INTELLIGENCE AND INSIGHT

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ISSUE 40 | ACCOUNTANCY | FINANCE | BUSINESS

FIGHTING FRAUD

After 20 years in practice as well as top prosecutor roles at the Serious Fraud Office and Financial Conduct Authority, David Kirk shares what he's learned about fighting fraud

DIVERTED PROFITS TAX TOM AIKENS BANKING HAVENS THE SKILLS SHORTAGE


1975.
A new movie inspires nightmares about the open water.
A new car inspires dreams about the open road.
316
CKM 719Y
THE BMW 3 SERIES.
THE DRIVER'S CAR SINCE 1975.


2015.
Various politicians promise to reduce emissions.
The new BMW 3 Series actually does.
The new BMW 3 Series
bmw.co.uk
BMW
The Ultimate Driving Machine

By the time you read this, George Osborne will have delivered the first Conservative Budget in almost 20 years. We hope he seizes the chance to deliver lasting tax reform.

The coalition government made much of its determination to reduce red tape for businesses of all sizes, and for the UK's smaller businesses in particular.

While initiatives such as the Red Tape Challenge and the "one-in-two-out" rule for new legislation have helped reduce the burden on UK businesses, this year's Enterprise Bill (as outlined in the Queen's Speech) includes a committment to keep up the momentum with plans to remove a further £10bn of bureaucracy.

But there is one major area in which Osborne and the last government failed to make things easier for those who own and run businesses (or indeed for those who work for them) – tax simplification.

Like many occupiers of 11 Downing Street before him, Osborne has made plenty of promising speeches about the need for clarity, simplicity and transparency in taxation. He recognises that the government's ambition to clamp down on evasion and aggressive avoidance would be more likely to be met if the tax system was less obtuse.

Osborne even went so far as to establish the Office for Tax Simplification, which in the five years since it was established has done some interesting work, but seen few concrete results. There is no shortage of commentators who agree merging income tax and national insurance (a process starting with harmonising thresholds) would be a positive start. But reality kicks in as policymakers discover how complex it is to simplify things.

But alongside any focus on initiatives to cut red tape, Osborne should take this opportunity to introduce landmark tax reforms. His desire to cut evasion and reduce avoidance is pragmatic. Maximising the tax take is essential to balancing the books, especially if the next bout of austerity fails to deliver expected savings.

But it is also moral and political. While the "triple tax lock" has reduced Osborne's options, it is still possible that he will continue to use successive Budgets and Autumn Statements to merely add complexity to the UK's tax code.

But if the government is genuinely concerned with reducing the burden on businesses, it should act simply and forcibly in the area of tax. Osborne should avoid tweaking the system here and there. While he needs to stand up and say something every six months, he should deny himself the power to tinker with tax.

In short, he should play the long game and pass up the temptation to score short-term political points, tempting as it may be to kick the opposition while it is down and leaderless. He should look instead to make the case for lasting simplication of the tax system and ultimately the way tax laws are made.

One of his first acts as chancellor in 2010 was to establish the Office for Budget Responsibility. There is a case this time to provide the Office for Tax Simplication with similar powers, resources and independence. This is a change that could make the UK tax system better, forever.

Fifa probes raise more questions for audit

It didn't take long. Within days of the dramatic arrests of Fifa officials, many led away from fancy hotels and ushered into waiting police cars under sheets, Greg Dyke, FA chairman, was asking questions about the auditors. As he he correctly summised, "respectable auditors will not like being involved in stuff like this".

But the wider challenge is a familiar one. If the organisation or its senior management were as corrupt as these allegations suggest, and if fraudulent payments were made at the size, scale and frequency suggested, why did no one pick it up?

We cannot know the challenge to FIFA from the auditors that may have taken place behind closed doors but it is difficult to imagine that the numbers of the size being talked about did not raise eyebrows.

The auditor's reports are more or less word-for-word cut and paste. This is common practice (although increasingly less so). Next year's report could make for more interesting reading.

ICAEW in this issue

"The Diverted Profits Tax is designed to hit a specific group of companies but it has been drafted in such a way as to cause a large number of companies to have to look closely at what it means for them. Around 1,000 companies are looked after by the HMRC Large Business Service. A significant proportion of those will need to try to work out whether they are caught by this measure"

p78 Ian Young, tax faculty technical manager, ICAEW

66 MEMBER PROFILE Michael Humphreys

"Many business owners go to friends and family for finance, but they don't make the leap to getting outside equity finance, which would probably be a more professional form of finance from people who have already made a success of a business"

P39 Clive Lewis, head of enterprise, ICAEW

"Anecdotally, a lot of our members are very depressed about the quality of school leavers generally, including their attitude to things like being on time, looking smart, checking social media on their smartphones and so on"

P54 Stephen Ibbotson, director of business, ICAEW

"Nobody wants to advocate a secret world – we're not dismissing the idea that some information should be disclosed"

p76 Charles Worth, business law manager, ICAEW

MORE ICAEW COMMENT

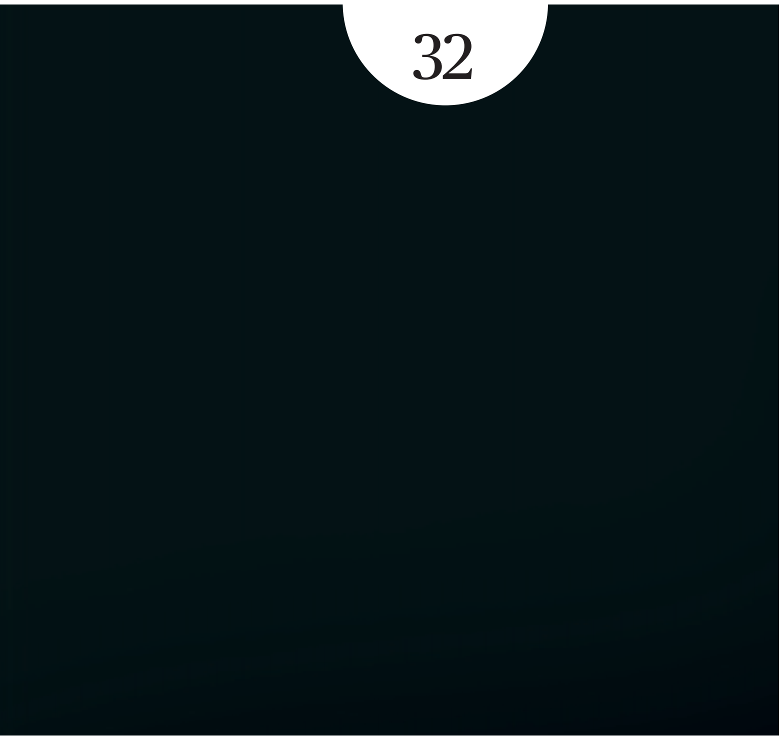
Contents
July/August 2015

HIGHLIGHTS

THE AUDIT

OPINION

FEATURES



PHOTOGRAPHY: KALPESH LATHIGRA

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

CAREER
In the first of a new series looking at the many stages of an accountancy career, we get to grips with some of the issues faced by newly-qualified accountants, including the choice between staying in practice or moving into industry

BANKS
Professor John Thanassoulis of the University of Warwick Business School argues that there is more politics than economics behind the government's timing of the sell off of the 80% stake it currently holds in RBS

Digital highlights
icaew.com/economia

TAX
As Australia decides not to wait for the rest of the world, pressure on the OECD's base erosion and profit shifting (BEPS) scheme is starting to increase

EUROPE
George Bull analyses the European Commission's new action plan to fundamentally reform corporate taxation in the EU

LIFE
Everything you ever wanted to know about the summer solstice, but were afraid to ask

ELSEWHERE ONLINE
Big Four unstoppable in audit game
A new beginning for Greece
Why America should join the AAIB

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

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Official fuel consumption figures in mpg (l/100km) for the Ford Kuga range: urban 30.4-52.3 (9.3-5.4), extra urban 45.6-65.7 (6.2-4.3), combined 38.2-60.1 (7.4-5.2). Official CO_2 emissions 171-122g/km.

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

Vehicle shown is the Ford Kuga Titanium X Sport in Magnetic at extra charge.

Go Further

In review

THE INTERNATIONAL PICTURE

30

The number of countries on an OECD tax blacklist, including Bermuda

EC BLACKLIST RILES BERMUDA

The government of Bermuda responded furiously to being included in a pan-EU list of the world's worst offending tax havens. Bermudan finance minister Bob Richards said: "If there had been consultation, we would have had the opportunity to point out that at least five of the 11 countries named as blacklisting Bermuda had either not performed their obligation required to consummate a tax information exchange agreement with Bermuda or had failed to keep their promise made to Bermuda to amend their legislation to remove us from their blacklist."

Guernsey also reacted with "astonishment" to its presence on the list, saying the island led "a number of EU member states on tax transparency and co-operation". In response to the criticisim Poland, which has three international agreements for the exchange of information for tax purposes with Bermuda, removed the island from its blacklist of non-cooperative tax jurisdictions.

ELSEWHERE IN THE WORLD

A court in Barcelona showed the red card to Argentinian footballer Lionel Messi's appeal against charges of tax evasion. The FC Barcelona star will appear in court, prosecutors say, and could face penalties of a very different kind if found guilty.

Firms test applicants' "poshness"

Big accountancy and law firms were accused of forcing applicants to pass a "poshness test" by former Labour MP Alan Milburn, who was responding to a report by the social mobility and child poverty commission. PwC's Gaenor Bagley said she supported the report's recommendations and that the firm was already working to address the issue. "We have introduced a number of measures to ensure fair and open access to our programmes, including the recent removal of the UCAS tariff as an entry requirement for graduate roles, in favour of a more contemporary assessment," said Bagley. PwC had begun offering "alternative access routes", including higher apprenticeships, online training for students preparing for their applications, and tracking social mobility, she added.

For more accountancy news visit economia.icaew.com

70%

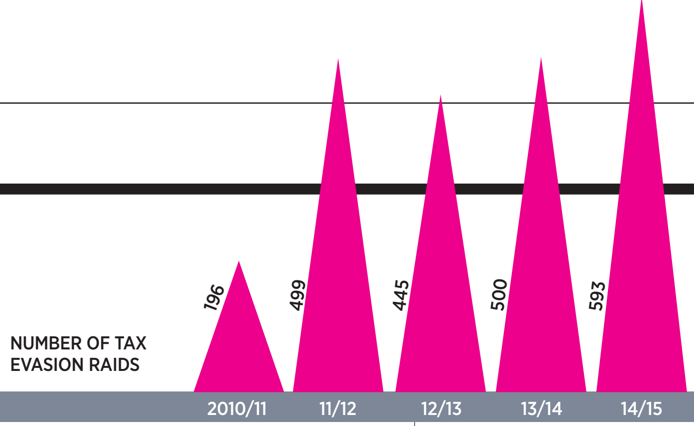
of 2014 job offers were made to graduates who had attended selective state or fee-paying schools

Halal tourism growth

According to the latest figures in the MasterCard-CrescentRating Global Muslim Travel Index (GMTI) 2015, the halal tourism sector was worth £95bn in 2014. This is predicted to grow to £132bn by 2020. Tasneem Mahmood, director of CM Media, said halal tourism could provide a key growth area for the UK finance sector, especially in the growing Turkish market. "There are plenty of UK businesses in finance, especially in Shariah finance, who are leaders in their field and this is a real chance to get on the global stage."

Deloitte wins Wolseley

Deloitte has won the audit tender of FTSE 100 plumbing and heating suppliers Wolseley, replacing Big Four rivals PwC. Subject to approval by Wolseley shareholders at this year's AGM, Deloitte will take over on completion of audit for accounts ending 31 July. It's the first change at the plumbing firm since it listed in 1961.



CUSTODIAL SENTENCES INCREASE 30%
FROM 171 (2011) - 220 (2014)

AVERAGE SENTENCE LENGTH DROPPED 60%
FROM 41.3 MONTHS (2011) – 17.7 MONTHS (2014)

Source: Pinsent Masons

Diversity hits rocky ground

Diversity is becoming a watchword for "more professional white women at board tables" according to Green Park Diversity Analytics. Research shows 62 FTSE 100 firms now have all-white main boards, jumping to 70 when taking NEDs out of the equation. The number of women in top positions has increased, however, with more female CFOs and CEOs, driven by firms responding positively to the Davies Review.

Big Four dwarf rivals

The fee income of Big Four firms continues to dwarf that of their mid-tier rivals. Financial Reporting Council research shows that if Grant Thornton, BDO and Baker Tilly merged, the combined fee income would weigh in at £727m less than EY alone, which, with a 2014 fee income of £1.868bn, is the smallest of the Big Four. Nevertheless, during 2014 the mid-tier saw a major boost to their overall fee income. It grew on average by 15.1% compared to the Big Four's 4.3%. Mid-tier audit fee income also rose by 9.5% (Big Four 0.1%).

Informants receive more from HMRC

HMRC paid a record £605,000 to whistleblowers this year, an increase of more than £200,000. According to law firm RPC, the recent surge in awareness - and public outrage - concerning tax evasion has caused a rise in the number of informants. However, potential whistleblowers shouldn't get their hopes up too much. Adam Craggs, an RPC tax partner, warned "many members of the public have an unrealistic view of the value of their information".

Whole Foods in trouble

Upmarket food retailer Whole Foods has been routinely overcharging customers in New York City, according to The New York City Consumer Affairs Department. The investigators said Whole Foods had been overstating the weight of pre-packaged meat, dairy and baked goods. Last year, the retailer agreed to pay $800,000 in penalties after an investigation into pricing irregularities in California. The Austin, Texas-based company has 422 stores in the US, Canada and the UK. It said it disagreed with the allegations.

200k
increase
in fees paid by HMRC to informers

Royally flushed

Uh-oh. Things are not looking good for Princess Cristina, sixth in line to the Spanish throne.

Currently awaiting trial for tax fraud in a case that has plunged the Spanish royal family into fresh controversy, this month dealt another blow to the struggling princess.

As the royal family seeks to distance itself from Cristina and her husband Inaki Urdangarin, King Felipe VI stripped his sister of the title as Duchess of Palma de Mallorca.

King Felipe, who replaced his father Juan Carlos in 2014, faces the continually difficult task of restoring faith in the Spanish monarchy, caused by indiscretions of other royals.

Princess Cristina (below) will be the first Spanish royal to stand trial since the monarchy was restored in 1975. She faces up to four years in prison if convicted.

ALAMY, GETTY

Good month Bad month

An international tennis legend and the new chair of the PAC were all on the up last month, while the owner of Leeds United FC and an international court were less happy

RAFAEL NADAL

Tennis star Rafael Nadal benefited from relaxed tax rules, allowing his return to the Queen's Club. Nadal, absent from the pre-Wimbledon warm up for the last four years, told reporters heavy tax-liabilities had kept him away. "HMRC take from the sponsors, Babolet, from Nike and from my watches. This is very difficult," he complained back in 2011.

AIM

AIM, the market for growth companies, celebrated its 20th birthday. Since 1995 3,500 UK and international companies have raised £92bn through new and further issues, subsequently adding £25bn a year to the UK economy.

MEG HILLIER

Meg Hillier, Labour MP for Hackey South and Shoreditch, is the new chairman of the Public Accounts Committee (PAC). Replacing firebrand Margaret Hodge, Hillier pledged to adopt a polite and formal approach to those giving evidence, perhaps signalling the end of the PAC's combative days.

MASSIMO CELLINO

Cellino, the recently reinstated owner of Leeds United FC, is in tax trouble once more after failing to pay VAT on an imported Land Rover. Previously banned following a fine of £600,000 for not paying tax on a yacht, he was ordered to pay €40,000 (£28,400) on conviction of this latest customs offence.

CANDY BROTHERS

Property developing brothers Christian and Nicholas Candy raised eyebrows after a draft promo video hinted at dodgy tax affairs. Leaked to *The Guardian*, the footage was labelled "unhelpful" by an anonymous accountant after implying Christian had flouted tax exile rules.

ICC

The International Criminal Court was denied the chance to prosecute Sudanese president Omar al-Bashir. Bashir, who is wanted over war crimes in Sudan, fled a Johannesburg summit after the Pretoria High Court dithered over his arrest.

GETTY, REUTERS, REX_SHUTTERSTOCK

As I see it

Feroze Dada is chairman at Crowe Clark Whitehill (London) and author of *Children of the Revolution*

PHOTOGRAPHY: FELICITY MCCABE

I captained ICAEW's cricket side for over 10 years, the highlight of which was arranging the first fixture with HMRC... and winning.

I still I love to play the guitar and sing with my band, The Tax Pistols.

My current role as chairman is largely ambassadorial, giving me time to counsel clients, advise the board, travel and do charity work.

Being ambitious means nothing if you don't succeed in achieving your goals. It requires laser-like focus and total commitment.

CHILDHOOD AMBITION My ambition was to play cricket for Pakistan. I was advised that playing for an English county or league side would improve my chances for selection to a higher level in Pakistan, so when I was 19 I moved to England. But I wasn't prepared for the freezing conditions - once, we continued playing through a hailstorm!

FIRST SENIOR ROLE I qualified at Saffery Champness and joined Robson Rhodes in 1979 as a tax consultant. My job was to help with tax problem solving and generating new tax planning scenarios. This is where the idea of *Tax Notes* was conceived, a monthly tax update leaflet for non-tax senior staff that was a real success.

GOING IT ALONE In 1982 I left to set up my own practice. There was space in the market to serve high-net-worth individuals in a sophisticated way, in style and at a reasonable cost.

LIFE OF TRAVEL I consider myself a citizen of the world: I support the Pakistan cricket team; I savour the food, wine and charm of Tuscany; I consider London the most sophisticated city; and I love the kind and charitable people of Burma.

INSPIRING PERSON I first went to Burma to meet my wife's family in 2009 and encountered Major, a freedom fighter and one of the most remarkable people I have ever met.

BECOMING A WRITER What started out as Major's story ended up as my book, *Children of the Revolution*, all about Burma's struggle for freedom and its extraordinary people. I felt passionate about what I had discovered and the words flowed.

FUTURE PLANS I hope to bow out gracefully of professional practice and continue my work for The Inle Trust, a charity that supports a Burmese community. What drives me is passion. I've never feared doing something completely new.

From the top

New president Andrew Ratcliffe on how chartered accountancy can stay relevant to the public interest

When Zayn Malik announced he was leaving One Direction, Noel Gallagher – he of Oasis fame – came up with some perceptive advice in *Rolling Stone*. "Get a good accountant," he said, "as life is very long." So what should good accountants be doing today?

Although the general election is long past, the manifesto we launched beforehand, *Big Ideas from 1.5m Businesses*, is still relevant as a plan of action for what we as chartered accountants can do to help chart an ambitious course towards long-term sustainable prosperity for the UK.

Our manifesto was full of ideas on how to stimulate economic growth, strengthen public sector financial management, relieve the burden on business of our complex tax system and restore trust in good corporate behaviour. ICAEW is working hard to ensure that these recommendations are not forgotten. We have written to new chief secretary to the Treasury, Greg Hands, recommending a comprehensive financial review that considers managing the public sector's income, expenditure and balance sheet together, as well as using the Whole of Government Accounts as the primary source for strategic public policy planning.

We have urged the government to hold the EU referendum as soon as possible to reduce the uncertainty that is preventing many businesses from capital investment. And we are working on our response to the changes in the public's interpretation of legitimate tax behaviour – a defining issue for us over the next few years.

Our manifesto was also about ensuring that people's skills are relevant to the changing needs of the economy. We want every child to leave school equipped with skills for work and we want to see work experience restored to the school curriculum. We are doing our bit: through Access Accountancy, our work experience scheme that targets disadvantaged students, the ACA apprenticeship routes and the BASE game which this year was the largest ever, involving 3,500 students from 400 schools. I helped to judge the recent final in Birmingham – an inspiring and exhausting experience.

I spoke to the BASE finalists after the competition about how gaining our qualification is not an end in itself, but the start of being a professional and living by our code of ethics: integrity, objectivity, competence, confidentiality and maintaining our reputation by continually developing ICAEW to ensure it stays relevant to the public interest it serves.

I will do everything I can to champion the professionalism that is the "what" and the "how" of being a good chartered accountant.

Have your say email *president@icaew.com*

PHOTOGRAPHY: DOMINIK TYLER


FOR THE LIFE OF
YOUR DOCUMENT

The graph

In our round-up of last month's news we size up the world's accountancy bodies, assess Parliament repair costs, put a price on Formula 1 and the value of RBS

$8,000,000,000

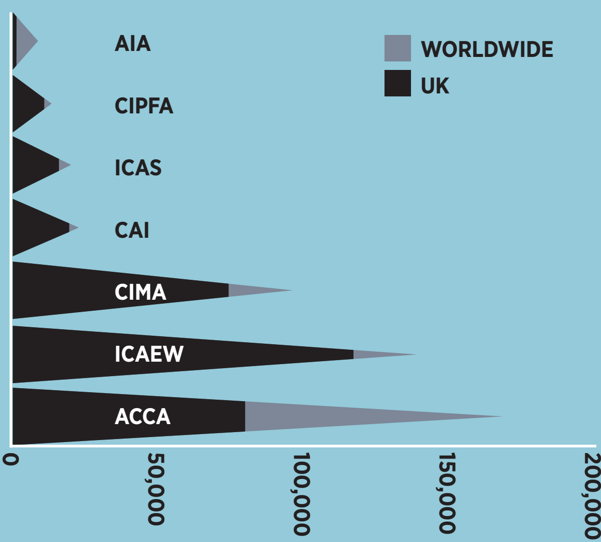
F1 bid Miami Dolphins owner Stephen Ross and investors in Qatar want to buy a stake in F1

Wearable technology

Fitbit, maker of fitness tracking wristbands, was in good shape following its IPO

The share sale raised **$732m**
Initially priced at **$20** a share, jumped to **$30.4** in early trading (**48.4% increase**)
10.9m devices sold last year, made **$131.8m** net income

Worldwide membership of accountancy bodies



Greek debt crisis

EU leaders spoke of "betrayal" as negotiations with the Greek government broke down. So what had Athens offered?

€7.9bn
The amount Athens promised to save over two years

3.9%
The proposed increase in pension contributions

€815m
Total raised by increasing corporate tax to 29% and a 12% tax on profits over €500,000

23%
Rate VAT band would be widened to

€200m
Proposed saving on the defence budget

2008 bailout
£45.8bn

Value of shares at time of sale in **2015**
£32.4bn

Restoration of Parliament

An independent report has priced up necessary restorations and repairs to the Houses of Parliament

£5.7bn
Pros: MPs don't move out, full restoration

£3.9bn
Cons: MPs move out for six years
Pros: A new visitor centre, including exhibition, education and conference facilities

£3.5bn
Cons: MPs move out for six years
Pros: A lift on Big Ben, a media centre, breakout and meeting areas

Tales from the frontline

Robert Maas, consultant at CBW, looks back at his 50 years as a tax practitioner – and his experience creating HMRC's inaugural self-assessment system

I may be 72 but I have no plans to retire. Each morning I wake up at 6.30am, eat a bowl of puffed wheat or cornflakes, watch a bit of television – often I'll watch documentaries but this morning I managed to fit in five episodes of *The Simpsons* – then I'm in the office by 10am. I'll clock off at 5.30pm and spend my evenings at jazz concerts or supporting West Ham United.

Some people might say it's time for me to hang up my hat but my routine works for me. Three weeks of holiday a year is all I need – this year I'll spend them on a cruise to Alaska – but the rest of the year I am quite honestly content spending my days practicing tax.

Since joining CBW two years ago I've done mainly tax consultancy work, but since I qualified in 1965 at a small London firm called Godwin and Taylor I've had all manner of experiences: I've been tax partner at Stoy Hayward, back when it was a tiny practice with only 11 partners. I've fallen out with those very partners over the development of the tax practice, started my own firm, Robert Maas and Co, and built it from a one-man practice where I paid my secretary more than me to a substantial firm that merged with Casson Beckman in 1983. And I fell out with that firm too! That led me to join Blackstone Franks, which is now part of CBW.

But what I am proudest of in those 50 years is being part of the consultative committee that established the self-assessment tax system – the biggest change in tax procedures in my lifetime.

I was a member of that committee throughout its life. I spent about 1,500 hours on self-assessment over three years – a fair chunk of my available time. Our main role was trying to put together a system that struck a balance between the needs of both sides.

In practice, I think that my contribution to the committee was to be awkward. I think HMRC felt that the outside people on the committee caused too much aggravation. And I was seen as the most aggravating of them all.

Self-assessment was tantamount to huge change. But I think most practitioners would agree it has turned out to be a change well worth making. However, that was 20 years ago and the current-day Revenue is incredibly different.

In particular, it has been starved of staff as a result of the government making very deep cuts and this has forced it to change some of its procedures. In doing so a lot of the safeguards of self assessment have disappeared and self assessment no longer works in the fair way that was originally intended.

Fortunately, as I continue as a volunteer for ICAEW's tax faculty, I am still in a position to get involved in the consultation on changes to tax procedures. One of the things I hope – and expect – the faculty will be consulted on is the proposal in March's budget to scrap annual self assessment tax returns in favour of a monthly online system.

If I'm honest, my gut reaction is that the measure hasn't been thought through. I think the government is rushing into this – and into the digital transition – far too quickly.

While in theory it's great for HMRC to say "we will pre-populate your tax return with the information we've got," that relies on the information they have being accurate. And often, it's not.

Though one thing I'm confident of is that, regardless of how that pans out, regardless of how quickly or slowly the digital revolution comes about, and whatever other changes HMRC makes in the 50 years to come, our expertise as tax practitioners will be relied upon as much as ever.

PHOTOGRAPHY: CHARLIE BEST

Book review

Five decades of economics commentary in one book? Amy Duff asks what's not to like

SOMETHING WILL TURN UP – BRITAIN'S ECONOMY, PAST, PRESENT AND FUTURE
DAVID SMITH
(PROFILE BOOKS, £14.99)

When a book by the economics editor of *The Sunday Times* lands on your desk, you sit up and take notice. David Smith, also the author of the popular guide to economics, *Free Lunch*, promises to lead readers through the mire of government policy and long-term trends by detailing how various chancellors, prime ministers, Bank of England governors and senior officials have managed the UK economy.

For those of you not familiar with Dickens, the title comes from *David Copperfield*'s character, Wilkins Micawber, whom, as Smith explains in his introduction, always believes "something will turn up", no matter how desperate or hard-up he is. "As I have become older I have become inclined to look for bright spots," writes Smith. "Something does turn up, even in the darkest times and deepest crises. The British economy is quite good at taking itself to the edge of the abyss and coming back."

And it's seen a few "national humiliations", as Smith documents across 10 chapters. From the economic reality of the 1960s and the "galling" manufacturing prowess of Germany and Japan through to the IMF crisis of 1976, the winter of discontent, the stock market crash of 1987, the 9/11 attacks on the US, the UK's loss of global influence and the financial crisis that started in 2007 – "the biggest crisis" – Smith explains how the economy has hit bad times but has been pulled back from the edge by politicians "doing the right thing when it was needed".

Left-leaning readers may balk at some of Smith's recollections. He has been economics editor at the Rupert Murdoch-owned Thunderer since 1989 – he is bound to think highly of Margaret Thatcher, less so of Gordon Brown. Nevertheless, his recollections by way of "constant dialogue" with chancellors including Nigel Lawson and Alistair Darling are riveting.

So what does Smith think the future holds, with George Osborne as chancellor and Canadian Mark Carney as governor of the Bank of England? Areas of vulnerability remain, says Smith. The deficit on the current accounts of the balance of payments; public finances and vulnerability to another downturn; and an ageing population. But there are reasons to be cheerful: the UK's booming creative sectors; the size of the British economy; and signs of regional revival. "I know that we have not said goodbye to uncertainty, instability and policy mistakes," he writes. "They are, after all, what makes it interesting."

IF YOU LIKE THE SOUND OF THIS, YOU MIGHT LIKE...

1. *Misbehaving: The Making of Behavioural Economics*, by Richard H Thaler (Penguin, £17.99)
2. *Think Like a Freak: Secrets of the Rogue Economist*, by Stephen J Dubner and Steven D Levitt (Penguin, £12.99)
3. *How Do We Fix This Mess?: The Economic Price of Having It All*, by Robert Peston (Hodder & Stoughton, £9.99)

Career clinic

Mark Freebairn worries about what will happen if Britain leaves Europe, a bit like Liverpool Football Club did...

Painful as it is for a Liverpool FC fan to start talking about Europe, we need to start. The business reaction to a Tory majority appears to have been a collective sigh of relief that there was a clear answer and that the party in power appreciates the need for a strong economy. But then the next worry set in – what happens if we leave Europe?

I understand why this is a concern. First, it's horrendously complex. There is nervousness about how this is debated in a way that ensures everyone can understand it well enough to know how to vote.

Second, there is greater nervousness that the argument supporting a 'yes' vote is at the more complex end of the spectrum and an argument supporting the 'no' vote really isn't.

How many jobs might be lost, the impact on exports, the impact on business more generally, the loss of position both in Europe and globally – these are all complicated and unwieldy arguments. Immigration and too much red tape are easy, emotion-filled points that clearly resonate with the whole of UKIP and a fair number of traditional Labour/Tory voters.

Third, even if a combination of business and politicians formulate a reasoned, impassioned sound bite supporting staying in Europe, who will present it and will anyone listen?

Fourth, a third view on Europe is evolving. One that says that Europe in its current state is not an optimum partner, but that a renegotiated relationship with Europe is. That's hard to disagree with – but the risk is that all the many proponents of that point of view end up looking like 'no' voters because the subtleties of their point get lost in the reporting.

