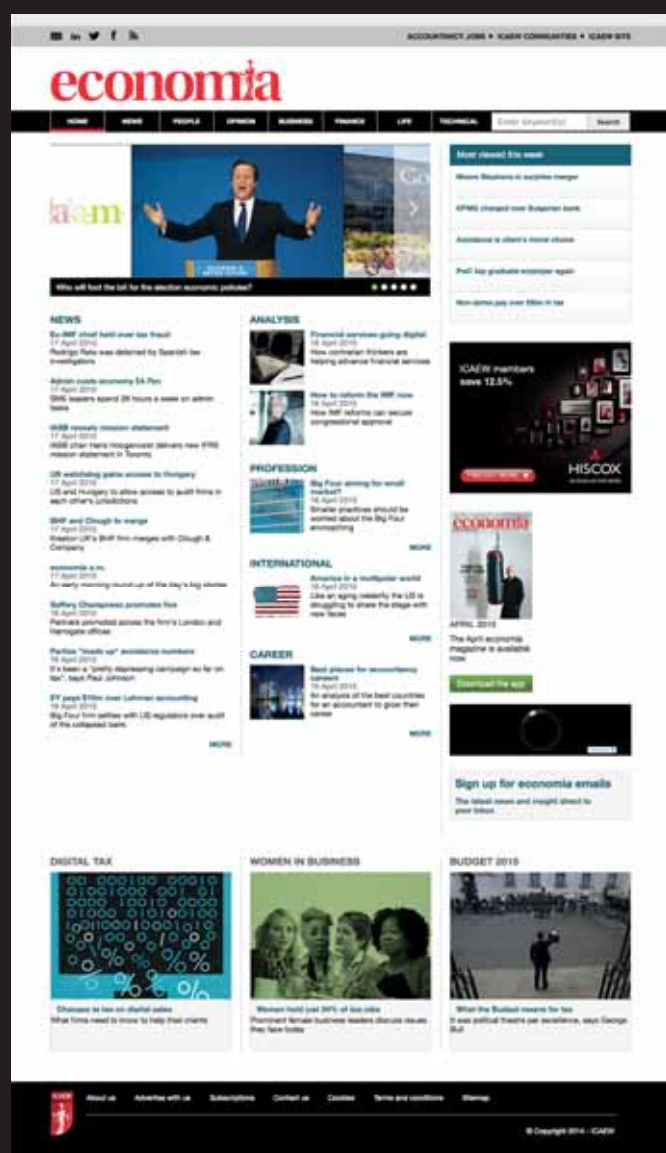
It's partly because their reputation depends on their accuracy (and therefore integrity) and partly because British market research is one of the best and most closely regulated in the world that no polling company can have any party bias or allegiance.

"Many polling companies do separate private surveys for the parties," says Jane Frost, CEO of the Market Research Society, "but what goes into the public domain is completely neutral. It has to be because they stake their reputation on being right. Political polling is actually a very small part of what each of these companies - YouGov, Ipsos Mori, etc - does, but it's a part that grabs all the headlines and gets their name into the papers each day, and into public awareness."

"That's why the people you spoke to were reluctant to say what they thought was going to happen after 7 May. They have too much to lose by getting things wrong and they're too professional to let their own politics skewer the results in any shape or form." ■

• This issue of *economia* went to press on 24 April

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# Weighing the cost

How do you decide how much services are worth? By time spent? The professional skill required or by the weight of paperwork involved? Peter Bartram looks at the move away from billable hours





hen Lucy Cohen, commercial director at accountancy practice Mazuma, set up a new limited company accounts and tax returns service for small businesses, she decided to charge for it by the weight of the paperwork.

Who would have thought, even a few years ago, that an accountant would be selling her services in the same way a greengrocer sells bananas? Up to 1kg of paperwork costs a Mazuma client £199. As much as 10kg weighs in at £999. Cohen believes her approach is unique.

There are siren voices that suggest charging for accountancy services by time - traditional hourly billing - has had its day. Accountants, these voices purr, should assess the value the client puts on the service they receive and charge accordingly. The high priest of "value pricing" is a Californian accountant turned think-tank guru and radio talk-show host called Ronald Baker. His mission, he says, is to "bury the billable hour and timesheet" once and for all.

Baker, who founded the VeraSage Institute, says: "Accountants' business model is fundamentally flawed because the world has changed." He argues that accountancy clients don't buy time - they buy "outcomes". So accountants need to re-engineer their business model, including the way they price.

He says: "Accountants are knowledge workers and you can't measure the value of knowledge work by the time it takes. Time is the wrong measuring rod. It's like plunging a ruler into the oven to determine its temperature."

The key to understanding the concept of value pricing is that the value of an accountancy service is determined by the client who receives it. To take a simple example, a company whose tax affairs are in apple-pie order may put a lower value on tax advice than a company whose tax affairs are tangled and finds it has HMRC inspectors bearing down upon it.

Baker's argument is that if accountants understand the value the client puts on delivering the desired outcome, they can price their service to reflect that. He reckons that between 5% and 7% of accountancy practices in the English-speaking world have adopted some of the principles of value pricing as described in his books on the subject, the latest of which is *Implementing Value Pricing*.

One of Baker's UK disciples is Mark Wickersham. He started his own accountancy practice in the 1990s. "For the first couple of years, I never made much money," he recalls. "Clients thought the services were expensive and I got frustrated."

Then he read one of Baker's books, was seduced by the arguments, and switched from billable hours to value pricing.

"I got significantly different and better results," he says. "I found it was easier for clients to say 'yes' and buy, even if the price was higher, because I was giving them the certainty of a fixed price upfront."

Wickersham later sold his practice and now spends his time spreading the gospel of value pricing through consultancy work, motivational speaking and books such as *Effective Pricing for Accountants*. Last year, he conducted a survey of 725 accounting firms. He discovered around 10% of them were using value pricing principles.

One practice that has advanced some way down the value pricing road is ReesRussell, a 10-person practice in Witney, Oxfordshire, which is a member of the UK200Group. Partner Jonathan Russell says that because a large amount of their work is on compliance jobs, such as accounts or tax filings, there are market rates for much of it, so the firm's model is a hybrid of time and value pricing.

Clients receive a fixed price based on the amount of time to deliver the service. But, adds Russell: "I may flex the price up and down depending on the need of the client." For example, if a client appears in the middle of January urgently needing tax returns completed by the end of the month, then the price may be flexed above the standard rate. He draws a comparison with the Uber taxi app which adopts "surge pricing" when demand is high.

However, there are still plenty of accountancy practices that believe hourly billing has a future. One of them is Carter Backer Winter, a London-based firm with 18 partners and 120 staff. The firm uses a mixture of hourly and fixed price billing but managing partner Peter Winter admits: "The majority of my work is on hourly billing."

Winter says that different kinds of work lend themselves to alternative billing methods. Hourly billing is fine for consultancy and ad hoc advisory work. Fixed-fee billing is good for compliance, such as tax returns and annual accounts filings, often a staple of smaller practices. Audits are increasingly the subject of competitive tenders.

He argues that hourly billing is far from dead, but that clients now more often look for certainty about what they will have to pay. And when the competition is hot, and the client is sensitive about fees, there is a tendency to undercharge. "Partners will undertake work and just not charge for it," he says.

One of the big drivers behind the soul-searching over billing methods is clients' wary eye on fee rises and value for money - a tendency sharpened during the downturn. The halcyon days of the 1980s and 1990s, when clients took their bills and paid up without moaning, are long gone.



10kg of paperwork = £999

1kg of paperwork = £199

## HOW OTHER PROFESSIONS PRICE

Other professions are also trying out alternatives to hourly billing. “Both clients and professionals are dissatisfied with the hourly billing model, but everyone is struggling to come up with something better,” says Professor Laura Empson, director of the Centre for Professional Service Firms at Cass Business School.

It’s not easy because – as Empson points out – any kind of pricing structure for professional services needs to give at least a nod to the role of time in service delivery. “To divorce price from the time spent on a task would be nonsensical,” says Empson.

But there is another problem – firms across many professions don’t always have an accurate grasp of the amount of time staff spend working on different projects. There is a “double distortion”, says Empson.

First, staff don’t acknowledge how much time they have spent on a job. Secondly, senior managers shave back the price when putting the final bill together in order to keep clients happy.

It all happens because the spectre of tougher competition is hanging over most professions and they must change their charging structures to deal with it.

Consider management consultancy, for example, where hourly billing used to reign supreme. A late 2014 survey showed that 71% of clients now prefer to be charged on a risk/reward basis – where the fee is linked to achieving pre-defined key performance indicators.

But few consulting firms have switched entirely to this way of working, says Fiona Czerniawska, author of *Buying Professional Services* and co-founder of Source Information Services, which researches the consultancy industry.

“Most firms use a mixture of risk/reward and more traditional fixed price, and time and materials contracts,” she says. “It’s really only the big firms that can offer substantial risk/reward deals – where a high proportion of fees might be at stake – because they have the financial muscle to back it up.”

Architects are another group of professionals who have felt the stiff breeze of change in their charging structures. Traditionally, their fees would have been based on a percentage of construction costs – depending on the project, usually somewhere between 4% and 10%. But that’s now almost entirely abandoned, says Adrian Dobson, head of practice at the Royal Institute of British Architects.

Now architects are more likely to charge “resource-based fees” calculated on the basis of a seven-stage “plan of work,” which takes a project from brief to client handover. The architect will look at the time and level of staff likely to be used at each of the seven stages to calculate costs, then add a mark-up and perhaps an uplift to reflect value added in the project.

It is a similar story in other professions ranging from law through advertising to investment banking. Clients used to sit back and accept hourly fees as part of the pain of doing the job. Not now.

“Clients don’t understand why they have to pay so much money for work that seems to have taken an unnecessary amount of time,” adds Empson.

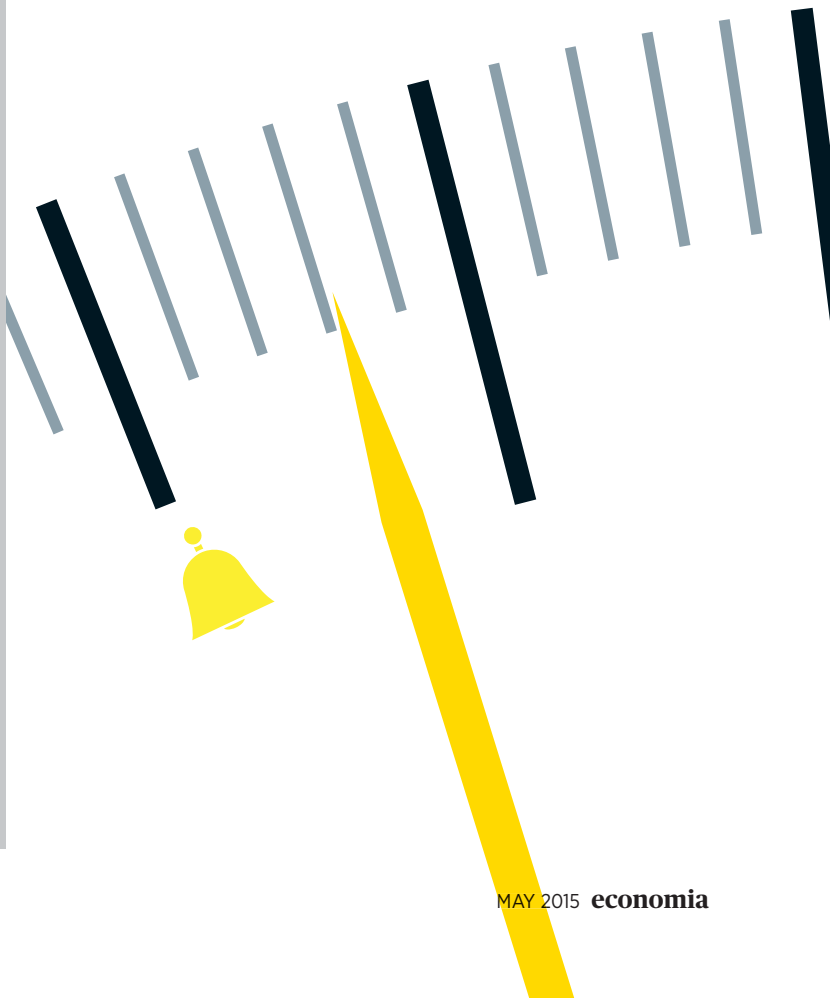
“There is now quite a bit of resistance on the part of clients to fees and fee increases,” says John O’Donnell, a practice consultant at ICAEW. “Many clients will now be looking for a fixed-fee quote for two or three years.”

But another driver is the way so much accountancy work – especially compliance – has become commoditised, a trend stimulated by more widespread use of technology. Turning accountancy services into a commodity also puts a premium on the processes that are used to deliver them.

“We’ve spent years getting our processes right to make sure that we can deliver services profitably,” says Mazuma’s Cohen. “It’s not as easy as it looks.”

Cohen keeps control by reviewing a set of tight key performance indicators that show how work is flowing through the firm. For example, every piece of client work that comes in has to be booked, processed and returned to the client within five working days. Any phone call or email from a client that arrives before 4pm must be answered the same day.

The idea of basing fees for a service on weight came when Cohen realised that the time taken to do the bookkeeping for a small company or contractor was usually proportional to the amount of paperwork. “We couldn’t ask people to count the pieces of paper they were sending us, so weight seemed the obvious way to do it,” says Cohen. The service is for clients who don’t want advice and





support - just a set of accounts and corporation tax return at the end of the year.

For clients who want a fuller service, Cohen offers a fixed-fee monthly service. She admits that taking on clients for a fixed fee is a risk when there is no certainty how difficult it will be to service their needs. But Mazuma now has more than 2,000 clients, mostly with turnovers under £250,000, and profit averages out over them.

"We only market to people who are most likely to fit the structure we've got," says Cohen. "We basically train clients to give us clean paperwork on time so we don't have to chase them. We discuss all this during the sales process and if we don't think people are a good fit, we tell them that they won't get the best out of our service."

Darren Fell, managing director of Crunch Accounting, is another accountancy entrepreneur who believes the future in the small business and sole trader accountancy market lies in offering fixed-fee services.

