

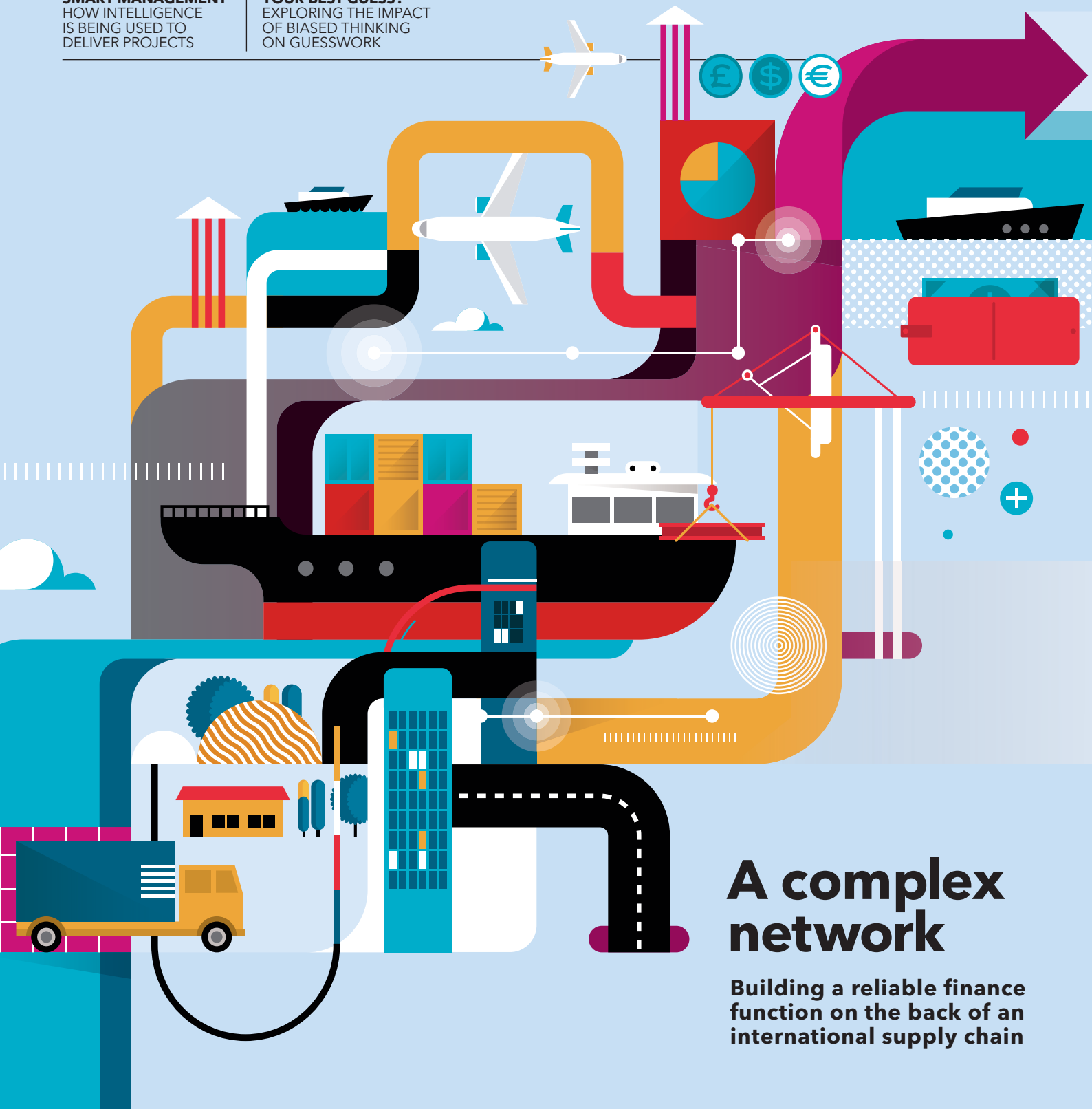
Business & Management

SMART MANAGEMENT

HOW INTELLIGENCE
IS BEING USED TO
DELIVER PROJECTS

YOUR BEST GUESS?

EXPLORING THE IMPACT
OF BIASED THINKING
ON GUESSWORK



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function on the back of an
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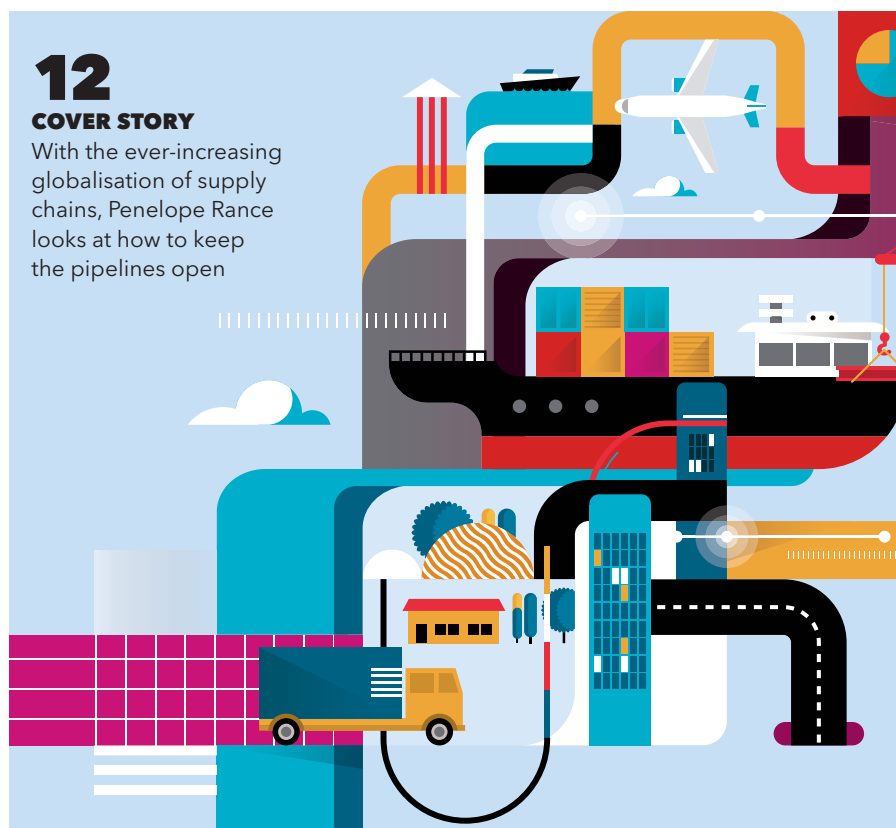
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June 2017 Issue 255

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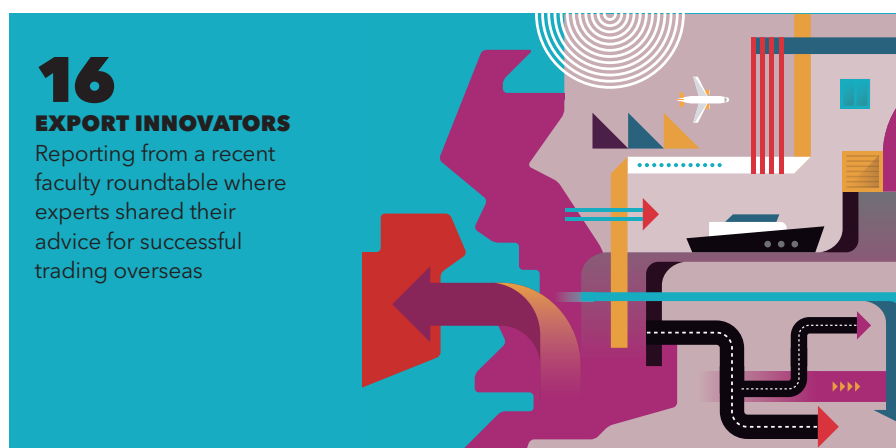
With the ever-increasing globalisation of supply chains, Penelope Rance looks at how to keep the pipelines open



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When is free not free?



One interesting aspect of the election campaign was the offer of all parties for a general extension of free services – free school meals, free breakfasts, free social care, free childcare etc. The well-known adage of there being no such thing as a free lunch comes to mind – someone has to foot the bill.

Neoclassical economic theory equates the value of goods with the price paid. Services and products offered for free would therefore have no value, and certainly services offered for free at the point of sale are often treated by consumers as if they had no costs associated with them. However, classic economic theory argues that value is the amount of discomfort or labour saved through its consumption, and is not dependent on market price; in this theory, at least, services and goods offered at zero-price can have value.

Zero-price goods can be used to advantage business. After many years of failure in marketing his new product of gelatine, Pearle Wait sold the rights to Frank Woodward in 1899. Woodward realised that as a new product it has no market and set about stimulating one by publishing free cookbooks containing recipes including jellies.

This concept, similar to that adopted by Google, of offering products and services at zero price to consumers in order to sell other services to those consumers is exactly the situation described in the phrase “there is no such thing as a free lunch”. Free products and services have to have some payback mechanism.

One would expect that as the price of something decreases, demand for that product would increase in a linear fashion and the perception of the value of that product would fall. But Shampanier, Mazar and Ariely (2007) found that traditional economic models could not address the psychological effect of free goods and services. Zero-priced goods stimulate significantly more demand than those at very low prices, precisely because they are free – the psychological explanation for this zero-price effect is known as the affect heuristic.

The affect heuristic is a rapid, automatic, irrational response and is activated prior to reflective judgement. Receiving zero-priced goods gives consumers a positive emotional response, an extrinsic reward from learned association, similar to winning a prize draw. Although they may later rationalise that the cost benefit overall did not justify taking the free product, this does not prevent demand from soaring for free products. Those offering them may well care to look at how demand might be contained.

We hope that you enjoy this copy of the magazine. Please contact robert.russell@icaew.com or matthew.rideout@icaew.com if you have any thoughts or suggestions about the Business & Management Faculty or the ICAEW Business unit. Have a good month.

Robert Russell
Technical Manager

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

FACULTY EVENTS AND WEBINARS

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

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NEWS



120	114	113	110	109	108	107	107	100	100	98	98	98	97	96	95	94	92	92	92	89
Singapore	Hong Kong	Zurich	Tokyo	Osaka	Seoul	Geneva	Paris	New York	Copenhagen	Los Angeles	Oslo	Tel Aviv	Sydney	Melbourne	Shanghai	Helsinki	Reykjavik	Auckland	Wellington	London
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	24

THE COST OF LIVING

The Economist Intelligence Unit's *Worldwide Cost of Living Survey 2017* ranks 133 of the world's cities in order of expense, based on the costs of more than 160 products and services. The biggest mover, London, has fallen out of the top 20, down 12 places, following sterling's devaluation.

TAKING RESPONSIBILITY

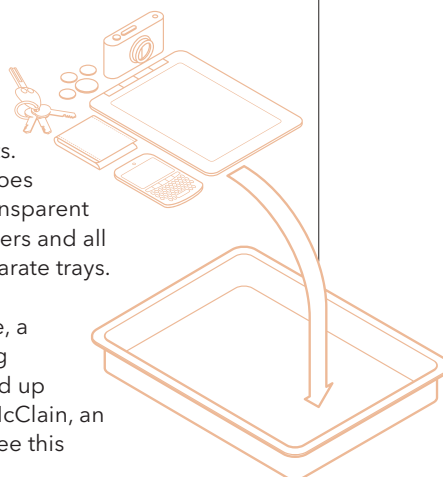
GCHQ has requested that business leaders should regularly review the risk of suffering a computer hack, warning devolving responsibility downgrades the protection of their businesses by not addressing the issue at the highest level. Ciaran Martin, head of the National Cyber Security Centre, felt it unacceptable

for business to plead ignorance about the threat from cyber attacks. "Boards must start to treat cyber threats with the same level of critical importance as financial or legal issues. It needs to be unthinkable that a board member would say cyber issues are too complex for them to make judgements about."

AIRPORT SECURITY TO BE TIGHTENED?

The Transport Security Administration (TSA) - the agency responsible for airport security in the US - announced last month that it is trialling extra procedures for carry-on luggage in some airports due to heightened security requirements. Already, some passengers must remove their shoes (depending on the airport) and put liquids in transparent bags, but the new procedures will see food, papers and all electronic kit bigger than a phone placed in separate trays.

The TSA says this is essential to eliminate false positives that occur in overstuffed cabin luggage, a problem caused by travellers' aversion to putting luggage in the hold. The procedure may well end up being adopted across the world. But, Marshall McClain, an expert on airport security, commented: "I can't see this streamlining the process [of check in]."