Fifth, over time, several key business figures are growing more anti-Europe. So the risk of a very splintered and watered down 'yes' campaign increases.

Collectively, business and the media have to engage with each other on this topic and ensure that the debate is heard and read, far and wide. I am sure *economia* will be one of the flag bearers for this but coverage has to be wider ranging than that.

We all will have our part to play so let's get the ball rolling early. Mid-August, if the Europa Cup timetable is to be believed.

ICAEW news and events

Winners of Tax Faculty essay and BASE business game competitions celebrate, while ICAEW regulation draws plaudits

TAXING SUCCESS

Smith & Williamson tax senior Alexandra Moss has won first prize in the annual ICAEW Tax Faculty essay competition for her essay *A person's home may be their castle but should the family home be taxed and, if so, how and when?*

She was awarded her prize - £1,000 cash, a set of Tolley's Yellow and Orange Tax Handbooks and a complete set of Tolley's Tax Annuals - by Treasury financial secretary David Gauke.

Moss, a tax senior who recently sat her CTA exams, said: "I really enjoyed applying the practical lessons of my role within the private client tax services team at Smith & Williamson, as well as academic research."

Runner-up prizes of £250 plus a set of Tolley's Yellow and Orange Handbooks went to Chen Huo and Meixi Pu, who are both studying at Manchester Business School, and to Naomi Wells of Wilkins Kennedy, who was also a runner-up last year.

The competition is open to people under the age of 30 and their essay must express some fresh ideas on how to tackle old problems. Faculty technical manager Anita Monteith said: "Tax continues to dominate the political and media agenda and the fact that these students and young accountants have presented their ideas to such a high standard is reassuring for the future."

FROM BASE TO THE TOP

Another group of young people were celebrating success last month as the year-long ICAEW BASE game came to its climax in Birmingham.

Of the teams from the 500 UK schools and FE colleges to participate in the regional heats, 46 fought their way through to the final. Each team was required to make a presentation giving business advice about a tough business situation involving the media industry.

The winning team - Simon Langton Grammar School for Boys in Canterbury - was chosen by judges drawn from the media industry, including directors from Sky, BBC, Disney and ITV. They won a dedicated champions' day, lunch at Chartered Accountants' Hall, £500 for each team member and a full-day employability skills workshop for their school.

Disney director Sarah Williams said she was "deeply impressed" by the talent at BASE. "It's so important that young people start thinking about their skills and their readiness for the workplace well before they begin applying for jobs," she stressed.

"Businesses need to be receptive too and competitions like these are great ways to get schools, employers and young people working together to improve skills."

INSOLVENCY SEAL OF APPROVAL

ICAEW's insolvency regulatory and disciplinary activities have passed their first Insolvency Service monitoring visit with flying colours.

The regulator concluded ICAEW had strong controls in place for monitoring insolvency practitioners and determining disciplinary outcomes, and it adopted a "robust approach" to SIP 16 compliance.

The inspectors did find weaknesses relating to the authorisation of insolvency practitioners and bonding arrangements but described them as "relatively isolated and historical incidents". The inspectors will be back in the autumn to assess how changes ICAEW has made to meet issues concerned are working.

ICAEW director Bob Pinder said: "As the largest insolvency regulator, we continue to work with the Insolvency Service to ensure that the UK insolvency process continues to be fair and transparent. An effective insolvency profession helps preserve jobs and drive business growth."

ICAEW licenses 724 practitioners of whom 577 are authorised to take insolvency appointments.

724 The number of insolvency practitioners licensed by ICAEW

EVENTS

16, 20, 29 JULY
YOU ONLY RETIRE ONCE!
A series of three seminars looking at retirement in the context of current changes. They will highlight the pitfalls and consider the options available. Free to all retired members and those approaching retirement. Crawley, Canterbury and Guildford

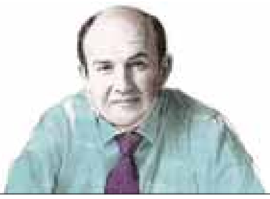
22 JULY
INTERIM MANAGEMENT
Evening networking event for interim managers to discuss tax solutions for contractors and freelancers as well as likely future trends in interim management. London

22 JULY, 6 AUGUST
BUSINESS FUTURES
Two more events covering the second stage of the ICAEW business futures project, looking at changes in the business environment during the next 30 years. Topics for discussion include public spending, urbanisation and energy and natural resources. Birmingham, Exeter

25-26 AUGUST
NATIONAL TAX CONFERENCE 2015
This two-day conference, which is jointly organised by the Inland Revenue Board of Malaysia and the Chartered Tax Institute of Malaysia takes as its theme, "Partnering Stakeholders in a Challenging Environment". Topics on the agenda include cross border taxation in ASEAN and enhancing tax compliance (issues and findings). Kuala Lumpur

3 SEPTEMBER
CONCEPTUAL FRAMEWORK
This event will debate the IASB's proposals for a revised conceptual framework, including key issues such as measurement in financial reporting and the role of prudence. London

Michael Izza



"We must continue to think about the value we can add to the business world"

When I started as a trainee chartered accountant in 1983, the impact of computers on the workplace was just about to go mainstream. There were a small number of clients who still completed ledgers by hand. It was the year that Compaq introduced the first PC clone that used the same software as the IBM PC. In theory, they were portable - though you needed to be a weightlifter to carry one. And only managers, not assistants like me, were allowed to use them.

Since my early days in the profession we have come a very long way. Technology is impacting on everything we do faster than ever - whether it's how we deliver our exams, communicate with members, or even go about our regulatory monitoring. Here at ICAEW, the IT Faculty, which was once perceived as a minority interest, has become core to everything we do and how we are thinking about the future. Whenever we go overseas and ask our members what roadshows they want from us, IT - including cyber security, big data, cloud computing - comes up every time.

All this leads me to ask two questions about how we support members going forward. The first is should we be doing more to help our members keep pace with this constantly changing area and, if so, what are the areas that members would most value? The second relates to future generations and ensuring that the ACA continues to have the right technical content for those who aspire to be ICAEW members and to be comfortable that it provides a base for them to still be enjoying a career as a chartered accountant in 30 or 40 years' time.

We are already seeing the chartered accountant's role change as software can perform calculations and analysis more quickly, accurately and efficiently than we can. So we have to continue to think about the value we can add to the business world through use of judgement, scepticism, perspective and ethics.

At our recent council conference we debated the impact of technology on our future as an institute in terms of competitor operations in our home and target markets. Sample scenarios might see our competitors merging or forming powerful new alliances across borders and even oceans, or a new multibillion dollar player in the professional training market. Others might reference the relentless expansion of the Chinese accountancy profession (currently set to reach three million by 2020), or suggest the development of a cloud-based accounting tool that can share knowledge, thinking and best practice. All could be game-changing but not necessarily in a negative way.

I would be really interested in hearing your views too (chief.executive@icaew.com).

Michael Izza
ICAEW chief executive

TOP 5 MOST READ STORIES ONLINE

1. Big Four still unstoppable in the audit game
2. Greg Dyke questions KPMG's FIFA audit
3. RSM renames over 100 firms
4. Grant Thornton boss caps pay
5. John Lewis drops PwC for KPMG

Your feedback

TRIPLE CROWN

Three excellent pauses for thought in the May issue. First, the leader on what makes a "good citizen" as opposed to "not a criminal", and how does this transfer across to what makes a "good company"? If we apply the same principles to both there are surely few good companies in the FTSE 100.

Second, Sacha Romanovitch. Her aim is to evolve Grant Thornton's focus from profit, scale and market share to value creation for clients and to be seen as the "go-to firm for growth". A small change: instead of the target being internal profits, achieved by serving clients; it becomes serving clients, which will result in profits. The two are clearly linked, she has just turned it the right way round.

Third, *Lufthansa fallout* in *In Review*. They are setting aside $300m (£201m). Compensation per passenger is set at $157,000 (£145,000). I know the exchange rate can move fast, but... I remember now why we always checked over accounts very carefully before sending them out!

An excellent magazine, as always!

Alex Hewlett

TRUST IN BUSINESS

One good reason for the "wider disaffection with business" (Leader, May) is the enormous disparity between top salaries and those at the bottom. The ratio between them has grown over the years and is now completely unreasonable. Is there anyone in the world worth £1,000,000 pa?

David I Marks FCA

DEBATE ON VAT

VAT is intrinsically unfair (*Is VAT the most effective tool to fill the hole in public finances?*, May). The real cost to someone on low income is obviously greater than that to a 40% taxpayer. A rate of 20% is already excessive - 15% should be regarded as the absolute maximum. A

high VAT rate gives greater encouragement to the "grey economy" and is thus additionally undesirable.
WJ Price FCA

LEAVING THE EU

I find it infuriating that your magazine, which purports to represent all chartered accountants, instructs us to stay in that hated, undemocratic and corrupt organisation (Leader, June). I use the word corrupt as the EU's auditors have been unable to sign off its accounts for 19 years. How can a magazine representing chartered accountants accept that? Have you taken a poll of chartered accountants to see what our majority opinion is?

I have noted before that your magazine seems to veer to the left politically and would request that in future either you balance such opinions by including right wing opinions also or, better still, remain a neutral voice on such matters.

I am sure I am not the only reader who will be incensed by your editorial.
WD Barnes FCA

When did the members of the Institute endorse a position on the forthcoming EU debate? If this has not been determined, on what authority does *economia* take the strident stance of your June editorial?

Will *The Graph* in July feature a splash of how much EU exit could benefit the economy by 2030 given that in June you published a guess of the possible cost by 2030?

Or perhaps another guess at the cost – after all every base assumption will be open to question? In truth publishing such alarmist nonsense does the credibility of the magazine no good at all.

EU membership really comes down to a very simple question – are our sovereignty and democracy for sale?
David Livett FCA

Your June 2015 editorial suggests that the debate so far has been framed by hard economic facts from supporters of the EU as opposed to "EU detractors, who speak the more emotive language of nationalism". There is actually a strong economic case for Brexit, as enunciated by such as the Conservative MEP Daniel Hannan and various City figures. The economic pros and cons of the argument deserve exploration in the debate that you say you will welcome.

So far, we have only been presented with soundbites such as claims that 50% of our exports go to the EU, but which don't mention the significant trade deficit the UK actually runs with the EU. We do not yet know whether the unspecified "major reforms" that your editorial demands, will be achieved and if not, whether there will still be cause for "pushing the positive case for the UK to remain in".

One of your contributors contrasts approvingly the "consensual basis" of the EU operation versus the Westminster "us/them, right/wrong" style of government. However, it is when everyone is categorised as "us" and no one may be voted out that abuses may occur. Perhaps the inability of auditors ever to sign off the EU accounts is an unresolved symptom of this.

I believe that *economia* would provide an excellent forum for honest and knowledgeable debate, with hopefully the proponents of In versus Out equally represented.
CJ Stewart FCA

LEADING GRANT THORNTON

Nick Lambert was obviously a partner after my time but he is wrong (Letters, June). Sacha Romanovitch is the first woman to take the top job at Grant Thornton. Anne Baldwin was in Leicester or Northampton before becoming "partner in charge" of the Bristol office. She had responsibility for staff (or is it now HR?) I remember Anne being admitted as a partner, long before we had CEOs. I think I also remember she left to start a family and so disappeared – not forgotten.
Terry Hayes

Online comment on Meg Hillier becoming new PAC chairman

The Public Accounts Committee has been a toothless tiger. It has achieved very little. Taxes have become more complex and less functional during Margaret Hodge's time so she must be considered a failure. Let's hope the new chairman does better.
Epping Blogger

Online comment on the IMF's tough choice on Greece

I would like to know why IMF policies, which have worked well in many cases over many years, are not working for Greece. Also, why Ireland has been able to recover, using those same policies, with Portugal and Spain following suit? What is so special about Greece? I could not find the answer in Professor Galbraith's article.
Michael Stevens

The Greek economy needs to be revived and grown if the creditors want any of their debts to be repaid. This requires a balanced, multi-pronged approach.
Tareq Rahman

The *economia* website is regularly updated with news and technical stories. To join the debate, visit economia.icaew.com

Either email us at economia@icaew.com, comment online, or write to us at *economia*, Progressive Customer Publishing, 20 Farringdon Road, London EC1M 3HE.

Letters and comments may be edited for clarity and space.

Views expressed by letter writers are not necessarily shared by ICAEW or *economia*

Bronwen Maddox

"Will wage growth support Cameron's dream that Britain will become a higher wage economy?"

David Cameron and his team had fun during the election campaign pouring scorn on Ed Miliband for pointing at prices and saying they should be higher, or lower. Energy prices (too high); property rental costs (too high); wages (too low); the Labour leader planned to correct them by legislation. Now, though, the prime minister appears to be doing something similar. In his first major speech on welfare, he revealed that he would stick to the campaign pledge to cut £12bn from the total welfare bill – a promise that many thought was a ploy to be traded away with the LibDem coalition partners he presumed he would have.

In a three-pronged attack, flanked by George Osborne and Iain Duncan Smith (not until now allies, and that is an understatement), he said that part of the saving would come from withdrawing tax credits from those in work, a system introduced to top up low pay. It was ridiculous that the government taxed workers with one hand and repaid them with another, he said.

Here's the crunch – he said he would rely on employers to raise wages to make up the shortfall. Britain would change into a low tax, higher wage economy. Unlike Miliband, he appears to be relying on the market not legislation to bring about profound social change, but his declaration prompted a volley of retorts that this policy owed more to wishful thinking than to economics. There are a few reasons why the policy might prompt some change – but it remains a risky manoeuvre.

WAGES ARE RISING

The first point in his favour is that he has announced it while wages are rising faster than for years. The number of people out of work between February and April fell by 43,000 to 1.81 million, says the Office for National Statistics, while the number in work, at 31.05 million, was 114,000 higher than in the previous three-month period. Among women, a record 68.6% were in work. Unemployment, at 5.5%, was the lowest since August 2008, while wages rose by 2.7%, the fastest rate since August 2011.

These figures extend the 'jobs miracle' of which the Tories boasted in the campaign, and which, in retrospect, may have underpinned their election success even though the polls appeared to show it having little effect.

The retort, with some justice, has been that many of these jobs have been insecure and low paid (although many are also in the broadly-defined professional class). This latest evidence appears to show that this complaint is losing its force. In that case, will wage growth support Cameron's dream that Britain will become a higher wage economy?

OIL PRICES FALLING

Not so fast. Analysts point to two reasons why this small jump in wages might be a one-off. One is the fall in the oil price, which has given companies a little more room to raise wages. The other is broader economic growth, with the same effect. But questions remain about whether continued immigration, right across the spectrum of skills, will help depress wages. Above all, however, there is the fact that productivity – the amount produced by each worker per hour – has not increased. That has traditionally been the engine of rising wages and living standards. But over the past couple of decades, it has stalled.

Without higher productivity, it is hard to see any substantial, sustained rise in wages. As successive governments have found, there are no quick fixes, only the steady, gruelling improvement of education, skills and infrastructure. Cameron may, by pointing at where wages fall below the 'living wage' needed to buy basic goods (£9.15 an hour in London, compared to £7.85 elsewhere, and compared to the £6.50 minimum wage) shame some companies into paying more. The minimum wage will rise to £6.70 an hour from October this year. But these are small measures.

The danger of his welfare reforms is that they will cut benefits from those who are in work but struggling, and that the mixture of the market and social and government pressure that he is invoking will not make up the difference. In which case, he will be as guilty as Miliband was of pointing at a price and finding it distasteful but offering little solution other than wishful thinking.

Bronwen Maddox is editor of *Prospect* magazine

George Magnus

"We have to develop mechanisms to try and boost output, which is precisely what a rising age structure is compressing"

How can we provide for ageing societies? At first sight, age-related spending is either going to drive us deeper into debt from a bad starting position, or force us to take drastic and unpopular measures. But it doesn't have to be like this. There are coping mechanisms we can deploy.

The Spanish film director Luis Buñuel once quipped that age was not important unless you're a cheese. As individuals, we can applaud. Collectively though, it's more complex. The economic consequences of rapid ageing are starting to become more apparent and we need to start developing coping mechanisms.

In the UK, for example, the Office for Budget Responsibility (OBR) recently published a report on fiscal sustainability, showing the unaffordable financial burden of age-related public spending. It illustrates that even if the government succeeded in its goal to clip 5% off the share of public spending in GDP by the end of this parliament, its best efforts would be completely undone subsequently by the economic consequences of rapid ageing. These costs are, of course, ubiquitous in the global economy. They arise from the unprecedented rise in the old-age dependency ratio.

MARKED CHANGE

In developed economies the proportion of over 65s to working-age people aged 15-64, is predicted to rise from 26% to 44% by 2050. Put another way, the number of workers per retiree will fall from almost 4 to just over 2. In some countries, such as Japan, Germany and Italy, the change is even more marked. The rise in dependency stems directly from the unique combination of weak fertility and increasing life expectancy, and is the principle driver of the surge in pension and healthcare spending.

For the UK, the change in the public spending share of GDP over the long term, largely due to ageing, will be £79bn in today's money, or not far short of 5% of GDP. For advanced economies in general, the IMF reckons that the net present value of age-related spending to 2050 under current laws amounts to about 81% of today's GDP, exceeding the median level of total public debt to GDP in 2014 by 10% of GDP. This captures the scale of current future commitments and begs critical questions as to who will pay, and how?

Since 2011, many countries have, voluntarily or under pressure from creditors, tried to lower future commitments, for example, by raising the retirement age, changing pension benefit formulae and streamlining healthcare administration and costs. But it is impossible and undesirable to continue relentlessly along this path without a growing risk of widespread pensioner poverty and a savaging of healthcare services and coverage. Instead, we have to develop coping mechanisms to try and boost the output of the workforce, which is precisely what a rising age structure is compressing.

IMMIGRATION AND LABOUR

Coherent immigration policies help. Slower ageing and steady working age population growth occur in countries such as the US, Canada, and Australia, where net immigration is higher. Higher labour force participation rates for women and older workers contribute too. Slower ageing and higher fertility occur, for example, in Scandinavia, where female participation is higher thanks to universal and affordable childcare. Higher retirement or pensionable ages, along with phased retirement schemes, and innovative company schemes for worker retention are already raising participation rates for older citizens in some countries.

Higher productivity growth would be a godsend to help provide for ageing societies, but realising it is complex and currently elusive. But governments and companies should work tirelessly to understand why this is so and how we can use technology to improve it. We also need to think how we redefine the entitlement rights and obligations of citizens and the state to suit circumstances that bear no resemblance to those in which our current pension and healthcare systems were hatched.

We have banked our demographic dividend, which helped to deliver prosperity over the last decades, and now need to engage people in a wide-ranging discussion about why and how we need to manage the economics of ageing.

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

Axel Weber

“Within a complex economy, a simplistic inflation-targeting framework will not stablise the value of money”

Over the last two decades, inflation targeting has become the predominant monetary-policy framework. It has been essentially (though not explicitly) adopted by major central banks. But the 2008 global economic crisis has cast serious doubt on this approach.

The Bank for International Settlements has long argued that pure inflation targeting is not compatible with financial stability. It does not take into account the financial cycle, and thus produces excessively expansionary and asymmetric monetary policy.

Moreover, a major argument in favour of inflation targeting – that it has contributed to a decline in inflation since the early 1990s – is questionable. Disinflation actually began in the early 1980s. And, from the 1990s on, globalisation has probably been the main reason for the decline in global inflationary pressure.

CENTRAL BANKS

A more recent indication that inflation targeting has not caused the disinflation seen since the 1990s is the unsuccessful effort by central banks to reflate their economies. If central banks are unable to increase inflation, it stands to reason that they may not have been instrumental in reducing it.

The original objective of central banks was not consumer-price stability but to provide war financing to governments. It was not until the excessive inflation of the 1970s that central banks discovered – or, in a sense, rediscovered – the desirability of keeping the value of money stable.

But how to measure the value of money? One approach centres on prices, with the consumer price index (CPI) appearing the most obvious indicator. The problem is that the relationship between the money supply (which ultimately determines the value of money) and prices is unstable. The lag time between changes in the money supply and price movements is long, variable, and unpredictable. So targeting consumer prices in the next two to three years will not guarantee that the value of money remains stable in the long term.

Monetary policy has been shaped by an imprecise, small, and shrinking subset of prices that exhibits long and variable lags vis-à-vis changes in the money supply. Monetary policymakers’ efforts to operationalise the objective of ensuring that the value of money remains stable has taken on a life of its own. Today’s economics textbooks assume that a primary objective of central banks is to stabilise consumer prices, rather than the value of money.

MONEY SUPPLY

Economists now understand inflation as a rise in consumer prices, not as a decline in the value of money resulting from an excessive increase in the money supply. Central banks deny responsibility for any prices other than consumer prices, ignoring that the value of money is reflected in all prices.

Central banks’ exclusive focus on consumer prices may even be counterproductive. By undermining the efficient allocation of capital and fostering mal-investment, CPI-focused monetary policy is distorting economic structures.

Within a complex and constantly evolving economy, a simplistic inflation-targeting framework will not stabilise the value of money. Only an equally complex and highly adaptable monetary-policy approach – one that emphasises risk management and reliance on policymakers’ judgement, rather than a clear-cut formula – can do that. Such an approach would be less predictable and eliminate forward guidance, discouraging excessive risk-taking and reducing moral hazard.

In the last quarter of the 20th century, many central banks used intermediate targets, including monetary aggregates. Such targets could potentially be applied to credit, interest rates, exchange rates, risk premiums, and/or intermediate-goods prices.

Short-term consumer-price stability does not guarantee economic, financial, or monetary stability. It is time for central banks to accept this fact and adopt a comprehensive, long-term monetary-policy approach – even if it means that, in the short term, consumer-price inflation deviates from what is currently understood as “price stability.” Temporary fluctuations in a narrow and imprecisely measured CPI are a small price to pay to secure the long-term stability of money.

Axel Weber is chairman of the board of UBS Group, a former president of the Deutsche Bundesbank, and a former member of the governing council of the European Central Bank.

TAKING THE RISK OUT OF FINAL SALARY PENSION SCHEMES

Increases in life expectancy, falling bond yields and stock markets at levels of 15 years ago have created a perfect storm for many companies with final salary pension schemes, Joanne Christie finds

Increases in life expectancy, a prolonged period of low gilt yields and falling corporate bond yields have created a perform storm for many companies with final salary pension schemes. And while almost all have been transferring both new and existing members away from defined benefit schemes and towards defined contribution schemes for several years now, most are still struggling to match their scheme's assets with its liabilities.

Many pension scheme trustees, perhaps in partnership with finance directors, have so far looked to de-risk by reducing the risk profile of their assets. This might mean moving from equities to bonds and then to gilts. But the lower risk assets still don't provide a perfect match for the ultra long-term liabilities; a 45-year-old married member may not start drawing a pension till 2035 and this may continue to be paid until, say, 2060. Not many asset classes can guarantee an inflation-proofed income over that period. Uncertainty over future life expectancy compounds the issue.

These risks have a big impact on liabilities, which would largely explain the continued size of the aggregate deficit in UK DB pension schemes – £242bn at the end of April 2015, despite company deficit reduction contributions of £250bn over the past five years.

The ideal way to de-risk, of course, is to move the schemes off their books

Many pension scheme trustees have so far looked to de-risk by reducing the risk profile of their assets

entirely. However, as companiess have made a promise to pay pension fund members their benefits for as long as they live and because legislation requires this promise be honoured, the only way they can do this is to transfer the commitment to an insurance company.

Insurers such as specialist Pension Insurance Corporation (PIC) will take over a company's defined benefit scheme obligation, either in its entirety through a buy-out, or in stages through buy-ins. A buy-out transfers the entire liability of a pension scheme to an insurance company and the scheme is wound up. Members are then given a policy by the insurer that states that it will provide the benefits promised. The company has no further involvement, obligation or risk exposure.

A buy-in is similar, but applies only to a specific, pre-determined, tranche of pension scheme members, typically the retired members or a portion of them. The pension scheme remains in place and the insurer provides a stream of income to the trustees. This removes all the risks associated with paying pensions from that stream of income.

Insurers are regulated ultimately by the Bank of England and have to hold significant solvency capital over and above the value of liabilities. This ensures safety and security for members but in turn, an insurer will assess what amount of assets they would require to be transferred to them to accept the liability. This will be greater than the liabilities stated in the company accounts and also typically higher than the scheme's technical provisions.

These types of de-risking options are becoming increasingly popular with large listed companies, Jay Shah, head of origination at PIC, told a group of finance directors at the recent ICAEW Finance Director Conference.

"This is becoming more routine and more established and the sort of thing that the largest listed companies are looking at," Shah told delegates at a breakout session entitled DB pension buy-ins and buy-outs.

Last year the value of such transactions totalled about £14bn, and while currently this represents a yearly transfer of only about 1% per year of the total liabilities of final salary pensions in the UK's private sector, Shah said interest is growing among those in charge of pension funds.

But while companies are keener than

£242bn
aggregate deficit in UK DB pension schemes

£14bn
total value of pension scheme de-risking transactions last year

ever to get pension liabilities off their balance sheet, many cannot afford to do so via a full buy-out due to the amount of assets required by insurance companies to take over the liabilities.

Shah said that while most companies' balance sheets show a deficit between the assets and the liabilities of a defined benefit pension scheme, most underestimate the gap between the two.

"We tend to find that most pension schemes are still understating life expectancy. There has been a huge catch-up over the last few years but I would still expect it to be more than people are estimating," he explained.

He said insurers are also typically more conservative than companies in their estimates of net present value and investment risk, so the value they put on a company's liabilities can be higher than the company's view, depending on how well they have been advised.

While Shah said the gap varies by pension scheme, there's no doubt there is often a significant gap to fill. However, companies have a strong motivation to find ways to do so, he said, particularly during times of corporate activity such as merging with another company, spinning off a subsidiary or closing down an operation.

"We've tracked the positive reaction of the market in terms of the share price for quoted companies on the day they made an announcement around de-risking their pension scheme, either with a buy-in or buy-out," he explained. "The market is already factoring a much higher level of liabilities than what is published in the annual report, a recent study by Llewellyn Consulting put that figure at around 20% higher, which feeds directly into the share price. The one thing that investors are worried about is uncertainty."

Insurers are typically more conservative than companies in their estimates of net present value and investment risk

With the weight of pension fund liabilities hanging over the shares of many listed companies, Shah said most pension scheme sponsors' ultimate aim is a de-risking plan that involves a full buy-out. In the meantime, however, many of those that can't afford to fund the gap between their own estimate of liabilities and an insurer's are opting for a partial solution via a buy-in.

For example, last year PIC, which accounts for about one quarter of the buy-in/buy-out market, undertook a buy-in worth £1.6m for energy operator Total, PIC's largest deal and the second-largest buy-in transaction to date. PIC took over responsibility for all the retired members of Total's defined benefit scheme.

"This is a good example of a partial solution," said Shah. "You are not tackling the whole scheme in one go, you are tackling a part of it."

Many companies start the process of transferring away risk with members of their schemes who are already retired as there is less divergence in the views between companies and insurers of the risk attached to these members for two main reasons: their age means there is less time for their life expectancy to change; and the assets held against pensioner liabilities are usually low risk.

In the case of the £500m buy-in PIC did with Cadbury in 2009, the food company transferred only half of its pensioner members. Shah predicts that as companies find the deficits in their pension schemes narrowing, they will increasingly look to buy-outs or buy-ins as they seek to move away from their defined benefit schemes. Buy-ins will remain more popular in the meantime

"Every survey you look at around companies and trustees' views on where they want to go with a pension scheme will tend to talk about a journey plan, or a de-risking plan, that ultimately involves a full buy-out. It might be over the next 12 months, it might be over 12 years but directionally most pension scheme sponsors are saying 'this is where we want to go'."

Raising the bar

Practising as a criminal and regulatory lawyer for the last 20 years has exposed **David Kirk** to all sorts of economic misdemeanours. So how, asks Amy Duff, has he kept his equanimity intact?

Photography: Kalpesh Lathigra   Grooming: Sarah Bullett

In June this year, the Bank of England governor Mark Carney gave a speech at the Lord Mayor's banquet in which he warned that "the age of irresponsibility is over". Numerous incidents of misconduct had undercut public trust, he said, with direct economic consequences: "Criminal sanctions should be updated, with market abuse rules extended and maximum prison terms lengthened."

Top fraud lawyer David Kirk, who is currently chairman of ICAEW's anti-fraud charity, the Fraud Advisory Panel, and partner at US law firm McGuireWoods, is as keen as Carney to take out those doing wrong. "I regard middle-class dishonesty, the sort of casual fraud committed by someone who should know better, who is then thoroughly dishonest about it, as a very serious matter," says the mild-mannered lawyer serenely during the interview. "People with privileges and advantages who are behaving that way deserve whatever they get."

As a prosecutor and a defence lawyer in a career spanning 30 years, Kirk has seen more than his fair share of bad behaviour. His first job in 1976 was as a senior legal adviser for the Department of Public Prosecutions (DPP) where he prosecuted a range of serious cases including murder, rape and armed robbery. "It was a fantastic job, really interesting work in my home patch (I come from Dorset). The only snag was that I was transferred to the fraud division after two years, and I spent five years trying to get out of it! Compared with all the fun and frolic of travelling around the south of England it wasn't great," he deadpans.

When he was seconded to the Law Officers' Department in 1985, he advised the Attorney General [Sir Michael Havers and then Sir Patrick Mayhew] on a range of criminal matters, including setting up the Crown Prosecution Service (CPS) in 1986, setting up the Serious Fraud Office (SFO) in 1988, plus bribery and corruption cases.

