

INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

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**JEAN-CLAUDE TRICHET MICHAEL IZZA STEPHEN HERRING JULIE ADAMS
HELEN COSTIGANE CHRIS MORGAN RAGVEER BRAR MICHAEL ZAMPELAS**



THE OLD MASTER

**SIR DAVID LEES, CHAIRMAN OF THE COURT OF THE BANK
OF ENGLAND, ON MAKING THE OLD LADY MORE CORPORATE**

TAX AVOIDANCE | QUARTERLY REPORTING | CHINESE IMPERIALISM | SOCIAL MEDIA



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[†]Model shown is Exeo SE Tech 2.0 TDI CR Ecomotive 143PS ROTR £22,660, with optional bi-xenon headlights and 'phantom black' metallic paint, which are available at extra cost.

economia

The future of audit is in the hands of the profession

The last few years have been tricky for the audit profession. Questions have been raised about what purpose an audit serves, if it is not to warn businesses and investors of potential financial pitfalls in the road ahead.

After every financial or management scandal, the finger of blame (and sometimes the long arm of the law) extends towards the accountancy profession. Some of this is justified and auditors must carry some culpability. ICAEW has been working closely with policymakers to address issues arising from the crisis and has taken a lead in ensuring there is a constructive legacy, for example with its *Audit of Banks: Lessons from the Crisis* initiative.

Some of the negative comment only serves to highlight the lack of understanding about the purpose of audit. This perception gap will only be bridged with clear and concise information on what audit is for. The website trueandfair.org.uk is a good way to start.

Other attacks have been purely political. European Commissioner Michel Barnier wasted no time in ordering a review of audit

markets, while making his quip about auditors being “watchdogs that didn’t bark”. Still more alarming was his suggestion the entire Anglo-Saxon model is broken.

Five years on from the first rumblings at the world’s central banks that something was about to go wrong, and four years after the near collapse of our financial system, it seems a good time for the audit profession to ask itself tough questions. While looking back on past events is important (and this is the world of audit, after all), what went wrong in 2008 is less interesting than what lies ahead and how we shape a model for audit and assurance that does what all parties need it to do.

This is why the ICAEW’s AuditFutures initiative is welcome. It may sound unlikely after a period in which, to paraphrase Warren Buffett, financial innovations of mass destruction caused such devastation, but we need innovative solutions to improve how we assess organisations. AuditFutures has only just begun, but with the right support and a fair wind, it has the potential to deliver powerful lessons for the future.

WE CAN BUILD OUR WAY TO RECOVERY

The launch issue of *economia* featured a 10-point plan for growth that called for more aggressive action to kickstart the UK’s stalling economy. Since then the situation has worsened, with the UK falling back into recession. The situation is the same across Europe and is clearly in part fuelled by the uncertainty caused by the eurozone crisis.

At last there are signs that the government has recognised that plan A isn’t

working. Sticking rigidly to deficit reduction and banking purely on monetary policy hasn’t worked, not least because the monetary policy levers are virtually powerless in a stagnant economy, with zero growth and close-to-zero interest rates. It is also about time we recognised that as much as they are a sign of bond market approval for austerity, record low interest rates are also a sign of stagnation.

While the government is unlikely to accept it has gone too far and too fast with its cuts, there are signs it is prepared to admit that now is the time to get diggers digging and get houses built. One estimate has it that 100,000 new homes are worth 1% of GDP. In short, whatever can be done to promote and boost the construction industry should be done. There is no better foundation for economic growth.

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CT 200h prices start from £23,786 OTR. Model shown CT 200h SE-I costing £24,296 including optional metallic paint at £510. Price correct at time of going to print and includes VAT, delivery, number plates, full tank of fuel, one year's road fund licence and £55 first registration fee. †BIK company car tax calculated for a 40% taxpayer.



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CT 200h fuel consumption and CO₂ figures: urban 68.9 mpg (4.1 l/100km), extra-urban 70.6 mpg (4.0 l/100km), combined 68.9 mpg (4.1 l/100km). CO₂ emissions combined 94 g/km.

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*Business users only. Based on a 36 month Jaguar Contract Hire agreement on the model shown, standard specification, metallic paint, a mileage of 10,000 miles per annum (30,000 miles in total), non-maintained. Initial payment in advance of 3 months rentals + VAT followed by 35 monthly rentals at rental shown + VAT. May be subject to further charges depending on the condition/mileage when vehicle returned. Finance subject to status. Guarantees/indemnities may be required. This promotion cannot be used together with other manufacturer's promotions and is subject to availability at participating dealers only for new vehicles ordered by 30th September 2012, or while stocks last. Certain categories of business user may be excluded. Jaguar Contract Hire is provided by Lex AutoLease, trading as Jaguar Contract Hire, Heathside Park, Heathside Park Road, Stockport SK3 0RB. Written quotations are available on request. All details are correct at time of publication and are subject to change without notice.

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ICAEW in this issue

Some of the expert opinions you'll find in *economia* this month



"Overall, the Chinese approach is to go where western nations haven't been focusing because of their own domestic issues. China is also more in tune with the aspirations of many developing nations"

P34 James Lee, ICAEW regional director for Greater China, on how China is extending its financial reach



"Quarterly releases mean that some companies are in almost continuous reporting mode. That can put a lot of pressure on the finance functions of businesses and even impair the reliability of reports"

P46 Dr Nigel Sleight-Johnson, head of ICAEW's Financial Reporting Faculty, on quarterly reporting

"Tax is clearly a cost to business but it be can't be treated in the same way as any other expenditure"

P48 Ian Young, international tax manager at ICAEW, on the thorny subject of tax planning

"One striking thing that happened at Rio was Peter Bakker, president of the World Business Council for Sustainable Development, saying at the Business for the Environment event that it was the accountants who will save the planet"

P63 Richard Spencer, ICAEW head of sustainability, is encouraged by the profile of accountants at the Rio +20 summit



Bill Clinton addresses the Earth Summit in 1992

ELSEWHERE IN THIS ISSUE...

P20 Michael Izza, ICAEW CEO, prepares for the Audit Quality Forum in Cyprus, and (on p26) explains ICAEW's AuditFutures initiative

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P76 John Boulton, corporate reporting manager at ICAEW's Financial Reporting Faculty, comments on the issues surrounding residential management companies

P79 Frank Haskew, head of ICAEW's Tax Faculty, comments on employee share ownership schemes

P80 Graham Ward, chairman of judges at ICAEW's Charities Online Financial Reporting Awards, explains how technology and transparency can help charities raise funds

ON THE ECONOMIA WEBSITE



- ICAEW signs deal with Indonesian Institute
- Tax Faculty issues helpsheet on identifying aggressive tax schemes
- HMRC to invest £34m in improving telephone service
- The Cebr analyses the balance sheet for London 2012

Has your business insurance policy got holes in it?


Insurance policies have been refined and tested over centuries to be very precise about what's covered and what isn't.

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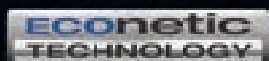
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Go Further

Official fuel consumption figures in mpg (l/100km) for the Focus EOnetic 1.6 Duratorq TDCi range: urban 65.7-72.4 (4.3-3.9), extra urban 83.1-91.1 (3.4-3.1), combined 76.4-83.1 (3.7-3.4). Official CO₂ emission 99-88g/km.

All figures based on 2012-13 tax year. *Benefit in kind rate for the Focus EOnetic 1.6 TDCi range is currently 13% versus 16% for the Focus 1.6 TDCi range.

**VED for the Focus EOnetic 1.6 TDCi range is currently £0 for the first year and every subsequent year.

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Total average
 Net Circulation
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In review

The stories that matter most from the month just gone



"There seem to be more Bob Diamonds than Warren Buffetts"

Author **Mark Haddon** says he should be paying more tax, when austerity measures are causing suffering to many people but not to the wealthy



Olympic legacy

In a musical farewell to the world, London's Olympic flame went out with only a few evading the feelgood factor. As London mayor Boris Johnson handed the Olympic flag to Rio's mayor Eduardo Paes, the talk turned to legacy. Will the Olympics bring home business worth £13bn, as David Cameron claimed, offsetting the £9bn they cost? Will the government invest more in sport? What will happen to the main stadium, the subject of a fraught bidding process, legal challenges and deadline extensions? Lots to ponder and one thing to forget: Johnson dad-dancing to the Spice Girls.



■ The fifth anniversary of the credit crisis – “the day the world changed” – was pretty cheerless. Asian markets floundered ahead of news of a slowdown in China's growth while India reported lower

output for the third time in four months. Investors remain worried about Europe's debt crisis. Greek unemployment is soaring. “After five years, we are in a worse place than when we started,” said Jamil Baz, chief investment strategist at hedge fund GLG.

■ Standard Chartered also found itself in a bad place. Chief executive Peter Sands flew to New York for talks with the Department of Financial Services, which accused Standard of “scheming” to

hide \$250bn of transactions with Iran. Sands argued the breaches were mistakes and only worth \$14m, but settled for a hefty fine. After a bumpy week, shares in the bank eventually stabilised.



■ Over at Barclays, a new chairman was announced. City establishment figure Sir David Walker (above) replaced Marcus Agius, who resigned following the £290m Libor fine. Walker's work at the Treasury and the Bank of England before becoming a regulator means he is seen as a safe pair of hands to lead the search for a Bob Diamond replacement. He's also hinted at an end to free banking.

■ And the US is unlikely to adopt IFRS until after the US presidential elections at the earliest, according to AICPA chairman Gregory Anton, and more likely in five or six years' time. AICPA supports giving US companies the option to use IFRS, and one set of high-quality standards. But the US Securities and Exchange Commission announced that its final staff report on its IFRS workplan will not contain any recommendation on a move from US GAAP accounting to international reporting rules.

REUTERS, AP

GADGET
OF THE MONTHToshiba
Portégé Z930

The month in numbers

£264,143,753 total UK Sport funding for the London 2012 Olympics compared with £235,103,000 spent on sport funding for the Beijing Games

\$50m the amount Michael Phelps and Usain Bolt could earn a year from endorsements

£5.5bn the amount FirstGroup says it will pay back to the government in premiums over the life of the franchise it won off Virgin

11% the amount by which annual train fares could rise next year under the current system

£300 the amount Blur was paid for the band's performance as part of the Mayor of London's Olympic closing ceremony celebrations

0.3%

The percentage by which Japan's economy grew between April and June

4,000

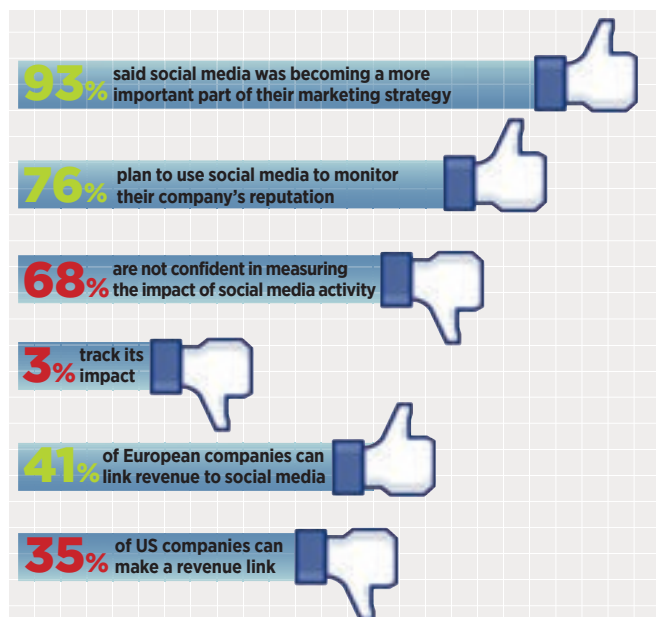
The number of jobs Google is cutting from its Motorola business

116,000

The number of people who left the UK via Heathrow on "Getaway Monday"

Corporates go social

Business intelligence company Useful Social Media's second annual *State of Corporate Social Media* briefing throws up some interesting facts about good and bad practice. USM questioned more than 650 corporate practioners.



"We know how vital it is to build a numerate population – and how the UK is currently failing"

Chris Humphries, chair of National Numeracy, says Michael Gove (above) is wrong with his maths curriculum reforms

Still carry that old heavy-duty canvas laptop bag? Thought not. The rush to lightweight technological widgets – smartphones and touchscreen tablets – has probably caused a downturn in chiropractor profits, too. But where there's less pain there's less gain, especially when tapping out screeds of text on touchscreen keys.

Hence a place in the market for the ultrabook – a traditional-looking, yet dainty, laptop with all the computing power you could desire, three-wayed with portability and utilitarian convenience. And the newest slim-Jim on the market is the Portégé Z930. At 1.2kg it weighs a shade more than a bag of sugar and with rapid start technology runs just as sweet, to boot. It is powered by the "latest generation" of ultrabook processors, and comes equipped with advanced Intel security (think of a fingerprint scanner) and some nifty remote management features.

Apple snobs might joke that the Z930's 8.3mm-thick dimensions and sturdy magnesium alloy frame would make it a good skimmer, but the PC purist probably knows better. And has the backbone to say so.



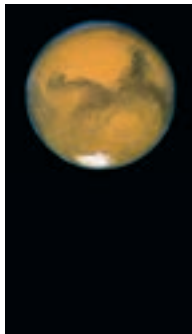
Good news bad news

▲ Billionaire investor **George Soros**, who celebrated his 82nd birthday and announced his engagement to yoga website boss **Tamiko Bolton**, 40, on the same day.



▲ **British manufacturing**, as British companies told the Engineering Employers' Federation that they have brought production operations back to local shores amid views that the UK is economically (and physically) the safest place to conduct business.

▲ Nasa, after its **Curiosity rover** successfully landed on Mars, then beamed back pictures from the Red Planet. It will soon drive over the planet's rocky terrain.



▲ **Paul Ryan**, keep-fit fanatic, heavy metal fan and Mitt Romney's running mate. The intellectual giant wants to see changes to social security, federal spending and tax cuts for the wealthy.

▼ **The Bank of England**, as outgoing rate setter Adam Posen says the Bank should drop its "anguished religious ethics" over how to stimulate the economy, and former MPC member Danny Blanchflower says it has "no clue" about where the economy is going.



▼ **The Coalition government**, as five out of six voters polled believe it will not survive until the 2015 General Election.

▲ **Jessica Ennis**, and other sporting Brits who will benefit from David Cameron's pledge of at least £125m per year of funding for the rest of this decade to help future Olympic gold rushes.



▼ **Jessica Harper**, Lloyds Banking Group's former head of fraud and security for digital banking, who pleaded guilty to defrauding the bank of £2.5m through fake invoicing.



▼ **Manchester United**, which made a flat stock market debut. The club sold 16.7 million shares at a price of \$14 (£8.93), below the expected range of \$16 to \$20.



▼ **Google**, which paid just £6m to the Exchequer on UK profits of £395m. John Mann of the Treasury Select Committee said it was "improper and immoral" and wants MPs to grill it over its tax affairs.

AP, REUTERS, CORBIS, GETTY

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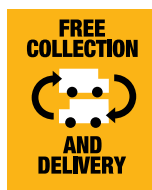
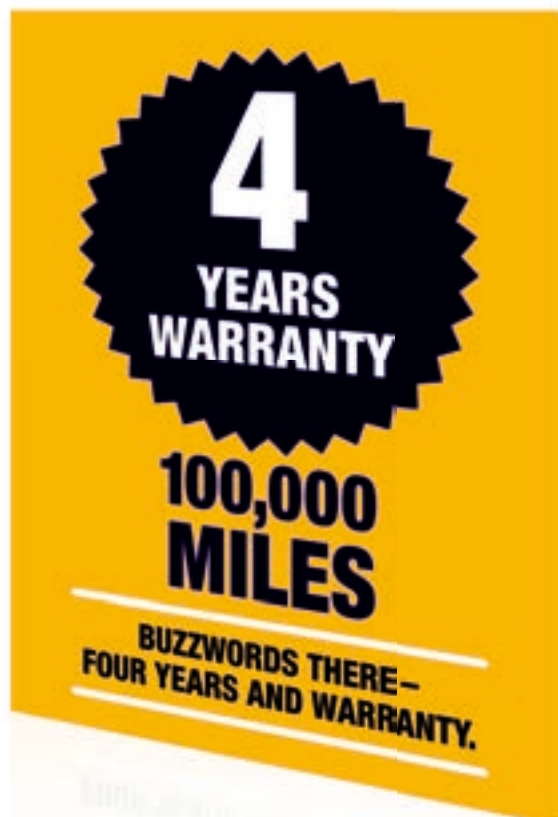
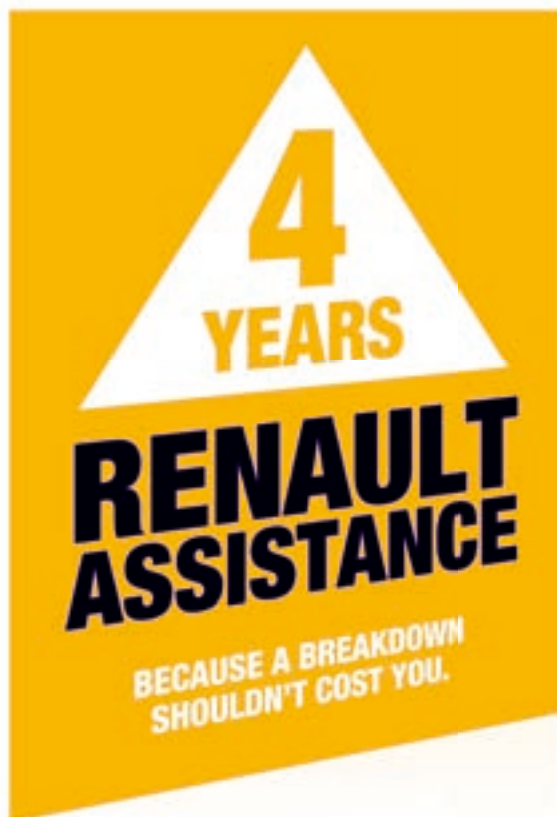
Official fuel consumption for the Volvo Business Edition range in mpg (l/100km): Urban 28.5 (9.9) – 57.7 (4.9), Extra Urban 47.9 (5.9) – 72.4 (3.9), Combined 38.2 (7.4) – 65.7 (4.3). CO₂ Emissions 171 – 114g/km.

COMPANY CAR DRIVER INFO: Benefit In Kind rate for the 2012/2013 tax year on the Volvo Business Edition range from 16% to 26%. By way of example company car tax payable being £55.17 to £125.69 per month for a 20% taxpayer and £110.35 to £251.38 per month for a 40% taxpayer. Monthly amounts are a guide only. Final car tax payable may be lower or higher and will depend on other factors including final list price of car with accessories and options and any employee capital contributions or payments made towards private use. Excludes private fuel. Advice should be taken.

*S60 T3 Manual Business Edition.

Image shows Volvo S60 with optional metallic paint, BLIS (Blind Spot Information System), Winter Pack and Accessory Front Skid Plate.

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Talking point

Will Financial Services Bill reforms help prevent another crisis?

Chris Leslie MP

Five years on from the start of the global credit crunch, you might have thought news of banking reform would have subsided. Sadly, the questions of depositor safety and taxpayer protection have been compounded by an anti-corruption agenda ranging from Libor to tighter money laundering prevention. The Financial Services Bill currently in its finishing stages in parliament falls short of the reforms needed – which is why we are now back at the beginning with the parliamentary inquiry ahead of a Banking Reform Bill in 2013.

Labour agrees with the move towards enhanced prudential oversight, the concept supposedly at the heart of the Bill. Unfortunately, the propensity of ministers in this government to make policy on the hoof is evident in their failure to consider how these convoluted new regulatory structures will make this concept a reality. The government refused to accept a single amendment in the Commons and allotted insufficient time for thorough debate. They then had to U-turn on some key issues on which we had pressed them months ago, for example, the need for the new financial policy committee (FPC) to mirror the monetary policy committee (MPC) and have regard to wider economic and growth objectives.

There are flaws in this new architecture; the grey area between the governor of the Bank of England and the chancellor when it comes to decision-making in a crisis; the membership of the FPC not reflecting the real economy and the accountability deficit between the Bank and parliament.

This Bill fails to think ahead about the safeguards we need for consumers and the taxpayer. In particular, the new regulatory arrangements fail to take account of the European supervisory system which will overrule UK decisions and ought to be shaped more effectively by UK policymakers. Even Andrew Tyrie, the respected chairman of the Treasury Select Committee, has described this Bill as “defective in a number of respects”. There are major doubts about the ability of the new system to cope with, or even prevent, another crisis.



Chris Leslie MP
Shadow financial
secretary
HM Treasury



Lord Sassoon
Commercial secretary
HM Treasury

Lord Sassoon

The effect of the financial crisis, which started in 2007 and is still being felt globally, remains one of the biggest issues this government has to tackle. But as well as dealing with the fall-out from the last crisis, we need to reform our financial services regulation to anticipate and address future risks to financial stability before they become crises.

The 2007 financial crisis wasn't a direct result of a failure of the UK financial services regulatory regime. However, flaws in the regulatory structure contributed to the severity of the consequences for the UK's financial system in three ways.

First, no single institution had the responsibility or tools to monitor the system as a whole, identify potentially destabilising trends, and respond to them. This meant the risks posed by imbalances such as unsustainable levels of debt were not identified or addressed. Second, the FSA's approach to micro-prudential regulation relied too much on “tick-box” compliance with detailed rules at the expense of proper risk analysis. And third, the lack of clarity and co-ordination between the Bank, the FSA and the Treasury meant the authorities struggled to act decisively in the run-up to the financial crisis.

The new system the government is establishing through the Financial Services Bill will remedy these shortcomings. A new FPC in the Bank of England will have oversight of wider risks to the stability of the system, with macro-prudential tools it can use in response to the risks it identifies.

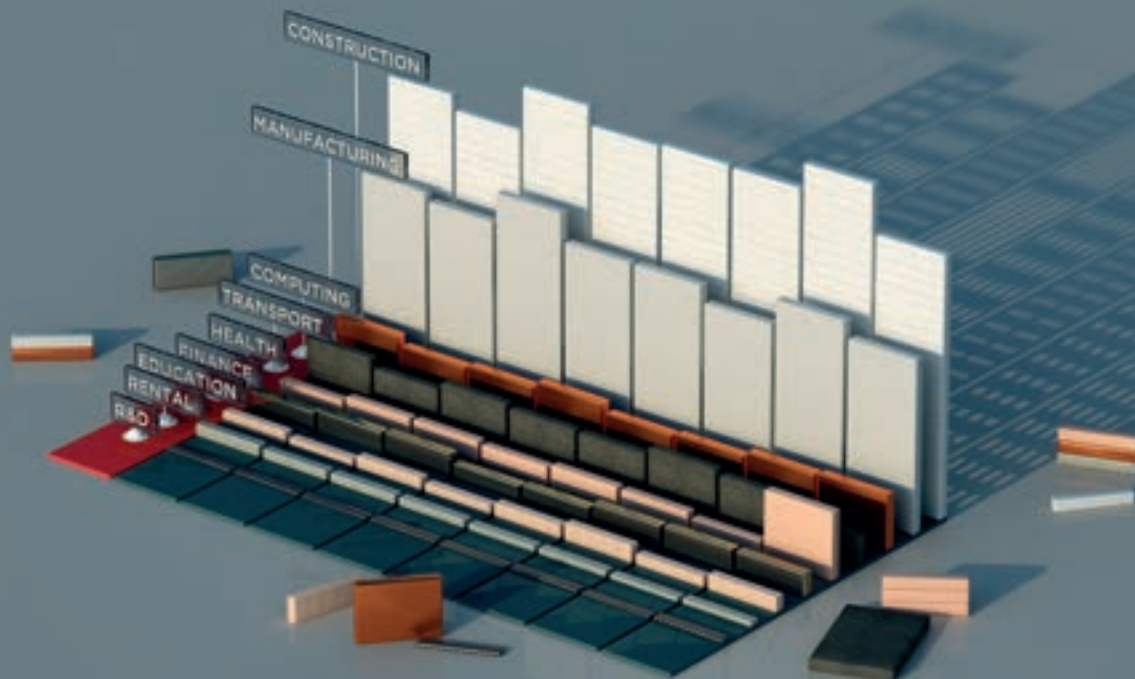
Two new focused regulators for micro-prudential regulation (the Prudential Regulatory Authority) and conduct of business regulation (the Financial Conduct Authority) will have clear remits, placing responsibility for financial stability firmly with the Bank of England. The chancellor will retain overriding responsibility in a crisis for protecting public money and the public interest.