Crunch has 6,500 clients for its online services, which harness the power of cloud computing, with a further 300 signing up every month. Typically, client turnovers are up to £500,000. "With a fixed price service, you're looking to deliver volume - you need to offer all the features a client needs but be sure you can make a profit on the fixed price," says Fell. "Some clients can be an utter nightmare, but it's our job to solve all the problems. It's important that you can scale up the service as it

**"We couldn't ask people to count the pieces of paper they were sending us, so weight seemed the obvious way to do it"**

grows." Crunch now has 140 staff including a specialist team of 30 software engineers.

From their lofty height, the Big Four accountancy firms have begun to sniff the air and think about their future pricing policies. KPMG recently announced its small business accounting service - part of its Enterprise strategic investment scheme - which includes accounts preparation, bookkeeping, payroll, VAT and corporate tax returns from £150 a month - a price threshold way above the entry level pricing of £60 a month at Mazuma and £64.50 at Crunch Accounting for similar services.

"We want to be the clear choice for all privately-owned businesses from formation through every stage of their development and growth," say Simon Collins, KPMG's UK chairman.

O'Donnell believes there will be further changes to the profession's pricing models in the years ahead. To a large extent, the change will be driven by what clients want, he says. What seems clear is that the historic one-size-fits-all hourly charging approach is giving way to a variety of different ways to price.

O'Donnell says accountancy firms need to consider pricing as part of their forward business strategy. "There are a lot of complex situations to consider," he says. "Different pricing models may work for different clients and different services."

Pricing accountancy services like bananas may not be the only unusual innovation to come. ■





# THIS MEANS WAR

The internet has become the battleground for the 21st century. But where, asks David Adams, are the frontlines being drawn, who is fighting, and how do you identify the enemy?



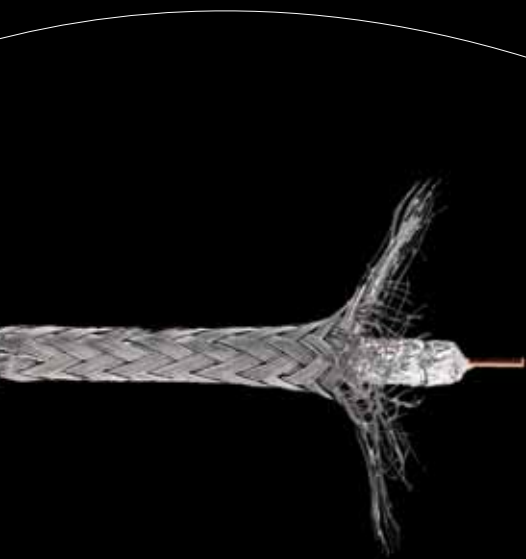
Back in the late 1990s, during the first dot com boom, there were a lot of what sounded like wild predictions made by two groups of people. First there were those who kept telling us the internet would change the world. Then there were the security experts, who had some worrying things to say about how internet technologies could be misused to damage IT systems and the organisations that used them. Both turned out to be largely right. The internet has changed the world in ways we never imagined it would, but it has also made every individual and organisation using it vulnerable to an extraordinary variety of online security threats.

While cyber warfare might not be exactly the right term for what's happening, a growing number of cyber security threats appear to have been created by nation states, targeting other states or companies and organisations inside those states. So to what extent is cyber warfare, if that is what we are going to call it, being fought today? And what implications might it have for the security strategies of businesses and other organisations operating in those states under attack?

One key difference between cyber and conventional warfare is that in cyberspace it can be very difficult to work out who is attacking you. It is still unclear what role, if any, the government of North Korea played in the cyber attack on Sony Pictures at the end of 2014 that may have been perpetrated to punish the studio for releasing *The Interview*, a movie depicting the assassination of North Korean leader Kim Jong-un. Although both the NSA and FBI have claimed North Korea was responsible, some security experts are wondering what evidence exists that would prove this.

But you don't have to look far to find other examples of attacks conducted by nation states. The most notorious is the deployment of Stuxnet, a computer worm (self-replicating malware), which appears to have been developed to sabotage a specific uranium enrichment facility in Iran. A number of different versions of Stuxnet were developed between 2005 and 2010. It was highly sophisticated, capable of exploiting four different zero-day vulnerabilities (security holes in software not known to the manufacturer). Analysis from security specialist Symantec concluded that it must have been created by a large, well-resourced team. It is easy to see why many believe that some combination





**"THE SECOND ATTACK WAS MUCH BROADER, SEEKING MASS DISTRIBUTION, TO GET LOTS OF PERSONAL INFORMATION THAT COULD BE USED TO CRAFT SUBSEQUENT TARGETED ATTACKS"**



of Israeli and US government agencies were involved in its creation and distribution.

Nor does cyber warfare need to be this sophisticated to cause major disruption. In 2007, Estonia was hit by a concerted campaign of cyber aggression following a diplomatic row with Russia. This included both attempted hacking and Distributed Denial of Service (DDOS) attacks, which paralyse systems by overwhelming them with information requests.

"Our honourable adversary was able to launch concurrent attacks, including... of low and high sophistication... those attempting to break in and those trying to saturate resources," says Anto Veldre, information security expert at the Computer Response Team for Estonia (CERT-EE).

Perhaps the most significant impact of these attacks, Veldre believes, was the fear it engendered around the world. "Of course specialists knew about the possibility of 'total attacks' even before, but in 2007, the world had a chance to stare at one in the wild," he says. "The real situation in Estonia was actually not so dramatic. The internet was not down, but it was extremely slow. I remember paying my utility bills when entering the internet bank took two minutes instead of 10 seconds. Estonians are calm people, they came back every 30 minutes to see whether the service had been restored. It mostly was."

Recent months have seen more attacks on nation states. In February, security firm Trend Micro announced that it had traced attacks against Israeli government organisations to hackers in Gaza and Egypt. The same month, cyber attacks crippled Dutch government websites for seven hours. In January, CyberBerkut, a group linked to pro-Russian separatists in Ukraine, claimed responsibility for a DDOS attack on a number of German government websites. A few months earlier, in October 2014, security company FireEye claimed state-backed attackers operating in Russia were responsible for cyber assaults on NATO, the EU and various European government organisations.

Across the Atlantic, US government agencies have been implicated in various cyber espionage and intelligence-gathering

activities, as was detailed in the leaks released by Edward Snowden in 2013. This February Kaspersky Labs claimed a very well-resourced group of cyber attackers it called The Equation Group, which has been operating for at least 14 years, had embedded exceptionally sophisticated hacking technology within the hard drives of PCs built by companies including IBM, Toshiba, Western Digital and Seagate; and used in countries including Iran, Russia, China and Pakistan. The possibility of US government involvement on some level seems highly plausible.

Even so, attribution remains very difficult, says David Emm, principal security research at Kaspersky Labs. For example, while it is easy to make an educated guess as to who might have created Stuxnet, "there's nothing in the code which is going to tell you one way or the other".

All this sounds fairly alarming, but also quite distant from the experiences of the average person. Yet attacks on nation states may have knock-on effects for other organisations and unassuming citizens. The attacks on Israel analysed by Trend Micro incorporated both an opening phase when specific individuals were targeted and a second phase that affected a much wider group of organisations, according to Bharat Mistry, cyber security consultant at the company. "The second attack was much broader, seeking mass distribution, to get lots of personal information that could be used to craft subsequent targeted attacks," he says.

It might be fair to say governments are doing what they always have, using different tools. These new methods appeal in part because they are less risky than conventional military or espionage, says Mistry - and make it easier for nations to cover their tracks, misdirecting investigators to the wrong part of the globe. Supply chains of large and complex organisations such as government departments can also offer multiple entry points. In some cases, the initial attack will have been conducted by a criminal organisation seeking financial gain: it will hire or sell access to this "information asset" to whoever might want it, including nation states.

Is this war? "The line between intelligence and conflict is really blurred," says James Elder, programme research director at public

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"WE ALL KNOW SPYING GOES ON. IS IT  
WHEN A SYSTEM IS BREACHED, WHEN  
THE INFORMATION IS TAKEN, OR WHEN  
YOU ARE HIDING MALWARE ON  
SYSTEMS? I DON'T KNOW"

policy analyst Cityforum (here expressing personal views). "We all know spying goes on. But it is difficult to draw the line to show you're moving into the early stages of conflict. Is it when a system is breached, when the information is taken, or when you are hiding malware on systems? I don't know."

"In general, I think the term 'war' is the wrong one," says Simon Crosby, CTO at security company Bromium. "Traditionally, when you went to war everybody knew about it. However, there is a lot of stuff going on which is nation state based and in which the internet is a powerful tool for gathering information and attempting to find weaknesses in the critical infrastructure of other countries."

There have certainly been attempts by various cyber attackers to compromise the security of utility organisations and financial companies in the UK. Cyber attacks on the UK's national electricity grid have been reported in UK Computer Emergency Response Team (CERT) statistics, while journalists have been told by extremely credible sources - although usually off the record - about successful cyber attacks on various financial companies.

As an illustration of the activity in cyberspace, Mistry points to a 2013 experiment where Trend Micro engineers successfully tricked cyber attackers into attacking fake IT assets designed to resemble those running US water treatment plants. Those who took the bait included state-sponsored groups such as the Chinese hacking collective Comment Crew.

What does this mean for companies and other organisations operating in countries or business sectors under cyber attack? This is an issue for every company or organisation, says Emm, whether or not they have an obvious connection to government or critical national infrastructure organisations. Organisations could be affected as collateral damage: even if they were not the original target, a subsequent malware infection could still expose them to all the technical, financial, regulatory and reputational damage associated with a cyber security breach. This could be accidental, due to inadvertent infection, or deliberate, as a means of disguising the origins and purpose of the attack. As we have seen, smaller companies may also be targeted because they represent a stepping stone towards the attacker's ultimate target.

But companies may themselves be targets for state-sponsored attackers seeking either to steal intellectual property or to help a company within their borders to gain a commercial advantage through industrial espionage. The ICAEW Corporate Finance Faculty has completed important work on this subject as part of a taskforce created with the UK government Cabinet Office in 2013, following warnings from UK intelligence services identifying the process of finance raising and periods during which companies were involved in mergers and acquisition activity as moments of particular danger.

"I am reliably informed that there have been a number of cases where, in a competitive takeover bid, information has been intercepted so that a counterparty that is close to a nation state has been able to understand and read the full terms of a competitor's

## PROTECT YOURSELF

For more information and advice on combatting cyber warfare:

ICAEW information and support on cyber security: [icaew.com/cyber](https://www.icaew.com/cyber)

Details of ICAEW's work with the Cabinet Office Taskforce on tackling cyber crime threats to corporate finance: [icaew.com/cfcyber](https://www.icaew.com/cfcyber)

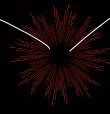
UK government support and information for businesses and other organisations seeking to protect themselves from cyber crime: [gov.uk/government/policies/keeping-the-uk-safe-in-cyberspace](https://www.gov.uk/government/policies/keeping-the-uk-safe-in-cyberspace)

UK government office of Cyber Security and Information Assurance: [gov.uk/government/groups/office-of-cyber-security-and-information-assurance](https://www.gov.uk/government/groups/office-of-cyber-security-and-information-assurance)

The Axelos Cyber resilience best practice programme: [axelos.com/best-practice-solutions/cyber-resilience](https://www.axelos.com/best-practice-solutions/cyber-resilience)







bid,” says David Petrie, head of corporate finance at ICAEW. “This is also a concern for relatively small businesses where aggressively competitive actors are considering whether they might buy the business - or just steal their IP and replicate it themselves instead.”

ICAEW was able to persuade government that the best approach to tackling these problems would be through awareness raising within the industry, rather than regulation. Among the taskforce’s recommendations is that the most commercially sensitive elements of these processes should be removed from the electronic domain altogether, with more use of face-to-face meetings.

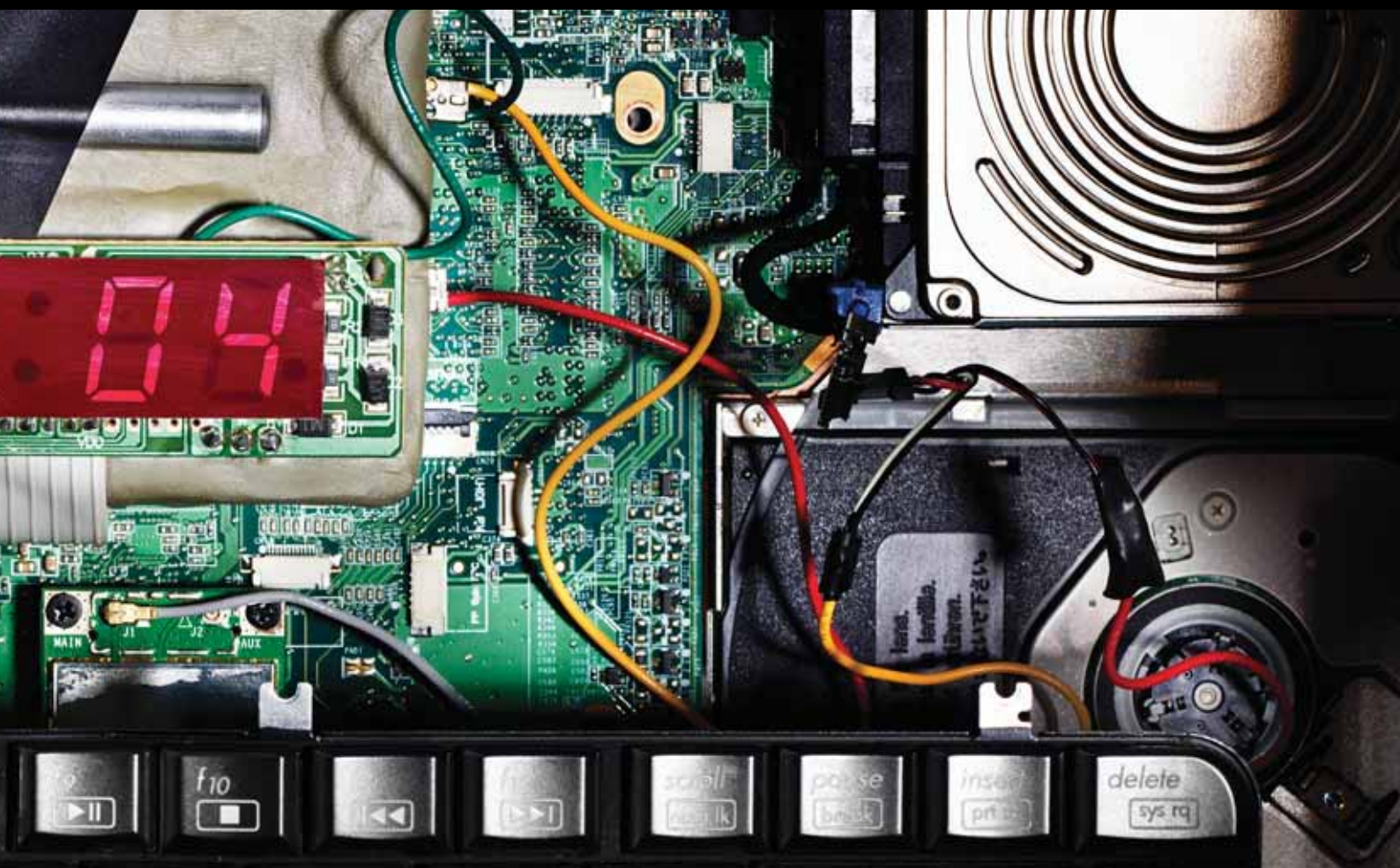
Companies and organisations of all types and sizes must take a risk-based approach to security, says Mistry. “Having your security risk mapped onto your business risk is a key area. Security has to be a board level agenda item. You need a security champion in each business unit - in your HR team, for example.”