He would then spend 20 years away from the public sector working on criminal fraud as partner and then managing partner at City firms Stephenson Harwood (where he acted for clients in SFO, CPS and Inland Revenue prosecutions, including the Guinness and Blue Arrow investigations) and Simons Muirhead & Burton.

When the CPS came calling in 2006 he told them they must be joking. He knew it would mean a pay cut and going back into a government-funded department. But curiosity got the better of him and when he was offered the job, he could see the benefits: "No more time recording, no more billing, no more marketing, no more wrangling over clients."

And so it was that he worked for the CPS for what turned out to be three "interesting" years before moving to become chief criminal counsel at the Financial Conduct Authority (FCA). That move came after a serendipitous meeting with Margaret Cole, who was then the director of enforcement. Cole convinced him to work with her rather than take a job back in the private sector with one of the magic circle firms. "I suppose they wanted someone with some profile and credibility and that again was a really interesting job. I did that for five years."

Did that early experience at the DPP forever shape the way he views humanity? "It taught me how to deal with criminal matters," reflects Kirk cheerfully. "It must never be personal because if it becomes personal you probably haven't done a very good job. You focus on the things that matter; be as objective as possible. I think I'm quite humane, quite forgiving," he says of his temperament. "I understand how people can get in a mess. I've seen so many cases where accountants have been blamed for not being as probing as perhaps they should have been. That's a very harsh judgement, often. Of course they should be probing and objective, but spotting that something is going seriously wrong can sometimes be difficult. I can't feel it in my heart to be harsh about it."

But if you're fleecing senior citizens, insider dealing, cooking the books, taking backhanders, stealing someone's identity, scamming, tricking and rigging, then that's another matter. Which is why Kirk takes such pleasure in his role as chairman of the Fraud Advisory Panel. Set up in 1998 by ICAEW, its board members come from across sectors and professions to collaborate on fighting fraud and training organisations as well as the general public how to prevent, detect and report it.

"We lobby as much as we can for what we consider to be the right approach [to tackling fraud]," explains Kirk. "At the same time, we lobby for proper funding. If you assume that fraud is costing the economy at least £50bn (I suspect it's more like £100bn) it must surely be worth spending £1m or so on the resources to fight this," he argues. "And they penny pinch. The SFO's funding is ridiculous. They shouldn't have to go cap in hand to the Treasury and ask for more. You can't plan properly; you can't have your staff trained and ready. My time at the CPS showed that if you did have proper funding it made a huge difference to morale, to capacity."

The country can be brought to its knees economically by financial crime or misconduct, he adds passionately. "It has been brought to its knees."

The battle doesn't get any easier. Proving a crime and prosecuting is hard, says Kirk, and it is becoming increasingly complex. In some areas, fraud is also on the rise: Kirk specifically refers to cyber, boiler room [where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares] and insider information.

Technology is one reason that fraud is on the rise and difficult to prosecute. The early insider dealing cases were relatively straightforward, explains Kirk. An opportunistic individual passed on insider information to another individual who traded and they shared the proceeds. "When it becomes more complicated is when you have an insider dealer ring; a group of people who are taking advantage of information which is provided by an insider, typically in a bank. It might be a firm of accountants doing corporate finance work. That information is passed on to a second party and then a third party, and they are usually very sophisticated in the way they communicate." Tracing the trading history, the movement of information, the funds and proving that the information was price sensitive "is a very complicated business".

> **"The SFO's funding is ridiculous. They shouldn't have to go cap in hand to the Treasury. My time at the CPS showed that if you did have proper funding it made a huge difference to morale, to capacity"**

There's also "unauthorised business", or fraud that happens on the perimeter of regulated activity, which continues to be significant, says Kirk. "The kinds of things that are just over the perimeter are the people [in boiler rooms] who sell bogus shares - wine, carbon credits, land - who are providing investment advice, but they're just career criminals. They used to be armed robbers but decided this is safer. They do it from Spain, from Thailand, cold calling vulnerable, often quite elderly people."

He recalls a conversation fairly recently with the entertainments manager of a cruise liner where he advised him to host a lecture to the guests, who were mostly in their 70s and 80s, on how to avoid being scammed. He was only half joking: "They've got money that they want to invest and get a better return on – they're the demographic for those sorts of scams." And people still fall for them. "I'm not surprised because I know these people are extremely good at what they do. It's a really clever, horrible way of doing things."

That's why Kirk is just as keen as the rest of us to see justice done. He understands the anger over the perceived lack of punishment for economic criminals, indeed, he has heard the phrase 'the bankers got away with it', or 'bankers are bastards', often. Libor, he acknowledges, was initially only treated as a regulatory matter. But it fuelled a public and media outcry and turned into a criminal investigation by the SFO in June 2012.

"Fred Goodwin [ex-RBS chief executive] is the high point of this," reflects Kirk. "Why wasn't any action taken whatsoever, even regulatory action? A lot of soul searching was done about RBS. There was an inquiry by the FCA into their own work, there's an inquiry at the moment on HBOS and why people weren't brought to book. What one can say is it is extremely difficult. There's the board of a huge, complicated organisation like RBS, making decisions which on a good day results in the Queen's Award for Industry and on a bad day leads to a whole lot of nasty stuff coming out of the woodwork. Judging decisions that are taken at that level as being criminal is really very difficult indeed," he says.

He's not sure, either, how effective the Financial Services (Banking Reform) Act 2013 Section 36 will be. Section 36, he explains, says that if you're a senior banker of a senior bank, and you make a decision that causes the bank to fall over, you're guilty of an offence. "I'm sorry – that's not going to happen. Life isn't like that. One decision can't be pinned on one person for a start. You've got accountants all over it, lawyers advising, your team at the bank. It's not inconceivable that some bullying chairman could force his judgement against the better judgement of everyone else. But then to say, 'that is the thing that makes the bank fall over'... A global financial disaster is more likely to be the cause," suggests Kirk.

"Efforts are being made to bring the top brass to book but it's a bit like closing the stable door after the horse has bolted," he adds. "Lessons will be learned but only for a short time. When there's another boom everybody will forget about that," he says rather cynically. It's the first time he's been anything other than positive.

Corporate responsibility, therefore, is important. But again, getting the right structures and processes in place is easier said than done. "You take advice from lawyers and accountants and consultants because a lot of it is structural: 'how are we going to maintain control over all the outposts of our empire?'" But senior executives also need to keep an eye on what's happening closer to home, he cautions. "You go back to Barings in the 1990s. I don't think the Barings board had a clue what Leeson was doing – they just saw profits. The recent rogue trader at UBS – probably the same. These are immensely complicated businesses – too big to fail of course, too big to control as well. But that's globalisation, that's big business these days."

The FCA's objective to achieve clean and orderly markets means it is investing in state-of-the-art kit to catch the criminals, and Kirk is impressed by a recent initiative to take out "key nominals" – those people that pop up time and again like Whac-a-Mole. "The team included FCA, police and other assistance and I thought it was absolutely brilliant. A significant way of really trying to take out some bad people in a coordinated fashion," says Kirk.

But let's not forget our own responsibility in all this. "We loved it in the 2000s didn't we?," says Kirk. "We could borrow like there was no tomorrow. We knew it couldn't last if we thought about it for 10 seconds. I find the phrase lessons learned irritating but it will be interesting to see what lessons we genuinely have learned."

Talking of which, is there anything he would have done differently over his 30-year career? "I think probably that is more to do with making more advantage of certain situations or opportunities," he says thoughtfully. "Fortunately for me I've been very lucky in that the moves I've made, and I've made several, have all worked out fine. They've all been a bit haphazard, but I've been lucky to be in the right place at the right time. So from a career point of view, I don't think there's anything I would change."

DB PENSION ARRANGEMENTS: GETTING MORE FROM YOUR TIME AND YOUR BUDGET

Aon Hewitt's James Patten explains how companies can avoid unnecessary management time being consumed by legacy Defined Benefit arrangements, while achieving more from their budget

When organisations need to be leaner and more focused, spending time on Defined Benefit ('DB') pensions is unlikely to feature highly on their priority list, unless a major pensions strategy review is overdue.

Historically, organisations have tended to run their pension arrangements using one of two operating models:

- 'Get Busy' – this approach ensures the scheme is run in accordance with best practice, often entailing either establishing pensions management teams within the business and/or significant time (and cost) being spent on advisers.

- 'Get Simple' – typically the approach taken by smaller arrangements. This involves deliberately spending relatively limited time on the scheme but recognising this can lead to missed opportunities, or risks in executing strategy. A number of organisations that have run the 'Get Simple' model have unfortunately found themselves having to 'Get Busy' later on to resolve issues that have subsequently arisen.

Time for a fresh approach?

An emerging operating model can allow employers to regain control of their time on DB arrangements and focus more on strategic matters. We term this approach 'Get Help' and it seeks to obtain the benefits of 'Get Busy' without the management time, and typically at lower cost, by delegating decisions to advisers.

In investment, we have seen a growing number of schemes 'Getting Help' to implement investment strategy by delegating decisions on exactly which asset classes to invest in, and the fund managers to use.

Our Global Pension Risk Survey 2015 shows that schemes (particularly mid-sized ones, where internal resources may be lighter) are increasingly outsourcing the implementation of their entire investment strategy to a fiduciary investment manager.

Outsourcing investment strategy implementation means that advisers can also pool assets, enabling them to negotiate on fund manager fees (and access a greater range of managers), often providing compelling pricing as well as substantially reducing trustee and company time on investment matters. This typically leads to better outcomes and avoids missed opportunities.

Our 2015 survey shows that many respondents were also willing to delegate actions in a number of other areas. Delegation to others (for instance a trusted adviser) means the trustees can spend less time on routine delivery and more on strategic long-term objectives and value-adding opportunities, which are often only available over a short window.

As a corporate pensions adviser, I find that a natural barrier to organisations proceeding with a project to reduce pension costs or pension risk can be the amount of time required from key company personnel to execute the project. From a company perspective, the 'Get Help' approach can mean that where a project has been agreed (a liability management exercise, or a scheme merger, for example) once the high level parameters are understood, the corporate adviser runs with the project, working with trustees and their advisers to make sensible decisions in accordance with the overarching project strategy.

As well as significantly reducing management time, this is likely to reduce the adviser's time (and therefore fees).

A stitch in time saves nine

'Get Help' will not be right for all organisations – in many situations the 'Get Busy' and 'Get Simple' solutions remain more appropriate. However, when we speak to organisations about these concepts we find that relatively few have given much focus in recent years to how they operate their pension arrangements.

We believe that for most corporate organisations and trustee boards, a portion of their time would be well spent evaluating the current operating model against alternatives over the course of the next 12 months. Without change we will surely get more of the same.

"Relatively few organisations have given much focus in recent years to how they operate their pension arrangements"

For a free copy of Aon Hewitt's research into effective pension scheme governance and delivery models, or Aon Hewitt's Global Pension Risk Survey 2015 please email: talktous@aonhewitt.com.

James Patten is principal consultant at Aon Hewitt

FIT FOR LENDING

Issue seven

Business competitions offer entrepreneurs the chance to win valuable investment and other support for their fledgling firms. But, asks Nick Martindale, are they really worth a punt?

For most entrepreneurs and small business owners the options for funding are relatively limited. Recent developments around crowdfunding and peer-to-peer lending have created more opportunities but fundamentally businesses will be looking at a combination of self-funding, borrowing or accepting investment in exchange for equity dilution.

Yet there are also a growing number of competitive events, designed to help encourage small business growth, where entrepreneurs and business owners can compete for either cash or some other form of support. These could be government initiatives, those designed by larger brands or wealthy individuals, or even business angel pitches.

The Futures Programme, run by the UK Commission for Employment and Skills, has run a number of competitions offering total prize money of between £1m and £1.5m, with a maximum of £250,000 for any one project. Businesses need to be able to demonstrate that the money will be used to develop skills, and be prepared to act as "anchor organisations" which can then share this knowledge with other small businesses in the local area.

£250,000

The potential government funding that businesses could receive through the UK Futures Programme

£1.5m

The total pot available to businesses between August 2015 and August 2016

£2.85bn

The amount of money that has been invested in UK local businesses through the Regional Growth Fund since it launched in 2010

"With some competitions we allow for universities or some other intermediary to be involved but mainly it's employer-led projects," says John Perryman, manager of the UK Futures Programme team. "It's a fairly rigorous process assessed by commission staff and then taken to moderation and interview with our commissioners. The lead commissioner would take those recommendations to a board."

The project started off allowing businesses a fairly open brief around the skills they were looking to develop, but has recently moved more towards targeting specific issues that have been revealed through its own research with 800,000 businesses, and verified through conversations with other firms. "If it resonates with them we invite proposals on a competitive basis," says Perryman.

A recent competition looked to find a solution to a perceived failure by small and medium-sized firms to fully extract the value of innovation from inside their enterprises. "We had people looking at putting in management structures to incentivise innovation, and developing award schemes for employees so they think about innovation in their day-to-day tasks," he adds.

The Regional Growth Fund, meanwhile, has invested £2.85bn in local businesses since 2010, including £297m announced in February 2015. The scheme is open to any business seeking less than £1m, and must be designed to strengthen or grow a business and to create or protect jobs, and similar funding must be unavailable elsewhere. It also revolves heavily around match-funding; for every pound the government puts in the private sector must invest £5.50, which the last government claimed would result in a total private sector investment of £16bn to date, and the creation of 582,000 jobs by the mid-2020s.

The private sector also

operates a number of initiatives where applicants have to pitch for prizes. The most prominent of these is perhaps Virgin Media Business's Pitch to Rich campaign. This year's event attracted over 2,400 entries in three categories: new things, described as "groundbreaking new ideas, market disruptors, game-changers and innovations"; start-ups - "fledgling firms with huge potential"; and growth - established businesses experiencing real expansion.

"The main thing is that it is an interesting and innovative idea and which we feel would benefit from the prize we're giving away," says Duncan Higgins, marketing director at Virgin Media Business. The eventual winners of the growth category will receive £250,000 worth of marketing support, with the best start-up getting a £150,000 campaign and the new things victor taking a cash prize of £50,000. All three category winners will receive a free package of pro bono advice from the ICAEW Business Advice Service.

The competition was promoted at UK regional events where Virgin Media Business and ICAEW offered guidance and broader business advice to potential entrants. "We were involved in the regional heats and we've attended some of those. The final is a grand affair hosted by Sir Richard Branson in London with 150 invited guests and we'll be sending people to that," says Clive Lewis, head of enterprise, ICAEW.

Putting the legwork into such competitions has paid off handsomely for Rebecca Coates, commercial director at PropertECO. The company has picked up a number of notable wins: "We won best trade start-up of the year at the Startups Awards in 2012 and most innovative start-up at the Bath Business Awards," she says.

Compressor manufacturer Lontra has attracted £8m

Last year the business picked up another notable accolade, winning The Pitch competition; a national event run by Sift Media open to small firms under three years old, with a prize package of business products and services provided by sponsors. "We were given a free website," recalls Coates. "We've also been given access to a PR firm, which we're saving for a campaign we're running later this year."

For Coates, though, the benefit is not just in practical measures. "The value was the experience of standing up and giving a pitch to a room full of people, and also being around all the other entrepreneurs and getting ideas from what they're doing," she says.

The competition itself has been running since 2008, and awards prizes to an overall winner and an up-and-coming firm that is tipped to prosper. Last year it attracted over 400 entrants, with 100 going forward to a series of regional finals before the overall final. All participants also received advice on topics such as access to finance, provided by ICAEW, says Lewis.

Other organisations also offer competitions. Ordnance Survey, for instance, operates a scheme called GeoVation, which provides money for initiatives which use location data to solve real-life problems. To date, the business has helped create 28 new ventures and given more than £600,000 over five years. Entrepreneurs attend a GeoVation camp held over a weekend; at the end of which they can pitch their idea to an independent judging panel. Merchant banker Close Brothers, meanwhile, recently launched a scheme to fund 20 apprentices at UK manufacturing or engineering firms which would otherwise struggle to take people on.

Other events are more regional, often inviting businesses to pitch for investment in a *Dragons' Den* type event. One such competition is run by the *Times of Tunbridge Wells* investment fund, an initiative run by a local business newspaper which has brought together a number of high-net-worth individuals from the area to build a £5m fund, for which local businesses are currently competing.

"The funding will be allocated as each individual's business demands," says Richard Moore, editorial director. "If there was a need for £10,000 fairly quickly to get a business through a certain phase we would do that and then feed money in as and when required. There's also a requirement that if anyone takes part in the scheme and we decide to run it next year then they act as mentors. The idea is to build an annual event with a team of people mentoring other start-ups."

These types of event usually involve giving up equity in return for investment, however. "Being businessmen, investors see it as an opportunity to be connected to people who have a viable proposition that will not only make those individuals money, but make the investors money as well," says Moore. "But they're not going to put their money into something that doesn't stand a chance or have a solid business plan." There are currently no restrictions on what the money can be used for, he adds.

There is often a reluctance among entrepreneurs to give up a slice of their business. "It's strange because many business owners go to friends and family for finance and they don't see anything odd in taking that, but they don't then make the leap to getting outside equity finance, which would probably be a more professional form of finance from people who have already made a success of a business," says Lewis. Initiatives such as the Enterprise Investment Scheme and the SEED enterprise investment scheme are slowly helping to challenge this, he says.

Sometimes the real benefit from these kinds of high-profile event can be the publicity that comes from any competition, suggests Phil Mitchell, director at accountancy firm Harbour Key, which regularly advises small businesses on the options open to them. "I had a client who appeared on *Dragons' Den* and received an offer for funding," he recalls. "The terms were not acceptable but the profile the appearance gave the business resulted in the website crashing due to over-subscription and bringing it to the attention of other potential investors."

Not all of these involve equity, either. Askar Sheibani, the Comtek Group founder and CEO appointed by the Welsh government's business minister to promote entrepreneurship in Wales, has created a community-based Business Entrepreneurship Network, which runs a *Dragons' Den* process to find applicants with entrepreneurship potential, largely from predominantly underprivileged communities, who are then mentored and offered a range of business and leadership support. "We look for applicants with real enthusiasm, determination and a hunger for success, combined with a real passion and belief in their business idea," he says.

Steve Lindsey, CEO of compressor manufacturer Lontra, has attracted nearly £8m in recent years from a variety of sources, including grants from Innovate UK and its predecessor the Technology Strategy Board.

"We've always had a very commercial background and that's helped," he says. "A lot of people just put down a technical case but it's very important to have a full business case, and also a route to market." He also suggests entrepreneurs ensure they have enough time to put into entering events, and can demonstrate the capability to match-fund from other sources of investment.

Yet the drawback of any competitive event is that, by definition, there is no guarantee that even an outstanding pitch will result in any investment or other prize. Lewis, in particular, sounds a note of caution. "There's no harm in competing in these things but you shouldn't let it allow you to put off a business idea or change it in a material way," he says. "If you can afford to wait or be doing other things while that competition is on, then fine, but it certainly isn't worth delaying any implementation. The odds of winning a prize are quite long."

470
The number of businesses and organisations which benefited directly as a result of the RGF

582,000
The government estimate for jobs created as a result of public and private investment

£297m
The amount made available in February this year in the sixth wave of regional growth funding, attracting £1.5bn of additional private sector investment

£1m
The amount of money being put forward in prizes from Virgin Media's Pitch To Rich initiative

Case study: minicabit

Amer Hasan (left) is founder and CEO of mini-cab comparison and booking service minicabit, and veteran of many business competitions.

In 2013, the business became the first app to receive an offer of investment on *Dragons' Den*, although in the end the deal did not come off. By this point, however, it had already attracted funding of £50,000 – in exchange for equity – from Telefonica O2's Wayra Fund.

"I had been working out of my bedroom but part of the prize was office space which gave me the resource to hire a team," says Hasan. "After nine months I came out with an app that was live in the market, marketing relationships with O2 and some real, solid advisers."

His advice to people looking for events is to make sure their business is at the right stage. "Ideally you'd have a viable product with a proof of concept, a core team of at least two, a route to market and some thoughts on what your business model is going to be," he says. "But even if you don't get through it's going to be a great lesson, either in what is wrong with your business or how you're pitching it."

A SHORE THING

In the face of unprecedented international scrutiny, offshore financial centres or tax havens appear to be under threat. But, says Paul Golden, they are unlikely to disappear any time soon

ILLUSTRATION: CIARA PHELAN

Offshore financial centres are not a new phenomenon – Ronen Palan of Birmingham University traces their origins back to the late 19th century – although analysis by the University of Glasgow's Emmanuel Mourlon-Druol reveals a spectacular acceleration in tax haven activity during the latter half of the 1970s. He calculated that in 1973 there were eight banks in the Cayman Islands; by 1981 that figure had jumped to 111.

According to Jason Sharman, an Australian academic who has extensively researched money laundering and tax havens, the offshore stereotype predates complex structures and goes back to relatively simple secrecy products that were available and widely marketed in the 1980s and 1990s, such as shell companies, shell banks, numbered bank accounts and crude asset protection trusts.

Boston Consulting Group's 2014 global wealth report estimated that \$8.9trn (£5.7trn), or approximately 6% of global wealth, was booked in jurisdictions

where the owner of the wealth had no legal residence or tax domicile – ie offshore – last year, and predicted that the total would rise to $12.4trn by the end of 2018. The Tax Justice Network's financial secrecy index suggests that as much as $32trn is located "untaxed or lightly taxed in secrecy jurisdictions around the world".

Offshore financial centres span the globe and can be found everywhere from the US to the South China Sea. Switzerland is still the world's largest "offshore" centre, but its status is being challenged by Singapore and Hong Kong as the percentage of new wealth created in Asia continues to grow.

The US Senate estimates that tax evasion by US-based firms and individuals costs the country $100bn per year. A recent United Nations Conference on Trade and Development report estimated that developing countries lose a similar amount of annual tax revenue as a result of transactions directly linked to offshore hubs.

With the US and other major economies struggling to fund public services, it is hardly surprising that tax transparency and cross-border tax evasion have been key topics at recent G20 summits. Progress has been made on exchanging tax information. At November's summit in Brisbane, French president François Hollande stated that the G20 would bring 90 countries into the automatic information exchange system by 2018.

The UK government says it has recovered £1.5bn from offshore tax evaders over the past two years "and HMRC is waiting with an army of inspectors to trawl through the data that will be created from common reporting standards with a view to prosecuting those who they deem suitable," explains Frank Strachan, tax partner at Edwin Coe.

MONEY MOVES

However, an evaluation of the G20's tax haven crackdown by Niels Johannesen from the University of Copenhagen and Gabriel Zucman from the University of California suggests that it has led to a relocation of bank deposits between jurisdictions rather than significant repatriation of funds.

Some offshore financial centres could be viewed as less than enthusiastic in their embrace of transparency and engagement with international standards setters and onshore governments. However, the head of finance at one European jurisdiction says they are unfairly blamed for complex financial structures, which are frequently "created at the instruction of tax advisers and those who architect tax shelters". He also suggests that onshore jurisdictions lag behind their offshore counterparts in the regulation of service providers.

This final point is taken up by Dominic Wheatley, chief executive of Guernsey Finance. He says the island's corporate service providers have had to keep records of beneficial ownership on a corporate registry since 1999. "Guernsey was among the first wave of jurisdictions to agree to adopt the OECD's common reporting standard and one of the first jurisdictions to regulate corporate service providers – many other major jurisdictions still don't."

Markus Meinzer, senior analyst at the Tax Justice Network, welcomes efforts to increase information on beneficial ownership, although he also warns that more needs to be done to tackle structures such as trusts and foundations and to bring to task consultants who have been caught facilitating large-scale tax abuse.

"In addition, steps need to be taken to deal with recalcitrant jurisdictions (such as Panama and the Bahamas) and those jurisdictions engaging in the theatre of probity, such as Switzerland or Hong Kong, which have already announced they will cherry-pick the countries to which the new transparency standards will be offered," he says.

"Then there is the bigger problem – the US, which does not seem to be playing ball yet in terms of reciprocity. This requires the rest of world to

deliver a clear message to the US financial industry and White House officials: there cannot be one standard for Wall Street and another one for everyone else."

The US has been at the forefront of efforts to hunt down tax evaders, particularly those using Swiss banks to avoid paying tax. However, there is an obvious contradiction within the world's largest economy between plans to collect information on beneficial ownership and the corporate privacy offered in some US states.

A report published by campaign group Global Witness in September 2014 described America as one of the easiest places in the world to set up an anonymously-owned company, stating that "in many states, you need less identification to set up a company than you do to get a library card".

According to Joshua Simmons, policy counsel at Global Financial Integrity, the negative perception of offshore financial centres is not necessarily the result of the complex ownership and financial structures employed there, but rather the indiscriminate use of those structures for both licit and illicit purposes.

He welcomes the legislation passed in the UK in March making it the first nation to tackle illicit financial flows through the creation of a central, public registry of corporate ownership information.

REGISTRY RECOMMENDATION

"Anonymous companies are one of the biggest tools for laundering the proceeds of crime, corruption and tax evasion," says Simmons, adding that the US and other countries should create similar registries. Denmark announced in November that it would create a public registry of its own and the EU agreed in December to move forward with a plan to require member states to create central registries of beneficial ownership.

Sharman says it is not clear that the average offshore structure is any more complicated than its onshore equivalent and that many structures have a foot in both camps. "In addition, unlike most providers onshore, offshore providers are already licensed and have been for over a decade."

He observes that most European and US (Delaware, Nevada) offshore financial centres continue to provide pretty tight secrecy for citizens of countries outside the OECD. "The efforts of clubs like the OECD have been directed much more at protecting their own members' tax bases than stopping tax evasion per se. The strongest bilateral deals have been between OFCs and OECD states."

Jonathon Clifton, MD of Offshore Incorporations Asia, is unconvinced that additional regulations on tax transparency would cause any fundamental drop in demand for offshore entities, adding that only 25-30% of underlying demand for offshore structures originates for tax efficiency reasons.

However, he does agree that the offshore "industry" has let negative perceptions go unchecked and that it should be far more proactive in "articulating the legitimate role it plays in facilitating cross border capital flows".

Clifton also believes licensing is a key issue, but in this case because service providers are typically not licensed in the jurisdiction in which they sell or operate: "Licensing 'in the market' would be another crucial step in helping change the negative perceptions of the industry."

In April, World Bank managing director Sri Mulyani Indrawati acknowledged that to fight tax evasion, countries require the administrative capacity to identify suspicious transactions as well as the ability to carry out effective tax supervision.

LOGISTICAL CHALLENGE

These comments underline the logistical challenge of analysing vast quantities of tax-related data and chime with the view of Sharman, who says there is evidence that all the new information available to tax authorities is something of a mixed blessing, since they now have too much data to process.

Johannesen and Zucman recommend that the G20 urges tax havens to sign treaties with all countries and that these treaties are made more demanding. They suggest that a comprehensive network of treaties providing for automatic exchange of information would put an end to bank secrecy and could make tax evasion impossible, while withholding taxes on all incomes earned by foreign residents in all tax havens could achieve the same result while maintaining some form of bank secrecy.

Opinion is divided on whether the future lies in "midshore" jurisdictions that display characteristics of both offshore and onshore jurisdictions.

Porter McConnell, director of the Financial Transparency Coalition, suggests that the focus should be on creating a transparent and fair global financial system and that a "race to the bottom" only serves to cause division between nations and lost economic growth, while Meinzer says talk of midshore jurisdictions may be seen as another attempt to muddy the waters.

"The new era of financial transparency is revealing, for instance, the US taking the risk of becoming the single most important offshore financial centre, a gigantic obstacle for international financial transparency," Meinzer continues. "The erosion of regulatory standards and the provision of unregulated spaces are unacceptable, whether via offshore or midshore jurisdictions."

This is not a zero sum game, where midshore simply replaces offshore, says Clifton. "However, there will definitely be a shift towards locations that display characteristics of both (enabling clients to demonstrate substance or 'real operational activities' in jurisdictions such as Hong Kong or Singapore, for example) and I am aware of countries in northern Europe, Africa and south-east Asia who have expressed a desire to move into this space. The main trend, though, is the use of offshore and midshore jurisdictions in the one structure."

It is important to solve a global problem with global solutions that don't create loopholes by excluding some countries, adds McConnell. Her concern is that if developing countries are left outside the automatic exchange of financial information, it could create a two-tiered system where some countries exchange information regularly and others with fewer resources offer more of the same banking secrecy.

"The best way to create a system that gives tax dodgers nowhere to hide is to include developing countries in the design of automatic exchange from the outset, even if they may not immediately be able to reciprocate."

The current system works to incentivise and pressure accountants, bankers and lawyers to push the limits by engaging in increasingly risky and quasi-legal activities, she continues. "We need transparency and accountability measures to change the incentive structure, so that fewer and fewer jurisdictions are willing to accept suspicious cash. When transparency is the norm, complex secrecy structures will be a thing of the past."

THE FUTURE

So what does the future hold for offshore financial centres? The US Foreign Account Tax Compliance Act (FATCA) and similar laws expected to be introduced by the UK and other major European economies mean jurisdictions that have focused on private client/individual business will likely suffer more than those that have a broader corporate base of business. "Once the offshore service providers are forced to report in 2017 to fiscal authorities, the real impact of such measures will become more obvious," states Strachan.

In addition, tax havens established solely to attract foreign money should logically be left exposed when the international financial system faces a sudden liquidity freeze like the one that precipitated the global financial crisis.

Yet Sharman observes that the G20 and other campaigns have done little to drive existing offshore centres out of the market, with only minor exceptions (Niue, Nauru, Tonga). "The conventional wisdom that increased international pressure will lead to a significant decline in the number of offshore financial centres has been proved wrong for the last 15 years and shows few signs of being confirmed any time soon," he says.