We cannot prevent threats to financial stability. However, these changes give the regulatory regime the mandate, tools and authority to identify and manage such threats much more effectively.

If you want to contribute
to this debate, go to
icaew.com/economia/finref

The graph Backs to the wall

Data from PwC on corporate insolvencies by sector shows that construction continues to feel the force of recession, with 644 building firms entering insolvency in Q2 2012. As the graphic shows, manufacturing was also badly hit, with 3,586 UK companies going bust since the end of 2010. There is some comfort, as total insolvencies fell 6% from the previous quarter



OWEN GILDERSLEEVE, SOURCE: PWC

This is a timely book, not least because the stagnant parts of the global economy will only get the kick-start they need if enough private sector companies achieve decent rates of growth. The million-dollar question is how to achieve this.

The book's title suggests it may be a simple matter of selecting the right strategy – growing organically, borrowing money to fund expansion or buying rivals to grow by acquisition. But while this is essentially a book about leadership and strategy, the nuance is subtler than the title suggests. Based on extensive research into businesses that have achieved sustainable growth, the authors outline the need for a careful approach. Businesses should consider the resources needed for all three avenues for growth, picking the right approach at the right time and making the right resources available.

They suggest three routes: building on internal resources (funding innovations, running product

BOOK REVIEW

Build, Borrow or Buy: Solving the Growth Dilemma


Laurence Capron and Will Mitchell



development teams); working with external providers and other companies to borrow skills or resources (licence agreements, consultancy arrangements); or buying the resources (mainly by acquiring other companies). Excellent case studies back up the authors' contention that sustainable growth comes when leaders make active choices across the full portfolio of growth options. And they should use resource-planning tools that analyse the resources needed and ways to acquire them.

Because early success is often achieved through a particular approach to growth, this can become the predominant approach and restrict management thinking. This book is as much about change management as it is about managing and leading innovation. Adopting the resource-planning framework suggested is one way to guarantee successful and sustainable growth. A highly recommended read for all would-be strategists.

Richard Cree



STUPID IS AS STUPID DOES

FMG
THINKING AHEAD

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 ingenium DYNAMICS

Audit event in Cyprus



As the role of the auditor comes increasingly under the spotlight following recent global financial turbulence, the audit profession in Europe finds itself at a crossroads.

The proposals put forward by the European Commission present the biggest series of challenges the profession faces in its recent history.

Where do these proposals stand under the Cypriot Presidency? How do the major stakeholders within the European profession view the progress to date and the challenges that remain? How can the profession learn from this experience to enhance audit quality and communication to major stakeholders?

Find out the answer to these questions and more at the forthcoming free event, *Marking the Cypriot Presidency of the Council of the European Union: The ICPAC-ICAEW Audit Policy Debate in Europe*. Michael Izza, ICAEW CEO will be visiting Cyprus between 25 and 27 September and speaking at this event alongside Theo Parperis (ICPAC).

This will be the perfect opportunity to get an update on the EC Audit proposals as they stand and do some networking.

To book email events@icaew.com

Career Clinic

Mentoring has paid off in spades for this summer's sporting stars and set a shining example for the business world

Mark Freebairn



This year's feast of sport got me thinking about mentoring. Alex Ferguson has always done remarkably well pairing up young starlets with older, more seasoned professionals. You can see in the rowing how important Steve Redgrave has been to the younger members of the GB team over the years. And so on and so on. In each instance, the coaches/managers have seen how valuable it is to provide their growing talent with a voice of reason. Someone who can be respected and trusted to give advice and counsel and who provides a role model.

Given how obvious this has become in a sporting context, I have always found it strange that so few people in business do the same thing. I believe it's part of my role to provide that service for people I know. ICAEW also recognises the value of mentoring and its F-ten network (icaew.com/f-ten) is a good example of how it can work. In an ideal world you have a number of people around you who can give you a mix of opinion to help you make the right decision.

When you are building your career, you find yourselves at a crossroads for much of the time. Each decision can have a substantial impact on the direction and speed of travel. If you make decisions in isolation there is every chance you will make the wrong call. But if you make those decisions based on the advice and counsel of others who have been at those crossroads before, you improve the chances of making the right call.

There is little more instructive than discussing how careers have been built with the people who have already built them. To hear about the choices they had to make and the consequences of those choices. To find out what different

businesses have expected from the function and how you use your experience to your advantage.

Equally, you can't ignore the network that develops as you rise up through the ranks in your chosen profession. And this network checks in with each other regularly, looking for opportunities that could help the people they are supporting.

Most important, it gives you an opportunity to hear the old war stories and to learn from them. One of the reasons people study history is to learn from the past and not repeat mistakes in the future. Your mentors can help with that tremendously.

Having, I hope, convinced you of the value of these mentors let me try and help you identify who yours should be and how you can persuade them to act as a mentor on your behalf.

In short, the sorts of people you want to turn to as a mentor should be seasoned, successful, helpful specialists in your field – former CFOs, former bosses, audit chairs, audit partners, headhunters and colleagues who have jumped a couple of levels past you.

All of these are highly credible potential mentors. They should be people you trust well enough to ask the most stupid question and whom you know will advise you impartially and evenly.

As to how you find these people, all you have to do is ask. Most of them will have benefited from mentors themselves and, as the sports world has clearly demonstrated, the people who have gained from this in the past tend to be the ones who will give in the future.

And in my own experience, there are far more people than you might expect who really enjoy helping ambitious talent develop its true potential.

Mark Freebairn is partner and head of financial management practice at recruitment consultancy Odgers Berndtson



As I see it

Julie Adams is senior partner of medium-sized accountancy firm Menzies

As she takes on the challenges of being one of only three women who are senior partners of a top 50 firm, Julie Adams looks back on the career path and choices that have led her to the top

What inspired your early career choices? At 19 I did work experience in an accountancy office, which I enjoyed, and then decided to study for the ICAEW ACA qualification.

What did you want to achieve?

To qualify and use the qualification to travel the world. It didn't happen. Menzies kept challenging me with new opportunities, which made it difficult to give up that continued career development.

What would you do differently?

I joined accountancy straight from school whereas I wish I'd gone to university first for the experience.

Who was your mentor? Past senior partners. In my early career Jim Brett saw potential in me and he took me under his wing. Bear in mind it was the early 1980s, Menzies was a small firm and formal coaching and

mentoring programmes were not a common feature. More recently, it's been Mike Sands, who stepped down as senior partner at Menzies this June when I took over the role. Both mentors were forward thinkers and Mike, in particular, demonstrates an entrepreneurial spirit which I admire.

Which firm did you train with?

I trained with Menzies, qualified in 1984 and became a partner in 1988, so I've been with the firm all my full-time working life.

Has it always been easy being a woman in accountancy?

For me, yes. I work with a good group of partners who treat me as they treat each other. There are some areas that may be harder being female, but equally there are others where it is easier. I adopted the attitude of "win some, lose some" from quite early on in my career.

What do you enjoy most about your job? The people, the variety and the sense that I can make a difference.

What are your main challenges?

Steering the firm through one of the worse recessions since the 1930s and ensuring we grow in a manner that motivates and develops our people and provides an exceptional service to our clients.

What's the best way to get things done? Ensure your team is fully aware of what is required.

What makes a good accountant? Someone with all-round skills – technical ability, common sense, people skills and a commercial approach.

What motivates you? Success – I enjoy good outcomes to initiatives.

What's your guilty pleasure?

Golf. I have a handicap of 10 and play at Worpleston Golf Club.

How do you maintain a work/life balance? Discipline, accepting when I need to work hard and enjoying playing hard.

What's your big extravagance?

Holidays. I am very well-travelled having spent time in New Zealand as a child and I love experiencing local cultures when I am abroad. I've also recently taken up scuba diving, which is a new and exciting challenge.

Which of your achievements are you most proud of?

Becoming senior partner of Menzies (there are only two other women senior partners in the top 50 accountancy firms) and, on a personal level, completing two marathons.

What gets you out of bed in the morning? I start the day by going to the gym for an hour, which sets me up for the challenges ahead. It's these challenges that motivate me.

EVENTS TO LOOK OUT FOR

UK PARTY CONFERENCE EVENTS

22 September–10 October

There will be plenty of activity in Brighton, Manchester and Birmingham for party conference season.

INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD BANK GROUP ANNUAL MEETINGS, TOKYO

9–14 October

Central bankers, ministers of finance and development, private sector executives and academics discuss issues of global concern, including the world economic outlook, economic development and aid effectiveness.

PD LEAKE LECTURE 2012, LONDON

11 October

Management judgements and decisions have a significant effect on companies' reported earnings. Does this mean that we shouldn't trust the numbers we read? Distinguished accounting and finance academic Professor Martin Walker addresses this question.

WORLD ECONOMIC FORUM MOSCOW MEETING

14 October

In 2013, Russia will take on the presidency of the G20 and accede to the WTO. This meeting will focus on how to help shape the direction Russia will take over the next few years.

FORENSIC GROUP ANNUAL CONFERENCE, LONDON

23 October

Keynote speaker Lord David Gold on the principles of deferred prosecution agreements and why this US concept may soon become established in the UK.

Visit icaew.com for more details on ICAEW events

View from the top

Mark Spofforth focuses on assurance services and explains how ICAEW members can remain relevant to their clients



Assurance services are so much part of firms' offering these days that it is surprising to think that only six years ago the mere idea of them – in particular a form of a review of unaudited accounts called the ICAEW assurance service – caused so much controversy amongst members and regulators alike.

Since then, people have realised that the assurance service doesn't undermine the audit. The work we have done and are doing in this area has gained the recognition it deserves around the world.

As the audit threshold has been raised, assurance reporting on unaudited accounts has begun to take the place of some, if not all, the income that firms used to earn as auditors. And it has brought a new dynamic to the advisor/client relationship. As auditors, we not only had to maintain our independence from our clients but we were seen as an expensive burden forced on them by regulations. ISAs are an important basis for audit quality, but make it more difficult to tailor the work to the client and deliver the assurance they need. Now, we have to use our people skills to communicate to the client the benefits of our assurance services, including audits,

but this also gives us the opportunity to work with the business in a much more open and constructive way. We can still bring our professional audit skills to bear but more flexibly identify and tailor a service that would suit the client.

To understand the versatility of assurance reporting, you only have to look at the latest publication from ICAEW's Audit and Assurance Faculty, the *Assurance Sourcebook*. Areas now range from assurance for lenders and shareholders over the safe, profitable and sustainable growth of their business, to assurance about the wider supply chain and narrative information.

Assurance reporting is a perfect example of how we as a profession can build trust without having to be burdened with regulation. Though services are market driven our objective assessment is still to help gain confidence in information they use. Practitioners need to keep an open mind and embrace these new ideas in order to stay relevant to their clients and profitable as businesses.

It's also a great example of ICAEW developing initiatives for the benefit of members and their clients that individual firms might not have had the time nor – if I'm honest – the inclination to work on.

If you have any views about this opinion, please get in touch by emailing president@icaew.com or join the debate on our website icaew.com/economia

CHARLOTTE PLAYER

If I ruled the world

Every month we ask prominent figures how they'd handle the biggest job of all

Shaylesh Patel

While drafting this piece I was reminded of an incident at my daughter's primary school – one of just many non work-related events that have

contributed to me (and many other accountants) suffering previously unimaginable mid-life crises.

Written on the door of her classroom was a quote from Einstein, whose contribution to the world sadly today gets boiled down to $E=mc^2$ and his crazy professor hair.

"Not everything that can be counted, counts and not everything that counts, can be counted," read the quote.

As accountants we either: question that statement (but I am no Einstein); ignore it as it is hard to deal with; or, like the ICAEW's Finance for the Future awards, which were created with Prince Charles' Accounting for Sustainability Project, embrace it.

If I ruled the world, I'd get more people to embrace it. As a profession, as parents, as children and members of society we are fortunate and can steer individuals and organisations towards new ways of measuring what can be counted; and simply accepting that doing what feels right explains everything else. Countries such as Bhutan restrict tourist numbers carefully and measure Gross National



Happiness to ensure they protect their beautiful country and do not fall for the short-term gain for long-term loss.

Hearing about leadership and Bhutan-ist examples are great, but sometimes we can all feel overwhelmed by being just a sole person. We all need to feel that we are part of something bigger and together, we can make a big difference in many small ways. These are the principles on which the Healthy Planet charity was founded in 2007.

There is an infinite number of creative, innovative ways to do business and do what's right at the same time. Collaboration and replacing the single bottom line with the triple bottom line (social, economic and environmental) are key to moving forward.

Commercial landlords and pension schemes are saving cash by temporarily giving their unlet space to charities like Healthy Planet, which in turn measures their success by distributing books for free that were otherwise destined for landfill or pulping.

The unexpected bonus is that volunteers are gaining social skills and confidence, leading to greater employability. A gold-medal, triple bottom-line performance by Great Britain. So, long live the ideas of Einstein, the non-accountant.

Shaylesh Patel is the deskless founder of the Healthy Planet charity. Visit healthyplanet.org for more information

THE BIG IDEA

Henry Mintzberg
Real-world management



Who is he? A professor of management studies at Montreal's McGill University, Mintzberg also teaches at INSEAD in France. He's been at McGill – where he also studied as an undergraduate – since 1968 and is the leading authority on management.

What does that mean? Mintzberg has made a career out of upsetting other people's theories with a commitment to finding real evidence. He was the first modern management writer to go into businesses and actually watch what managers do.

You mean manage? Yes, but far from the neat theories of much management theory, Mintzberg found that managers in the real world spend their time firefighting, balancing conflicting demands and jumping from one project to another.

That sounds familiar... Mintzberg has a reputation as the awkward man of management theory, but few can argue with his research.

So he's a hero figure? Far from it. Mintzberg has spent the last 40 years debunking what he sees as the business school obsession with heroic leadership. Indeed he claims this obsession with leadership, itself fuelled by the modern global fixation with celebrity, has devalued the study of management.

Why does that matter? Well, our obsession with leadership and how it dominates business research means we have missed how organisations really work.

How so? Because so few academics spend time looking at the reality of management and how strategy is really formed and implemented, we remain focused on the impact of a few elite people. The genius of Mintzberg is that he was one of the first to observe how people really formulate strategy.

And what did he find? Rather than springing fully formed from the minds of a few inspired leaders, successful strategies are formulated from the grass roots, with the help and engagement of the entire organisation. Mintzberg's argument, beautifully laid out in his 1994 classic *The Rise and Fall of Strategic Planning*, is that strategy is nowhere near as carefully crafted as much of the theory claims. It is the role of management to effectively organise the wider employee population to identify goals and allocate resources efficiently to make it happen.

Tales from the front line

Real stories from the cutting edge of business and finance

Ragveer Brar

Manager, Valuation & Controls Team, Risk Specialists Division, FSA

I was never my ambition to become a chartered accountant, but by the time I was in my last year of university, my hopes of a sporting career were receding. I considered becoming an actuary or moving into law or banking. I chose the ACA because it is an excellent, widely respected qualification that provides a great grounding in business and can lead to such a wide range of roles. I qualified with PwC in 2000, having achieved top-10 regional placings at each stage, and a continued career within PwC was the obvious option. I decided to move into banking instead and I joined HSBC in a role that involved reviewing its capital markets operations around the world.

This was a perfect grounding in banking, as the varied cultures, nature of the businesses around the world and the wide range of functions reviewed allowed me to gain an invaluable grasp of the mechanics of banking businesses and the importance of culture and effective controls in managing those businesses. After three years living out of a suitcase, I felt it was time for a change and in 2003, I joined Lehman Brothers.

Lehmans was more focused on dynamism and less on controls, and the contrast with HSBC proved to be an excellent learning experience. Initially, attempts to improve controls met with resistance, but I eventually made progress and the control environment in London improved, although this was at least as much due to the much-maligned Sarbanes-Oxley legislation as it was to my efforts. Ultimately, such improvements provided little defence against the credit crisis and excessive risk taking.

In 2005 I joined the FSA. It was an opportunity to gain regulatory experience but was daunting, because I joined as the most junior member of a specialist market risk team and my colleagues had PhDs and considerably more experience. I found the team appreciated my broad understanding and control skills and by 2007, I was a senior member. I had responsibility for the trading book relationship with some of the biggest banks in London and this led to me being heavily involved in the work behind some of the key regulatory decisions taken.

The crisis was a challenging and exhausting time, but the experience gained was incomparable. From 2008, I led a multi-team, cross-firm review of control functions within investment banks responsible for understanding, as well as ensuring the accuracy and

integrity of, the P&L and valuations of financial instruments. This is product control and in 2010 I was asked to build and lead a dedicated Valuations and Product Control team at the FSA to continue this work.

Given the relative inability of regulators to compete with remuneration offered in the industry, building a team with the skills and experience to challenge firms was a painstaking process. Beyond the technical skills, regulation requires individuals with a strong sense of public duty and a desire to contribute towards improving controls and governance in banking. I was fortunate to find people with a wealth of senior level experience from the industry that allowed us to build an exceptional team. Although the journey is far from complete, the work we have done has already resulted in considerable improvements in the industry.

One of our key areas has been prudent valuation and valuation risk. It is gratifying there is now wider recognition of the importance of valuation risk within the industry and across the regulatory community. But there is still some way to go to ensure widespread understanding that accounting valuations are often only estimates of value and that the P&L and balance sheet of institutions are subject to uncertainty due to the wide valuation ranges that exist around some of these estimates of value.

This summer, my remit within the FSA was expanded to incorporate a wider responsibility for the review of a broad range of investment banking controls across front office, finance and operations departments, such as those controls designed to prevent and identify rogue trader activity; and also internal audit within banks and insurers. Concerns around the culture of banking stem in part from a lack of focus on controls and governance and often manifest in a lack of empowerment and effectiveness of control functions. Therefore, this promises to be a significant and critical new challenge, as a strong, skilled, independent and effective internal audit function is a key component in ensuring our financial institutions are operating in the right way.

In addition, next year we will transfer into the Bank of England, as part of the changes to regulation in the UK. Such a significant organisational change presents an opportunity to reassess existing approaches and improve regulation and represents a very exciting time to be working at the heart of regulation. ■





**Concerns around
the culture of
banking stem in
part from a lack
of focus on
controls and
governance**

SIMON TANG

Michael Izza



Innovation and collaboration

Since a group of enterprising accountants from Manchester, Liverpool, London and Sheffield first got together in 1879 and set up ICAEW, as an institute we have been at the forefront of innovation. Accounting and auditing standards, assurance products, corporate governance, and accounting for sustainability. These are just a few of the areas in which we have done pioneering work over the years.

We are still at it. One of the projects that we have been working on over the past four years is the Finance Innovation Lab, which was identified as one of Britain's leading radical organisations by the *Observer* newspaper. The initiative sees us partnering with conservation, climate change and sustainability charity WWF-UK to bring together diverse communities that do not normally talk to each other in order to develop new and creative ways of changing the financial system.

Just before the summer break, we applied that philosophy to audit, gathering together 120 people drawn from large and small audit practices, professional bodies, academia, think-tanks, NGOs, regulators and innovation organisations, for a day-long discussion on how to innovate audit so that it best serves society. The project is still in the very early stages but the AuditFutures assembly has created a real buzz. People are keen to hear about the next steps and how they can join in. And I am particularly pleased that so many younger people from the firms want their voices to be heard.

This is what, at its best, the profession does so well – supporting a collaborative approach to innovation and problem-solving, which allows competition to work better.

At the end of the day, we are seeking to reconnect the financial establishment with the public interest. The public's confidence in our institutions has been severely knocked in recent years and we must do everything we can to restore trust.

The assembly agreed that we do need audit – that's plain good financial management – but it needs to be repurposed for the 21st century with an improved company-reporting model, and a new auditing approach that better serves society by cutting through legislation, regulation and liability management – all of which stifle innovation. We are studying these insights further to develop proposals to take forward in a second assembly towards the end of this year.

The AuditFutures debate will undoubtedly be both fascinating and challenging. A newsletter about the assembly, which sets out the innovation areas the assembly identified in more detail, is available online at auditfutures.org. I urge you to have a look and get involved.

Michael Izza
ICAEW chief executive

Your feedback

Words of wisdom



Congratulations on Dr Atul K Shah's excellent article in the latest issue of *economia* ("If I ruled the world", August). It jumped out of the page as soon as I opened the magazine. It's so refreshing to read such wise and important things. There's so little leadership wisdom in this type of publication. So thank you very much

for filling the gap. It's really appreciated.

Barbara Gardner, trustee, RSPCA

Audit registration

I read with interest Liz Loxton's article on audit registration for smaller practices ("When audit doesn't add up", August). But she is looking at things from the wrong end.

The amount of conventional company audit work continues to dwindle, and will do so even more under current proposed legislation. In common with a lot of High Street general practitioners, it may become harder for Bryan and Ridge to maintain its audit registration, because it will struggle to demonstrate direct compliance in the arena of regulated auditing, albeit that it continues to have a growing number of analogous engagements, some or all of which require a Statutory Audit Registration.

Where then will the clients turn, whether they be High Street solicitors requiring an SRA report? Will they find themselves having to look elsewhere, beyond their local business communities, for the various external scrutinies to be carried out, that their regulatory bodies demand? Or will the audit registration regime be somehow flexed in order to accommodate their needs?

Nicholas Ridge, Bryan and Ridge

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 LinkedIn group: [economiamagazine](#)

Bad banks

Nouriel Roubini could not be more wrong in calling for a eurozone-wide deposit insurance scheme ("A united Europe is the key to global stability", July). It is precisely because we have deposit insurance schemes that savers have become indifferent to the risk-taking of the bank in which they are placing their money (and trust).

If the State underwrites the bad decision-making and lending of bank directors by insuring depositors, then the loan losses go on. It is only when depositors take the decision to move their money to a less risky bank that the bad ones will be reined in.

The way to promote future security and a healthy banking system is to run down the insurance scheme from its present level towards zero. Depositors will wake up and it will change the behaviour of bank shareholders towards bank boards. Get the "dead hand" of the State away to promote good practice through healthy competition.

Anthony Vickery FCA

Hurry ERP

Too many organisations, especially SMEs, have deferred the implementation of financial accounting systems due to cost and the fears of business disruption. But the lack of information available from their current finance system is making it

impossible to identify areas where financial performance can be improved. Given the rise of cloud computing, with its rapid access to software solutions, how can the ERP market still demand extensive consultancy and deployment models? The industry must create a fast-track route to implementing on premise ERP solutions.

Gary Waylett, CEO, Eclipse Group

Online comments

■ On the issue of offering cash-in-hand payments to tradespeople, one reader commented: "The debate is about the morality of accepting a discount for paying in cash, not about the morality of offering one. Provided all income and expenses are declared, there's no issue if you're the supplier. But if you're the customer, you have no way of knowing whether the income will be declared or not, and a moral duty not to facilitate or personally benefit from fraud. If your supplier won't give the same discount for a same-day bank transfer as he will for a cash payment on grounds of bank charges, the answer is to find himself a cheaper bank, not to trade in cash."

■ In response to Richard Murphy's argument that tax planning is not morally flawed, one writer said: "Richard Murphy's evangelical aversion to legitimate tax avoidance misses the point. If the tax system was not flawed there wouldn't be a need for avoidance as those who propose a flat-rate system, which also excludes those at the lower end of the income curve, have argued. Low tax jurisdictions with simple and transparent systems, such as Hong Kong, do not suffer the practical dilemma of evasion or the moral one of avoidance to any comparable degree to that of the major 'fiscal paradises' of the UK or even the US. Lower, flatter, simpler taxes raise more revenue because they do not turn all members of their truly resident societies into potential criminals."

■ Given the Barclays furore over Libor rigging, last month turned out to be quite a time to interview Alison Carnwath, who chaired the bank's remuneration board. Jonny Miller (FCA, DChA) said: "No doubt deliberately provocative Alison Carnwath tells us that Joe Bloggs the 'good guy' who drives a taxi wouldn't be any good on a remuneration committee. This demonstrates breath-taking arrogance and a distinctly patronising view of (poor) 'ordinary Joe'. Carnwath displays all the symptoms of having been in the bankers' vacuum for too long. And while such views prevail, banking will take a long time to be rehabilitated."

