FINANCE & MANAGEMENT FACULTY PUBLICATION

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APRIL 2017

Finance & Management

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AVOIDING SERIOUS ERRORS IN THE FINANCE FUNCTION

Stronger, better, smarter?

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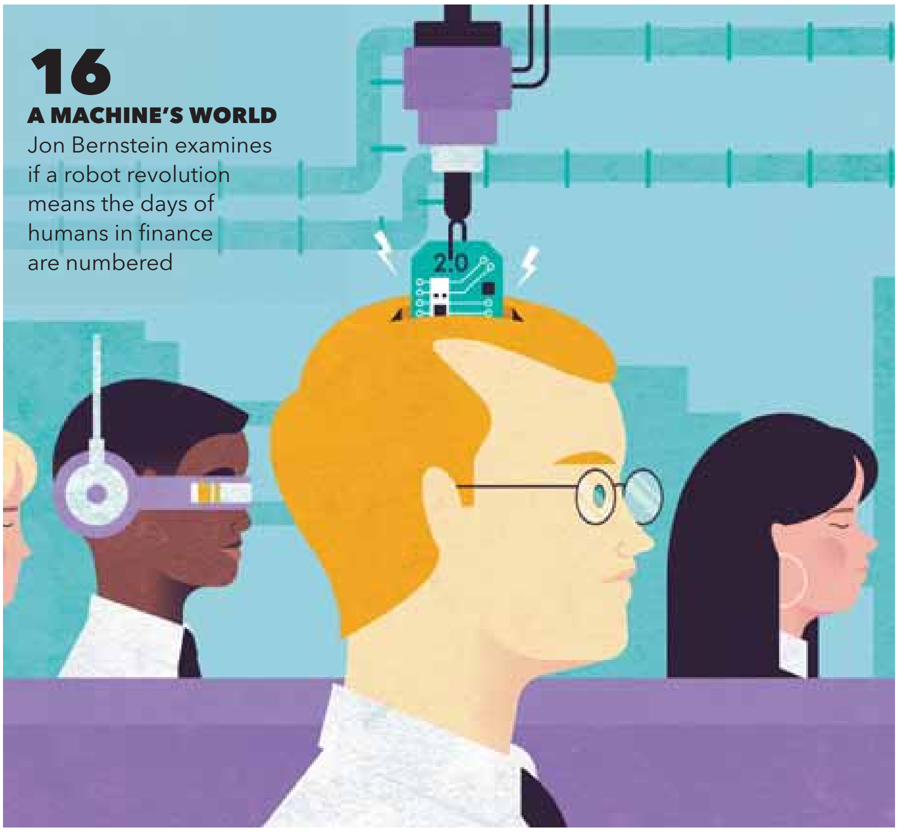

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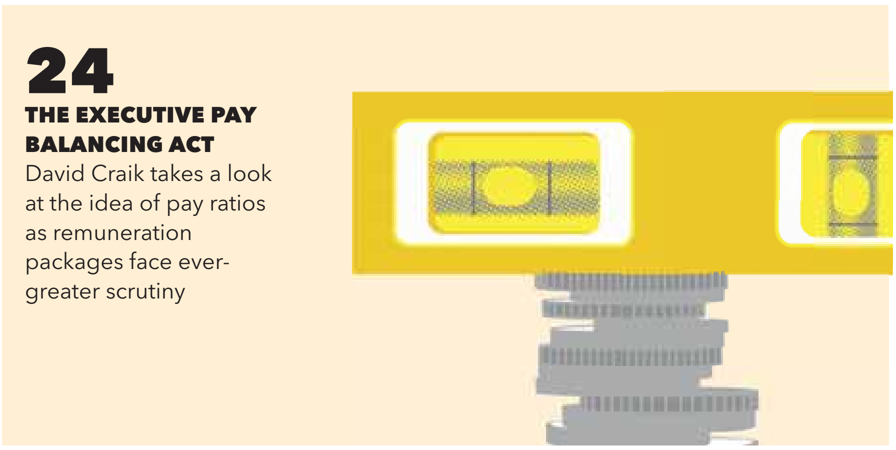

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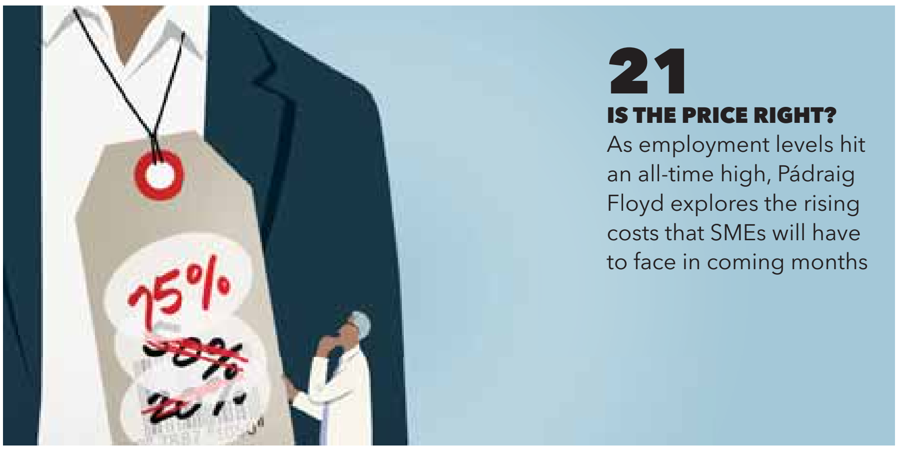

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The faculty is changing

We are delighted to announce that the Finance & Management Faculty is undergoing a rebrand to coincide with ICAEW's new brand launch. The faculty will be known as the Business & Management Faculty. You will notice the magazine title will also change in May to reflect this and the website titles will also be amended over time.

However, you will still be able to access archive material and our resources using our old name.

Some of you will remember when the faculty was created in 1992 to provide support for finance directors in business. We chose the name the Finance & Management Faculty as the range of our remit was so broad that it covered all aspects of business finance, and we sat alongside the only other faculty then in existence, the Tax Faculty.

Subsequent to 1992, five other faculties were created within our space, three of which also use names incorporating "finance" or "financial" in their title. The Financial Services Faculty, Corporate Finance Faculty, Financial Reporting Faculty, IT Faculty and Audit & Assurance Faculty have each found their niche over time, while we have moved much more into the business space.

A meeting of the Finance & Management Faculty Committee on 24 February 2016 unanimously requested a name change from the Finance & Management Faculty to the Business & Management Faculty. The committee was firmly of the opinion that a name change was essential to better reflect the content of the faculty; to better appeal to new members; to better represent existing members' needs and requirements; and to better reflect its purpose, aims and audience.

The Technical Strategy Board approved the name change of the faculty in September last year.

If you have any questions or suggestions for the Business & Management Faculty, please contact robert.russell@icaew.com or stephen.ibbotson@icaew.com

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SUBSCRIPTIONS
Annual membership of the faculty costs from £96 a year. For more information and to join see icaew.com/fmjoin

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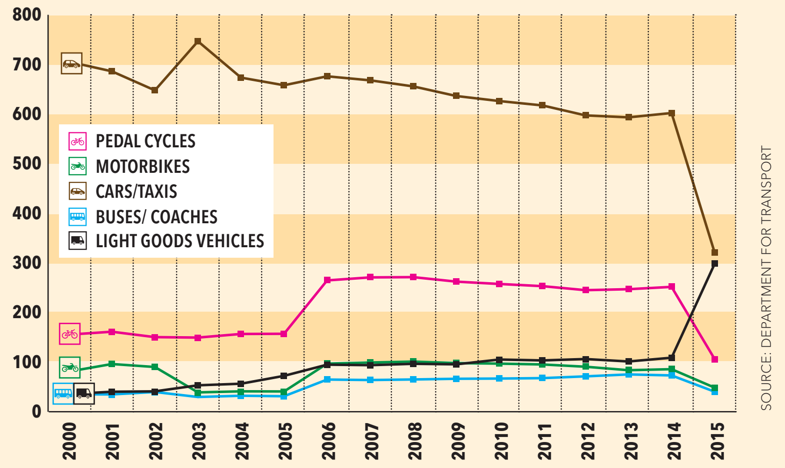
NEWS

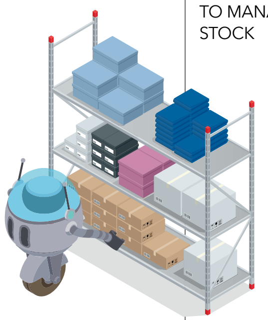
DEPARTMENT FOR TRANSPORT UNVEILS ROAD TRAFFIC SNAPSHOT



The Department for Transport issues road traffic estimates for main roads in UK cities to establish the pattern of traffic. Motorists entering central London in morning rush hour outnumbered cyclists by more than 11:1 in 2000; and 1.7:1 in 2014. This graph shows the total level of traffic between the A3201 and A3200 junctions in Southwark in thousands of vehicle miles per year.

SUPERMARKET TURNS TO ROBOTS FOR STOCK TAKE

Morrisons has revealed a software algorithm from Blue Yonder is driving the management of stock held in its outlets. Three years of past sales data and weather conditions for each store have been analysed by the software. Combined with site-specific weather forecasting, the system can now predict which items should be stocked in each outlet. So far a reduction in stock gaps of 30% has been achieved. According to Morrisons' preliminary results for 2016/17, the algorithm is reducing cost and stock levels, saving time for staff and providing a better offer for customers.



BAN THREATENS BREWER'S RED STAR LOGO

Hungary's governing Fidesz party has introduced a bill banning totalitarian symbols. Businesses using the symbols could be fined up to £5.5m, with employees receiving a jail term.

The draft bill before Hungary's parliament would make it a criminal offence to use the swastika, the arrow cross, the hammer and sickle or the red star for commercial use.

Government officials for prime minister Viktor Orban said it had a "moral obligation" to ban the commercial use of "symbols of tyranny".

Beer giant Heineken may be forced to introduce a new logo as a consequence. The company has incorporated a star logo on its beer label since at least 1833, but did drop the red colouring between 1951-1991 due to the association with communism.

Hungary's deputy prime minister Zsolt Semjén reportedly said the red star in Heineken's logo was "obvious political content". The company has denied this.

Red star logos also famously feature on Italy's San Pellegrino mineral water and Macy's department store in the US.

1K+

NUMBER OF TRANSACTIONS IBM'S LATEST BLOCKCHAIN SOFTWARE CAN PROCESS IN ONE SECOND

30%

REDUCTION IN STOCK GAPS IN MORRISONS SINCE USING A SOFTWARE ALGORITHM TO MANAGE STOCK

£7.04

THE AVERAGE AMOUNT OF POCKET MONEY IN THE UK IN 2017, THE HIGHEST LEVEL FOR 10 YEARS

FIRST STEP IN BLOCKCHAIN APP BUILDING SERVICE

IBM has launched a managed service so businesses can build cloud applications using IBM blockchain software, using Hyperledger Fabric v1.0 code base. The US technology company announced that its blockchain software is aimed at SMEs, processes more than 1,000 transactions a second and can be upscaled for larger organisations. The company added it is building a digital identity network in partnership with SecureKey Technologies and a group of Canadian banks – Bank of Montreal, Royal Bank of Canada, Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Toronto-Dominion Bank.

Technology companies and professional services firms have been ramping up their investment in blockchain as they race to capture market share.

CHILDREN'S ALLOWANCES UP 7%

Pocket money in 2017 is at its highest level for 10 years, according to the annual Halifax pocket money survey of 1,203 children and 606 parents. Parents are handing out an average of £7.04 a week, 7% more than the £6.55 average in 2016. But two fifths of children (41%) think they should be getting more and some 15% believe that they receive the same monetary amount as their parents had done 30 years ago. Pocket money peaked in 2005 at £8.37.

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EVENTS & WEBINARS

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EVENTS
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ECONOMIC SNAPSHOT AND THE BREXIT EFFECT

22 May 18:00 – 20:00 (registration starts 17:30) Chartered Accountants' Hall, Moorgate Place, EC2R 6EA

Dr Stephen Davies, head of education at the Institute of Economic Affairs, joins us for a update on UK and global economies in a post-Brexit environment. We will also explore the possibility of growth through exports as well as hear an update on the macroeconomic state of UK finances.

To book a place, please visit icaew.com/fmfmayevent

WEBINARS
ICAEW.COM/FMFWEBINARS

FREE 20-MINUTE LUNCH WEBINARS

IP FINANCE TOOLKIT AND DISCLOSURES

26 April 12:30 – 12:50

Intellectual property is a hidden asset for many and should be explored. David Hopkins of the Intellectual Property Office (IPO) rejoins us to run through his second practical FD's guide to business intellectual property (IP). This seminar will look into how to identify the IP within a business and discuss forms of licensing. David will also look at methods of valuation of IP (trademarks, patents, designs and copyright) and highlight the free online tools the IPO can offer.