“Organisations need to spend more time educating staff at all levels of the organisation, making them aware of their responsibilities in a clear, compelling way,” says Nick Wilding, head of cyber resilience best practice at Axelos, a joint venture between the UK government and Capita, which aims to develop, manage and operate qualifications in global best practice. “Typically,

organisations carry out security training once a year, which is pretty dull. There are better ways to do this. We need to show people the implications of what they are doing. State-sponsored attacks will increase in volume, and in impact on individuals, organisations and national security.”

“The government has gone on record as saying this is a major threat to the UK; this is undoubtedly true,” says Richard Anning, head of the IT Faculty at ICAEW. “You can imagine the potential implications of a major cyber attack on the City of London, or on the National Grid. I think it’s right that the government are taking this seriously and investing in resources to defend the country.” The UK government has committed £860m to its cyber security programme.

And of course we can assume that most governments will also continue to develop offensive cyber capabilities. *economia* tried and failed to obtain any comment on this type of activity from the UK Ministry of Defence and the National Security Adviser. Wilding, who has worked closely with the government on these issues, is also coy. “I think that in being attacked we need not only to take defence seriously but we need to be looking at other options as well,” he says. “I’ll say no more than that.” ■



# CORPORATE TAX REFORM IS COMING. BUT HOW AND WHEN IS LESS CLEAR

30 MITCH THOMPSON and BRANDON ROMÁN  
examine the prospects of US tax reform in 2015

Although lawmakers in the US continue animated discussions of comprehensive tax reform, by which we mean reforming both the individual and business portions of the US Internal Revenue Code of 1986 (“Code”), it is clear that hope of achieving such reform in the near term is dimming. Before the last Congress adjourned - and after nearly two years chock-full of debate on the issues - former House Ways and Means Committee chairman Dave Camp (R-MI) introduced proposals for tax reform. His plan was bold, comprehensive, and met with bipartisan opposition - including resistance from more than 50 House Republicans who expressed “deep concern” about the proposed tax on banks and its potential impact on lending and economic activity. Given this opposition, chairman Camp’s legislation stood little chance of becoming law, but it serves as a starting point for debate.

Since the banging of the opening gavel to the 114th Congress in January, US lawmakers in both the House Ways and Means and Senate Finance Committees have been working toward the goal of achieving tax reform proposals, albeit using different approaches.

In the House Ways and Means Committee, new chairman Paul Ryan (congressman for Wisconsin) has led that Committee through a series of markups (including a congressional committee’s debate and vote on proposed legislation) to make permanent certain so-called “tax extenders”. For example, expiring tax provisions, which Congress generally “extends” with little or no changes on a regular basis before the provisions expire. A key point of contention for the Democrats has been Republicans’ unwillingness to provide offsets to the cost of the tax extenders. Nevertheless, chairman Ryan - who has expressed his willingness to “work with [the Obama] administration...[to] find common ground” - has maintained that his approach is necessary to ensure there is an “honest” baseline for the House Committee’s tax reform efforts.

Taking a different approach, the Senate Finance Committee has yet to address those tax extenders. In fact, the Senate Committee is unlikely to take up tax extenders legislation until later this year. Instead, it has held a series of hearings to gather information and develop its approach to tax reform. Senate Finance Committee chairman Orrin Hatch (senator for Utah) laid down seven principles he believes should drive the Committee’s efforts:

1. economic growth;
2. fairness;
3. simplicity;
4. permanence;
5. American competitiveness;
6. promoting savings and investment; and
7. revenue neutrality.

Further, as part of the Senate Committee’s efforts, chairman Hatch and Ranking Member Ron Wyden (senator for Oregon) formed five bipartisan Senate Finance Committee Working Groups “to spur congressional comprehensive tax reform efforts in the 114th Congress.” Each group has been tasked with submitting targeted proposals to the full Senate Committee by this month, and each is seeking public input.

In addition, president Barack Obama put forth his own tax proposals, highlighted in the Administration’s Fiscal Year 2016 Budget Request with proposals to increase the top capital gains tax rate to 28%, curtail the stepped-up tax basis on inherited assets, and impose a seven-basis-point fee on the liabilities of roughly 100 of the largest financial institutions. According to president Obama, the revenues raised would be dedicated principally to a series of tax credits and incentives “designed to bring middle class economics into the 21st century.” The Administration’s Budget Request also contains a new 19% minimum tax on foreign earnings of US multinational companies and a one-time 14% tax on their previously untaxed foreign income. The president indicated he plans to use some revenue from that one-time tax on foreign earnings to help pay for infrastructure projects.

Given the stark contrasts between the various proposals, comprehensive reform will be difficult to achieve during the 114th Congress. Nowhere is the divide clearer than in the case of individual tax reform, where differences on tax rates, the taxable base, and basic philosophy seem far apart.

While lawmakers have divergent views on individual tax reform, they appear more closely aligned on corporate tax reform. However, despite signs that key players such as chairman Ryan might be open to the idea of corporate-only tax reform, Capitol Hill remains focused on comprehensive reform and not separating the individual and corporate tax initiatives. The apparent divide on individual reform will not necessarily preclude lawmakers from reaching an agreement on corporate tax reform (or more targeted reforms as discussed below), but it will likely extend and complicate their efforts. Indicative of the difficult road ahead, senior Ways and Means Committee Republican Kevin Brady (congressman for Texas) has emphasised “if [tax reform efforts don’t] work over the next two years, then so be it”.

It is important to acknowledge the difference between “corporate” tax reform and “business” tax reform. “Corporate” tax reform tends to be focused on lowering the corporate tax rates

- from what is one of the highest corporate tax rates in the world (35%) to somewhere between 25% and 28% - and adopting a territorial system of taxation whereby a corporation's income earned outside the US is generally exempt from US taxation. "Business" tax reform, however, could also address the numerous pass-through entities that do not pay corporate income taxes and whose owners are instead taxed at the individual level.

Despite the similarities lawmakers share on corporate tax reform, corporate-only tax reform seems difficult to achieve from a practical perspective. Republicans focus on lowering overall corporate tax burden is a key differentiator between today's tax reform efforts and the 1986 reforms, which effectively increased taxes on corporations despite lower nominal rates. Over the full 10-year budget measurement period, some estimates suggest that each percentage point by which the corporate tax rate is lowered will result in a loss of more than \$100bn (£67bn) in revenue. It will be tough to raise sufficient revenue to offset that loss.

However, it seems unlikely, especially if the Obama Administration's approaches are followed, that all such revenues would be used to pay for rate reductions. Lowering the corporate rates will likely require additional revenue to be raised from individuals - and raising revenue there is, according to some, "politically impossible".

Some lawmakers have begun discussing the possibility of taxing pass-through entities as a source of revenue to fund the lowering of corporate rates. In the period from 1980 to 2011, the portion of overall US business income attributable to pass-through entities rose from 22% to 63%. According to one analysis: "If tax burdens are to be reduced to make US businesses more competitive in the global marketplace, Congress would have to consider the treatment of businesses that do not pay corporate tax on their earnings and instead are taxed at the individual level." The growth in the number of pass-through enterprises makes introducing new taxes on them politically difficult - perhaps impossible.

Disagreements about the basic structure of corporate tax reform also present problems. Presently, the US has a "worldwide" system of taxation, under which a corporation formed in the US must pay corporate income tax on all income, regardless of where it is earned, subject to the possibility of deferral on the earnings of non-US subsidiaries. As a result, some lawmakers are concerned that corporations will continue to shift more economic activity outside the US and engage in other tax planning efforts designed to avoid the "worldwide tax net".

Concerns about the shifting of economic activity, however, are not associated only with a pure worldwide system of taxation. In his Budget Request this year, president Obama proposed a "hybrid" system in which he would impose a minimum 19% tax on foreign earnings going forward and a one-time 14% tax on pent-up and previously untaxed foreign income - regardless of whether earnings are brought back to the US. Not surprisingly,

Republicans offered significant opposition to the proposals - especially with regard to the minimum tax - and have exclaimed that the proposal is "dead on arrival" because it would likely result in additional companies engaging in tax planning to leave the US or perhaps becoming acquisition targets.

Further complicating the prospects of reform is the general political dynamic. Republicans, suggesting that the administration must be actively involved in tax reform if it is to succeed, have criticised president Obama and US Treasury secretary Jack Lew for a lack of leadership. Lawmakers are keen to make haste, as wisdom suggests that the presidential election next year will make the issues too politically charged beyond August.

With no real likelihood for reform before a new administration takes the helm in 2017, where do we go from here? At a recent Senate Finance Committee hearing, senator Sherrod Brown (senator for Ohio), sceptical about the possibility of reaching agreement this Congress, urged the Senate Committee to abandon its quest in favour of more targeted reforms - especially in the areas of international tax and savings and investment.

Given the Republicans' need to find a source of revenue to fund the nation's infrastructure, lawmakers may be able to make a deal, specifically regarding a one-time 14% tax on previously untaxed foreign income.

In his tax reform proposal, former chairman Camp offered a similar - but lower - tax of 8.75% of accumulated foreign earnings held abroad as cash. While other proposals - such as a carbon tax or increase in the gas tax - would provide some infrastructure funding, none have held sway. So, given Congress's desire to be perceived as leading on tax issues, a limited version of international tax reform could provide a compromise.

Another area that might draw attention later this year is corporate inversions. As Congress opened, Democratic lawmakers came out strongly for legislation to curb the rate of corporate inversion transactions. The Republican majority in both chambers, however, believes inversions to be a symptom, not the problem itself. So it is unlikely they will address inversions in isolation, taking us back to the dim prospects for reform.

If lawmakers abandon comprehensive tax reform in this Congress, they will have to address the issue of tax extenders. Given the desire to ensure an "honest" baseline for tax reform, lawmakers might permanently extend many of these provisions, including the Research and Development (R&D) Tax Credit and the Subpart F exceptions for active financing.

Yet even if agreement fails, the efforts on tax reform will not go to waste. The current issues will serve as place markers for 2017 and beyond, figuring prominently in those eventual reforms. ■

*Mitch Thompson is partner, tax strategy and benefits, and Brandon Román is associate, public policy, financial services and tax, at Squire Patton Boggs*



# A curious career

Laura Powell meets serial entrepreneur,  
sustainability aficionado and chairman of  
Latis Homes, **Robin Edwards**

Robin Edwards is cross - no, furious - about the state of the planet. "You know there's an area the size of Europe in the Pacific that's full of plastic debris? It's outrageous." He demands corporates take more responsibility. Housing, he continues, should be "sustainable" and he talks about the merits of special taps that can reduce water waste and an iPad system that allows you to turn off lights and turn down the central heating remotely, just like those installed by Latis Homes, the house-building company of which Edwards is chairman. "It doesn't cost a penny to put in clever technology," he says.

But asked how far he has followed this advice in his own home, a Grade-II listed property in Kensington, Edwards laughs. "Apart from my son going around the house turning lights off, not an enormous amount." He also suggests that the UK housing shortage could be partly solved by building on certain areas of greenbelt. "I'm not a crusader," is a phrase he uses often.

Edwards's own home, with its separate doorbells for visitors and staff and grand sitting room, could be an intimidating location for an interview. But Edwards is a diligent and frank interviewee, even bringing along a stack of handwritten notes, presumably interview preparation. Little wonder - with a CV as packed as his, there is a lot to remember. After qualifying at Whearwill & Sudworth in London and spending two further years as an audit senior or, as he puts it, a "serious accountant" at Arthur Andersen, Edwards left the profession and emigrated to Australia and, later, Luxembourg, where he taught himself fund management. Initially he practised on his own wealth: "I doubled it every year for three or four years, mainly by using technical analysis of the future markets." In 1979, "as soon as Maggie Thatcher abolished exchange controls", Edwards caught a plane to the UK and set up business, starting hedge fund Sabre Fund Management three years later.

Today Edwards calls himself a "serial entrepreneur" and divides his time between Sabre, Goodwin Palmes, an ultra-high-net-worth advisory business into which he invested £100,000, and Latis Homes, which builds sustainable and affordable houses (priced between £300,000 and £400,000), and into which Edwards has invested £6m. He also holds roles at green investment organisation Carbon Plus Capital; think tank Policy Exchange; clean energy investment company Maxim Fund Management; and, until last year, the chairmanship of The Queen's Club, which he took up shortly after club members bought it from the Lawn Tennis Association in a "bitter" battle.