■ And in response to Brigitte Granville's piece on François Hollande's wrong idea of France, BDO's Stephen Herring said: "A well-argued and accurate summary of the issues arising for countries in denial over the economic imperative to reduce the tax burden on business by increasing indirect taxation or, preferably, reducing excessive government expenditure. The Asian economies are becoming increasingly successful, with much lower shares of their GNPs absorbed by government spending."

The *economia* website is constantly updated with news, features and breaking technical stories. To join the debate and comment on anything from the magazine or online, visit icaew.com/economia

Letters and comments may be edited for clarity and space.

CORRECTION

In the last issue we suggested that Colin Coulson-Thomas was audit chair of NHS Cambridgeshire. In fact he holds this position at NHS Peterborough.

TOP FIVE MOST READ STORIES ONLINE AS WE WENT TO PRESS

- 1 Mazars UK appoints new senior partner
- 2 HMRC begins industrial action
- 3 Editor's View: The curious case of Standard Chartered
- 4 The Olympic balance sheet
- 5 Deloitte implicated in Standard Chartered scandal

Cathy Newman



Boris's dangling claims; soggy stats and borderline figures

Even when dangling on a zipwire 20 feet off the ground, Boris Johnson finds it hard to zip it. So he provides the *FactCheck* team with a never-ending stream of claim, dubious rhetoric and downright hyperbole. Heck, to borrow one of the mayor of London's more inimitable sayings, some of what passes his lips is little more than an inverted pyramid of piffle. So now that the mayor-Boris-for-PM bandwagon is gathering speed I make no apologies for returning once again to the gospel according to Mr Johnson.

The central promise on which he was given a second term as mayor was that he'd be "making our streets safer with 1,000 more police on the beat". It looks like he's pledging to put an extra thousand bobbies on the beat, right? Wrong. This is a manifesto pledge about something which has supposedly already happened.

His press office told us: "The 1,000 more police relates to what the mayor inherited in May 2008 compared to strength in May 2012." We know there were 31,398 warranted officers policing the capital at the end of March 2008, according to figures from the now-defunct Met Police Authority. That marked a low point so it should have been easier for the mayor to keep his word.

But the latest report compiled by the Met for the Mayor's Office for Policing and Crime reveals that by the end of May 2012, Boris presided over just 31,684 officers, well short of the 32,398 he needed to stick to his manifesto. And the numbers are still falling as we speak. For more on the thin blue line check out bit.ly/R9yRGj

While Boris may be a consummate politician and an even more accomplished comedian, he shouldn't move into weather forecasting. Just before the opening ceremony at the Games, Boris made the startling claim that it rains more in Rome than it does in London and that "it's officially not raining in London 94% of the time".

Perhaps rather surprisingly, Boris was right that Rome is wetter than London. In the average year, Greenwich gets drenched by 585.8mm of rain. Rome on the other hand has to endure a torrent of

Making our streets safer with extra police was the central promise on which Johnson was given his second term

Cathy Newman presents *Channel 4 News* and runs the *FactCheck* blog. It can be found at channel4.com/factcheck

813.8mm. But where he came unstuck was the suggestion that it's dry in the capital 94% of the time. Depressingly, the Met office insists there's a downpour of one sort or another about once every three days. A lot more than the once every 20 or so days the mayor's dodgy statistic would imply. But if it makes you feel any better, it rains on average once every five days in Rome. Sun lotion anyone? For more soggy stats, see bit.ly/OaazKM

If the sun shone on Team GB at the Olympics, and the much-anticipated transport chaos failed to materialise, it could have been very different. Remember the threat by 25,000 border staff to go on strike to try and bring Heathrow and Manchester airports to a standstill?

What you may have forgotten is that the Public and Commercial Services Union (PCS) found a convenient way to climb down, saying it had called off its industrial action because the government had generously agreed to meet its demands for an extra 800 new jobs. The immigration minister, Damian Green, was having none of it, insisting that "no new jobs have been advertised since the union threatened to strike". Really? Here are the facts.

On 18 July, PCS members voted to strike. Two days later, on 20 July, new jobs were advertised in the Border Agency – 400 for border officers and 400 for assistant border officers – making 800 in total. When *FactCheck* confronted the Home Office with this seemingly incontrovertible evidence, a hapless press officer blustered that there'd been an "administrative error". But when she was pushed a bit further, the spokeswoman admitted that 400 jobs were correctly advertised – 400 less than the advert suggested, but still 400 more than Damian Green claimed. The PCS did overstate the number of jobs created, but because of the administrative error they weren't to know they'd done so.

The Home Office had only one thing to say to that: "The bigger picture is that the strike's not happening." For more, go to bit.ly/Q4T4tF

On the other hand, you could just take it from me that in this instance at least, the minister's claim is not far off an inverted pyramid of piffle. ■

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 **Infinitieurope**

Jason Cowley



Prepare for an autumn of unrest

At a drinks party at Nick Clegg's private offices in Westminster last Christmas, I was told in no uncertain terms by one of his advisors that "progressives" should show "more balls" when it came to supporting the Liberal Democrats. "I can't understand why *The Guardian* [which endorsed the Lib Dems at the 2010 general election] and others are so down on us."

The argument went something like this. By going into coalition with the Conservatives in 2010 the Lib Dems, who many of their supporters considered to be a party of the reforming centre-left, had rescued the nation from Labour profligacy and the possibility of a Greece-style catastrophe. Theirs, in effect, was a government of national emergency, which was why the chancellor, George Osborne, felt compelled to introduce his "emergency" Budget shortly after coming to office.

Tough decisions had to be made not in the party but the national interest and the Lib Dems had made them, I was told. A bold deficit reduction programme had been agreed and necessary cuts in public spending would be made. As a result, the UK had regained the trust and credibility of the markets; its AAA credit rating was safe and 10-year bond yields had fallen to historic lows.

The government's course was set and, although there would be some rough seas ahead, all was for the best in the best of all possible worlds. I found the Panglossian rhetoric disturbing: even then, it was clear to me that the government had a plan to cut the deficit but it did not have a coherent strategy for growth, especially as it was scrapping building and infrastructure projects.

It was opposed to Keynesian-style debt-financed spending to stimulate demand, as favoured by Labour shadow chancellor Ed Balls, the American Nobel economics laureate Paul Krugman and the influential *Financial Times* columnists Martin Wolf and Samuel Brittan. But nor was it introducing tax cuts and the kind of aggressive supply-side reforms favoured by free marketers such as Boris Johnson, the Mayor of London, and many Tory backbenchers.

I have not spoken to that Clegg loyalist since last

Even many economists who originally supported austerity have called for greater flexibility

Christmas, since when the Lib Dems have become even more unpopular, the economy has double-dipped back into recession and even many of those economists who originally supported austerity have called on the government to show much greater flexibility. Roger Bootle, MD of Capital Economics, said: "If I were chancellor at this point, I would alter the plan. I would stop the cuts to public investment and I might even seek to increase it."

Against this backdrop, all is not well between the two parties of the Coalition and within the parties themselves, with many backbenchers increasingly restive. I understand that relations between David Cameron and Clegg remain good. They like each other and, in many ways, are similar: both privileged, middle-upper class career politicians with trust funds, attractive wives and moderate pro-market views. What divides them ideologically is Europe: Clegg is a polyglot Europhile and Cameron is, like most of his MPs, an instinctive Eurosceptic.

But the truth is that the coalition isn't working well. Lib Dems were enraged when the Conservatives' "broke the coalition agreement", as Clegg put it, by abandoning plans to reform the House of Lords, a Liberal aspiration that stretches back to Gladstone's failure to win home rule for Ireland at the end of the 19th century.

The Lib Dems' response was to announce, petulantly perhaps, that they would not support the Conservative plan to reduce the number of MPs from 650 to 600 through equalising the size of constituency boundaries. Under the proposed boundary changes, the Conservatives were set to gain as many as 20 seats, enhancing their chances of winning an overall majority at the next election.

As it stands, if Mr Cameron is to win a majority in 2015 he will need to do what no prime minister has done since 1974 and increase his party's share of the vote. And with the constituency boundaries set to remain as they are, he would need a seven point lead over Labour. At present, the Tories are trailing by 8% in most polls. Prepare for more unrest in the autumn. ■

Jason Cowley
is editor of the
New Statesman



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Jean-Claude Trichet



When monetary policy goes off-road

The widespread introduction of unconventional monetary policy measures by major central banks has been a defining characteristic of the global financial crisis. We have seen enhanced credit support, credit easing, quantitative easing, interventions in currency and securities markets, and the provision of liquidity in foreign currency.

Some view these measures as a continuation of standard policy by other means. Central banks have reached the end of the road, so they shift into four-wheel drive: they expand their balance sheets and inject liquidity to influence the structure of yields and returns and thereby stimulate aggregate demand. But when central banks return to the road they must retrace their path, first unwinding unconventional policy, and only then raising interest rates.

Let me suggest a different view. Say key interest rates are to be set at levels considered appropriate to maintain price stability, drawing on regular, comprehensive assessment of economic and monetary conditions. Following standard practice, interest rates can be more or less significantly positive, very close to zero, or at zero.

But, whatever the level of nominal interest rates, the monetary policy stance established in this way has often been poorly transmitted to the economy. During the financial crisis, market functioning was impaired. Non-standard measures helped to clear standard measures' transmission path.

By this logic, if the transmission of standard measures is impeded in a significant way, non-standard measures can offer support. And, as for the exit, standard and non-standard measures can be determined largely independently.

Policymakers are not obliged to unwind non-standard measures before considering interest-rate increases, or to push interest rates to the zero lower bound before considering unconventional measures. Standard measures depend on the medium- and long-term outlook for price stability, whereas non-standard measures depend on the degree of dysfunction of the monetary-policy transmission mechanism.

At the global level, where reform is urgent, there is no room to be complacent

Jean-Claude Trichet is a director of the Bank for International Settlements and a former president of the European Central Bank
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Obvious, unconventional measures, if not carefully monitored, might have the unintended consequence of creating an abnormally benign financial environment for markets, commercial banks, and sovereigns. This, in turn, could delay needed improvements in financial regulation, balance-sheet repair by banks, structural economic reform, and fiscal adjustment. As a result, non-standard measures must satisfy five conditions.

First, they must be as commensurate as possible with the degree of market dislocation and disruption of market that they aim to counter, which is always a matter of judgment.

Second, the measures must be accompanied by forceful messages to commercial banks to address their medium-term recapitalisation and balance-sheet-repair issues. Third, the measures must be accompanied by equally forceful messages, when and where needed, to the governments concerned.

Fourth, in the case of Europe, the European Union institutions, as well as the member states, must be urged to strengthen economic governance, including through close monitoring of individual countries' economic and budgetary policies.

Finally, to the extent that the combined non-standard measures of the advanced economies' central banks are creating a very substantial structural change in the global economy's monetary and financial environment, it seems necessary to call for the appropriate reinforcement of global governance.

The ECB's decision in December 2011 to launch its long-term refinancing operation, which supplies low-cost, three-year financing to commercial banks, meets these conditions. My successor, ECB President Mario Draghi, has made loud and clear the importance of reinforcing banks' balance sheets, adjusting individual countries' strategies, and improving governance in the eurozone and the EU as a whole.

In all of these domains, as well as at the global level, where reform is equally urgent, there is no longer any room for complacency. ■

Letter from America

Taxmageddon haunts the US

For America's Republican Party tax cuts – like diamonds – are meant to be forever. Sadly, such fiscal romantics face a rude awakening. At the end of 2012 a series of cherished tax cuts stretching back over 10 years will suddenly expire. As if this were not enough, pre-programmed curbs in government spending also come into effect. This dire combination threatens to suck around \$600bn out of the US economy. It's small wonder that economists have taken to referring to this fateful day – January 1, 2013 – as Taxmageddon or the fiscal cliff.

In a strange way, this unfortunate coincidence could be a blessing in disguise. The United States has already delayed for too long any efforts to put its fiscal house in order. America's net government debt at 80% of gross domestic product is higher than the eurozone's 68%, according to data from the International Monetary Fund. Without action it will rise by a quarter within the decade. Even before the 2008 crisis, America was facing the financial headache of an ageing population. By 2035, a fifth of the US population will be over 65 – compared to 13% today. This will drag down tax revenues and boost government costs, especially health costs.

So the fiscal cliff could push the US towards a comprehensive budget deal. Ideally, this would head-off this dramatic rise in outlays on retirement and healthcare. It would also include modest tax increases – enough to show prudence without plunging the economy back into recession.

How likely is this happy outcome? Not very, is the resounding answer from most Washington

insiders. Nor is the option of allowing the fiscal axe to fall. "American politicians have far too keen a sense of self-preservation to allow such a dramatic blow to the economy," says Diane Rogers, chief economist at the Concord Coalition, a think tank devoted to fostering budgetary responsibility. To do so would plunge the US right back into recession, according to the Congressional Budget Office.

That leaves the favoured approach of most lawmakers – further procrastination. Congress could simply extend the current low tax rates for another year or two. This would be nothing new. Congress gave George W Bush's tax cuts an extra two years of life in 2010. Meanwhile in 2011 a "super committee" of lawmakers failed to broker a grand bargain to contain rising deficits.

A repeat of this fracas looks likely. "There is a powerful political incentive for lawmakers to continue to put off the evil day, especially ahead of the November elections," says Chris Edwards, a budget expert at the Cato Institute in Washington.

In the short term, this is good news for American taxpayers. An average American family with a total income of \$70,000 a year stands to pay an extra \$4,000 if the nation plunges off the fiscal cliff. But it also increases the danger that bond investors will conclude that Uncle Sam is incapable of budgetary discipline. The result could be higher borrowing costs, most probably accompanied by a global financial crisis. So even if America doesn't plunge off the fiscal precipice, this is a perilous moment for the US economy and the world.

The latest views from
Christopher Alkan, our
insider in Washington



ECONOMIA ONLINE SPOTLIGHT

The career path of an ACA can be varied and diverse. Our new monthly feature *Spotlight* profiles an ICAEW member's experiences in the working world, from writing a novel, to chemical engineering, being the youngest teacher at Eton, or auditing in local government during hefty, public-sector cuts. If your ACA has taken your career into unusual areas, and you want to share your experiences, we want to hear from you, email: economia@icaew.com

Find out more at icaew.com/economia/spotlight

GREAT WALL OF CHINA FINANCE

China is steadily extending its financial reach across the globe, while at the same time changing accounting rules to favour home-grown business. **Adrian Holliday** asks what this will mean for the Big Four

While the west frets about the future of the eurozone and rising debt levels, China is quietly spreading its trade tentacles, honing its influence with no-strings trade agreements, buying up land and resources – all fortified by a huge (and accumulating) great wall of cash. It is worth examining why China is investing in places where it previously had little interest or muscle, for these actions reveal much about the country's long-term industrial motives.

TRADE WINNERS

The Chinese have long used the tactic of picking up troubled assets at bargain prices – Zhejiang Geely's acquisition of Volvo is a good example. But while China is flexing its new financial muscle, it does not want to challenge Russia in the geopolitical sense says James Lee, regional director for Greater China at ICAEW. "So it's more about improving trade. That means logistics, infrastructure and technology.

"Look to Germany and Japan. They did not win the Second World War so they were not allowed to re-arm or militarise – they focused their efforts on the economy. Overall, the Chinese approach is to go where western nations haven't been focusing because of their own domestic issues. China is also more in tune with the aspirations of many developing nations."

The majority of their interest comes from Chinese state-owned enterprises (SOEs), corporatised entities controlled by the Chinese state through majority equity ownership or other state-controlled businesses. Because they have a close relationship with the Chinese government, these SOE operators may also have very low borrowing costs.

"Oil, gas, extraction, anything that ticks those boxes will be a priority industry, encouraged either through sovereign

CHINESE FINANCIAL POWER

In 2007 Chinese banks generated just 4% of global banking industry profits. Today they generate 29%, according to new research by *The Banker* magazine. European bank profits? They slumped to just 6%, against 46% five years ago. The Industrial Commercial Bank of China is now the world's most profitable bank with pre-tax profits of \$43.2bn. China Construction Bank (\$34.8bn) and Bank of China (\$26.8bn) are close behind, taking the number two and three spots respectively.

wealth funds or through SOEs. That's where the oomph is coming from," says Jeremy Clegg, director of the Centre for International Business at the University of Leeds. "China's five-year plan sets out several objectives. Deeper international co-operation around energy, for instance."

Despite huge investment strides by the Chinese in several sectors, the total amount of investment is relatively modest, coming from Beijing, the eastern seaboard and in the south-east, such as Guangdong province, says Clegg. "But once most cities and provinces start switching to outside investment, you've got the equivalent of several Japans coming on-stream. That's why much of the world is so excited. It's a no-brainer – China is going to be a major investor."

Investing abroad also allows the Chinese to raise their skill and aptitude levels. Competing in a foreign market is a very good way to go about learning the rules of the game, especially when they have access to large reserves of cash. "Or they may acquire a business," says Clegg. "A lot of investment under the radar is from private firms. We interviewed a Chinese lighting firm which bought NVC and is now based in Longbridge in the UK. They're number two in the market, second only to Thorn Lighting. And that's

just within three years. They're trying to build the brand, be reliable, and they're putting plenty of thought into the things that matter. It's remarkable how these new Chinese investors are so productive. And there's a whole cohort of similar firms in other industries bubbling up ready to invest in Europe."

As a sign of its economic maturity, China is now switching its accounting rules to favour home-grown businesses.

These new accounting rules carry huge implications for the way the Big Four operate on the Chinese mainland. Big Four players need to limit the number of foreign-certified partners to no more than 40%. By 2017 this cap drops to just 20%, and all senior partners will need to be Chinese nationals. The changes move China further along the road to global norms where local partners own their practices. The move, however, could offer significant opportunities to some players.

OLD CHINA HANDS

On the Chinese mainland, time pressure on the Big Four auditors is building. KPMG, Deloitte Touche Tohmatsu, Ernst & Young and PwC will all form special partnerships with Chinese companies come to an end. KPMG's deadline was 17 August, Ernst & Young has until this month, Deloitte will make good its adjustments by February 2013, while PwC's contract comes to an end in March 2018. Under the new proposals, a local partner is anyone who can pass the Chinese Institute of Certified Public Accountants (CICPA) exam. (You don't have to be a Chinese national, although you do have to sit the exam in Mandarin – the pass rate is just 10%.)

Long term, the Chinese clearly feel the dominance of the Big Four is suffocating; there's also concern that the Big Four simply aren't, well, big enough. It makes sense to encourage home-grown players, even though the home market is barely





three decades old, while also looking more closely at risk and longer-term strategy offerings.

Paul Gillis, accounting professor at Peking University's Guanghua School of Management, says the Big Four have done well in China, landing most of the big state-owned enterprises as clients, from finance to utilities to communications, as well as getting access to extensive foreign investment opportunities. Could the changes spell opportunities for mid-tier operators also?

"The second tier firms are doing very well. They have hooked up with some of the leading local Chinese accounting firms that have enjoyed favourable treatment from the government," says Gillis. "RSM is now the fifth largest CPA firm in China and passed RMB 1bn (£99.7m) in revenue last year. It is rapidly closing the distance between it and KPMG, the smallest of the Big Four. In China, RSM is 55% of the size of KPMG. Globally, it is 18% of the size of KPMG."

Many of the second-tier firms are also punching above their weight class in China. PKF, says Gillis, has 4.1% of its global revenue in China compared to PwC, which earns only 1.7% of its global revenue in China.

RISK ISSUES

How will cross-border co-operation and PCAOB/Sarbanes Oxley strictures be affected by the Chinese changes? Hundreds of Chinese companies have listed in the US, but the Chinese have not allowed American regulators to come and regulate the companies or their auditors, says Gillis. "One of the Big Four [Deloitte in Shanghai] is facing charges that it has violated US securities laws by not providing working papers to the SEC. In order to audit US listed companies, auditors must be registered with the PCAOB and subject to their inspections. The inability to inspect

Just as Chinese industrial and commercial firms increasingly muscle in on international markets, professional firms may follow suit

Chinese auditors, including the Big Four in China, could lead to the SEC and the PCAOB deciding to de-register the audit firms," he says.

Chinese companies could be kicked off the US market as a result. The problem will have to be solved through diplomacy, yet neither side seems able to make the necessary compromises yet.

Alternatively, voices in China would like US-listed Chinese companies to come home, keeping Chinese money in China – a nationalistic view with roots deep in the wounds of 19th century western colonialism, the policies of the long-lasting Qing Dynasty, and Marxism.

Much of the arguing is about basic transparency, says Russell Brown from advisory firm LehmanBrown. "The accounting industry in China should be opening up, not becoming restrictive, if there is a desire for greater trust in the financials. The recent scandals are probably not the end, and though these scandals represent only a small percentage of companies in China, they unfortunately reduce any trust that anyone had or tried to have with financial companies."

BIG 10?

The jury is out on how profoundly the Chinese – given the massive growth in the country's economy – will re-shape the international audit market. CICPA wants local firms to triple 2010 revenues by 2020.

London School of Economics emeritus professor of accounting Richard Macve thinks the Chinese government has a vision of a super league of 10-plus indigenous accounting and audit firms.

Just as Chinese industrial and commercial firms increasingly muscle in on international markets, professional firms may follow suit, possibly taking over a current international network – or even a current Big Four operator, Macve says. In a recent paper, he and Shuwen Deng from the Shanghai University of Finance and Economics wrote: "The view from the London offices of the firms... and the majority of others we have interviewed is... there is some way to go before this challenge can succeed. Deng's (2011) research indicates that indigenous firm mergers may be achieving growth in the size of firms but it is not clear that there has been improvement in risk control. Risk may have increased with the taking on of new, rapidly growing clients."

ICAEW's Lee is, however, encouraged by the professionalisation of China's audit players. With Chinese companies expanding aggressively overseas, the pressure is on. "We [ICAEW] would like to help the profession develop in China and globally. Local Chinese firms don't have much choice to internationalise their practice and it's a matter of which international body they want to align themselves [to]. I've been to see the top 10 firms' managing partners. Even before the regulations come out, they needed to follow their own Chinese clients overseas. Some are begging to take up that challenge."

Mandatory audit rotation for state-owned enterprises would also likely reshape the competitive landscape. And as Chinese companies expand globally, they will probably use the same accounting firm that serves them at home. That, says Gillis, could shake up the entire global accounting market in the decades to come. ■

TALENT GOES GLOBAL

The first of a series of three insights into Tesco's international business



Over the next three issues we discover how a global, customer-focused business, Tesco, utilises its worldwide talent and also what it's like to have a truly international career. In this issue we look at China.

Tesco entered China in 2004 and has built up a network of more than 100 stores along the eastern seaboard. Tesco employs more than 26,000 people and serves around 4.4m customers each week.

Tesco has also developed freehold shopping malls under the 'Lifespace' brand, which provide a modern shopping experience for Chinese consumers. Tesco also buys around £2.25bn worth of goods and services from China every year. The international sourcing headquarters are in Hong Kong with a hub in Shanghai.

From the 'Best Retail Places to Work for the Year 2010' to the '2011 China Corporate Social Responsibility Company' award, Tesco's China business continues to grow. Tesco's success reflects its commitment to its people, its customers and serving their needs responsibly.



Dan Wilson, Finance Director – Corporate Operations, for Tesco has recently returned to the UK after three years in Shanghai as Finance Director – Planning & Analysis. He tells us what it's like to live and work in China.

1. What made you take a role with Tesco in Shanghai?

One of the reasons I joined Tesco was the breadth of opportunity and the prospect of working overseas. My wife April and I had travelled to Asia numerous times and we enjoyed the fact that everything was so different to back home. So when the opportunity came to work in Shanghai it was quite an easy decision. Tesco arranged for us to visit to get a feel for life out there. The challenge of joining one of Tesco's new and growing international businesses was an added pull.

2. Was the reality different to your expectations?

Ultimately, you are working for the same company in a similar area so much of the content of the working day is comparable to back

home. What is very different is the team of people you are working with, but sometimes the cultural differences can be overplayed. My own experience was that by staying true to your personal values you usually do the right thing by the local staff working with you. Your western idiosyncrasies can also be a source of great amusement for the team.

3. What was the biggest challenge during your time in China?

China is a vast continent. Each operating region has a higher population than Japan and a larger land mass than Poland. This scale presents a number of challenges, from new store development programmes to supply chain strategy to understanding regional variations in customer preferences and supplier structures.