To book a place, please visit icaew.com/lunchapr

DIRECTORS' DUTIES AND OBLIGATIONS

10 May 12:30 – 12:50

Company directors have a multitude of legal duties and responsibilities that they must comply with. In this webinar Neil Butler from Companies House will discuss the role of company directors and run through their legal obligations.

To book a place, please visit icaew.com/lunchmay

STATS FOR BUSINESS – SHOULD YOU BE DRUNK OR SOBER WHEN ANALYSING TRENDS?

28 June 12:30 – 12:50

Nigel Marriot, chartered statistician at the Royal Statistical Society, discusses the importance of statistics and explains how they can assist in financial business decision-making. Autocorrelation is a key tool in trend analysis and Nigel will demonstrate a simple mechanism for deciding whether to be sober or drunk when projecting future trends.

To book a place, please visit icaew.com/lunchjun

GOVERNMENT ACCOUNTING – COOKING THE BOOKS?

13 July 12:30 – 12:50

Ross Campbell and Martin Wheatcroft will cover how government accounting works, why cuts to budgets do not necessarily lead to spending reductions and how the Treasury manages to issue different numbers without apparently contradicting itself. You will also learn the difference between AME and TME and the basics of government spending.

To book a place, please visit icaew.com/lunchjul

FREE 60-MINUTE MORNING WEBINARS

BUSINESS VAT UPDATE

17 May 10:00

VAT has been with us since 1973 but it does not seem to get any easier. This practical update on VAT, presented by VAT expert Neil Warren, is aimed at SME businesses and will include:

- updates on EU sales and EC sales list filing;
- quick review of how to avoid the most common mistakes in accounting for VAT; and
- update on VAT legislation and tribunal rulings.

To book a place, please visit icaew.com/fmfmaywebinar

HIDDEN VALUE – CUSTOMER ENGAGEMENT

6 June 10:00

The key to success with stakeholders (including customers) is shifting from servant to real partner relationships with them. In this way, you build a peer-to-peer relationship from the first meeting. This webinar will demonstrate how you can stand out and build solid partnerships with your key stakeholders.

To book a place, please visit icaew.com/fmfjun2webinar

CYBER SECURITY – REDUCING THE RISK OF SECURITY BREACHES

13 June 10:00

Cyber security to prevent unauthorised access to your data is of increasing importance as business and individuals face daily threats to their systems. Mark Taylor of the IT Faculty presents tips to reduce the risk of a computer attack and runs through some simple steps to ramp up your online security.

To book a place, please visit icaew.com/fmfjunwebinar

ON THE ROAD TO NOWHERE...

Nina Bryant unearths ways to take the pain out of commuting that do not involve a change of job

The house price boom of the past 20 years has coincided with a rise in long-distance commuting. According to TUC research, the number of people commuting for two hours or more has exceeded three million - a 72% rise in 19 years - and those commuting for three hours-plus was up by 75% to 880,000. The problem increasingly afflicts the world's most developed communities as cities continue to grow.

The cliché of the stressed-out commuter has long had a basis in fact. Academics at UC Irvine in the US have been studying the effects of commuting since the 1970s, and concluded that it has an adverse health impact. However, one study in the 1990s found carpooling reduced commuter stress levels. The cohort, who all travelled 15 miles or more, recorded lower blood pressure and performed better in mental tests. Carpooling has other benefits too: shared petrol cost, reduced carbon footprint and meeting new people.

SMOOTH RIDE

Fast forward 20 years and technology has transformed carpooling. While some arrange it in the workplace, others use social media and online platforms, such as Bla Bla Car, Carbon Heroes and GoCarShare. Liftshare also runs National Liftshare Week every October and offers a corporate service, which has been used by companies including Jaguar Land Rover, Diageo and Ocado. Businesses can encourage a wider applicant base for job vacancies with efficient travel options.

Cycling has been cited in a recent McGill University paper in the journal *Transportation Research* as the most energising mode of transport and the least likely to result in lateness, following research with 5,000 people in Montreal. Cycling's popularity is evident in London, where government has invested heavily in segregated cycle superhighways. Cycles form a quarter of the capital's peak traffic on certain routes; Transport for London has recorded 500,000 daily bike journeys.

Staff incentives, such as Cyclescheme and Bike2Work, may help explain this trend. Workers can buy a new bike in 12 monthly instalments taken directly from their salary before tax and NI deductions. Employees save about 25% on the cost of the bike; and employers benefit by paying lower NICs. For employer guidelines, see tinyurl.com/GOV-BikeScheme

This is not the only employee benefit model - subsidised gym memberships encourage workers to exercise, which increases dopamine and serotonin levels that help them avoid energy slumps. More extensive packages are offered by companies such as Perkbox, which provides discounts on gym memberships, massages, healthy eating plans and activities, as well as home office and electricals. Helping staff use their free time more efficiently could help them feel the commute is less of a burden.

OFF THE RAILS

While stress levels experienced by Southern Rail customers may be extreme, frequent delays test the patience of UK commuters on 1.3 billion journeys a year. Since rail journeys have more than doubled since the mid-1990s, commuters are unlikely to find an alternative without changing jobs.

So what can be done to improve a public transport commute? For many, technology has become their saviour, allowing them to work (if they are lucky enough to get a seat), stream TV, films and music, or listen to podcasts and audiobooks. There are also apps such as Headspace, which tutors its followers through a series of mindfulness exercises; accountancy support service CABA has its own wellness app and dashboard to help people monitor their health on the go. Your commute could be an opportunity to learn a new language, with the likes of Babbel or Memrise.

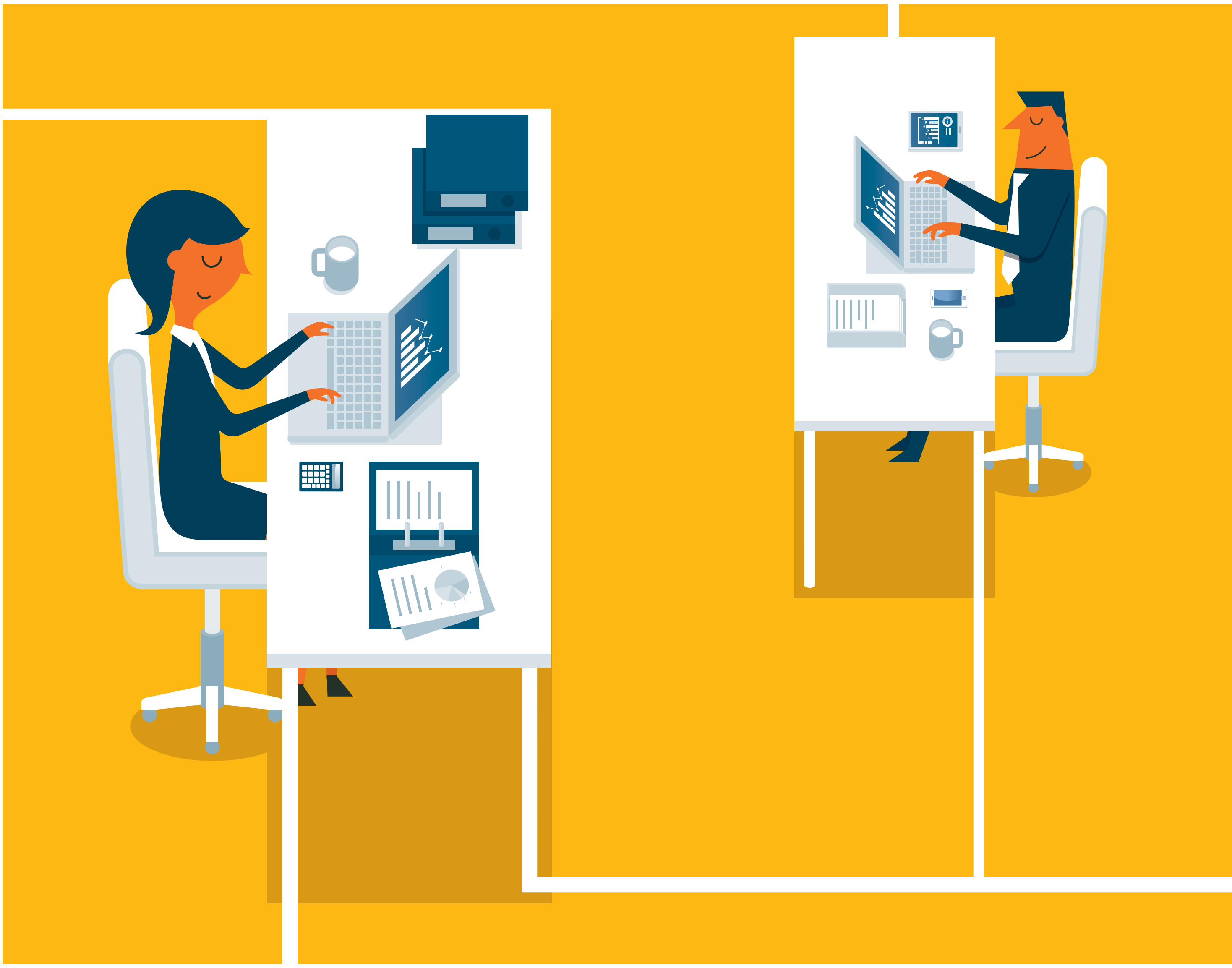
HOME COMFORTS

Since 2014, employees with 26 weeks service or more have the right in UK law to request flexible working - though employers are not obliged to say yes. Improved internet speeds and workplace use of cloud technology has prompted people to query the nine-to-five routine, especially where commuting extends the working day. A survey conducted by recruiter Jobsite found that more than a third of employees cite flexible working as the most important attribute in an employer, and nearly two thirds of businesses believed flexible working is good for business and employees.

As well as enabling people to work from home, flexibility can include compressed hours - eg working a longer four-day week or a nine-day fortnight - job share requests and staggered starting times.

For details on flexible requests, see tinyurl.com/ACAS-Flex or tinyurl.com/GOV-FlexWork ●

OTTO STEININGER/IKON



MORALE MATTERS

With annual appraisals giving way to continuous coaching, **Matias Rodsevich** offers insight on how keeping staff cheerful is good for business

It's not surprising that the term company culture is used more often today. Most employees don't just want a job, but a community as well. A survey by Google in 2015 found 88% of respondents who strongly felt their company culture fostered collaboration and knowledge-sharing also reported high morale and job satisfaction. It's clear that company culture isn't something to be ignored.

Maintaining a great culture can make a difference to an organisation. A culture that makes your current team happy and attracts the best recruits also makes for a motivated, passionate and successful team. Using web-based and mobile tools (such as the solutions that we offer at Impraise) lets you offer staff feedback when it counts, rather than just once a year during an appraisal. But what else can you do to keep your company culture on top?

FIND GOOD PERSONNEL

While hiring, it's key to determine what kind of people you're bringing in. Proficiency in their role is important, but it's also important to consider how new starters will integrate. If someone is fantastic at their job but rude to co-workers, doesn't communicate well or align with your values, they won't be a good fit. Ensuring you get to know potential recruits during the interview and the early days of their integration into the business will make the difference between having a workforce made up of individuals and one that works collaboratively, supports each other and enjoys time spent in the workplace.

RECOGNISE & APPRECIATE

Making people feel valued and recognising their achievements, big or small, is key practice for a workplace where people are engaged and happy.

GETTY

People are far more motivated when they feel their manager appreciates their efforts. It doesn't stop with management though. Simple practices that encourage people to give praise and recognition to their peers can make a world of difference in terms of people's morale.

For example, at Impraise, recognition is ingrained into our culture. We hold weekly 'cheers for peers' on Fridays where people can anonymously give a shout-out to anyone they feel deserves the spotlight. It's a great way to end the week on a positive note and show appreciation for the little things.

KEEP IT PERSONAL

Everyone spends a large amount of time at work. So it may as well be an environment that works for all. Having an open plan office is a great start: it makes for better communication among team members and fosters collaboration. Encouraging employees to personalise their workspace so it is somewhere they feel at home is a great next step. Having a unique, positive workspace with pictures, plants or personal items raises the mood of staff and lets them know they work somewhere that acknowledges they are people, not just employees.

"The benefits aren't just for employees: global workplace provider Regus found a 70% increase in productivity for companies with flexible working practices"

KEEP IT ONE TO ONE

While using tools is a great way to implement regular feedback, it's also important to keep the conversation going face-to-face. Talking openly with people about their role in the company can highlight how things are going and anything they would like to change.

Personal meetings are a great way to connect with team members, have open conversation and keep the feedback flowing. Taking time to hold a quick weekly meeting with each person in your team shows you care and are interested in them as individuals. Such meetings make sure any concerns are addressed, general progress is discussed and strong relationships exist with each team member. Having this opportunity for two-way feedback is very important.