Banking secrecy will become harder to achieve as the world continues to shrink and similar levels of compliance are implemented globally. However, while the challenges outlined above persist, a fully transparent international banking system remains some way off.

Should the government put an end to pensions tax relief for high earners?

YES *Jonathan Bartley*
The colossal £40bn subsidy given to private pension schemes each year is taken from those who have worked hard all their lives. It means that instead of getting a proper state pension they can live on, the money is given away as a tax break to others. The result is one and a half million pensioners living in poverty. An end to the subsidy for high earners would enable a proper, decent, basic state pension to be paid to everyone.

Such a huge subsidy can't even be justified as a worthwhile investment for those who claim it. The performance of the private pensions industry has been dismal. The total paid out in private pensions each year is no more than the subsidy that goes in.

Underlying it all, the subsidy fuels a system based on insecurity and uncertainty. If you cash in at a time when the markets are down you have to take a huge hit, or defer your retirement.

Saving for retirement could be made much safer by offering a new state earnings-related pension scheme. This could invest through the Green Investment Bank in long-term public assets such as the railways, renewable energy and the National Grid, social and affordable housing and public facilities such as hospitals. Such assets offer a predictable return - ideal for pensions - and the pension fund would provide savings needed to invest in these assets.

NO *George Bull*
The government should preserve tax relief on pensions contributions made by individuals paying the additional rate of income tax at 45%.

The tax system is one way society pays for the things it wants its government to do. To completely deny a specific relief to a group of taxpayers purely because of their level of income breaks down that sense of collaborative, social effort.

As Janan Ganesh put it in the *FT*: "Merely squeezing some remote sect called The Rich will neither generate enough revenue to make a difference nor honour the principle of solidarity." To ban tax relief on pension contributions paid by high-earners is to farm them for their ability to pay taxes instead of treating them as members of society. After all, with the top 1% of taxpayers paying almost half of all income tax, they are already making a substantial contribution to the tax yield.

And what about encouragement for saving for old age in a relatively safe environment? The "very wealthy" might not need to use pension plans, but the "affluent" might. Without the incentive of tax relief, effectively investment growth, some may be driven into arrangements with greater risks, which could result in some having to fall back on the state.

As the Conservative manifesto committed to cut tax relief on pension contributions for those with an income above £150,000, the real debate is not about whether relief for 45% rate taxpayers should continue in full but whether it will be restricted in an equitable manner. And if tax relief on contributions is restricted, then surely tax charges on withdrawals should be capped too?

Jonathan Bartley
Taking money out of a universal state pension system through huge tax breaks and subsidies for private pensions is not collaborative. It undermines a sense of social solidarity. Reinvesting the subsidy in a decent state pension for all would show we were truly all in this together.

An additional state earnings related pension scheme would mean people wouldn't need to take greater risks, but fewer. It would also mean that there is an even greater sense of social solidarity, because the money is invested in public goods.

The problem that we face in the context of austerity is not that there isn't enough money, but that the money is in the wrong hands. The UK is the world's sixth richest nation, but one of the most unequal. If government spending as a share of GDP was raised to the level of European neighbours such as Germany, we would have an extra £200bn a year - that's almost twice the current NHS budget and five times the subsidy given to private pensions. That isn't squeezing the rich. It is simply ensuring that the richest pay their fair share.

Decent, secure, pensions for all are perfectly possible. We just need the political will.

YES *Jonathan Bartley*
Green Party work and pensions spokesperson

NO *George Bull*
senior tax partner, Baker Tilly

George Bull
Your case does not mention the government's manifesto commitment to restrict tax relief on high-earners' pension contributions. The real question now is not whether to restrict tax relief, but how and by how much. HMRC figures show that registered pension scheme tax relief costs £34bn, and benefits everyone saving into a pension, including the five million employees automatically enrolled into workplace schemes since 2012. A recent Age UK report identified failure to claim benefits as the prime cause of pensioner poverty.

To say tax relief breeds reliance on a system characterised by "insecurity and uncertainty" is bogus. Those with final salary schemes are largely protected from volatility and those with defined contribution pensions are no longer forced to purchase an annuity.

But this debate has already moved on. Three alternatives emerged as front-runners before the general election – leaving the system unchanged, denying any relief to all 45% (and possibly 40%) taxpayers, or restricting tax relief on contributions to a fixed percentage, with annual and lifetime limits.

The issue is implementation. Shaping a tax system should be a collaborative exercise. It is likely that the next Budget will outline proposals to reduce pensions tax relief for higher earners, with some contributors taxed at an effective marginal income tax rate of 67.5%. This is going too far. Penal effective tax rates for some look more like a form of punishment than an effort to build a society.

Jonathan Bartley
I am glad that your answer to the question "Should the government put an end to pensions tax relief for high earners?" is "yes", with the debate only "How, and by how much". We are making progress!

The figure for the subsidy you cite, however, does not include the tax exemption of the income of pension funds. The subsidy is £40bn, and benefits the richest the most. We can also agree that a failure to claim benefits certainly means pensioners falling into even deeper poverty. But the fact remains that the state pension itself is below the poverty line.

You cite final pension schemes as evidence that the system doesn't breed insecurity. But in February Alan Rubenstein, chief executive of the Pensions Protection Fund (PPF), highlighted how even these supposedly guaranteed pensions weren't safe. Five in six final salary schemes have fallen into the red and will face a struggle to pay a full pension.

The debate is moving towards restricting tax relief, reflecting the growing recognition that such change is desirable. Burdens, as you say, must be shouldered together. It is time to lift the one that has been placed squarely on those who rely on the pitiful state pension, by restricting the flow of free money to the richest.

George Bull
Two fundamental questions underpin this. First, what sort of society do we want? Second, how – with public sector net debt standing at 80.4% of the UK's annual economic output – will we pay for it?

A tax system that differentiates against groups within society because of who they are, what they do or how much they earn is inherently unhealthy. I believe that we deserve a tax system that looks as though it was designed to be that way, which is inclusive but which is also progressive and requires the greatest contribution from the highest earners. Here are some practical suggestions to achieve that.

First, restrict all tax reliefs and allowances to the basic rate of income tax. Second, remove distortions caused by tax reliefs such as the CGT main residence relief, which distorts the housing market.

It should not be beyond the wit and wisdom of our elected political representatives and of society as a whole to settle on a system of taxation that is fair, proportionate and collaborative.

"The problem isn't that there isn't enough money, but that the money is in the wrong hands"

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A DAY IN THE LIFE

In the first of a new *economia* series where we hone in on the working lives of chartered accountants with fascinating careers, Laura Powell spends a day shadowing **Dr Nina Alphey**, who left behind a 20-year accountancy career to become a postdoctoral researcher in the University of Oxford's Department of Zoology

PHOTOGRAPHY: FELICITY MCCABE

View from the staff canteen

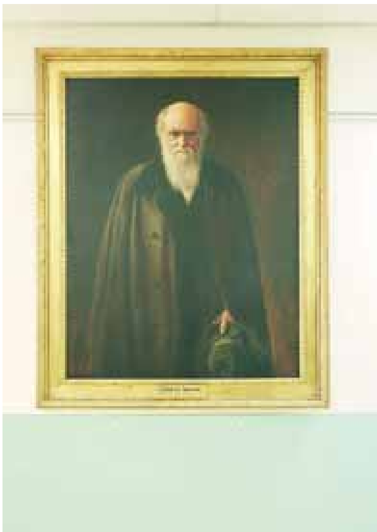
HOW I CHANGED CAREER

While I was head of the technical department at MacIntyre Hudson Chartered Accountants my husband Luke founded a University spin-out company, whose work focuses on insect pests. He often discussed his ideas with me and I always found them interesting. One evening he brought home a patent application for a research project, with a formula that wasn't adding up. He couldn't work out what was wrong. I looked at it and pointed out that one of the symbols was a plus instead of a minus. Once that was changed, the formula worked. It was a real "a-ha" moment and it made me think: "I can do this." So I left MacIntyre Hudson, applied to the University of Oxford and was accepted. I started my PhD there in 2005.

"I use mathematical models to investigate new biotech strategies for managing pest insects. In plain English – I work with biologists trying to control insect pests like moths and mosquitos that harm crops, animals and humans"

MY RESPONSIBILITIES

My current three-year project concentrates on the diamondback moth, which has evolved resistance to pretty much every chemical. Traditional ways of controlling them aren't working so we are looking at using a novel genetics-based variant of the Sterile Insect Technique, a method invented in the US in the 1950s where you release sterile males to mate with wild females, and limit or eliminate the species carrying the disease. I look after the mathematical calculations surrounding this, answering questions like: How many engineered males do you need to release for every one wild male? And what if the engineered male, because you've done something to his genes, isn't as fit, healthy and sexy as the wild male; do we need to increase the ratio?



Corn snakes (above) and Charles Darwin (left) are just two of Dr Alphey's companions at the Department of Zoology.

CHARLES DARWIN, UNKNOWN ARTIST PRESENTED TO OXFORD UNIVERSITY BY DR J.R.BAKER, 1931

Dr Alphey's Oxford office (above left) is "far more basic" than her previous workspace at EY. But it does have plastic insects…

MY TYPICAL DAY

What surprises people is that I never spend time in the labs with the moths – I'm so clumsy you'd be mad to let me in a lab. Most of my day is spent on the computer working on mathematical models, meeting my supervisor or masters students and, once a month, meeting the mentoring group I'm part of with four colleagues from different departments. We share all sorts of personal and career problems with each other. When I moved house to Guildford recently and worried about making local friends, they were the ones I turned to for advice.

MY RITUALS

The first thing I do when my alarm goes off at 7.30am is grumble. Then I eat some healthy cereal, put on my clothes that I laid out the night before (usually jeans and t-shirt as universities are much more casual than accountancy firms), then I drive to the office in my Renault Clio listening to Radio 4. When I arrive at my desk around 9am, I make a cup of decaf tea and check my emails. I usually have a dozen waiting; I make a point of using an old Nokia mobile phone rather than a smartphone because I don't want to check emails all the time. I feel more like I'm self-employed, even though I'm on a fixed salary, as I choose when to go home. Typically this is 7pm, but sometimes I'll leave at 3.30pm to miss the traffic. In the evenings, I read historical fiction, like Steven Saylor's Roma Sub series, and play modern board games like *Pandemic*, where you have to save the world from an infectious disease.

MY OFFICE

I don't have many home comforts in my office at Oxford, where I work four days a month, or in my office at Imperial College where I work the rest of the time. Both are far more basic than my old office at EY as we haven't much money to spend on fancy stuff. We tried to grow plants but they all died. Today my desk and drawers are full of pens, papers, spare tights, a hairbrush, jasmine teabags and a cuddly rabbit toy a friend gave me. We don't have many real animals on site apart from fruit flies and crows for research, as well as corn snakes, lobsters and tropical fish for teaching.

HOW THE ACA HELPED MY CAREER

There are lots of skills I acquired as an accountant that help me today, not least public speaking. I was used to giving half-yearly updates and conferences on pension schemes so when it came to giving my first ever talk as a PhD student - in front of 400 people at a conference in Brazil - I wasn't terribly fazed. I just made sure I prepared very well. My accountancy years have also made me very time efficient. Being part of a timesheet culture where every moment mattered means I am very careful at time management - I even walk more quickly.

INDUSTRY TRAITS

Academics tend to be stereotyped as lone wolves but in reality research is very collaborative. You're always showing ideas to each other or suggesting a better method. There are days when I eat my sandwiches at my desk and talk to no one, but they are few and far between - if every day was like that, I'd go bananas. I often talk to my supervisor Professor Michael Bonsall about how my work is going, as well as my colleagues at Imperial. And you never know who you're going to bump into in our departmental café, Darwin's. Once a man called Bob sat down with me and started chatting about credit cards. He turned out to be Lord May, former chief government scientist and the very guy whose books I was studying.

WHAT I'VE LEARNED

Another skill I draw on from my accountancy career is networking - I'm quite good at it too. Before I went to the World Economic Forum, I looked up who was there and drew up a list of who to target (Professor Brian Cox, Lord Robert Winston), then persuaded them to take part in a discussion group I led at St Anne's College. I also document everything like crazy, thanks to my audit background. All of my code has little comments next to it saying what every line is doing and I also keep a detailed trail in my lab book.

MY MINDSET

One of my approaches is to look at potential costs not just biology, which I often do by linking together different models. For example, in a previous project I took a mosquito model and linked it to a model of dengue fever. I calculated the costs of dengue in terms of healthcare and lost productivity. Then I modelled roughly what an insect release programme would cost, and calculated the predicted financial savings from fewer people contracting dengue fever, which justified the releases economically. I may no longer consider myself an accountant but that sort of mindset is definitely thanks to my 20-year accountancy career.

"Academics tend to be sterotyped as lone wolves but in reality research is very collaborative. You're always showing ideas to each other or suggesting a better method. The days when I sit at my desk and talk to no one are few and far between"

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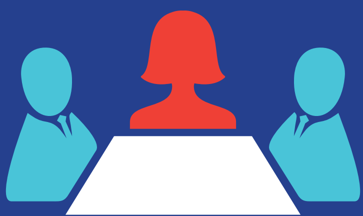

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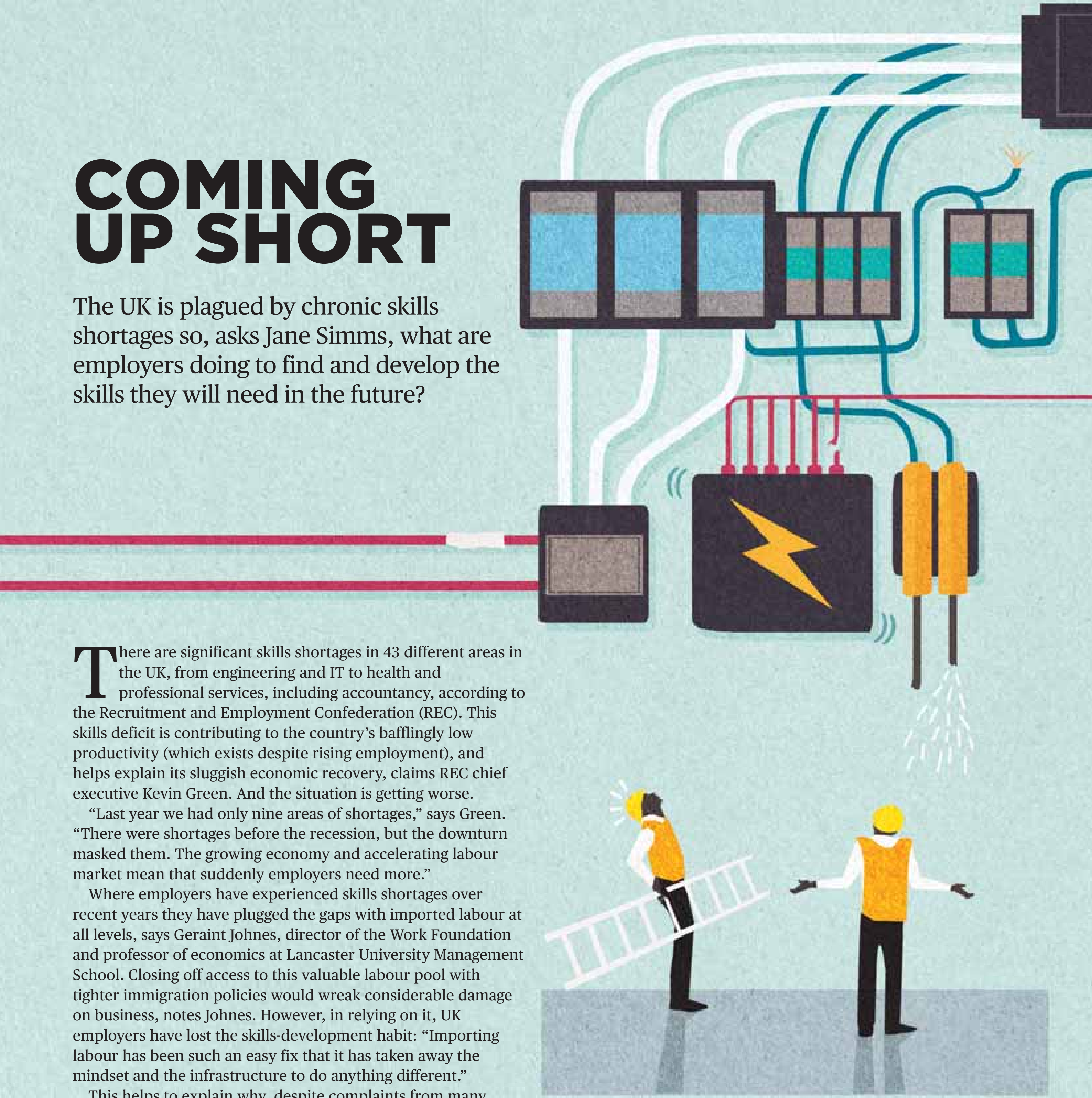
COMING UP SHORT

The UK is plagued by chronic skills shortages so, asks Jane Simms, what are employers doing to find and develop the skills they will need in the future?



There are significant skills shortages in 43 different areas in the UK, from engineering and IT to health and professional services, including accountancy, according to the Recruitment and Employment Confederation (REC). This skills deficit is contributing to the country's bafflingly low productivity (which exists despite rising employment), and helps explain its sluggish economic recovery, claims REC chief executive Kevin Green. And the situation is getting worse.

"Last year we had only nine areas of shortages," says Green. "There were shortages before the recession, but the downturn masked them. The growing economy and accelerating labour market mean that suddenly employers need more."

Where employers have experienced skills shortages over recent years they have plugged the gaps with imported labour at all levels, says Geraint Johnes, director of the Work Foundation and professor of economics at Lancaster University Management School. Closing off access to this valuable labour pool with tighter immigration policies would wreak considerable damage on business, notes Johnes. However, in relying on it, UK employers have lost the skills-development habit: "Importing labour has been such an easy fix that it has taken away the mindset and the infrastructure to do anything different."

This helps to explain why, despite complaints from many quarters of business that it can't find the people it needs, there is scant evidence of either wage rises in areas of supposed shortage to attract people in, or investment in training to build the skills required.

"So the big question for employers is, if you have or anticipate skills shortages, what are you proposing to do to alleviate them?" says Johnes.

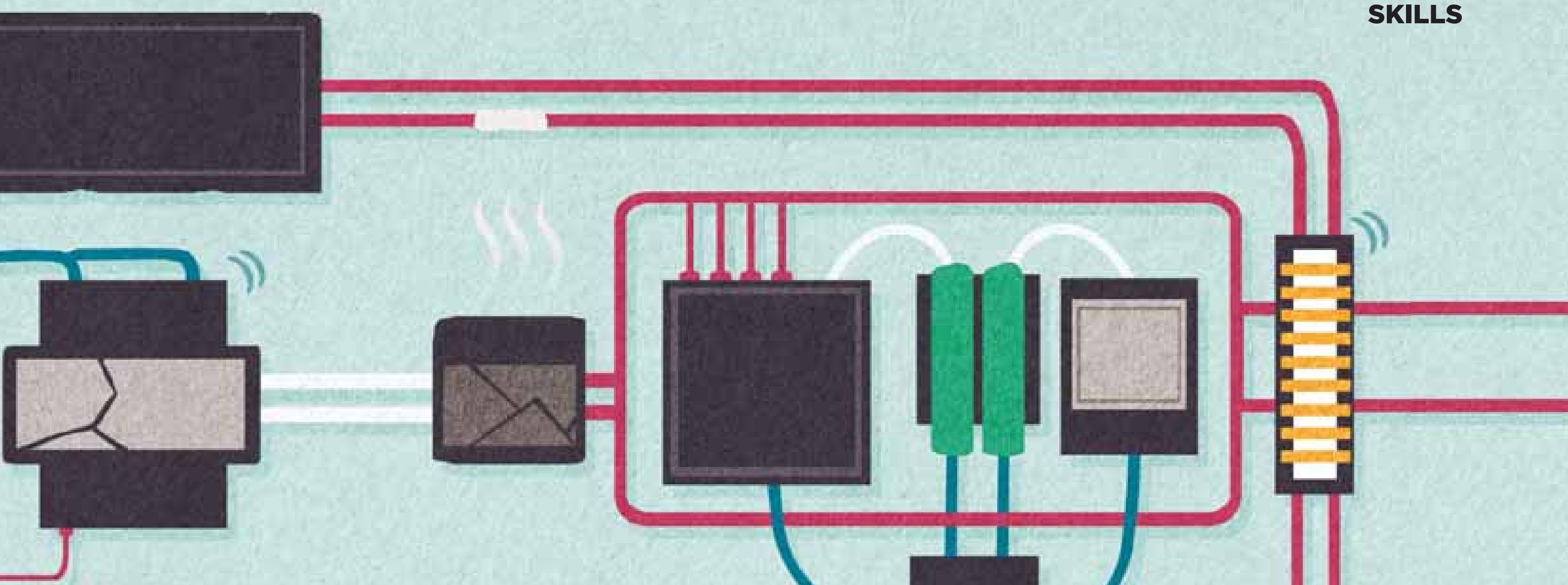
However, while a large burden of responsibility falls on employers themselves, Johnes also questions whether the education system is fit for purpose. As he says, the government appears to judge "success" by the numbers of people going to university. He doesn't necessarily think that too many people do go to university, or that the subjects they study should be more prescribed, but he does believe that young people should be offered a richer variety of training options.

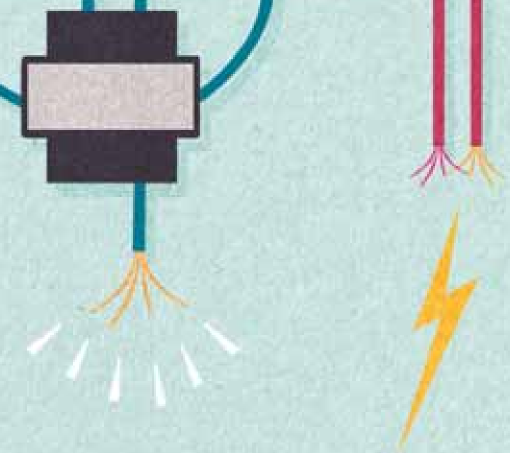
"We have a serious national hang-up about vocational education," he says. "Governments have been aware of this for decades, but we've still not really got over it. We admire Germany from afar but don't emulate them."

The mismatch in skills should be addressed by the education and business sectors working much more closely together, continues Johnes. "The boundaries between the two need to become much fuzzier, which means being far less precious about that division than some people are wont to be."

But the skills that employers say they need – or may not yet

ILLUSTRATION: MARCUS BUTT





even realise they need – go far beyond specific technical abilities. A new report by the OECD claims that the UK economy could grow by billions of pounds a year if "underachieving" youngsters all obtained basic skills at school and boys and girls reached similar levels of educational attainment. The report ranked the UK 20th out of 76 countries by percentage of national workforce having basic academic abilities and problem-solving skills – below countries such as Slovenia, Poland and Estonia.

And the shortage of basic academic skills seems to be matched by a dearth of "softer" attitudinal skills. Stephen Ibbotson, director of business at ICAEW, says: "Anecdotally, a lot of our members are very depressed about the quality of school leavers generally, including their attitude to things like being on time, looking smart, checking social media on their smartphones and so on."

Ibbotson – and others – believe that reinstating compulsory work experience for all school children would help at least to address the attitude problem. Much better careers advice would also be beneficial. But others believe that we are focusing on the wrong things when judging educational success, particularly as the rapidly changing nature of work means that predicting skills requirements even five years ahead is almost impossible to do.

Jon Andrews, UK HR consulting leader at PwC, explains: "Traditionally we have thought in terms of building careers along three different dimensions – technical, leadership and commercial. But given the pace of change today, the key characteristic we need to develop now is agility."

One of the scenarios that PwC mapped out in its recent *Future of Work* report envisages big organisations being broken down into networks of smaller organisations, and individuals having portfolio careers. Organisations will flex their workforce according to their needs, while individuals will accept short-term and contractual work in exchange for autonomy, variety and flexibility. In this scenario, the traditional concept of the office will disappear, and people will work remotely and meet up when required.

Above all, this requires people to be agile – in the sense of applying their skills and abilities in different ways and contexts, being prepared to tackle new things and embrace new challenges, being willing to learn continuously, and having the emotional intelligence and social skills to forge good relationships at different levels.

The good news is that the UK performs relatively well when it comes to supporting this all-important characteristic of agility. A survey in 2014 by PwC and LinkedIn found that the UK and the Netherlands scored highest out of the 11 economies analysed in terms of the agility and adaptability of their workforce – which, as the firm points out, is a more powerful indicator of a market's ability to respond to future shifts in demand than a snapshot of current economic performance.

The reasons for the UK's high score include the international nature of its market and the presence of a large number of global businesses, combined with above-average movement of talent between employment positions.

This finding is mirrored in another, very recent, report, from the National Centre for Universities and Business (NCUB), which concluded that graduates who move between sectors and job roles early in their career are valued more highly by employers than those who don't. This, as the authors say, "may come as a surprise to graduates and higher education providers, for whom advice has emphasised a focus on developing skills and experience in a particular subject or sector of employment".

David Docherty, CEO of NCUB, says: "When you ask big companies, they say that adaptability is more important than skills or technical knowledge, which they can teach and which, in any case, can become outdated quite quickly. Small companies – those with fewer than 10 people – need recruits to become technically competent more quickly, but here too adaptability is key."

And because there are more university graduates and more first- and upper second-class degrees these days, "traditional filters don't work," says Docherty. Employability, including adaptability, is "really helped" by summer placements, he says, adding that devising work experience platforms and programmes that allow all university students to taste work, whatever they are studying, is "a big public challenge".

Indeed, there seems to be a growing sense that academic qualifications are ever less reliable predictors of career success in the increasingly complex, dynamic, global and technology-

enabled world of employment. Docherty points out that a degree is "only one element that makes you a person", while PwC, which has run its own assessment of potential recruits alongside academic criteria for around 10 years, has just scrapped A-levels as an entry criterion for its graduate scheme.

Richard Irwin, director of student recruitment at PwC, explains: "People need intellectual capability, to be highly motivated to use that, able to build great relationships with clients, to work with peers, to continually learn, to be commercially minded and so on, and while academic achievement is a proxy for that, it is an imperfect proxy, especially when you look at A-levels." Not only has PwC found little correlation between A-level results and career success in the firm, it also believes that putting too much weight on such qualifications excludes talent because of the proven link between social class and school academic performance.

Having an agile mindset is key, adds Irwin, and it doesn't necessarily come easily in an environment where people tend to be defined by their functional specialism. "If someone was asked to move to a totally different part of the business tomorrow, it would faze them, so we have to work out how to help them do it," he says. These sorts of challenges already exist. "HSBC recently moved from being a consultancy client to an audit client, so we have to work out how we respond in terms of moving people across," he says.

The firm works hard to give people experience in a broad range of roles, and someone is unlikely to become a partner these days without that breadth. Likewise, it emphasises a wide work portfolio alongside basic disciplines and tools on its consultancy graduate programme.

At a time when youth unemployment is twice what it is among the general population (743,000 young people aged 16-24 were unemployed in November to January 2015), it's encouraging that some organisations, at least, are identifying and building the skills among younger people that both parties need in order to be successful now and in the future. But organisations need to consider older workers too.

Since the default retirement age was scrapped in 2011, the number of 65- to 74-year-olds still earning a wage has risen to over one in four, and a recent survey by Baring Asset Management found that 14% of working people don't plan to retire at all. Not only are people living longer and healthier lives, but many also feel they can't afford to stop working. Rather than seeing this growing cohort of older workers as a burden, as many do, companies could, with a bit of creative thinking, use their knowledge and experience to plug skills gaps. While mentoring is an obvious use of their talents, "reverse mentoring", where young people train older people in, for example, IT skills, is another opportunity.

Getting into the habit of seeing older workers as a productive resource will stand companies in good stead for future workforce challenges.

"People born in 2012 have an average life expectancy of 104, which, on the grounds that the government can only reasonably fund 20 years of retirement, means they can expect to retire when they are 84," says PwC's Andrews. This, as he says, radically changes our understanding of what a career looks like, and calls for an agile mindset not just in organisations themselves, but also in people who are beyond traditional retirement age.

Mark Hoban, former employment minister and MP for Fareham (he stood down at the General Election), emphasises the need for people to continually upgrade their skills, however old they are. “I met a man who had been a building-site labourer before health problems and the downturn in the construction sector meant he had to stop,” he says. “He was unemployed for a number of years, but had just got a job as a stock picker for Amazon, which required IT skills. So he had to reskill.”

Indeed, as working lives grow longer it’s increasingly unlikely that someone will have just one job, or even stay in just one profession. Hoban himself, who spent 16 years at PwC and 14 years as an MP, has just embarked on his third career, as a portfolio director. “Increasingly, for older workers, the binary choice between working and not working is starting to erode.”