NO LINES, NO CHECK-OUT, JUST GRAB AND GO

Amazon, the online retailer, has opened its first bricks and mortar Amazon Go outlet in Washington State, offering shoppers the experience of buying fresh produce without having to pay in the shop itself - the bill will be raised through the user's smartphone and settled through their Amazon account. Amazon has already applied for a UK trademark of this Amazon Go format. Currently it is only available to Amazon employees through a beta programme. The company is also rumoured to be looking at opening other physical shops for products where consumers prefer a personal experience, for example, furniture outlets.



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London's ranking in the costliest cities around the world list



25

the width of the world's thinnest hologram in nanometres

THE WORLD'S THINNEST HOLOGRAM

The Royal Melbourne Institute of Technology (RMIT), in conjunction with the Beijing Institute of Technology, has created the world's thinnest hologram. At 25 nanometres, 1,000 times thinner than a human hair, it can reportedly be viewed without 3D goggles. Conventional holograms diffract light to give the illusion of a three-dimensional image and need to be thick enough to operate in wavelengths visible to the naked eye. RMIT Distinguished Professor Min Gu said: "Our nano-hologram is fabricated using a laser writing system, which makes our design suitable for mass manufacture. From medical diagnostics to education, data storage, defence and cyber security, 3D holography has the potential to transform a range of industries; this research brings that closer."





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EVENTS & WEBINARS

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EVENTS

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FINANCIAL CONTROLLERS CONFERENCE

21 June from 08:15

A one-day conference for all financial controllers and finance managers. The 2017 programme will focus on how teams can transform finance through turbulent times. For details and to book see icaew.com/fc2017

TRANSFORM YOUR ENTERPRISE WITH WINNING KPIs

19-20 September 09:30

£85 for Business & Management Faculty members

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

WEBINARS

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FREE 20-MINUTE LUNCH WEBINARS

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

28 June 12:30

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

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

GOVERNMENT ACCOUNTING - COOKING THE BOOKS?

13 July 12:30

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

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

GRAPHS - CLARITY AND IMPACT IN YOUR DOCUMENTS AND SLIDES

18 October 12:30

Visual presentation of information can either enhance or detract from the main points you might be trying to make. Jon Moon has years of experience teaching how to present with clarity and impact. He says: "Imagine creating documents that people praise and envy, ones that have clarity and impact and that win new business or impress and influence the board. Now imagine the impact on the rest of your working life." This webinar offers a taster of Jon's full-day course.

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

STATS FOR BUSINESS - USE OF STATS TO DETECT FRAUD

15 November 12:30

This is the third of our Statistics for Business webinars. Nigel Marriott of the Royal Statistical Society will explain how statistics can identify anomalies in data sets and assist in preventing fraud. Statistics provide an effective technology for fraud detection and have been successfully applied to detect money laundering, suspicious business expenses and computer intrusion.

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

FREE 60-MINUTE MORNING WEBINARS

CYBER SECURITY - REDUCING THE RISK OF SECURITY BREACHES

13 June 10:00

Computer security to prevent unauthorised access to your data is of increasing importance as businesses and individuals face daily attempts to break into computer systems. Mark Taylor of the IT Faculty will present practical tips to reduce the risk of an attack and run through some simple steps to ramp up your online security.

To listen again, please visit icaew.com/bamjunwebinar

BUSINESS TAX UPDATE

27 September 10:00

Sarah Ghaffari of the ICAEW Tax Faculty will run through the most important tax changes of importance to you and your business that have been introduced in the last year.

To book your place, please visit icaew.com/bamsepwebinar

TIME MANAGEMENT

9 October 10:00

The conflicting demands of work, leisure and CPD study make time a precious commodity. David Parmenter will go through practical and easy steps to assist you to better manage your time.

To book your place, please visit icaew.com/bamoctwebinar

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



Go Further

MOVE IT!

Nina Bryant finds ways to transform the commute with health-promoting activities

As reported in the April issue, four million people commute for two hours a day or more. While driverless cars are on the way amid testing by the likes of Google and Tesla, the idea of a stress-free driverless commute is still a thing of dreams. Until that becomes a reality, an active commute is becoming a popular alternative.

ROW YOUR BOAT

With 2,000 miles of navigable canals and rivers across the UK, it's little wonder more people aren't taking to the waterways. One man who decided to start kayaking to work around Birmingham estimated the six-mile paddle saved £20 a week in petrol - while burning a whopping 2,400 calories a time.

Canoeing or kayaking to work requires planning and time (average speed, 5mph), but it brings a whole host of benefits including increased vitamin D levels from exposure to sunlight and improved upper body and core strength. There is also evidence put forward by Harvard scholars that the endorphins released during this kind of exercise are beneficial to mental wellbeing, while spending time outside also helps to reduce overall stress levels.

The Canal and River Trust provides maps and advice at canalrivertrust.org.uk while sturdy inflatable watercraft that fold up small enough to fit under a desk/in a corner of the office can easily be bought online.

HIT THE TARMAC

Those who like to get outside but feel safer on solid ground might consider running to or from work. Like kayaking, a run has been proven to elevate the endorphins that act both as natural pain relief and induce post-exercise euphoria.

Running as a hobby has gained huge popularity, with hundreds of amateur clubs hosting evening sessions nationwide. More recently, commuter running has taken off, with running home the more logical option for those without workplace showers.

"Running your commute enables you to explore your city in new ways, it energises your mind and body for the day ahead and can relieve the tensions and stresses on the way home," says Simon Cook, a geographer based at Royal Holloway, University of London, who also blogs about running and its relationship to geography (jographies.wordpress.com).

Cook admits that there are some logistical hurdles with run-commuting, but these are easily overcome by solutions being shared online. Websites supporting commuter runners have emerged globally, including the UK's runningtowork.co.uk, giving tips about kit, including trainers and suitable bags for stowing work equipment, and route planning. Running to Work recommends knowing your limits and building up to a comfortable schedule.

TAKE A BREATH

Yoga has long been celebrated as a way to improve strength and energy levels, though it commonly occurs in calm surroundings. However Jennifer Ellis of the London-based Yoga Wellness Company was motivated to come up with yoga exercises that can be performed while commuting to ease stress.

"Often when we're stressed we've heard 'take a deep breath'," says Ellis, "but we don't necessarily know how to." When we become conscious of our breath, we can use it to reduce anxiety.

For a five-minute session she suggests keeping your eyes and mouth closed while slowly inhaling through your nose as much air as is comfortable, and using your diaphragm so your belly expands. Then exhale, elongating the breath. Repeat this five times. Follow with a contemplation of a memory of being happy. With 10 minutes to spare, start with a brisk walk up stairs instead of using an escalator, stretch in your seat (if you get one) to relieve tight muscles. Relax by making a mental note of five positive or amusing moments from a recent meeting. If you have 20 minutes, spend 15 in meditation (see the five-minute session above), focusing on the breath. For the last five minutes, listen to an enjoyable piece of music or write down your workplace anxieties, contemplating them until you are bored of them. Visit theyogawellnesscompany.com for details.

There is also advice on fitting exercise into the day from accountancy support service CABA at tinyurl.com/CABA-Move

Whatever the reason for de-stressing or getting fit on the commute, it's clear that with a bit of imagination workers may continue to opt for active travel even once driverless cars are the norm. ●



INVESTING IN INTELLIGENCE

Project management is in need of an intelligence overhaul to improve its effectiveness, argues **Peter Taylor**



Peter Taylor is the author of *How to get fired at the C-level: Why mismanaging change is the biggest risk of all*, priced £14.99. For more information see tinyurl.com/BM-GetFired or thelazyprojectmanager.com

Investing in good analysis and good reporting is all about correctly understanding the status and health of a portfolio, and all the projects and programmes that form it. This is project intelligence (PI).

There are probably as many definitions of intelligence as there are experts who study it. Perhaps the simplest way to understand it is as the ability to learn about and from, understand, and interact with, one's environment.

Environment in this definition has a broad meaning. It includes a person's immediate surroundings, including the people around them, and can be something as small as a family, the workplace or perhaps a project team.

As you probably know, a project is a temporary endeavour with a defined beginning and end usually constrained by date, funding or deliverables that is undertaken to meet unique goals and objectives - and usually brings about beneficial change or added value. The temporary nature of projects stands in contrast to business/operations as usual, which is repetitive, permanent or semi-permanent functional work leading to products or services.

THE SIX ABILITIES

Let's proceed to define the specific intelligence abilities in terms of projects:

- 1. Adaptability to a new environment or to changes in the current environment** - projects are all about delivering change, and the ability to oversee such change requires a great degree of adaptability.
- 2. Capacity for knowledge and the ability to acquire it** - projects also require a continuous learning process to understand the change that is being delivered and the lessons to be learned. The combined knowledge of the core and extended project team offers the best platform for success.



3. Capacity for reason and abstract thought

- logical application through the methods of project management will deliver a degree of likely success. The ability to think outside the box and supply beneficial adaptations to process and solutions will deliver the rest.

4. Ability to comprehend relationships - projects are all about people and the relationships that exist between them.

5. Ability to evaluate and judge - this is the very essence of project leadership and decision-making.

6. Capacity for original and productive thought - problem resolution and the comparative analysis of options is a constant requirement for good project management.

THE COMPONENTS IN DETAIL

Looking at this from the organisation as a whole and not just from the individual's perspective, what else is required to support successful project delivery? Here is where PI comes in. PI refers to the skills, processes, technologies, applications, metrics and practices used to support successful project delivery from the organisation as a whole.

Common components of PI include:

- project management skills, maturity and certification (from project contributor through to senior project/programme roles);
- project sponsorship skills and maturity;
- project methodologies and practices;
- project management information systems;
- project/programme management office activities and focus (supportive, directive, controlling);
- executive/management skills, maturity and experience in project delivery;
- project-based organisational maturity;
- project support technologies (resource management, skills database, scheduling and time management, cost management, etc); and



● project dashboard and reporting technologies. Project intelligence aims to support a project-based organisation's successful project capability.

While we may believe we understand all the components of PI, perhaps we should explore a few in some detail. Many organisations have a growing capability in project management, but many do not specifically train beyond the project management role itself. They don't develop great project sponsors nor do they train people to undertake objective 'lessons learned' activities either.

Executives in general have acquired project knowledge – let's be honest here, it tends to be project experience, usually the painful sort. Few will come close to understanding the mechanics and skills of being a project leader unless they have been through the 'project delivery' world.

The deployment of project dashboards is, sadly, often a means to either move swiftly back to safe operational issues if the dashboard looks 'green' or raise a lot of unhelpful noise when the dreaded 'red' appears – just when the project needs all the positive help it can get. This is the key to investing in good analysis and good reporting.

PI is all about having the very best environment to nurture and deliver project success through the needed skills, processes, technologies, applications, metrics and practices. Your organisation deserves the best possible knowledge about your change projects and to obtain that PI is required.

LIGHT-BULB MOMENT

I saw something for the very first time recently. I was reviewing a portfolio dashboard at a software vendor and they, as I have seen many times before and elsewhere, offered me views by project manager, business unit, location, value, phase and so on. But then I asked and was delighted to see a view of the portfolio by sponsor. And why not?

"The most important person in the project is the executive sponsor – they are ultimately responsible for the success or failure of the project"



Peter Taylor, a project management office expert with experience leading a global team of more than 200 project managers, author of 18 books, including *The Lazy Project Manager*

Portfolio management should be much more than just a prioritisation of projects and resources exercise. It should be the representation in projects (and programmes) of the competitive strategy that will allow business executives to convert their intentions into reality.

This is pretty serious stuff. All of this is placed in the hands of project managers and they need to be held to task and held accountable, but in the words of the Standish Group: "The most important person in the project is the executive sponsor. The executive sponsor is ultimately responsible for the success or failure of the project." For the executive team to be able to view their portfolio by project sponsor and to see which of these ultimately responsible people are performing (and which are not, thereby putting the business strategy at risk) is clearly essential.