FLEXIBILITY IS KEY

Many modern employees increasingly see flexibility as one of the biggest factors affecting their life at work. With more and more of the workforce comprising millennials, flexibility is regarded more highly, and drives retention, engagement and productivity. The benefits aren't just for employees: global workplace provider Regus found a 70% increase in productivity for companies with flexible working practices. Allowing people to work remotely, finish their day early for errands, or even have more flexibility within their role (with opportunities to pitch ideas and have more autonomy) will make a huge difference to employee engagement. If people feel valued and can easily integrate their working day into their lives, they will likely feel more positive about their workplace, and appreciate the trust and flexibility bestowed upon them.

KEEP REMOTE STAFF INVOLVED

Remote working is becoming increasingly common. But this shouldn't have a negative impact on your organisational culture. While it may be easier to build great team morale and keep everyone on the same page when everyone is in one space, there are many ways to make sure your team stays connected while working from different locations. Slack, a team collaboration tool (also recommended in *F&M* March 2016), means everyone can instantly communicate as individuals, teams or a company. Everyone can stay on the same page, ask for quick favours or collaborations and share jokes, chats and schedule activities and events without interrupting daily workflow too much.

Trello features a great initiative with its 'coffee meeting' system: whether staff are remote or not, each week optional meetings are set between employees selected at random so they can chat over coffee or on video-call, ensuring people connect outside of a work context. ●

The Google survey from 2015 can be found at tinyurl.com/F-M-GooSur

Matias Rodsevich, global PR manager, Impraise, which provides web-based and mobile solutions for real-time staff feedback
Impraise.com

A CRIMINAL MIND?

With no sign of corporate accounting scandals diminishing, Michelle Perry asks how accountants can stay on the right side of the law

Whenever an accounting scandal crops up – and they seem more frequent despite stricter rules – it is usually the chief financial officer's head that rolls first, but not always. In the recent case of an earnings overstatement at BT Italia it was BT's Continental European operations boss Corrado Sciolla who resigned as BT shares closed 21% down on the day the news broke. The telecoms giant had to admit in January that the company would have to write down £530m, more than treble the initial estimate of £145m last October, because of historical accounting errors at its Italian operations.

A PERSISTENT PROBLEM

The list of accounting scandals across the corporate world in the past 20 years is unenviably long, but given that accountants hold the purse strings many would argue it is perhaps inevitable that a few rotten apples crop up. After the headline-grabbing accounting scandals of Enron, WorldCom and Tyco International in 2001/02, regulators and the profession tightened up the rules amid much self-flagellation. Yet just 10 years later, Hewlett-Packard wrote off 80% of its $10.3bn purchase of Autonomy, accusing the British software company at the time of misaccounting. The ensuing legal dispute between the two parties will not be settled in court until next year. While in 2014 Tesco – the UK's biggest retailer and the world's third largest supermarket – found itself embroiled in an accounting scandal in which it had overstated earnings by £263m.

In the intervening years since Enron, few incidents of corporate fraud have been on quite the same scale, but they have stubbornly refused to disappear. The 2008 financial crash may have diverted people's attention away from accountants and on to bankers. Nonetheless, it didn't go unnoticed that most auditors gave banks a clean bill of health before the crash.

How do finance teams and their CFOs find themselves in these predicaments? It is not always a question of corporate fraud, it is often as much error or incompetence as pushing the boundaries of accounting rules

REPORTEDLY ON THE RISE

Gavin Williamson, partner in BDO's forensic practice, says it's likely that the reason corporate fraud hits the headlines more these days is because companies are reporting it, rather than a case of more crime. As for whether financial crimes can be stamped out, Williamson is philosophical. "While there is still crime in society, there will still be crime against companies," he says.

So how do finance teams and their CFOs find themselves in these predicaments? It's important to note that it is not always a question of corporate fraud, it is often as much error or incompetence as pushing the boundaries of accounting rules. However, Williamson says: "It's not that difficult to determine if it's fraud or error. Nine times out of 10 the conspiracy is set out quite clearly in evidence."

ETHICAL THINKING FROM THE START

Ethics is more than just knowing the rules around confidentiality, integrity, objectivity and independence. It's about identifying ethical dilemmas, understanding the implications and behaving appropriately. ICAEW integrates ethics throughout the ACA qualification to develop students' ethical capabilities.

Students are also required to complete an online Ethics Learning Programme, a devolved assessment and discuss their ethics progress with their employer or principal at six-monthly reviews.

The online learning programme is based on the ICAEW Code of Ethics (tinyurl.com/ICAEW-Ethics-Code) to help accountants get to grips with the ICAEW's ethical framework and practice how accountants would respond to an ethical situation. Once accountants have worked their way through each of the six modules (and the accompanying Practising Ethics webinars), they are required to complete a devolved assessment – to do so accountants must obtain approval from their employer or principal to attempt it.

"Ultimately an intelligent and determined wrongdoer may be adept at covering their tracks and seek help in doing so. But an open culture can make misconduct more difficult to conceal"

THE REVENUE TRAP

For some companies, one challenge is posed by how and when to recognise revenue. In the case of Tesco and BT, investigations uncovered anomalies with booking revenues. In Tesco's case it had overstated the rebate income it would receive from suppliers. Stuart Burns, forensic accounting partner at accountancy firm HW Fisher, says: "If you recognise revenue early before you do the work then you are bolstering your turnover, flattering your profit and loss account. [Revenue recognition] is about how you attribute turnover to a given period."

Burns says a company could be recognising revenue on a received basis, but if that policy were to change during an accounting period, it could distort or obscure the financial picture of a business. This could be executed intentionally or mistakenly, but the outcome would be the same – a skewed picture of a business misleading shareholders, employees and other stakeholders.

DEVIL IS IN THE DETAIL

Sometimes the accounting anomalies are intentional. In Enron's case, the global energy trader's purposefully complex accounts hid huge debts off balance sheet. As soon as these debts were recognised the company crumbled, wiping out $74bn in shareholder funds, pensions and jobs. "Unnecessary complexity can sometimes be an indicator of something untoward, so businesses should be alert to this. Ultimately an intelligent and determined wrongdoer may be adept at covering their tracks and seek help in doing so. But an open culture can make misconduct more difficult to conceal," says David Stevens, ICAEW integrity and law manager.

In other cases, key management members sought to blatantly rip off shareholders and pensions funds. In 2005, former Tyco CEO Dennis Kozlowzki was convicted of stealing nearly $100m from the company and sentenced to a maximum of 25 years behind bars, although he was freed on parole after eight. But he could not have achieved the deception for so long without the help of his right-hand man Mark Swartz, Tyco CFO from February 1995 to September 2002. He too was convicted in 2005 for defrauding shareholders and jailed before later being released on parole in 2014.

Since these initial scandals hit the headlines the accountancy profession and its overseers have worked to instil a more ethical culture based on principles. The initial clarion call from accountants in the wake of Enron was that 'it couldn't happen here' because the UK has a principles-based system and not a rules-based system like the US. Unfortunately, Tesco and other British cases suggest otherwise. Nonetheless the ethics of business has remained a mainstay of accounting training and tighter rules place greater accountability on CFOs and FDs to consider their ethical duties.

ICAEW's ethics department has developed a *Real Integrity* report, which can be found at tinyurl.com/ICAEW-Ethics, that outlines a framework for instilling integrity in organisations. One of the mechanisms is creating an open culture, where problems can be shared without fear of blame. Confidential whistleblowing channels are also recommended.

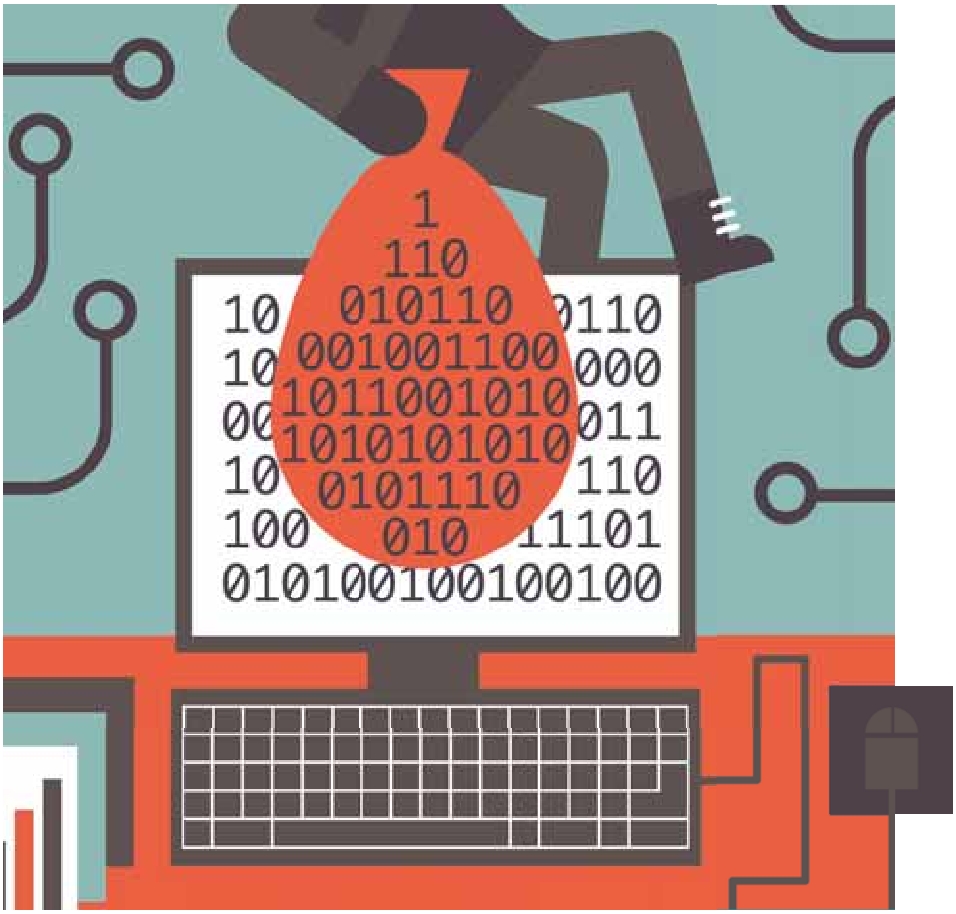
UNCOVERING THE FRAUDS

Accounting scandals are often uncovered by happenstance and this is why they can continue for so many years. If, as is often the case, someone from the finance team is complicit in the misconduct then it can be hidden away because they are the gatekeepers of finance and have the knowledge of how to obscure the true financial picture. This is why robust internal controls and procedures should be in place and monitored. Burns says often a suspicion is raised by a transaction that is seemingly inoffensive because perhaps an individual goes on holiday, is on sick leave or leaves the company. That is typically when management calls in forensic accountants to investigate further or help build a case against an individual.

Philippa Hill, director in forensic and investigations at Grant Thornton, says there are basic steps businesses can take to minimise risk of fraud or other financial crimes. A recent case she worked on found that a financial pensions administrator had siphoned off £500,000 over a number of years. It went undetected by auditors because the pension fund was huge.

Hill says there were obvious weaknesses in the internal financial controls because the individual was unsupervised and banking controls

"Something might start as an oversight or a minor adjustment. In many cases where criminality emerges, there will have been an ethical breach earlier in the timeline"



were equally weak. "People will take opportunities that present themselves, and not necessarily for monetary reasons. Often it's simply to hide their own incompetence or to protect themselves," Hill says.

Stevens concurs on this point: "Escalation can be an issue. Something might start as an oversight or a minor adjustment with the promise of supporting documentation at a later date. However, oversights can then be followed by a covering of tracks and minor indiscretions can quickly escalate into major ones. In many cases where criminality emerges, there will have been an ethical breach earlier in the timeline."

NO ONE IS IMMUNE

One of the biggest obstacles to prevention, Hill says, is in persuading companies to implement tighter controls or new processes and systems as they grow because their risks change as the company evolves. There is always the thought that 'it won't happen to me', she adds.

"Changing the culture of a company is often difficult. Improved governance is a cultural change that comes with the evolution of a business," Hill says. When corporate accounting scandals hit the headlines it is never long before the spotlight turns on the auditors. In 2001 the Enron debacle brought down its auditor Arthur Andersen, one of the then Big Five accounting firms. Companies may consult with their auditors first, but management may chose to avoid calling in their auditors due to them being conflicted because of their audit work.

In defence of auditors, Burns, a former audit partner, says that by the nature of their work - sampling transactions - it is easy to miss transactions that would have alerted them to a problem. Because of how they operate they aren't going through the minutiae of transactions so unless there's massive collusion it would be difficult for auditors to find, Burns says.