Attracting and retaining talent can also be a challenge. I had worked for Tesco in the UK before moving to Shanghai, and was used to relying on the Tesco brand to keep a strong talent pipeline going. As a younger brand the Tesco name in China doesn't quite carry the same weight yet and the retail industry is not top of the list for Shanghai's brightest talent. The labour market is also quite immature so good people with relevant experience are in high demand. This created the added challenge of keeping hold of our best performers when they were so highly prized in the local market.

4. How did you find living in Shanghai?

Shanghai is a vibrant and rapidly changing city and living there is being at the centre of something very big and exciting. Whether it's exploring the modern architecture or discovering the more traditional dimensions of the city, there is plenty to fill days away from the office.

Tesco made it as easy as it can be to relocate. The practical aspects of moving were largely taken care of and an annual travel allowance meant we could choose whether to make regular trips home or explore Asia more widely – we did both. There was plenty of family support too – April learned Mandarin during our time there and having our son Benjamin in Shanghai gave us first-hand experience of the quality of the healthcare.

5. As an ACA, was a global career always something you wanted?

I started my career with KPMG in London but international experience wasn't initially a priority for me. That ambition came later and was one of the reasons for joining Tesco. I was very pleased to learn that Tesco encourages everyone to take opportunities to experience our business outside the UK. This was a good fit with my personal ambitions and I was happy to put my trust in the talent planning process to give me my opportunity.

6. So where next?

Although I'm now back in the familiar surroundings of Cheshunt, my current role is providing plenty of new challenges so it will keep me busy for a good while yet. Beyond that, I would certainly like to return to one of our international business one day – although exactly where, who knows? That's the exciting part.

To find out more about Tesco please visit tescoplc.com and to discuss how you too could have a global Finance career at Tesco contact sarah.gallo@uk.tesco.com or visit tesco-careers.com/jobsearch.cfm



Ghana

AT A GLANCE

More stable than many of its African neighbours, Ghana enjoys a strong economy and valuable natural resources. **Penelope Rance** looks at its vibrant services sector, including a well-established accountancy profession



VITAL STATISTICS

POPULATION: 25,241,998 (July 2012 est.)

CAPITAL: Accra

FULL NAME: Republic of Ghana

ECONOMIC STRENGTH

GDP PER CAPITA: \$3,100 (2011 est.)

EXPORTS: \$13.13bn (2011 est.)

IMPORTS: \$14.03bn (2011 est.)

EXCHANGE RATE: £1=3.042GHS, Cedi (17 July 2012)

Boasting abundant gold and silver, petroleum, industrial diamonds and rubber, Ghana's economy has benefited from 25 years of careful management. It achieved the highest growth in GDP this past year and is Africa's biggest gold miner after South Africa. In 2010, the Jubilee oilfield came online, and it has 5 billion barrels of oil reserves in total. The government is also focusing on developing the salt industry, currently an under-utilised resource.

PROFILE

Ghana is one of the more stable nations in the region, with democratic elections and a record of peaceful political handovers. Its tropical climate and low-lying plains are conducive to successful agriculture. Drought, deforestation and overgrazing have, however, caused hardship in the past, leading to a move away from farming to the services industry. A \$600m, three-year 2009 Poverty Reduction and Growth Facility signed with the IMF has helped to reduce debt and boost the economy.



HISTORY

Created from Togoland trust territory and the Gold Coast British colony, Ghana was the first area of sub-Saharan Africa to be ravaged by Europeans seeking gold and slaves. In 1957 it was also the first to gain independence. After a series of coups, Lt Jerry Rawlings took power in 1981, banning multi-party politics until the re-establishment of elections in 1992. In July 2012, John Dramani Mahama was sworn in as president of Ghana, following the unexpected death of his predecessor, John Atta Mills.

INFRASTRUCTURE

Ghana's infrastructure is impressive compared with other low-income African countries, with advanced coverage for rural water, electricity and GSM signals. The roads are good and the country has reformed the ports, roads, water supply and ICT sectors. Energy supply is a challenge, with demand outstripping growth, outmoded distribution methods, under-pricing and hydrological shocks leaving Ghana reliant on oil-burning generators. Recent oil discoveries may help to fund infrastructure development, however.

MEDIA

Media freedom is far more widespread than in much of Africa. Private press and broadcasters are free to criticise the authorities without major restrictions, especially in lively radio debates. Radio is the most popular media, although access to television is on the rise. The state-owned Ghana Broadcasting Corporation runs national TV and radio networks but many private stations crowd the airwaves. Mobile phones are widely used to download news, and in mid-2010 there were close to 1.3m internet users.

PEOPLE

The population has almost quadrupled in the last 50 years. Of the 52 ethnic groups, Akan makes up 45% of the population. Ghana has largely avoided the ethnic conflicts of other African countries. Although English is the official language, most people speak at least one of the 79 local dialects. Since 2007, all universities and colleges have offered Chinese classes, reflecting the growing influence of China globally and its close ties with Ghana. Christianity is the main religion, although Islam is prevalent in the north.

ACCOUNTANCY

ICAEW and the Institute of Chartered Accountants Ghana (ICAG) have launched a three-year roadmap to strengthen the profession in Ghana, backed by the World Bank. A milestone was reached this summer when ICAEW visited Accra to help launch an ICAG audit quality monitoring unit, a huge step forward for audit regulation in Ghana. Another team will help strengthen the ICAG professional qualification and a third will lead a training and certification programme in IFRS.



Few institutions are as traditional as the Bank of England and few chairmen are as well versed in corporate governance as Sir David Lees.

But, as chairman of the Bank's Court, Sir David is bringing the Old Lady's board structure and processes up to date

THE QUIET REVOLUTIONARY

A

s I enter Sir David Lees's office, he stands and offers me tea. An elegant tea set sits on a low table. It's a small detail and yet this classically English tradition seems right for the Bank of England. If you can't expect traces of the Empire at the Old Lady of Threadneedle Street, where can you? But as I soon discover, the septuagenarian chairman of the Court of the Bank of England is no mere guardian of old ways.

We meet only a few days after the Bank's deputy governor Paul Tucker, a contender to be the next governor, has been in front of the Treasury Select Committee (TSC) to explain his role (or lack of it) in the Libor rigging scandal. As the tea is poured I suggest it has been a hectic week at the Bank and Sir David seems happy to talk. He points out there hasn't been a quiet week since 2008. He was appointed in 2009, and is familiar with the media attention.

"We are used to pressure here at the Bank. If you go back to the financial crisis, there appear to have been issues all the time. Right now, apart from the Libor matter, we've got the Financial Services Bill. We haven't been in a normal situation for a long time and the Bank's policymakers have to deal with domestic issues as well as what's happening in Europe. This is significant, but not unusual for the Bank."

It's a fair point but, looking back at the Libor crisis, one criticism made was that the Bank was slow to share its side of the story after former Barclays CEO Bob Diamond released a note of a telephone conversation with Tucker in which the latter appeared to endorse Barclays misreporting rates. Should the

Words: Richard Cree Pictures: Charlie Best

Bank have released its email evidence, which eventually vindicated Tucker, sooner?

"I don't think so," says Sir David. "There was a lot of drama around Bob and then Paul appearing at the TSC. But I think it was wise of the Bank and of Paul to ask the TSC to appear when they did. That did the Bank and him a lot of good."

At which point his PR man reminds me that the interview was meant to be about the transformation of the Court and Sir David's role in that process. So I turn back to the Financial Services Bill, currently working slowly through parliament. It will see the Bank take responsibility for macro-prudential stability and supervision of individual institutions back from the FSA. Alongside the monetary policy committee a new financial stability committee has been created in embryonic form for the moment.

This is a big challenge for the Bank, not least because the sector is very different from 1998 when the Bank last held such responsibilities. "What lies behind that is very significant for the bank," admits Sir David. "Our headcount will increase from 1,800 to 3,100. That's a big change with all the implications for IT and the other functions."

But there have been rumblings at the FSA that the headcount should be even larger. The Bank is allegedly putting a limit on the numbers who transfer. Some areas are seeing staff numbers cut by a third. One senior industry insider, who didn't want to go on the record, says it appears to be an odd way to do things. "You'd think they would work out the size of the job to be done and then work out how many people they needed," he says.

The intention appears to be to move to a model where firms are encouraged to build stronger internal controls and to rely more on Section 166 Skilled Persons Reports to investigate areas of concern. This model of outsourced compliance is compared unfavourably by some to the US, where the Federal Reserve has a huge number of supervisory staff, many based inside the banks. There's even a story that the Fed has more people supervising RBS, which has a minimal US presence, than the FSA does.

The original Bill has been heavily amended. Sir David agrees it was flawed and that the Bank proposed significant amendments. "We put forward proposals to the Treasury and the Treasury picked up our proposals more or less without alteration. That has translated into the current Bill, which is quite satisfactory."

The TSC proposed the Bank's existing Court be replaced with a new supervisory board. The Court (the Bank's board) may have an old-fashioned title, but it changed significantly and started to be more corporate in 2009. In keeping with the modern trend for smaller executive boards supported by non-executives, the only executive directors are the governor and his deputies, with the rest all non-execs. Sir David says the structure matters more than the names. "The Court is the board and while some would prefer it to be called the board, that won't happen. But we didn't want it to be replaced with a supervisory board because that would have meant disbanding the unitary board, which includes both non-executive and the executive directors. It would have been a loss, because executives couldn't be on a board supervising themselves."



"We haven't been in a normal situation for a long time and the Bank's policymakers have to deal with that as well as what's happening in Europe, which is a significant issue"

The compromise the Bank offered was to strengthen its non-executive committee, or Nedco. "We added oversight of the policies and procedures of the MPC and FPC to Nedco's responsibilities and put in place a process so we would review policies and procedures as an independent group. We will also have the power to commission reviews into policy decisions."

These reviews will be commissioned sufficiently far away from the decisions they are assessing so as not to double guess the MPC and FPC or distort the impact of those decisions. "Maybe a year or 18 months after policy decisions, Nedco might ask why something hasn't worked. These are significant new powers for the non-executives here, but this is a better solution."

The problem with this is that it still vests a lot of power in the hands of the governor. But Sir David says the beefed up Court and Nedco can mitigate this. One side effect is that it increases the responsibilities of the non-executives. "The responsibilities that now come with being a non-executive at the Bank will be greater than on many of the corporate boards I have served."

Sir David feels that some concentration of power should be welcomed. A simpler system of supervision, he says, is preferable to the current tripartite system, with responsibility shared between the Bank, the FSA and the Treasury. "The tripartite arrangement didn't work, because it was difficult to pin

CAREER HIGHLIGHTS

- 1962 – Senior audit clerk, Binder Hamlyn
- 1969 – Finance director, Handley Page
- 1970 – Chief accountant, GKN Sankey
- 1982 – Finance director, GKN
- 1983 – Member, Audit Commission
- 1987 – Group managing director, GKN
- 1988 – Chairman and CEO, GKN
- 1991 – NED, Bank of England
- 1996 – Chairman, Courtaulds
- 1998 – Chairman, Tate & Lyle
- 1998 – NED, Royal Opera House
- 2005 – Deputy chairman, QinetiQ Group
- 2008 – Governor, Royal Ballet School
- 2009 – Chairman of the Court of the Bank of England
- 2010 – Honorary patron of Shrewsbury Town FC

“I saw being a chartered accountant as a means to an end. I wanted to get into industry and finance was a way in. I trained and qualified, but left the profession, although I have always kept my membership.

“A grasp of the numbers is a really useful tool in business. Lord Kelvin said in 1891 that ‘If you can’t measure it in numbers your knowledge is of a rather meagre and unsatisfactory kind’. He wasn’t far wrong. I went from finance director to being CEO and chairman.

“Coming to the Bank was a shock, but I enjoy it. It is so interesting, although very different from GKN or Tate & Lyle. It is difficult, particularly for an industrialist like me, but I am learning all the time.”

responsibility on any individual. It is standard practice that you have one-to-one responsibilities. The tripartite system was a mish-mash. Now the responsibility is firmly back on the Bank’s shoulders, both on the policy committees and on the non-execs to oversee those committees. Under the tripartite system, the Bank had a ‘responsibility to contribute’ to financial stability. No one designing a system would opt for the word ‘contribute’. It is too subjective. Do you mean contribute a little or a lot? But that will disappear and we will have full responsibility.

“As chair of the Court, my role for this oversight will be to determine how we are actually going to do it. I will probably allocate responsibility among the non-execs, but until the Bill is enacted, it is too early to be definitive.”

He may not be spending time on it, but it is evident that Sir David has a clear idea of what good corporate governance means. He may not be the type to push over the statues, but after 25 years as a chairman in industry his arrival at the Bank marked a change. It was, he admits, also a shock for him.

“I had been the chairman of a public company for 25 years, so I had seen a lot, but I found it difficult coming here. I was on the Court in the 1990s, so I am a sort of recharged battery. But being a non-executive here at that time was different. We would come for an hour and have presentations from the chief economist or other executives. It was not a very participative experience. Now we operate as closely as possible to the model of a normal board. I had to make sure the committee structures worked, because if you haven’t got effective subcommittees you restrict the capacity for the board to perform.”

Other changes he has implemented include dinners for the non-executives, executives and external members of the policy committees to give them a chance to get to know each other; trips with the Court to regional agencies; and tougher board effectiveness reviews. None of them are headline grabbers. But Sir David says in aggregate they are having a profound impact.

“Things like the Court effectiveness reviews play an important part in good governance. I’ve spent time with external members of the MPC interviewing them to make sure they have no problems with the way the bank is supporting them and in relationships with other people across the bank.”

However much Sir David tries to make the Court more commercial, there are inherent differences, including the fact it is not-for-profit. “There is no profit motive, but there is a cost motive and all our costs have to be recovered. Also the chairman of Court doesn’t have the same responsibilities as the chairman of a corporate board would. Those are contained in statutes for the MPC, and will be for the FPC, and are well defined.” Sir David says he faces the same challenges as any chairman. “On issues such as succession planning, audit and risk, diversity and budgetary control the problems are similar. I can’t think of many issues where the parallels aren’t close.”

The governor, Mervyn King, welcomes the change. “David has brought a wealth of experience to the Bank, helping to ensure our governance and use of non-execs matches best practice,” he says.

Sir David is equally effusive. “For over 300 years the governor has been chairman and chief executive. The role of a non-executive chairman is a creature of the 2009 Act. If you do both roles and suddenly there’s a chairman, it’s a big adjustment. The governor has been very supportive.”

Separation of the top jobs is now standard practice. Sir David, formerly a holder of the combined role, admits to being a convert. “Initially I didn’t think separating the roles was a good idea. But the complexity of modern corporate life and the issue of dealing with shareholders and boards means there is enough work for both, providing they don’t tread on each others’ toes.”

And he says good CEOs don’t always make effective chairmen. “Being finance director is a good step towards chairmanship. My route was finance director, then chief executive for a bit, but I quickly moved to the chair. I was not taking the day-to-day decisions. I was much more an executive chairman who delegated than a CEO.”

After three decades in the boardroom Sir David has seen changes in the way business is conducted, one of which is the increase in diversity, which Sir David says is good. “The GKN board in the early 1980s was

18-strong and there wasn’t a skirt in sight.”

He is less pleased about non-executives taking on too many roles. “Excessive plurality is bad. Depending on the size and weight of the role, I think more than four is excessive. If someone is doing much more you have to question what time is being spent on the company. It would be better for them to be paid more and do fewer roles. It seems curious that people want to do so many. It must be very difficult to feel involved.”

He may be at an age when many of his peers are winding down, but Sir David is winding up for one big final career challenge. Assuming the FSB passes, the next year will see him integrating parts of the FSA into the Bank’s operations and assisting with the installation of and handover to a new governor, not to mention a new regulatory regime. No wonder he admits that when this current contract expires, at the age of 77 it will “probably be about time” to call it a day. ■



TOO MUCH INFORMATION

So much for transparency; quarterly reporting may be harming firms and investors, reports **Christopher Alkan**

For Wall Street's equity analysts the three-monthly updates from America's companies are keenly awaited. The quarterly earnings season is a period of high excitement on the markets. Within seconds of a release, shares can gyrate as analysts and investors take the pulse of the nation's leading companies.

But there is a growing chorus of opinion that this storm of activity, now common to most rich-nation markets, is unhelpful and may even be destructive. A recent report for the British government by economist John Kay argues that forcing companies to release financial reports so frequently actually harms investors and businesses.

When it comes to data, Kay argues in his report published in July that "useless information is often worse than useless." This paradox is backed up by a mounting

stack of economic studies. Many now believe that overly frequent reporting encourages businesses and investors to make short-term decisions that sacrifice long-term returns. Some studies have even suggested that quarterly reporting is more damaging to investors than high-profile frauds such as the collapse of Enron.

This academic backlash seems to be having an impact on government policy. The European Commission is considering ditching the requirement that firms update investors once every three months. So far the US remains wedded to quarterly reporting, but some experts believe that even there support for frequent statements is eroding.

The tradition of obligatory quarterly reporting was born in the US. Ever since the early 1970s, American firms have been compelled to publish these regular updates. And the practice has gone

global. In 2004 the European Commission published rules insisting that companies publish interim management statements. The practice is also increasingly prevalent in South-East Asia. Only certain emerging markets have been lagging behind.

"More frequent reporting can be seen as part of a venerable historical trend towards giving investors ever more information," says Phillip Stocken, professor of accounting at US university Dartmouth College.

On the surface there are compelling reasons why the world should have followed the US's lead. Some experts argue that allowing companies to vanish off the radar for long periods of time can be dangerous. In the gaps between company reports, valuable information is more likely to be restricted to privileged investors that are closest to the firm.

"That can leave ordinary investors out in the cold," says Professor Stocken. "If this group feels the odds are stacked against them many will eventually just withdraw from the market. That is in nobody's interests."

The biggest fans of quarterly reports tend to be stock analysts, who spend much of their time poring over these releases. Fadel Gheit, a veteran oil analyst at investment bank Oppenheimer who



has been following quarterly reports for close to three decades, believes they give greater clarity to investors. "Some people complain that quarterly reporting is overkill. But you have a choice of whether you want to dive deeper into the figures or not. Nobody is forcing investors to look at these numbers," he says.

Gheit says he can quickly plug new numbers from a quarterly report into existing spreadsheets to give a clearer picture of how a firm's fortunes are developing. "It's not as though analysts worship these releases," he says. "But each pixel gives us a better image."

Such arguments are only superficially appealing, according to many investors. The most basic complaint is that quarterly reports provide little useful information. "I think investment banks and stock market analysts who make their living by promoting trading turnover like quarterly reporting, but the figures don't often mean much and are easy to manipulate," says Peter Montagnon, a senior investment adviser to the Financial Reporting Council.

Long-term investors increasingly suspect that quarterly figures are far from a pure representation of a firm's fortunes.

THE KAY REVIEW Reporting recommendations

Released on 23 July, the *Kay Review of UK Equity Markets and Long-term Decision Making* outlines specific recommendations concerning reporting to shareholders. The report has been "designed to provide a foundation for a long-term perspective in UK equity markets and describe the directions in which regulatory policy and market practice should move".

Having previously described many quarterly reports as "self-congratulation with little substantive content" filled with data that's "just noise", one of Kay's key principles is that at each stage of the equity investment chain, reporting of performance should be clear, relevant, timely, related closely to the needs of users and directed to creating long-term value in the companies in which savers' funds are invested. With this in mind two of the review's recommendations explicitly refer to financial reporting, stating:

- mandatory IMS (quarterly reporting) obligations should be removed; and
 - high-quality, succinct narrative reporting should be strongly encouraged.
- BIS is considering the recommendations of the report and is expected to make a detailed response later in the year.

"The first danger of these updates is that they encourage companies to smooth out earnings," says Robert Talbut, chief investment officer at Royal London Asset Management, which manages £44bn of funds. "The idea that companies should be so predictable as to hit quarterly forecasts is simply an illusion."

To create the facade of such continuity, firms can use an array of gimmicks, such as tweaking allowances for losses or delaying maintenance, says Stocken.

Analysts such as Gheit counter that such expedients can't hide the truth for long. "If a company has real troubles then accounting tricks will only delay the day of reckoning," he says. Still, the flaw in most quarterly reports is that they aim to reduce fluctuations that might make investors nervous. To that extent they are seldom the whole truth.

Talbut believes that far from being a harmless distraction, the three-monthly updates are damaging. The first group of victims, he says, are the investors themselves. "The main effect is to encourage investors to churn their portfolios," he says. "There is an awful lot of worthless activity surrounding quarterly reports."

Such turnover generates commissions for the banks but can sap returns at



pension funds and other investment institutions. The flurry of releases once every three months also subjects stock pickers to information overload, says Liz Murrall, director of corporate governance and reporting at the Investment Management Association.

The underlying problem, Kay concluded in his final report, was often a subtle one. Even when investors conclude rationally that a quarterly statement adds little of value they may still feel compelled to trade. "People may feel obliged to act on [useless information]," Kay concluded, partly out of fear that others will do so. "In securities markets, irrelevant information becomes relevant if you believe that others may think it is relevant."

Another complaint about frequent updates is that they also impose a financial cost on the firms themselves. "Quarterly releases mean that some companies are in almost continuous reporting mode," says Dr Nigel Sleigh-Johnson, head of ICAEW's Financial Reporting Faculty. "That can put a lot of pressure on the finance functions of businesses and even impair the reliability of reports."

It can also be a distraction for management, according to Governance

ICAEW VIEW

Professor Kay identified a UK consensus that quarterly reporting and the preparation of IMS have adverse effects on the behaviour of companies and investors. ICAEW agrees. In 2003, we opposed European Commission plans for mandatory quarterly reporting by EU listed companies. We said it would lead to significant additional costs and that there was a lack of compelling evidence that additional costs and distractions were justified by the benefits of greater disclosure. The compromise reached then was interim management statements. But they have not proved useful. They are of variable quality and not highly regarded by investors. They should be abolished.

We do not oppose quarterly reporting. A number of major companies will choose to continue to do it in the UK, citing investor demand and a need to comply with US requirements. And the case for mandatory reporting depends very much on the local business, regulatory and corporate governance environment. There is no universal model for ensuring that investors receive the information they need. It is a matter for each country to decide for itself.

Dr Nigel Sleigh-Johnson, head of ICAEW's Financial Reporting Faculty

for Owners, an organisation that brings together executives and long-term investors such as California state employee pension fund CalPERS. This is something that managers are reluctant to admit publicly, the group says. Paola Perotti, a partner at Governance for Owners, says no public company chief would go on the record as being against quarterly reports but that in private they were more forthcoming.

"At a recent seminar two chief executives mentioned that they spend half their quarterly board meetings discussing how to present their quarterly results and the effect the results will have on their company's share price," she says. "One of them complained shareholders were asking them to think long term and deliver in 90 days."

Economic research backs up the idea that quarterly reporting is more than just a distraction. There is compelling evidence that firms sacrifice their long-term economic value to meet their quarterly earnings targets.

A survey of 400 CFOs in 2006 revealed that 55% of them would postpone an otherwise money-making longer term project in order to avoid missing analysts' quarterly earnings expectations. The authors, Professor John Graham of Duke



University, North Carolina, and Shiva Rajgopal of the University of Washington, argued that this short-term outlook was more damaging than headline-grabbing fraud cases.

Much of the media attention is focused on a small number of high-profile firms that have engaged in earnings fraud," their paper said. "We assess that the amount of value destroyed by firms striving to hit earnings targets exceeds the value lost in these high-profile fraud cases." The report estimated lost economic value of about \$150bn per year – equivalent to two Enrons, the authors said.

"CFOs believe that hitting earnings benchmarks is very important because such actions build credibility with the market and help to increase their firms' stock price in the short run," the paper argued. "To avoid the severe market reaction for under-delivering, CFOs are willing to sacrifice long-term economic value, such as delaying a valuable project."

A more recent paper in 2011, focusing on European companies, came to similar conclusions. Jürgen Ernstberger, a professor at Ruhr University Bochum in Germany, found proof that companies were willing to make short-sighted

business decisions in order to live up to analysts' expectations. Such myopic decisions included offering bigger discounts to consumers to boost sales in the short term, even at the cost of long-term performance. Such behaviour was more prevalent in nations that insisted on quarterly reporting, Ernstberger concluded.