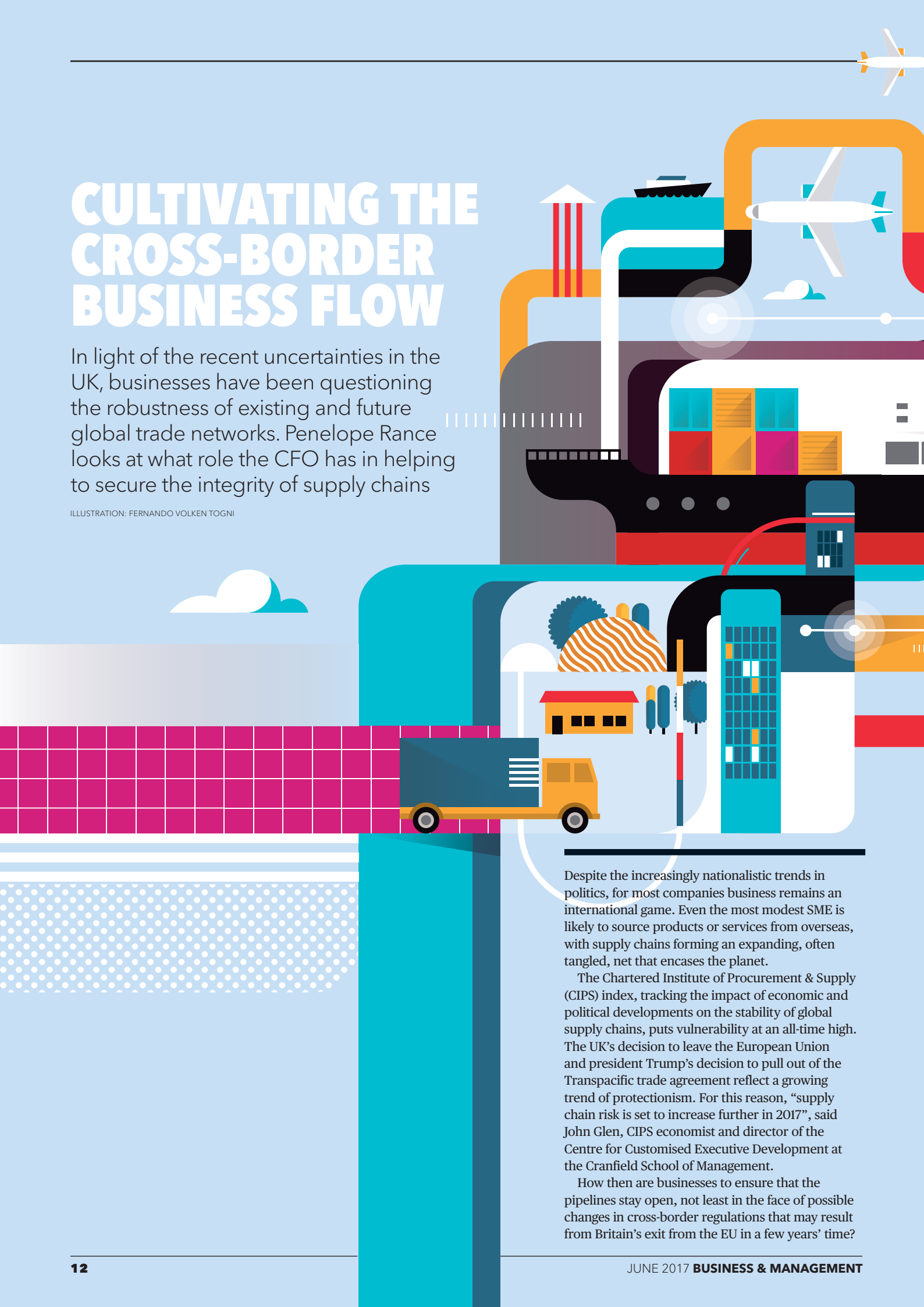
When it comes to financial accountability, it seems at least anecdotally that projects often go over budget, deliver late, and deliver less than was expected – and there are absolutely no significant consequences at sponsor level. No one appears to be accountable and no one gets removed. If something goes wrong in the real side of the business – sales down, profits falling, share price dropping – then, more often than not, action is taken and someone will be held accountable. Maybe this is because it is seen as real business work and as such has to be taken seriously.

Project sponsorship needs the same strength of focus and importance of status. The success or failure of a project is a direct reflection on the sponsor as the keeper of the organisational vision. A sponsor view of the project portfolio is an absolute key to this in the future I believe, and fits exactly into investing in non-accidental project sponsors as well as investing in good analysis and good reporting. ●

CULTIVATING THE CROSS-BORDER BUSINESS FLOW

In light of the recent uncertainties in the UK, businesses have been questioning the robustness of existing and future global trade networks. Penelope Rance looks at what role the CFO has in helping to secure the integrity of supply chains

ILLUSTRATION: FERNANDO VOLKEN TOGNI



Despite the increasingly nationalistic trends in politics, for most companies business remains an international game. Even the most modest SME is likely to source products or services from overseas, with supply chains forming an expanding, often tangled, net that encases the planet.

The Chartered Institute of Procurement & Supply (CIPS) index, tracking the impact of economic and political developments on the stability of global supply chains, puts vulnerability at an all-time high. The UK's decision to leave the European Union and president Trump's decision to pull out of the Transpacific trade agreement reflect a growing trend of protectionism. For this reason, "supply chain risk is set to increase further in 2017", said John Glen, CIPS economist and director of the Centre for Customised Executive Development at the Cranfield School of Management.

How then are businesses to ensure that the pipelines stay open, not least in the face of possible changes in cross-border regulations that may result from Britain's exit from the EU in a few years' time?

HOW TO PROTECT YOUR SUPPLY CHAIN

- As with any business continuity plan, look for a diversity of suppliers and customers, both within and beyond the EU.
- Consider establishing an EU-based subsidiary or distribution function to access the benefits of trading from within the EU.
- Set up a 'plan, do, check, act' procedure so you can make sure you achieve what you set out to do. Recognise the importance of strong material resource planning.
- Work on relationships with suppliers to make your way up their priority list.
- Treasury management is key. Protect against currency fluctuations by, for example, buying forward in the currency you're being invoiced in.

"Amid exchange and commodity volatility, currency hedging will remain vital, while contingency plans must be put in place to protect supply chains from foreseeable trade barriers," says Glen. "Re-shoring supply chains will be an increasingly attractive prospect in the months to come. It is more important than ever for supply chain managers to develop closer relationships with suppliers and monitor any changes, so they can ensure their supply chains remain resilient."

YOU'RE NOT ALONE


Recognising that no company is an island is central to ensuring your global web remains intact. "Every sector is connected to every other sector through supply chains. Supply chains are like water pipes: if choked at any point, there is less flow anywhere in the supply chain," says ManMohan Sodhi, professor of operations and supply chain management at Cass Business School. "Eventually, for supply chains that flow across the EU and the UK, either the companies on both sides have to work together to convince their governments or find alternative suppliers and customers, creating new supply chains."

For sectors reliant on raw materials, such as food and drink, manufacturing and pharmaceuticals, supply chain efficiency can determine the profitability of the business. Nifco UK designs and manufactures components for the automotive industry. "The biggest challenge is supply availability of raw materials," says managing director Mike Matthews. "Demand is outstripping supply and alternatives are being sourced, but because of this, prices are increasing."

Diversifying supply is one defence, but is not always possible. Restaurants are a case in point. "In food and drink, it can be hard to change source of supply," says Frank Bandura, group chief financial officer of Gaucho and CAU, formerly of Carluccio's. "Carluccio's is reliant on Europe: we were either buying from Italian suppliers or our suppliers were. Gaucho's core product is Argentinian beef. We are massively reliant on the supply chain all the way to South America."

CROSSING BORDERS

The complexity of modern supply chains means that for many companies it is unclear where they extend and which borders are being crossed. "Lots of businesses will be looking to update information on their supply chain," says Clive Lewis, head of enterprise at ICAEW. "They need to be fully aware



of the whole supply chain before addressing any issues.” And this understanding starts with the finance function. “The CFO has visibility of suppliers, but they are dependent on production planning and resourcing people to get further information. The CFO needs to tap into the extent that others in the company are aware of the issues and keep track of what’s going on.”

“Supply chains depend on the uninterrupted flow of three things: goods, information and cash,” says Sodhi. “CFOs are crucial in ensuring liquidity to keep cash flowing not just for their own companies but for everyone else in the supply chain.”

As well as cash flow, on a practical level, the CFO may take a hand in logistics and procurement. “You’ve got to get products from one place to another as cheaply and quickly as possible, in good condition,” says Bandura. “Accountancy naturally lends itself to this role, as you have to think about processes quite a lot. Understanding pricing, market conditions, the impact of making certain decisions, currency factors - it’s a very important role.”

COULD RE-SHORING WORK?

One solution to the breakdown of international supply chains is re-shoring - bringing supplier networks back into the UK. Sourcing locally is

“Modern supply chains are to a large extent global, going well beyond the EU and the UK”

arguably greener and less subject to exchange rate fluctuations, as well as overseas labour strikes and political upheaval. “Inevitably, some outsourcing overseas will come back to the UK. Where there is a resource to manufacture in the UK, some people will have to do that,” says Lewis.

“Modern supply chains are to a large extent global, going well beyond the EU and the UK,” argues Sodhi. “Re-shoring will take place but will just be superficial, leaving a bulk of the goods continuing to be in global supply chains.”

In some cases re-shoring is not even worth considering. Peter Ahye, founder and executive chairman of Freaks of Nature, a start-up which produces luxury desserts for the free-from market, says that sourcing from overseas is essential, but it lays the company open to foreign exchange risk: “Coconut nectar, cacao, date syrup, cashew milk - we will never produce that stuff in the UK. But prices change due to currency and commodity fluctuations. As an SME you feel it pretty quickly,



CASE STUDY: BIORBYT



Qun Yang is MD and CFO of Biorbyt, a biotechnology company that manufactures antibodies, proteins and small molecules

“We follow the principle of lean management and outsourced services: our IT is in India, we have a research lab in China and we have a subsidiary in San Francisco. The supply chain is quite global.

“We have the initial R&D stage in the UK, design the immunogens, then the lab in China creates the product. We work closely with FedEx, which offers biotech cold chain logistics, as our products need to be stored cold. We also have partners making products in Israel, Germany, the US. All the products come to the UK, then are shipped to Japan, Australia, the US and the EU.

“It’s easy to ship products at the moment, but I don’t know what will happen when we leave the EU. When we ship to the US, FedEx need power of attorney, and there’s an FDA inspection - we see a delay of a day or so. But in the EU, we can ship today, and the customer receives it next day.

It encourages them to buy from us. Also our customers are research institutions. Lots of biotech research is funded by the EU. If they lose their funding, our customers won’t have money to spend.

“If the euro breaks down in the long term, we will have to deal in lots of currencies, leading to greater expense. Sterling has dropped significantly - in some ways it has worked to our advantage. We sell a lot to the US, so had a lot of dollars, which gave us a currency gain. But as we also have suppliers in China and India, we have to pay in local currency, and that costs us more.

“Our first step has been to set up a euro bank account to hedge our euro risk. We might have to set up a subsidiary in Germany. It may cost more, but we don’t want to lose the business.”

and it tends to be up rather than down.” Over time, he says, he will be able to manage the price volatility by contracting for larger, more consistent volumes, but exchange rate fluctuations will remain an issue.

Once supplies are sourced and paid for, they still have to be transported. “It’s possible there will be new border controls to contend with,” says Lewis. “The paperwork is likely to be much more complex and might require customs at the border to inspect goods. Hauliers will need certificates of origin, proof of meeting standards. The whole area could become more bureaucratic, and is likely to be more expensive and time consuming. Anything that injects delay into the supply chain means suppliers wait longer to be paid, with a washback to how quickly you get paid for imported or exported goods.”

“One expects both the EU and the UK will be sensible about this and find some mechanism to avoid trucks queuing up on both sides of the border,” adds Sodhi. “But regulatory issues will be a source of continuing confusion even after Brexit is complete: which laws and which regulations apply to what part of which supply chain. This will impact EU-UK trade and companies on both sides will look to diversify away from each other for suppliers and customers. Thus, regulations are the biggest threat to EU-UK trade stemming from Brexit.” ●

IT'S COMPLICATED: SUPPLY CHAINS WITH INHERENT COMPLEXITY

Aerospace

Aircraft assembly is hugely complex – the Boeing 787 Dreamliner has 2.3 million components, 75% of which are procured from US companies, the rest globally. Aircraft manufacturers may use up to 1,500 suppliers in 30 or more countries. These must be given serial numbers trackable for their entire lifecycle.

Chemical and pharma

An industry with inherent risk around transportation and handling, the individual compounds and elements required to build chemical and pharmaceutical products have highly regulated supply chains, involving strict certification/licensing, specified methods for movement and questions to answer about their origin or destination. Trading with the EU is, at present, more straightforward than doing global business.

Construction

First and second tier construction suppliers are often locked into agreements on commercial projects, while those at the end have few contractual liabilities. Materials must be traceable and people vouchsafed when managing the supply chain.