There is little management can do about human nature, but boards can ensure robust internal controls and strict procedures and systems are in place to guard against temptation or error for those who hold positions of financial management or control. A strong ethical message from the top of organisations will also help to ensure staff understand the right way to do things. ●

THE BEST OF ALL WORLDS

From robotic process automation to artificial intelligence and cognitive augmentation, workplace automation promises to reinvent finance and management. Jon Bernstein examines whether the revolution will lead to integration or replacement

Not all robots are created equal. While some repeat, others reason. There are robots that industrialise existing tasks to order, speeding up the process and eliminating error. And there are robots that analyse and interpret, capable of decision-making within the constraints of their artificial intelligence (AI). Across this spectrum, much of the talk is about robots that reason, while the focus of reality is on repetition.

Welcome to workplace automation. Hugely politicised, it is often presented as a danger to every existing blue and white collar job, or even as an existential threat to life as we know it. While potential upheaval shouldn't be underestimated, less is written about the practical advantages of implementation – advantages that might be realised by today's FDs and CFOs.

"There isn't a CFO out there who doesn't want to speak to us about robotics," says Brid Meaney, leader of the finance management advisory practice at KPMG. "Most finance functions spend 50% of their effort doing compliance, filling out statutory returns. If they're lucky they spend 25% of their time and effort helping the business side to make more money, identifying what's making money, what products they should stock, what a difference in pricing would make – proper business partnering.

"What everybody wants to do is radically reduce that production spend."

WORKING IN HARMONY?

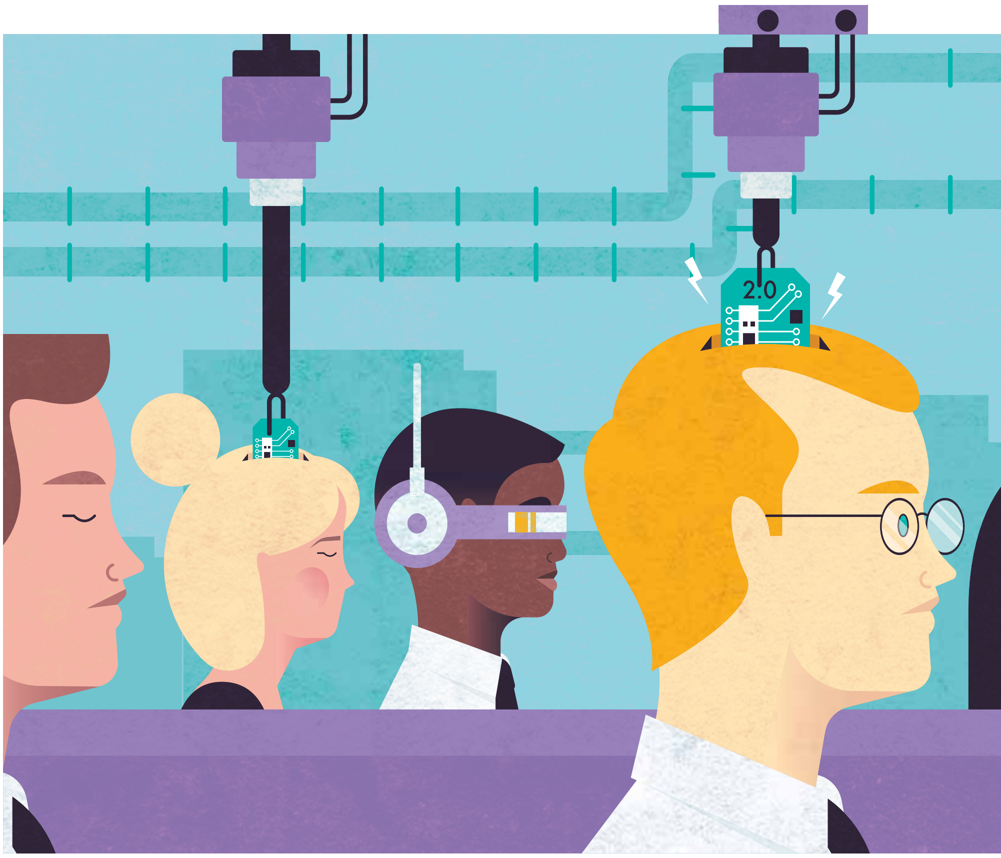
In the first instance that means robotic process automation (RPA) where jobs are regular, routine and repeatable. In their recently published book, *What To Do When Machines Do Everything*, Malcolm Frank, Paul Roehrig and Ben Pring identify four areas ripe for process automation, namely assignments that: are highly repetitive; have low demand for human judgement; require low levels of empathy; or generate and handle high volumes of data.

Apply this to tasks typically carried out by back-office finance or middle-office insurance and it is easy to find likely candidates. In the back office, areas that could be automated would include order management; accounts payable and invoice processing; and auditing. In the middle office: fraud detection; agent onboarding; and risk compliance.

Automation brings greater freedom from mundane tasks. Additionally, it allows businesses and their staff to explore other areas of interest that require greater empathy and reasoning, although this may involve investment. For example, Accenture mechanised 17,000 back-office processing jobs in the past 18 months without laying off a single member of staff. "Automation helped us eliminate lots of boring and repetitive tasks for workers," Richard Lumb, group chief executive of Accenture's financial services unit, told attendees at the World Economic Forum in January. Lumb conceded that not all organisations would be able to redeploy staff in this way, but added: "Since we take the approach of augmenting [human staff] with automation, it actually helped eliminate more menial work and boosted productivity for staff."

Sam Boothroyd recognises these benefits too, albeit on a smaller scale. He is the founder of online accountants

Rymer Associates and uses a piece of subscription-based software called AutoEntry that plugs into Sage One automatically uploading and segmenting invoices and receipts. Rymer manages around 1,500 invoices for clients every month and automation saves the firm the equivalent of one annual salary. "As a small business, that's huge," Boothroyd says. "It means I'm used as an accountant rather than a data entry person."



A SMARTER APPROACH

Not all of robotics is about automation however – the next step involves deploying AI and taking advantage of cognitive robotics. "If you are scraping data then, yes, you can use RPA," notes Meaney. "But you might be able to use [workplace automation] to interrogate the data or use cognitive techniques to produce the first draft of a report."

For authors Frank, Roehrig and Pring, artificial intelligence "is an area of computer sciences that focuses on machines that learn". It's a definition that deliberately centres on what machines do really well, without trying to replicate what humans already do well. Moreover, it is a recognition that AI-inspired technologies should not be obliged to follow imperfect human processes. Workplace automation lets organisations rethink conventional methods of task and function. Most implementation and experimentation today is around single-focused, narrow AI. As Frank, Roehrig and Pring put it, narrow AI "is purpose-built and business-focused on a specific task". All-encompassing super AI will have to wait, for now.

AI technology is still in its infancy, and some way from being seen in any more than a few specialist companies. However, as Kirstin Gillon, technical manager for the IT Faculty, notes: "AI is much more credible and closer to full exploitation than blockchain, for example." Although the term is used loosely, elements of AI have already been brought to bear in areas such as claims management.

For example, Japanese insurance company Fukoku Mutual Life Insurance began implementing IBM Watson Explorer AI to scan and process claimant documents and determine insurance payouts. It anticipates productivity improvements of 30% and a return on investment in two years. Elsewhere the Swedish bank SEB is using cognitive technology in customer service and an internal IT service help desk, while robo-assistants help with customer queries at the Royal Bank of Scotland.

To assess automation benefits, Indian IT outsourcing firm Infosys commissioned Vanson Bourne to survey 1,600 senior business decision-makers across Asia, North America and Europe already using AI. They reported expecting revenues to increase by over a third and for costs to drop similarly within the next five years.

CASE STUDY: FARMERS REAP THE BENEFITS OF AUTOMATION

Woldmarsh is a buying collective made up of over 1,000 farms across England that together generate revenues of more than £100m. Together these farms have scale and that means purchasing power when buying anything from fuel to fertiliser.

A membership organisation, Woldmarsh keeps its back-end costs down through automation. Using financial software from V1, it processes 19,000 invoices on behalf of the farmers each month. Each invoice is automatically scanned, the data intelligently captured and then uploaded to a web-accessible management interface.

"We manage the invoicing and the farms get all the data making it easier than ever to understand the exact cost of goods against the yield," explains Hazel Copeland, chief financial officer at Woldmarsh. "For example, for wheat, the prices of seed, the fertiliser, any chemicals used, can be automatically captured in the farm's management information system and it's easy to work out the cost per yield."

There are other benefits of automation, says Copeland. It reduces error rate and because there is less paperwork it frees up more physical storage space in each farm house. "We are already seeing efficiencies, greater control and effectiveness from the use of technology."

THE WHOLE IS GREATER...

Key to getting the adoption of workplace automation right, says Meaney, is to be as holistic as possible: "If everyone does their own thing you end up with a plethora of robots with little benefits. Just be very brutal about what the outcomes should be." Beyond that it is a question of detailing the processes within the current finance function before assessing how they might be automated end to end. "Try not to replicate the current processes because that often doesn't deliver true benefit," Meaney advises.

Workplace automation is often easier for small and medium-sized enterprises to adopt, Meaney explains, because they have fewer legacy systems and processes. "The small organisations have an

ILLUSTRATION: JOSH PATTERSON

"Since we take the approach of augmenting [staff] with automation, it helped eliminate more menial work and boosted productivity for staff"

advantage because they can start now," she says. "As a small business why would you let it get piecemeal? Why wouldn't you design it in the most optimal way?" Larger organisations that may have thousands of staff within the finance function can only look on enviously.

Ultimately, and paradoxically, workplace automation is about people. "Automation isn't about the technology, it's actually about cultural change," Meaney says. "What does a good process look like? What does a standard process look like? How do we automate it end to end? That's all about cultural change." For the finance function, which makes much of its strong 'technical' expertise, such cultural shifts can be uncomfortable.

JUDGEMENT DAY

Regardless of the specifics of a workplace automation implementation, there will be challenges along the way. Among them are issues of staffing and reskilling, integration and conflict. On the latter point, what happens when two robots present competing judgements? Which do you choose? Which algorithm do you re-engineer?

There's a human-robot integration issue too. While a robot assistant promises the human worker augmented intelligence – witness advances in the pharmaceutical industry, for example – the relationship remains open to logic-empathy conflicts. The morality-free robot will need to be kept in check.

There are other challenges too. For example, CFOs need to avoid falling foul of the regulator. The forthcoming EU General Data Protection Regulation – due to come into force in May 2018 – provides safeguards for individuals against the risk that a potentially damaging decision is taken without human intervention. If the operations of a specific financial function constitute automated decision-making, a firm may be in breach of the regulation in certain circumstances – for example, profiling against performance at work, economic wellbeing or health. In some circumstances wholly automated decision-making is authorised by law – think fraud or tax evasion. In most other cases it will require explicit consent.

One final thought for the CFO. If automation replaces the human at the levels predicted, then how will government's make up the shortfall in income-derived revenue? Or to put it another way, should robots pay taxes? It's certainly an idea that is being considered. Earlier this year the European Parliament debated a proposal for a tax on robot owners. Although it was rejected this time, the idea has at least one high-profile supporter.

Microsoft founder Bill Gates believes revenues from a tax on automation should be used to retrain human workers in areas where robots are unlikely to reach, such as health and child care. In February, Gates told *Quartz*: "Right now, the human worker who does, say, $50,000 worth of work in a factory, that income is taxed and you get income tax, social security tax, all those things. If a robot comes in to do the same thing, you'd think that we'd tax the robot at a similar level." For the CFO mulling over the benefits of workplace automation, it's just one more issue to consider. ●

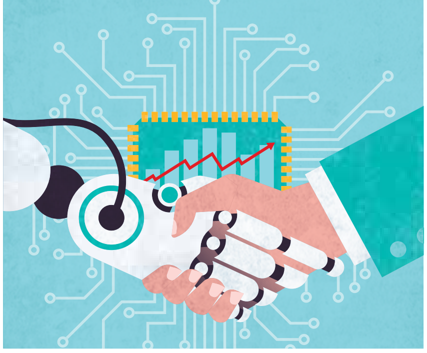
HOMO SAPIENS 2.0

Coming soon(ish) – next generation human. This is the machine-augmented worker able to process the company accounts without recourse to a spreadsheet, detect fraud instantly and weigh up the merits and demerits of an acquisition in a fraction of a second.

The idea of merging human capability with technological possibility is being taken very seriously by some. Tesla founder Elon Musk, for one, insists that the future of the human race depends on a fusion of digital and biological intelligence. For Musk the biggest problem that needs to be solved is bandwidth, the differing speed of human and computer communications. Where the latter can, according to Musk, process at a trillion bits per second, speaking and typing limit humans to speeds of barely 10 bits per second. In remarks reported by CNBC in February, Musk predicted that a high bandwidth interface to the brain might solve humans' "usefulness problem".