Those who wish to scrap quarterly reporting dismiss fears that this would compromise investor safety or promote insider trading. Murrall says Investment Management Association members would not be short-changed by less frequent reporting. "Investors are already guaranteed that firms will disclose price-sensitive information to the market," she says. "As a result, if the quarterly statements go, shareholders would not be kept out of the loop."

The same point was made in October last year in a statement on reporting requirements by the European

“Quarterly releases mean that some companies are in almost continuous reporting mode”

Commission. "Investor protection is already sufficiently guaranteed," the statement said, citing the requirement for firms to publish market-moving information immediately.

Profit warnings in which companies keep investors informed of negative developments in their business outside the regular reporting schedule are extremely common. Data from Ernst & Young showed 73 such announcements in the first three months of 2012 alone.

This raises the question of how corporate reporting could be changed if quarterly statements ceased to be obligatory. Kay believes a new approach to financial and business information is needed. "The notion that one size fits all for reporting is a myth," he says. "The relevant time scales for businesses vary depending on the type of firm you are dealing with." For example, banks can appear to be doing well in any particular

year. But this might simply reflect the fact that they are taking on excessive risk, which only becomes apparent over the course of several years.

In this context quarterly reports would appear to be just a distraction. Firms with these very long cycles – such as those in banking, construction or energy production – could help investors more by offering comparisons of their performance at the same stage in the previous business cycle. This would not need to be updated each quarter.

By contrast, there are firms for which a quarterly approach might be extremely helpful, such as in retail. Differences in reporting frequency and style would be determined by the needs of investors rather than government rules.

"There are certainly cases where investors will want to be kept very up to date with developments in a firm," says Sleight-Johnson.

While good intentions lie behind the rules that force firms to present their results regularly to owners, quarterly reporting appears – if unintentionally – to have many negative consequences. Investors become more tempted to churn their portfolios, even if the underlying performance of the business has not changed noticeably.

The tyranny of the quarterly report can also weigh on businesses. If firms merely used accounting tricks to smooth out their quarterly earnings, the outcome would not be so serious, they would simply be compromising the quality of the data they produce. However, a more serious consequence is that many companies are prepared to give up long-term profits to avoid losing face in the markets by missing quarterly targets.

Investors seldom ask for less transparency or information. The issue of quarterly reporting, however, is a rare exception. As Perotti from Governance for Owners points out: "Mechanisms need to be devised to ensure that both management and shareholders are suitably rewarded for thinking long term."

Many feel that the most obvious starting point would be to draw a line under the mandatory quarterly report. ■

AVOIDANCE OR EVASION?

Is tax planning a means for companies to get out of paying what they owe, or simply the most efficient interpretation of the rules? Accountants on the front line give **Nick Martindale** their views on a fair system

The news that high-profile individuals, including an unfortunate figurehead in the person of comedian Jimmy Carr, were avoiding millions of pounds in tax by channelling money through off-shore schemes caused public outcry and brought condemnation from David Cameron.

But when it comes to corporation tax, there are billions rather than millions at stake in the tax avoidance arena. Should the outrage be similarly multiplied?

When news broke in early June that mobile phone giant Vodafone paid no UK corporation tax last year despite having its headquarters in Newbury, it provided a predictable feeding frenzy for the media. Vodafone's chief executive Vittorio Colao launched a robust defence, saying there was nothing illegal in what it had done – write off its corporation tax contribution against capital expenditure of £575m – and the business had paid some £700m in payroll and other taxes.

Ian Young, international tax manager at ICAEW, says this is just one example of how a company can, quite legitimately, minimise its tax liability. "Tax is clearly a cost to business but it can't be treated in the same way as any other expenditure. Corporates are making decisions about how they run and structure their businesses in the context of the economic situation, competitors, how they think the market is going to change and the tax systems in which they operate."

The CBI has been riled by the current witch-hunt against corporations perceived as not paying their fair share of tax, prompting it to produce its *Tax and British Business: Making the Case* report, which found that British companies paid more than £163bn in taxes to HMRC in 2010-11, constituting more than a quarter of

the total tax revenue of £551bn. The report highlighted a number of reasons why UK corporations may genuinely pay less corporation tax than expected. As well as offsetting capital expenditure, which is designed to reflect the reality of operating in certain parts of the economy (such as telecoms), these included group relief, where losses can be transferred among businesses; losses from previous tax years being carried forward; and tax credits for investing in innovation or research and development.

Both the CBI and Young broadly welcome the tightening up of regulations around tax avoidance, including proposals for the new General Anti-Abuse Rule (GAAR). "We've had a disclosure regime in place since 2004 and the major banks have signed up to a code of conduct about the way they behave in relation to the tax system," says Young. "The government has also had an enforcement programme for the last five or six years and HMRC has a good record of taking cases to court and winning the argument."

Ultimately, a simpler tax system would be welcomed by businesses and the accountancy profession, says Young, who admits that the complexities of the current system can cause problems.

Where clients have heard about a scheme to reduce their tax liability, advisors should take caution. "You have to identify what appetite your client has to enter into what could be a risky situation," he says. "If they're investing in unquoted trading companies to get the tax relief, are they comfortable if they lose all their money? There are difficult issues that need to be addressed when you are advising clients in what are otherwise quite straightforward circumstances."

Right: Jimmy Carr, who used a tax avoidance scheme now being investigated by HMRC



GETTY IMAGES

AVOIDANCE OR EVASION?

THE EXPERT VIEWS



STEPHEN HERRING,
BDO

The vast majority of UK companies pay their fair share of tax and are intrinsically inclined to avoid anything that might create unpleasant surprises further down the line, says Stephen Herring, a senior tax partner at BDO. "A lot of larger companies are very conservative, and telling bad news if something doesn't work is far worse than the good news if it does," he points out.

Yet in a global market, failing to fully examine the potential to minimise tax liabilities could leave UK organisations at a disadvantage. "If someone is buying a new subsidiary in another country, part of how much they can bid will be dependent on the after-tax returns," he says. "So if a UK company is bidding against a German and Dutch one it has to anticipate the right mixture of debt and equity to reduce the incidence of tax."

The GAAR should stop "egregious or outrageous tax proposals that have no commercial basis whatsoever," he says, such as the recent case involving Eclipse Film Partners No 35 LLP.

But Herring argues businesses should also do a better job of defending their position in looking to minimise their tax bills. "Tax planning is right, proper and necessary and it's not benefiting the management as much as the shareholders, which are pensions, SIPP investments, investment trusts, ISAs and insurance policies.

"It benefits all of us that management is properly looking to reduce its tax liabilities," he adds. "Are we really asking managers to say that they had five routes available for taxation and that they took the most expensive?"

"The majority of taxpayers – both companies and individuals – are prepared to pay taxes and accept that it is a necessary cost in a developed society"



VINCE MCLOUGHLIN,
RUSSELL NEW

The current mood around tax means organisations risk being stigmatised for looking after their own best interests, believes Vince McLoughlin, a partner at West Sussex-based Russell New.

"If the law allows you to arrange your affairs in the best way, then doing so should not be seen as anything other than sensible planning," he says. "If the belief is that the law is wrong then change it, but don't criticise individuals and companies for benefiting from it."

A fairer and simpler tax system would remove the need for companies to go to extreme lengths to reduce their liabilities, he adds. "The majority of taxpayers – both individuals and companies – are prepared to pay taxes and accept that it is a necessary cost in a developed society," he says.

"If HMRC can create an environment in which companies believe they are paying a reasonable amount of tax, that they will not be attacked for any attempt to carry out an investment proposal and that HMRC understands how businesses operate, then the tax avoidance industry will essentially operate by self-regulation."

The government's policy of having different rates of tax for smaller and larger enterprises is antiquated, says McLoughlin, who expects a single, uniform rate to be introduced in the next five years.

He has concerns, however, over the introduction of the GAAR. "The risk is that, in order to make it work, many planning opportunities that even the greatest moralist would deem to be acceptable will be caught under a general rule," he warns.



MARK SIMPSON,
SIMPSON BURGESS NASH

The UK tax system has always lacked a set of underlying principles and has evolved in a piecemeal fashion with too much political interference, says Mark Simpson, director, tax saving, at Manchester firm Simpson Burgess Nash.

As a result, larger companies – and the pre-crisis financial institutions in particular – have, over the years, devoted vast resources to devising schemes to radically reduce their tax bills, he says. This has been made easier by the increasingly globalised nature of organisations and business as well as the emergence of ecommerce, which has made it easier to operate in low-tax jurisdictions.

“The danger of this is that it is to some extent becoming the case that the bigger a company you are and the more profit you make, the lower your effective tax rate, which is morally unacceptable,” he says.

The financial crisis, though, has changed not just public awareness of tax avoidance but also the attitude of the vast majority of the accounting profession to what Simpson describes as the “unacceptable nature of large-scale tax avoidance using artificial, non-commercial arrangements”.

Simpson has high hopes that the introduction of the GAAR will provide a platform for a more credible tax system, and help accountants deal with the relatively few requests from clients to advise on such morally dubious schemes.

“I would be delighted to be able to tell clients that from April 2013 there is no point considering such schemes as they would almost certainly be caught by the GAAR,” says Simpson.

ICAEW TAKES A STAND

When *The Times* launched its investigation into the amount of tax paid by the UK’s wealthiest individuals and some of its largest corporations, ICAEW CEO Michael Izza stood apart from much of the profession. Rather than simply defend the right of professional firms to offer client’s the best possible financial advice, Izza suggested that accountants along with the rest of society have a duty to behave not just legally, but morally, too.

Izza suggested that ICAEW chartered accountants should “look themselves in the mirror”, act in the public interest and not do anything that brings the profession into disrepute.



CHRIS MORGAN,
KPMG

Chris Morgan, head of tax policy at KPMG, makes the point that there is a “massive black line” between tax avoidance and tax evasion. “The thing that’s being blurred is the distinction between mitigation that works and avoidance, which is where you try and do something which is totally legal but either there’s a piece of legislation that says it doesn’t work or a court says you made the wrong interpretation,” he says.

Accountants have an important role in advising clients on the implications of the approaches they wish to take in this area, says Morgan. “If a company is saying it is not going to do any planning at all, how do you get benefit for the public for that?” he asks. “Equally, if a company says shareholders want it to push it as far as possible, how would it then communicate that in such a way that it’s not seen as acting against the interest of society?”

The introduction of the GAAR is a good idea in principle, says Morgan, but the dangers will lie in individual decisions made by courts over what constitutes abusive transactions. “If you could get a ruling upfront, as you can do in many other circumstances, you’d have certainty as to whether or not the rule would apply,” he says.

There is a risk that companies assessing whether to invest in the UK or overseas could be put off by the vagaries around the GAAR until sufficient cases have come to court and been challenged on appeal, he adds.

AVOIDANCE OR EVASION?

THE EXPERT VIEWS



ANDY WHITE,
CARTER BACKER WINTER

The government has launched a “deliberate and concerted campaign to characterise tax avoiders as pariahs,” says Andy White, a tax partner with mid-tier accountancy firm Carter Backer Winter.

“This has been achieved by tacking the word ‘abusive’ in front of the phrase ‘tax avoidance’ and by calls for citizens to pay ‘the right amount’ of tax, as if that were something that could be defined,” he says. “If the government were to concentrate more on having a cohesive tax policy and not over-complicating the system, they may have more success.”

There are, however, a number of practices which some organisations use to minimise their tax payments, he admits. Chief among these is the use of offshore group companies. “This might be by setting their head offices offshore or by ‘transferring’ income offshore,” says White.

“Favoured techniques for the latter might be for an offshore subsidiary to own the intellectual property of the group and for UK companies to pay royalties or licence fees, which are tax-deductible. Another is for the UK company to be financed by large loans from offshore group members, on which tax-deductible interest is payable.”

Legislation already exists to counter such abuse, in the form of transfer pricing and thin capitalisation, he says. “What is unclear is why this legislation is apparently not being used fully,” says White. “HMRC needs to be sufficiently resourced to be able to distinguish those companies that are abusing the legislation from those that have little or no UK tax to pay because they are making legitimate use of the various reliefs offered by the tax code.”

“HMRC needs to be sufficiently resourced to distinguish companies that are abusing the legislation from those making legitimate use of the various reliefs offered”



BRIAN LINDSEY,
HW FISHER & COMPANY

Many companies that pay different rates of tax do so simply by virtue of the sector they happen to be in, with those involved in research and development likely to benefit from tax breaks, points out Brian Lindsey, corporate tax partner at HW Fisher & Company in London.

“Just because companies pay taxes at a different rate doesn’t mean they are arranging their taxes in a particular manner to reduce their tax liability,” he says.

There are, however, organisations that have decided to take advantage of the tax rules as they stand, and accountants have to be sensitive to this. “We wouldn’t countenance any form of evasion but clients would like us to ensure they are paying the correct amount of tax, based on what the legislation says, so we will always advise on what allowances are available,” he says.

He admits, though, that the current climate means there is a greater emphasis on what is perceived as fair, and clients are increasingly having to factor this into any decisions they make.

The introduction of the GAAR should provide a greater degree of certainty in the long run, he says, although in the short term there is the potential for greater confusion.

“All parties would prefer a simpler system that would not put us out of work,” he adds. “But every time there is a new Budget the legislation gets more complex. A system with fewer rates of tax where everyone knows where they’re heading with their tax position would be helpful.” ■

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**Managing Director of NCR Cyprus,
Mr. George Flouros**

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LLOYDS BANK 

TO BOLDLY GROW...

Businesses operating in the mid-market feel overlooked and forgotten. With investors, policymakers and the media focusing on **start-ups** or **FTSE 100 companies** they have a point. Yet given support they can play a **key role in reviving** the UK economy.

The CBI estimates that companies in this squeezed middle could contribute **an extra £50bn** to the UK economy over the next seven years. While low confidence is hitting **growth** ambitions, funding remains a hot topic for mid-sized businesses. As part of its Squeezed Middle campaign, *economia* in association with **Lloyds Bank** brought together **12 business leaders** and industry experts to discuss funding **options** for mid-sized businesses and consider how growth can be **stimulated**.

Mark Burton, regional managing director at Lloyds Bank Wholesale Banking & Markets, was the host and Richard Cree, editor of *economia*, chaired. Alison Coleman reports

Richard Cree: Middle-market businesses are crucial to the wider economy and the impact they have on the surrounding environment, especially if they are fast-growth companies, is often disproportionate to their size. But one of their main challenges remains access to finance. It is a critical issue for many of these businesses. While it's clear that banks are under pressure to remove risk from their balance sheets, which is the cause of some of the funding issues, there are also demand-side issues.

Mark Burton: Our focus is on supporting SME and mid-market businesses as lending to this segment is core to the success of the bank. The central challenge is a lack of confidence in the wider economy and the impact that has on appetite to invest in growth. We're seeing that the volatility of global economic sentiment is, in some cases, dampening enthusiasm to target growth opportunities that would have been seized upon in benign conditions. This lack of confidence is impacting on demand for lending. We're working hard to overcome this barrier by bringing down the cost of borrowing and providing a flexible and broad range of funding options.

Piran Mitchell, finance director, Authentic Food Company: We manufacture frozen ready meals and snacks for retail and food service, and are at the lower end of the mid-market sector. The business has grown by 30% over the past two years and will grow a further 12% this year. We have to invest in plant and machinery using debt finance



“While banks have been blamed for being the root of all evil we can’t blame them for lending recklessly and then for being too cautious”

James Baer, managing director, Amber Taverns

and asset finance, and have no intention of using equity finance.

Harvey Jacobson, executive chairman, Jacobson Group: My business, which is predominantly in footwear, turns over about £70m, split 50:50 between brand supply to major retailers and our own brand. What has become apparent for businesses of our size is that fear of borrowing is not the main issue, it is willingness to lend.

Darren Thomason, finance director, Bowker Group: We’re a long-established third-generation family business comprising two transport warehouse businesses with a turnover of £12m to £15m, two BMW dealerships each with a turnover of £50m, and a Harley Davidson franchise. Funding is largely debt finance with retained profits supplemented by term borrowing for property purchases and refurbishments. But we also use asset finance for some purchases. Approaching the bank for term borrowing is definitely more difficult than it used to be.

James Baer, managing director, Amber Taverns: We own 80 freehold wet-led

pubs in the north of England, with backing from three venture capital trusts and HBOS. My view is that while the banks have been blamed for being the root of all evil we can’t blame them for lending recklessly and then for being too cautious.

Alan Smith, finance director, Firwood Paints and vice chair, Trafford Housing Trust (THT): Firwood is a fairly small third-generation business that has reasonable cash reserves. The only thing that interests us about the banks is the level of service and the charges. THT is a mid-market housing association with a £40m turnover. It has a £145m borrowing facility and our last renegotiation in February was reasonably painful. Next time we need money we’ll be exploring the bond market.

Mark Benyon, chief executive, Electrovision: We deal in electronics distribution, manufacturing medical devices, air conditioning and property. All I want to do is pay down debt. But when I’m dealing with the bank I’m not always dealing with the decision maker.

Alan Firth, executive chairman, Meridian Healthcare: We operate in the residential nursing care sector and have 1,473 beds and a turnover of £33m. Next year’s growth will come from two new care homes built using our own cash. Having tried to secure funding for the two new builds, the proposal from the bank was to refinance our existing debt, which wiped out any profitability that we could have generated. Using our own cash has worked against us, in that most of our clients are local authorities that see us as cash-rich, assume they must be paying us too much and are cutting fees. We’d like to have grown the business with the bank’s support, hopefully by leaving existing debt alone and accepting new terms for new borrowing. But we are focusing on paying down debt and anticipate being debt-free within the next six years.

Clive Austin, director, NVM Private Equity: Typically we would invest in development capital – growth finance for unquoted businesses or buy-out finance for similar sorts of enterprises. We look to fuel their growth, often in collaboration with the bank, though that aspect of the funding landscape is changing.

Michael Brown, senior partner, Berryman Lacey Mawer: We have 150 partners and 1,500 staff and are seeing growth of between 5% and 10% per



Round the table: (from far left): John Hayhurst and Mark Burton; (top) Mark Benyon and Alan Firth; (below) Harvey Jacobson; Clive Austin and Michael Brown; Richard Cree

“Medium-sized businesses are reporting a lot of frustrations, often over the time it takes for committee decisions on lending”

Alison Lever, partner, PwC

annum. There are some interesting new challenges for the legal services sector, with new legislation that will facilitate investment in law firms in a way that has never existed before. That will be of interest to those who finance businesses through private equity and so on.

Graham Bond, partner, Baker Tilly: I deal mainly with entrepreneurial businesses and see a lot of clients based in that squeezed middle, with opportunities for acquisitions and expansion. But all they are doing is paying down debt. There is money out there but it is mainly private equity, not bank lending.

Alison Lever, private business partner, PwC: I’m part of a multidisciplinary team working with medium-sized businesses whose banks are telling them they are open for business. But as we see they are reporting a variety of experiences and a lot of frustrations, often about how long it takes for decisions on lending. There are alternatives to bank finance, but people don’t know where to go to find them.

Burton: There are many products that complement traditional debt finance

from asset-backed lending through to capital markets. Our approach is to work with management to identify the most appropriate funding for their business and tailor facilities appropriately.

John Hayhurst, director, ECI private equity: We are looking to invest in growth-focused businesses that are headquartered in the UK. We are finding the number of players in the debt markets has diminished, including the number of traditional banks lending. Our challenge is not just bringing in one lead bank but finding three that will lend at the same time. It has become a much more difficult process.

Cree: This raises an interesting dynamic. There is finance around, but it’s just not that easy to get. So is supply the issue or is it about access? What needs to change to make the two things match up?

Thomason: We’ve spent five or six years paying down debt predominantly. We currently have a property purchase going through. We met the bank’s credit representative but there is still

uncertainty as to whether or not funds will be there. He liked us, and we should be OK, but we are committed to spending the money. We’ve got the cash reserves to do it but cash is not the way to fund a business long term. In the past you could sit down with your relationship manager and the numbers we are talking about were within his remit to make a decision on. Now it all goes through committee.

Burton: Every bank has a different approach to lending decisions and it’s something we continually appraise and tweak to streamline the decision-making process, while upholding credit quality. We have a prudent policy but try to empower those closest to a business to make the ultimate call. We’ve invested to ensure we have a regionally based credit team that handles 90% of applications. Making this team local and accessible is crucial to understanding businesses’ ambitions and ensuring facilities are appropriately structured and priced.

Austin: Is it visibility of the individual, or is it certainty of the outcome? Our view is that it’s a combination of the two. We’ve gone through unprecedented turbulence and it has felt like the credit rule book has been torn up, creating confusion for everyone. Things have improved since the lowest point but even now decisions are being bounced back by credit committees.

Cree: Are business owners providing banks with the right information? Is the quality of leadership and management and financial control an issue?

Austin: I think it is more a lack of clarity about what is driving the key credit decisions.

Burton: It’s about remaining true to traditional relationship banking, where the manager, the credit team and the customer understand each other’s needs and work closely to a quick and suitable solution. But it comes down to individual interpretation of a situation, getting under the skin of a business and understanding the opportunities and how to mitigate risk. This is continually being speeded up through new processes and technology and will remain central to midmarket banking in the future.

Thomason: There’s also a sector issue. Transport and car dealerships are two



Round the table: (from left):
Graham Bond; Piran Mitchell;
Alison Lever; Alan Smith



sectors that the banks want to run away from, even though we are profitable and have been shining lights.

Burton: It's natural that banks look in detail at different sectors, but lending decisions should be weighted towards the individual business and strategy. It shouldn't be a one-size-fits-all approach.

Firth: I agree. We've had 12 years of growth, a solid balance sheet. We are cash generative, we own all our own assets and we have a large sum of equity built into that business. And yet when we speak to the relationship manager, our sector was just described as a basket case.

Jacobson: Sometimes you are tarred with a brush that is different to your own. We had a similar issue a few years ago when a number of footwear retailers went to the wall and suddenly shoes became a dirty word. Yet we are not retailers, we are the supply chain.

Baer: Our sector has also had its share of problems. To be fair to Lloyds, when we submitted our credit application a credit specialist came out to do the due diligence, pulled the business model apart and put it back together. It was a necessary part of the process given the general climate and the sector, and it costs time and money. It's also frustrating but, if you've had your views and practices challenged and ticked all those

boxes, it's not a bad process for a business or the banks to go through.

Cree: Is there enough awareness of the various alternatives to bank finance, such as those highlighted in Tim Breedon's recent report to government?

Jacobson: If we look at private equity, I see a big fear factor and a perception that they will hammer you harder than the banks.

Hayhurst: Businesses don't understand private equity and the reality is that our finance won't be suitable for all business opportunities. How we operate is to seek leverage and work as partners with the management team. There shouldn't be a fear factor. However, I accept that as an industry there is a PR job to be done to get that message across.

Burton: Looking at asset finance, options such as invoice financing can be a good way to fund growth and it's become more of a mainstream form of finance over the past decade. It's clear that businesses now appreciate the additional flexibility it gives them, particularly during times of peak activity where a swift cashflow boost enables them to fully capitalise on an opportunity. If you look at how £100m plus turnover businesses in the US now fund themselves, that investment is coming from the bond and pensions market. Look at some of the PLCs in the

north of England and you'll see some of that money is now filtering into those businesses. It will be interesting to see how that develops over the next few years, and whether it starts to filter outside the FTSE 250 PLCs.

Austin: For a long time in the private equity industry there was a reluctance to use asset finance. You'd have spells where it worked well, but the minute you needed the money to rely on, it disappeared, because your debtors shrank, so a lot of private equity was used for structures that avoided asset finance.

Benyon: The asset that you have is that someone owes you money. Is that worth anything when people are going bust and the property market starts coming down like a pack of cards? What is that debt worth? Nothing – because they can't pay.

Jacobson: If you have a balanced sales ledger on invoice discount banks will normally advance 80%, so clearly the banks are looking at the detail behind the sales ledger.

Burton: Banks can get access to sales ledgers on a quarterly rolling basis, so they get to know the age and profile of the ledger. Where you have asset-backed lending, if you put in place a facility that is more capital efficient for the bank, they pass some saving on to the client. It's complementary to traditional funding.