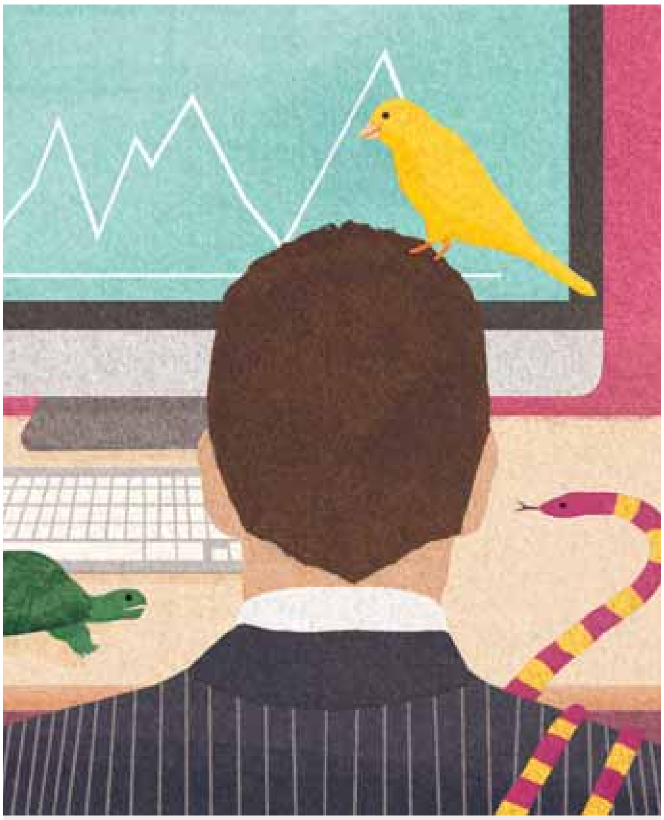
But while the nature of work, jobs and employment patterns will change over the coming years, perhaps beyond recognition, jobs will not disappear, insists the Work Foundation’s Johnes.

“There is a lot of utter drivel talked about this, largely originating in the work of Frey and Osborne [authors of a report called *The Future of Employment: How susceptible are jobs to computerisation?*],” he says. “Jobs don’t disappear - they morph. Think of the armies of secretaries that were a feature of the work environment 20 years ago; people now do their own typing and the ‘secretaries’ do different tasks - but they are recognisable as the same types of people. Typically jobs are made up of a multiplicity of tasks, and while technology will render some of these tasks obsolete, it will lead to the creation of new tasks that need to be done as well.”

However, continues Johnes, the fact that people will have multiple jobs over their lifetime means that “companies will have to commit to real lifelong learning rather than paying lip service to it”.

They may also need to embrace some of the “irritating” habits of the millennial generation, who don’t see life in the same linear, or compartmentalised, terms as older generations. Lines between work and not work are blurring and, despite the flexibility this affords, most people still feel the drift of work into their home lives as an intrusion. Millennials, who seem able to juggle multiple information sources - covering both work and play - simultaneously, feel differently. This ability to juggle, believes PwC’s Andrews, will serve them well in the future world of work, where the concept of work-life balance will be replaced by work-life integration.

But perhaps the biggest thing organisations can do to get the skills they need is to make the jobs they offer more intrinsically appealing. There are very good reasons why teachers and GPs are leaving their respective professions in droves - and that’s a problem that no amount of skills training, work experience and careers advice will solve.



WHY I CHANGED CAREER

Tom North, who qualified as a vet in 2001 and switched to accountancy 11 years later, may seem an unusual case today, but such career changes are likely to become a familiar feature of the employment landscape.

North, who joined Baker Tilly’s graduate programme in August 2012, at the age of 35, describes the shift as “an evolution”. He practised as a vet for 10 years, six of them as a partner and then managing partner, and sold the business in 2011 before spending a year as a clinical locum and practice management adviser.

“I found the business side of things as interesting, if not more interesting, than the clinical side, which, combined with the fact that I was typically working over 110 hours a week as a vet, helped me make my decision,” he recalls. “Lots of vets burn out early and I wanted to head off a potential problem.”

He didn’t find the transition difficult, he says. “You can acquire technical skills relatively easily, and I’m used to learning and am good at exams. Also, lots of the core skills are transferable - like time management, prioritisation, organisation, delegation, attention to detail, concluding and so on. I’m also used to dealing with pressure.”

North will qualify as a fully-fledged accountant this summer, but says his previous experience - both veterinary and business - has allowed him to become involved with a greater range of projects than would otherwise have been the case. “For example, I was able to join a project with a healthcare basis at a level in excess of my job title, which reflects Baker Tilly’s recognition of me as an individual and my skills, rather than a job description.”

He concludes: “You make your own opportunities, but it’s great to have the support of your employer in doing so.”

THE SEARCH FOR VALUE

Four continents, five discussions. All with a simple objective: to understand what value audit offers to businesses, investors and society. Richard Cree reports the key findings from Value of Audit discussions in London, Johannesburg, Singapore, Toronto and Frankfurt

Having travelled from Africa to Asia and Europe to North America, it became clear that the questions raised at the *economia* Value of Audit roundtables, in association with KPMG, were broadly the same, with commonalities outweighing local differences. Typical questions covered fundamental issues, such as how to effectively measure audit quality, to technical concerns about the ideal scope and detail of the audit report.

A total of 43 participants took part in the discussions, ranging from senior KPMG partners to policymakers, banking regulators to investor representatives, and audit committee chairmen to CFOs. All shared a passion for audit and wanted to improve audit quality and value. Larry Bradley, KPMG's global head of audit (and a participant at the Toronto session), spoke for many when he described audit as being at "an inflection point".

"We have an increase in sophistication of international regulators coming together. We have a debate with respect to enhanced audit that is not going to go away. And we have the advent of mandatory rotation in the EU, which is a global phenomenon. All these events coming together within a few years mean there will be changes."

IT'S ALL ABOUT RELATIONSHIPS

The world of audit is changing, driven by regulatory change, market pressure and technological innovation. Change is different in different markets, with a blend of global and local pressures shaping results. Local corporate governance arrangements and structures have a major impact on audit rules and approach and crucially, despite the impact of technology, audit remains a people business and the relationships between the key players remain a determinant of its success and value.

Audit's success depends on the strength of the personal and professional relationships between major players. Relationships include that between the CFO and auditor, auditor and audit committee (and especially the committee chairman), but also between other stakeholders, from the supervisory board to executive management, investors and shareholders.

One theme that emerged was the importance of the "triangle of influence" between CFO, auditor and audit committee chairman. Developing an equal triangle of influence and the impact this balance has on audit outcomes was a regular talking point.

MEASURE FOR MEASURE

Time and again the discussions raised the issue of the best way to effectively measure audit quality. The ambition of all discussions (and new regulations in this area) is to drive up audit quality. But what do we mean by quality? Is it compliance with standards or something more substantial? How easy is it to measure and how much would compliance meet the needs of investors and public?

Robin Freestone, CFO at Pearson, told the London meeting: "It's difficult to get a sense of quality, even when one's being audited, let alone as an independent reader of financial results."

For Karyn Brooks, board director at Financial Executives International Canada and former VP finance at Bell Canada, there is no single measure. "I don't think there's a real measure of it," she

"It's difficult to get a sense of quality, even when one's being audited, let alone as an independent reader of financial results"

KEY THEMES BY LOCATION

London: Expanded auditor reporting; trust in business; measuring audit quality; the impact of mandatory rotation

Johannesburg: Integrated reporting; the role of internal audit; expanded reporting; audit quality; the impact of rotation

Singapore: Auditor independence and quality; expanded audit reporting; measuring audit quality; the role of investors

Toronto: The expectation gap; the risks of expanded audit reporting; measuring audit quality

Frankfurt: The role of the supervisory board; the audience for audit; the impact of mandatory rotation

said. "You get a different answer, depending who you ask. If you ask management or the chairman, you'll get a different answer about quality of the audit and who is accountable."

WHAT'S BEING REPORTED?

Measuring quality matters because markets depend on audit and its ability to reassure markets that what companies are reporting is a true and fair reflection of reality. This means it is reliant to some extent on what is included in corporate reporting. As reporting across the world undergoes major change, driven by the financial crisis and an ever-greater need and desire for information, there is recognition of reputational value in greater transparency. Hence the role and significance of audit is also on the rise.

In the UK, new requirements for what is and isn't included in the annual report, outside of the financial statements, have changed both financial and non-financial reporting, while in South Africa, Integrated Reporting has become a requirement for listing. As Prof. Mervyn King told the Johannesburg discussion, "The way we have been reporting has not been informative. In this historic context, we were reporting in automotive terms as if we were building a car with a rear view mirror but no windscreen. And it was being perfectly audited, but the external auditor in the nature of things is focused on the financial aspects, which is historical."

Any consideration of the current state of corporate reporting, and whether it is fit for purpose inevitably steers attention, towards the role of auditors in offering some assurance that the report can be trusted. But expanding the scope of the audit to cover such non-financial, forward-looking information raises all sorts of issues. Prime among these concerns is the issue of liability. Willie Cheng, chairman of the Singapore Institute of Directors, claimed the audit profession "has done an excellent job in protecting itself. So much so that you have reduced the audit opinion to something which is fairly clinically safe". But for many others at the discussions, this protection has come at the expense of offering value or meaningful insight. A safety-first approach has led to over-cautious, conservative audit opinions that offer little genuine insight.

The London discussion, the first to take place, focused on recent developments in the UK aimed at changing this. New requirements from the FRC (represented at the discussion by Melanie McLaren) include auditors reporting findings in the audit report, as well as offering some insight into their judgement on those findings. In the UK, KPMG had recently gone live with a pilot to test this more expansive, opinion-based report, notably with Rolls Royce. This has now been offered to all clients. What might the future hold for audit reporting? How will the drive from Europe and the UK's gold-plating of those demands go down in other markets? What challenges does this hold for the profession? How will the liability issue be overcome and what should really drive this change?

INDEPENDENCE AND ROTATION

At each of the discussions the subject of the appropriate length of audit tenure was discussed. And it was not just in the European discussions that the EU's march towards mandatory rotation every seven years was discussed. In a global market it's inevitable that there is a tendency to move to the lowest rotation period.

There were investor representatives at some discussions and while many agreed that endless unlimited tenure was not good, they also recognised the focus on forced rotation every seven years was as much as anything about being seen to create some distance and independence between auditor and client. In Singapore, in particular, this led on to a detailed discussion as to the extent to which independence is an acceptable proxy for quality.

Concerns that reducing the average tenure too far could lead to a drop in quality were raised in Singapore. David Smith, head of corporate governance for Aberdeen Asset Management, spoke for many investors: "The nub of the support that the investment community has for rotation is the idea of a new broom offering a clean sweep. We struggle with what is the ideal maximum tenure. I don't know if it should be 10 years or 15. Certainly 100 years is too long. Excessive rotation is also something investors are alive to."

THE FUTURE OF AUDIT

As Bradley says, the profession appears to be at a crossroads. In the wake of the financial crisis, there has been an unprecedented wave of regulatory change and market pressure on reporting and audit. How these uncertainties resolve, and what the audit profession will look like is hard to determine. Effective and reliable audit has a crucial role to play in society. The challenge facing the profession is to manage these often conflicting pressures and to develop a service that meets the needs of all stakeholders.

For more on the Value of Audit, visit icaew.com/economia

Among the many social demographics targeted by retailers and service suppliers, the solo consumer is one of the most powerful, yet overlooked. Xenia Taliotis investigates the potential of the single shilling

Over the past 100 years or so human beings, that most sociable of species, have started, in increasingly large numbers, to set up home alone. Partly because women got the vote, lost their men in wars, burnt their bras, found their financial freedom through work, and partly because men realised they could look after themselves, the number of single people living alone has increased beyond all expectation to become one of the fastest growing demographics, not only in Western Europe and North America – where the rise is particularly marked – but also in emerging economies.

If the latest forecasts from *Euromonitor* are accurate, more than 331m people in the developed world, from Sydney to Shanghai, and Oslo to Osaka, will be living alone by 2020. That may not sound like too big a deal until you consider that what that figure represents is an increase of nearly 20% in less than a decade (up from 277m in 2011). More interesting still are the stats coming out of individual countries: 27% of households in the US are occupied by singles, 28% in Canada, 30% in Japan, 34% in the UK, 40% in Norway, 42% in Finland and 47% in Sweden. And the relentless march of the solo army is at its most advanced in cities: 40% of households in San Francisco, Seattle and Minneapolis are single occupancy, as are 50% in Manhattan, Washington and London, more than 50% in Paris and a staggering 60% in Stockholm.

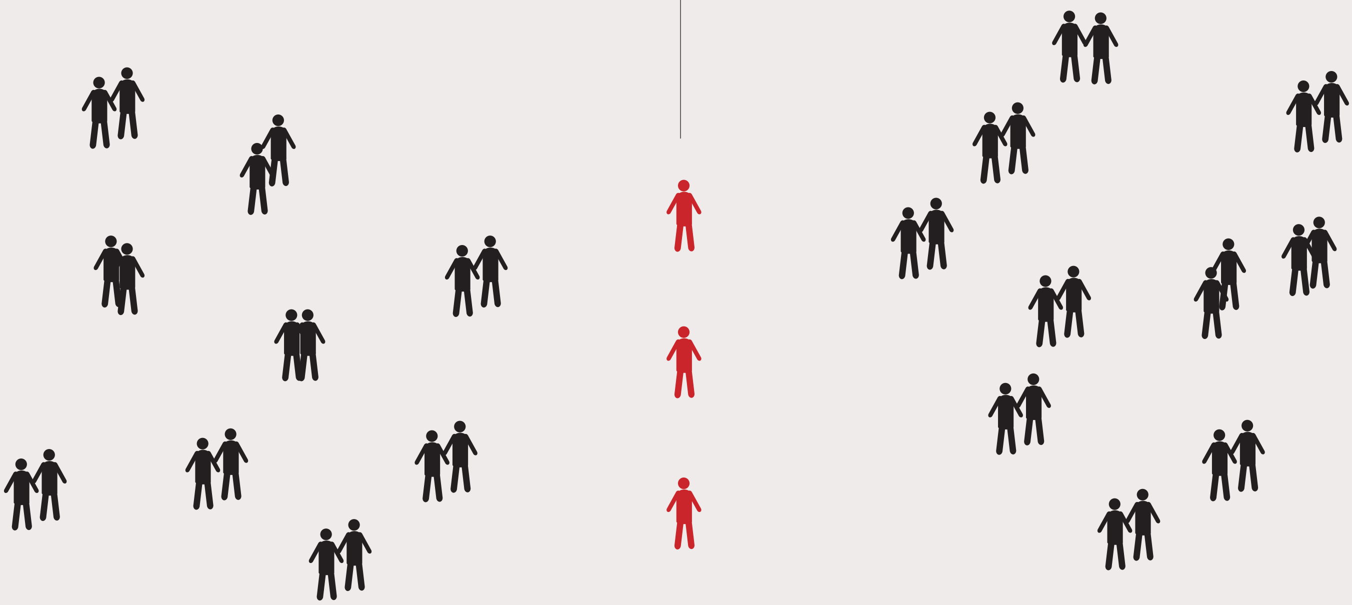
According to the Institute of Public Policy Research (IPPR), this rapidly-expanding group will have an impact on every community and every person, and will dramatically change consumption patterns. IPPR some years ago described the increase of single households as "one of the most significant changes to take place in British society in decades". Dr Eric Klinenberg, author of *Going Solo, the Extraordinary Rise and Surprising Appeal of Living Alone*, professor of sociology and director of the Institute of Knowledge, New York University and a member of the Solo Living Network, a research organisation, recently took the issue global, saying: "The incredible rise of living alone is the biggest social change that we have failed to name and identify."

Klinenberg's got a point. The humble solo shilling has for too long been considered shrapnel, overlooked by all but the most savvy marketers in their stampede to get at the pink and grey pounds. But it's payback time because that single shekel is now adding up to billions of pounds, sitting in a deep, abundant and largely untapped well.

"Certainly businesses need to become more sophisticated in their marketing," says Jane Frost, chief executive at the Market Research Society (MRS), "and to redirect their attention away from couples and families and onto single people. I suspect that what they're finding problematic is the sheer diversity of the group, though my argument would be that you could say that about all demographics, whether you're looking to provide for gay people, or older people or families. Not one of them is truly homogenous so, in my opinion, the argument about disparity is easy to challenge. I would be more inclined to say that the lack of focused marketing is more down to the single economy still being nascent."

That's undoubtedly true, though some companies have been quick to capitalise. Alibaba, China's online retail giant, saw the potential in a low-key event single students at Nanjing University were holding as an antidote to Valentine's Day, for which they would buy themselves a gift. Alibaba took their humble idea, commercialised it and sold it to the world. Last year the company's Singles' Day became the biggest retail day in the world, exceeding sales of \$9.3bn – a 60% increase on the previous year.

So perhaps businesses looking for advice on the single economy should look to companies that have been targeting



37%

of single consumers went to the cinema in December 2014

singles for years. Leaving aside dating, the other industry that has long profited from the solo market is travel. "Marketers have at best been blinkered and at worst, totally blind in their perception of single people," says Andy Fairburn, marketing manager, Solos Holidays. "They've been stuck in a time warp, still seeing singletons as 'lonely hearts' - a label the dating industry dumped years ago. Our customers are more likely to be free-spirited, independent, empowered people who feel liberated by their singledom - they are not the sort of people you can shove into a sub-standard, over-priced room and hope for the best."

Fairburn says that an estimated 29.9m holidays will be taken by single people in the UK in 2015, generating a total spend of £11.7bn in the process. "It's a huge and hugely lucrative market: the number of people travelling solo has increased by 60% since 2009 and that number is growing."

Even companies that aren't solo specialists have witnessed an upturn. John Boulding, CEO of luxury coach tour operator Insight Vacations, says the company has seen a 25% increase in business from singletons over the past five years, from both its UK and international markets.

"We're not a solo holidays operator but we're seeing dramatic growth nonetheless because our tours are perfect for single people," he says. "They offer the convenience of included travel, hotels, most meals and local experiences, the safety of being part of a group and company if and when wanted. Our turnover from solo travellers increased by £4.5m last year, which is great, but our growth is still inhibited by the single supplements imposed by accommodation suppliers.

"We're doing our utmost to attract more single customers - we've absorbed these charges on several itineraries, and our website carries solo offers - but we need hotels to recognise the power of this demographic and to contribute further. We'd love to remove the single supplement from all our tours. If we could do that, our share of this market would rocket."

It's not just travel that does well out of the singletons. They're also a veritable gold mine for those making and providing home entertainment equipment and associated industries, including online film and music providers. And, says Klinenberg, they also "play an essential yet unappreciated role in revitalising cities and animating public spaces" because "they're more likely to eat out, exercise in gyms, take classes, attend public events and volunteer than married people". Single people, he says, "fuel the economy and spend more discretionary dollars than those who live with a partner or have children". Indeed, the Bureau of Labor Statistics estimates that consumption by US singles contributes $1.9trn to the economy per year, while forecasters in Korea expect the spending power of single-person households to hit $113bn by 2020.

In the UK, a survey by Mintel showed that 37% of single consumers had been to the cinema in December 2014 compared to an average of 30%; 15% had been to a concert or festival, compared to 11%, and 20% had been to a club, compared to 13%. Of course these are easy enough interests to pursue solo. What's more interesting is the fact that more singletons are conquering the final frontier - dining out alone, often considered one of the more challenging aspects of single life.

Global restaurant consultant Aaron Allen has advised many restaurateurs on the changes they need to make to attract solo diners: "Restaurants need to pay more attention to this segment. There are more singles in the marketplace and many of them spend big on food and living expenses, so they're a very important group of consumers." Smarter restaurateurs have taken note and are offering smaller sampling menus, fitting single-friendly bar and communal seating and training their staff to help make single diners feel at ease. One restaurateur, though, has gone beyond that - Marina van Goor opened the first (and only) exclusively-for-singles restaurant last year. Her pop-up, Eenmaal, launched in Amsterdam and has since had sell-out temporary openings in Antwerp and London, with more planned in other European cities this year.

If singles "spend big" on dining out, then they spend massive on convenience food. In Brazil annual sales have doubled in the past five years to $1.2bn, while Kandar Worldpanel, a world leader in researching and analysing consumer behaviour, puts the UK market for single-portion ready meals at an almighty £16.9bn - and rising. At UK supermarket Waitrose, meals for one make up 80% of sales for the entire range of ready meals and demand is growing - up by 8% from last year.

Jon Firth, Kandar Worldpanel's director, says supermarkets will need to understand this consumer group and "work hard to accommodate the shift from household to individual needs", not

29.9m

holidays will be taken by single people in the UK in 2015, generating a total spend of

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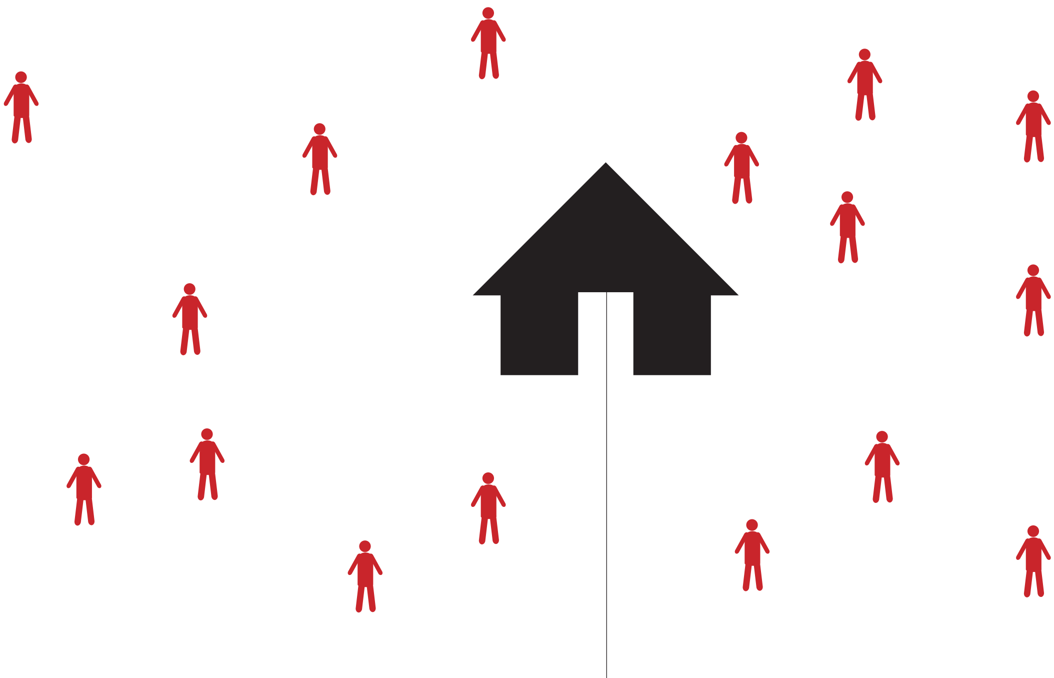

only in relation to food, but also other items they bulk sell through three-for-two, or two-for-one offers. In other words, single shoppers are having a worldwide impact on consumer spending patterns, forcing supermarkets to change how they sell.

Singletons are also posing an as-yet unanswered question to house builders, urban planners and government, which is this - how are they hoping to deal with the increased demand for welfare and housing? The repercussions of having more single people in the system are huge. For instance, says Frost, there still remains a reliance on unpaid carers - spouses and children mainly - throughout the world to look after the elderly and frail, but millions of people will be entering old age without that support, thereby increasing the burden on the state. And then there's housing, a potato so hot that no one seems to want to handle it.

The main problem in the UK, says Steve Turner, head of communications for the Home Builders Federation, is a shortage of land approved for building on, which in turn restricts the supply of new builds. "Government figures show we need to be building around 230,000 new houses per year to address need, but last year for example we only managed around 130,000. We estimate we've already got a shortfall of over one million houses. The problem is much bigger than finding homes for single people: it's finding houses for everyone - whether they're young, old, in a couple, have a family. The only way around it is to build more, and central government needs to put pressure on, or incentivise, local authorities to release enough of their green and brown field land to build the number of homes their communities need. And they are doing, but negotiating the laws and bylaws of planning permission is a notoriously slow and unresponsive process."

Jan Crosby, head of housing, KPMG, agrees but puts the emphasis on age-appropriate housing. "We have growing numbers of elderly, widowed people living alone in the three- or four-bedroom houses they bought when they were raising their families," he says, "who don't want to move into sheltered or assisted accommodation. House builders need to consider this demographic and find a way of providing them with suitable housing. Some have started looking at bungalows again so that could be one way forward."

"Government figures show we need to be building around 230,000 new houses per year to address need, but last year we only managed around 130,000. We've already got a shortfall of over one million houses"

It's possible that the rest of Europe will follow in Sweden's footsteps and accept communal living into the mainstream, or that shared ownership will become the norm. Or perhaps, says Crosby, the UK will give greater rights to tenants, taking the instability of short-term lets and ever-increasing rents out of the equation and giving tenants the confidence to put down roots in their rented accommodation.

"The government is moving in the right direction and has started looking at private rent as an alternative sector for housing, which can appeal to single person households and especially to young professionals," he says. "With this in mind, the government has been supporting the private rented sector with big incentives and looks to be aiming for a system more akin to the US, where people have longer leases on their property, but with the ability to be more flexible and move within the same block as their circumstances change."

In other words, it's all up for grabs. As Klinenberg says: "Ultimately, it's too early to say how any particular society will respond to either the problems or the opportunities generated by this extraordinary social transformation. After all, our experiment with living alone is still in its earliest stages, and we are just beginning to understand how it affects our own lives, as well as those of our families, communities and cities."

CORPORATE STRESS WILL BREAK OUR BEST MINDS UNLESS WE EMBRACE SELF-CARE

32 **ANNA PINKERTON** reveals how and why high achievers are secretly going to pieces, suffering from unrecognised trauma and at risk of breakdowns

Highly-intelligent, highly-motivated high achievers are breaking down and it doesn't have to be that way. These people have adapted to turn a blind eye to their physical and mental well-being. Often unconscious decisions, and the "unconscious drivers" (ancient familial dos and don'ts) which have led them to success are secretly tearing them apart.

Consistent practice of self-awareness underpinned by kindness to self and self-care can stop this behaviour. I have seen this work with people in the most powerful of roles. The most intelligent minds miss the basic need for things to sustain them, but those same intelligent minds can be employed in self-care too.

The secret codes of belief that have been adopted include:

- stiff upper lip culture is the only alternative to self pity;
- burnout at the top is normal;
- caring for mental health is unnecessary and weak;
- kindness to self is self worship and leads to arrogance;
- there is no alternative to corporate stress.

Our stiff upper lip culture is dangerously archaic. We carry on regardless through fear of not being good enough; fear of humiliation; and ironically, fear of weakening. Fear, however, is not a state within which to live, it is a feeling, and feelings don't last. Fear cannot be a motivator over a long period. In the short term it can be, but long-term disregard of mental health causes persistent releasing of adrenalin and cortisol, creating a highly-stressed state.

Ignorance of the care of the inner self leads to anxiety, depression, substance misuse, trauma and sometimes complete breakdown. Persistent release of stress hormones causes many symptoms high achievers assimilate as normal. This is what I call "corporate captivity" - the chronic entrapment and denial of self-care that furrows a path to chronic slow-to-build trauma. When we ignore or turn our back on it, we normalise it. Some of our very best thinkers and doers who are "disappeared" from roles have been slowly breaking down for months and even years.

The insidious growth of our "carry on regardless" culture has led to many traumatic breakdowns being misdiagnosed as burnout. High achievers are particularly susceptible to this as they are familiar with living in a state of internal pressure. Our high achievers are used to living at their "wit's end" and once they have done so, it feels like there is no alternative. In fact, often anything else is considered less challenging, less stimulating. This, however, is a delusion - one I support many in reassessing so that the person can extend themselves within a powerful role but with a robust self-care framework, avoiding complete breakdown.

It's not just lonely at the top, it's anxiety provoking, and can cause a chronic secret sickness. Back-breaking responsibility on a daily basis is numbed by caffeine, alcohol, prescription medication, gambling, food and drugs. High achievers are natural adapters, they feel the pressure, and they respond to the problem - and that is right and proper if it is sustainable. For many, it is not, and they reach for unhealthy "antidotes" to the rigours of their role which cause further stress and weakens them - the very state that they have tried to avoid.

Consistently denying your body and mind's need for consideration and care makes you vulnerable to traumatic breakdown. I see the results of the stiff upper lip lifestyle every day. Having lost the six-figure salary or multi-millions, there were always early signs of nearing and then overwhelming the limit of what was possible to sustain. These include:

- feeling full up, dizzy;
- missing lunch, choosing fluids because they're quicker;
- intrusive thoughts of walking away;
- fleeting thoughts of ending your life;
- anxiety, shortness of breath, struggling to take a deep breath;
- depressive thoughts;
- feelings of suffocation, seeing no way out;
- imagining your demise;
- consistent difficulty with concentrating;
- short-term memory loss;
- binge drinking and binge eating;
- being quick to anger, making angry outbursts;
- insomnia (early hour wakening);
- trembling for no apparent reason;
- loss of appetite;
- self harming, brutal thoughts, biting, stabbing, hitting self.

These early symptoms cause mild discomfort at first but if ignored grow to make once minor irritations feel insurmountable. A common cold, a needy family member, your car's MOT, your PA's mistake, an ill pet, all generate disproportionate stress as they are interpreted as "yet another thing to attend to". The irritation, and often rage, is your clearest sign that someone could be experiencing a "slow-to-build" traumatic break of their resources. They may also be vulnerable to complete breakdown if the pressure remains.

Trauma comes in two guises: a single one-off overwhelming event or a slow build-up of stresses which finally engulfs a person's resources. Of those who have completely broken down, there is not a single person - whether they have a staff of several thousand or a dozen - where there were no early signs. The internal mechanism of self-care is disinvested in long before the final breakdown.

Often by the time I meet these CEOs, lawyers, doctors, surgeons, sports personalities, they have lost every single marker to their life, and they simply do not know how to live. It does not have to be this way.