Edwards says: "I like building teams. The sort of energy that is created when you bring people of varying skills together, talents and characters, then welding that into a unit with a common purpose." However, he also maintains a degree of distance: "If my capital is invested in a business, you need to keep your distance but

have a hand on the rudder as well." He adds: "My philosophy is, it takes seven years to build a business. Some businesses don't make those seven years. But you've got to go through that process."

Inevitably, there have been failures along the way. Most crushing was Eiger Capital, the investment firm Edwards established in 2002 that collapsed six years later, largely because of how the commercial paper market, in which Eiger had invested heavily, was hit by the financial crisis. "One minute Eiger was worth £36.8m and we were managing a £4.1bn investment, and the next minute it was worthless," says Edwards. He refuses to say how much he invested in the business but will admit he lost between €10m and €20m in shares. He adds: "It was very stressful, exceptionally stressful. It took me quite a long time to recover."

But Edwards firmly believes that Latis, founded in 2011 by architects Robert Luck and Krishan Pattni, will be a success, partly due to the housing shortage in the UK. Edwards calculates that the country needs to build 220,000 houses each year to cope with the rising population, but says it only built 114,000 in 2014. "So we're 100,000 units short, which is why I like the business," he explains. Currently 415 Latis homes have been built or are in the pipeline but his target is 500 per year.

Yet his venture into the house-building sector is not without its frustrations. One of his greatest is the planning process. Edwards says: "Should politicians run a planning process? No. I would fundamentally scrap that." On Barratt Homes: "Don't talk to me about it. It's shocking to see the way the built architecture of this country is going." And on his other rivals: "You hear ghastly stories of people who say, 'I sell my stuff off-plan because when people see the finished product it doesn't sell so well.' Isn't that terrible?"

By contrast, Edwards is keen to illustrate his own moral fibre. Speaking about his teenage years, when he dabbled as an *Encyclopedia Britannica* salesman, he says: "I was a lousy salesman. I sold an encyclopedia to this guy on a housing estate who I knew couldn't afford it and the next day I went back and said 'I don't think you should buy this' and tore up the contract in front of him. I felt guilty about selling him something he couldn't afford."

However, he's less comfortable talking about the morality of relocating a company HQ to take advantage of a lower rate of corporation tax and about the contentious tax debate more widely. Twice, he says: "It's perfectly legitimate to use legitimate ways to organise your affairs to mitigate your tax charge. That's absolutely right, isn't it? From an ethical point of view?" On global businesses that choose to run out of countries specifically to take advantage of lower tax rates, Edwards adds: "It's not just the Googles doing it. Lots of large UK businesses take advantage of that structure. Do I have a problem with that? Probably not." At this point, he stops: "This is becoming a bit of a moral discussion, isn't it?" ■



**2011-present** chairman,  
Latis Homes  
**2009-present** managing  
partner, Carbon Plus  
Capital  
**2007-2014** chairman, The  
Queen's Club  
**1982-present** fund  
manager, managing  
director and NED, Sabre  
Fund Management  
**1970-1972** audit senior,  
Arthur Andersen  
**1964-1970** articled clerk,  
Wheawill & Sudworth

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# Technical

## The top five

Warnings on probate and changes to audit regulation from ICAEW, plus a guide to lobbying and the new diverted profits tax

### PROBATE WARNING



ICAEW has issued a warning to firms that engage in estate administration but are not registered for probate purposes. Because some of the estate administration activities are closely aligned with probate, there is a danger that firms may unwittingly step over the line into probate territory. Should this happen ICAEW, in its capacity as regulator, will be obliged to treat such an event as a disciplinary offence.

Its guide on when to seek a licence for probate can be found on [icaew.com](http://icaew.com) under probate and alternative business structure in the legal and regulatory section. It takes full effect from 1 July which gives firms time to assess their existing practice and either apply for licensing or discontinue certain procedures.

[icaew.com](http://icaew.com)

### REGISTERING AS A LOBBYIST



Accountancy firms may find themselves in trouble with the law if they talk to ministers and senior civil servants on behalf of their clients without being on the register of consultant lobbyists.

A new law, the Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act 2014, requires both individuals and businesses to join the statutory register and provide the names of the clients they have lobbied for on a quarterly basis. This includes those they have represented during the three months before joining. As well as permanent secretaries, firms will not be able to approach their equivalents - including the likes of HMRC chief executive Lin Homer - unless they are registered.

Communications made to a government department, special adviser, administrator

or a private secretary would not be caught by the law since they are not made to a government representative personally.

However, communications addressed to a minister and sent to a private office would need to be registered.

[gov.uk](http://gov.uk)

### NO CASE FOR AUDIT CHANGE



There is no case for change in the current model of audit regulation apart from the minimum necessary to implement the new Audit Directive and Regulation, ICAEW believes.

Responding to the Department of Business, Innovation and Skills' consultation, it urges government not to hand over all audit regulation to the Financial Reporting Council. It says the FRC should remain focused on "that part of the audit market which poses the greatest systemic risk".

It continues: "At a time when the new tendering regime is generating significant market movement, it would be of real concern if the regulator were to divert focus and resource from those firms which audit the largest and most complex PIEs. Such a move would undermine investor confidence without any obvious net gain."

It also asks government not to place additional regulatory burden on PIEs at the smaller end of the market.

[icaew.com](http://icaew.com)

### FCA CALLS FOR MIFID II VIEWS



The Financial Conduct Authority is asking for preliminary views on implementation of those aspects of the revised Markets in Financial Instruments Directive (MiFID II) over which it has flexibility. These will then be fed into more extensive consultation on

rule changes in the autumn. MiFID II has comprehensively amended and recast the original MiFID which, in 2007, established the current regulatory framework for investment services and activities, broadly covering markets in financial instruments.

Many of the new rules address risks in the wholesale market, such as controls on algorithmic trading, position limits in commodity derivatives markets and regulation of data reporting services. Others cover conduct of business standards and organisational requirements.

The deadline for comments is 26 May. Firms will be required to comply with MiFID II from 3 January 2017.

### DIVERTED PROFITS TAX GUIDE



HMRC has issued guidance on the diverted profits tax (DPT) introduced on 1 April 2015. This is the tax designed to counter the use of aggressive tax planning techniques to shift profits from the UK to lower tax regimes.

Examples include where the company seeks to avoid creating a UK permanent establishment or uses arrangements which lack economic substance to exploit tax mismatches. This could be either through the creation of intra-group expenditure or through the diversion of income intra-group where it is reasonable to assume that, in the absence of a tax benefit, the expenditure would not have been incurred or the income would have been within the charge to UK corporation tax.

The normal rate of DPT is 25% of diverted profits plus "true-up interest" (TUI) or 55% (plus TUI) where taxable profits are ring-fenced profits, or notional ring-fenced profits in the oil sector. ■

[gov.uk](http://gov.uk)

To find more technical updates, visit [icaew.com/economia/technical](http://icaew.com/economia/technical)

# Key developments

## AUDITING

### Transparency reporting by PIE auditors

The quality of transparency reports by auditors of public interest entities (PIEs) has improved significantly since the Financial Reporting Council reviewed the first ones in 2010 in the wake of *The Statutory Auditors (Transparency) Instrument 2008*.

But there is room for improvement, the regulator says in its latest review. The main area it has pinpointed is the lack of detail of performance against target key performance indicators. However, it would also like to see better quality disclosures about areas such as international networks, financial information, independence procedures and confirmation that a review has been conducted, and a list of PIEs.

Generally though, it says, it is “pleased with the level of content of these reports and pleased to see that firms are taking the time to consider how to make them more relevant for their readers by considering current issues in the market place”.

[frc.org.uk](http://frc.org.uk)

## COMPANY

### SBEE gets Royal Assent

Despite the curtailed timetable, the Small Business, Enterprise and Employment (SBEE) Act 2015 made it through parliament before dissolution and received Royal Assent on 26 March. The new legislation will affect all companies to a greater or lesser extent as it changes legal requirements relating to information to be filed at Companies House.

BIS says that it aims to implement the changes in three main stages, with the ones with the most far-reaching effects coming into operation in the final stage.

According to the schedule, the first change will be implemented on 26 May when bearer shares will be abolished. Any existing share warrants will need to be surrendered

within nine months. October will see a raft of changes including a ban on appointing corporate directors, a simpler way of getting falsely appointed directors’ details removed from the register, and accelerated strike-off.

In January 2016, companies will need to keep a register of people with significant control in preparation for the need to file this information at Companies House from April 2016. Also in April 2016, the annual return will be replaced by a new requirement to check and confirm the company information and notify changes if necessary at least every 12 months; companies will be able to deliver certain categories of optional information to the registrar; and private companies will be able to opt to keep certain information on the public register only rather than statutory registers (this will apply to registers of members, directors, secretaries, directors’ residential addresses and the People with Significant Control register).

## EMPLOYMENT

### Employer not vicariously liable

An employer was not liable for the injuries of an employee caused on its premises by a friend and workmate in an apparent prank that went wrong, the Court of Appeal has decided.

In *Graham v Commercial Bodyworks*, the workmate, Peter Wilkinson, had splashed the complainant, Paul Graham, with highly flammable thinning agent and then lit a cigarette lighter in his vicinity. Graham’s overalls went up in flames and he sustained severe burns. He sued the employer for damages on the grounds that it had created (or materially enhanced) the risk of injury to its employees by requiring them to work with thinners which were an inherently dangerous substance. The county court dismissed his action and he appealed.

Counsel for Bodyworks argued that the injuries were caused by Wilkinson’s decision to bring the cigarette lighter into the workshop where it had no business to be and to use it in an inappropriate way that was not connected with the defendant’s business. As for the thinners, there was nothing inherently dangerous in using them; the only danger arose because of Wilkinson’s “highly reckless act”.

The appeal court agreed. It said that the real cause of the injuries suffered was the “no doubt frolicsome but reckless conduct of the perpetrator” which could not be said to have been carried out in the course of his employment. Bodyworks could not be held to be vicariously liable.

## FINANCIAL REPORTING

### Leases standard warning

Some companies may no longer comply with certain debt covenants after applying the new international financial reporting standard on leases, the International Accounting Standards Board warns. The covenants affected are those that are linked to the company’s IFRS financial statement (without adjustments for off balance sheet leases).

The new standard – which is due out at the end of 2015 – will require companies to recognise all leases on the balance sheet except for short-term leases (12 months or less) and leases of small assets (such as laptops and office furniture). For lessees with material off balance sheet leases, the change will mean an increase in lease assets and financial liabilities. This, in turn, will affect key financial ratios derived from a lessee’s assets and liabilities (such as leverage and performance ratios).

The IASB has held a number of meetings with banks as a result of its concerns. It now thinks that many covenants in existing financing facilities will not be directly affected by the change. “For example, IFRS

does not define terms such as ‘debt’ and ‘EBITDA’ that are commonly used in debt covenants,” it explains. “Accordingly, those terms are defined independently of IFRS requirements.”

The banks have also indicated that when covenants are based on amounts in financial statements, they are often based on the accounting requirements in place at the time of signing the agreements. Also, many debt covenants already take into account off balance sheet leases for a number of lessees with significant amounts of leases.

The IASB does not expect the standard to create problems for a lot of companies. “Nonetheless, it is important for companies with material amounts of off balance sheet leases to check their agreements and possibly speak to their lenders in advance of the Standard being effective,” it says.

[ifrs.org](http://ifrs.org)

### **FRC updates interim reporting**

Companies applying UK and Irish GAAP and preparing interim reports should take note of a new financial reporting standard from the Financial Reporting Council.

FRS 104 *Interim Financial Reporting*, based on IAS 34 and which replaces the Accounting Standards Board’s 2007 statement, *Half Yearly Reports*, applies to interim periods beginning on or after 1 January 2015. Early application is allowed.

“Half-yearly reports can improve the ability of investors and creditors to understand and assess an entity’s capacity to generate earnings and cash flows and its financial position and liquidity,” commented Melanie McLaren, executive director of codes and standards at the FRC.

The standard-setter has also withdrawn the reporting statement, *Preliminary Announcements*, and is deciding whether to develop new guidance in this area.

[frc.org.uk](http://frc.org.uk)

## **TAX**

### **Guidance for employment intermediaries**

From 5 April 2015, employment intermediaries have been required to submit quarterly reports to HMRC giving details of all workers they place with clients where they don’t operate PAYE on the workers’ payments.

The new requirement, under *The Income Tax (Pay as You Earn) (Amendment No 2) Regulations 2015*, affects intermediaries, including employment agencies, that provide people with regular work and allow them the flexibility to accept or refuse work as they wish.

HMRC says that in recent years it has seen increasing evidence that some intermediaries are helping to create false self-employment and/or supplying UK workers from offshore locations with the intention of reducing employment taxes and avoiding the need to comply with their legal employment rights and obligations.

Guidance is now available from HMRC and ICAEW will issue a TAXGUIDE on the subject shortly. [gov.uk](http://gov.uk)

### **EU warned on tax disclosure**

ICAEW has warned the European Commission that tax disclosure doesn’t automatically equal transparency and transparency doesn’t necessarily lead to fairness.

Its comments followed the commission’s announcement of a package of new proposals on tax transparency as part of its campaign to tackle corporate tax avoidance and harmful tax competition in the European Union. The proposals include legislation to introduce the automatic exchange of information between member states in their tax rulings and a communication outlining various other initiatives designed to advance the tax transparency agenda in the EU.

“The overall aim of this package is

to increase tax fairness; what is important is that the mechanisms used do not make EU businesses less competitive or impose unreasonable burdens,” ICAEW said. “Trust in tax systems is currently very low and we need to rebuild it. At the same time, it is also vital that businesses are encouraged to continue to grow, providing the resources for public finances.”

[icaew.com](http://icaew.com)

## **PENSIONS**

### **ICAEW guide to new pension regime**

The new more liberal regime for pensions, announced in Budget 2014, came into full effect on 6 April 2015 and will now potentially impact on millions of individuals. Estimates put the number of individuals with money purchase pensions who are reaching their 65 birthday this year at 400,000, with similar numbers over the next few years as baby boomers reach retirement age. Other estimates put the number of people in the UK over the age of 50 at 22.7 million.