THE SQUEEZED MIDDLE PANEL



Richard Cree
editor, *economia* (chair)



Clive Austin
director, NVM
Private Equity



Mark Benyon
chief executive,
Electrovision



Mark Burton
regional managing director,
Lloyds Bank Wholesale
Banking & Markets (host)



Graham Bond
partner, Baker Tilly



Alison Lever
private business
partner, PwC



Alan Firth
executive chairman,
Meridian Healthcare



John Hayhurst
director, ECI private
equity



Darren Thomason
finance director,
Bowker Group



Harvey Jacobson
executive chairman,
Jacobson Group



James Baer
managing director,
Amber Taverns



Piran Mitchell
finance director,
Authentic
Food Company



Alan Smith
finance director, Firwood
Paints and vice-chair,
Trafford Housing Trust



Michael Brown
senior partner,
Berrymans Lace
Mawer

“Businesses don’t understand private equity and the reality is that our finance won’t be suitable for all business opportunities”

John Hayhurst, director, ECI

Cree: In terms of professional advisers, are alternative sources of funding an area people are asking you about?

Lever: There are quite a few cash-rich businesses that don’t want to go to the banks. Yes we do get people asking us where they can go for funding, as well as how to find it. The regional growth funds are there but are quite tricky to get at.

Bond: They are concentrating on reducing bank debt. There are opportunities to make acquisitions but it is about the refinancing. A few years ago you were seeing IPOs every other month, but there are a variety of different models and options.

Cree: Turning to the subject of innovation, some say it’s what got the banks into a mess in the first place. But it seems that there is a need for some innovative financial thinking.

Jacobson: We’ve just identified one idea – taking the bond market and pension market to medium-sized businesses instead of large businesses. Innovation is there but you need to

know where to look for it. If you’re with one of the more credible business services practices they can point you in the right direction. It will cost you, but you’ll get the advice that you’re looking for.

Cree: So what’s stopping businesses? Is it fear of risk? Is it the wrong time for innovation at the moment?

Smith: What is the motivation for producing a new financial product? It’s the return on investment on the previous one. And given that many businesses perceive financial products as too expensive anyway, why would you go ahead with it if it costs more and it doesn’t make a return?

Burton: Our focus is to raise awareness of new initiatives that bring down the cost of borrowing for everyone. For example, the National Loan Guarantee Scheme (NLGS) and the forthcoming credit easing scheme [subsequently announced as the Funding for Lending scheme] should help encourage businesses that now is the time to invest

for growth. We’re seeing good demand for the NLGS and expect the new scheme to be very popular due to the impact on the cost of funding and its flexibility.

Hayhurst: The response to our business growth survey has been quite optimistic. But the challenges include the difficulties in sourcing finance, the fact that regulations are always changing and tax rates that are too high. It comes back to a confidence issue.

Burton: Have the banks gone too far with de-risking and being too conservative? What are they doing to get things moving? There is a sense that this fear factor and the drive to be rid of debt are messages that are not being played back. How do we get that confidence back?

Thomason: There is also a lot of uncertainty in the economy, in particular over what’s happening in the eurozone. What would the banks’ reaction be if Greece or one or two other countries have to leave the single currency?

Burton: There are several different views, but this is something we’ve anticipated for a long time. Like other banks we have contingency plans in place for a variety of scenarios, down to the minutiae of individual clients overseas who need currency. What all businesses can expect is that the banks are planning and we will be very well prepared for every eventuality. ■

FROM ALL CHANGE TO NO CHANGE

In the two decades between the Earth Summit and Rio +20, the world's leaders have failed to reach a consensus on how to tackle climate change. And as **David Adams** argues, they may come to regret it

The Rio +20 UN Conference on Sustainable Development was a huge event, attended by 40,000 people. It aspired to build upon the achievements of the 1992 Earth Summit, also held in Rio, an event that brought sustainable development into the international political mainstream for the first time. Yet many of the NGOs working towards environmental and developmental goals were very disappointed by the outcome of the 2012 summit.

Some of the world's largest corporations were among the contributors to a list of more than 700 voluntary commitments to a range of green initiatives. A group of 45 companies pledged to improve water management practices. Eight multilateral development banks announced that they would provide \$175bn (£112bn) towards sustainable transport projects in developing countries over the next decade.

But government action was less impressive. For many observers it was depressing to note that one of the "achievements" of the event was the insertion into the summit declaration of a clause merely to "encourage" companies to "consider" integrating sustainability information into their reporting.

Other than the UK government's announcement that companies listed in the FTSE 100 index must report greenhouse gas emissions in full from 2013, there was little sign of governments offering new legal weight to their nominal support for the sustainable development agenda.

Instead, observers working for environmental and developmental causes lamented the extent to which the summit resembled an extended press conference for companies promoting positive marketing messages. One concept that did attract a lot of attention, although failed to make it into the declaration, was that of natural capital, with

15 multinational companies signing the Natural Capital Leadership Compact to value and maintain the world's natural capital. The companies say they want to reduce their impact on natural resources, and treat protecting the environment as an investment, not a cost. But critics suggest this is about businesses wanting to own natural resources, while allowing financial companies to create markets to trade natural capital.

Barbara Stocking, chief executive of Oxfam, called Rio "the hoax summit" in a statement at the end of the conference. "They came, they talked, but they failed to act," she said.

So why was Rio +20 such a damp squib? Was its low profile due to the fact that world leaders are preoccupied with more immediate economic problems? Achim Steiner, director of the UN Environment Programme (UNEP) said at Rio: "We can't legislate sustainable development in the current state of international relations."

Is it the case that while businesses can see the practical, financial and reputational advantages of pursuing ethical goals, few world governments now see that agenda as a high priority?

BUSINESS AS USUAL

In the UK and across Europe, acting in an environmentally sensitive way has become part of mainstream behaviour for governments, businesses and consumers. But in recent years the few international agreements to combat climate change have been damaged by the actions of governments, such as when, in 2011, Canada withdrew from the Kyoto Protocol to reduce emissions of greenhouse gases; or in 2009 when the Copenhagen Summit failed to produce any new binding agreement.

Climate change sceptics have also been able to publicise their views more widely, partly because of some partisan media owners, because green rhetoric can be alienating, and because some elements of the environmentalist movement have been discredited. The 2009 email scandal at the University of East Anglia, when scientists appeared to suppress data that did not support the climate change theory, didn't help, although no wrongdoing was proved.

But above all, economic problems are overshadowing environmental concerns. An



From top left, clockwise: leaders at the 1992 Earth Summit; victims of flooding in India; environmental protestors at the Rio +20 summit; leaders at Rio +20; a dust storm in Rajasthan; and indigenous protestors at Rio +20





Left: The melting ice caps are held up as proof of man-made global warming. Right: Sceptics urge investment in natural gas in plants such as this one

“For the first time since the 1980s an anti-green coalition has managed to block attempts to force a binding agreement”

ICM poll commissioned by *The Guardian* in June 2012 asked people for their views on the subjects discussed at Rio – 17% thought the sustainable growth agenda represented “a panic about an exaggerated threat”; 27% saw it as “the most serious problem facing mankind”; but 50% said that while it was important for leaders to discuss climate change, “they must remember prosperity too”.

Alex Scrivener, policy officer at the World Development Movement (WDM), a campaigning organisation that seeks to “end harmful policies which put profit before people and the environment” slams the Rio Declaration as “weak and feeble” – but says that things could have been worse. “Had the G77 [a group of developing countries including China] not insisted that agreements made in 1992 were reaffirmed then we would have had an agreement that would have gone backwards,” he says. “They have ensured we have human rights to food and water in the declaration and a commitment for the North to have more responsibility for countering climate change, as these were the countries that did most to create it.”

Tim Gore, climate change policy lead for Oxfam, says the overall picture from Rio is “depressing and frightening”. He bemoans the lack of a commitment to phase out fossil fuel subsidies, despite previous acknowledgements by the G20 of the need to do so. “There you see the influence of the big corporations,” he says.

Climate change sceptics have strong views on Rio too. Dr Benny Peiser is director of the

Global Warming Policy Foundation (GWPF), a think-tank co-founded by former chancellor of the exchequer Lord Lawson. “I think Rio is a turning point: for the first time since the 1980s an anti-green coalition has managed to block attempts by the international green lobby to force the international community into a binding agreement,” he says.

For Peiser, developing countries, including the BRIC nations, “are seeing through this attempt to use green issues as a trade tool to limit their growth and energy consumption”.

ENERGY CONTROVERSY

Peiser also believes that the UK should be focusing not on renewable energy but on natural gas, which generates lower CO₂ emissions than coal or oil, extracted using non-conventional techniques such as fracking – blasting gas out of rocks deep underground. “International energy estimates that we have enough unconventional gas for the next 200 years – so where’s the problem?” he asks.

But just as nuclear power carries drawbacks as an alternative to fossil fuels, fracking is likewise controversial, associated with increased emissions of methane (a potent greenhouse gas), water pollution and even earthquakes.

Professor Bob Carter, adjunct professorial research fellow in earth sciences at James Cook University in Queensland and emeritus fellow and science policy advisor at free-market think-tank the Institute of Public Affairs spoke to *economia*. Although Carter rejects the sceptic

label – “I’m not a sceptic, I’m an agnostic” – he does refer to climate change theories as “nonsense”. He criticises professionals such as engineers and financial services companies for “rolling over” in the face of the climate change agenda, in order to share in financial gains accrued through government promotion of green technologies.

“The green lobby started off with a genuinely held, if misguided opinion,” says Carter. “At the start people were naive about the likes of Greenpeace and the WWF. These people seemed sincere. They are hard-bitten political zealots.”

Of course, similar claims have also been levelled at the sceptics, and the links made between themselves, big business and political interest groups. Unsurprisingly, the sceptics are at pains to downplay the significance of such links. Peiser says the GWPF is funded “by individual donors and supporters” and receives no money from “energy companies or vested interests”.

Carter has worked with organisations including the Heartland Institute in the US, which recently ran a digital billboard campaign showing a picture of “Unabomber” Ted Kaczynski, captioned, “I still believe in global warming, do you?” But Carter says his opposition to climate change theory is purely scientific. “Having looked at the evidence, as a professional scientist I have to accept the conclusion that dangerous global warming is not occurring and it’s not likely to occur.”

Paul Simpson is CEO at the Carbon Disclosure Project (CDP), a not-for-profit organisation that provides a global system for companies and cities to manage climate change and water information. He responds to Carter by saying that trends in greenhouse gases in the atmosphere, average warming and increasing extreme weather events all point to increased warming and climate change. He notes that the IPCC found average global surface temperatures increased by about 0.74°C between 1906 and 2005. He points to the US Global Change Research Program [formerly the Climate Change Science Program] reporting in 2009 “that warming of the climate is unequivocal, [and]... global warming observed over the past 50 years is due primarily to human-induced emissions of heat-trapping gases mainly from the burning of fossil fuels”.

THE GREEN DEFENCE

“The science from the IPCC conclusively shows that global greenhouse gas emissions have, due to human activity, grown since pre-industrial times with an increase of 70% between 1970 and

ICAEW COMMENT

One striking thing that happened at Rio was Peter Bakker, president of the World Business Council for Sustainable Development, at the Business for the Environment side event saying that it was the accountants who will save the planet. This echoed *The Guardian* when it asked in 2010 after Nagoya: “Are accountants the last hope for the world’s ecosystems?” It also resonated in some of the most important themes I heard at Rio: valuation, measurement and disclosure. This speaks to the huge role the profession has to play and it was great to see the profession at Rio in the form of IIRC, the Accounting for Sustainability Project and ICAEW.

This was one of a number of themes that buzzed at the summit and side events including: natural capital; the discussions around articulating a set of sustainable development goals (SDGs); and the much more prominent role business had this time (so different from 1992). There also seemed to be a tacit question floating around about what the role of governments is; for this was not the world uniting in common cause for a higher purpose, this was around 190 separate nations gathering with very different agendas and interests.

It would be naïve to think Rio would produce an ambitious agreement. Sure, what emerged was watered-down and uninspiring, but it was an agreement and it did include the idea of SDGs. No agreement at all would have left a limbo; as it is, it leaves the opportunity for those with the energy – a combination of governments, businesses and NGOs – to step in. Maybe an ambitious agreement would have led to a Convention, and might that then have ended up where the existing three conventions are? At least this way we have the chance of innovating and maybe finding a different way of trying to achieve a sustainable world that delivers economic prosperity, social justice and environmental well-being.

Richard Spencer, head of sustainability, ICAEW

70%

increase in greenhouse
gas emissions between
1970 and 2004

£112bn

committed by
development banks
towards transport
projects

2004,” Simpson continues. “Global atmospheric concentrations of CO₂ have increased markedly as a result of human activities since 1750 and now far exceed pre-industrial values, determined from ice cores spanning many thousands of years.

“Research published earlier this year in *Nature* magazine and led by the University of Colorado provides the first comprehensive satellite analysis of earth’s melting glaciers and ice caps. Total global ice mass lost from Greenland, Antarctica, and the rest of Earth’s glaciers and ice caps [between 2003-2010] was about 4.3trn tons [1,000 cubic miles], contributing about 1.2cm to global sea levels. The expansion of water as the oceans warm and melting of the major ice caps at the poles are the main drivers of sea level rise, predicted to rise by between 30cm and 1m by 2100.”

But Carter says the IPCC has spent \$100bn over 20 years trying to establish a link between human activities and rising CO₂ emissions and has failed to do so. He denies that there is a consensus on climate change within the scientific community. “It is true that there’s a cabal of scientists associated with the UN’s IPCC who either believe or profess to believe that climate change is a serious issue,” says Carter. “There may be as many as 500. But tens of thousands of other scientists [have] signed documents saying that the evidence that CO₂ emissions coming from human activity causes dangerous global warming is nonexistent.”

When asked who those scientists were, Carter cites his book *Climate: the Counter-Consensus*,



It was 20 years ago today... Bill Clinton addresses the Earth Summit in 1992

GETTY

“We need a way of translating the elite consensus and the scientific consensus into popular politics for the natural world”

which contains a list of letters and statements with signatories ranging from a couple of dozen to a few hundred, collected over the past five years. The largest is the Oregon Petition, launched in 1998. It has more than 30,000 signatures, but may not be the most reliable guide to current, expert scientific opinion on climate change.

“There is international scientific consensus,” insists Paul Simpson. He cites “the world’s largest general scientific society”, the American Association for the Advancement of Science, which stated in 2006 that the scientific evidence was clear: global climate change caused by human activities was a growing threat.

Other organisations that have publicly supported the human-created climate change theory include the National Academies of Science of China, India and Brazil; Australia’s national science agency, the Commonwealth Scientific and Industrial Research Organisation; and the Indian Network for Climate Change Assessment, “established when the Indian government declared a lack of faith in the IPCC”. Simpson also points to those businesses and investors with a long-term view, like pension funds, that have made climate change a key factor in decision-making.

The WDM’s Alex Scrivener is less impressed. “Companies have realised they can make more money by green-washing their image,” he says. This seems harsh considering the efforts many UK companies have made to improve performance, but, says Scrivener, what is needed is “global, co-ordinated action, strong legal regulation, green taxes, and green procurement policies for governments to make sure that environmental sustainability is factored into government decisions”.

“At the elite level of decision-makers and politicians there’s nobody that doubts the science of climate change,” claims Oxfam’s Tim Gore. “But

4.3^{trn}
tons of melting ice has
contributed to a 1.2cm
rise in sea levels

40,000
attendees took part in
Rio +20

WHAT HAPPENED AT RIO +20 (...AND WHAT DIDN'T)

WHAT HAPPENED

- Governments, private-sector companies and NGOs made 700+ voluntary commitments totalling more than \$500bn towards sustainable development.
- 45 multinational companies – members of the UN Global Compact CEO Water Mandate – announced commitments to improve water management and form public-private partnerships to solve the global water crisis.
- Eight multilateral development banks said they would provide \$175bn (£112bn) towards sustainable transport projects in developing countries over the next 10 years.
- Governments renewed commitments made in 1992 to sustainable development.
- The UK government announced that FTSE 100 companies must report greenhouse gas emissions in full from 2013.
- 15 global companies, including Nestlé, Kingfisher and AngloAmerican, signed the Natural Capital Leadership Compact.
- It was agreed that talks would begin on setting new development goals, to replace the UN’s existing millennium development goals.
- Greenpeace and celebrity supporters including Richard Branson launched a campaign to make the Arctic a global wildlife sanctuary with no drilling for oil or unsustainable fishing.

WHAT DIDN'T HAPPEN

- No new legally binding commitments on any sustainable development goals.
- No agreement on new green taxes.
- No commitment to end fossil fuel subsidies.
- Governments did not embrace a GDP-plus approach to national accounting incorporating natural capital.
- No agreement on a proposal that large companies must report on sustainability.

we need a way of translating the elite consensus and the scientific consensus into popular politics. Until that happens our leaders will arrive in places like Rio not feeling any pressure from citizens to do more.”

“For the long term, green growth is the only growth worth having,” adds Paul Simpson. “The short-termism that’s got us into financial problems, by taking excessive risk and mis-pricing assets – we’re doing exactly the same for the natural world. Every year that we fail to take action we’re increasing the risks for the future.”

Maybe a rational approach is to treat it as a form of risk management. Do we mitigate those risks or accept them?

In the 20 years since the Earth Summit, world leaders have avoided that decision. ■

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“The amount of bank
lending available to
companies is going to
shrink so there needs
to be another option”

NOTES FROM THE UNDERGROUND

The retail bond market is rising up – slowly, yet very surely. **Sandra Haurant** asks whether it is already a viable option for business finance and for slaking investor thirst

With businesses needing to find other sources of finance to replace increasingly hard-to-find bank lending, and investors looking for a safer way to invest their money, the Electronic Order Book for Retail Bonds (ORB) ought to provide an ideal bridge between the two parties.

Until the launch of the ORB in 2010, bonds had prohibitively high minimum levels of investment. They were the preserve of institutional investors, and the only way for private investors to access them was through collective bond funds. At the other end bonds were – and still are – used by a very small proportion of businesses as a means of funding. In fact, according to Tim Breedon's review, *Boosting Finance Options for Business*, published in March this year, only 257 out of 1.2m UK companies have a financing mix that included issuing public bonds.

But, says Gillian Walmsley, head of fixed-income products at the London Stock Exchange, appetite among borrowers, investors and advisers for access to the bond market is growing, and has been for some time. "The demand we have been seeing is partly a feature of current market conditions.

"Equity markets have been particularly volatile. At the same time, interest rates in savings accounts have been very low. There has been an appetite for guaranteed regular income, and bonds can provide that with a steady stream of regular coupon payments," she says. "But the wholesale market provided bonds with denominations of a minimum £100,000, and the vast majority of private investors and retail brokers found they were shut out of the market," explains Walmsley.

For their part, companies have been forced to look for other ways of raising finance as the banks make it increasingly hard to borrow. "The trends around bank lending are only going in one direction," says Michael Dyson, head of retail bonds, trading and distribution at Investec. "The amount of bank lending available to companies is going to shrink so there needs to be another option."

The ORB aims to fill these gaps, providing investors access to bonds with denominations as small as £100 (although minimum investments are often £1,000 or more), paying coupons, currently of at least 5%, and offering companies the chance

to raise smaller sums than would be viable on the wholesale bond market.

It is, of course, just the beginning for the ORB. For now, commercial issuers of bonds through the scheme sit firmly in the camp of the big name brands. Royal Bank of Scotland was the first, and has been a repeat issuer since launch, selling its sixth bond in November 2011. Tesco Bank was oversubscribed in its first retail bond issue, and raised £60m in its second issue in December. National Grid, Barclays and Lloyds TSB have all joined the ranks of the ORB issuers, and their issues have been on the whole well received by investors. According to Walmsley, the largest bond issue so far on ORB raised more than £285m.

Along with these household names, there have been some less recognisable ones. The housing association Places for People, which has a turnover of £340m, has now issued twice on the ORB, the first raising £140m and the second, an inflation-linked bond, raising £40m. The housing sector is traditionally funded by a combination of bank lending and social housing grants and needs greater diversification, explains Chris Jones, group head of tax and treasury at Places for People. "The model has been effective for many years, but subsidy is starting to diminish and the number of banks lending has reduced dramatically so that there are now only around half a dozen left," says Jones. "We are still able to fund with the banks, but pricing is not as competitive as it used to be. We wanted to find funding from different markets and find optimal pricing from across the board."

Places for People decided to try the retail bond market, and took part in roadshows throughout the country, from Scotland to the Channel Islands, presenting to retail bond distributors such as Killik & Co and Brewin Dolphin. "Through the process we were encouraged by a strong investor appetite," he says. Raising finance in this way fits in neatly with two of Jones's main strategies – increasing funding diversification and, importantly, allowing for a greater level of unsecured borrowing – hard to come by in the housing sector.

It can also be a longer-term means of funding than many banks would be prepared to offer, while avoiding some of the issues around selling shares, says Emma Wild, head of the Future Champions

NOTES FROM THE UNDERGROUND AT A GLANCE

project to support medium-sized firms at the CBI. "Not all companies want equity funding because of ownership issues," she says, "and bonds can provide more patient capital, and longer-term loans, than you would find with a bank."

FRINGE BENEFITS

ORB can have side benefits, too. Part of the appeal for investors buying bonds with Places for People was that it provided a non-bank avenue for investment with a social aim. Jones says, "I think there was something of a feel-good factor for people in being able to invest in social housing, something so necessary and that serves an important purpose."

Indeed, the benefits of issuing debt on ORB go way beyond finance, according to Walmsley: "One of the key benefits is the PR and marketing aspect. Raising funds in this way is high profile, and as well as giving you access to an increased investor base it can also help raise brand awareness."

To be listed alongside some of the big High Street names will certainly increase a company's profile. While it is not a huge corporate, Places for People is nonetheless a big player, which delivered a substantial turnover last year, and it has previously issued bonds on the wholesale market. "We haven't yet done an SME issue," says Dyson. Nonetheless, he does believe the natural progression for the ORB will be to reach out to mid-cap companies. "I think we will see a gradual move towards that," he says. "Those in the FTSE 250 and FTSE 350, these kinds of names, are the next natural category of issuer."

While there appears to be an appetite on both sides of the table, the mid-caps have yet to come running to meet that perceived investor demand. So what is holding them back? For many supporters of the retail bond market, a large part of the problem appears to be a lack of understanding and awareness on the part of businesses. Issuing bonds simply does not come to mind as a viable alternative to other means of obtaining finance. "The demand is certainly there but one barrier is around awareness and expertise. Companies need to know this is an option," says Wild.

Walmsley agrees that lack of awareness may be preventing some from getting involved. "Perhaps smaller and medium-sized companies do not have enough in-house resources to spend time looking into a bond transaction," she says. But there is also a lack of understanding about what the process of issuing bonds entails for businesses, she adds. "There is a perception that disclosure is a lot more onerous than it is, but although you do need more disclosure it needn't be a show stopper."

Then, of course, there is the cost. Raising money through the retail bond market is unlikely to be the

The Electronic Order Book for Retail Bonds (ORB) aims to fill the funding gap for businesses.

Smaller names are encouraged by the strong investor appetite in the market.

Many companies, particularly mid-caps, have yet to recognise the potential.

But with the search for alternative sources of funding intensifying, the ORB is set to evolve.

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cheapest option open to a company. There are no minimum amounts for which a firm can issue bonds but, according to Walmsley: "There are no fixed restrictions, but because of regulatory requirements and legal and distribution costs, just to make overall costs effective the smallest issue size is probably around £20m."

Setting-up costs such as those for documentation and legal services, as well as intermediary fees, can be high, but many argue that creating standardised documentation could bring costs down substantially. As Places for People's Jones says: "It may be slightly more expensive than on the wholesale market, but that is the price for diversification."

With the wholesale market effectively closed to companies wanting to borrow less than £150m, according to the Breedon Review, this may be a moot point for medium-sized companies. "We consider it to be good value," says Jones. The housing association has already made two bond issues and plans to issue more, now that the initial set-up costs are behind them and subsequent issues are more cost effective.

DON'T ASK THE EXPERTS

Another stumbling block, some argue, is the role of intermediaries and the way in which they advise on bonds. Bringing together the investors who want these forms of investment and the companies who need their finance is not as straightforward as all that. After all, in some ways bonds fill a gap somewhere between equities and savings accounts. Investors understand the risks involved with equities. They know that, should a company fare badly, they may lose their shirts. Savings accounts, at the other end of the scale, currently pay very low rates of interest but the capital is protected (up to £85,000) by government guarantees in the form of the Financial Services Compensation Scheme (FSCS).