Practicing an archaic culture of "austerity to the self", an internal penal system if you like, over years became assumed practice and is now a well-laid cultural convention - individual neurology and habit have become imprinted and adopted. It's what I call the assimilation of burnout.

It is not normal (even in the broadest sense of normal) to extend a human being's limits to the point of breaking. Burnout is not an individual's inability to manage stress, it is a culture's inability to manage the meaning and causes of stress and the crude application of reward for those who join in the culture of unwillingness to accept human limitation. If there were no limitations to humans' stress; trauma and post-traumatic stress would not exist. These frequently-experienced conditions only exist because every human being that lives and has ever lived has a limit to what they can withstand. To propose otherwise is naive and dangerous. The assimilation of burnout in our culture can be reversed.

All lack of choice is internalised as entrapment. Entrapment is a crucial feature of any chronic traumatic state. Every reader will know someone if not themselves who they feel is bowing under stress and feels trapped. Choosing self-care, and establishing an internal environment of kindness, will give some control and responsibility for health, mental health, inner and external wealth.

We have a responsibility to act with due regard for self, and then cultivate an atmosphere of due regard for all. Even within the most brutal corporate environment we can endeavour to make a private internal relationship with ourselves and make an impression on what we believe to be unimpressionable.

Self-care is how to look after yourself when you feel dreadful and feel you can't or don't want to care about yourself. One of the most common reactions to turmoil is to stop being able to or desiring to look after yourself. The experience of being shunted into an agonising world of anxiety, depression, fear and neurological symptoms often prompts a turning against our selves. It often comes from a feeling that people feel frustrated with themselves for not being able to shake themselves out of it and overcome it.

So how should daily self-care be practiced?

- Have compassion for what you're going through.
- Make time to have lunch, schedule it in the diary.
- Use meditation, put an app on your phone.
- Change your internal dialogue from cruelty to kindness.
- Breathe, take several deep breaths at intervals throughout the day.
- Rest if you can't sleep.
- Be aware of the early signs and don't ignore yourself.
- Choose a healthy antidote - walking, jogging, visiting the gym, listening to music.
- Get professional support, don't wait until it's too late.

The intellectual rigour of high achievers can be mobilised to transform our culture. Individual high achievers can take better care of their well-being, and therefore their career, their livelihoods, their family's livelihood.

Self-compassion and care is a responsibility. If adopted as such, we would realise that the corporate world will not implode if people commit to eating a chewable lunch. It sounds flippant, but the message is serious. I have spent hundreds of hours with incredible high-achieving people who lost everything they knew (and had built) in one overwhelming moment.

This is not a sophisticated foundation upon which anyone can truly maintain their best. And of course it is self-perpetuating, as we are shown the breakdown of other CEOs, demonstrating to us all how precarious we are, and more significantly, how we might be treated if we were to show any weakness or vulnerability.

What a terrible irony to enforce corporate captivity to the point of the breaking of our top minds, our top achievers and investors. We do not expect our financial portfolio to be treated with the same disregard. Would our investment portfolio be treated with a carry on regardless attitude? No, we would look after it, and take stock and consider, and care and change based on our considerations - and we would heed our findings and carry on with due regard.

One can only carry on without due regard until a limit is reached, and I urge the visionaries, the leaders, the powerhouses of our industry to step back and care and consider their daily experience, before their brain and body does it for them. Turning a blind eye to early warning signs will subtly weaken their celebrated resilience and will form a template that will ensure a dramatic breakage in mental and physical health.

Cultivating an internal dialogue of kindness is the antidote to corporate stress and breakdown. Though this may seem trivial, its beauty is in its simplicity.

Anna Pinkerton BAHons PGDip DipPW TIRCouns EMDRII MBACP HCPC is a therapist, coach, speaker and author of How to Smile Again: Recovery for those in public life but in private pain, *annapinkerton.com.* economia *readers receive a £5 discount at howtosmileagain.com using promocode "smileagain".*

New beginnings

From training as a priest to working for the European Commission in Africa and Ukraine, **Michael Humphreys** tells Julia Irvine about exchanging one calling for another

They say that if you kiss the Blarney Stone, you will be endowed with "the ability to influence and coax with fair words and soft speech without giving offence". Michael Humphreys may or may not have done so, but he is full of Irish charm and loquacity, both of them useful talents in a career that has spanned training as a Catholic priest, chartered accountancy and the European Commission's diplomatic corps as ambassador to Kazakhstan, Bosnia and Herzegovina, and Bulgaria.

To describe his career path as unusual is an understatement. Yet when viewed in retrospect, there is a clear thread running through. This involves living and working overseas (the more challenging the country, the better) and being always on the hoof.

He first formed the ambition to work overseas while a trainee priest with the Holy Ghost Fathers (now the Spiritan Congregation of Ireland). The fathers were keen missionaries in Africa and, although Humphreys gave up training for the priesthood after seven years ("I didn't see myself as a preacher and I wasn't happy with the way the church was going, particularly over birth control and priestly celibacy"), he retained a fascination with the continent.

Practicalities stood in the way. Having relied on his family throughout his training, he decided he needed to earn some money. So he joined Griffin Lynch in Dublin (later part of EY) to see if he liked being an accountant, discovered he did and moved after six months to London to train with Robson Rhodes, where he spent three years specialising in computer audit. But his thoughts kept returning to Africa and when he saw an advertisement for an administrator of one of the Methodist Church's hospitals in Sierra Leone, he leapt at the chance.

The next 20 years were a rollercoaster ride. Humphreys moved between jobs and countries "like a rolling stone", he says. "I wasn't looking for hardship but I got a fair amount of it, partly because of the life I was leading. I didn't have a wife and child at the time so I was living the bachelor life." He witnessed two coups in Uganda, was held up at gunpoint and robbed several times and, as financial controller of the National Power Authority of Sierra Leone, he caused a student riot after cutting off the electricity supply to Njala University College when it failed to pay its utility bill.

At one stage, he found himself responsible for returning non-military refugees from Zambia to Zimbabwe under the Lancaster House agreement in the run-up to the first elections post independence. "That was a major job. I chartered planes, I chartered trains, I chartered buses. We were meant to have 20,000 refugees but only two thirds turned up - the rest were ghosts the UN had been paying for. We were rather happy about that because it meant we managed to deal with everything."

After 20 eventful years in Sierra Leone, Uganda, Nigeria and Zambia, Humphreys decided to leave Africa. By then he was working for the European Commission ("they offered me a pension") in the Central African Republic and desperate for a change ("nice people, not challenging enough"). Next stop was the EC's delegation to Ukraine where he took on responsibility for supporting the country through the early stages of its transformation towards meeting the EU criteria of democracy, rule of law, human rights and a market-based economy.

He also met his wife. Back then, he says, Ukraine was full of hope. Twenty years later, he is heartbroken by what is going on. "It's terrible. I was back there recently to see my in-laws. We in Europe are not entirely without blame but what Russia has done in the past two years is criminal."

Already past retirement age, Humphreys left the Commission in 2007 after spells as ambassador in Kazakhstan ("a nice place to start off with"), Bosnia and Herzegovina working with Lord Ashdown ("a huge job but unfortunately we failed on police reform") and Bulgaria (overseeing its accession to EU membership). But retirement was not for him and in 2012 he was seconded to Kabul by the Irish government as head of mission support for the EUPOL Afghanistan Mission, advising, monitoring and training the civilian police forces in Afghanistan.

They were, he says, two interesting and challenging years. "We were of course very constrained. I never walked around the streets in Kabul by myself. The only time I would go out would be in an armoured vehicle with a close protection team fully armed and protecting us. It didn't worry me enormously although it was obviously dangerous. One of our staff members was killed in a restaurant by a suicide bomber along with one of her close protection team."

The internal workings of the mission were quite difficult, he said, and there were lots of tensions. Staff

had "a room to live in, nowhere to eat except in the canteen, nowhere to drink except in the bar. You could compare life there to something between an open prison and a one-and-a-half-star hotel or - given my background - a seminary. And of course it was all single postings.

"The work we did was useful and will have results if the country holds together. Whether it will or not is another question. What one wants there is reasonable peace and security so that people can carry on their normal lives. From an international point of view, of course, we've never been that interested in Afghanistan except in so far as it has impinged on ourselves. American intervention was not particularly altruistic, nor were the Russians or British before. Nobody in the last 200 years has intervened to help Afghanistan for objective and humanitarian reasons."

Now aged 73, he still has twitchy feet. For the past year he's been travelling to the Philippines, Malaysia, Singapore, South Africa, America and Ukraine, partly because he is not sure he wants to stay in Brussels and he's been out of Ireland so long he doesn't want to go back. "I want to go to a country with a buzz and plenty of sun." He has recently been back in Africa, advising a firm of chartered accountants he spent two years working for in his youth and with whom he's always stayed in touch.

"Sierra Leone was my first point when I left our part of the world and I am interested to go back," he says. Borrowing from TS Eliot's *Four Quartets*, he adds, "You could almost entitle my story, 'In the end is my beginning'."

PHOTOGRAPHY: TOM CAMPBELL

MAKING BOOKKEEPING PAY

THE BENEFITS OF BOOKKEEPING IN THE CLOUD

There's a certain kind of bookkeeping customer that's commonly referred to as a 'shoebox client'. If you've spent any time working with bookkeeping clients then you probably know the kind of business we're talking about.

They're the client that arrives with a cardboard box full of every paper receipt, invoice and bill from the past six months and expects you, the accountant, to sort it out. And all for a very minimal fee.

In this shortened guide in association with Receipt Bank, we'll explain how the cloud can turn these unprofitable, resource-intensive clients into valued, profitable customers. And the starting point in this transition comes with a move to cloud-based bookkeeping and accounting.

TURNING A SHOEBOX CLIENT INTO A PROFITABLE CUSTOMER

There's a perception that shoebox bookkeeping clients are not a great investment for your practice, due in part to the time you spend on them. You also have the potential risk of a client that's not on top of their finances and isn't up to date with online options for managing their finances.

A short-term simplistic view is that a shoebox client can look like a bad option for your practice. With the right software, the right processes and the right client relationship you can turn a shoebox client into a profitable, valued client.

So, how do you turn this client into a premium customer? Let's look at the initial challenges your practice faces with these low-fee, high-time clients – and how cloud solutions can remove these challenges.

THE INITIAL CHALLENGE OF THE SHOEBOX CLIENT

A bookkeeping client with a box full of paper receipts doesn't initially look like a profitable proposition for your practice - at least at first. And this perception comes from a number of factors.

- Data entry to get the numbers from these paper receipts into the books will take time and effort.
- This data entry takes up staff resources - and doesn't pay much.
- Spending lots of time on one client when the fee is relatively small doesn't make good business sense.
- The client may well be disorganised in other areas of their business and not on top of their finances - making your job more difficult.
- It's unlikely the client has the most up-to-date software systems in place - so finding the documents and data you need could be taxing.
- The client may not use the same accounting software as your practice - so deeper accounting or business advisory services become more difficult.

HOW TO OVERCOME THESE BOOKKEEPING CHALLENGES

So, can you overcome the challenges posed by a shoebox client? The answer is an emphatic 'Yes, you can'.

There are straightforward ways to turn inefficient clients into clients that turn a profit - while also meeting their client needs more quickly and efficiently. And cloud-based bookkeeping and accounting solutions are key to this transition.

HAVING THE RIGHT SOFTWARE

One of the most powerful weapons in the modern accountants' arsenal is software. Increasingly, practices and clients are working together online, using software tools to reduce the need for data entry. Cloud accounting, with all the associated tools and plug-ins that go with it, can significantly speed up your bookkeeping processes. These are some of the advantages of cloud accounting for bookkeeping:

- You and your client both work from the same software solution, improving efficiency.
- It's mobile, so you can access your client's numbers and data wherever you are.
- You can see any scanned documents you need as and when required, 24/7.
- You have access to the client's bank feeds and statements when you need them.
- Many cloud accounting platforms also have plug-in tools that add specific bookkeeping and finance functions.
- Plug-ins, like Receipt Bank, remove the data entry pain, by scanning receipts and paperwork and pulling the numbers into your accounting software.
- Other plug-ins focus on adding functionality around invoicing, payroll, point of sale and reporting – making your job easier and adding value for the client.
- Using cloud software makes your whole bookkeeping process quicker, simpler and more efficient.

IMPROVING PROCESSES AND FREEING UP TIMES

Streamlining and speeding up your bookkeeping processes is a key area where an online solution can add value. In a nutshell, cloud bookkeeping saves you and your clients time. Using a mobile, online solution speeds up the data entry process and gives you the numbers you need in a much more efficient way. Instead of spending hours on tedious, manual data entry you can pull the numbers you need straight into your systems.

Bookkeeping in the cloud:

- ✓ Speeds up your data-entry process.
- ✓ Organises your client's data and pulls it into the accounting software.
- ✓ Gives you a completely up-to-date view of the client's' numbers.
- ✓ Frees up time for you and the client.
- ✓ Gives you a better financial overview of their business.
- ✓ Helps you manage your client's financial future.

Having the data and information you need in one place makes the whole process of completing the client's books more efficient. Expenses, invoices, bills and receipts are all easily found and linked back to the main ledger.

HOW CAN RECEIPT BANK AND ADVANCETRACK HELP?

Receipt Bank extract the key information from bills, receipts and invoices and pull that data directly into your accounting software. That means the data is exactly where you need it.

AdvanceTrack are able to deliver bookkeeping in the cloud using the technology in a secure, cost-effective manner. Build your cloud accounting business powered by technology and manned by AdvanceTrack enabling your teams to move quicker and faster. Deliver higher levels of client service by doing more of what your clients expect. **Call AdvanceTrack today on 024 7601 6308.**

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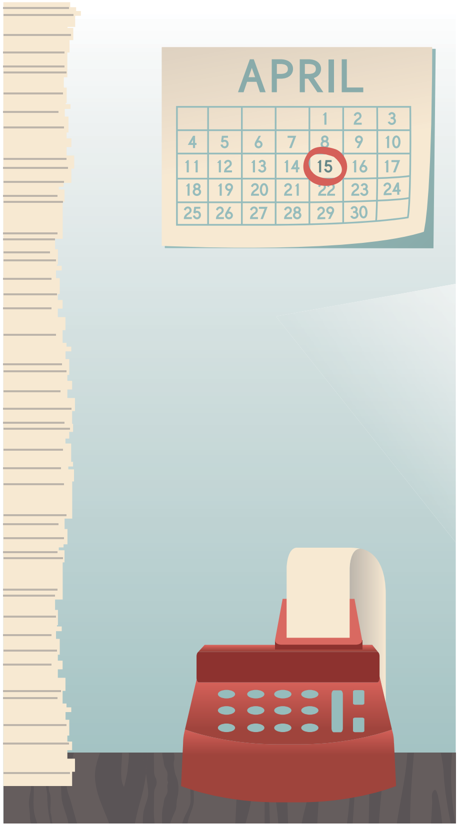

Do you have a Cloud Strategy?

It is interesting to observe the changes in the profession as a result of technology. As a technologically advanced accountancy outsourcer, we understand the changes and are driving the biggest changes in the profession.

What is surprising is that there are a significant proportion of firms who have yet to develop an integrated approach to cloud accounting and bookkeeping.

Many accounting firms have steered away from bookkeeping in the past due to the relatively low value and the large volume of paperwork. Consider how much work you passed to local bookkeepers in the past? Consider how inconsistent the quality of these bookkeepers has been over that time.

So what are your options today?

1. No change (The Do nothing strategy)
2. Half-baked cloud strategy (Partial cloud strategy)
3. Full cloud strategy

Most firms are still in the first 2 categories. Firms need to be in the last category if they want a long-term business that will grow and increase profits and client satisfaction.

A truly professional outsourcer like AdvanceTrack can deliver cost-effective and efficient delivery of bookkeeping and other compliance services.

This strategy can also help deliver a cloud strategy faster than in-house staff.

Outsourcing should help you focus on what you do best – deliver better service and advice to your clients.

AdvanceTrack is run by UK based ICAEW Chartered Accountants and are certified by BSI in the UK for ISO9001 (Quality Management) and ISO27001:2013 (Information Security Management) and operating since 2003.

Call us today to arrange a meeting to help you develop and deliver your cloud strategy on 024 7601 6308.

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ICAEW CHARTERED ACCOUNTANTS

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Technical
The top five

Financial reporting gets its prudence back, while help for smaller companies is issued; FRC consults on extension of audit code; IFRS offers advantages in Europe – and the Queen's Speech assessed

PRUDENCE RETURNS

1 The International Accounting Standards Board (IASB) has bowed to pressure and reintroduced the concept of prudence to its draft revised Conceptual Framework (see page 80 for more on this). It will place more emphasis on the importance of giving information to assess management's stewardship of the entity's resources. But it has resisted attempts to put reliability back as a qualitative characteristic of useful financial information.

It says that what commentators are really worried about is measurement uncertainty so it intends to identify this as one factor that can make financial statements less relevant, especially if the uncertainty in the estimate is very high.

ICAEW has welcomed the IASB's move, saying it was "particularly pleased" to see the restoration of prudence in financial reporting restored.

The deadline for comments on the exposure draft is 26 October.

ifrs.org

SMALL COMPANY REPORTING

2 The Financial Reporting Council (FRC) has issued a discussion paper containing suggestions for improving the quality of reporting by smaller listed and AIM quoted companies.

Research carried out by the regulator found that, contrary to popular belief among smaller companies, their annual reports are important to investors because of the lack of analysts' reports, and the quality of reporting can affect investment rating and lending decisions.

Recommendations include developing more focused training for finance staff, practical guidance for audit committees and boards on evaluating the adequacy of a company's financial reporting function, allowing AIM companies to report under UK GAAP rather than IFRS, and providing annual guidance on current issues.

Deadline for comments is 31 July 2015.

frc.org.uk

FRC ASKS IF AUDIT CODE SHOULD BE EXTENDED

3 The UK's major accountancy firms are ahead of their peers over governance, the FRC says. But they need to persuade their international networks to follow their example and bring in external challenge to the existing business model.

The recommendation comes in the FRC's latest consultation document, *Review of the Implementation and Operation of the Audit Firm Governance Code*. It says the seven major accountancy firms to whom the code applies - Baker Tilly, BDO, Deloitte, EY, Grant Thornton, KPMG and PwC - have all adopted it, even though compliance is not a regulatory requirement.

They had brought in independent non-executive directors on to their boards to bring an external perspective and enhance the firms' commitment to the public interest in the firm's governance and decision-making.

frc.org.uk

IFRS AIDS BUSINESS IN EUROPE

4 The advantages of using IFRS far outweigh the disadvantages and, where Europe is concerned, have resulted in important economic benefits, ICAEW research reveals.

The benefits encompass a range of key economic criteria, including improvements in transparency, comparability, cost of capital, market liquidity, corporate investment efficiency and international capital flows.

Moving to IFRS Reporting: Seven Lessons Learned from the European Experience says that, although the benefits may have been distributed unevenly among different companies and countries since adoption in 2005, the quality and consistency of financial reporting had improved across the EU.

"But this doesn't mean we should stand still and consider it a job done," said ICAEW Financial Reporting Faculty head Nigel Sleigh-Johnson. "It has been a rocky ride and there is still much more that needs to be done by the IASB itself and by policymakers and other stakeholders around the world."

icaew.com

QUEEN'S SPEECH

5 In her speech at the formal opening of Parliament, the Queen listed 21 Bills that the government intended to introduce. These included a bill to ensure that people working 30 hours a week on the national minimum wage do not pay income tax, and another to prevent increases to income tax rates, VAT or national insurance for the next five years.

There will be more cuts in red tape for small business to encourage job creation, while ministers will be required to report annually on job creation and apprenticeships.

ICAEW CEO Michael Izza said: "The programme of measures, particularly on productivity, full employment and apprenticeships, should help kick those businesses that have been holding back on investment and exporting into gear."

gov.uk

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

Key developments

AUDIT

FRC consults on CASS audits

The Financial Reporting Council (FRC) has issued proposals designed to help auditors reporting on financial services firms' compliance with the client asset (CASS) rules.

The draft assurance standard, *Providing Assurance on Client Assets to the Financial Conduct Authority (FCA)*, is in response to the FCA's strengthened client asset regime, which resulted from issues the regulator found with the compliance of some of its financial services firms.

In June last year, the FCA issued revised rules which have now been implemented. The FRC's resulting proposals have been drafted not only to improve the quality of CASS audits, but also to support CASS auditors and to challenge them when undertaking CASS engagements.

In particular, it says, the proposals seek to define the nature and extent of the work effort required for both reasonable assurance and limited assurance CASS engagements without undermining the importance of the CASS auditor's judgement.

The deadline for comments is 31 July.

Third of audits found wanting

"Positive with a twist," is how the FRC describes the results of the audit quality inspections it carried out over the 12 months to end March 2015.

Overall, it says, the quality of auditing is improving. Of the 126 audits that came under the regulator's scrutiny, 67% were either good or only required limited improvements. This compares with 60% in 2013/14 and 48% in 2010/11.

However, turn that on its head, and a third of audits (33%) carried out by eight of the UK's leading audit firms failed to meet the regulator's quality standards - including 10 that required significant improvements. In general, the FRC found that auditors often showed a lack of professional scepticism in challenging the appropriateness of assumptions in key areas of audit judgement. The most common problem area was fair value and value in use measurement, including impairment testing and investment property valuations.

The FRC's 11th annual report on audit quality inspections also reveals that, as before, FTSE 350 audits are of a much higher quality than those of smaller listed or AIM companies.

While the regulator accepts that smaller companies have less resource to put into the preparation of their financial statements, which can make the audit more difficult, the fact that lack of analytical information drives investors to rely heavily on the annual report highlights the importance of a good quality audit.

frc.org.uk

COMPANY

Birth of the SUP is announced

A new European single-member company that can be set up online with capital of just €1 has moved a step closer, following a European Council agreement to the text of a draft directive.

The new vehicle, which will be known as a *Societas Unius Personae* or SUP, will enable SMEs and others to establish representation across borders in a cheaper and less bureaucratic way. They will be able to set SUPs up as subsidiaries in other member states and access the full benefit of the internal market previously denied to them.

The draft directive will introduce a common framework governing the formation of the SUP, although the legal form would be established at national level in the member states. The member states will also provide templates for online registration and ensure adequate protection for SUP creditors and stakeholders.

The SUP will be bound by the local labour laws existing in each member state.

Help for SMEs over insurance

Many SMEs have had a poor experience when it comes to making insurance claims, the FCA has discovered.

In carrying out a thematic review into claims handling for SMEs, the regulator discovered there was often a gap between SMEs' expectations of the claims process and the service they received. Some customers felt that they had not been treated fairly and the FCA points to the significant number of cases where poor communication with the claimant led to delays in reaching a settlement.

Other examples of bad practice ranged from delays in the initial visit by the loss adjusters by as much as three weeks, to a lack of clarity over whom to turn to and what to do next.

The FCA made it clear that it expects insurance firms to treat customers as being at the heart of their businesses. The firms should handle claims promptly and clearly communicate the reasons for any delays in the process.

Help with cyber security

The average cost of online security breaches has rocketed over the past 12 months, according to the latest government research.

For large businesses, the average cost of the most severe online security breaches now starts at £1.46m (up from £600,000 in 2014) and rises to £3.14m.

The Information Security Breaches Survey 2015 also reveals that 90% of large organisations reported an information security breach, and 74% of small and medium-sized businesses. For smaller businesses, the average cost of the worst breaches is between £75,000 and £310,800.

Digital economy minister Ed Vaizey wants to encourage businesses to take advantage of government help in the form of free guidance on cyber security, and its Cyber Essentials scheme which is designed to protect

businesses against the common threats found on the internet.
gov.uk

ECONOMY

ICAEW downgrades GDP growth forecast

ICAEW has downgraded its forecast for GDP growth for 2015 from 2.4% to 2.3% as business investment continues to slow and productivity stays sluggish.

Although business confidence has stabilised, companies report that turnover and profit growth have "peaked". The economy is growing but overall the view is that it could do better.

"GDP growth is on a decent footing," said ICAEW chief executive Michael Izza, "but we should expect better and our poor productivity needs to improve for this to happen."

Although the uncertainty in the run-up to the UK General Election in May is now passed, it has been replaced by worries over the looming EU referendum.

Exposure to international risks - such as Greece's potential exit from the eurozone and the impact of low prices and high exploration costs on the oil and gas sector - is also affecting business planning.

The knock-on effect is that businesses are less keen to invest than they were last year when the growth rate was 6.8%. ICAEW now believes that the 2015 annual growth figure it estimated last quarter at 5.2% should actually be revised down to 4%. It also predicts that productivity will grow at just 0.8% this year, around half the average rate before the financial crisis.

Izza warned that there is no quick fix solution to the productivity conundrum. "However, ensuring superfast broadband is accessible across the country and getting diggers in the ground on key infrastructure projects as soon as possible will work to boost productivity and give the UK a strong balanced economy."

FINANCIAL REPORTING

FRC forces restatement

Fastjet has been forced to restate its accounts following a review from the FRC. The African discount-airline purchased Lonrho's airline division for around £175m in 2013. However, following its review, the FRC determined that the deal should have "constituted a reverse takeover under the AIM rules".

The FRC found that the issue related to the transfer of Lonrho's aviation business to Fastjet in return for the issue of new shares. "As a result of the issues of shares, Lonrho's shareholding in the company increased from 3% to in excess of 70%. The company accounted for this transfer as an acquisition under IFRS 3, *Business Combinations*, as it considered that this better reflected the substance of the transaction," it said.

Fastjet has restated its results reported in its 2014 financial statements, the principal effect being a reduction of the value of its goodwill asset in the balance sheet at 31 December 2013 from $11m (£7.1m) to zero. Loss after tax for the year ended 31 December 2013 was reduced by $26m to $55m.

Concerns grow over impact of IFRS 9

Global banks are growing increasingly concerned about the impact IFRS 9 is going to have on their loan loss provisions and capital requirements.

According to Deloitte's fifth Global IFRS Banking Survey, most of them now anticipate that the standard's rules on credit exposures will cause the amount of loan loss provisions to increase by 50%. And 85% think that their expected credit loss provisions will exceed those calculated under Basel rules largely as a result of the requirements to provide for lifetime expected losses under stage II.

IFRS 9, which comes into effect on 1 January 2018 with early application permitted, introduces an expected loss impairment model that will require banks to account for expected credit losses from when financial instruments are first recognised. They also require recognition of full lifetime expected losses on a more timely basis.

The survey also reveals that banks are increasingly concerned about costs - these have doubled over the past 12 months - and the lack of technical resource available to implement the changes.

Goodwill accounting revisited

The International Accounting Standards Board (IASB) is to return to the vexed question of how to account for goodwill following "mixed" feedback from the international profession.

Its post-implementation review of IFRS 3, *Business Combinations*, revealed that while there was general support in the academic literature for the accounting requirements, particularly in relation to the usefulness of reported goodwill, other intangible assets and goodwill impairment, many investors, preparers, auditors and regulators had raised ongoing concerns.

A number of preparers were particularly unhappy. They complained about the level of effort required and the costs incurred in order to meet the requirements of the standard and questioned whether, in some cases, the costs may have exceeded the benefits to investors.

Many commentators felt that the definition of a business was too broad and that more guidance was needed to determine whether a transaction was a business combination or an asset acquisition. They had difficulties over measuring contingent consideration, contingent liabilities and intangible assets at fair value, and many found the impairment test for goodwill "complex, time-consuming and expensive" and involving significant judgments.

In the light of the feedback, the IASB says it has added two projects to its research agenda. These will focus on: the effectiveness and complexity of testing goodwill for impairment; the subsequent accounting for goodwill; challenges in applying the definition of a business; and identification and fair value measurement of intangible assets such as customer relationships and brand names.

ifrs.org

IASB consults on pension accounting changes

The IASB has launched a public consultation on narrow-scope clarifying amendments to its pension accounting requirements. The aim is to improve information for investors and tighten the rules to prevent diversity of practice.

The amendments focus on two aspects of the requirements: availability of a refund from a defined benefit plan and re-measurement on a plan amendment, curtailment or settlement.

On refunds, the exposure draft considers whether the power of other parties (such as pension trustees) to enhance benefits for plan members or wind up a plan affects the availability of a refund of a surplus to the entity. The IASB proposes changes to IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, to address both this question and the interaction between the asset ceiling and the past service cost or a gain or loss on settlement.

As far as re-measurement is concerned, when changes are made, the entity needs to update the assumptions about its obligation and fair value of its plan assets in order to calculate costs related to the changes. The board proposes amending IAS 19, *Employee Benefits*, so that when the net defined benefit liability (asset) is re-measured, the current service cost and net interest for the period after the re-measurement are determined using the assumptions used for the re-measurements, and net interest for the remaining period is determined on the basis of the re-measured net defined benefit liability.

The deadline for comments is 19 October.

ifrs.org

TAX

EU tax action plan

European commissioner Pierre Moscovici has published the commission's long-promised tax action plan to fundamentally reform corporate tax in the European Union.

It contains three key actions, including the relaunch of the Common Consolidated Corporate Tax Base (CCCTB) which the EC regards as "a holistic solution" to corporate tax reform, which can deliver "on all fronts", bringing benefits to business while closing off opportunities for corporate tax avoidance.

Although negotiations ground to a halt over an earlier attempt to introduce CCCTB, Moscovici believes that there is general consensus that they must be revived. Accordingly, work will begin to introduce a mandatory CCCTB through a step-by-step approach, allowing member states to progress more quickly on securing the common taxable base. Consolidation will not be attempted until the second stage.