It's an idea explored by Israeli historian Yuval Noah Harari. In *Homo Deus: A Brief History of Tomorrow*, Harari presents three stages of human-machine integration from rewriting genetic code and rewiring brain circuits, to merging the organic body with non-organic devices and, finally, to the replacement of neural networks by intelligent code.

It's a world where data becomes the new religion or "Dataism". This, Harari writes, "collapses the barrier between animals and machines and expects electronic algorithms to eventually decipher and outperform biochemical algorithms". Rather prosaically, it allows for greater efficiency and, at least at first, to augment machine with human. And what about those left behind, the so-called "neanderthal hunter in Wall Street"? Perhaps, Harari suggests, a life of drug-induced virtual reality.



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THE PRICE OF EMPLOYING

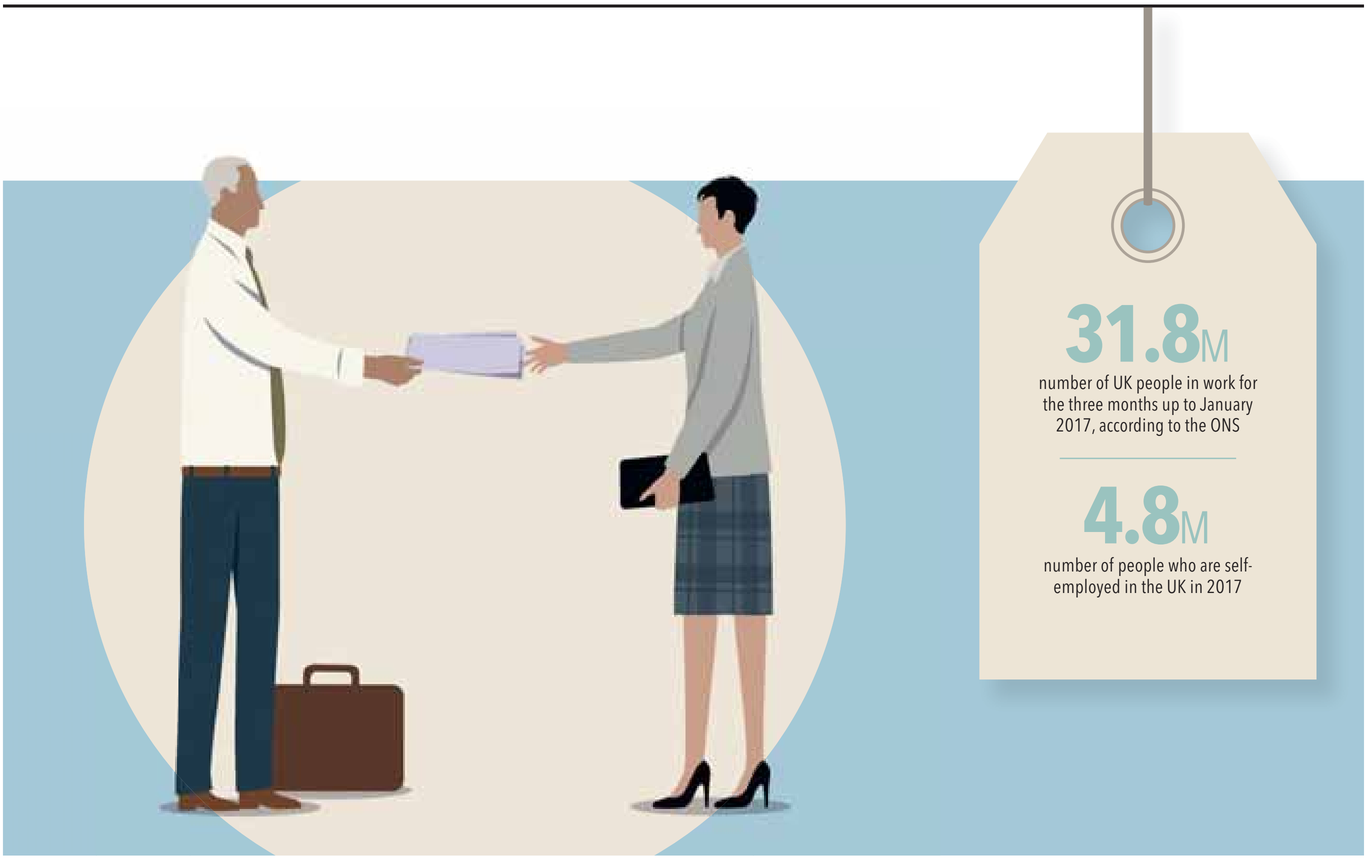
The number of those in work may be at an all-time high, but the costs of employment are giving business a headache, reports Pádraig Floyd

The financial crisis may still feel as fresh in everyone's minds as it did in 2008, but in employment terms it is a world away.

The Office for National Statistics' labour market bulletin for last month put the number of UK people in work for the three months up to January 2017 at 31.85 million, 302,000 higher than a year earlier. At 74.6% of the working population, this is the joint highest rate of employment since comparable records began in 1971. And the last time it was at 74.6% was December 2016.

Although undoubtedly good for the wider economy, there are other factors also on the rise - and the most notable one is the cost of employment.

Just prior to the Spring Budget, the Federation of Small Businesses' (FSB) chairman Mike Cherry was warning that rising costs would put the stability of UK employment at risk. Championing small



"Instead of being able to employ someone on £50,000 a year, I have to pay a contractor rate that equates to £130,000. This makes it expensive to hire consultants and contractors"

businesses that employ the "majority of the private sector workforce", Cherry said: "Government policy changes will drive up employment costs for the average FSB employer by a staggering £2,600." He cited pension auto enrolment and the rise in the national living wage (NLW) as two underlying reasons for the increase. One solution, according to Cherry, would be for the government to build upon the success of the employment allowance, which reduces employers' national insurance contributions.

DO IT YOURSELF

Another employment landscape success story since 2008 has been the explosion in self-employed workers - now comprising 4.8 million people, which represents 15.1% of the working population. The drive to be freelance has undoubtedly appealed to some - those caring for children and easing themselves out of full-time work, for instance - while helping fuel the 'gig economy' where temporary positions are common and organisations can engage independent contractors for short-term projects. For all the flexibility this may bring workers and companies, two recent cases have highlighted the perils of building businesses around the self-employed.

The first in October saw an employment tribunal determine that Uber's 30,000 London drivers were in fact not self-employed, but workers and entitled to minimum wage and holiday pay. The second will see the employment status of Deliveroo delivery riders decided at a tribunal in May. Though these may disrupt the disruptive business models of Uber and Deliveroo, it hasn't changed the law. Employers are still required to determine whether an individual is a contractor or in fact an employee. And the difficulties - not to mention the fines - increase exponentially when workers are brought in from overseas (see *Tier two visa woes*).

FLEXIBILITY AT A PRICE

Doug Heron, CFO at financial services platform Nucleus Financial, says like many businesses, there will be hotspots that require specific expertise for short periods. But getting the skilled workers in isn't the problem. "Instead of being able to employ someone for £50,000 a year," explains Heron, "I have to pay someone at a contractor rate that equates to £130,000. This makes it expensive to hire consultants and contractors. People talk about companies not taking staff on, but interest rates on mortgages are at an all-time low and there is no pressure for people to go into a nine-to-five role in a blue chip company any more." The other side of flexibility from the point of view of the employer is the number of workers on zero hours contracts is at its highest level. The latest estimates suggest 910,000 individuals now have contracts that call upon them at the drop of a hat, but may not offer any guaranteed employment. The NLW is another statutory employment cost that must be provided to all employees over the age of 25 (except first year apprentices). Resolution Foundation research suggests the number of workers earning the legal minimum is set to nearly triple by 2020 – with around one in seven workers earning either the NLW or the minimum wage if they're under 25. This will require adjustment through payroll, but should not need extra processes to be put in. However, the cost of administration pales into insignificance when the smallest SMEs with fewer than 10 employees are likely to see payroll increases of around 1.5%.

GETTING HELP IN

Additional payroll costs don't end there, as the government's apprenticeship levy comes into force this month, with the first payments due in May. Every employer is required to pay 0.5% of their total wage bill towards the new levy, although an allowance of £15,000 means that only employers with an annual payroll in excess of £3m will actually have to hand over any money.

These changes will require regular additional work, as employers must report to HMRC each month whether they are eligible to make the payment. Katherine Grover, formerly FD at Semafone, a company that develops

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technology for contact centres, took on an apprentice in her finance team because if the business was to be charged, the firm may as well have some advantage. "To be fair, we would probably have had one anyway because it's a very positive thing to do and gives someone a very good start to their career," says Grover. Taking on an apprentice forced changes within the team that she hadn't planned because of the leave needed by the apprentice. It was realised others in similar but more senior roles had never had study leave for their own career progression. "We offered them half a day a week of study time and this has been very well received," adds Grover. However, not everyone is so keen. The levy will cost Heron's firm £65,000 with the *quid pro quo* being eligibility to apply for an apprenticeship. "Whether there is scope for us to play a part in a funded apprenticeship scheme, we do not yet know," says Heron. "But there is in general an excess of demand for fintech talent and so basic apprenticeship terms are unlikely to attract the high calibre we need."

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Heron says, tongue in cheek, that if you were building a business from scratch, you would do everything you could to avoid employing people because changing regulations add complexity and cost to a business. But as the cost of employment administration is rising, so too are the serious consequences for failing to meet regulations. His message to other small businesses is to comply, use experts where they are needed and leave plenty of time to get processes in place: "There are networks, free webinars and clear government guidance notes to help you comply so make use of those." Grover agrees, adding: "Resource things properly or it will cost more in the long run in both time and effort." ●

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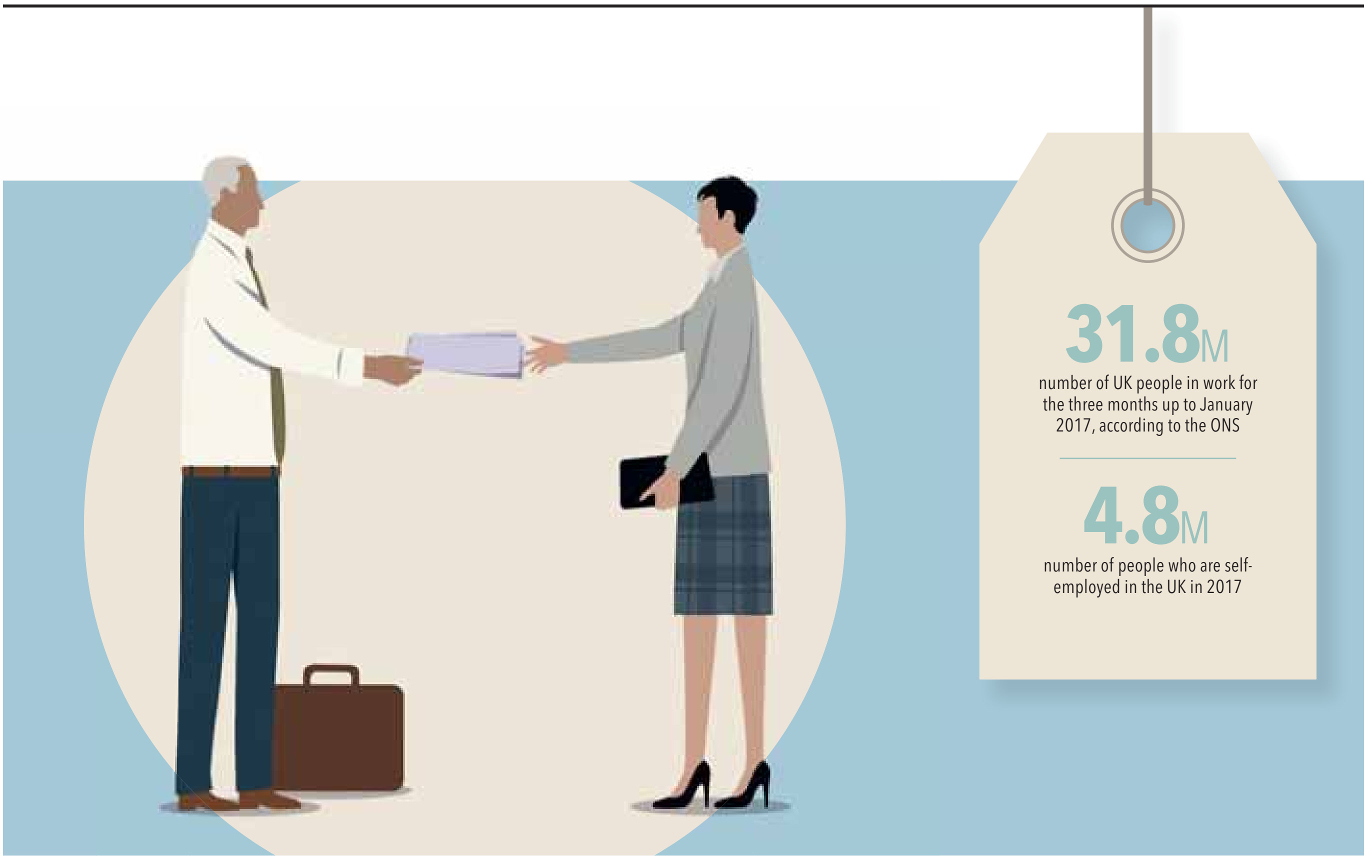