Bonds, on the other hand, are just one notch up from equities, and should, in theory, protect capital and pay regular coupon yields. But they are not protected by any guarantee, and if a company collapses there is a real chance that investors could lose out. As Tim Stocks, head of financial institutions and markets at Taylor Wessing, says: "Equities are at the bottom of the pile with no expectation of getting money back in certain circumstances. But people know that when they get into them. Not many equity brokers for the mid-cap market have a great deal of knowledge or expertise in bonds, and they do not have the surplus capital to build that expertise."

Intermediaries may find themselves in an uncomfortable position, with concerns around

mis-selling should there be problems with bonds further down the line. With a deep-seated equities culture among UK investors, perhaps there is a tendency to err on the side of caution – even if that actually means more risk.

Eden Riche, head of debt capital markets at Investec, argues that one potential solution could be the provision of a fund in the style of the FSCS, to which bond issuers would contribute so that, in the event of collapse, investors' capital would be covered. Although this could mean an extra layer of cost for issuers, Riche says the extra costs might mean lower yields because of increased security, potentially cancelling out the difference.

CAP IN HAND

The ORB has some way to go before reaching mid-cap companies, but in the meantime companies have been finding other ways to access funding. Smaller brands including King of Shaves, boutique hotel booking service Mr & Mrs Smith and chocolatiers Hotel Chocolat, along with retail

giant John Lewis, have all turned to their own client base, issuing direct bonds.

This has disadvantages for both investors and borrowers, says Dyson: "There is no secondary market – you are very likely to be locked in."

What's more, says Clive Gibbard, debt advisory partner at KPMG, these companies "were probably not focused on trying to get in people who did not know their brand – they were going direct to their client base. That's fine if you are a brand that people recognise, but if you are a manufacturer of widgets selling to a company in China, you are not going to have access to that sort of funding. There is a real gap there that needs filling."

Dyson maintains that medium-sized companies will eventually find their way to the market. "It is a platform for investment in the same style as the equity market. It's early days, and the process has been bringing household names to investors, but I think that is probably the right way to start the market." For Dyson, the evolution of the ORB is really a question of time. ■

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I WANNA GIVE YOU DEVOTION

Poised to become a high-flier with Ernst & Young, Helen Costigane was instead moved to dedicate her life to God. She talks to **Julia Irvine** about putting her calling first

If you met Helen Costigane on the street and had to guess which career path she has pursued for the last 25 years, you would most likely be wrong.

With her blonde highlights, her infectious laughter, her outspoken views, her encyclopaedic knowledge of TV hospital dramas (“I’ve a hankering to be a useful doctor”) and her penchant for crime novels and chick lit, the last thing that would spring to mind is a religious sister who has taken vows of poverty, chastity and obedience.

But Sister Helen is no ordinary religious sister – she’s as likely to be down on her knees getting to know your dog as praying (“I think dogs remind us of the unconditional love of God. And cats remind us that we are not the centre of the universe,” she says). She’d hate to be a priest (“Giving up your weekends is just too much”). She worries about her weight (“my mother says I’m a wee tub”). She leaves the country whenever there’s a royal event like the Diamond Jubilee (“I don’t believe in the principle of heredity. We should be open to talent”). And she really wants to go to Legoland in Windsor.

She is also fearsomely bright. Not only an ACA, she has three masters degrees, a licentiate in canon law and two PhDs to her name. She’s currently a senior lecturer at Heythrop, the London University college specialising in philosophy and theology, and has a CV as long as your arm.

Sister Helen joined the Society of the Holy Child Jesus – a 418-strong

international community of catholic women who are religiously committed to Christ – back in 1987, two years after qualifying with Ernst & Whinney (now Ernst & Young).

Born in Glasgow into a Catholic family, she recalls always trying to be a bit holy. “Not that I succeeded very well. But the idea of being a sister had been around most of my life, drifting in and out.

“When I came to London though, I decided I wanted to make megabucks instead and I became a chartered accountant. I was about a year into my training when it just came to me: that the religious life seemed right. As soon as I decided to go into something that could make me money, God said ‘Well actually, I’ve got other plans for you.’”

She carried on with her qualification, despite the “terror and pressure” of the exams, and says it still means a lot to her, which is why she’s kept up her ICAEW membership. Her financial skills have come in useful at the Society where she spent 16 years as part-time accountant to the European Province before becoming its treasurer in 2005. As such, she keeps a weather eye on a balance sheet with total reserves of £61m and around £53m in long-term investments.

She also has to deal with the thorny issue of how to provide for the sisters – whose average age is 70 – in retirement. They all covenant their earnings and their pensions to the Society as part of their vow of poverty and receive an allowance in return for the work they carry out in

support of the Society’s mission. That mission covers educational, pastoral, social, legal and spiritual ministries. As a result, they are utterly dependent on the charity for their welfare, particularly later in life.

Sister Helen’s accountancy duties are secondary to her day job. She is not just a senior lecturer in pastoral and social studies at Heythrop, but also an external examiner both in the UK and overseas. Education is her passion – had she stayed with Ernst & Whinney, she would have gone on to the training side – and she is now one of the world’s leading experts on canon law.

She studied theology after she returned to London having spent two years as a novice in a poor part of Preston, Lancashire. At Heythrop, she gained a distinction for her postgraduate diploma in pastoral theology, which led to a masters in the philosophy of religion and ethics and then a PhD in 2003. A masters in canon law followed in 2005, then her licentiate in canon law in 2008 and her doctorate in canon law in 2011, both from the Katholieke Universiteit Leuven in Belgium. “My brother,” she laughs, “calls me an overeducated twit with a pound in my pocket!”

At the time she was doing her licentiate, the Catholic church was mired in the paedophile scandal so she chose to tackle the subject in her thesis, *Clerical Sexual Misconduct: Is There Another Way Forward?* “A lot of people suffer here, not just the victims themselves but priests who are now viewed with suspicion – good, holy men who have given their lives and worked so hard,” she says. “The whole thing is dreadful. The church is really wounded by it all. It will recover but it will take time. When I wrote my thesis in 2008 I wanted to look at the



“We don’t like to trumpet the good works we do but we should, particularly at a time when people are seeing the church as irrelevant. If the church didn’t exist, society would be a lot poorer for it”

other side. No matter what the accusation was, the victim was believed and the priest was out on his ear. It was guilty until proven innocent. I thought that was wrong.”

For her doctorate in canon law she jokes she swapped sex for money. Her subject was the church’s response to the challenge of reporting public benefit. Not particularly good, she concluded, although it’s beginning to improve. “The trustee reports for the archdiocese of Westminster, for example, are quite inspirational. They showcase what the church is actually doing for the good,” she explains.

“I know we don’t like to trumpet the good works that we do but I think we should, particularly at a time when people are seeing the church as

irrelevant. If the church didn’t exist, society would be a lot poorer for it.”

Her students at Heythrop come from all faiths and backgrounds and she loves the range of views on offer. “It brings a whole new dimension of thinking especially when you are teaching subjects like business ethics.” Her techniques include using film clips to illustrate her ideas.

“We have become much more visual through using the internet. Stories are a good way of getting people to remember things. I can’t lecture for an hour. I can’t sit listening to them and I’m certain no one can sit listening to me,” she laughs. “A lot of conferences you go to, it’s lectures for an hour. I think ‘Oh wake me up when you’ve finished’. I sit at the back and nod off.” When we meet, she has just ducked out of a three-day conference on plagiarism that she signed up for as Heythrop’s academic conduct officer. Life, she decided, was just too short.

She won’t be ducking out of a conference in Rome in October where she will be speaking on a subject close to her heart – the second Vatican council and its impact on the life of the church and in particular women. Her next project is to finish a book she started four years ago, which is driving her “bonkers”. It’s

on aspects of conscience illustrated in films like *Runaway Bride*, *The Bridges of Madison County*, *The Producers* (the 1968 version) and *Schindler’s List*. She’s also aiming to teach herself jewellery making and is in the process of conquering her fear of water and learning to swim.

Does she ever stop and draw breath? “Some days I’ll just hit a wall and think, right that’s it. I can chill. I could be lazy if I put my mind to it, sit with my books, watch telly all day. It would only last a couple of days though and I’d think ‘Oh I’ve had enough of this, I’ve got to do something else,’” she says. “I do put off things and then I have to tell myself to get on with it. I’ve been doing my expenses forms for the last two months.”

Sister Helen has no regrets about her decision to leave behind her previous life. She says she has found riches in other ways – through the people she’s met and the opportunities that might not otherwise have come her way. Being committed to the religious life is not easy, she says, especially in an age when religion seems marginalised.

“When you believe in God, people think ‘Oh, for heaven’s sake, get real’. But for me, it’s a challenge. It’s different and it’s exciting.” ■



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Briefing

Tax ethics, legal advice and short-termism

This month's key issues for ICAEW members include ending short termism and the proposed regulation of legal advice

GOVERNMENT CLAMPDOWN ON TAX AVOIDANCE SCHEMES

1 Treasury exchequer secretary David Gauke plans to put pressure on "cowboy" tax advisers who market abusive schemes.

Proposals in a consultation document, *Lifting the Lid on Tax Avoidance Schemes*, include making it easier for taxpayers to identify such schemes and giving HMRC the power to force tax advisers to publish names of clients who use them. They also strengthen the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and make it easier to penalise those who fail to inform HMRC about the tax schemes they or their clients are using.

Other suggestions include raising the threshold of reasonable excuse for a promoter who fails to notify a discloseable scheme, imposing additional reporting obligations on a promoter who incurs a penalty, and imposing a personal responsibility to comply with DOTAS on an individual, alongside the firm's obligations. For copies of the document, visit hmrc.gov.uk

AGGRESSIVE TAX SCHEMES

2 ICAEW members are under a duty at all times to consider public interest and to comply with ICAEW's code of ethics, particularly when it comes to dealing with aggressive tax avoidance schemes, according to a new helpsheet from ICAEW's tax faculty.

Members should beware of becoming involved indirectly where the promoter of a tax scheme actively markets it to ICAEW members or their clients. Members should check the scheme has been disclosed to HMRC under the DOTAS rules, and whether HMRC has included it on the spotlights page (hmrc.gov.uk/

avoidance/spotlights.htm). The helpsheet provides a list of typical characteristics of tax avoidance schemes that advisers and taxpayers should be wary of and sets out members' duty to clients and their professional conduct obligations.

Copies are available from icaew.com/taxavoidancehelpsheet

UNIVERSAL CREDIT CONCERNS

3 ICAEW has joined forces with the Low Incomes Tax Reform Group, the ACCA, the Chartered Institute of Taxation and the Federation of Small Businesses among others to express serious concerns about the draft universal credit regulations.

In a letter to minister for welfare reform Lord Freud, the group says the regulations ignore how small businesses work. There are three areas that give rise to "strong reservations" – the method of accounting proposed, the minimum income floor (MIF) and the implications of not meeting the requirements for gainful self employment.

These three will discourage those on low incomes thinking of setting up a business, the group says, leaving them trapped on welfare.

Copies of Rep 96/12 can be downloaded from icaew.com/representations

SHORT-TERMISM IN MARKETS

4 Short-termism is a problem in UK equity markets and contributes to their lack of effectiveness in supporting British business, according to economist John Kay. In a report for BIS on the markets and long-term decision making, Kay says this approach is caused by a misalignment of incentives within the investment chain and the displacement of trust relationships by a culture based

on transactions and trading. Kay suggests a company directors, asset managers and asset holders should promote better stewardship and long-term decision making throughout the investment chain.

He suggests realigning incentives by relating directors' pay to long-term sustainable business performance and aligning asset managers' remuneration to the interests of clients. Kay also wants companies to move away from quarterly reporting and the process of managing short-term earnings expectations.

Copies of the Kay report are available from bis.gov.uk

GENERAL LEGAL ADVICE

5 ICAEW has written to the Legal Services Board expressing concern about its plans to investigate the regulation of general legal advice. It warns the regulator that this risks intruding into advice provided by other professions, such as accountants, surveyors and medics, and reducing the availability of appropriate and competent legal advice.

ICAEW points out that members and member firms provide legal advice to their clients as part of their general accountancy and business advisory services. Clients are unlikely to think of it as legal advice, nor are they likely to be prejudiced because the regulatory standards imposed on members are ICAEW ones.

"If advice from providers other than solicitors is reduced, this could drive individuals to seek inappropriate advice from friends and family, or from advisers acting illegally," the letter concludes.

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Updates

HMRC SERVICE UNACCEPTABLE

The ICAEW Tax Faculty has written to HMRC reiterating its concerns about the department's telephone service and the need for urgent improvements. Although it welcomes the introduction of the agent dedicated line (ADL) for self-assessment and pay as you earn, members still experience problems. They report waits of up to 20 minutes on the employer helpline, 30 minutes on the SA helpline and 80 minutes on the employee helpline.

The faculty has recommended the department invests in more front-line staff to answer calls. While this will result in higher short-term cost, it should lead to improvements in compliance and efficiency and ultimately to a reduction in costs with less need for expensive post handling. And on 10 August, HMRC said it will recruit 1,000 additional contact centre staff to help answer 90% of calls, two years earlier than planned.

Other recommendations include simplifying and shortening call routing, extending the ADL to cover corporation tax, payroll, online SA services and debt calls, publishing better performance measurements and allowing taxpayers to communicate with HMRC via email.

Copies of Taxrep 26/12 can be downloaded from icaew.com/representations

COMPOUND INTEREST

Taxpayers with outstanding claims for compound interest will have to defer any planned celebrations following the European Court of Justice's decision in

the *Littlewoods Retail Ltd and Others v HMRC* case.

They had hoped that the court would clear up any doubt over whether HMRC should pay simple or compound interest on overpaid tax. But the court said that EU law did not necessarily require the payment of compound interest. Whether or not it should be paid to a particular taxpayer depends on whether the existing remedies available in their country comply with EU principles. In other words, simple interest may be sufficient if it provides adequate compensation for not having access to the money paid in error, and there is not a more generous remedy available in relation to similar claims for other taxes in that country.

The case, which could have ended up costing HMRC billions at a time when it is trying to reduce expenditure, has been sent back to the UK courts. Littlewoods contests that HMRC should pay compound interest on VAT overpayments that it made between 1973 and 2004.

The ECJ also suggested that the rate of simple interest available under UK legislation for overpaid VAT may be satisfactory, as it is linked to an average of bank base lending rates. That results in a rate that is not so low as to largely deprive the interest claim of substance. The interest is also payable from the date on which the overpayment was made.

On the basis that the payment of simple interest to Littlewoods exceeded the principal tax sum, the amount paid to it is therefore likely to satisfy the 'adequacy

test' and is consequently sufficient compensation. As far as the 'adequacy test' is concerned, the ECJ said it was up to the UK national court to determine whether or not the rules in the VAT Act governing the payment of interest are equivalent to those for similar claims for interest on infringements of domestic law.

In that respect, if the payment of simple interest under UK VAT law is found to be less than that payable for similar domestic claims, the UK court would be required to interpret and apply the national rules in such a way that the interest payable for VAT purposes is in accordance with the more favourable rules applicable to the similar claims.

CHARITIES' PUBLIC BENEFIT

The Charity Commission has issued draft revised guidance for charity trustees which is intended to promote awareness and understanding of the operation of the public benefit requirement. It says the guidance – which includes understanding what it means to be a charity and what a charity trustee's public benefit duties are in running it – is the minimum trustees need to know about public benefit.

The draft guidance is presented in a new online format on the Commission's website (charity-commission.gov.uk), making it easier for trustees to select the parts of the guidance relevant to their charities.

The Commission would like to have comments from trustees on both the content of the guidance and the new

EMPLOYMENT LAW

Employer must compensate for untaken leave

Businesses will have to pay compensation for untaken holiday leave – even where it relates to previous years – if the employee was prevented from taking it because of sickness.

In *NHS Leeds v Larner*, Janet Larner, an NHS clerical officer, was absent from work on sick leave for 14 months before being dismissed on grounds of incapability due to ill-health. Her time off encompassed the whole of the leave year, from April 2009 to March 2010, so she did not take any leave before her dismissal. Her employer, NHS Leeds, refused to make any payment in lieu of her untaken annual leave on the basis that she had not made a formal

request to take any leave or to carry it over. The Court of Appeal has now confirmed the Employment Appeal Tribunal decision that Larner had in fact accrued holiday pay during her sickness absence regardless of whether or not she'd requested it.

Effectively this means that if a worker is unable or unwilling to take the four weeks' annual leave they are entitled to under reg13 of the Working Time Regulations 1998 because of sickness, they must be allowed to take it at some other time including in a later leave period. It also means that when compensation on termination of employment is calculated, the figure must cover compensation for untaken leave, even if the leave refers back to previous leave years.

online format and layout. Comments should be emailed to polycystatus@charitycommission.gsi.gov.uk by 26 September 2012.

REVIEW OF MIS-SELLING WIDENS

Seven UK banks have agreed to join the Financial Services Authority's review of interest rate hedging products sold to SMEs.

The voluntary move follows the announcement at the end of June that the four big British banks had agreed to compensate small businesses mis-sold complex interest rate hedging products after the FSA had found "serious failings" in the way they were marketed.

The FSA carried out a review after some small businesses were in financial turmoil as a result of the heavy costs they were incurring because of the historically low interest rates. Many had been sold structured collars, which effectively resulted in them paying more if base rates fell below an agreed level. Many businesses claimed the inherent risks had not been explained to them.

The FSA has made it clear that there is no presumption of mis-selling among the group of seven banks – which includes Santander UK, Allied Irish Bank, Bank of Ireland, Clydesdale, Yorkshire, Cooperative and Northern.

ESTATE ADMINISTRATION

Proposals to make will-writing, probate and estate administration reserved legal activities will intrude into regulation of the accountancy profession, according to ICAEW. It has written to the Legal Services Board warning that the proposals will have "substantial" unintended consequences unless there is a clear delineation drawn between the newly-reserved activities and the same activities when undertaken by the regulated accountancy profession as part of routine accountancy practice.

It also points out that, in drafting its proposals, the board has relied on research that did not use a clear definition of estate administration; neither did it address the position of professional accountants.

ICAEW also adds that: "We believe considerable work is required with

OUTPUT PER WORKER AND UNIT LABOUR COSTS, PERCENTAGE CHANGE ON QUARTER (SEASONALLY ADJUSTED)



It's not often that official statistics have the entire economics establishment flummoxed. But that was the case last month, when the ONS released the latest unemployment data. With the economy still in recession, and GDP at best flat, economic theory (not to mention logic) would suggest that employment should be falling. But the data suggested the opposite. There were more people in employment and fewer people claiming benefits. Deputy governor of the Bank of England, Charlie Bean, stated that no one could say for certain what on earth the conflicting data means. But more people making less does mean UK productivity is dropping, while unit labour costs are soaring. So even the good news is apparently bad news these days.

SOURCE: ONS

affected parties before the board crystallises its proposals".

For copies of Rep 100/12, visit icaew.com/representations

FIRMS UNAWARE OF CHANGES

ICAEW's quality assurance department (QAD) has started to send desk-top reviews to a number of firms. These firms have all had a previous QAD visit, and the review focus is to make sure they have done what they said they would do when QAD last visited them, and that they are aware of recent changes in laws, regulations and professional standards.

The first reviews are now complete and the findings are that 48% of firms do not carry out adequate client due diligence to comply with the Money Laundering Regulations 2007. For more information, visit the anti-money laundering guidance at icaew.com/moneylaundering

A failing among 15% of firms was that they had not registered with the

Information Commissioner, as required by the Data Protection Act.

If firms process clients' personal data in an automated form, they need to register with the Information Commissioner's Office (ICO). The ICO's guidance on notification includes accountancy and auditing in its list of business purposes, which are unlikely to be exempt from notification. Firms can register at ico.gov.uk

Around 25% of firms hadn't realised that ICAEW's member firm logo has changed. To download the new logo, go to icaew.com/logo

Lastly, 16% had not notified their clients in writing of the basis on which they charge or their right to complain to ICAEW. If firms don't want to use an engagement letter to do this, they should read the helpsheet: *What if you have not issued an engagement letter?* ■

To find out more, go to icaew.com/practiceassurance

At your service

Should residential management companies hold service charge money in trust or incorporate it into their profit and loss accounts?

Liz Loxton outlines the debate on how RMCs should account for themselves

The financial statements of residential management companies (RMCs) have come under the spotlight this year. A technical release from ICAEW in 2011 (Tech 03/11) and a more recent draft abstract from the Urgent Issues Task Force (UITF) have stimulated accountants, standard-setters and technical experts into trying to resolve a long-standing debate: what information should appear in the RMC's accounts? Do they show all their income and expenses, or are they just holding money in trust? Different views on this have led to a diversity of practice.

John Boulton, corporate reporting manager with ICAEW's Financial Reporting Faculty, says ICAEW has been working to bring clarity to the issue. "Tech 03/11 provides best practice guidance for service charge accounts where these are prepared independently. But a number of questions remain regarding the transactions that should properly be included in RMCs' statutory accounts. The UITF abstract attempts to resolve this issue," he says.

The standard-setter's interest stems from a question about service charge money held by RMCs. Legally the money is trust money, Boulton says, whether it is held in a ring-fenced designated bank account or not. As it is collected from leaseholders or joint freeholders, the question is whether it should be included as an asset in the statutory accounts of the RMCs. Without this cash or any of the service charge transactions the accounts might effectively be dormant.

The issue for many of those paying service charges to RMCs, as well as for

practising accountants, is that this approach does not present information users want to see. It does not meet the need for a transparent, workable set of accounts that can be understood by lay people, such as those who pay service charges to RMCs. Peter Hollis, partner at Hollis & Co, acts for several RMCs and has seen a good deal of interest in this issue.

"If you live in a flat where the freehold is managed by an RMC you are generally concerned to learn how your money has been used. Accounts need to tell a story people can relate to. You need to be satisfied money is properly spent and whether any is left in the bank for future maintenance or improvements. Tenants or landlords must be able to look at these documents knowing they tell a credible story."

The issue for accountants is that RMCs have the same accounting obligation as any company. But there is a question whether they should recognise any service charge balance as an asset when this cash is held on trust. And the lease is further likely to stipulate the information tenants should receive in service charge accounts. This requirement may not be met by company accounts.

The UITF abstract, information sheet 92, goes some way to alleviate such concerns. It states that accounting practice for RMCs should follow an assessment of whether the RMC is acting as an agent or principal. "The UITF has stripped the previously intractable issues in this area down to the well-established principles of FRS 5," says Boulton.

"The abstract puts matters along the right lines," says Hollis. "In the vast majority of cases where the RMC acts as a

principal, money collected from tenants in the form of service charges should be recorded as income and the accounts should not be dormant," he says.

But Stacy Eden, partner in Crowe Clark Whitehill's corporate business team, says that by focusing on whether RMCs are acting as principals or agents, the UITF's draft abstract sets up an either/or course, which doesn't clarify the situation. "The UITF tried to tidy up the debate but in some respects seems to ignore Tech 03/11, and the resulting abstract talks about risk and reward."

If the RMC is deemed to be acting as a principal, with responsibility for expenditure and income, it will be able to continue to produce active accounts, show transactions within a P&L account. If it is deemed to be acting as an agent it will need to show a dormant set of accounts, disclosing expenditure via a service charge statement.

The result, says Eden, is unclear. "If accounting policy were to be finalised as currently written [in the UITF abstract], I think we would stick to ICAEW's draft guidance because it reflects the law. But it would put everyone in a slightly difficult situation."

Change could bring confusion, says Eden, and custodianship – how these matters are accounted for – is also at issue. "Based on the exposure draft, you would, from a technical point of view, construct a dormant set of accounts with disclosures. People are used to seeing income and expenditure.

"At the moment we've got this inconsistency. We should be able to look at any two sets of accounts and be able to



ICAEW'S POSITION

John Boulton, corporate reporting manager at the Financial Reporting Faculty, says ICAEW has worked hard to bring clarity to this area to ensure people have the information they need, but adds there is a lot of complexity. The key, he says, is to understand what users want. Leaseholders and shareholders, not always the same group, have a right to receive information on income and expenditure, so it is important that right is upheld.

"ICAEW has issued an exposure draft offering guidance on the information that should go into service charge accounts when they're prepared. What isn't clear from the guidance is what needs to be done to meet Companies Act accounting requirements. It's essential that members know how the reporting obligations of the RMC can best be discharged while meeting the information needs of users," he says.