The second key action is ensuring effective taxation, so that companies pay a fair share of tax in the county where they make their profits. There are a number of ways of achieving this aim without harmonising tax rates throughout the EU, the EC says. They include closing legislative loopholes, improving the transfer pricing system and implementing stricter rules for preferential tax regimes.

The third action is designed to bring about greater tax transparency. The commission has published a pan-EU list of third countries and territories blacklisted by member states which they can use to screen non-cooperative tax jurisdictions and to develop a common EU strategy to deal with them. The commission has also launched a consultation to gather feedback on whether companies should have to disclose certain tax information, including country-by-country reporting.

ICAEW welcomed the "concerted effort" the EC is making to address "some of the trickiest issues faced by the international tax system". However, it was concerned about CCCTB and "the direction of travel that the commission is setting on".

HMRC takes Littlewoods to Supreme Court

HMRC is seeking to appeal against the Court of Appeal's recent ruling that it must pay Barclay brothers-owned business Littlewoods more than £1bn in interest on VAT repayments.

The dispute is over whether or not compound or simple interest is owed, dating back over 30 years. The decision may prove significant and costly for HMRC as several similar claims are pending.

"It is estimated that if the decision of the Court of Appeal is upheld in the Supreme Court Littlewoods will be entitled to a payment in the order of £1bn. Given that there are a number of other big claims waiting in the wings the total cost to the Exchequer could be enormous. We are talking here about amounts which could seriously derail government spending plans," said Andrew Hubbard, tax partner at Baker Tilly.

HMRC said it believed the Court of Appeal decision was "at odds with how parliament intended value added tax law to work, and will now seek leave to appeal to the Supreme Court".

Report listings

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

DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Sadiq, Metcalfe & Co, 94 Dickenson Road, Manchester M14 5HJ
Complaint The firm issued an unqualified audit report on a client's 2010 financial statements in breach of audit regulation 3.10, in that the audit had not been conducted in accordance with ISA 600 (Revised), Using the Work of Another Auditor, as the firm failed to evaluate whether sufficient appropriate audit evidence had been obtained from the audit procedures performed by the component auditors on the financial information of the company's subsidiaries on which to base the group audit opinion.
Order Reprimand, £4,500 fine, £6,900 costs.

INVESTIGATION COMMITTEE CONSENT ORDERS

● Jonathan Vowles, 114 High Street, Cranfield, Bedford MK43 0DG
Complaint He signed a client company's 2008 accounts having failed to prepare them properly in that: bank receipts of £2,324,956 and bank payments of £1,175,943 were omitted; there was a difference of £1,149,013 in the bank balance reported; a £562,500 sales invoice and a £562,500 bad debt were omitted; and there was an over provision for bad debts of £1,936,185. Furthermore, the disposal of third party shares totalling £514,900 was included in sales, the purchase of third party shares totalling £514,876 was included in purchases, and a loan of £148,515 to an individual was included in purchases.
Order Severe reprimand, £10,000 fine, ££3,000 costs.

● Geo Little Sebire & Co, Oliver House, 19-23 Windmill Hill, Enfield, Middlesex EN2 7AB
Complaint The firm prepared the 2103 accounts for a client in which the directors claimed exemption from audit, when the company's Articles of Association required that the accounts be examined and the correctness of the income and expenditure account and balance sheet ascertained by a properly qualified auditor.
Order Severe reprimand, £2,700 fine, £1,967 costs.

● Michael Cole, 10 Cecil Road, London N14 5RJ
Complaint Between February 2013 and November 2014, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51(a) and without professional indemnity insurance (PII) contrary to regulation 3.1 of the PII Regulations.
Order Reprimand, £1,500 fine, £918 costs

● Lubbock Fine, Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB
Complaint The firm made 17 withdrawals ranging from £10,057.48 to US$4m (£2.58m) from the firm's client money bank account contrary to regulation 20(h) of the Clients' Money Regulations (CMR) as the firm had not obtained written authority from each of the clients to make such a payment. It also made four withdrawals totalling nearly £40,000, for fees due, from the firm's client money bank account contrary to regulation 22, CMR, as the precise amount had not been agreed by the client nor had 30 days elapsed since the date of delivery of the firm's invoice. Furthermore, the firm failed to comply with regulation 13, CMR as it held funds for two clients in excess of £10,000 for more than 30 days and did not pay the funds into a bank account in the name of the client or by a number or letters allocated to that account.
Order Reprimand, £5,000 fine, £2,618 costs.

AUDIT REGISTRATION COMMITTEE ORDERS

● Ernst & Young LLP, 1 More London Place, London SE1 2AF
Breach The firm admitted breach of rule 3.10 of the Crown Dependencies' Audit Rules and Guidance, in that two audit opinions were issued under US GAAS, which did not also confirm the audits had been carried out in accordance with ISAs or ISAs (UK and Ireland).
Order A regulatory penalty of £2,700.

● Majainah Sadra Ltd, 2 Martin House, 179/181 North End Road, London W14 9NL
Breach The firm admitted breach of audit regulations 2.03a, 2.11d and 6.06 in that it failed to ensure a director, appointed in 2012, had audit affiliate status; and for the inaccurate completion of its 2013 and 2014 annual returns.
Order A regulatory penalty of £2,500.

● Wilkins Kennedy LLP, 1 Nelson Street, Southend on Sea, Essex SS1 1EG
Breach The firm admitted breaches of audit regulation 3.01 in that: a person in a position to influence the conduct and outcome of the audit acted as trustee of a trust that held a financial interest in the audit client that was material to the trust; and it provided prohibited non-audit services to a listed audit client.
Order A regulatory penalty of £10,500.

● Derek Field & Co, 2nd Floor, Crown House, 37 High Street, East Grinstead RH19 3AF
Breach The firm admitted breach of audit regulation 3.01 in that a partner in the firm acted as company secretary of an audit client for six years.
Order A regulatory penalty of £2,775.

● Alan Patient & Co Ltd, 9 The Shrubberies, George Lane, South Woodford, London E18 1BD
Breach The firm admitted breach of audit regulations 2.03a, 2.11d and 6.06 in that it failed to ensure a director, appointed in 2014, had audit affiliate status; and for the inaccurate completion of its 2014 annual return.
Order A regulatory penalty of £482.

● Dua & Co Ltd, 3 Century Court, Tolpits Lane, Watford WD18 9RS
Breach The firm admitted breach of audit regulations 2.03a, 2.11c and 6.06 in that it failed to: ensure two directors, appointed in 2012, had appropriate affiliate status; notify ICAEW of the two appointments and subsequent resignation of one of these directors; and properly disclose details of its directors on the firm's 2012 and 2013 annual returns.
Order A regulatory penalty of £6,350.

INVESTMENT BUSINESS COMMITTEE ORDER

● Antrobus Accountants Ltd, Antrobus House, 18 College Street, Petersfield, Hampshire GU31 4AD
Breach The firm admitted breach of DPB regulation 4.04 (annual compliance review) which it had undertaken to comply with following a previous QAD visit.
Order A regulatory charge of £7,475.

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

Adding to the burden

New legislation aimed at making it easier for small firms to do business is a mixed offering, as Caroline Biebuyck discovers

One of the final pieces of legislation that passed through the last government was the Small Business, Enterprise and Employment Act. The Act is designed to make it easier to start, finance and develop a business. However, a review of the three parts of the new law most relevant to ICAEW members and their clients presents a mixed picture.

SHINING A LIGHT

Corporate transparency has been on the government's radar for some time, partly to reduce crime such as money laundering, but also to promote good corporate behaviour and increase the trust in UK business. Act provisions regarding the abolition of bearer shares and shadow directors are already in effect. Other provisions include simplifying procedures for removing falsely appointed directors' details from Companies House records. Accelerated strike-offs are scheduled for implementation in October and a ban on corporate directors (with exceptions) is expected to be implemented in 2016. From the start of next year companies will have to identify and register people with significant control, defined to include more than 25% of the company's shares or voting rights. This information will have to be filed annually with Companies House starting from April 2016.

There are five conditions for establishing significant control. Some, such as establishing control of more than 25% of voting rights and holding shares, should be reasonably easy to establish. Trickier will be gauging whether the person otherwise has the right to exercise or actually exercises significant control over the company. "It's unclear what this means, such as whether it includes economic control," says Charles Worth, ICAEW business law manager. "For instance, what if two siblings always vote the same way, even if there is no formal agreement between them?" Forthcoming statutory guidance may clarify this.

All directors will be responsible for ensuring the company complies with the new law. "The company has the right to ask information of anyone who might know if there is someone who has significant control, so our members could get information requests if they have been advising a company," says Worth. "However, the anti-money laundering (AML) sector won't be able to rely on this central register so it will still have to do its own checks."

ICAEW had suggested ways in which the AML regime could be improved, such as by getting Companies House to carry out checks when it opens new companies. "There is an issue in the resourcing and purpose of Companies House. Verifying information isn't its purpose and it will register what it's given if it appears to be correct," says Worth.

While he sees the new provisions as an attempt to address a perceived abuse of companies, he points out that it targets all private family-owned companies in the process. "It's hard to see companies involved in criminal activity rushing to register, but there is a question whether this will deter legitimate investment from those who just want to keep their affairs private.

"Nobody wants to advocate a secret world that facilitates crime. The question is whether disclosing this sort of information is going to meaningfully increase trust in any company. If you are transacting with a company and you are concerned about the issue you will insist on asking these questions anyway; you won't rely on a register that might not be fully up-to-date."

KEEPING CASH FLOWING

Direct debit company Bacs Payment Schemes estimates that the UK's smaller enterprises are owed about £39.4bn in overdue sums. Customer companies can sign up to the Prompt Payment Code but this is voluntary and its effect questionable - only 21% of members of the Federation of Small Businesses believe that the Code addresses the UK's poor payment culture.

The new law puts pressure on large companies to pay in good time by making them publish their payment practices. Companies with more than 250 employees will have to disclose on a digital platform the average time it takes for them to pay their invoices and the proportion of invoices they have paid beyond the set terms. They will also have to show any late interest owed and paid, and the proportion of invoices paid within 30 days, over 30 days, over 60 days and over 120 days.

These provisions mean smaller suppliers can know what they are committing to when dealing with large customers, says Clive Lewis, ICAEW's head of enterprise. "Members advising small companies need to ensure their clients are aware of this new information and help them make sense of it, using it to make a better-informed judgement on whether to supply this customer, the terms, and what they need to do to make sure they get paid promptly."

Customer companies will need to

ILLUSTRATION: MARIA CORTE

amend their information systems before the new rules take effect in April 2016. It seems most likely that large companies will have to disclose this information on their own websites, although in time there may be a link between this and the Prompt Payment Code website for companies which are signatories. "We agreed with government that this shouldn't be included in the annual accounts as there is too much information in there already," says Lewis.

Another part of the Act addresses the problem small companies have in getting loans. From early next year the 10 largest banks will have to refer businesses to which they refuse credit to a government-approved online platform so they can connect with other finance providers.

The question is how many SMEs will decide to accept this referral, as many still prefer to talk to their lenders face-to-face. "Research conducted on behalf of the Department for Business, Innovation and Skills suggests that only around 2% of SMEs had accessed finance through the internet in the last year," says Lewis.

Turning to insolvency, the government's original proposals included the abolition of physical creditor meetings. A howl of protest from the industry resulted in this being changed to the "10 rule", so that the minimum number of creditors to call a meeting is 10% in value of the creditors, 10% in number of the creditors, or 10 creditors. This takes effect from 1 October.

GOING UNDER

ICAEW's view is that the initial creditors' meeting is an opportunity for those affected by the insolvency to voice their concerns and give intelligence about the company and its directors, says regional director Bob Pinder. "It's clear practitioners value that first physical meeting. ICAEW and R3 (The Association of Business Recovery Professionals) lobbied hard to keep the meeting and the result is certainly an improvement from the original suggestion."

The other main change affecting insolvency is in regulation, as the law gives the Insolvency Service a range of powers over the Recognised Professional Bodies (RPB) (of which ICAEW is the largest). These include directing an RPB to take a particular course of action; levying an unlimited fine on an RPB; directly sanctioning an insolvency practitioner without engaging the RPB with which the practitioner is registered; and intervening directly if it feels the RPB is doing something it shouldn't be.

While ICAEW understands that the Insolvency Service, as an oversight regulator, should have greater powers, it is concerned about the new provisions. "The relationship between the Insolvency Service and the RPBs is one of working together," says Pinder. "We don't see why it needs these powers because if it suggests we need to do something then there is every chance that we would."

He is unhappy about the potential for the Insolvency Service to take the outcome of a disciplinary case at an RPB to court for further sanction. "We argue that this isn't a fair process and that any judge will probably kick it out under the European Convention. If we are investigating a high-profile case, we would be quite happy to have regular case conferences with the Insolvency Service and keep them up to date rather than waiting until we finish and then them saying: we don't like the outcome."

The Act also gives the Insolvency Service the power to take public interest cases straight to court without going through the RPB. "Again we think that is unnecessary when we have a regulatory and disciplinary process in place," says Pinder. "Perhaps the Insolvency Service ought to be more involved in high-profile cases, but frankly that doesn't require legislation."

The Insolvency Service is producing regulatory guidance and this, together with the changes to the law, will be the basis of a number of regional events ICAEW will hold in September and October this year. "This Act has now been passed so we need to work with the Insolvency Service to see what the guidance looks like so we can help inform our members as to what this potentially means to them."

Google this

The Diverted Profits Tax became effective in April with much controversy. Liz Loxton asks if it will deter international companies from the UK market, leaving the UK ultimately counting the cost

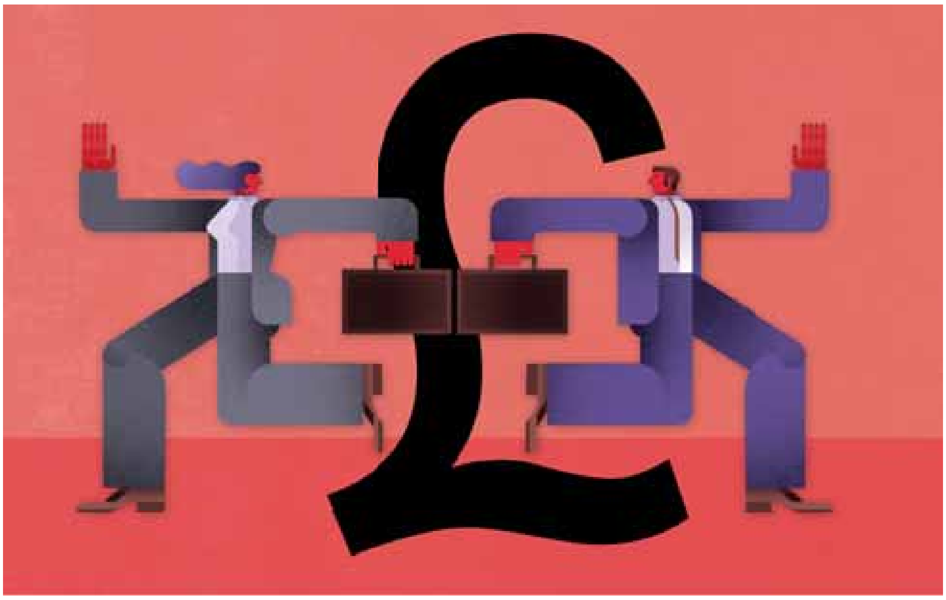

ILLUSTRATION: MARIA CORTE

With what many regard as indecent haste, the Diverted Profits Tax (DPT) has made it onto the statute books. Dubbed the Google Tax, its headline-catching measures are designed to address the issue of global companies paying less than their perceived share of UK tax.

From 1 April this year, companies that believe they might be caught by the tax have a new obligation – to tell the Revenue about their possible liability. If they are deemed to have avoided a permanent establishment in the UK by diverting income to a subsidiary outside the UK via a fee for royalties, for instance, they will be liable for the penalty tax at 25%.

Advisers are concerned on a number of fronts, particularly around the rapidity with which this legislation went through Parliament and the concern that it may catch unintended targets.

"The main objection that UK multinationals have is that it was drafted in a hurry and there are bound to be glitches in it," says Heather Self, chartered accountant and tax partner at law firm Pinsent Masons.

Flagged up within the chancellor's Autumn Statement 2014, the tax was then debated as part of the 2015 Finance Bill for a single day and received Royal Assent a day later in late March.

For many, the measure has clear political motivation. Many argue that the tax was introduced just ahead of the General Election as a vote winner; a response to public disapproval of tax avoidance by multinationals. "The government had not missed the impact on Starbucks' footfall of the adverse publicity about its tax liabilities," says Fiona Hotston Moore, partner at Ensors.

And although the Finance Bill included revisions to the tax that improved on some practical areas of its administration, the DPT is still likely to prove a source of confusion for businesses. Tax faculty technical manager at ICAEW Ian Young says many companies will be examining whether they are affected: "It is designed to be laser perfect and to hit a specific group of companies but it has been drafted in such a way as to cause a large number of companies to have to look closely at what it means for them. Around 1,000 companies are looked after by the HMRC Large Business Service. A significant proportion of those will need to try to work out whether they are caught by this measure," he says.

In an anti-avoidance initiative that mimics the UK move, the Australian government is targeting around 20 to 30 multinational companies. "The UK government says it is after a similar contingent and yet the *de minimis* thresholds set by the two jurisdictions are quite different. In the UK businesses with less than £10m in UK turnover are exempted, whereas the Australian tax will exempt companies with up to £500m in global income," says Young.

Another concern is the discretion the DPT confers on HMRC. As well as creating an obligation for companies to raise the possibility of being caught by DPT with tax officials themselves, the legislation has a "pay now, then appeal" approach.

"It's interesting to note the practicalities of the legislation and the concept of 'pay upfront and we will allow an appeal much later'," says Hotston Moore. "A multinational version of the Accelerated Payment Notice? One assumes a judicial review might be sought."

In an example provided within the HMRC's guidance notes, a multinational company might avoid a permanent establishment in the UK by locating manufacturing group operations in Europe and siting a single European sales company in a low tax jurisdiction, but with sales support provided by local distribution companies. No R&D on its products takes place in the UK and the parent company pays royalties to a subsidiary in a second low tax jurisdiction.

One version of this is the Double Irish arrangement, which has now been reformed, but is still operational under grandfathering arrangements. In HMRC's example, the European sales company (ESC) might be based in Ireland and pay royalties in respect of IP embedded in its products to another low cost jurisdiction, such as Bermuda.

By HMRC's analysis, the company has contrived to avoid a permanent establishment in the UK, in this case by requiring the European sales company to conclude sales contracts, whereas in fact the ESC is likely merely checking terms and ensuring that the contract complies with a "general standard". "The requirement for ESC to conclude the contracts is deliberately intended to limit the activity which takes place in the UK," according to the guidance.

"If the Irish company has €100 in sales income and €90 are ending up in Bermuda, what the UK is saying is that this is an avoided permanent establishment," says Self. "They will look at the €100 in sales income and not necessarily respect the royalty payment, so you end up with a bigger profit figure in Ireland, part of which would get allocated to the UK."

Self wonders whether it would have been better to amend existing legislation on permanent establishments, for example by firming up corporation tax legislation, for instance, within section 7 of the 2009 Corporation Tax Act. But the most likely result of the DPT, she says, is that companies will over-comply on their transfer pricing arrangements to head off the possibility of excessive assessments from the Revenue. "Once the Revenue decides there is a problem, it issues a preliminary notice and collects payment. You can't argue about the transfer pricing at that stage."

> "It is designed to be laser perfect and to hit a specific group of companies but it has been drafted in such a way as to cause a large number of companies to have to look closely at what it means for them"

HMRC has put the potential take from the tax at £25m in the first year, rising to £360m per year by 2017-2018. Commentators suggest even this small sum presents an optimistic picture. "Will it bring in more tax? I think it will bring in next to nothing in the form of DPT, but it will increase the Corporation Tax take because companies will amend their transfer pricing," says Self.

Chris Sanger, head of tax at EY, says the DPT's real role is a deterrent: "[The government's] intention is to get those businesses to convert themselves back into the corporation tax regime. The government would say you shouldn't be in the DPT regime in the first place."

So what are other likely outcomes? Will it deter companies from trading in the UK? Sanger says that the initial reaction of clients and the global tax community was one of shock, but he doesn't believe that on its own it is sufficiently unsettling a move to deter international companies from setting up in the UK. "DPT wouldn't be top of my list as a concern. The EU referendum is probably a bigger factor in terms of uncertainty."

"It's the unknown unknown," says Self. "It may deter companies that might otherwise be considering the UK as a location. It certainly sends out a signal that the UK is less open for business."

It has also drawn fire as an action that potentially pre-empts any moves that may come out of the OECD's Base Erosion and Profit Shifting programme (BEPS) and may, Young suggests, encourage other countries to break ranks as well.

"The underlying objective to make multinational businesses pay tax where they carry out significant economic activities and create value is fundamental to the OECD BEPS Action Plan and we support that objective. But we are worried that the objective could be undermined by unilateral action if the UK or other countries try to go it alone," he says.

That in turn sets up a possibility of different jurisdictions competing for unpaid tax. "The challenge that the government has is that as more countries move to set up a DPT, if more than one country tries to top up, how will that play out in terms of double taxation?" says Sanger.

Tax avoidance has an unusually high public profile in the UK, says Young, and while acknowledging that tackling it is high on the government's agenda, he reckons the DPT lacks the considered approach to business taxation seen over the course of the last governmental term.

"The previous government, when it came to power in 2010, set out a corporation tax road map," says Young, "and although in the later years it was just about reducing the headline rate, that road map sent out a really strong signal to business. The one thing that businesses need is certainty so that they can invest and plan their future in a stable tax environment. I think it would be very helpful to have another road map for business tax during the current administration."

Perspective on prudence

An IASB Exposure Draft for financial reporting reintroduces the concept of prudence. Lesley Meall looks at the debate

Back in the "good old days" everything was better. Skies were bluer, grass was greener, the good guys wore white hats, the bad guys wore black hats, and the UK Statement of Accounting Practice (SSAP) 2 included the fundamental accounting concepts of going concern, accruals, consistency and prudence. Then in 2010 the International Accounting Standards Board (IASB) published a revised *Conceptual Framework for Financial Reporting* (Framework) which favoured "neutrality" over "prudence" or "conservatism" and eschewed "reliability" for "faithful representation" and the skies darkened. Or did they?

Perspectives differ, but there was definitely some stormy weather. Many accountants saw the removal of explicit references to prudence in the 2010 Framework as a bad thing that would allow imprudent accounting, such as measuring everything at fair value and including all of the profits, whether realised or unrealised, in income. Many accountants saw the disappearance of prudence as a good thing, which would discourage the sort of cookie jar accounting that conceals volatility by understating profits in good years and creating reserves which can be used to shore up profits during subsequent periods.

The reality may be less extreme and less exciting. "The IASB did not suddenly abandon prudence in the standards it issued after 2010. If anything, it is more cautious now than it was 10 years ago about adopting fair value solutions to accounting problems," says Michael Izza, ICAEW chief executive.

But this doesn't mean that ICAEW doesn't want to see prudence return to the IASB Framework. In its response to the IASB's 2013 discussion paper on proposed revisions, ICAEW called for prudence to be "explicitly recognised", while acknowledging the potential for this to have "unfortunate effects on the neutrality of financial reporting".

When it revised the 2010 Framework, IASB explained its decisions on "faithful representation" and "neutrality" (an "absence of bias"); it also explained why including either "prudence" or "conservatism" as an aspect of "faithful representation" would be inconsistent with neutrality. Then, for a while, in response to calls for the return of prudence from critics – including academics, accountants, investment managers, shareholder groups, politicians and regulators such as the UK Financial Reporting Council – the IASB dug its heels in. It insisted that the basic tenets of prudence remained intact; that it was still "very much ingrained" in the International Financial Reporting Standards (IFRS).

As prudence had never gone away, it didn't need bringing back. Yet now, the IASB appears to be doing an about turn, with an Exposure Draft (ED) that proposes to revise the Framework in various ways, including the reintroduction of explicit references to prudence.

The ED proposes to describe prudence as "the exercise of caution when making judgements under conditions of uncertainty" (see box, right)). This is not a million miles away from the wording that was in the original (1989) Framework, before the 2010 revision. So what's changed in the past five years? Why is prudence no longer inconsistent with neutrality? Was it ever?

IASB vice-chairman Ian Mackintosh says: "At the time, I didn't think it should have been taken out. But there were people who thought it conflicted with neutrality. There are still people who see things that way. But I don't." The influence of the United States Financial Accounting Standards Board (FASB) is less strong than it was.

"When prudence was taken out, the concepts were being developed jointly," explains Mackintosh. "The US didn't have it and didn't see why it should be in there, so that probably swayed the IASB at the time." After the Framework became an IASB-only project, a door was opened for prudence to walk back through.

FRAMEWORK HISTORY

1989 *Framework for the Preparation and Presentation of Financial Statements* is published by the International Accounting Standards Committee (IASC).

2000 The IASC is reorganised and standard setting work transfers to the newly-formed IASB, which adopts the Framework.

2004 The IASB and US Financial Accounting Standards Board (FASB) decide to develop a joint Conceptual Framework built on both their existing Frameworks.

2010 *The Conceptual Framework for Financial Reporting 2010* is published by the IASB; within months, work on the joint IASB-FASB project is deferred.

2012 The IASB decides to reactivate work on the Conceptual Framework as an IASB-only project, following an agenda consultation in 2011.

2013 IASB publishes (for comment) a discussion paper exploring possible changes to the Framework.

2015 IASB publishes (for comment) an exposure draft ED/2015/3 *Conceptual Framework for Financial Reporting* outlining proposed revisions.

ILLUSTRATION: MARIA CORTE

Some people think the IASB was pushed into opening this door, by European politicians who wanted prudence back in the Framework. But things are not always as they seem. "Some MEPs and one committee did suggest that if we didn't reinstate prudence into the concepts we shouldn't get funded," says Mackintosh. But the IASB did not put prudence back into the Framework just to keep its European Union (EU) funding. "We had discussions with the EU and the matter was resolved without any reference to prudence. We were able to reintroduce it without questions about funding."

So, what difference will the return of prudence actually make? "My personal view is none," says Brian Singleton-Green, a technical manager in ICAEW's Financial Reporting Faculty. Mackintosh concurs. "I don't think people will behave differently because prudence is in there. The standards already have quite a lot of prudence in."

So why bother putting it back into the Framework? "It gives people some comfort," says Mackintosh. Some investors equate prudence with the "true and fair" view; they believe it will give auditors a tool to help counterbalance management optimism and aggressive accounting policies.

Will any existing standards change as a result of prudence returning to the Framework? This is unlikely; though the IASB staff and the IASB board have identified and discussed some areas where other revisions proposed by the ED create inconsistencies between the Framework and existing standards which may, or may not, result in changes to the latter. As far as prudence is concerned (and despite past protestations to the contrary) the IASB now asserts that the concept of neutrality can be reconciled with the exercise of prudence, by preparers of financial statements and by the IASB standard setters.

So, will the return of prudence silence all critics of its removal? "We are happy to see prudence back in the Framework," says Singleton-Green; ICAEW will comment on the exact wording of the exposure draft in due course. Others are more difficult to please; particularly those who see tension between prudence and the concept of neutrality.

Professor Stella Fearnley of Bournemouth University says: "What's neutrality? It's rubbish. Accounts can never be neutral because there are so many judgements in them." Mackintosh says: "This is an exposure draft. So people can comment again about whether prudence should be in."

THE CONCEPTUAL FRAMEWORK

The IASB *Conceptual Framework for Financial Reporting* (Framework) sets out the concepts that underlie the preparation and presentation of financial statements. It is a practical tool that assists the IASB when developing and revising International Financial Reporting Standards (IFRS) and acts as a guide to resolving accounting issues that are not addressed directly in a standard.

Proposals in the IASB Exposure Draft ED/2015/13 *Conceptual Framework for Financial Reporting* cover some areas not included in the 2010 version, update guidance in areas where the 2010 framework is unclear or out-of-date, and reintroduce an explicit reference to prudence.

In Chapter 2 *Qualitative characteristics of useful financial information* the section on Faithful representation 2.18 states: "Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets and income or the overstatement of liabilities and expenses, because such misstatements can lead to the overstatement of income or the understatement of expenses in future periods."

The *Basis for Conclusions* on the ED (BC2.1) refers back to the pre-2010 Framework, revisits the earlier IASB reasoning on its removal from the 2010 Framework, and outlines concerns and comments that were made in response to the 2013 Discussion Paper. The *Basis for Conclusions* also notes "prudence" is a term which is used by different people to mean different things; gives examples; then explores "cautious prudence" and "asymmetric prudence" and explains why the proposed revisions to the Framework favour the former over the latter.

A revised Framework will not necessarily lead to changes to existing IFRS. The Framework is not an IFRS and it does not override the requirements of any IFRSs.

Any future proposal to change an existing IFRS will need to go through the IASB's normal due process for adding a project to the agenda and conducting the project.

Once finalised, the IASB will use the revised Framework when developing or revising standards.

Ecovis Wingrave Yeats: Dealing in knowledge

Rather than allowing information technology to make them redundant, the ex-Big Four founders of EWY have made themselves its masters. Xenia Taliotis reports

Technology and Google have taken away an accountant's God-given right to dispense knowledge," laughs Christopher Jenkins, co-founder of Ecovis Wingrave Yeats (EWY). "Before, we were able to make a very good living from selling what we knew, but technology has disrupted our professional landscape - more so than the recession. The only way we can survive is if we harness it and use it to our advantage - in other words, we have to view IT as the solution to the problem IT created. Firms that bury their heads in the sand hoping that technology will go away, or that hope their clients will keep paying them to do things they can do themselves for free, won't have a future to look forward to."