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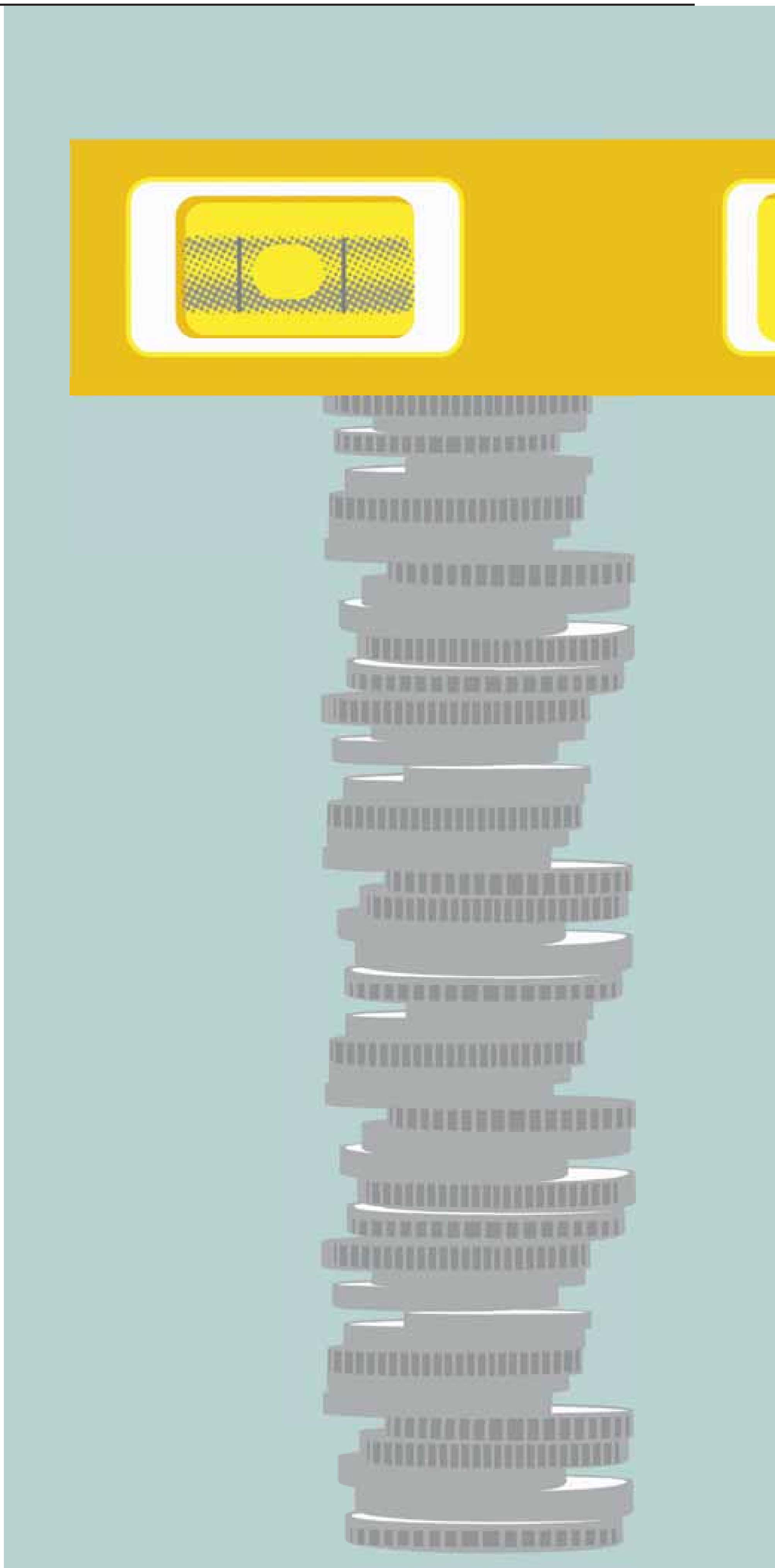
MARK AIRS/IKON, GETTY

TIME TO PAY

Pay ratios are the latest idea proposed to address public concern over executive remuneration. But will they achieve what proponents intend? David Craik investigates

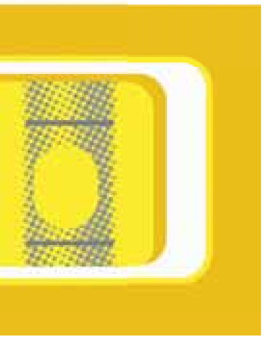


Goldman Sachs and John Lewis may seem unlikely bedfellows, but their comparison becomes increasingly strange when the subject of pay ratios is discussed. The issue has soared into public consciousness due to the government's recent corporate governance green paper, which stresses that for the public to "retain faith in capitalism and free markets, big business must earn and keep the trust and confidence of their customers, employees and the wider public".

The paper highlights figures that reveal total pay for FTSE 100 chief executives has risen from an average £1m in 1998 to £4.3m in 2015. The ratio of that pay to the average full-time UK employee's pay was 47:1 in 1998 - but by 2015 it had surged to 128:1. One proposal to address this is the introduction of a new pay ratio reporting requirement.

The ratio, which became a requirement for US listed companies in January, would "enable shareholders, employees and the public to judge how executive pay compares across different companies particularly in the same sector" while also informing shareholders "on whether pay levels are proportionate and reasonable". However, the paper also cautioned such a ratio could "produce misleading results", which brings us back to the comparison between Goldman Sachs and John Lewis.

Under this system, the investment bank would have a better-looking pay ratio given its glut of highly paid workers compared with the department store and supermarket partnership's more diverse



GILLIAN BLEASE/IKON

employee mix. This is despite John Lewis already having a pay ratio to curb excessive senior management team salaries.

A FAIR COMPARISON?

It is this point that concerns Mark Freebairn, partner and head of the financial management practice at Odgers Berndtson. "Are Unilever, BT, Hammerson or G4S identical businesses with similar operational and employee patterns? No. So how can you create a ratio that gives an honest and fair reflection?

"A ratio can only work if you compare and contrast similar things. This won't tell you anything valuable and could be used as a stick to beat companies. But it will happen because it is hard to have a sensible conversation about remuneration in the UK at the moment."

Tom Gosling, partner at PwC and steering committee member of the Purposeful Company Taskforce, also believes a pay ratio is likely. He says: "We will get some sort of disclosure requirement coming out of the green paper. It could be a ratio or an alternative. I don't support the ratio as it brings more heat than light."

One proponent of a ratio, however, is Stefan Stern, director of the High Pay Centre. "We are not claiming that publishing ratios will be an instant solution to excessive pay but it will be a useful way of giving the issue some context," he says. "Pay has risen without anyone tracking the gap between top and bottom. A ratio would help concentrate minds."

He bats away the argument that a ratio can't be truly comparative. "No one is going to compare a financial services firm with Tesco. Comparing a Tesco ratio against Sainsbury's and Asda will be relevant. It can be a useful mechanism to not just restrain pay at the top but help it at the bottom.

"Historically this huge gap has never been the norm. We need to bring back the morality around the subject. There are probably only a handful of CEOs talented enough to merit £8m a year but the rest say 'if they are getting it, then I want it too'. Companies also want to have a top quartile personality. But the idea that a CEO is singlehandedly responsible for the success of a company does not bear up to scrutiny. It is about the team and the whole workforce."

"A ratio can only work if you compare similar things. This won't tell you anything valuable. But it will happen because it is hard to have a sensible conversation about remuneration in the UK"

PERFORMANCE RELATED PAY

There is evidence that higher pay does not lead to better company performance. According to the UK branch of the CFA Institute, chief executives of the UK's leading 350 companies each took home a median pay package of £1.9m in 2014, up 82% on 2001, but return on invested capital for their firms had risen by less than 1%.

For Freebairn, it is the global perspective that is important. He says: "At no level am I saying that executives are underpaid. But it is also right to say that UK executives are being paid a tenth less than those in the US for doing the same job. I struggle with the idea that executives are classified as greedy. In the main they want to be paid fairly and equitably against their peers."

The Purposeful Company Taskforce, convened by the Big Innovation Centre as a consortium of FTSE firms, investment houses and business schools to look at governance and capital markets, acknowledges there may be factors that are seen as justifying why businesses have increased executive pay to such high levels.

One such factor it cites in its policy report last month notes that since 1984 the median value of a FTSE 100 company has grown by about six times with the economy doubling in size, making FTSE 100 firms three times more valuable. Thus, a significant proportion of the increase in executive pay can be explained in terms of the increased size and complexity of the largest companies.

REMUNERATION CONSULTANTS

Remuneration consultants offer an independent voice to a company's board on the subject of executive pay. Supporters say they help retain and recruit top talent; detractors believe their role needs to alter to improve pay fairness.

Our anonymous chairman believes fundamental change is required. "One of the biggest problems when it comes to executive pay is the laziness of remuneration consultants. They benchmark everybody against the market and only want above market rises.

"That leads to inbuilt inflation. They don't take into account the complexities of a business. It is up to the shareholders to have a bigger voice and say they don't want these above average pay rises."

ICAEW says consultants have an important advisory role to play around market conditions. In its response to the BEIS select committee inquiry on corporate governance, the Institute stated: "We expect during 2017 to publish research by Professor Ruth Bender and Dr Monica Franco-Santos of Cranfield School of Management about the work of executive pay consultants. This research will highlight practices in terms of companies' use of multiple consultants and how the extent of the consultant's brief impacts on outcomes.

"A recurring theme will be the importance of the CEO's personality, the role of companies' internal advisers and the effectiveness of the remuneration committee."

ICAEW'S POSITION

In February the government closed consultation on its green paper around corporate governance. ICAEW responded to this consultation and the earlier BEIS select committee hearings, and here are some excerpts:

"The trend for more complicated pay policies has made it more difficult for shareholders and others to fully understand the implications and the total remuneration packages which are likely to result. However, complicated pay policies and structures are often seen as necessary to balance long-term success with short-term achievement.

"Remuneration committees should take whole-company and cross-company perspectives when it comes to pay so that stark anomalies are highlighted, and either remedial action is taken or rational justifications are discussed and agreed.

"We caution against executive pay being limited to multiples of the pay of junior employees within the same organisation. This may have unintended consequences.

"Media and public criticism do not prove that executive pay is too high, but this criticism must not be ignored by politicians or companies. This is recognised in ICAEW's commitment as part of our Connect and Reflect initiative to share experience around 'How to end excessive pay'.

"Proposals around greater roles for shareholders should examine the reasoning behind the repeal of the requirement in the Companies Act (1862) that directors' remuneration should be approved by companies in general meetings. Proposals would also need to take into account that a large proportion of UK shares are held by overseas investors.

- BEIS select committee response: tinyurl.com/FM-BEIS

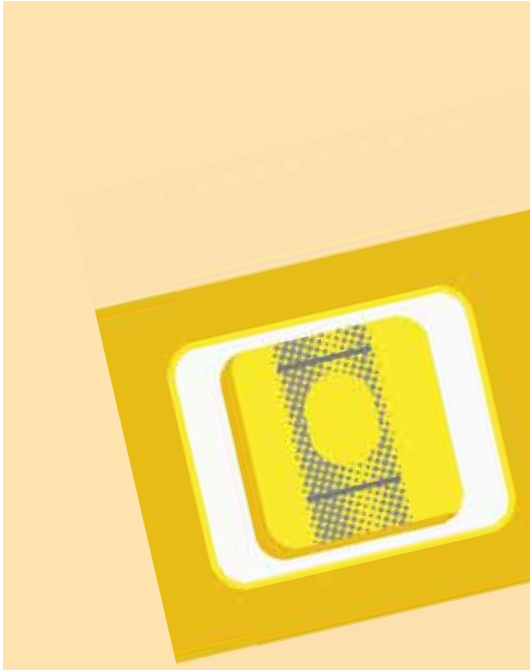
"Publicly listed and large privately held companies already publish information which enables people to calculate the ratio between CEO pay and the average worker's pay.

"The major disadvantage of ratios is the risk that this transparency will inflate executive pay.

"Appointing worker directors to remuneration committees could be beneficial because if worker directors are convinced that the [commercial sensitivity] exemption [to the disclosure of targets] applies then this should provide reassurance."