Clothing/apparel

Getting fashion ranges to the high street every season involves a constant round of juggling post-design stage. Businesses must deal with overseas traders in the manufacture of thousands of materials, coordinating with factories for cross-border movement of utility components such as zips and buttons, and importing the finished products from a multitude of countries.

CASE STUDY: CATERHAM CARS



Trevor Steel is CFO of Caterham Cars, which hand-builds lightweight sports cars and exports them globally

“We are a small niche UK manufacturer, building more than 500 cars a year and selling around the world. The term ‘manufacturer’ is a slight misnomer – we only make the chassis and related parts. Otherwise we are an assembler.

“Our average vehicle bill of materials (BoM) consists of around 600 components from 120 different suppliers, all consolidated into a central warehouse in Dartford. About 10% of our suppliers (and 20% of BoM value) are cross-border. On-time fulfilment from all suppliers is key – if you’re a supplier of components and have 20 lines of an order to fill, you can easily fill 19 of them. That’s 95% of the order, but we need a 100% supply to build a car.

“We mitigate this issue by holding larger inventory levels. We don’t want all our capital tied up in inventory holding, but sometimes we have to bite the bullet. As CFO I have to recognise that it’s more critical to maintain 100% component availability than run leaner investment levels in stock holding. If you can’t build cars, the whole cash flow cycle grinds to a halt.

“We source locally where we can – though the automotive industry is a global sector and UK supply chains have reliance and exposure on overseas supply in raw materials or sub-components. The loss of free movement of goods across the EU, and (one assumes) an increase in customs processes, will add time delays to the import of components from and export of cars to EU member countries.

“Regulatory hurdles are very industry specific. We rely upon EU small series homologation legislation, and this is available to be adopted by any global company. We expect to be able to continue to build and sell cars to the EU under these regulations.

“The bigger elephant in the room is whether there will be tariff impositions post-Brexit. The UK is a large consumer of vehicles and automotive from the EU. The imposition of prohibitive tariff levels on these imports would be against the logical interests of the rest of the EU – but logic doesn’t always dictate political decisions.”

THE WORLD IS YOUR OYSTER

While Britain may be stuck in a rut as a net importer of goods, there is plenty of innovation among those in business keen to export, as Nina Bryant learns at a recent ICAEW roundtable

The latest figures from HMRC's specialist statistics unit yet again show that Britain is a nation of importers - in March to the tune of £14.3bn. While exports accounted for £4.3bn more than in February, imports were up £7.6bn over the same period. Whenever Britain increases its exporting capabilities, its imports increase too - a pattern that has barely changed since 1999. The UK dominated world trade 100 years ago, but its world economic position has steadily fallen since then. According to the Observatory of Economic Complexity at MIT, the UK remains the ninth largest exporting nation in the world.

International trade secretary Liam Fox observed in April that there is huge overseas demand for British food and drink products, with approximately 200 opportunities in food alone to work with overseas partners listed on the government's Exporting is Great website (and over 1,000 opportunities when looking across all sectors). Fox said: "Products are in demand from the Middle East to China, and more and more producers are making sure they make the most of these opportunities as part of a global Britain." Among the favourite goods are strawberries, English cheese and gin.



Shipments involving strawberries and gin are things one attendee of the recent Business & Management Faculty roundtable on exports knows a lot about. Scott Goodfellow is sales and marketing director at Wilkin & Sons, famous the world over for its Tiptree jams. In recent years the company has expanded into table sauces, spreads and fruit-infused liqueurs, as well as running a fresh fruit operation, patisserie and tea shop chain. But it has also taken steps to develop brand awareness in new markets.

SEIZING THE OPPORTUNITY

"China is a big opportunity for us in terms of demographic and the size of the market," said Goodfellow. "We needed to put an internal resource there to make the most of it, but we have often gone with a feeling rather than analysis. We make judgements based on what we hear from trusted sources in industry and government rather than exclusively relying on market data." And, as the roundtable progressed, that notion of keeping an ear to the ground was raised often as a key to success.

Rob Hill, director at Metallisation, explained how his Black Country-based business has spent the past 25 years of its near 100-year history building up exports,

to the point that now 80% of customers are overseas. The business, which specialises in the application of metallic coatings by thermal spray, now finds two thirds of its output is from selling new equipment and spare parts, with the rest coming from sales of consumable materials.

Metallisation's rise in exports has coincided with deindustrialisation in the UK, which led to the closure of the original metal spray service company and a severe contraction in our hitherto traditional UK heavy engineering markets. But the establishing of new business relations has been organic and opportunistic.

Hill said: "An example was our initial entry into India which happened as a result of an already established UK customer setting up a new plant and taking our equipment with them. We soon found a local distributor and gained a good foothold in a strong and growing economy.

"A further example has been the nurturing of a mutually beneficial relationship with a Polish company that we first met as fellow exhibitors at a trade show in the Czech Republic. That Polish company has now become a distributor and also a supplier of ancillary equipment and together we have found many new customers across Europe."



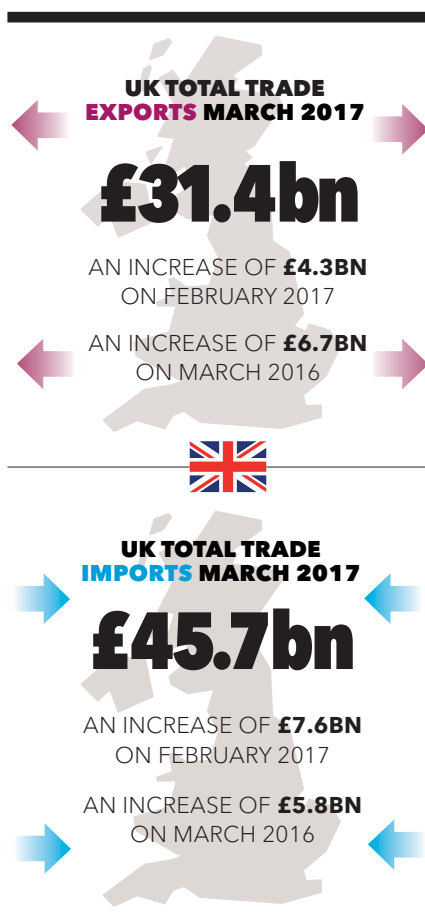
Hill maintains that for an SME business such as Metallisation, taking a pro-active approach to developing new export markets is fraught with jeopardy as it requires a large investment of time and money and there is no guarantee of success. For his company the key has been to run the business as efficiently as possible, give great focus to customer service, use every opportunity to publicise the company and its products and then jump on the opportunities that arise.

"Start with your website," he said. "It's a window for the world to easily see your business and can be a great leveller if your main competitors are big multinationals."

Emma Jones of Enterprise Nation and Clive Lewis of Achieving the Difference both spoke of the influence wielded by certain bloggers, for example teenagers

"Getting into India was as a result of a relationship with another company that moved to India. Now we are developing our own relationships over there"

ILLUSTRATION: FERNANDO VOLKEN TOGNI



with thousands of followers. Jones referred in particular to key influencers, who have huge social media followings and are paid by brands to say favourable things about their products: "You can't go to China without them." Goodfellow used a Tiptree example as a case in point. He said that the business hired an MBA graduate in China as their brand ambassador for a year to see how things went.

Initial signs were good enough to sign her for a second year - now after five years Tiptree has quadrupled its China business. Goodfellow remarked: "She is my China strategy," admitting that the Tiptree way was fairly entrepreneurial. Finding a brand influencer had involved little more than getting someone smart and hardworking on board. There was a cost, but Goodfellow remarked that it was seen as an "affordable loss" to test the concept in China.

The group was in agreement that celebrity endorsements, by comparison, were not as strong. Goodfellow explained that offering gifts during events, for example arranging for Tiptree jams to be presented by UK politicians to visiting heads of state, might not make a return, but would increase the profile of the company and lead to good karma in the longer term - the butterfly effect - a

EXPORTS EXPERTISE

The following people were present at the Business & Management Faculty round table for discussion of the benefits and pitfalls around exporting:

- Jim Drew, director/founder, Fuzzy Brush;
- Scott Goodfellow, sales and marketing director at Wilkin & Sons, Tiptree jams;
- Julian Hardinge, chairman, Mallory International;
- Nigel Hastilow, director of enterprise, ICAEW;
- Rob Hill, director, Metallisation;
- Emma Jones, founder, Enterprise Nation;
- Mike Josypenko, director of special projects, Institute of Exports;
- Clive Lewis, managing partner, Achieving the Difference;
- Alex Murray, Silverdart Publishing;
- Robert Russell, Business & Management Faculty; and
- Brinley Salzmann, director, overseas and exports, ADS.

sentiment that Hill was in agreement with.

Jones also talked about harnessing the power of China's answer to eBay, Alibaba, which has reportedly generated as much as \$17bn in a day (on China's singles day, 11 November). She suggested this event would represent a great opportunity for Jim Drew's business, Fuzzy Brush, a chewable 'toothbrush' that can be found in vending machines, notably at UK service station.

An inevitable consequence of breaking into new markets involves dealing with bureaucracy and unfamiliar administrative practices. Mike Josypenko, director of special projects at Institute of Exports (IoE), said that many calls fielded at the IoE were to do with paperwork and regulation. "Some questions sadly relate to instances where members have had goods held up by customs or regulations; but others are more proactive, seeking advice or information in advance," he observed. "Sometimes the assumption is that regulations are the same in all countries."

INSIDER KNOWLEDGE

Hill said that even after years of exporting, his business was relying on local experts, for example freight forwarders, for valuable advice: "In Australia for example they will tell you what wood crates can be

TOP PARTNERS TRADING WITH THE UK - MARCH 2017



IMPORTS VALUES

- 1  **£6.6bn**
- 2  **£4.2bn**
- 3  **£3.6bn**
- 4  **£3.1bn**
- 5  **£2.6bn**

EXPORT VALUES

- 1  **£4.6bn**
- 2  **£3.7bn**
- 3  **£2.4bn**
- 4  **£1.8bn**
- 5  **£1.6bn**



made from, so the country can avoid woodworm infestation.”

The speakers agreed that a good first point of contact for would-be exporters seeking advisers was the local Chamber of Commerce. Hill said businesses needed to pay attention to all the details: “Be absolutely spot on, or some jobsworth will stop you.” Exporters need to know the difference between a legitimate and an unreasonable request in the host country. Goodfellow said one official had requested to be sent Tiptree’s actual Royal Warrant.

Julian Hardinge, Mallory International’s chairman, warned against sending official clearance documents with shipments to help eliminate corruption. He added that it had been necessary to be at ease with the idea that his business would never be paid in advance if dealing with the public sector across Africa. Mallory International sells books into countries including Malawi and Burundi, with the market fluctuating depending on individual states’ political stability. “We are one of two market leaders in a niche market,” he said. “There’s plenty of opportunity here, but some see it as too difficult. If you have a difficult market under control, others probably don’t.”

Hardinge explained that Mallory won’t undertake an export project it can’t stick

with for at least three years: “We are stubborn, and reluctant to give up.” To achieve its aims (it supplies books to 800+ schools) Mallory has reps in each of its countries working on a commission basis. The reps are responsible for following up on outstanding payments with government ministries, getting local delivery under control and dealing with customers. They are supported from the UK and someone visits them for at least a week a year.

Hill reiterated the importance of maintaining effective communications with agents and clients: “Customers must never be left feeling lonely or vulnerable. The business should deal with any issues arising and never be afraid to parachute someone in. It’s all about relationships.”

In unfamiliar markets, Josypenko said anyone seeking success with exports had to take a long-term view. He said: “Businesses should watch as they expand, monitoring developments over six, nine and 12 months. Don’t expect immediate returns.”

Jones observed that overseas consumers in developing markets were as savvy as in developed ones: “They want to know where everything comes from, what the CEO believes in.” On this level, the group agreed, a British brand could be sold on its reliability, and at a premium. Drew said it

was a benefit to have a Union flag on Fuzzy Brush packaging: “In China, the flag means more – British stands for quality and trust.”

VARIATION IN GLOBAL TRENDS

Goodfellow said having a premium offering in Asia had led to demand spikes – after the guests at a wedding had been given Tiptree miniatures as favours, they then sparked a buying frenzy that led to the company’s northern China distributor selling out of stock. In the USA, the business is stuck in a long supply chain, and consequently sales are lower. He said: “Products sell in at a reasonable price, but there are mark-ups at regional, state, county and store level.” This leads to a shelf price per jar in New York City of about \$12, which Goodfellow believes is too expensive. “It is a long-term challenge, but we are working with distributors to slowly sort it out.”