Jenkins and his partners have put a lot of energy and resources into ensuring EWY will be among the winners in the post-Google age. Having read the runes some years ago, they made a "significant investment" in reshaping the firm's services by developing EWYonline, a cloud-based, document-recognition accounting system for clients. "We had to become authors of our own proprietary knowledge," he says, "it was the only way of dealing with the impact of technology. We had to steer our thinking away from the high-margin, 'analogue dollar' profits we once enjoyed and focus instead on making 'digital pennies' from highly iterative transactions. We are now making profit from the wafer-thin margins on the low-cost accounting solutions owner-managers want."

EWYonline enables clients to do their own accounting using document recognition: they scan in accounting documents, which are automatically posted to the right account, download bank statements straight into their cash books and use mobiles to capture a restaurant receipt, which then gets posted automatically into their accounts system. The take-up has been overwhelming.

But aren't they doing themselves out of a job? Emphatically no, says Jenkins. "What we're doing is turning the chartered accountants we train into business advisers so we can deliver what our clients are prepared to pay for. What they want is sound business advice, based on common sense and in-depth technical knowledge, delivered in a language that they understand."

Another important aspect of the firm's work is providing surrogate FD services. This was the reason why Jenkins, ex-PwC, and Philip Hedges, ex-EY, set up their business - then called Wingrave Yeats - in 1983. "We were ahead of the curve," he says. "Loads of people do it now but 32 years ago, it was quite a novel concept. We started from nothing, each of us bringing one client into the business, and went from there."

In the pre-recession years, EWY was growing by up to 30% per annum, thanks largely to work referred to them by the Big Four. But the practice suffered badly when the referrals tap was abruptly turned off. And the Big Four were also undercutting them on price. "We decided from that point on," says Jenkins, "that we had to be completely self-sufficient, not beholden to anyone for our flow of new business, so we did what we should have done many years before - we developed our own channels to market."

Focusing on five sectors - media, professional service firms (including legal and architecture practices), hospitality, financial services and inbound international business - EWY used social media to build its reputation and to become a voice of authority in each area. It then targeted businesses within those sectors with what Jenkins calls "rigorous and consistent marketing". By this he doesn't mean "shouting" at customers to get them through the door, but rather using

"Technology has disrupted our professional landscape more than recession"

MAKING CHANGE WORK

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2. Give your staff autonomy, mastery and purpose. Learn from the young people in your firm. They approach life and work differently and can teach you as much as you can teach them.

3. Become a champion of common sense: your clients may not need you to do their tax returns, but they may need you to supply them with the software that will enable them to fill in that return more easily.

4. See the world through the eyes of your client – it looks very different.

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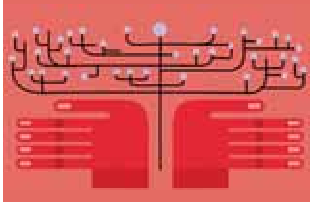


Specialist sectors include media, professional services firms, hospitality, financial services and companies setting up in the UK

ILLUSTRATION: MARIA CORTE

strategy and intelligence to ensure EWY was in the right place at the right time.

"You have to know your marketplace," he says. "As one of our specialisms is media, it makes sense for us to be in Soho - at the very heart of the creative sector; we make our offices available for seminars and meetings to organisations such as PACT, the trade association for independent producers, and UK Screen, which represents post-production companies. That way we build the right connections, and their members might think of us next time they're looking for a business adviser."

EWY has more than 1,300 clients, from personal tax clients to international businesses such as Lufthansa, Carnival Cruise Lines and Marriott European Hotels. Its most lucrative revenue stream comes from acting for international companies doing business in the UK, a growing area of business that has helped boost its annual turnover to £5m and its estimated growth for 2015-2016 to over 11%.

The practice has been working with inbound international businesses for more than 25 years, taking many from planning stage through to launch, growth and beyond - to entry into markets overseas. Its clients' expansion into other territories is now often facilitated through its membership of Ecovis, one of the world's top 20 largest international accounting and consultancy practices networks, currently operating in more than 54 countries.

"We play a major role in Ecovis," says Jenkins. "I'm head of its marketing board and one of my other partners, Robert McCann, is the elected chairman of its supervisory board. We could have approached any of the networks but this one was the best fit for us because many of the firms within the group were also started from scratch by ex-Big Four partners, so we share a common heritage."

This partnership is good news for EWY, for its clients and for its staff, who have the chance of working abroad on secondment with some of the sister firms in the network.

The opportunities afforded to its employees is something that Jenkins is proud of. "We've created a nurturing environment based on knowledge sharing, where the people who work for us can develop skills they didn't know they had," he says. "Everyone who works here is asked to take on a responsibility outside their normal fee-earning role, either becoming a member of a sector-based marketing team or championing an area of expertise. We do our best to help our young people develop and we have a culture where the learning goes both ways. More than half the people who work here are under 30 and they think in a different way to the partner group. We give them the benefit of our experience and they teach us just as much in quite different ways."

EWY takes a progressive approach to staff retention, sometimes encouraging talented people to leave, to gain experience of working elsewhere and then to re-join, bringing that outside knowledge with them. "We don't like losing people we've trained but there has to be a natural process of promotion and sometimes we just don't have a position for staff to step into," he says.

Jenkins hopes not only to bring back ex-employees, but also to persuade people who have left private practice to work in industry to join EWY. "I left accountancy for five years and ran a bookselling business, so I know how valuable that kind of experience can be. We've recently employed the head of finance at Academy Films to strengthen our media team. It goes back to what I said about building a reputation and becoming a voice of authority. You can only do that if you know more about your clients' business than they do."

Life

reviews/food/skills/people

GALLERY STOCK

this month:

summer life

Eating outside Tom Aikens and other chefs on summer dining **Reviews/previews** Stockholm and recycled watches **Restaurants** Al fresco eateries **Life skills** How to poach an egg **Life after work** Lauren Evans

Restaurant Bokado Aquarium, Plaza Jaques Cousteau, 1 20003 Donostia-San Sebastián

Eating out

It's summertime, which means the dining room - and even the kitchen - moves outdoors. Here, four of the world's top chefs share their favourite al fresco food experiences with our resident outdoor gourmand **Oliver Griffin**

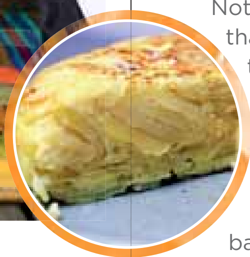
Elena Arzak - alongside her father Juan Mari - is the joint head chef of San Sebastián's three-Michelin-starred Arzak restaurant and a former winner of the Veuve Clicquot award for world's best female chef.

Eating outside in San Sebastián is not always as easy as in other parts of Spain because we actually get quite a lot of rain throughout the year. However, when it is nice outside, people often travel to the beach or the mountains; both offer great locations for al fresco eating.

Bocadillos – big sandwiches made with baguette-style loaves – are firm favourites on San Sebastián's beaches. They come stuffed with all manner of fresh produce, such as tomatoes and peppers, with other fillings including Iberico ham and seafood, of which hake is particularly popular.

If I want to eat outside in San Sebastián, some of my favourite restaurants include Restaurant Bokado Aquarium, the Café de la Concha, and Restaurante Branka – they all have terraces with lovely views of the bay of San Sebastián. In particular, Bokado Aquarium has a wonderful dish of sea biscuits with wheat and scallops, which is packed with maritime flavour and has wonderful crispy textures.

San Sebastián is also renowned for its many pintxo bars, which serve a style of tapas unique to the Basque region. Certain bars – such as Bokado San Telmo, and others in Constitution or Trinidad Square – have terraces outside where people can sample the variety of pintxo dishes.



Not far from the city is Getaria, a village that is famous for its barbecues. All the restaurants specialise in meats cooked over an open grill and a good number of these have outdoor seating and are great for al fresco dining.

Like everyone else, I enjoy a good barbecue in the summer, but it's important to remember that not everything we eat outside has to be cooked on a grill. Potato tortilla – made with eggs and onions – is really nice to eat outside, and it's also really easy to make.

Picnics are a great way to dine outside without using a barbecue, and are something I think the British actually do really well. Last year, I had a beautiful picnic on Santa Clara, a small island that sits in the bay of San Sebastián. I took a simple dish of tuna marinated in olive oil and vinegar, which we

Riverpark
450 E 29th St.
New York, NY 10016

ate with bread. We also took a few bottles of txakoli wine, which is produced locally in the Basque region.

If you fancy something sweet, fruit bruschetta makes for a brilliant summery outdoor dessert. You can use any combination of summery fruits but I particularly like to use watermelon and apricots – even grapefruit. Just cook the fruit in a frying pan with a touch of sugar, and serve with something like a green tea sorbet; it's a really refreshing end to a meal.

"Not everything has to be cooked on a grill. Potato tortilla – made with eggs and onions – is really nice, and it's also easy to make"

Australian-born Shaun Hergatt is currently the executive chef of Juni, a boutique restaurant in the heart of Manhattan. Despite being in love with his new surroundings, he still fancies Australia as his favourite place for outdoor dining.

These days, one of my favourite restaurants for outside eating is the Italian restaurant, Locanda Verde. Located in downtown Manhattan's Tribeca district, Locanda Verde makes the most of its river views by carefully arranging tables on the west-facing pavement. Another great location for dining outdoors in New York is Riverpark. Located on a unique garden plaza, the restaurant has some of the best romantic views of the East River you can find.

Of course, eating outside gets better as we move into summer; the season is driven by colour. For me, it's all about the ripeness and sweetness of the ingredients available. I love the way that the greenery of spring gives way to warmer colours in summer - think oranges, yellows and reds. During the summer, the restaurant focuses on beautiful ripe tomatoes, artichokes and olives, as well as watermelons and wild berries.

With regards to eating al fresco, I do miss Australia's relaxed and carefree lifestyle, as well as the warm weather in which to enjoy it. Australians take the time to really appreciate the sun, life, and of course, food, all of which is important when it comes to outdoor eating.

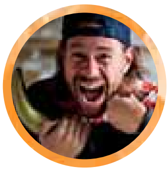
The best thing about eating outdoors is that you get a better understanding and appreciation of nature. Growing up, being close to nature was an important part of my education. When you have picked a ripe guava - one that hasn't been treated with pesticides - you know what that fruit looks like at its best. Respecting ingredients is something that is central to my heritage, upbringing and day-to-day life.

Simple dishes, such as lamb chops cooked with garlic and herbs, or grilled pieces of fish, make for great outdoor eating experiences. Sitting down on a Sunday - possibly with a couple of bellini or a chilled bottle of rosé - is a great way to kick off an outdoor meal. For me, eating al fresco is all about the atmosphere, so it's great to invite friends over for some sharing plates and encourage everyone to help themselves. There's nothing better than a wonderful Sunday afternoon with a group of people you love, and plenty of food.

"I love the way that the greenery of spring gives way to warmer colours in summer – think oranges, yellows and reds. During the summer, the restaurant focuses on beautiful ripe tomatoes, artichokes and olives, as well as watermelons and wild berries"

PHOTOGRAPHY: NICK BALLON, ETHAN HILL, ANDY LO PO, MARKEL REDONDO

DJ BBQ,
YouTube



Former MasterChef - The Professionals *semi-finalist Kim Woodward is the first female head chef of the Savoy Grill in the restaurant's 126-year history. When she's not behind the grill at work, she likes to kick back with simple food in stunning locations, such as Sardinia.*

Dining al fresco - and preparing dishes for outside eating - is all about being very quick, and very simple, with no faffing around. If you want grilled fish and a salad, do that; don't mess around just for the sake of it.

When it comes to eating outdoors everyone initially thinks of barbecues, don't they? It's great having friends and family over for a barbecue, and lamb is probably my favourite ingredient for such an occasion. I like to prepare grilled lamb cutlets, or a lamb kebab, which I'll marinade first. I like to serve it with something easy like a mint and yoghurt dip - nothing too complicated.

Barbecues aren't the sole preserve of meat eaters, either. If you want to cater for vegetarians, concentrate on what is edible and in season at the time; baby vegetables are especially good. Broccoli is another good option. I like to grill it and serve it with a little dressing, or grate some orange zest over it, just to lift it up and make it even tastier. Regardless of what you plan on eating, if you're barbecuing, do all of your preparation in the kitchen and save only the cooking for outside.

One of my favourite barbecue experts is a guy known as DJ BBQ; his real name is Christian Stevenson and he is doing some amazing things. Although he's not a chef in the conventional sense, he has really grown into the barbecuing business and I have seen him at numerous food festivals.

Of course you don't have to stick to barbecues, and picnic-style meals can be great as well. Simple and easy meals - charcuterie meats and cheeses, or smoked salmon bagels - are perfect for picnics in the park. If I were preparing a picnic, I'd take a really good potato salad with me. I'd use Charlotte new potatoes because they are the highest quality, and mix them with a good heap of crème fraîche, instead of mayonnaise. As well as seasoning, I'd add chopped spring onions and chives, a small dollop of Dijon mustard and a few chopped gherkins or pickles.

Lots of restaurants try to get some element of al fresco dining in their summer offerings. Summer tends to be a celebration of lighter options, people don't really want to eat too much. Now is the time of year when people might just choose a light fillet of fish. Living near Primrose Hill in London, there are a number of restaurants in the local area that cater for outside eating. One of them - Odette's - is particularly popular.

When it comes to dining al fresco, Italy is one of the best countries for it. The culture in Italy really focuses on eating and drinking coffee outside. In particular, Sardinia is a beautiful location and has some of the best seafood going. If you order grilled octopus, for example, that's exactly what you'll get and it's as fresh and simple as can be.

That said my other favourite place for al fresco eating is France, especially Paris. While a lot of the restaurants in Paris encourage you to eat outdoors, one great memory that sticks with me involves street food, namely crêpes. There's something just so enjoyable about wandering around Paris with a chocolate crepe in hand.

"Summer tends to be a celebration of lighter options. People don't really want to eat too much"

Petersham Nurseries,
Church Lane, Off
Petersham Road,
Richmond, Surrey,
TW10 7AB

Tom Aikens
Tom's Kitchen Canary Wharf, London
tomskitchen.co.uk/canary-wharf
Tom recommends:
Petersham Nurseries
petershamnurseries.com

Elena Arzak
Arzak, San Sebastián-Donostia, Guipúzcoa, Spain
arzak.es
Elena recommends:
Bokado Aquarium
bokadomikelsantamaria.com
Restaurante Kaia-Kaipe
kaia-kaipe.com

Shaun Hergatt
Juni, New York, US
juninyc.com
Shaun recommends:
Locanda Verde
locandaverdenyc.com
Riverpark
riverparknyc.com

Kim Woodward
Savoy Grill, London
gordonramsay.com/thesavoygrill
Kim recommends:
Odette's
odettesprimrosehill.com

When he was 26 years old, Tom Aikens became the youngest British chef to hold two Michelin stars while working at the pass of London's Pied à Terre restaurant. Now the author of three books, he opened an outside terrace at Tom's Kitchen Canary Wharf in June.

When it comes to al fresco dining, one place that I like to go to regularly is the Petersham Nurseries in Richmond. A combination of restaurant and garden centre, the lovely outdoor terrace sits underneath a thick canopy of leaves. The whole area is made to look like a greenhouse and is packed with plants and shrubberies.

I definitely have a soft spot for barbecues. When I'm barbecuing, I like to keep the process simple by using good joints of meat and fish – but also shellfish – on the grill. In particular I like to cook scallops, still in their shell, by placing them directly on the barbecue with just a touch of lemon juice and olive oil.

I love eating outside, and summer is definitely my favourite time of year for that reason. From the last week of May to the end of August is really the only time we in the UK can entertain thoughts of al fresco dining. It's great to eat outside whenever possible because we don't really get that much good weather here and it's important to make the most of the sun when it arrives.

On occasions where I want to eat outside but don't want to use the barbecue, I tend to prepare more salads, or easier dishes such as a simple roast chicken. I'll cook the chicken in the oven with basil and tomatoes, before carving and serving it outside. Another good dish for al fresco dining is vongole – an Italian spaghetti dish – that I serve with fresh clams.

France ranks highly in my list of favourite countries for outdoor dining. The French have been practicing the whole al fresco dining thing for centuries and, with the weather they have, it's just fantastic.

I used to travel to France with my family pretty much every summer holiday, and one of my partner's parents is French. Of course the southern regions are particularly good for al fresco food, including Languedoc and Provence. When I'm there, I like to visit the local brassieres and restaurants – you know the ones – covered in vines and serving great, simple food.

Life in review

TRAVEL

Vienna tours by Segway are perfect if you love to try out new things and get around quickly. You can choose a tour of the city centre, the Vienna Prater, or the Danube Island. The city tour covers iconic sights including Vienna City Hall, Vienna State Opera and St Stephen's Cathedral. From £58 for three hours.
getyourguide.com

TRAVEL

Summer season has begun at ***Moominworld*** in Naantali, Finland. Take the kids on a boat with Moominpappa, gather around the campfire with Snufkin, and scoff Moominmamma's pancakes. Youngsters can also get into archery, panning for gold and rockclimbing – while you put your feet up in the Naantali Spa. Open until 23 August.
moominworld.fi

MOTORING

The new BMW X1, what industry insiders call a premium compact car, offers bags of space for passengers and luggage, as well as good old-fashioned BMW engineering in the form of four-cylinder engines and options such as full-LED headlights. Driving Assistant Plus includes lane departure warning, traffic jam assistant, collision warning and pedestrian warning with city braking function. Beauty and the beast, basically.
bmwgroup.com

ACCESSORIES

The slim leather and coated canvas JUST Silwex laptop bag by Jill.E has pockets for pens, smartphones, a tablet, and your laptop as well as padded walls to keep your stuff safe on the move.
jill-e.com

FASHION

Stand out from your fellow festival-goers this summer and choose jaunty red wellies by Danish brand Ilse Jacobsen Hornbæk.
scandinavianshop.co.uk

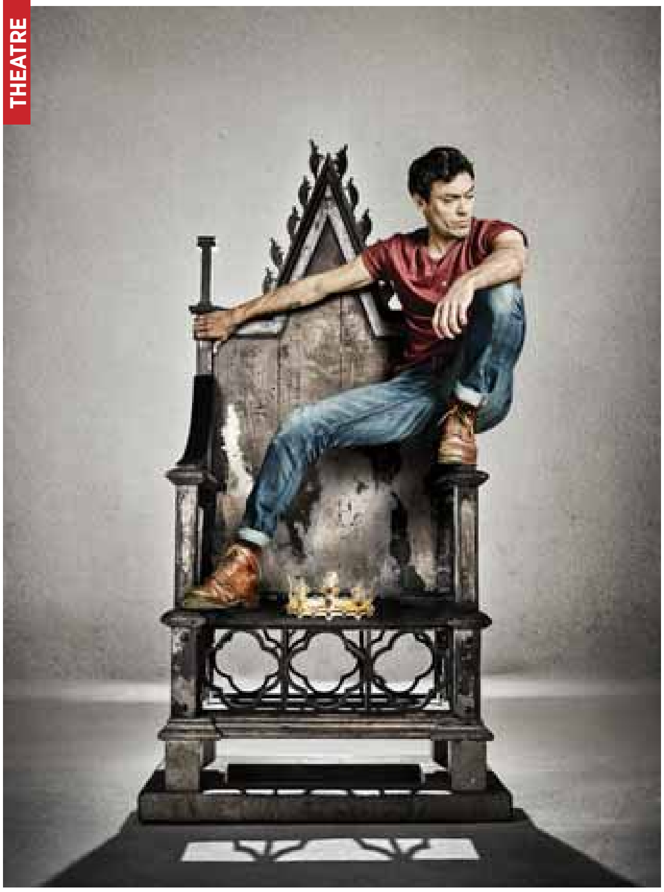
Danish timepiece company REC Watches was founded in 2013. Sustainability is at the heart of what they do: they recover an object and recycle it into a watch. They have an obsession with the Mini Cooper – big cheer – and the Cooper C5 from their latest collection is lovely and won't blow the bloody doors off. ***recwatches.com***

WATCH

FURNISHING

A 70s icon, the Carl Hansen & Son Reversible Wegner tray table is returning to production. Perfect in form and function, the light or smoked oak tray with either white or black laminate reverse and collapsible steel tubing legs represents all that was good in 70s styling, and would look out of place only in the chintziest living room. ***carlhansen.com***

THEATRE



RSC Henry V Alex Hassell plays Henry V, having done an excellent job in *Henry IV parts 1 and 2* last year. Hassell stood his ground alongside Anthony Sher's brilliant Falstaff, so expect a sterling job. ***rsc.org.uk***

SPA

If walking the ancient Silk Road in China's Qing Cheng Mountains feels like too much effort, you could just enjoy the scenery from the luxury of the latest Six Senses spa resort. The resort, an hour's drive from Chengdu, Sichuan, lies close to the UNESCO World Heritage Site of Dujiangyan. If you can tear yourself away from the natural beauty, there's room for 113 guest in villas and courtyard suites, plus 10 treatment rooms. Locally-made furniture, Sichuan cuisine, bridges, courtyards and pools all add to the sence of being in ancient China - and that's before you even get to the daily t'ai chi sessions. ***sixsenses.com***

Where to drink in... STOCKHOLM

1.

Corner Club
New venture of Björn Frantzén whose two Michelin-starred restaurant is nearby. Try the Northern Navy cocktail (gin, lime and grapefruit). ***cornerclub.se***

2.

KÅKEN

Kåken
Stockholm's best wine bar. The staff have a deep knowledge of wine and there are often new discoveries. ***kaken.niklas.se***

3.

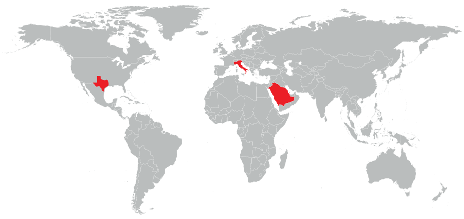
Nya Carnegiebryggeriet
Lightbulb factory turned pub, brewery and restaurant jointly. Try the limited edition beers, such as the Lumen in Tenebris. ***nyacarnegiebryggeriet.se***

Dish of the Day
"Coleslaw with sesame seeds and rice wine vinegar"
The Salt Lick

Restaurants

al fresco

Neil Davey steps outside for a spot of international al fresco dining



KENNY BRAUN

The Salt Lick
Driftwood, Texas, USA
saltlickbbq.com

Barbecue for lunch? Why not? There are probably many reasons - sauce stained shirts and smelling of smoke do not say 'professional' - but in Texas, they're a badge of honour.

Texans have rigid ideas about barbecues and, whisper it, they're a little outdated. After two days exploring restaurants in Luling and Lockhart - towns which many claim are the heart of Texan barbecue - I was less broken, more just bored. There's only so much you can do with spice and smoke, while the less said about the ubiquitous side dishes - potato salad and coleslaw in cloyingly sweet mayo, one note pickles - the better.

My palate leans more towards the pork 'n' sauce barbecue styles of other southern States, rather than the beef and dry rub of Texas. But then I went to The Salt Lick and had my mind changed again. Many locals had talked about The Salt Lick, but generally with a qualifying statement along the lines of "you should go... but it's not Texas barbecue." No, it's not. It's creative and delicious. Er, sorry Texas.

It's also vast. On busy nights, with its restaurant buildings packed and the various outside dining areas in full swing, The Salt Lick can wrangle some 2,000 customers and does so regularly. A cold beer and a gentle breeze on a warm Texan day would be good enough reason to head here. The food, though, is terrific, thanks to a little global perspective.

The founder's wife is Hawaiian-Japanese and her influence sees potato salad made with their house sauce and buttermilk rather than mayo, coleslaw dotted with sesame seeds and rice wine vinegar, and pickles that are bright and varied - I'd walk a long way for another jalapeno-pickled carrot. They're welcome shots of contrast and acid against the rich, fatty, smoky brisket, ribs and, particularly, the excellent chicken and sausage, and along with the fresh air of the Texas countryside, make you eat more than you intended. ■

Breakfast
Rosa Alpina Hotel & Spa, San Cassiano, South Tyrol, Italy
rosalpina.it

Italy's South Tyrol is full of great year-round dining – there are roughly 14 Michelin stars in this tiny region of the Dolomites – and spectacular scenery. As befits a hotel with the area's best restaurant – St Hubertus – breads baked in a wood fired pizza oven and access to a whole lot of local speck and mountain cheeses, the continental breakfasts are terrific.

Dinner
Nobu, Doha, Qatar
noburestaurants.com/doha

Qatar is now home to the latest restaurant from Nobu Matsuhisa. The menu (inspired by the region) and quality are not surprising. The architecture, however, is. A mix of al fresco and partially sheltered – when temperatures can get to 120 degrees, you can do without roofs – Nobu Doha looks like a miniature waterside Guggenheim. Even in an increasingly built-up, ultra-modern city, it is stunning.

Life skills

Break an egg into a small bowl. Fill a deep saucepan two-thirds full with water – add a pinch of salt – and bring to the boil over a medium-high heat.

Once boiling, lower the heat slightly. A few small bubbles should still break on the surface. When ready, stir the water with a spoon to create a whirlpool.

Allow the whirlpool to calm and pour the egg into the middle of the pan. The swirling effect helps to wrap the egg white around the yolk.

Poach the egg in the water for two and a half minutes; larger eggs may take a little longer.

Lift the egg out of the water with a slotted spoon and some kitchen paper to remove excess water. Cut away any straggly pieces of egg white, and serve.

How to...

... Poach an egg
with advice from Clare Macdonald, principal of Leiths School of Food and Wine

ESSENTIAL KIT
A small bowl; a deep saucepan; a slotted spoon; kitchen paper

TIPS
Always use the freshest eggs you can find; don't drop the egg into violently spinning water

ILLUSTRATION: EIJI-KAIJA KUUSNIEMI

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Happy feet

When she leaves the office, Barclays Investment Bank vice president **Lauren Evans** puts on her dancing shoes, as Peter Taylor-Whiffen finds out

There aren't many accountants who can say they've been watched on TV by 750 million people. But that, as Lauren Evans discovered, is what happens when you are chosen to dance at the Olympics closing ceremony.

By day Evans is vice president at Barclays Investment Bank. But after work, music is her passion and has given her some extraordinary experiences – most notably accompanying Annie Lennox's spectacularly memorable performance atop an 18th century pirate galleon at the climax of London 2012.

"That was an incredible night," she says. "About 50 of us accompanied the boat into the stadium. On the day we were in the arena for 12 hours as the rehearsals got bigger and bigger. By the time we did it for real, the atmosphere was electric – the best night of my life. The cameras stopped rolling when the show finished but everyone just partied on. We were getting the athletes' autographs, but they wanted pictures with us: [rowing gold medallist] Heather Stanning asked for a photo with me."

Boogieing the night away with pop and sporting royalty is a far cry from her 9-5 role in corporate tax forecasting, reporting and compliance. But it's less of a seismic leap from accountancy when the famous Pineapple Dance Studios are close to your office.

"I joined Deloitte in The Strand after leaving university in 2006 and wanted to start dance lessons. Pineapple was a few hundred yards away. I wanted to do Latin and jazz and although I was a novice, [top UK Brazilian dance academy] DanceMyWay, who led the classes, were really welcoming and catered for different levels."

Evans moved to Barclays when she gained her ACA in 2010 but continued with her passion and two years later Pineapple's students were invited to audition for the Olympics.

"It was such an exciting time," recalls Evans, who lives in south-east London. "We've done other shows too – performances for corporate clients and we recently did a show in Gibraltar."

But she's not planning a career change. "I love my work at Barclays," says Evans. "I actually studied geography at university but the things I love about that – numbers, statistics, report writing – made accountancy appealing. I love the global element of looking at businesses, and problem solving.

"Part of me is still a geographer – when I go skiing with my boyfriend I'm looking at rock formations and he just wants me to go down the mountain! But I am happy in accountancy. There are so many talented people here to bounce ideas off, and I'm stretched in so many different ways. I can see myself here for the foreseeable future.

"I'm loving my dancing, and I'm also a musician – I play piano and I'm learning how to remix songs. It's great to get a familiar tune and add a samba beat. However, if I did these things as a job they wouldn't be so much fun.

"But there is a link between the two. Dance has given me confidence in my work. I used to be scared of presenting to a room full of people, but performing on stage conquered that. Dancing for an audience is scary – but that's what makes it so exhilarating."

PHOTOGRAPHY: RICHARD ANSETT

ICAEW Regulatory Board – board members

The new ICAEW Regulatory Board (IRB) is seeking to appoint its first 12 board members including a minimum of six lay (non-accountant) members.

From 2016, the IRB will be responsible for overseeing the professional standards and statutory regulatory role of ICAEW for audit and insolvency, plus aspects of investment business and legal services.

Successful candidates will support the IRB's work to ensure ICAEW fulfils its role as a credible and independent regulator, protecting the consumers of the services provided by ICAEW members and firms.

Candidates for these appointments – whether lay persons or ICAEW members – will have strong board or committee experience and relevant understanding of professional or corporate regulation. You must also have an informed appreciation of the services provided by ICAEW Chartered Accountants and the role, concept and contribution of a chartered professional body in public life and the wider economy.

The IRB will meet up to five times a year at Chartered Accountants' Hall in London. Lay members will receive £350 per meeting and travel expenses will be reimbursed for all board members.

These are independent board appointments. While they are open to non-accountants and members of ICAEW, they are closed to members of the ICAEW main board or council.

To apply or for further details, please email Stefanie Rief at irb@icaew.com

The closing date for applications is 4 September 2015.