- Green paper response: tinyurl.com/FM-GPReform

"It is tough for a remuneration committee to break the mould. It is managing executive aspirations as well as shareholder demands"



"Problems with executive pay are overstated because there are very explicable reasons behind it. Also, we want UK listed companies to be attractive to talent," explains Gosling. "But trust in business is low and executive pay is becoming less acceptable to a public that sees it as undeserved, disproportionate and unfair. Business exists in a social context and a large number of boards recognise something needs to be done with regards to pay fairness."

DECIDING ON PACKAGE

All of which raises many questions for remuneration committees and their non-executive directors when deciding on the remuneration of executive directors, particularly when performance-related rewards, such as bonuses linked to medium and long-term targets, share options and pensions, now make up the majority of most executive pay packets - not the basic salary.

Long-Term Incentive Plans (LTIPs) have grown in popularity in both public and private firms with payments to FTSE 350 directors, according to the High Pay Centre, having risen by over 250% between 2000 and 2013. Designed to encourage and reward performance over three to five years, they typically offer a grant of shares that become transferable upon the attainment of certain performance objectives.

For Stern, however, they are too complicated. He adds: "There is no evidence that links CEO performance to movements in the share price." Freebairn also sees challenges with LTIPs. "Some managers have been lucky rather than good given economic factors on share performance. It is an imperfect science and there have been examples of obscene amounts of money being paid out for what looks like failure," he says.

Simon Laffin, chairman of Flybe Group and Assura, also believes it is time to change the LTIP model: "There is too much luck involved in a highly geared incentive scheme." He agrees with the Investment Association, which last year indicated LTIPs may not be the most appropriate way forward. "But it is difficult to do it if no one else is doing it. It is tough for a remuneration committee to break the mould. It is managing executive aspirations as well as shareholder demands," he explains.

Indeed, one chairman who did not want to be named said he had attempted to change the pay structure at one of his companies, resulting in top bosses being paid £500,000 less than the market rate.

"The management made a big huff about it and we had a little bit of trouble attracting talent to the roles," he explains. "It is why nobody pays the lowest quartile."

LONG-TERM STRATEGY

The Purposeful Company Taskforce also favours long-term awards of equity and paying bonuses in shares. It recommends pay should be long-term, with shares released on a phased basis over periods of about five to seven years depending on the industry. Bonuses based on financial

"Trust in business is low and executive pay is becoming less acceptable to a public that sees it as undeserved, disproportionate and unfair"

targets should be paid in shares, with board discretion to vary the bonus up or down. Particularly in highly leveraged or volatile companies, boards should consider paying CEOs in unsecured debt via deferred compensation plans as well as equity.

Stern believes that alongside pay ratios, change can come from all publicly listed companies being required to have at least one employee representative on their remuneration committee. "It should ideally be more than one worker who in a spirit of trust and confidence can tell non-execs what it is like for the ordinary worker when it comes to pay," he says.

David Styles, director of corporate governance at the FRC, believes the role and remit of the remuneration committee should be extended to cover pay policies throughout an organisation. "There should also be a much closer link to strategy with pay genuinely reflecting business results," he says.

THE PROXY PROBLEM

Another area outlined for attention in the green paper is the role of proxy advisers. The paper suggests investors with small stakes in several large companies will often outsource shareholder voting decisions to corporate governance specialists, placing a lot of power with a limited number of proxy advisers. The government wants to explore options for strengthening shareholder powers while encouraging "active stewardship of the companies they own".

"Proxies don't really engage," explains Freebairn. "We need active fund managers to take more responsibility here."

One final component of the green paper is the question of whether shareholders' votes on remuneration policy at AGMs should be binding or advisory. At present quoted firms are required to put their pay policy to a binding vote every three years and annual pay awards to an annual advisory vote. Changes could mean that all or some elements of the executive pay package will be subject to a binding vote annually.

For Laffin a legal minefield could open up if annual pay votes become binding. "How do you change an executive's contract if that happens? How does that fit with contract law and unfair dismissal? Will you have to write contracts stating that a salary is subject to AGM approval?" he asks.

With so many unanswered questions for now, time will only tell if we will start getting answers to the executive pay debate. ●

BRAIN DRAIN?

Mark Freebairn, partner at Odgers Berndtson, cautions against too much censure of executive pay: "Some executives will move into private equity, some will leave the UK and firms will, alongside other reasons, struggle to hire talent from abroad.

"If you could increase the dialogue between remuneration committees and shareholders, and take away elements of legal protection in the event of executive failure, and somehow boost the economy to give everyone in the country a 3% wage rise, then you would go a long way to addressing feelings over executive pay.

"Executives can't be paid unlimited salaries but for lots of reasons we should celebrate the value business gives this country. It does not help the more we whack business. Now more than ever we need a strong business community."

CHANGE IS COMING

The chief financial officer's role is always changing. **Ross Lacey** explores the latest insight into what CFOs must do to shape up for the future

The latest EY survey of 769 finance leaders has highlighted the significant change and challenge faced by the chief financial officer (CFO) of the future. The changes, as set out in *The DNA of the CFO*, are in response to a role that is:

- increasingly diverse in scope;
- driven by digital transformation;
- facing unprecedented volumes of data;
- exposed to heightened scrutiny; and
- confronted with ongoing uncertainty and volatility.

To reinvent itself for a new age, the finance function is transforming into a data-driven centre where smart people and machines help make better financial, strategic and operational decisions. The role of the CFO will thus become more complex, but also more interesting and rewarding.

Organisations will look for CFOs to offer innovative solutions to business issues because they will be partner to the CEO and board.

TOO MUCH FOR ONE?

As organisations face a more connected, globalised and heavily scrutinised future, tomorrow's finance leaders need to think strategically about progression. The path to CFO was relatively clear and linear, but it has been severely disrupted. The majority of transactional finance tasks are now managed by shared services centres that may be outsourced, offshored or both. Opportunity for career experience will continue to decrease as the adoption of robotics, automation and artificial intelligence becomes more widespread. In contrast, the CFO role itself will likely become too complex for one person to manage well, and will be replaced by a finance executive team comprising a range of profiles.

Consequently there will be a wider range of second-in-command positions that could be seen as a stepping stone to CFO. The challenge is in maintaining the flow of future finance talent as the traditional entry point of apprenticeship and its training ground disappears.

NEW SKILLS, NEW THINKING

A relatively recent evolution of the CFO role has been the need for innovation and creativity. The demand is for innovative solutions to key business issues, such as designing and delivering new digital business models, at a time when regulatory scrutiny and the need for proactive risk management is increasing. The fine line between risk and reward has become more delicate, yet less distinct, as CFOs become more involved in strategy development and driving growth.

The EY survey results showed "leadership and team-building" was the number one priority in equipping future finance leaders to transition to the CFO role, exceeding other critical skills, such as "a breadth of core finance skills, from control to tax and audit". Finance roles have been regarded as left-brain thinking – logical and strongly analytical in nature. However, much of this knowledge is increasingly commoditised, as it is codified, automated and available online. Finance leaders will be characterised more by what are considered right-brain attributes – empathy, rapport building, innovation and imagination – that will help them inspire and generate loyalty, according to the EY study.

When looking at the other top skills required by future finance leaders to become CFOs, "strategy design and planning" was at number two while number three was "commercial experience and understanding of the drivers of business value" – and both were cited as "critical" or "important" by 87% and 84% of respondents respectively. These skills were deemed more critical by the survey's respondents than others that are more traditionally associated with finance leaders.

"Finance leaders will be characterised more by empathy, rapport building, innovation and imagination"

In summary, this reflects the overarching shift of the finance function as merely "providing numbers" – which of course it still has to do – to playing a key role in strategic planning discussions and helping deliver the growth agenda through commercial understanding of the levers of value.

To emphasise the growing importance of these right-brain attributes, it is important to note that as organisations become flatter, and remote working more common, close supervision will no longer be efficient or effective. Emotional intelligence, cultural agility and the ability to build trust across boundaries become the foundation for how people and teams of the future operate successfully.

WHAT ROLE DIVERSITY?

While the qualities that go into future CFOs is changing, so too is the diversity of the role in terms of gender. According to two thirds of the finance leaders surveyed at medium-sized revenue generators, organisations will need to recruit from diverse pools of talent to find the next-generation of finance leaders. While there is a current shortage of female senior finance staff in a position to step up to CFO roles, 62% of survey respondents felt "visibility for women leaders who can act as role models for more junior employees" is the best strategy to start to increase the number of appointments of female finance executives to the CFO position.

This matters because it is increasingly recognised that diversity is key to high performance. EY's global research report into gender diversity, *Women. Fast Forward: the time for gender parity is now*, outlined the positive impact of women's advancement. The performance advantage included a positive correlation between GDP per capita and gender equality. A better gender balance on boards also correlates to a better share price and financial performance.

It is interesting then to note that of the 769 finance leaders interviewed for *The DNA of the CFO*, only 117 were women. Surprisingly, only 57% of female finance leaders and 49% of male finance leaders believe "not enough female future finance leaders are emerging". This might indicate unconscious bias for both men and women, who may currently underestimate the obstacles to participation in finance senior leadership that women face.

TOMORROW HAS ARRIVED

The DNA of the CFO has painted a picture of an already highly influential role that will continue to reward, motivate and excite those who make it to that position. CFOs will continue to wield considerable influence across the enterprise and finance leaders will enjoy a high internal and external profile. However, it is a role that is becoming more demanding, and entering a period of disruptive uncertainty, with less clarity on how success will be defined in the future.

Aspiring finance leaders of the future, and indeed incumbents looking to mentor their successors, need to turn their attention to a very different future. The DNA of the CFO will be radically re-engineered and will need a different set of skills and behaviour in play to deliver ever-growing expectations. ●

DIG A LITTLE DEEPER

EY's report, *The DNA of the CFO*, was first conducted in 2010. This was extensively updated last year with a new survey of 769 finance leaders from across Europe, the Middle East, Asia Pacific and the Americas. Both the 2016 update and the original report can be found at tinyurl.com/EY-DNA-CFO

More information about EY's *Women. Fast Forward: the time for gender parity is now* report can be found at tinyurl.com/EY-Gender-Parity

Ross Lacey, advisory lead partner, finance performance improvement, EY

TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

TAX

NEWS AND UPDATES FROM THE TAX FACULTY WEEKLY NEWSWIRE. VISIT ION.ICAEW.COM/TAXFACULTY AND CLICK THE SIGN-UP LINK TO SUBSCRIBE FOR FREE

FINANCE BILL 2017 IS PUBLISHED

The Finance Bill was published on 20 March, along with its associated explanatory notes.

The Bill contains 135 clauses and 29 Schedules and is already 762 pages long. That is nearly 100 pages longer than the longest ever Finance Act, which was issued in 2012, and was 687 pages in length.

It is quite likely that this year's Finance Bill will exceed 800 pages before it is finally enacted.

A Tax Faculty summary of the Finance Bill was issued on 24 March. For the full analysis of this and other announcements and consultations, visit the Tax Faculty pages.
Also see the bill at tinyurl.com/FM-BillDoc

MAKING TAX DIGITAL (MTD) – HOUSE OF LORDS ECONOMIC AFFAIRS FINANCE BILL SUB-COMMITTEE REPORTS ON GOVERNMENT PROPOSALS

Committees of both Houses of Parliament have now expressed concern over the costs to business and the implementation timetable of MTD.

Among the witnesses who gave evidence to the sub-committee were Rebecca Benneyworth, ICAEW council member and former chairman of the Tax Faculty, and David Lyford-Smith a technical manager in ICAEW's IT Faculty.

The report recommends four changes to the current proposals to ensure the effective implementation and operation of the government plans, which are summarised as follows.

First, the government must revise and improve its assessment of the benefits and costs of the new scheme. The government's estimates of the 'tax gap' savings are fragile and not based on adequate evidence. The assertion that the scheme will initially cost businesses £280 does not reflect the reality of small business operations and the initial expenses they will incur.

Second, the government should make keeping digital records and quarterly reporting optional for businesses with a turnover below the VAT threshold. The case for making it compulsory for smaller business has not been made. There is no evidence that these requirements will reduce taxpayer error: it does not follow that more frequently recorded information is more accurate information. Quarterly reports will impose an unnecessary burden on businesses, but will be of limited use in forecasting tax liabilities.

Third, the government should delay the launch of the scheme until 2020. Crucial to the success of MTD will be the software and apps. As currently planned the pilot of the software will begin in April 2017. This leaves insufficient time for the pilot to cover a full tax year, for any review of its findings, or further consultation before the full scheme launches. This delay will also allow the government to test the underlying behavioural assumptions; to raise awareness of the scheme among sectors that remain unaware of the forthcoming changes; and put in place support systems for those who are digitally excluded. The latter are vital: HMRC's own research reveals that

61% of the self employed (which may be up to two million people) are either unable, or require assistance, to interact with government online.