What the company can do however, is make sure it is attuned to the trends emerging within its overseas markets by tailoring goods and services to individual market needs. Goodfellow added that Chinese visitors to London were buying more blueberry jam in Harrods than strawberry, so the business was able to adjust its supply. Similarly it has responded to cultural feedback – branding ‘Brown



EXPORT ASSISTANCE

The Institute of Exports & International Trade runs a Technical Help service for members. There is information available on insurance, payment terms, documentation, controls regulatory and compliance issues, and more. For further details visit tinyurl.com/IOE-TechHelp

TOP COMMODITIES TRADED WITH REST OF WORLD - MARCH 2017



IMPORTS VALUES

1. CARS
£6.2bn

2. MECHANICAL APPLIANCES
£5.9bn

3. ELECTRONICS
£3.9bn

4. MINERAL FUELS
£3.7bn

5. PRECIOUS GEMS
£3.1bn

EXPORTS VALUES

1. MECHANICAL APPLIANCES
£4.9bn

2. CARS
£4.1bn

3. PHARMACEUTICALS
£2.5bn

4. MINERAL FUELS
£2.2bn

5. ELECTRONICS
£2bn

DREADING BREXIT?

The B&M Faculty roundtable speakers were in agreement that the full effects of Britain's withdrawal from the European Union were unknown.

Scott Goodfellow, of Tiptree jams producer Wilkin & Sons, was doubtful that there might be enough local labour to fill seasonal fruit-picking vacancies if EU nationals were prevented from working, but at the same time he observed that EU produce is currently 15% more expensive than UK produce.

The IoE's Mike Josypenko thought it may become harder to employ relevant white-collar staff, for example bilingual customer services staff to deal with overseas agents.

The group also believed that the biggest problem looming as a result of Brexit came as a result of the "disastrous" sterling exchange rate.

In the end though, due to the global nature of exports, they thought many businesses would survive on account of already having robust models that would help them ride out any storm.

Sauce' as 'Steak Sauce' for the US market, and renaming its tongue in cheek Quite Hot Tomato Ketchup as 'Chilli Sauce' in Singapore where a literal name works better. Drew had experience of this with Fuzzy Brush, where he observed that flavour preferences differ from country to country. Consequently he has been able to target stock more effectively, for example shipping more of his lemon flavoured product to Switzerland.

A downside for businesses establishing in a foreign territory comes when competitors try to copy products and turn out cheaper models. The attendees were somewhat resigned to it happening. Jones referred to the case of Trunki, where the manufacturer of children's ride-on suitcases fought a case to protect his design and lost. Drew added: "If someone wants to copy your product, they will."

Drew believed establishing a trademark was the most important act of protection against copycats, but Josypenko added that being copied would always happen to businesses that innovate: "We should make this our selling point to clients, saying, 'We're so good, everyone wants to copy us. You should stay with the original and the best'." He also said it was worth the effort in sending out a few official letters asking

copycats to desist as it usually worked.

There was no doubt that this was a committed bunch when it came to exporting. Despite the various hurdles of getting products into new markets and establishing cross-border relationships, the general consensus was that home was the most difficult market to crack, and similarly developed nations not much better.

Goodfellow said: "By a million miles, the UK market is more challenging than any other." Drew said he had found the UK disappointing, coming up against arrogance in the face of dealing with damaged goods. Hardinge pointed to South Africa, where dealing with libraries was too expensive compared with other African nations, and demands for value-added services like those in the UK made it an unfeasible proposition. Referring again to that ear on the ground, he said: "Our markets are where local knowledge is, where they know how to get things through customs."

In various ways, the businesses present at the round table displayed evidence of eliminating the barrier of distance by becoming attuned to local knowledge in their preferred markets, and achieving their aims by making use of the best resource that can be found no matter where in the world you are: the people. ●

For every second of delay at checkout,
conversion drops up to 7%.

7%...

14%...

21%...

28%...

You see where this is going?

Better checkout means more revenue.

RETHINK PAYMENTS

Braintree
A **PayPal** Service

For more info visit braintreepayments.com/facts

INDIVIDUAL STYLE, TEAM MENTALITY

Boards are powerful institutions, but they can be hampered or hindered quite easily if their members do not work together constructively, says **Gerry Brown**

For a long time I have advocated the importance of independent directors and the vital role they play in ensuring that boards function effectively. But the directors on an executive board need to know how best to come together if they are to provide a worthy function for the businesses they work with.

WHAT COULD GO WRONG?

The worst things that can happen to an executive board - assuming no criminality - are either a breakdown in relationships that leads to the board fragmenting into factions, or a descent into collective complacency and inaction. Either can be equally disastrous, leading the board to take its eye off the ball and make mistakes.



Failures of this sort are usually the result of some sort of underlying tension or pressure. Breakdowns in relationships often stem from tensions between members of the board. In *The Future of Boards* Jay Lorsch describes six tensions and how they arise:

1. Social cohesion: all boards need some social cohesion to enable them to work together, but too much is definitely a bad thing. Social cohesion can pressure people into conforming with the majority point of view. Some non-conformity, usually some degree of irritant, is still required.

2. Dissension: on the other side of the coin, if there is too much dissension, the board can quickly disintegrate into infighting and chaos.

3. Psychological safety: too much safety and there is a tendency to forget the need for accountability. Boards should be encouraged towards creative thinking, albeit with the important caveat that an element of realism is still needed too.

4. Collectivist-feelings: it is critical to create a balance between operating and feeling that you function as an effective, cohesive group while still valuing individual contributions.

5. Diversity of thought: boards need diversity in order to help them overcome the tendency towards excessive social cohesion. It can be of real benefit for a board to have people from different backgrounds offering different points of view. However, diversity cannot get in the way of effective decision-making. There must be a mechanism for reconciling different points of view and achieving a rational consensus.

6. Strong leader: the board is a team, and every member of the team must be encouraged to contribute. Encouraging people to speak up and make contributions is one of the important roles of the chairman. However, it can be difficult for some executive directors to speak freely in front of the CEO - especially if their honest view clashes with that of their boss. Leaders, especially CEOs, need to sublimate their own egos to a degree if the board is to be properly effective.

Many, if not all, of these tensions are present, or potentially present, in most board relationships and need to be managed. There is no perfect solution, and the balance will change depending once again on the composition of the board and the pressures the business faces. Board members need to manage a series of trade-offs in order to keep the



right balance in all six cases. If they fail, the board runs the risk of one or more of the following eight pathologies manifesting itself:

- excessive conformity, or groupthink;
- negative group conflict, or factionalism based on differences either in basic values and beliefs, or in personalities;
- politicking, or people manipulating others in order to acquire more personal power. This can be a defensive mechanism if the power-seekers perceive that their own position is under threat;
- habitual routines, or “that’s the way we do things around here”. People become ingrained in certain practices and actions, and cannot or will not change, even if a threat emerges;
- shared information bias, or “we know what we need to know”. This concentrates on knowledge that is already known and shared among the

group, and does not seek to look any further and find out if anyone else has any further information to bring to the table;

- pluralistic ignorance, where people have important opinions and views but will not voice them because they fear to be seen differing from their colleagues - the “ignorance” results once again from a failure to share knowledge;
- social loafing, where people work less hard when part of a team than when on their own. On boards this manifests itself in a “why should I get involved? Someone else will do it” mentality; and
- group polarisation, where members of the group encourage each other towards more extreme thinking. Those members who have doubts are encouraged to set them to one side. The collective decision, which is finally reached, is thus more risky than any of



the group's members would have made if left on their own. When boards fail, corporate governance breaks down and the company is at risk.

BEST PRACTICE FOR BOARDS

I have some simple best practice rules I believe are essential to follow if boards are to function effectively.

Boards must be of a suitable size and diversity. Asking how large a board should be is a bit like asking how long is a piece of string – but there are some rules to follow. First, the board should not be too large; it needs enough members to cover all the tasks that the board faces, but there should not be any supernumeraries. Secondly, there needs to be a balance of executive and independent directors. Executive directors need the advice, contacts, scrutiny and questions that independent directors bring, but

they should not feel swamped by these.

On diversity, the issue is much more clear-cut. Boards should be diverse. This is partly to avoid the drift towards groupthink and conformity, but it is also a matter of common sense. Vastly experienced headhunter Peter Waine maintains that “three-quarters of the useful experience of a good independent director is generalist skills; sector experience is only the bottom quarter”. A diverse board, a team of all the talents, can work together in a much more creative and exciting fashion to create and deliver a sound strategy. Diversity is essential.

Board members must contribute to every aspect of the board's work. Board members should be energetic, inquisitive and attentive. They should be prepared to devote sufficient time to carrying out their duties, not just attending board meetings. They should be well informed about developments in their sector. Their ability to contribute depends on the culture of the board itself and whether the executive and independent directors work well together. “It is easy for executives to keep non-executives in the dark if they want to,” warns Waine. “It is up to the chairman to create a climate where everyone can make a contribution.”

Boards must have strong leadership. In the UK, this means a strong independent chairman who is both an able diplomat and a superb organiser. He or she should also know the business very thoroughly. There is some discussion as to whether the chairman should be a sector specialist, especially in very technical and complex industries. There are arguments both ways, but I would add that what matters is the ability to learn quickly what the company is/was and how it worked. Crispin Simon, ex-CEO at Biocompatibles, agrees. “I take the view that the chairman should be more detached and work to bring out other people's views rather than expressing their own,” he says. “You could even argue that sector experience is a disadvantage, because you cannot help yourself from having views.”

Boards must have effective and functioning committees. Committees take the strain off the main board by dealing with specialised issues such as audit, remuneration, quality, safety and so on. Their members must have at least a certain level of technical expertise in their particular subject; for example, it is mandatory that the chairman of the

Board evaluation shouldn't just be a box-ticking exercise designed to result in little real change – it should always result in an action plan to improve board effectiveness

audit committee should be a qualified accountant.

Directors must be clear about their roles. Board members need to be clear about their individual roles and responsibilities. They need to be aware of the areas of expertise that they bring to the board, but also of the areas that others bring. Importantly, too, independent directors need to understand the roles and responsibilities of executive directors.

The board should evaluate its own performance. Evaluation of the board as a whole and its individual members should be undertaken on a regular basis using individual consultants, and feedback should be used to improve performance. Board evaluation shouldn't just be a box-ticking exercise designed to result in little real change – it should always result in an action plan to improve board effectiveness. ●



Gerry Brown,
author of *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence*

PENALTY POINTS

With senior accounting officers facing record levels of penalties themselves, **Heather Self** outlines what can be done to avoid a costly sanction

The number of personal penalties issued to senior accounting officers (SAOs) for tax accounting failures hit a record high in 2015/16, showing that HMRC is now taking enforcement seriously.

Figures obtained by Pinsent Masons showed a 17% increase in penalties issued under the SAO regime in 2015/16, up to 181 penalties from 151 the year before. So what should SAOs do to avoid a penalty?

THE SAO REGIME

A UK incorporated company must appoint an SAO for a financial year if, either alone or when its results are aggregated with other UK group companies, it has a turnover of more than £200m and/or a balance sheet total of more than £2bn for the preceding financial year.

The SAO is the director or officer of a company who, in the company's reasonable opinion, has overall responsibility for the company's financial accounting arrangements.

An SAO's main duty is to take reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements. This means the

framework of responsibilities, policies, appropriate people and procedures in place for managing the tax compliance risk, and the systems and processes that put this framework into practice. The tax accounting arrangements must allow for the tax liabilities of the company to be calculated accurately in all material respects.

As part of his or her duty, an SAO must monitor the arrangements and identify any respects in which they fall short of the requirement. The SAO must certify in writing to HMRC that the company's tax accounting arrangements were appropriate throughout the relevant financial year or, if they were not, set out why the SAO could not provide an unqualified certificate.