The new freedom for pensioners to access their pension pots from the age of 55 means that the demand for good quality professional advice will increase dramatically.

With this in mind, ICAEW has got together with Prudential plc and produced a technical guide, *Freedom and Choice in Pensions*. This is designed to help advisers understand the details and implications of the pension reforms, in particular the introduction of:

- flexi-access drawdown - drawdown without limits for all;
- more flexibility for annuities;
- uncrystallised fund pension lump sum - a new mechanism to withdraw lump sums from a pension;
- money purchase annual allowance - a restriction on the annual allowances for people who access their pension flexibly.

[icaew.com](http://icaew.com)



# Good behaviour

The regulators are turning their spotlights on corporate culture. But what does that mean and can – or should – it be audited? Caroline Biebuyck finds out



**T**he regulators are busy mopping up the latest round of post-crisis scandals. Tesco's apparent overstatement of profits by £263m last year caught the attention of the Financial Reporting Council (FRC). The Serious Fraud Office also has Tesco in its line of sight and is currently in talks with HMRC on how to proceed over allegations of tax evasion by customers at HSBC's Swiss subsidiary – this latter being just the latest in a long, sorry tale of banking scandals on both sides of the Atlantic.

With these problems being blamed on corporate culture

the regulators are starting to take an interest, with the FRC considering how the board assesses culture and whether it needs to be reviewed by an independent party.

This is driven by a need to protect investors, who have an interest in understanding a company's ethos and how that shapes its operations.

"Corporate culture has always been important, particularly to investors in for the long term," says Jo Iwasaki, ICAEW head of corporate governance. "What has changed is that it's more widely seen as an important indicator for successful

businesses." A first step for institutional investors in finding out what the company says about its culture is through its annual report.

Most typically spend time talking to senior managers who have a sense of the organisation's culture in operation and observing whether the company's assertions match its deeds.

"It's not enough for a company to say it's doing the right thing – it has to do it," says Frank Curtiss, head of corporate governance at pensions firm RMPI. "This isn't easy to measure if you are an outsider." Iwasaki

adds: "Your initial view about culture becomes a filter through which you see the organisation. Through this filter you determine how you act, the questions you ask, and how trustworthy you think the company's numbers, or even the board, are."

Some companies seem to have high levels of integrity and what they say is taken on trust. But this isn't the case with all companies or with different sectors; not surprisingly, there is a great deal of scepticism currently about banks. "Frankly, banks are unpopular," says Curtiss. "They have gone through enormous problems, some of their own making, and public trust in them is low. Antony Jenkins has specifically made the culture of change and values a part of his mandate at Barclays; other banks are trying to do this, with varying degrees of success."

Auditors have a slightly different take from investors as they need to consider the company's culture as part of its controls environment in their audit planning and risk assessment. One challenge is that corporate leaders do not always understand what the culture really is, (such as the recent example of the HSBC chairman, who claimed that the group's complex structure meant it was impossible for board members to know how its different businesses were operating).

This is a common problem in many companies, thinks David Herbinet, global audit leader at Mazars. "There is often a disconnect between what really is happening on the ground and what the board believes is happening on the ground," he says.

“Sometimes there are the best intentions from the top but then you realise that employees’ incentives contradict the message from the leadership.”

Growing interest in this area is driving a great deal of analysis into how to rigorously assess corporate culture with a degree of audit methodology, says Hywel Ball, managing partner for assurance at EY.

“This will happen in two ways,” he says. “One is a specific service, in which the external auditors give directors some level of assurance that the culture they believe is in place at board level is actually being promulgated throughout the organisation. Then I think you will see best practice starting to move into how auditors adopt the same sort of thinking into their external audit.”

Henry Irving, head of ICAEW’s Audit and Assurance Faculty, questions whether culture could explicitly be covered by statutory audit. “You would have to have a public statement in place to say what companies report on their culture first,” he says. “The management reporting would have to use robust, neutral and measurable criteria to be measured against, and these would need to be consistently applied. It would be difficult to audit these robust criteria without having a tick-box culture.”

Instead he prefers the approach already being used by some companies in which audit firms undertake private engagements to give some kind of assurance to management over culture. (The Faculty’s publication *The journey milestone 2: assurance*

“Your initial view about culture becomes a filter through which you see the organisation”

*over risk disclosures* gives a guide to this subjective topic.)

Mazars uses an audit methodology to look at tangible aspects of 12 areas of culture, which can be audited in an evidence-based manner: these areas include structures and functions, vision and values, responsibilities and incentives.

“We then say to the board, this is how we have assessed your culture based on what we have observed, not on what you think the situation is,” says Herbinet.

Bavan Nathan, internal audit director at KPMG, says while auditing established metrics is fairly straightforward, because these can be tested against established expectations, the problem comes in looking at the more nebulous aspects of culture, such as sub-cultures within departments, countries or even within a process.

“We try to approach that aspect of culture using terms such as honesty, transparency and collaboration - none of which are definable or measurable in absolute terms,” Nathan says. “So how do you audit these? The challenge from the external audit perspective is that yes, you will get a gut feeling and

some insight, but how much rigour can be put into that?”

Nathan thinks it is up to the audit committee and board members to start asking questions around culture, using the insights gained by the internal and external auditors. “Board and audit committee focus on the auditor insights on culture will lead to management increasingly seeking feedback from auditors,” he says. “There will be a ‘permission’ to discuss auditors’ insights on culture.”

This puts the focus on culture firmly where it belongs: with the board. “Training and systems and processes all contribute to having the right culture, but it starts with leadership,” says Irving. “It’s very convenient for business leaders to say: it’s not our fault, the system broke down. Phrases like having a ‘bad apple’ or a ‘team with the wrong culture’ are simply an abrogation of responsibility by business leaders.”

Curtiss agrees. “The board sets the aspirational values and management needs to implement that, so employees have to accept and believe in the tone from the top. We constantly hear executives saying they couldn’t possibly know everything that went on

in their organisation, but this doesn’t wholly wash. Better focus on risks, better controls and a good internal audit function will help bring better early warnings to the audit committee and the board.”

Does Curtiss think the external auditors should be looking at culture? “Evaluating culture is quite complex,” he says. “There’s a big behavioural element of looking at the effectiveness of controls that the auditor has to take into account. But I think the broader issue of culture and the public regard for the business is best investigated and evaluated by a different discipline. That’s not to say that audit firms won’t acquire these disciplines, but I don’t think they are there yet.”

Some audit firms are already looking at what they need to do to equip staff with the skillsets to combine assurance with areas such as psychology, sociology and human resources. In time, combining these skills on an audit might be a necessity. “I think we are going to see many developments on what auditors opine on,” says Ball. “The question is whether culture will get wrapped into the external audit opinion to become part of the overall assurance on the annual report. The way regulation is going, I think it will.”

Herbinet agrees that culture will become a more prominent part of the landscape for external auditors. “They will have to come up with views and ideas about this. But I would hope we will not allow the regulators to tell us how this should be done as I’m not sure more standards would help here.” ■

# A tangled web

The EU accounting directive brings a much-changed small company accounting regime, added complexity and confusion. Liz Loxton investigates

**T**he new EU Accounting Directive brings sweeping changes to the small company reporting regime. However, while European Commission (EC) policymakers seemed to have had the laudable aim of reducing the need for smaller entities to produce overly complex accounts, the new rules are not a farewell to complicated decisions. In fact, they seemingly introduce a degree of complexity and an apparently contradictory approach to disclosure and transparency that will seem wrong-headed to many. The new rules expand the turnover and balance sheet limits of small companies to £10.2m and £5.1m respectively, opening up the small company reporting regime to around 11,000 more companies in the process.

They also set limits on the number of disclosures that member state governments can require in accounts and stipulate that, providing all shareholders or members agree, companies may file abridged profit and loss accounts and balance sheets.

For practitioners and other commentators, these new parameters introduce problems – practical and professional ones.

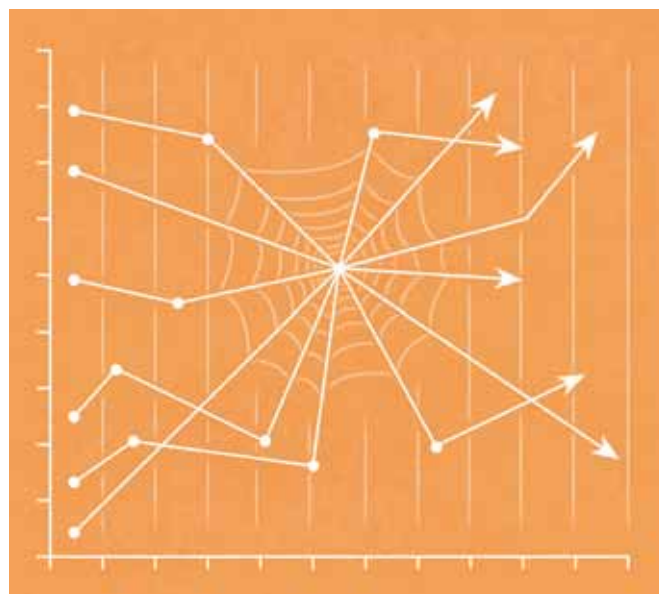
Firstly, the lack of a requirement to provide full accounts will worry many, since it may lead to less high quality information being made available. Secondly, the limits on the number of

disclosures that member states can mandate seems to run contrary to the need to present a true and fair view.

What is more, with the exception of those organisations that qualify as and elect to report as micro entities, small companies will prepare reports and accounts under an amended FRS 102, using its recognition and measurement approach, which may mean added complexity when accounting on areas such as financial instruments and intangibles.

The whys and wherefores of updating the EU Accounting Directives have been a subject of debate since 2010, says ICAEW's head of financial reporting Nigel Sleight-Johnson. "We supported an overhaul of the accounting directive, which was very dated, some went back to the 1970s, and which was very detailed and not always coherent."

However, while ICAEW argued in favour of shorter principles-based standards, the directive moves small company accounting towards maximum harmonisation across the eurozone and largely restricts what member states can do independently, he says. "We rather felt that what we had in the UK was proportionate and argued that member states should have flexibility to debate their needs in their own countries. All the focus of the debate early on, however, was on country-by-country reporting



"We supported an overhaul of the accounting directive, which was very dated, and not always coherent"

and transparency issues, so the very important small company accounts regime didn't get the focus it needed."

Initially, the directive limited the number of disclosures member states could require from small companies to eight. Post consultation, policymakers made an important concession. Member state governments can require an additional five disclosures, an option that the UK has taken up. Nevertheless, there is disquiet around whether even this new agreed maximum will result in reports and accounts capable of providing a "true and fair" view.

In February, the Financial Reporting Council (FRC) released three exposure drafts including amendments to FRS 102 and a new standard for micro entities to replace the FRSSE, FRS 105. It has also produced guidance on disclosures that companies may want to consider making.

"We've tried to be helpful by cross-referencing those disclosures required by legislation with those that [companies] may need to consider," says Jenny Carter, director of UK accounting standards at the FRC. "We are also encouraging small companies to make a

ILLUSTRATION: ARON VELLEKOOP LEON



statement of compliance with FRS 102 and any disclosures about first-time adoption of FRS 102.”

As to the potential gulf between sticking to the letter of the law and limiting disclosures to the 13 stipulated by the directive, the FRC can do little more than encourage small companies to take a broader look at the issue. “Each company and its auditor will need to make their own judgement on whether their accounts provide a true and fair view,” she says.

To many, this artificial ceiling on what the FRC and UK government can require introduces a potential problem for accountants and company directors. “There is the risk that companies may face a legal challenge on the information they release - which does happen in small company accounting. And there is a possible risk that you get a deterioration in overall quality,” says Sleigh-Johnson.

Fiona Hotston Moore, partner at Ensors, agrees: “You have this reduced set of disclosures on the one hand but with a true and fair over-ride. My concern is whether this reduced set of accounts will result in reduced quality. I can’t see that the true and fair override will be effective.”

The new regulations allow small companies to produce abbreviated accounts for their shareholders, providing they received 100% shareholder approval for this option to be taken up. These abbreviated accounts will however, says Nigel Sleigh-Johnson, be highly curtailed, providing very much less information than full accounts. They are

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“We keep tinkering and I wonder how helpful that is. This is a sector that should be growing”

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also not the same as current abbreviated accounts and companies will have to seek consent from shareholders each year to file them. “ICAEW opposed this strongly,” he says. “In deregulation, there is always this assumption that less is better.”

There are, he believes, very real practical implications here for small companies when it comes to raising finance. “Companies that have filed abbreviated accounts with Companies House have had very varied experience when trying to raise finance because there isn’t sufficient information available. There is always the danger that this approach might exacerbate problems around availability of credit.”

As to whether small companies will voluntarily step up their disclosures beyond the mandated 13, in practical terms this seems unlikely. “Generally companies want to get their accounts done. Probably their main focus is their tax bill. They perhaps won’t see the other side of the coin,” says Hotston Moore.

“The BIS consultation suggests that small companies will only have to produce abbreviated accounts. I suspect if approved they wouldn’t file full accounts and that would be a step back,” she says.

The draft FRS 105 gives a standalone standard for micro entities, albeit one that is still based on the recognition and measurement principles of FRS 102, giving small company accounting a consistent UK GAAP flavour. What is proposed will result in quite a limited set of accounts with two financial statements - the balance sheet and profit and loss account. The information within those will be quite condensed. Again, the result is one the financial reporting faculty regards as quite restrictive. “They give very limited analysis and disclosures. This is not an area where we were particularly happy, because again it means reducing the information released,” says Sleigh-Johnson.

And once again, this cut-down version of accounting makes difficulties when it comes to signing off the accounts. “They are deemed to give a true and fair view under the directive, and yet there are virtually no disclosures and limited information. By the standards of most professionals they will not give a true and fair view, and there is probably no challenging that in the courts because it is in the law.”

Micro entities can volunteer more information if they wish and they can also elect to report under FRS102 rather than FRS105. But micro entity reporting, if widely adopted, it

is feared, will present only a very small window on activity and performance.

The FRC expects to release a final standard for FRS 105 in July. And the directive will take effect for companies with financial years beginning on or after 1 January 2016.