Finally, the government should look again at the enormous variety of businesses and examine whether certain kinds of business, such as those with seasonal or highly irregular income, should be outside the scheme.

The report also notes that "when the chancellor first announced this scheme in 2015 its purpose was to 'make tax easier'". But the report concludes that "for many businesses the MTD proposals no longer achieve this and will instead make taxation more burdensome".

The House of Lords Committee is hopeful that its recommendations "will help the government bring the scheme back to its original aims".

The committee chairman, Lord Hollick, sent a copy of the report to the prime minister and in his covering letter repeated the points raised in the report and also recommended that the government needs to raise awareness of the prospective changes via "a proactive, thorough public information campaign".

ACTION FRAUD WARNING OVER NEW HMRC GIFT CARD SCAM

Action Fraud is warning about a new trend where fraudsters contact victims claiming to be from HMRC and try to trick them into paying taxes using iTunes gift cards.

HMRC publishes information on phishing and scams including examples of bogus contact and how to recognise genuine contact, but this has not yet been updated for this latest scam.

Although HMRC does now send reminders and alerts by text and email these never include links or personal information.

To report a fraud and receive a police crime reference number, call Action Fraud on 0300 123 2040 or use the online fraud reporting tool.

Bogus emails or other contact should be reported to HMRC by emailing phishing@hmrc.gsi.gov.uk

FINANCIAL REPORTING

YOU CAN FIND OUT MORE ON THE LATEST FROM THE FINANCIAL REPORTING FACULTY, INCLUDING UK GAAP AND IFRS STANDARDS AND CONSULTATIONS, AT ICAEW.COM/FRF

IFRS ANNUAL IMPROVEMENTS CYCLE 2015-2017

The IASB's annual improvements process combines different minor amendments to IFRS standards into one public consultation. The 2015-2017 amendments have been proposed either because there is a need to clarify some aspects of a standard or to resolve a conflict between existing requirements within the standards.

The exposure draft contains proposed amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs* and IAS 28 *Investments in Associates and Joint Ventures*.

The proposed amendments to IAS 12 clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises.

The proposed amendments to IAS 23 clarify which borrowing costs are eligible for capitalisation as part of the cost of an asset in particular circumstances.

The proposed amendments to IAS 28 clarify that an entity should apply IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which it does not apply the equity method.

SMALL COMPANY FILING OPTIONS – UPDATED RESOURCES NOW AVAILABLE

Many small companies currently file 'abbreviated' accounts with Companies House as permitted by section 444 of the Companies Act 2006. Recent changes to company law have, however, removed this option for periods beginning on or after 1 January 2016.

The demise of abbreviated accounts will not, however, mean that small companies will be required to file 'full' accounts in future as other alternatives are available, including a new option to prepare and file 'abridged' accounts.

These changes have led to some confusion about the difference between abbreviated and abridged accounts.

The Financial Reporting Faculty continues to receive lots of questions about what the new regime means in practice. Staff have therefore updated and expanded existing FAQs.

You may also be interested in reading the faculty's blog on the subject or watching the recording of recent webinars on small company filing options and the choices and challenges that come with the UK's new small companies regime.

Further information about the Financial Reporting Faculty's resources on small company filing options can be found at tinyurl.com/FM-SmallComp

UK GOVERNMENT TO INTRODUCE GENDER PAY GAP REPORTING FROM APRIL

Relevant employers with a headcount of more than 250 people must publish and report specific information about gender pay.

More information about this can be found at tinyurl.com/GOV-GenderGap

BREXIT: QUESTIONS FOR FINANCIAL REPORTING POLICYMAKERS

The passage of the European Union (Notification of Withdrawal) Bill through Parliament is expected to lead within weeks to the firing of the starting gun for the formal negotiations on the departure of the UK from the EU.

So now is the time for financial reporting policymakers and their constituents to start a conversation about the implications of that process for UK financial reporting.

With this in mind, the Financial Reporting Faculty will soon begin work on a short report that will set out suggested answers to some of the key questions that financial reporting policymakers will face in the coming months and years.

Below we have summarised a number of the higher level questions that the report might seek to address.

First, on IFRS reporting, is the UK committed to IFRS and their use by UK listed companies and around the world? If so, how can we ensure that the voice of the UK as a global financial centre is heard loud and clear in international debates about international financial reporting, specifically at the IASB and other institutions of the IFRS Foundation, but also in the wider world?

Also, should the UK as an IFRS jurisdiction simply accept the standards issued in future by the IASB, establish a national IFRS endorsement mechanism, or continue in some way to participate in the existing EU mechanism? If a national endorsement mechanism is the answer, where should responsibility lie and what should its main features be?

In future, if the EU moves away from IFRS as issued by the IASB, will UK accounts still be deemed 'equivalent' for EU listing purposes if the UK remains on full IFRS? Whatever decision is taken about endorsement, should the UK seek to maintain influence at EFRAG and over EU accounting developments generally, given that those developments may affect UK interests indirectly, including in respect of 'equivalence'?

On UK accounting more generally, what does Brexit mean for the future role of the Financial Reporting Council and the UK's reputation for innovative approaches to corporate reporting and corporate governance? Are there specific, less welcome provisions of recent EU directives now reflected in UK law that should be reversed as a priority (such as some of the changes to the small company regime and the new requirements for non-financial reporting by large companies) or does the need for continuity and stability for business take precedence over changes to the law during the first few years of post-EU Britain?

Also, does Brexit provide an opportunity in the longer run for a more profound review of UK company law, with a deregulatory outcome in mind – rationalising and simplifying the scope and content of the accounting provisions and revisiting the balance between law and standards?

The Financial Reporting Faculty would welcome any thoughts on these matters over the next few weeks, specifically at this stage on whether the right questions above have been posed.

For details of how to leave any feedback, please visit our blog on this subject,which can be found at tinyurl.com/FM-TalkBlog

EMPLOYMENT LAW

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

TIME TO OFFLOAD DEFINED BENEFIT PENSION SCHEMES?

Businesses struggling to meet obligations set out in defined benefit (DB) pension schemes could soon be eligible for government assistance.

So-called 'super funds' could be created by the government to allow employers to walk away from schemes that promise a 'final salary' pension. The outsourced funds would enable employers to pay a one-off fee that allows the fund to be pooled with other poorly performing products. However, for former employees this might mean accepting cuts to their pensions.

Pensions minister Richard Harrington has said the sector needs radical reform if DB pensions are to survive. According to the Pensions and Lifetime Savings Association, the weakest schemes may only have a 50% chance of paying out in full to their members.

The government's pensions green paper is currently available, with the consultation closing on 14 May. More details about the consultation can be found at tinyurl.com/GOV-DBPS

THE STATE OF THE GIG ECONOMY

Only a fifth of adults know what the term 'gig economy' means without having it explained to them, and only 4% of the working population aged 18-70 are engaged in the kind of piece work defined by it.

These are just two of the findings of a new report, *To gig or not to gig? Stories from the modern economy*, published by the Chartered Institute of Personnel Development (CIPD).

In its survey of more than 5,000 people, the CIPD concluded that while working in this way had increased, gig economy activity had not fundamentally altered the UK's working practices. Permanent employment has remained fairly static.

The CIPD survey found gig economy workers were most likely to have completed work online (51%), followed by food delivery (31%). They were equally likely to have sold items online, or rented out their accommodation (12%) or a vehicle (12%).

In terms of the longevity of gig tasks, 20% stated they had done the same task for between 12 months and two years. Some 15% had performed the same work for three or more years.

There was some evidence of people dipping in and out of the gig economy to suit circumstances. And, of those not yet working in the gig economy, the survey found 12% were thinking about doing so over the coming year.

The full report can be found at tinyurl.com/FM-CIPD-Gig

SANDWICH CHAIN'S WORK EXPERIENCE SCHEME CHANGE

UK sandwich chain Pret a Manger has gone back on its pledge to start a Big Experience Week offering 500 16-18 year olds a week of work experience because the positions would have been unpaid.

Following the drive to improve application rates from young British people (a rate which is historically low, the chain told a parliamentary committee in March), Pret has confirmed the positions will now be internships paid on an hourly rate of £7.85 in London and £7.65 elsewhere.

While the company had made an attempt to offer "exposure to aspects of our business including food production, customer service, social responsibility and financial control" in a sector that its HR director said wasn't always taken seriously as a viable long-term career option, the original work experience programme had been criticised on social media forums.

The business had planned to offer work experience tied in with school and college courses, where there is no obligation to pay those on the placements.

Ben Wilmott of the CIPD said the publicity Pret had suffered should not be allowed to "demonise" the concept of work experience.

Businesses that wish to offer work experience schemes are encouraged to check how a placement differs from an internship in UK law.

For more information see tinyurl.com/GOV-interns ●

ON A LIGHTER NOTE

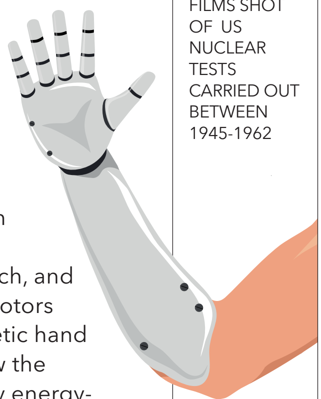
PLEA FOR PLUTO'S PLANETARY STATUS

This year, 11 years after Pluto was demoted to a dwarf planet, six scientists from across the US want to restore its full planetary status. At a conference last month in Texas, they argued that geological properties, such as shape and surface features, should contribute to a planet's status as well as its mass. They also questioned the International Astronomical Union's authority to define what is a planet.

However, the challenge has angered California Institute of Technology astronomer Mike Brown, who discovered Eris, a dwarf planet in the outer reaches of the Solar System, that led to Pluto being downgraded. "It really takes blinkers to not see the profound differences between the eight planets and the millions of tiny bodies flitting around," he wrote in an email.

SOLAR-POWERED SKIN IS HANDY DISCOVERY

The University of Glasgow's Bendable Electronics and Sensing Technologies group has announced the successful prototype of a solar-powered synthetic skin made from graphene to cover prosthetic limbs. The super material is incredibly strong but only one molecule thick. Crucially, nearly all the light that hits its surface can pass through it to a layer of miniature solar panels. This then provides enough power to operate touch sensors, vastly improving the ability of prosthetic limbs to handle objects. Dr Ravinder Dahiya, from the university's School of Engineering, said: "The next step for us is to further develop the power-generation technology, which underpins this research, and use it to power the motors that drive the prosthetic hand itself. This could allow the creation of an entirely energy-autonomous prosthetic limb."



GRAMMAR GAFFE SEALS WORKERS' PAY CLAIM

The Oxford comma enabled a group of delivery drivers to successfully claim overtime thanks to sloppy grammar in a US state's law. The drivers in Maine successfully persuaded the court of appeals that the law wasn't clear due to the lack of a comma in a list of work activities disallowed from overtime.

The key sentence said overtime will not be paid for: "the canning, processing, preserving, freezing, drying, marketing, storing, packing for shipment or distribution of: 1) agricultural produce; 2) meat and fish products; and 3) perishable foods." For want of a comma between "packing for shipment" and "or distribution", the drivers' claim was upheld.

11

YEARS SINCE PLUTO WAS DEMOTED TO A DWARF PLANET

210

NUMBER OF NUCLEAR TESTS CARRIED OUT BETWEEN 1945-1962 IN THE US

10k

NUMBER OF FILMS SHOT OF US NUCLEAR TESTS CARRIED OUT BETWEEN 1945-1962

GREAT INDOORS IS FUTURE FOR FARMS

AeroFarms is the latest company championing the idea of indoor farming. Its 70,000 sq ft US facility in New Jersey can grow the same amount of kale, watercress and rocket as a 208-acre farm thanks to plants growing in racks one above the other. Produce is grown on fabric, a process known as aeroponics, and fed nutrients in a solution under LED lighting. Pesticides are not needed and crops can be harvested several times a year.

However, some challenge the finances of 'vertical farming'. Cornell University researcher Kale Harbick says: "Just because it's possible to grow inside a warehouse doesn't mean it's cost effective. If you do the maths, the energy costs just aren't what they should be." Harbick also warned operations like this may struggle once seed money runs out.

RACE TO PRESERVE A-BOMB FOOTAGE

A team of experts, film archivists and software developers has scanned and digitised thousands of nuclear test films made by the US authorities in a bid to preserve them. Many of the estimated 10,000 films shot of the USA's 210 atmospheric nuclear tests carried out between 1945 and 1962 have been degrading due to their age. The team, led by Lawrence Livermore National Laboratory weapon physicist Greg Spriggs, has tracked down 6,500 films and released 63 of them on YouTube as part of the project. Spriggs said: "I think that if we capture the history of this and show what the force of these weapons are and how much devastation they can wreak, then maybe people will be reluctant to use them."