The SAO obligations apply in respect of corporation tax, VAT, PAYE, insurance premium tax, stamp duty land tax, stamp duty reserve tax, petroleum revenue tax, customs duties, excise duties including air passenger duty and bank levy. Note that they do not apply in relation to national insurance contributions or diverted profits tax. This is probably not so significant in practice as tax

£5,000

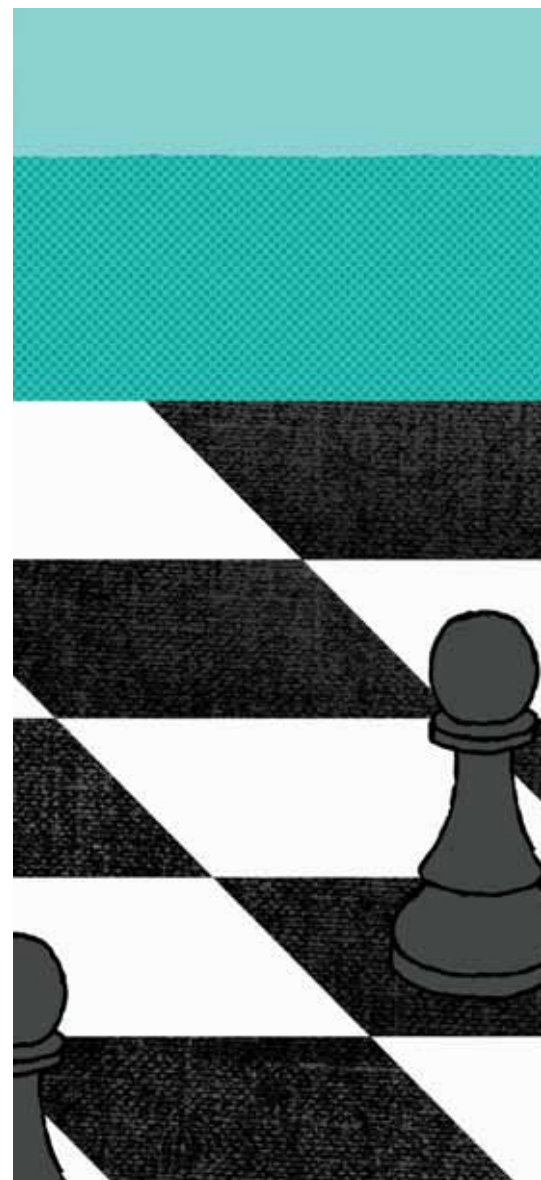
Penalty for a company if it fails to notify the name of its SAO within the required time period

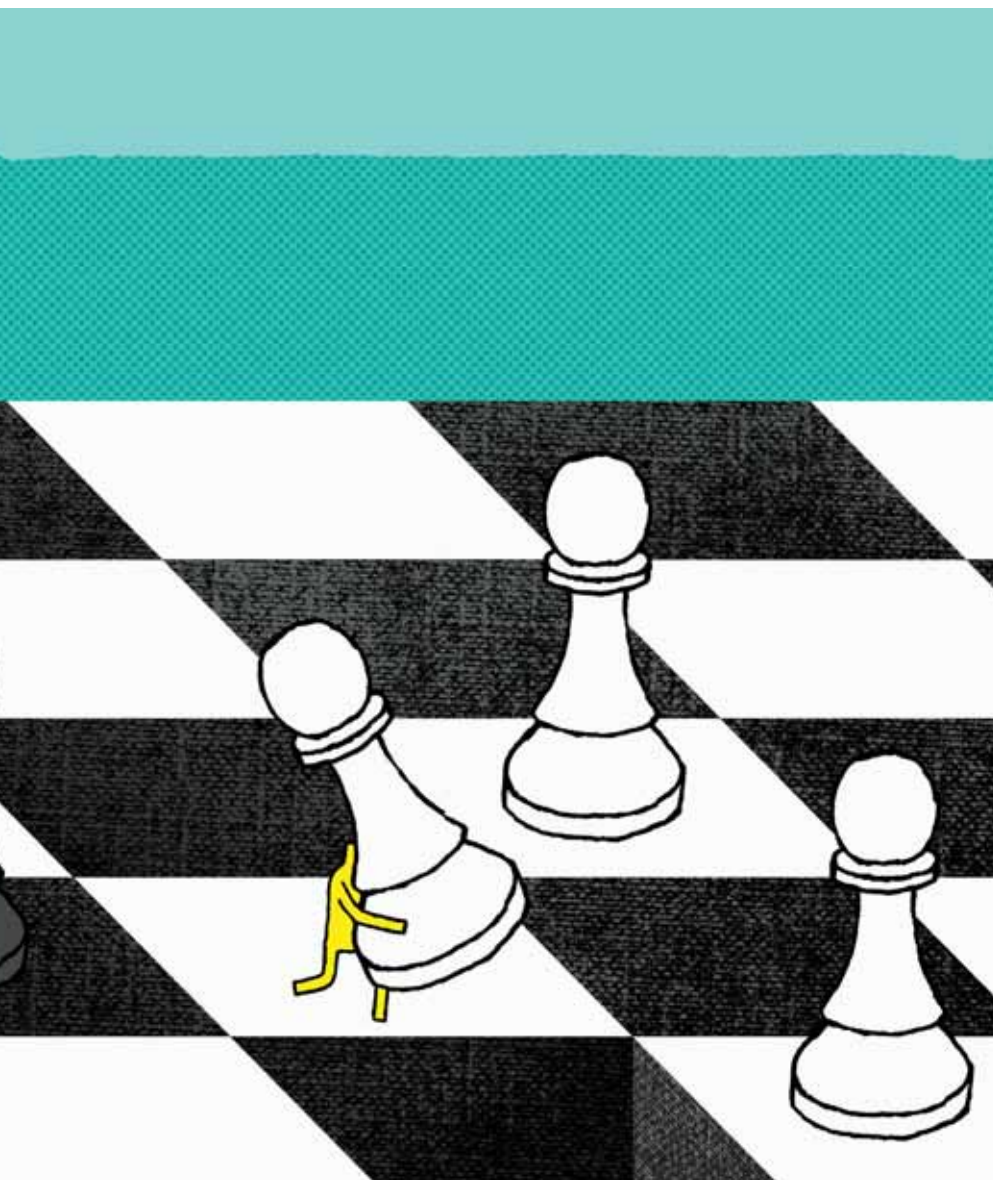
accounting arrangements in respect of PAYE and corporation tax are likely to overlap with what would be required for these taxes.

WHAT ARE THE PENALTIES?

A company within the regime will be subject to a penalty if it fails to notify the name of its SAO within the required timescales. However, a penalty will be chargeable on an SAO personally if they fail to meet their main duty, fail to give HMRC a certificate within the required timescale, or they provide a timely certificate that contains a careless or deliberate inaccuracy. The penalties are a fixed amount of £5,000.

HMRC took a light-touch approach to enforcement when the rules were first introduced in 2009, but the number of penalties issued has sharply increased in recent years, as outlined in my opening sentence. The latest figures demonstrate HMRC's new enthusiasm for holding individual senior executives to account for any wrongdoing or non-compliance.





A UK incorporated company must appoint an SAO if it has a turnover of £200m+ and/or a balance sheet total of more than £2bn for the preceding financial year

(CRM) should reveal whether HMRC has concerns about the company's systems and processes.

The new requirement for large companies to publish their tax strategy will refocus the board's attention on tax compliance and could be a good opportunity to review systems, policies and procedures and ensure that any tax strategy is fully communicated throughout the organisation. These are all actions that will help to demonstrate fulfillment of the requirements of the SAO role.

Large businesses are increasingly becoming expected to take responsibility for the practices of their staff and supply chains. The new criminal offence of failure to prevent facilitation of tax evasion, included in the Criminal Finances Act 2017, will require companies to risk assess whether their staff and other associated persons could be facilitating tax fraud by customers and suppliers. Management needs to ensure that its risk assessment extends to cover staff throughout the organisation - and wider supply chain. New policies, procedures and training required to demonstrate that the company has reasonable prevention procedures in place in respect of the new offence, will all help with SAO compliance. ●

AVOIDING A PENALTY

SAOs need to ensure that they take the process seriously and fully understand the requirements of the role.

The systems in place to ensure tax compliance need to be as robust as possible, and stand up to challenge by HMRC. Without adequate controls, the scope for error in tax accounting is huge - all processes need to be supported by appropriate planning, risk assessment, training and testing to help minimise the potential for mistakes.

The steps an SAO should take include ensuring the maintenance and retention of required records. An SAO should also ensure staff and any third party to whom responsibilities are delegated are appropriately trained, have the necessary guidance, qualifications, knowledge and experience needed to carry out their functions.

Signing the certificate is just one part of the role. Throughout the year, the SAO must perform the main duty of ensuring the maintenance of appropriate tax

accounting arrangements. It is not something that you can merely give attention to at the end of the year.

Setting up systems and processes is not on its own sufficient. In particular, SAOs who have been in the role for a number of years need to ensure that they continue to test systems and check that procedures are being followed. Ensure records are kept so that you can evidence the steps that have been taken.

An SAO should consider areas that are likely to be risk areas for the business, depending on the nature of the company's business, and focus resources in these areas. At the same time it is important to consider taxes other than corporation tax, PAYE and VAT. SDLT is typically a tax that may not be dealt with by the company's tax function, but it is still within the SAO's responsibility so procedures, processes and monitoring may need to go beyond the tax team.

Active engagement with the company's HMRC customer relationship manager



Heather Self,
partner, Pinsent
Masons

THE SCIENCE OF BUSINESS GUESSING

Sometimes it's not possible to get more information, do a proper spreadsheet analysis, or calculate a forecast or estimate – we just have to guess. Matthew Leitch asks what science can teach us about how to guess well

One major insight from the countless studies of decision-making and judgement that are relevant to this question is that we sometimes guess well and sometimes guess badly. We do well in familiar situations without too many factors to consider. In some tasks, just saying the first thing that comes to mind is the right approach. For example, in thinking about what is most likely, the first thing that comes to mind is often what has happened most in the past and so is most likely to happen again.

In other tasks, our limitations are painfully obvious, with logical mistakes and persistent, sometimes large, biases easily demonstrated. We are terrible at combining several factors to reach one estimate or judgement. We are worse when we feel pressure from others to say what they want to hear. Our misjudgements are magnified by uncertainty in unfamiliar situations.

Unfortunately, we are often forced to guess in situations that are far from ideal. Perhaps there is no opportunity to

get more information. Perhaps there isn't time to think carefully and make a model with calculations, or perhaps colleagues won't take any notice or do their best to discourage that kind of analysis.

Even with modelling and data gathering banned, there are some tested techniques that can help. Since many guesses are made in meetings it is especially useful to know how to guess in a group.


WITH OTHER PEOPLE

When we are asked to give a range for an uncertain quantity so that we are 90% sure the truth lies within our range, we tend to give ranges that are too narrow. This is revealed by the fact that the truth lies outside our range much more than 10% of the time. This is often called over-confidence and is a pervasive bias we cannot feel and can rarely counter directly.

Professor Scott Plous compared several techniques for counteracting over-confidence using four related

experiments. The subjects had to answer difficult quiz questions (eg what is the diameter of the moon?) by giving ranges of numbers such that they were 90% sure the correct answer lay within that range. The best technique was to ask each member of a three or four person group to write down their answer individually, without conferring, then take the highest upper limit given by any person in the group, and the lowest lower limit given by any person in the group. This often meant the two numbers did not come from the same person.

With this technique, groups showed minimal over-confidence in their answers and in assessing their own performance before finding out their scores. Their performance was dramatically and consistently better than that of individuals working alone and groups who discussed the questions. This was true even when those groups used a variety of strategies to try to counter over-confidence, such as appointing a devil's advocate or



We are terrible at combining several factors to reach one estimate or judgement. We are worse when we feel pressure from others to say what they want to hear

deliberately considering reasons why their interval estimates might be too narrow. Direct instructions to avoid overly narrow ranges did not work and groups that discussed their answers were little better than single individuals even though they thought they performed much better.

This is a specific example of the more general strategy of getting the views of group members individually, then combining them. Taking the average of the group (as well as the range) can give more accurate averages too.

One potential problem is that someone might suggest a number out loud before others have made their estimates. This could produce a large bias across the group thanks to the well-known anchoring effect, which is also hard to feel and counteract directly. Try to prevent people from mentioning any numbers at all before everyone has written down their personal views. If a number is mentioned too soon you might reduce the impact by immediately suggesting several other numbers,

ranging very widely. Even a number mentioned as a guess is dangerous and in one study numbers selected at random using a spinning wheel in plain view still produced a substantial bias!

ESTIMATING EFFORT

In addition to being over-confident in our estimates of quantities we also tend to take a rosy view of the future, imagining things will turn out better than they really do on average. This combination of biases lies at the heart of the Planning Fallacy that threatens ventures ranging from major international civil engineering projects to estimates we make of the time it will take us to do tasks that last just hours.