After that, adopting the standards will be challenging in Sleigh-Johnson’s view. “The directive has simplification at the core but actually there are many tiers and options within it that add complexity,” he says.

And while the smallest companies may choose to take the apparently simpler accounting regime, at the larger end the worries persist that accounts will hamper commercial activity such as raising finance while only apparently alleviating red tape.

All this amounts to a lot of game changes, for a sector of the economy that might otherwise be poised for growth. “With the increase in turnover, some of these businesses can be quite substantial. And it’s another change,” says Hotston Moore. “We keep tinkering particularly at this end of the market and I wonder how helpful that is. This is a sector that should be growing. Companies within it will want to look at raising finance or perhaps acquiring other businesses. Moves that downgrade the quality of their accounting information are not going to be helpful. “The EU directive was quite well received. I’m just not sure that preparing a full set of accounts with appropriate disclosures is the red tape holding these companies back.” ■

# Tough call

David Adams examines the options in an ICAEW briefing paper on the choices facing the government over the future of National Insurance contributions

**T**he UK tax system is a bit of a monster: a strange and complex thing, created over 200 years in an unco-ordinated, piecemeal way. At its heart are what appear at first glance to be two inexplicably separate payroll deductions – income tax and National Insurance (NI). In mid-2014 a group of Conservative backbenchers tried to persuade George Osborne that a merger of the two should be a manifesto pledge for 2015. The TaxPayers' Alliance, a right of centre pressure group, joined the call, with chief executive Jonathan Isaby declaring that NI was “archaic, confusing and opaque, and [that] the difference between it and income tax has become academic”. Osborne was not persuaded.

ICAEW has also frequently been asked to consider whether such a merger might be desirable, or to suggest alternative improvements to the National Insurance contributions (NIC) system. Peter Allen, research manager for tax insight at ICAEW's Tax Faculty, has now written a briefing note on the subject: *Income tax and NIC – four options: a hard choice*.

ICAEW will also run a series of events during 2015, where it hopes to bring together interested parties to debate the four options outlined in the paper and other possible courses of action.

Overall, according to

ICAEW's paper, we have a system that is “not easy to understand... administratively burdensome and... provides considerable scope for arbitrage”. So, how did this come about?

When NI was created in 1911 it was a flat-rate contribution-based system that bought entitlement to benefits when an individual was unable to work, paid via a new National Insurance Fund (NIF) by local friendly societies and similar organisations. Following the

benefits decreased, with more state benefits now paid out of the Consolidated Fund (into which all other government revenues are paid). The NIF is now really a state pension fund that also pays some additional benefits, some provided on the basis of need, rather than contributions. During the year ending March 2014 the NIF paid £82.5bn in state pensions and only £6.4bn in other contributions-based benefits. In addition, since 1992 the NIF has also

have been unwilling to part with this source of revenue.

Since 1985 contributions have been payable on all employees' earnings, effectively turning it into a payroll tax, rather than a mechanism by which employers would contribute to employees' welfare.

One result of these changes has been that NIC costs have become an important factor in many employers' tax planning strategies, particularly for SMEs.

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“We need an informed debate about the possible courses of action that could be taken to reform the system”

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establishment of the “cradle to grave” welfare state, the NIF was administered by a series of different government departments and agencies before coming under the control of HMRC in 2005.

According to figures from the 2015 Budget, NIC is expected to contribute £113bn to government receipts in 2015/16, including roughly £62bn from employer's NIC, while income tax will bring in £170bn (total government receipts are expected to be £667bn).

Over the course of the past 60 years the purpose of NI has changed, as the proportion of pension payments in the fund increased, while non-pension

benefits decreased, with more state benefits now paid out of the fund now diverted for this purpose.

The way NI is charged has also changed. By the mid-1970s it had become an earnings-related charge (apart from flat-rate contributions for the self-employed). This helped to erode the link in the public mind between contributions and a right to benefit from the NIF – even though the size of an individual's state pension is still determined by a contribution record.

The nature and structure of employer's NIC has been tinkered with by successive governments, but politicians

## PETER ALLEN'S PAPER OUTLINES FOUR POSSIBLE OPTIONS FOR GOVERNMENT:

- Merge the NI and income tax systems.
- Manage the system more effectively – implementing more effective improvements than previous attempts to address problems with single elements of the system rather than the root causes of problems.
- De-merge, that is, to return NIC to its roots as a separate insurance-based system.
- Make do with the current system.

## THE MERGER OPTION

A merger would simplify administration, reduce costs in the medium- to long-term and reduce avoidance and arbitrage. However, many taxpayers would feel as if taxes had risen – and for some, they would. There would need to be some clarity over which payments, if any,

earned a contributory record.

Despite this, David Martin, research fellow at the Centre for Policy Studies, a right-of-centre think tank, and member of the Tax Law Review Committee at the Institute for Fiscal Studies, backs a merger. "Any negative impact on taxpayers' pay packets can be exaggerated," he says.

"It is likely after all that workers would see net pay rise, on the assumption that investment income would become liable to a higher rate of tax."

Tony Dolphin, associate director for economic policy at the left-of-centre Institute for Public Policy Research, agrees. He comments: "There's a huge advantage in bringing it all together, in theory. But you would still have to ask what you want the contributory principle to cover."

Exactly how employer's NIC would be replaced is also unclear. Whatever form the merged system took, replacement of or alterations to payroll software and government IT systems would be needed.

More significantly, social security bilateral agreements with other EU member states and around 17 other countries would have to be rewritten. "It would be very difficult," says Allen. "Not insurmountable, but difficult."

"There have been several chancellors since the 1980s who looked at doing it and all shied away from doing so."

Governments would also be reluctant to lose a useful political tool. "NI is the invisible tax," says Allen. "Governments can fiddle with it and no one says anything."



#### THE MANAGE IT OPTION

ICAEW welcomes steps the current government is taking to bring administration of income tax and NIC closer together. Unifying control of these processes could also help address the larger tax arbitrage issue.

There are further steps government might consider, such as introducing an investment income surcharge, broadening NIC to include investment income, altering the way dividends are taxed, increasing corporation tax, or reintroducing advance corporation tax for small companies. But many of these actions would increase tax for smaller companies and other taxpaying groups.

But Bill Dodwell, partner and head of tax policy at Deloitte, isn't keen on either the merge or the manage options. "Both

involve extra taxes on extra people, which doesn't look to me to be a terrifically nice idea," he says.

"I really struggle with the idea that we will convince pensioners that for the sake of neatness they will pay an extra 12% in tax."

#### THE DE-MERGER OPTION

"There is a case to be made," Allen's paper suggests, "on transparency and acceptability grounds for returning NIC to its roots as a contributory-based insurance system." Pension funds held within the NIF would need to be free from government interference, becoming a state-sponsored, pooled individual pension.

"While one can see the attraction of this proposal, I have not seen set out how the numbers might work," comments Martin. "Since the

1940s there has been a relentless tendency to reduce the contribution-based proportion of welfare payments.

"One could increase payments to reward those with a full contribution record, but this could be expensive, and, again, I have not seen any quantified suggestion for achieving this."

#### THE MAKE DO OPTION

"It has worked for 60-odd years, so obviously there's the possibility of just keeping it as it is," says Allen. "How sustainable it might be in the longer term - that's another question."

"This option appeals to our instinct to muddle through without taking the risks of any major change," says Martin. "But I don't feel this approach is acceptable in the face of a real need for tax reform."

Dodwell has another suggestion: to put NIC onto a cumulative basis and unify the employment/self employment income base.

Meanwhile, government estimates suggest the NIF's reserves will soon be reduced to approximately two months' worth of expenditure. If the reserves fall below this level the government actuary will require the NIF to be topped up from the Consolidated Fund, using the Treasury Grant, last paid in 1997/98. To maintain the two-month reserve will cost a predicted £6.6bn in 2015/16.

ICAEW's view is that we need an informed debate about the possible courses of action that could be taken to reform the system. ■

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# Gerald Edelman: network news

New premises, new talent, new clients. Xenia Taliotis discovers how the London firm's approach to relationships is helping it grow

**B**oxes and crates. That's what I see when I arrive at Gerald Edelman's Harley Street office. They're everywhere, piling out of each office and emerging from beneath every desk, but despite this, CEO Richard Kleiner, who steps out from behind a wall of them to greet me, is completely unflustered. "We're moving next week," he says, "to a much bigger office in Cornhill, in the City, so excuse the mess."

In fact there isn't any mess - everything is neatly packed, clearly labelled and extremely organised, an indication no doubt of the precision with which this firm goes about all aspects of its business.

Gerald Edelman has worked from its Harley Street premises since the late 1950s (it also has offices in Whetstone, north London, and Braintree, Essex), but the combination of a rapidly-expanding workforce and a push from their landlord precipitated the move.

"We've needed to find new offices for a while," says Kleiner "but were just stalling to avoid the upheaval. We're glad our landlord forced our hand, commercially speaking, because we've found super premises in Cornhill. The ground floor is open plan, so will be more conducive to working as a team, the location should make it easier

for us to recruit new talent, and we've got a lot more floor space - 9,000 sq ft as opposed to 7,000."

Kleiner has big plans for the future, which should see the Cornhill floor space filled before long. Recruitment, he says, is an ongoing process so he's always on the lookout for people who will build up the business and help safeguard its future. "The firm currently comprises 112 people, which includes 13 partners; I'd like to take that number to 20 within the next three years. That's the number of partners I think we need before we can take on more IPO, M&A and corporate finance work, which is the direction I'd like us to go in."

Building up the firm is a question of striking the right balance between promoting home-grown talent - and therefore probably forfeiting a vital injection of new business - and recruiting new partners from outside who would most likely bring their own clients to the practice but might upset internal candidates hoping to step up. "We have eight partners who were promoted from within the firm and five who came to us from outside," says Kleiner. "Right now we have a couple of internal people we're watching - they should be ready for consideration in the short- to medium-term - but what I'd like in the interim would be to absorb some smaller

practices, taking on the partners and their clients in the process."

He would also very much like to bring more women in to the firm, particularly at that senior level because as things stand, all 13 partners are male, as is 66% of the workforce. It's a problem he sees across the profession as a whole, particularly in mid-tier firms where women are still under-represented.

The constant search for new clients, partners and seniors means that networking has become a key tactic among all Gerald Edelman's employees. "There was a time when accountants could rely purely on word-of-mouth recommendation but our profession, just like all others, has become much more commercial so networking is now a relentless, never-ending activity," he says. "I have people who aren't very good at it, and who shy away from industry events, but what I say to them is to start small and to think of every client meeting, and every new introduction, as a networking opportunity. Our clients come from all walks of life: no job is too small or too big for us, so even a friendly chat with a sole trader could lead to new business."

Gerald Edelman is a one-stop general practice with no one specific specialism or industry bias. Having said that, many of its 3,000-plus

"Looking for new business should always be on one's mind, that's why we put such emphasis on networking"

**Gerald Edelman's guiding principle, "sophisticated not complicated," underpins every aspect of its working practices. In addition, it has three core customer commitments:**

- 1** Clients will have only one point of contact who will manage their affairs by liaising and co-ordinating with other partners and team members from within the firm.
- 2** Clients will always be offered fixed or capped fees.
- 3** The practice will always try to bring real, commercial and added value to its clients.



ILLUSTRATION: ARON VELLEKOOP, LEON

clients are high-net-worth individuals who have diversified into all spheres of property and real estate, so the firm's expertise in this area has grown accordingly. Aside from that, it deals with all key areas of accounting, including tax consultancy, audit, wealth management (including strategies for retirement, future funding, protection and investment), company secretarial/statutory compliance, business advisory, payroll and business recovery (including both solvent and insolvent liquidations, IVAs and rescue plans). It has also applied for a probate licence and is looking forward to this being an important new revenue stream.

Of its £9.5m turnover, £5m comes from audit/accounts, £2.1m from tax, £1.3m from wealth management and £500,000 from corporate finance, with other services making up the remainder more or less evenly.

The firm's projected growth for 2014–2015 is 7.5% but Kleiner expects they'll fall a little short of that target. "Our average for the past decade is about 4.5%, with our lowest ever being 2% during the year immediately after the credit crisis hit," he says. "Growth is essential to survival so looking for ways to bring in business, both from new clients and from existing ones, should always be in one's mind.

That's why we put such an emphasis on networking and on all partners working on their personal brand. That's where new work comes from, from our partners building extremely strong relationships based on trust, professionalism and creating added value for their clients. I expect us all to impress our customers each and every time we meet them."

This year Kleiner wants to focus more on marketing the firm, not through advertising, but by boosting its "virtually non-existent" social media presence. "That's something we're way, way behind on, but we're contracting a social media expert to put that right. She's going to get us onto Twitter and LinkedIn and show us how to use them effectively. Again, it's a mark of how the profession has changed that we need to be ahead of trends. Our clients expect it of us."

Gerald Edelman spends big on both technology – nearly 7% of its annual expenditure, and on training – about £80,000 per annum. Each year, it recruits between two and four graduates and/or school-leavers and all staff, no matter how senior, receive on-going training. Education, says Kleiner, is something the firm is deeply committed to: "It's vital that we provide everyone who works for us with opportunities to develop

and learn. In any case, every penny we spend on training our staff is an investment in the firm – provided, of course, they stay with us."

Staff retention is actually very good, mainly because the practice seems to be a nice place to work with flexible working, generous bonus system and many social events. "Our social committee has an annual budget of £25,000," says Kleiner, "and has arranged some terrific events for us. We've been bowling, go-karting, to the races at Windsor and we've had some fantastic Christmas parties."

Customer retention is also very good, and when clients do walk away it is mostly because of price. Kleiner says that the commercialisation of accountancy has brought about its commodification, with people treating their audits or tax returns, say, as goods that they can compare on price. "Accountants provide a service, not a commodity, but people don't often look at what they're getting for their money. They look only at the baseline figure and will sometimes go with a cheaper firm. If we lose clients on price alone, I don't mind. If we lose them because we've made a mistake or haven't treated them as they would liked to have been treated then, well, that's when I get very upset." ■

# Lies about qualifications, and serious misconduct punished

In the two cases selected from this month's disciplinaries by Julia Irvine, complex arguments around the relevance of matters considered by the disciplinary committee tribunal are examined

## APPEAL OVER AUDIT DISMISSED

**A**n ICAEW appeal committee panel has upheld the severe reprimand and £20,000 fine imposed on a member, after he failed to prove that the disciplinary committee tribunal (DCT) finding against him was just "plain wrong". Christopher Bugden of Hurstpierpoint, West Sussex, also failed to prove that the sanctions against him were excessive.