One useful observation is that when we are thinking about how long we will take we focus on the steps of our plan and tend to ignore our past track record and other relevant factors. In contrast, when asked to estimate how long someone else will take to do the task we take their track record into account more often and make longer estimates

as a result. So, for a less rosy estimate of how long it will take you to do something, choose someone with no reason to pressure you and ask them to estimate for you.

A more obvious strategy is to break the task down, make guesses for each component, and add them up. Does that work? Research on this is inconclusive and it seems that it sometimes works better than just making an overall estimate and sometimes is worse. Sometimes we find it easier to estimate for the components because they are more familiar, but breaking the task down this way can draw us into the Planning Fallacy, whereas an overall estimate encourages us to think back to previous, similar projects and the range of outcomes.

If nothing else, decomposition probably helps reduce the impact of uncorrelated estimation errors, but consistent underlying bias remains.

Magne Jørgensen, of the Simula Laboratory in Norway, has studied effort

Guessing, however scientific, will not be better than well informed, carefully considered, quantified analysis. However, guessing is needed so often we need to be good at it

estimates in software projects extensively and suggests combining independently made overall and decomposed estimates. Another recommendation is to decompose the project in more than one way and compare estimates made with each.

In practical terms this might involve asking one colleague to make a private estimate overall, ask another to break the project down into time phases and make estimates for each of those, and ask another to perhaps do it by cost category. The average and top-to-bottom range of those might be useful information, even if there's not much detail and a spreadsheet is not used.

MULTIPLE FACTORS

Another troublesome area for human judgement is where many factors have to be taken into account in one evaluation or estimate. For example, the task might be to evaluate candidate employees or suppliers and choose the best, or evaluate sales leads and choose the most promising for urgent action.

We tend to be inconsistent at this and find it tiring. In a classic paper from 1979, Robyn Dawes reviewed the evidence comparing human combination of factors to combination using "linear models" and demonstrated a remarkable conclusion.

A linear model is simply one in which each of the factors in the decision is represented as a number and then those numbers are multiplied by weights and added together. Ideally, the factors should be combined in a way that makes theoretical sense, such as multiplying or combining in some other way, but linear models just feature adding.

Ideally, each factor should be carefully transformed so that it can be treated as having a linear relationship with the result of interest, but the linear models Dawes studied did not have that refinement. Ideally, the weights should be carefully determined so that each factor is given the appropriate importance.

And yet, despite the lack of validity and sophistication in the models used, they still outperformed human judgement on a wide variety of tasks even when the weights were

assigned at random. The provisos here are that the factors should all be scaled to have approximately the same range, and they should all have a "monotonic" relationship with the outcome of interest. That means that for a factor that seems to be a helpful one, more of it should always be better than less.

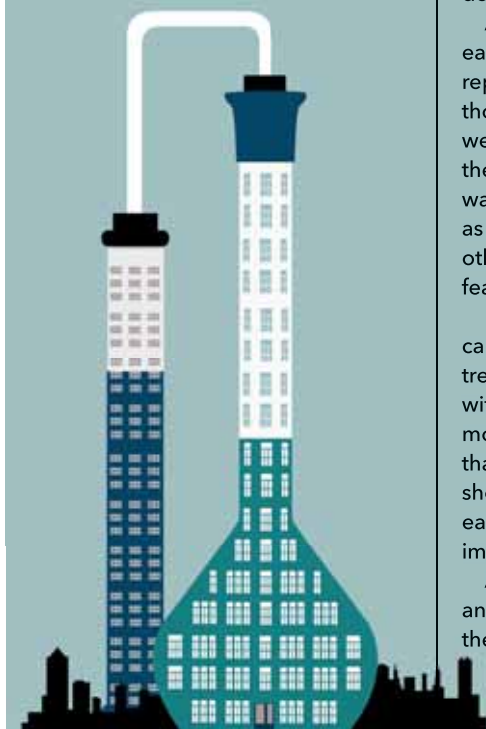
This sort of task usually involves using numbers already available, but in many business evaluations we have a lot of unstructured information and need to reduce it to factors to consider. Quantification may be tricky or unwelcome so a linear model may not be feasible. However, the next best thing is to take a break.

Specifically, having considered the problem as deeply and as broadly as you can, take five to 10 minutes away from the task, resting or doing something else, then come back to it and make your selection quickly based on how you feel. This seems to help people reflect all the factors rather than just the last factor they were thinking about, and that helps with the overall quality of evaluations.

This only helps if there is no overriding factor that allows you to conclude without considering all or most of the factors, and benefits may be more likely when you are not really expert in that particular evaluation. For example, a medical expert working on a complex diagnosis may be better off taking a rest then thinking carefully again rather than just trusting to gut.

CONCLUSIONS

Guessing, however scientific, will not be better than well informed, carefully considered, quantified analysis. However, guessing is needed so often we need to be good at it, and understand how to get the best from ourselves. The discussions that dominate most business meetings are not always the best way to reach conclusions and there are times when it is best to stop talking and have people write down their personal estimates without being influenced by others. Diverse views are valuable, but not if we always push ourselves for consensus, and not unless we elicit them systematically and use them fully. ●



NEAR NOT FAR

When iXBRL tagging company Arkk Solutions brought its operations back from overseas, there was more to gain than anyone could have imagined. Belfast office general manager Lucy Gordon talks through the benefits of being based in the city

When did Arkk Solutions first offshore in India, and how did the opportunity to nearshore come about?

In 2010 Arkk set up an operation in India employing qualified and part-qualified accountants to tag companies' files for conversion to iXBRL. After three years of operating the tagging team in India, we started a review of our business and processes. We saw that bringing the operation closer to home provided an opportunity to improve internal communication, consistency of service and ultimately the quality of delivery to our customers. We phased into Belfast over a six-month period.

Why did you choose Belfast as your location?

Belfast stood out, partially due to the support offered by Invest NI, but also the opportunity to hire quality staff. Belfast has good universities – a high proportion of students are local and remain local after graduation. The Belfast economy is in an upswing; being part of that growth and seeing the city develop into a great place to work and socialise has been fantastic.

Was it easy recruiting the kind of specialist staff you needed?

The universities turn out quality graduates, and we can pick these people up after a few years of professional experience. The background we need is accounting but the tagging is quite unique, so all staff go through a structured eight-week onboarding and training process.

What was the process involved in switching between one location and another - how did the transition work?

It was essentially about knowledge transfer. Luckily the people managing the Indian team were doing that remotely from London, so the knowledge

remained consistent in the business. We hired a group of employees to start on day one in Belfast and took them through a training process while the Indian team continued to operate. We then phased some work into Belfast, controlling the volume until we were confident to switch everything over. Our roots as a technology company made the transition of the IT infrastructure processes relatively straightforward.

What was the client reaction to nearshoring?

Clients enjoy the option of being able to talk directly to the person who has tagged their financial statements should they have any queries about the file. Being in the same country and time zone as the majority of our clients has strengthened our drive to act as a partner to our customers – essentially an extension of their finance team. This has been instrumental in winning new clients and also strengthening bonds with existing customers.

Have there been any additional benefits you didn't anticipate prior to completing the exercise?

There has been new business, particularly an upswing in large blue chip clients. We had probably underestimated the importance that CFOs and tax managers would place on local operations – even the Big Four do some of this work overseas, so you never really get through the layers that sit above the person who tagged your document to get a direct conversation. ●



General manager Lucy Gordon says the move to Belfast has brought Arkk Solutions new business

arkksolutions

For more information about nearshoring iXBRL tagging for your business, visit www.arkksolutions.com/ixbrl



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Audit & Beyond

Previously, ethical and auditing standards incorporated the relatively simple dichotomy of listed entities and other. The new standards require the auditor to distinguish between public interest entities (PIEs), other listed entities, SME listed entities, and none of the above; all of which have different implications for the conduct of the audit and the relationship with the audited client.

CLASSIFYING ENTITIES

Recent changes to Ethical and Auditing standards have introduced different entity classes. **David Isherwood** and **Rupak Vashita** outline their characteristics and key impacts

One of the most confusing aspects of the recent European Union (EU) audit reform is the introduction of different categories of entities. The new standards introduced by the Financial Reporting Council (FRC) National Ethics and Auditing (2016) (new standards and support tool) have been the introduction of different classes of entity. Previously, listed and auditing standards incorporated the relatively simple dichotomy of listed entities and other. The new standards have introduced a number of different categories, between Public Interest Entities (PIEs), Large Entities, SMEs and Small Entities, and some of the above, all of which have different implications for the conduct of the audit and the relationship with the regulated client. This article is an introduction for being familiar with the underlying standards. However, it will help you understand the characteristics of each entity and provide insight into some of the key aspects.

DIFFERENT CLASSES OF AUDITED ENTITY

1 Public Interest Entity (PIE)

This is perhaps the most tightly publicised aspect of the EU audit reform. A PIE is defined as:

- a sector where transnational securities are admitted to trading on an EU regulated market (this includes Pre-emptive and Standard listed entities), but excludes those based on ADRs; credit institutions, which are defined as an undertaking whose business is to take deposits or other repayable funds from the public and to grant loans for its own accounts;
- an insurance undertaking, other than mutual insurers and insurance brokers, namely Solvency II, and;
- any audited entities designated by the member state as a PIE. The UK government has not taken up this option but some other EU member states have.

2 Other listed or an SME listed entity

These are entities that are listed on any EU regulated market (this includes AIM, CSE) and where the public or the company can trade in shares, stock or debt.

3 SME listed entity

An SME listed entity is essentially a subset of other listed entity, where they also have the following attributes:

4 Large Entity

Large entities are defined as those entities that are not SMEs and are not PIEs. Large entities are defined as those entities that are not SMEs and are not PIEs. Large entities are defined as those entities that are not SMEs and are not PIEs.

5 Small Entity

Small entities are defined as those entities that are not SMEs and are not PIEs. Small entities are defined as those entities that are not SMEs and are not PIEs.

6 Micro Entity

Micro entities are defined as those entities that are not SMEs and are not PIEs. Micro entities are defined as those entities that are not SMEs and are not PIEs.

7 Very Small Entity

Very small entities are defined as those entities that are not SMEs and are not PIEs. Very small entities are defined as those entities that are not SMEs and are not PIEs.

8 Non-Entity

Non-entities are defined as those entities that are not SMEs and are not PIEs. Non-entities are defined as those entities that are not SMEs and are not PIEs.

9 Other Entity

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10 Unaudited Entity

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The FRC has noted that for an entity with a non-EU Regulated Market listing to claim that it does not meet the listed definition, the audit firm would need to obtain evidence from the client that the listed shares, stock or debt cannot be traded by members of the public.

These changes are very important as they fundamentally affect significant aspects regarding the conduct of your audits and the relationships with your audit clients. It is therefore critical that you and your audit teams appreciate these different categories of audit entities and the impact that they have. Visit the Audit & Assurance Faculty page at icaew.com/aaf

Despite the €2.2bn acquisition of Vauxhall-Opel by French carmaker PSA this year, the moves of chipmaker Intel might tell us more about the auto industry. Last year Intel made relatively small acquisitions. Then it paid \$15bn in March 2017 for Israel's Mobileye, the driverless car leader.

“The key automotive trend causing deals to happen is the technology piece,” says Cara Haffey, UK industrial manufacturing leader at PwC. “It’s difficult to gain entry to, so now we are seeing people using M&A to buy into the supply chain.” But it may still be too early to decide where to invest capital because it is not yet clear how consumers will adapt to matters like autonomous driving. For more from the Corporate Finance Faculty, visit icaew.com/cff

Despite successive attempts from governments to address the UK's productivity crisis, figures from BDO show that, far from being resolved, the issue is actually deepening.

Poor productivity is a direct fallout from 2008's financial crisis. The UK is a low investment economy with an education system that doesn't always deliver the goods.

Technical education has not improved and there must be doubt as to whether this nettle is really being grasped. As for investment, the government should have the courage to borrow more to invest in infrastructure. Only with concerted efforts and bold investment decisions can the policy puzzle be solved in the coming years. For more from the Financial Services Faculty, visit icaew.com/fsf

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TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

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SHORT-TERM BUSINESS VISITORS (STBV) - REPORTING TO HMRC

Employers must operate PAYE on all employees unless certain conditions apply so that the PAYE rules can be relaxed. This is the case with short-term business visitors (STBV). To apply, the arrangement allowing PAYE to be disregarded for STBV certain conditions must be met.

One set of conditions is that the individual is resident in a country with which the UK has a double taxation agreement under which the Dependent Personal Services/Income from Employment Article (Article 15 or the equivalent) is likely to be competent; and is coming to work in the UK for a UK company or the UK branch of an overseas company. The other set of conditions is that the individual is

legally employed by a UK-resident employer, but economically employed by a separate non-resident entity; and expected to stay in the UK for 183 days or less in any 12-month period.