The DCT had found two charges proven against him. The first was that, as a partner in "A" LLP and following the results of an external cold file review, he had improperly instructed "B", a trainee, to alter the review and completion audit papers in respect of the audits of three associated companies for their respective years ending in October 2009.

The work relating to the audit files had apparently been "shoddily undertaken and documented under his supervision", although the audit field work was sound. The cold file review recorded that the audit checklists had been left incomplete.

Bugden ordered "B" to complete the checklists and to insert the initials of Bugden's fellow partner "C" in order to make it appear the shoddily undertaken and documented 2009 audit had been supervised by him and not Bugden.

The second charge related to the shoddy audit work. The DCT found that, in his capacity as "responsible individual", he had failed to ensure one of the audits was conducted in accordance with ISA 320, Audit Documentation (Revised), because the audit documentation failed to provide a sufficient and appropriate record of the basis for the auditor's report, in breach of audit regulation 3.10.

Bugden appealed. He argued that he was innocent of both charges as the DCT ought to have found had it properly taken into account evidence that the allegations against him were lies. This, he said, he

could have demonstrated if "A" LLP had not denied him access to the audit files concerned and to the PCAS software used to produce them; or if he had had legal advice or representation at the DCT hearing. And he said the sanctions and the £28,000 costs imposed were excessive compared to those in other cases.

In its written judgement, the appeal panel said that when it came to the DCT's assessment of the credibility and reliability of evidence, the appeal process required demonstration that the DCT's findings were plainly wrong. "It is never enough to argue simply that the DCT should have reached a different conclusion. This is particularly the case where the tribunal, having heard the witnesses give oral evidence, itself analysed and gave careful consideration to difficulties in that evidence."

The panel said the DCT had dealt with many of the points, in particular Bugden's denial that he was the responsible individual and that he had suborned "B". "Many of these submissions suffered from the disadvantage that they did not begin to address the central issue in the appeal, which is whether the DCT was plainly wrong." As far as the sanctions being excessive were concerned, the DCT had considered that the first charge of suborning "B" was "very serious indeed", while the work in the second charge was "seriously deficient". In the absence of any evidence in the form of specific cases to back up his assertion, the appeal panel concluded that the sanctions were well within the sentencing guidelines.

Bugden's membership has since been ceased for failure to pay costs.

## LYING TRAINEE SACKED

**L**ying about qualifications is not a clever move, as Shahnawaz Seehootoorah found to his cost. The ICAEW provisional member had told

a prospective employer he had D grades in Maths and Business & Economics and a B grade in English Literature. The employer then took him on as a trainee accountant. The employer subsequently found out that his true grade for English Literature was D and dismissed him.

When the case came before an ICAEW DCT, Seehootoorah argued that there was no dishonesty involved. He asserted that he honestly believed he had achieved the B grade but, in any case, the error was immaterial because the grade was irrelevant to his employment.

The tribunal made short shrift of his argument. The explanation he gave about believing he had got a B grade was "wholly implausible". Nor had he provided any supporting evidence.

His assertion that the grade was immaterial was also rejected. The tribunal pointed out that the employer thought the matter serious enough to sack him over it. In actual fact, the relevance of the grade was not in issue: what mattered was the fact that it was falsely given to someone relying on the accuracy of what was said.

The tribunal ended his provisional membership and banned him from re-registering for two years. It also fined him £750, and reprimanded him and fined him another £500 because he had a court judgement debt of £1,291.27 which he failed to satisfy between 8 May 2013 and 6 September 2013.

While he was working, Seehootoorah had taken out a loan with his employer for £3,000. When his employment was terminated, his net pay was set off against the loan, leaving a balance of £1,133.11. He failed to pay the balance of the debt and the employer went to court and obtained judgement against him. That, the tribunal said, breached disciplinary byelaw 4.1e and was professional misconduct.

The debt remains unpaid. ■



# Report listings

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

## DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Graham Hill, 6 Nottingham Road, Long Eaton, Nottingham NG10 1HP

**Complaint** He failed to provide the information, explanations and documents requested in a letter issued under disciplinary byelaw 13 by the due date.

**Order** Reprimand, £500 fine, £1,049 costs.

● Andrew Wilson, Chiltern Chambers, St Peter's Avenue, Caversham, Reading RG4 7DH

**Complaint** He issued three audit reports on behalf of his firm, Assets Ltd, and a report on a Solicitors' Regulation Authority Accounts Rules assignment but failed to obtain and submit the results of external hot file reviews within one month of their completion. This was in breach of conditions and restrictions imposed on his firm's audit registration by the audit registration committee.

**Order** Reprimand, £2,500 fine, £1,500 costs.

● Stephen Pearl, 3 Bentalls Close, Southend-on-Sea SS2 5PS

**Complaint** He engaged in public practice without professional indemnity insurance (PII) contrary to regulation 3.1 of the PII regulations. He failed to register his firm with the Information commissioner under the 1998 data protection Act in breach of Practice Assurance Regulation (PAR) 1; and he failed to reply to a QAD email contrary to PAR 8.

**Order** Severe reprimand, £10,000 fine.

● Brendan Sugden, Unit 20, Zenith Park, Whaley Road, Barnsley, South Yorkshire S75 1HT

**Complaint** For more than seven years he used the description

"chartered accountants" for his firm, Sugdens LLP, when he was not entitled to as he had not obtained general affiliate status for a non-member principal, in breach of the regulations governing the use of the description.

**Order** Reprimand, £2,250 costs.

## INVESTIGATION COMMITTEE CONSENT ORDERS

● Robert Evans, 23 Clifton Hill, St Johns Wood, London NW8 0QE

**Complaint** In March 2011, he issued an audit report on a client's 2010 financial statements in the name of his firm when, in breach of audit regulation 3.10, the audit had not been conducted in accordance with various international auditing standards (UK and Ireland), including ISA 230 Audit Documentation, ISA 300 Planning an Audit of Financial Statements, and ISA 500 Audit Evidence. In March and November 2012, contrary to ISA 230 (revised), he modified the audit documentation after the assembly of the client's final 2010 audit file but failed to document: when and by whom the modifications were made; the specific reasons for making them; and their effect, if any, on the auditor's conclusion.

On 12 March 2012, he issued an audit report on the same client's 2011 financial statements when he should have expected that total fees for audit and non-audit services from the client would regularly exceed 10% of the firm's annual fee income, yet he failed to arrange an external quality control review of the audit engagement before the audit report was finalised, in breach of audit regulation 3.02 and ethical standard 4. He also incorrectly filed unaudited abbreviated accounts with Companies House for the client which stated the company was entitled to exemption under s477(2), Companies Act 2006 when it wasn't.

**Order** Severe reprimand, £5,000 fine, £5,605 costs.

● Peter Wilson, Suite 12, Rockfield House, 512 Darwen Road, Bromley Cross, Bolton BL7 9DX

**Complaint** He failed to notify the members' registrar at ICAEW of the incorporation of his sole practice within the required 28 days of the change taking effect. And he failed to inform the registrar of the incorporation within the 10 business days required by practice assurance regulation 9. From 1 July 2004 to 18 December 2013, he engaged in public practice without PII in breach of regulation 3.1 of the PII regulations.

**Order** Reprimand, £3,400 fine, £1,005 costs.

● Clive Backhouse, 97 Headstone Lane, Harrow, Middlesex HA2 6JL

**Complaint** He issued, on behalf of his firm, an independent examiner's report to a client charity for the year ended 31 July 2012 when the examination failed to comply with the procedures laid down in the general directions given by the Charity Commission under s145(5), Charities Act 2011. He failed to record the examination procedures carried out and important matters to support the conclusions reached regarding incoming resources and cash at bank; he failed to obtain an understanding of the charity's accounting systems and activities in order to plan specific examination procedures regarding incoming resources and cash at bank; he did not carry out sufficient analytical procedures in order to identify unusual items in the accounts; and the examiner's report was not in the format required under The Charities (Accounts and Reports) Regulations 2008.

**Order** Reprimand, £2,000 fine, £1,968 costs.

● Peter Hudson, 361 Rayleigh Road, Eastwood, Leigh-on-Sea, Essex SS9 5PS

**Complaint** He was a director of a body corporate engaged in public practice, which entered into creditors' voluntary liquidation on

5 May 2009.

**Order** Severe reprimand, £1,411 costs.

● Ivan Parry, Abbey House, 105 Abbey Street, Nuneaton, Warwickshire CV11 5BX

**Complaint** Between September 2006 and March 2014, he failed to comply with written assurances he had given following a quality assurance department visit, that written notification of his firm's complaints procedures and basis of charging fees would be issued to clients. Between September 2006 and December 2013, he also failed to comply with written assurances he had given following the visit, that he would register his firm and an associate under the Data Protection Act.

**Order** Reprimand, £1,725 fine, £1,818 costs.

● Ellis Rosen, 21 Fullwell Avenue, Ilford, Essex IG6 2HA

**Complaint** Between around January 2008 and April 2012, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51(a) and without PII contrary to regulation 3.1 of the PII Regulations.

**Order** Reprimand, £500 fine, £1,668 costs.

● Peter Barclay, 1st Floor, 11 Church Street, Melksham, Wiltshire SN12 6LS

**Complaint** He failed to advise his client that, contrary to s830 of the 2006 Companies Act, it had insufficient profits available to pay dividends of £22,000 and £6,000 in 2011 and 2012 respectively.

**Order** Reprimand, £1,300 fine, £1,167 costs.

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# Life

reviews/food/skills/people



PHOTOGRAPHY: © JOACHIM LADEFOGED/VII

this month:

## fashion

**Spring/summer looks** Four key trends for this season **In review** Including Stockholm highlights, Thomas Hardy and a Broadway play **Restaurants** Tastes of India  
**Life skills** How to pack your suitcase **Life after work** Avi Chandiok

## Key looks for the summer

Francesca Cotton chooses four trends from the catwalks. Plus, where to buy your apparel if you don't have a big budget



Oasis roxy block heel - £35



House of Fraser Biba addison double zip cross body bag - £109



Steve Madden at Dune Dband slip-on sandal - £49



Linea orange winged tote bag - £45



**We love!**

J.Crew, SS15,  
New York



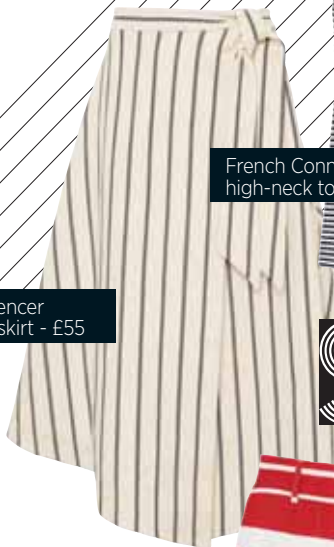
Dickens & Jones candy  
stripe dress - £59



French Connection  
high-neck top - £30



Marks & Spencer  
Autograph skirt - £55



STRIPY

Juicy Couture  
boucle jacket - £230



Next high waist  
shorts - £32



Oasis stripe culottes  
- £38



Radley Putney  
bag - £179



Accessorize colourblock  
stripe floppy hat - £22

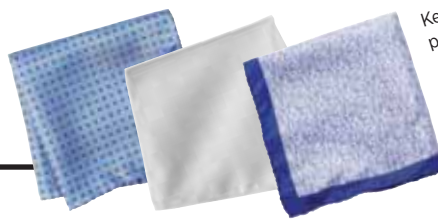


Dune birdie candy stripe  
pointed toe - £75



See by Chloe stripe blue  
tote - £265

Top off the look with a pocket square



Kenneth Cole camo print pocket square, £25  
Burton plain pocket square, £6  
House of Fraser New & Lingwood patterned pocket square, £40

Next skinny-fit suit jacket - £75



Burton slim-fit jacket - £69



Marks & Spencer Autograph suit - £199



## BLUES

Burton suit trousers - £30



Next skinny-fit suit trousers - £35



Jaeger fine-stripe modern shirt - £65



White Stuff heartland stripe shirt - £39.95



Zara structured stretch shirt with trims, £29.99



We love!

Dior Homme SS15, Paris



Bertie Braxton hi shine brogues - £99



J. Crew cotton canvas and leather laptop bag - £100



River Island brown leather panelled lace-up formal shoes - £50



Ted Baker Lextons contrast corner leather messenger - £255

**We love!**  
Dunhill, SS15,  
London



River Island blazer - £90



French Connection  
striped sweatshirt - £40



# GATSBY



Marks & Spencer  
Collection notch lapel two  
button blazer - £119



Jaeger modern chinos - £85



Zara stretch shirt - £29.99



Hammond & Co by  
Patrick Grant at  
Debenhams navy 'Abbey'  
striped panel t-shirt - £20



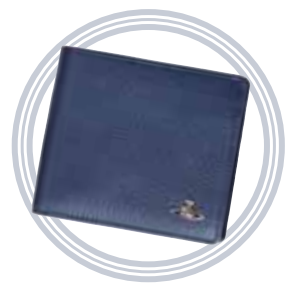
Next tan weave  
loafer - £42



House of Fraser Howick  
tailored Panama hat -  
£25



Dune Beattie stripe  
sole suede Oxford  
brogue - £89



Vivienne Westwood blue  
wallet - £82



## HOTEL



**Stockholm** and its 23,000 islands become an adult's playground in the summer. From the midsummer festival in June (traditional folk costume is worn, potatoes, pickled herring and sour cream are consumed), to wild swimming in Lake Mälaren, cycling around Djurgarden, or cocktails at Mälarpaviljongen, the sunlight-drenched capital of Sweden is a unique holiday location. The 12-room boutique hotel Ett Hem is a gem: situated in the embassy quarter of Ostermalm in Skoldungagatan, it is a member of Small Luxury Hotels of the World. [etthem.se](http://etthem.se)

## FILM



**Far from the Madding Crowd** A new adaptation of Thomas Hardy's novel, this time starring Carey Mulligan, tells the story of independent, beautiful and headstrong Bathsheba Everdene who must choose between three very different suitors.

**Release date:** 1 May

**Also starring:** Michael Sheen and Juno Temple

## STYLE

**PVD rose gold Grey Louisiana** Made by Uniform Wares, an independent, luxury British watchmaker, this two-hand watch is understated and cool. A little bit like James Bond. (£560). [uniformwares.com](http://uniformwares.com)



## THEATRE



**Mad Men** star Elisabeth Moss leads as art historian Heidi Holland in this Broadway revival of Wendy Wasserstein's Pulitzer and Tony-winning 1988 comedy-drama *The Heidi Chronicles*. Set just as the women's movement comes to prominence in the 1960s, it also stars Jason Biggs and Tracee Chimo. Closes 9 August. [musicboxtheatre.com](http://musicboxtheatre.com)

## ART



**Tate Liverpool**, with the Dallas Museum of Art, is presenting *Jackson Pollock: Blind Spots* from 30 June to 18 October. Focusing on paintings between 1951 and 1953, these works are less well known than his "drip" technique but extremely influential. The exhibition will also feature paintings from 1947-49, plus works from the peak of his fame. [tate.org.uk](http://tate.org.uk)





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## INTERIORS

**Arundells**, the Salisbury home of former prime minister Sir Edward Heath, has reopened to the public with a busy season in store. Featuring a new exhibition space, one of the highlights will be *Ready, Steady, Go: Images of Britain in 1965*, which starts in July. [arundells.org](http://arundells.org)



## EXHIBITION

## Where to eat in...

### PARIS



**Le Ballroom du Beef Club**, 58 rue Jean-Jacques Rousseau

**What to drink:** Salers Smash (absinthe, Champagne, mint and lime).

[eccbeefclub.com](http://eccbeefclub.com)



**Le China**, 50 rue de Charenton

**What to drink:** Balsamico rosso (vodka, chambord, raspberries, rocket, balsamic vinegar, sugar).

[lechina.eu](http://lechina.eu)



**Taste of Paris, Grand Palais (21-24 May)**

**What is it?** Food festival where you can sample tasting plates from some of the world's great chefs, including Alain Ducasse and Guy Savoy. [paris.tastefestivals.com](http://paris.tastefestivals.com)

## GADGET



**What is it?** An electric mountain bike made of titanium.

**What's so special about it?** It's the lightest electric bike ever invented.

**Where's the battery pack kept?**

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**What are the top specs?** Distance per charge, 20-30 miles; top speed 18mph; weight 32.8lbs.

**What's the damage?** \$4,999 (£3,355). [prodecotech.com](http://prodecotech.com)

## BOOK



The Baileys Women's Prize for Fiction winner will be announced on 3 June. One of our favourites on the longlist is *Elizabeth is Missing*, by Emma Healey, a mystery with an unlikely protagonist - an 82-year-old, dementia-addled granny called Maud with a penchant for tinned peaches. **Penguin, £7.99**

## MUSIC



**Songhoy Blues**, who fled their home of Northern Mali, caught the attention of Damon Albarn when he was travelling with his "Africa Express" troupe in 2013 and have since played for David Byrne, Alabama Shakes and at SXSW. They start their own tour in Paris in May and finish in the UK in November.

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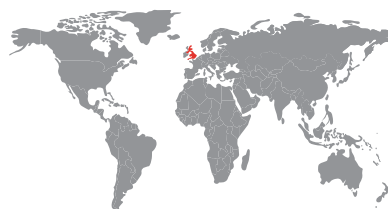


**Dish of the Day**  
*"If the bhindi doppyazza tamatar isn't on offer when you go, beg until they put it back on the menu"*  
**Café Spice Namasté**

## Restaurants

### Innovative Indian

*Penelope Rance samples the spice of life with a day full of Indian offerings in London*



### BREAKFAST

**The Cinnamon Club**  
**Westminster, London**  
[cinnamonclub.com](http://cinnamonclub.com)

An Indian breakfast can be hard to come by in the capital, and for many it is defined by Dishoom's bacon naan roll, or the tiffin snacks available to go at Saravana Bhavan. A longer-lived option is The Cinnamon Club, set in the old Westminster Library. The uttappam (fermented rice pancakes) were the best we've had since Sri Lanka, while the kedgeree was all a Victorian gentleman, pining for the Raj, could wish for.

### DINNER

**Tamarind**  
**Mayfair, London**  
[tamarindrestaurant.com](http://tamarindrestaurant.com)

The six-course Taste of Tamarind tasting menu features Michelin-starred Indian food with meticulously-chosen European wines.

Rooted in the Moghul traditions of north-west India, the eponymous fruit is well in evidence. Hidden away beneath the streets of Mayfair, it's easy to see why this was the world's first Indian restaurant to receive recognition from French foodies.

A trio of homemade chutneys (including tamarind and date) came with pre-sliced pappad. Salty, crunchy channa chaat followed, tender chickpeas anointed with a yoghurt dressing plus peppery mustard cress, the accompanying Riesling Timbach layering on acidity and petrol notes.

Grilled scallop with smoked peppers and tomato chutney was nearly overwhelmed by the latter, but rescued by the depth of the peppers and juicy exuberance of the giant Scottish scallop. All

made glorious by the Chablis 1er Cru Les Lys, with its lush, pineapple-heavy nose.

Upmarket butter chicken followed, served on pureed tomato with fenugreek. This was a proper murgh makhani, and it came with a proper Burgundian-style, oaky Cervaro della Sala.

We were soothed by a date and, yes, tamarind sorbet, before exquisite, tender lamb chops with papaya, fennel and star anise, spiced spinach, a luxurious creamy dal, pulao rice and a naan. Châteauneuf-du-Pape,

which might have been over-structured for the meat, was reassuringly smooth.

The meal - and diners - were finished off by the carrot fudge, pistachio kulfi. I opted for the Orange Blossom Muscat - rich enough to stand in for dessert.

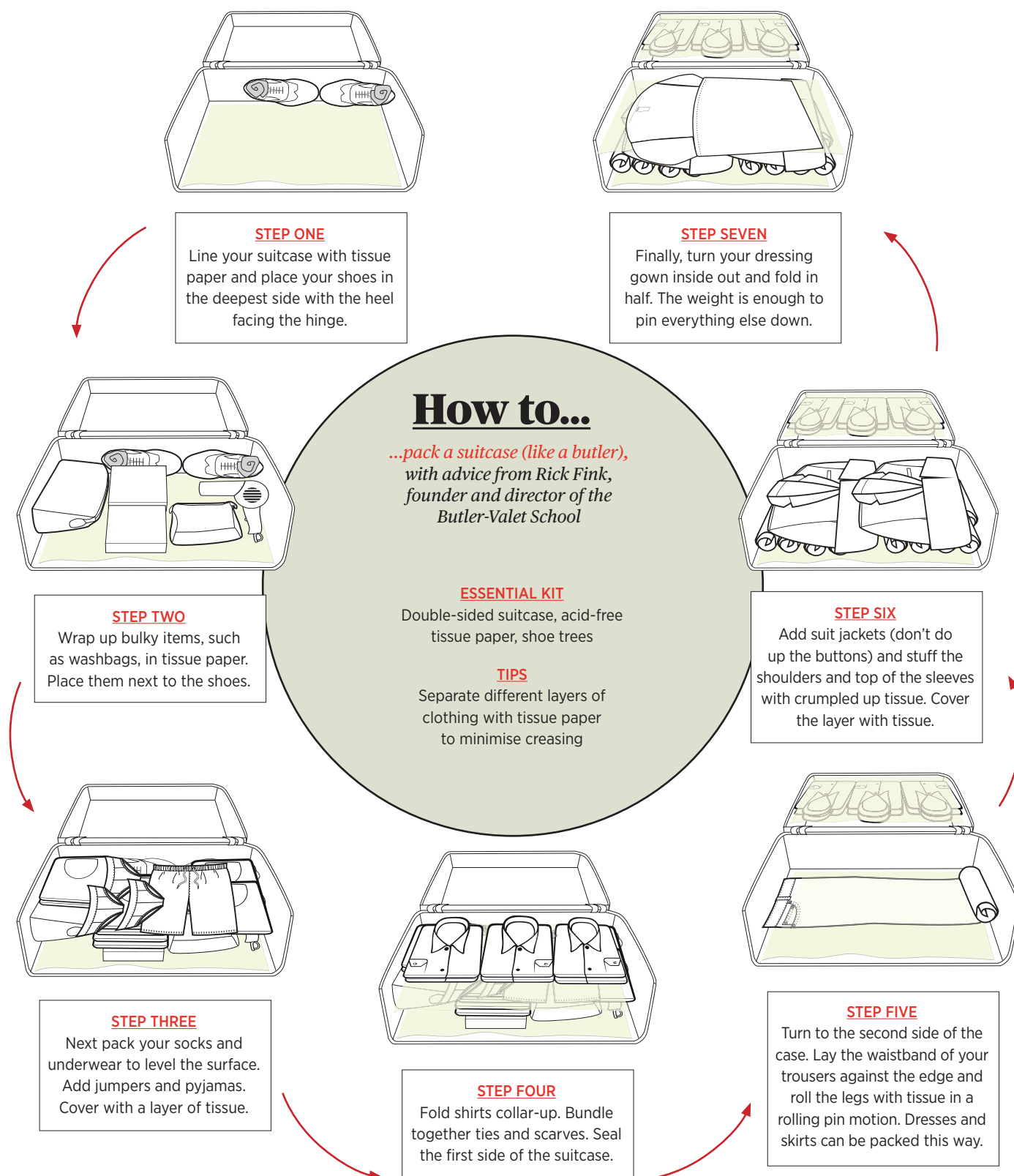
Beyond its food, Tamarind is notable for its cheerful staff, relaxed atmosphere at odds with both location and reputation, and elegant acquiescence in meeting previously unannounced dietary requirements. We'll go again. And again.

### LUNCH

**Café Spice Namasté**  
**Aldgate, London**  
[cafespice.co.uk](http://cafespice.co.uk)

If in east London, stay on course past Brick Lane to Café Spice Namasté. Here husband and wife team Cyrus and Pervin Todiwala dish out heartwarming tandoori using rare breed pork and wild venison; seasonal specials such as Goan razor clams; and regulars' favourites including duck tikka a la Mrs Matthew. If the bhindi doppyazza tamatar isn't on offer when you go, beg until they put it back on the menu.







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**Gtr London (ref 2889)** Practice with a new business model seeks to acquire. Retirement situations, multiples of up to 1.2 with guaranteed minimum consideration offered.

**Central London (ref 2887)** Sole practitioner with £800k fees wishes to merge with another practice of up to £5M of fees. Proprietor has 8 years until retirement.

**Central London (ref 2963)** Client seeks acquisition in London of up to £1M. Merger considered. London office space required.

**Central London (ref 3009)** Tax practice with £600k of fees for sale. Retirement of 2 partners. No premises.

**Central London (ref 1278P)** Sole practitioner with £600k of fees, looking to merge. Partner seeks a management role in the merged practice.

**North East London (ref 2866)** 3 x practices in north east London wishing to acquire or merge with fees of up to £1.5M.

**South East M25 (ref NC040)** Practice with £800k of fees for sale.

**Brighton Area (ref 2921)** Sale of £800k worth of fees.

**Bristol Area (ref 2019)** Sale of £850k worth of fees.

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## High on life

**Avi Chandiok** has been drawn to the mountains since he was a boy, and retirement has given him the time to explore them. He talks to Julia Irvine about yaks and things

**T**he first rule of trekking to Everest Base Camp is to step to the high side of the pathway when faced by an oncoming yak. And don't, whatever you do, tackle a suspension bridge if a yak train is heading towards you - they keep going, come what may, and God help you if you slip and fall, says retired small practitioner Avi Chandiok.

He is speaking as one who lived to tell the tale. During last year's trek to Base Camp, he survived the dangers of the road remarkably unscathed - pouring rain, slippery paths, yaks, altitude sickness and bad water, not to mention landing at Lukla, the world's most dangerous airport.

Trekking among some of the planet's highest mountains had been at the back of Chandiok's mind since his school days in the Doon valley in India. During half-term breaks spent walking in the Garhwal Himalayas that he could also see from school left their impression and six years ago he decided to take it up again.

"I'd always stayed fit, gone to the gym," he says. "And there are some really nice hills behind where I live, just outside Adelaide. You can get some serious walking in and it's only a 15-minute drive from the house. So I started training there twice a week."

His first expedition was in April 2012 to Kopra Ridge (3,700m) in the Annapurnas in Nepal. "It was a beautiful trek," he recalls. "All the rhododendrons were out and the views of Mount Dhaulagiri and Annapurna South were spectacular. But it was not enough. The reason I'd gone was because I wanted to be

among the high mountains; when I got there, I could see them but I just wasn't close enough."

The idea of trekking to Everest Base Camp (5,364m) was born. He didn't tell his family that just getting there was dangerous - landing at Lukla (2,860m) is terrifying. At one end of its runway, which has a gradient of 12°, is a 610m drop into a valley, and at the other a stone wall and a hairpin turn.

Plane crashes are relatively common as the weather - and visibility - can change rapidly.

The trek starts at the airport and although it's challenging, it is feasible provided you don't suffer from altitude sickness. Each trek includes acclimatisation days and he says he was luckier than others in that he only experienced breathlessness when he lay down. The thin air also slows you down. It took 10 days to reach Base Camp, he says, but each day was an amazing experience. "It was unbelievable to be right in the middle of the greatest snow-covered mountains in the world. And an added bonus was spotting a Himalayan monal, the national bird of Nepal, on the way back."

Trekking to Everest Base Camp, he says, has confirmed his love affair with high mountains. Interestingly, he's never been tempted to climb them: rather it is the stillness, the smells of pine forests lower down and time to appreciate the wild beauty that bring him back. He's already planning his next trek, round the Mont Blanc circuit. "High enough, but no risk of mountain sickness there," he adds drily. ■



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