Provided it can be shown that these conditions are met for specifically named employees whose presence in the UK is 60 days or more, the UK company or branch will not in fact ultimately bear the remuneration specified.

For those whose presence in the UK is 59 days or less, it is only necessary to show that the employees were paid via a non-resident employer's payroll.

HMRC has highlighted that in some instances its team dealing with STBV reports has been receiving duplicate reports via multiple methods, which causes problems. There is also the potential for the STBV reports to be actioned more than once.

HMRC asks for STBV reports and supporting documentation to be sent either by the postal system or the shared workspace – not both. Sending the reports by post is the preferred method. The address to send the reports to is: HMRC, Charities, Savings & International 3, BX9 1AJ.

Reports that include visitors to the UK for less than 30 days, and who are covered by the 60-day rule, will not receive an acknowledgement.

WHICH TYPES OF BUSINESS ARE GOING TO HAVE THE MOST DIFFICULTY WITH MAKING TAX DIGITAL?

During and since the consultation period on Making Tax Digital (MTD), there has been discussion about the different sectors and types of business that will have particular difficulty with their MTD obligations. As the pilot has now started it would seem to be a good time to reflect again on this question with a view to providing further feedback to HMRC.

The following are some cases that have been mentioned by members.

Agriculture

- poor availability of broadband;
- complexity caused by diversification of the business;
- stock valuation; and
- averaging and other special tax and accounting rules.

Non-resident landlords

- communicating the new MTD obligations to this group, especially those that are unrepresented;
- many have no tax liability due to the availability of the personal allowance; and
- they may experience particular difficulty in obtaining data from letting agents in time to meet the deadlines for the quarterly updates.

Medical practitioners

- medical consultants operating clinics in several locations, with record keeping maintained separately at each location, often using different systems; and
- difficulty in obtaining information from the NHS, particularly in relation to pensions.

Construction workers

It had been hoped that HMRC would use reports submitted by construction industry scheme (CIS) contractors to pre-populate the digital tax accounts of sub-contractors. The sub-contractors would then have needed only to add in any non-CIS income (and many have none) and expenses. However, HMRC

has indicated that it does not intend to introduce this functionality, at least not by April 2018.

Universal credit (UC) claimants

It would seem sensible for the income calculation rules for UC and tax to be aligned and for the monthly reports to the DWP to be used to populate the digital tax accounts of UC claimants, so avoiding the need for these individuals to also provide an update to HMRC. Unfortunately, there seems to be little or no progress in this area.

VAT schemes

We understand that current software products do not cover all of the existing VAT schemes. The solution is usually manipulation of the data in a spreadsheet before entering it into the online VAT return. This is not likely to be an option when MTD is introduced for VAT.

LATEST ROUND OF SELF ASSESSMENT TAX RETURNS MEANS NEW OPPORTUNITY FOR CRIMINALS

We have heard that there have been attempts to file 2017 tax returns claiming fraudulent repayments and we are reminding our readers of the danger and to remain vigilant.

Every year we hear reports of fraud involving repayment claims that are submitted to HMRC online using valid log in details and passwords, requesting payment to third-party bank accounts.

To reduce the risk of fraud when using HMRC Online Services:

- change your password regularly – at least once every three months;
- report any suspicious account activity to the Online Services Helpdesk;
- do not let people use your login details – if other people need access you can set up administrators and assistants;
- keep your list of administrators and assistants up to date;
- keep login details secure, don't share them with anyone – HMRC will never ask for your password;
- keep computers secure – personal computers used for work must have the same security controls as office computers; and
- access your client details using your own registration – don't use your clients' login details.

Do change your password if HMRC tells you to, which might be at any time.

FINANCIAL REPORTING



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

FRS 102 - DIRECTORS' LOANS

The Financial Reporting Council (FRC) has issued an amendment to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* to provide optional relief for small entities in respect of loans from director-shareholders. The amendment permits a small entity to measure a loan from a director who is a shareholder in the small entity at the transaction price, namely the face value of the loan. The exemption also covers loans from a close family member of the director but the director must be a natural person and the loan must qualify as basic. FRS 102 currently requires such loans to be initially measured at present value, with the discount rate being a market rate for a similar debt instrument.

A similar amendment has been proposed in FRED 67 *Draft amendments to FRS 102 - Triennial review 2017 - Incremental improvements and clarifications* (see May 2017's *Technical update*). Informal stakeholder outreach has indicated strong support for the proposal. However, the proposals in FRED 67 are not expected to be finalised until December 2017 which would be too late for the first FRS 102 financial statements of small entities reporting as at 31 December 2016 or soon after.

Therefore, the amendment in respect of directors' loans represents an interim measure. It is effective immediately with retrospective application available but will be replaced by permanent requirements based on the proposals in FRED 67 after considering the outcome of the consultation process.

For more details on this, see tinyurl.com/BM-FRS102-Loans

The Financial Reporting Faculty (FRF) has published a series of FAQs on loans from directors and other related topics, which can be found at icaew.com/newukgaap

FUTURE DIGITAL REPORTING

The FRC's Financial Reporting Lab (the Lab) has published a report that sets out a framework for future digital reporting. This is the first in a series of reports on the Lab's Digital Future project. The report expresses the views of a wide range of preparers, investors and others on the characteristics that they would like to see in any future (digitally enabled) system of corporate reporting.

The framework consists of twelve characteristics (grouped under three headings) that the Lab considers fundamental to any system of future digital reporting.

- Production – cost efficient; easy to produce; timely; and compatible
- Distribution – free; prompt; compliant; and accessible
- Consumption – contextual; usable; credible; and engaging.

In the next phase of the project, the Lab will assess the extent to which technologies, such as virtual reality, augmented reality, blockchain, XBRL, video, and other digital media fit the framework.

For more details on this, see tinyurl.com/BM-LabDigReps

IFRS 9 - PROPOSED MINOR AMENDMENT

The IASB has issued proposed minor amendments to IFRS 9 *Financial Instruments* to enable companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation.

The amendments respond to comments received by the IFRS Interpretations Committee and are intended to improve the usefulness of information about these financial assets that the new Standard requires.

Comments were due by 24 May. See tinyurl.com/BM-IFRS9-amends

THE UK FINANCIAL REPORTING REGIME

The FRF has published a new set of FAQs that provide a brief overview of the financial reporting regime, looking at the requirements and options for different types of UK entities.

The FAQs are free to download at tinyurl.com/FRF-UKFRR-FAQs

EMPLOYMENT LAW



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

DISCRIMINATION CASE EXAMINES PSYCHOMETRIC TESTS

Businesses may wish to review their hiring procedures in light of a recent tribunal case around the use of psychometric testing.

The Employment Appeals Tribunal found in favour of the complainant in *Government Legal Service v Brookes*, where the applicant for a job had been required to sit a multiple choice situational judgement test.

The applicant, who has Asperger syndrome, had requested adjustments prior to entering the test, but an alternative format was not available.

The tribunal found that the requirement to take and pass this type of test put people in the position of the applicant at a disadvantage to those without Asperger syndrome. This meant that the claim of indirect discrimination could be supported.

It was acknowledged that although the Government Legal Service needed to test applicant competency, such a test was not the sole method by which to do so.

See tinyurl.com/BM-GLSvBrookes

BUSINESSES HIRING WORKERS WHO ARE ON CALL AT NIGHT OR SLEEPING

In a recent case where it was asked whether workers are entitled to the national minimum wage if they are at work but sleeping or on call, the judges could not come to a yes or no conclusion.

Upon hearing three cases, they concluded that the approach must be multifactorial. This means considering the facts of individual cases.

Paragraph 44 of the judgement gives a list of four factors that were considered key to making a determination. They include "the employer's particular purpose in engaging the worker", "the extent to which the worker's activities are restricted by the requirement to be present and at the disposal of the employer", "the degree of responsibility undertaken by the worker" or "the

immediacy of the requirement to provide services if something untoward occurs or an emergency arises".

See tinyurl.com/BM-NightTribunal

COMPANY ACCOUNTANT WINS AGE DISCRIMINATION CLAIM

A man who claimed he was unfairly dismissed by a company that wanted him to take retirement against his wishes has won a £182,000 payout.

The former Rock Oil company accountant was with the organisation for 16 years, and was let go at age 67 when the company dismissed him over what it claimed were conduct issues. However, he said it had hired a replacement for him, and requested the return of a company car while he was on sick leave.

The man also argued the company didn't follow the advice given in two medical reports issued to help him back into his role after taking the sick leave for work-related stress, and did not provide him with information he requested to refute their conduct claim.

The tribunal concluded that the allegations wouldn't have been made "against a hypothetical company accountant who had not reached retirement age". The payout included compensation for loss of earnings and bonuses, injury to feelings and a 12.5% uplift because Rock Oil did not follow the Acas code for disciplinary procedures.

EU HEARING SHINES SPOTLIGHT ON LONDON WORKFORCE

The mayor of London's Brexit adviser has stated employers could be "struggling to identify their non-UK workforce".

Julia Onslow-Cole, who is also head of global immigration and legal markets at consultancy firm PwC, said Brexit had forced organisations to ask for the first time the nationality of their workers.

Onslow-Cole was speaking at a European Parliament hearing, one of a series lined up to discuss citizens' rights in relation to Brexit. She referred to a PwC and London First study that identified 55% of London's EU workers from the 15 pre-2004 expansion countries worked in professional roles and in management positions.

Guy Verhofstadt, the European parliament chief negotiator, believes sorting out the rights of citizens should be the priority for the winning party after the UK general election. ●

ON A LIGHTER NOTE



BOEING TO LAUNCH NEW SPACE VENTURE

Boeing has won the tender for the design and manufacture of an unmanned, reusable space plane, commissioned by America's Defence Advanced Research Projects Agency. The Experimental Spaceplane XS-1 allows satellite launches to low-Earth orbit in days rather than the months or years currently necessary to get a single satellite into orbit. Its recurring costs could be as low as \$5m a launch. That's compared to the cheapest low-Earth orbit launches, which are currently provided by Elon Musk's SpaceX at \$60m.



\$5m

Relaunch cost of proposed Boeing space plane

NOT-SO SOCIAL MEDIA

Researchers from the Royal Society for Public Health published a report last month on the effects of social media on young people's wellbeing. The report, based on a survey of 1,500 UK residents aged 14-24, ranked social media platforms in terms of 14 categories including loneliness, real-world relationships, body image, bullying and self-identity. The net score, taking both positive and negative marks into account, concluded the following ranking of the five most popular platforms:



1. Youtube (most positive)



2. Twitter



3. Facebook



4. Snapchat



5. Instagram (most negative)

ARE YOU LISTENING?

Researchers at Braunschweig University of Technology in Germany have found that more than 230 apps on Google's Android can track users through the use of ultrasonic audio without the user being aware. The ultrasonic tracking beacons, picked up by the smartphone's microphone, create intimate profiles of people and their habits. Google confirmed that the apps discovered have all either been suspended or updated to meet the company's privacy policies. Android app users may care to refresh their apps so that the full terms and conditions can be known.



230

Number of apps listening in on Android users

A DIFFERENT KIND OF COCKTAIL

Opposition to the Socialist government of president Nicolas Maduro in Venezuela has seen daily rioting of hundreds of thousands on the streets demanding new elections. Inflation has hit 453%, according to Torino Bank, although some consultants put it at 525%.

Protestors have now turned to a novel weapon to defend themselves against tear gas fired at them by the military, dubbed

the 'Poopootov', a play on the now scarce Molotov cocktails which used to be seen at street protests in Venezuela.

"The kids go out with just stones - that's their weapon. Now we have another weapon: excrement," said a 51-year-old dentist preparing containers for protesters to throw at authorities. "One of my patients is collecting excrement from her child," the dentist told Reuters.



1958

Start of four-year aerial nuclear test period

NUCLEAR BOMB TESTING TROUBLES

Declassified documents on nuclear bomb testing have allowed researchers from Nasa to begin to understand how much damage the testing has caused. The aerial tests conducted between 1958 and 1962 created auroras in the South Pacific ocean, caused surges in power grids and generated sudden geomagnetic storms across the globe from Sweden to Arizona, as well as releasing massive quantities of airborne radioactive particles. Phil Erickson, assistant director at MIT's Haystack Observatory in Westford, Massachusetts, commented that the tests conducted were "an extreme example of some of the space weather effects frequently caused by the sun".



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

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

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

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