"We know what accounting treatment should be followed if you are an agent or a principal. The key to cracking this is to get clarity on the context in which these companies are acting."

to identify. "It would be pretty easy to put a clause into the Companies Act to remove them from consideration when it comes to company law requirements," says Southam, although others point out that these reporting requirements are set out in the EU's 4th Directive and as such are not in the gift of the UK government.

"For instance, you don't have to have AGMs for small companies. That's something some RMCs take advantage of. But in fact it's very useful and quite important for leaseholders to be able to have AGMs," he says.

For the UITF's measures to smooth out the anomalies, Hollis – also chairman of ICAEW's Practice Committee – does not agree with the legal view that any cash surplus doesn't belong to the company.

"To most tenants this will be a complete nonsense," he says. "A lot of these requirements are based on the landlords and tenants legislation, which is designed to protect tenants from abuse. According to the legislation, when you raise a charge you hold the monies on trust."

"That is correct," says Hollis. "But that is no different to the position of a charity that holds money on trust until it needs to defray it. Despite being held for the benefit of others, the money still belongs to the charity." ■

compare them. Leaseholders need to be assured that this money is properly stewarded and accounted for."

Roger Southam, chairman of property management company Chainbow, believes a property perspective is lacking from the financial reporting debate. For financial reporting, RMCs should be treated as dormant for trading and transactional purposes, says Southam. "The service charge doesn't belong to the company."

But many RMCs treat the service charge as company money. Some public companies class service charge money as turnover, which might enhance their figures. They could also be paying out on audit and other accounting fees. "There is no consensus or standard as to how the service charge is treated," says Southam.

Along with a willingness to look at this from a property perspective, he says, a fairly hefty dose of political will must be shown to adjust the company law and tax positions. "RMCs have to have AGMs once a year. Company law could be adjusted with a very simple provision so that leaseholders are protected from maverick directors and directors are protected from maverick leaseholders," says Southam.

There is long-standing confusion over the ownership of service charge monies paid by leaseholders or tenants and stewarded by RMCs. There are, Southam says, two distinct issues linked to the accountability of these kinds of companies – one involves company law, the other is around financial reporting. For company law issues, RMCs are easy

The best options for share schemes



Despite being seen as a fair deal for staff, not all employee share ownership schemes are equal. **Sally Percy** finds out how best to advise clients on choosing the right scheme

Since their invention more than 50 years ago, employee share ownership schemes have proved a popular way for companies to retain and motivate staff. Several different schemes exist and accountants should be aware of the pros and cons of each in order to advise clients on them.

A key consideration is whether a scheme is approved by HMRC or not. HMRC-approved schemes have considerable tax advantages but they also have restrictions that make them unsuitable for certain companies. When advising clients on these schemes, it is necessary to balance the needs of the business with the tax considerations. There is no point opting for a tax-efficient scheme if its restrictions defeat the company's strategic objectives. "Companies need to make important upfront decisions about the scheme before implementation planning has started," says

Michael Murphy, tax partner at law firm Lawrence Graham. "Do they want a scheme for all employees or just a discretionary scheme for senior management? Do they want to give options or shares? Do they specifically want an HMRC-approved scheme?"

Almost all schemes, approved by HMRC or not, are eligible for corporation tax relief – one reason why companies view them as an attractive incentive. So the main driver from a tax-planning perspective is minimising the tax charge paid by the employee granted the award. With approved schemes, all growth in value should be taxed within the capital gains regime rather than as employment income. That means any gains are normally taxed at a capital gains tax rate of 28% instead of an income tax rate of 40%-50% in the current tax year. Employees will also benefit from the £10,600 CGT tax-free allowance.

Of the various options, the HMRC-approved enterprise management incentive (EMI) scheme is generally considered the most attractive. Launched in 2000, it is aimed at SMEs. To qualify they must be based in the UK, have fewer than 250 full-time staff, be an independent trading company or group with less than £30m in gross assets, and not belong to excluded business sectors such as financial services. Up to £250,000 in share options can be granted to selected employees with a limit of £3m for the total value of options granted at a time. Eligible employees must work for a minimum of 25 hours per week or be employed for at least 75% of their full working time.

A big advantage of EMI is that companies don't need HMRC approval for the scheme to qualify for EMI tax relief. But they must notify HMRC within 92 days of granting the options. Staff pay no income tax or NICs when the options are granted or when they are exercised, provided the option price is at least the market value of the shares when the options were granted. Employees just pay CGT on gains they make after exercising the options and selling the shares.

In the Budget the government outlined proposals to extend entrepreneurs' relief (ER) to shares acquired through EMI options exercised after 6 April 2012. This means employees would be able to sell their shares and pay a CGT rate of just 10% on their disposal gains. "On paper, employees should be able to get a 10% ER CGT rate," says Peter Rayney, an independent tax consultant specialising in owner-managed businesses. But he points out that the normal ER one-year share ownership period still applies to EMI-option shares. This will be problematic for most EMI schemes where the intention is that employees exercise their options and sell their shares just before the company is sold.

Besides EMI, the three other HMRC-approved schemes are company share option plans (CSOPs), share incentive plans (SIPs) and save as you earn

TOP TIPS FOR ADVISING ON EMPLOYEE SHARE OWNERSHIP SCHEMES

(SAYE) plans. All require prior approval from HMRC, which usually takes three to four weeks. "When companies have more than 250 employees they generally look to a CSOP," says Rayney. "But you can't give away much – they are quite restrictive."

Under a CSOP, a company is limited to granting each employee an option on up to £30,000 worth of shares, which they can exercise after a set period of at least three years. If they then sell the shares and make a profit that exceeds their annual allowance, they will have to pay CGT. But no income tax or NICs are due.

Under a SIP, employers can give staff up to £3,000 worth of free shares held in a trust, while the SAYE allows employees to save £5-£250 per month over a three-, five- or seven-year period with the employer granting them options. With both schemes, gains are treated as capital rather than income profits, provided certain criteria are met, and every eligible employee must be given the chance to participate.

There are several unapproved schemes that may better suit a company's needs. The tax treatment usually depends on whether the shares are readily

There is no point opting for a tax-efficient scheme if its restrictions defeat the company's strategic objectives

convertible assets (RCA). If they are, the relevant gains are generally subject to income tax and NICs deducted through PAYE. If not, the relevant income tax is payable via self-assessment. Corporation tax relief is available for the cost of providing the shares subject to certain restrictions.

Unapproved schemes include the following:

- taxed share option plans – similar to EMI and CSOP but with no limit on the amount or value of options;
- phantom share option plans – a cash bonus is awarded according to the increase in value of a specified number of shares covered by an option;
- long-term incentive plans – involving shares or securities that are held for a year or more;
- taxed employee share schemes;
- convertible shares and securities – rewards convert into different shares and securities at a later date; and
- employee benefit trusts.

Murphy believes growth share schemes are also becoming popular among companies. These are schemes where employees are given a special class of share in a company that has no immediate value but is able to participate in the company's growth.

Options abound when it comes to employee share

92 days

Time limit for notifying HMRC after granting employee options

250

Number of full-time staff an SME can employ to be able to offer an EMI

£30,000

Share option limit per employee under CSOP scheme

£3,000

Number of free shares on offer per employee under SIP scheme

- The process can take up to 15 months so you need to keep the client engaged.
- Be methodical – make a checklist that covers all relevant considerations.
- When entering an HMRC-approved scheme ensure the scheme rules comply and are followed.
- Provide a robust share valuation to HMRC, especially where there is no ready market for them.
- Make sure you follow all the relevant company law requirements.
- In most cases, make sure the employer and employees make a section 431 election under the Income Tax (Earnings and Pensions) Act 2003 within 14 days of the options being awarded. This will avoid any part of any future profit on sale being taxed as employment income.
- Remind the client that they need to file an annual return (Form 42) reporting all employee share transactions by 7 July each year.
- Make sure employees understand how their particular scheme operates.
- Don't forget about the corporation tax deductions when doing the company accounts.
- Consider the reporting implications. When a company grants share options to its employees it has to expense a fair value charge to its profit and loss account. This charge is spread over the vesting period of the option, typically three years. But companies that apply the Financial Reporting Standard for Smaller Entities are normally exempt from this requirement.

ownership schemes and figuring out the best for your client may not be easy – or whether it's worth your client embarking on a scheme at all.

Although a simple, unapproved discretionary scheme for a small group of employees can cost as little as £3,000, an approved scheme for the whole workforce with monthly contributions and regular statements can cost £50,000 to implement and £30,000 to run each year, says Murphy.

"As an employee you may prefer to have cash in your bank account now rather than shares or options whose future value is not guaranteed," says Frank Haskew, head of ICAEW's Tax Faculty. "Poor stock market performance in recent years means that many people are sitting on options that are worth less than when they were granted." However, adds Haskew, "If shares are low at the moment it might be worth doing something now in the hope that things will improve." ■

For official advice from HMRC on how to set up an approved or tax-advantaged employee share scheme, see hmrc.gov.uk/shareschemes/ess-approval.htm

For information on the HMRC approval process, see hmrc.gov.uk/manuals/essum/index.htm

Wooing donors on the web

With everyone tightening their belts, charities have a harder job persuading us to donate.

Julia Irvine examines how new technology and transparency can help

The last few years have been tough for charities in the UK. They have been caught between falling revenues as the difficult economic times have restricted both business and household incomes, and increased demand for their services as the government cutbacks continue to bite.

Latest figures from the Charities Aid Foundation (CAF) show that, overall, charities' income has flatlined, after adjusting for inflation, at around £11bn. In 2011/12 nearly six in every 10 adults gave to charity but 67% of them gave less than £20 and it was largely in cash.

The economic conditions remain difficult but economists are predicting that next year household incomes in the UK will stretch further, thanks to lower inflation. The Centre for Economics and Business Research (CEBR) expects inflation to fall to 1.6% by the second quarter of 2013, and the tax-free personal allowance increases by £1,100 in April. Charities should be planning how to tap into this potential pool of new funds.

It is surprising, given the developments in technology, how little attention is paid to the fundraising potential of the web. Charities tend to focus on the traditional tried and tested routes to giving and many regard the internet as overrated. It's true that only 7% of donors made donations online in 2010/11 but with the rapid growth in online communication and an increase in online shopping (which now accounts for 10% of UK retail spending), it's only be a matter of time before there is a major upsurge in online donations.

According to CAF figures, online donation is most common among the

25-44 age group, irrespective of gender, and it appeals most to those in managerial or professional jobs. Since this is the age group that is the most conversant with new technology but contributes least to charities' income, appealing to their better nature via the internet or mobile phone technology seems a logical move.

This is borne out by research from Accenture suggesting that more than half of 18- to 24-year-olds have donated spontaneously following the introduction of services such as text and online giving.

ICAEW has certainly been advocating the importance of the web as a fundraising tool for charities for at least 10 years, since it changed the charities' annual reports and accounts awards it bestows every year from paper-based to online.

The Charities' Online Financial Reporting Awards (COFRA) are intended to recognise those charity reports and accounts that have demonstrated the highest levels of accuracy and transparency, and that communicate most effectively with their beneficiaries, donors and stakeholders.

As chairman of the panel of judges Graham Ward pointed out at the 2012 awards ceremony earlier this year, "Good reporting is about transparency and engagement. People want to know what they are donating to and what impact it is

COFRA WINNERS

INCOME OVER £30M

1st Cancer Research
2nd (joint) Action on Hearing Loss and Macmillan

INCOME £5M - £30M

1st Saint John of God Hospitaller Services
2nd Breakthrough Breast Cancer

INCOME £1M - £5M

1st Children in Crisis
2nd Impetus Trust

INCOME £250,000 - £1M

1st Best Beginnings
2nd South Yorkshire Funding Advice Bureau

INCOME BELOW £250,000

1st Aberdeen Strathspey & Reel Society
2nd Mexborough & Swinton Astronomical Society

having. We think that great online financial reporting can help demonstrate and even improve this process."

As part of the judging process, charities' accounts are given a technical review. It's the first hurdle and a high proportion of them don't make it through the online judging stage.

Failure to sign off and date the balance sheet and trustee report on the same day, for example, is one of the most common causes for disqualification.

Otherwise, the keys to a successful website are simplicity and ease of access. The accounts should be reached within

no more than three clicks from the home page, which should then be presented in an easily readable way. If necessary, reconfigure your online reporting to html rather than relying on extensive use of pdfs or cutting and pasting.

If you must use pdfs, break them up and provide the information page by page or in sections. No reader will visit your site if they can't choose the bits they want to read, there are too many pages on screen or the pdf is so huge that their computer crashes. A number of the winners of this year's awards offered their reports in both HTML and as a pdf.

The winner of the £5m-£30m category, Saint John of God Hospitaller Services, provides a great example of a readable report. Not only is it clear and simple,

BEST IN CLASS

Best Beginnings is no stranger to COFRA. Four years ago the charity, dedicated to ending child health inequalities in the UK, became the first entry to win with its inaugural set of accounts. This year it won again, this time in the income between £250,000 and £1m category, with an interactive online presentation.

Operations Manager Lee Hall says the success is the result of working with online communications company OpenUmbrella to explain the accounts to non-finance people. "We have tried to make our accounts accessible and transparent to all our different supporters, which is not the easiest thing to achieve.

"So we have split the reports and accounts up by using different coloured icons: blue explains what we're about and our aims; orange is the narrative about how our work for that year benefited the public; and green is the finance stuff."

Clicking on the blue and orange icons takes the reader through to simple explanations and short films while graphs and tables have been included in the financial information to make it more understandable. And if the reader has had enough, there is a purple icon which accesses a pdf of the entire reports and accounts.

The judges were impressed by the layout of the microsite and the icons. "We thought that the website was very simple and attractive, with colour-coded and linked pages, and set out the work of the charity clearly and simply, using minimal text and some embedded video," they said.

Winning is important, Hall says, because it shows the charity that what it is doing is right. "We really wanted to help our audience understand where the money they give us is going and help them feel part of the important work we do."

bestbeginnings.org.uk



but it provides plenty of links within its pdf annual review to more information, plus a special section on how to read financial accounts from the finance director. As one judge remarked, "I don't think we have seen this anywhere else. It is a new idea and very worthwhile."

At a glance summaries can often convey a message more immediately than the whole section. A snapshot of key achievements, comparatives and illustrations of how the finances relate to all this will help too. Readers will also want to know how the charity achieves value for money.

Narrative reporting is where charities can really bring the work they do to life. Many of the winning sites used video clips, for instance, to explain their aims and achievements. The approach should be simple and direct: "This is what we said we'd do, this is what we've done and the impact we've had and this is what we'll do next". To ensure consistency between key messages and achievements, it also helps to integrate the narrative

with the financial reporting. Over the years of judging, the panel has noticed that the most original and striking websites are designed by the smallest charities. It suggests that the more resource constrained the organisation, the greater the need to think creatively about what makes a good set of online accounts.

Another trend is that charities with award-winning sites tend to maintain their high standards. A number of the winners this year – including both first and runner-up in the smallest category – were mentioned in dispatches last year.

"The ability to communicate a clear vision, objectives that inspire and a commitment to delivery makes a real difference," Ward says. "Charities that use their online reporting to this effect will be the ones to secure the stakeholder support they need in these difficult times. Don't be left behind." ■

For further information on the Charities' Online Financial Reporting Awards, visit icaew.com/cofra. Nominations for 2013 will run from September to December 2013

Exclusion, moment of madness, stress prompts misconduct

Lapsed professionalism, misleading practices and an abuse of status call members into question

A CASE OF FRUSTRATION

A member allowed his professionalism to lapse into misconduct – to his cost – when out of frustration he sided with a former client's business partner.

Terence Veeder of Salford-based firm Edwards Veeder was severely reprimanded by an ICAEW disciplinary committee tribunal, fined £10,000 and ordered to pay costs of £4,800.

In 2003 Eugene Doogan fell out with business partner Angela Sawyer and moved the account of his business, Elite Communications UK Ltd, from Veeder to accountants HW Fisher.

In September 2004, Veeder submitted draft accounts with corporation tax computations for Elite to HMRC, which included the surrender of losses under group relief. At the time he knew Elite was wholly owned by Doogan who was represented by other accountants but he did not seek Doogan's permission to submit the accounts nor did he consult with Doogan's new firm. Instead, he acted in the interests of his client, Sawyer, who was still in dispute with Doogan.

In June 2005, he again submitted draft accounts with corporation tax calculations, including a claim for group relief, without asking permission. Had these been accepted, they would have benefited Sawyer's business to the detriment of Doogan's company.

In his defence Veeder said he'd come under pressure from HMRC to provide documentation. The tribunal said this did not excuse him for not having contacted Doogan or his new accountants and it rejected the suggestion the disclosures to HMRC were done in a "moment of madness".

It did accept, however, that the defendant's conduct was motivated by a "sense of personal frustration" towards

Doogan on two separate occasions, "after a prolonged period of highly contentious, and probably stressful, business" between Doogan and Sawyer.

SERIOUS MISCONDUCT

Exclusion from membership has been the penalty imposed on a member who misled ICAEW over his accounting activities, then failed to cooperate with the investigations committee.

Mohammed Ahmedi of Chatham, Kent wrote to ICAEW's quality assurance department in June 2010 confirming that his firm, Ahmedi & Co, had ceased trading on 31 March 2009 when this was not the case. When the QAD arrived a month later to carry out a monitoring visit, he reiterated the claim and said that he had started a new practice, MA Ahmedi, in April 2010. In fact, he had been running two unregulated connected companies, MA Ahmedi Ltd and Blueberry Accountants Ltd, which had been supplying accountancy services since 2003. Neither had professional indemnity insurance.

He also failed to disclose the existence of the companies in the 2008 QAD annual return; nor did he amend it to show the correct name and trading name of his practice. The tribunal said that in order for ICAEW to regulate its members effectively, members had to keep it reliably and accurately informed about their activities. "The defendant has on two occasions misled his regulator as to the correct position of his practice: he led it to believe that he was not practising when he was. This is serious misconduct, as it gave the impression that the practice wasn't in need of regulation, when it was."

His failure to obtain PII was "reckless and serious misconduct". As well as being excluded, Ahmedi was also ordered to pay £2,850 in costs.

ILL HEALTH SAVES MEMBER

A member who abused a position of trust when he was suffering from ill health and stressed by serious family problems has escaped exclusion from ICAEW membership.

A disciplinary committee tribunal found it would not be proportionate or fair to either fine or exclude Mervyn Davies since he posed no risk to the public and readily acknowledged his misconduct. Furthermore, he had made "remarkable efforts" to remedy his state of health, including adjusting his lifestyle to mitigate stress and minimise the risk of any problems recurring.

On 30 April 2010, Davies raised a £1,400 fee note on behalf of his firm, Howsons, for Charles Price Plants Ltd. This related to the preparation of draft accounts for the year ended 31 March 2010, work which he knew had not been completed.

Between April 2009 and October 2010, he failed to maintain accounting records for Boughy Trust Company Ltd, a Howson's client, and he prepared financial statements for the years ending 31 December 2008 and 2009 that were estimated and not based on the underlying records. Furthermore, in the 2008 financial statements he wrongly signed the accountants' report in the name of Lovells Accountants Ltd and the balance sheet in the name of Mr A Temperton. He also filed abbreviated accounts for the year ended 31 December 2009 which stated they had been approved by the Boughy board on 28 September 2010 when he knew that this was not the case.

The tribunal made clear there was no allegation that Davies had acted dishonestly or that he had sought or obtained any personal financial gain from his actions.

Davies received a severe reprimand and was ordered to pay £2,800 costs.

Report listings

The reports that follow are summaries. The full findings are available from icaew.com/publichearings or from the professional conduct department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Alan Cornefert of 83 Chipstead Valley Road, Coulsdon CR5 2BP

Complaint. Over periods between 2010 and 2011, he failed to submit an annual return on behalf of his firms, Alan Cornefert FCA and Acorns Ltd, and he engaged in public practice in respect of both without professional indemnity insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.

Order. He would have been excluded from the membership had he still been a member, which he is not. He was also ordered to pay costs of £2,261 within 30 days.

● Richard Andrews of 107 St Mary's Lane, Ballsbridge, Dublin, County Dublin

Complaint. He failed to certify compliance with continuing professional development requirements for the years 2006 to 2010 in breach of principal bye-law 56(c).

Order. Severely reprimanded, fined £3,000 and ordered to pay costs of £1,250. Andrews' membership ceased for failure to pay fines and costs under principal bye-law 7(c).

INVESTIGATION COMMITTEE CONSENT ORDERS

● Michael Shore of Alyco Advisory Asia Ltd, Level 43, AIA Tower, 183 Electric Road, North Point, Hong Kong SAR

Complaint. Between 7 October

2008 and 9 December 2011, he engaged in public practice without holding a practising certificate from ICAEW contrary to principal bye-law 51(a).

Order. Reprimanded, fined £1,500 and ordered to pay costs of £692.

● Stuart Gardner of Norgar House, 10 East Street, Fareham, Hampshire PO16 0BN

Complaint. On 4 May 2005 and on 23 June 2006, on behalf of his firm, RJG Accountants, he prepared the financial statements, and issued an accountants' report, for X for the years ended 31 December 2004 and 2005. However, in both instances, the financial statements failed to include details of related party transactions, in particular between X and entities in which a Mr Y, a director in X, had an interest, contrary to the requirements of s15 of the Financial Reporting Standard for Smaller Entities (effective June 2002/January 2005).

Order. Reprimanded, fined £1,000 and ordered to pay costs of £3,500.

● Paul Fitton of King Georges Chambers, 1 St James Square, Bacup, Lancashire OL13 9AA

Complaint. From 1995 to 2011, he engaged in public practice without holding a practising certificate, contrary to principal bye-law 51(a). He also engaged in public practice without professional indemnity insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.

Order. Reprimanded, fined £3,750 and ordered to pay costs of £1,055.

● Clarkson Hyde LLP of 3rd Floor, Chancery House, St Nicholas Way, Sutton, Surrey SM1 1JB

Complaint. On 5 November 2007 Clarkson Hyde LLP issued

an unqualified auditor's report to the Financial Services Authority in respect of X Ltd for the year ended 30 June 2007 but failed to carry out sufficient procedures to determine whether the company held custody assets during the period of the report.

Order. Severely reprimanded, fined £10,000 and ordered to pay costs of £2,059.

● David Robinson of 99 High Street, Gorton, Cambridgeshire CB3 0QQ

Complaint. Between 1 January 1995 and 6 September 2011, he engaged in public practice without holding a practising certificate, contrary to principal bye-law 51(a). Furthermore, between 1 November 1998 and 6 September 2011, he failed to arrange qualifying insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.

Order. Reprimanded, fined £1,500 and ordered to pay costs of £1,167.

● Martin Landman of 33 Wigmore Street, London W1U 1AU

Complaint. Between 14 August 1996 and 23 November 2011, he engaged in public practice without holding a practising certificate from ICAEW contrary to principal bye-law 51(a).

Order. Reprimanded, fined £1,500 and ordered to pay costs of £700.

● Andrew Maidstone of 51 Ulleswater Crescent, Ashby de la Zouch, Leicestershire LE65 1FH

Complaint. Having entered into a share sale agreement dated 14 September 2007 with a restrictive covenant in favour of X Ltd, he acted contrary to the Code of Ethics, specifically s110, Integrity, in that thereafter he improperly sought to canvass, solicit or entice away seven different clients.

Order. Severely reprimanded,

fined £5,000 and ordered to pay costs of £3,067.

AUDIT REGISTRATION COMMITTEE ORDERS

● Assets Ltd of Chiltern Chambers, St Peters Avenue, Caversham, Reading RG4 7DH

Breach. The firm admitted it was in breach of audit regulation 6.06 because it had incorrectly completed its 2011 annual return.

Agreement. A regulatory penalty of £2,500.

● Business & Risk Solutions Ltd of Forge House, Stodmarsh Road, Canterbury, Kent CT3 4AG

Breach. The firm failed to pay the annual registration fees due under audit regulation 2.13

Order. The firm's registration as company auditor was withdrawn.

● Tait Walker LLP of Bulman House, Regent Centre, Gosforth, Newcastle upon Tyne NE3 3LS

Breach. The firm admitted it was in breach of audit regulations 2.03(a) and 2.11 in that it failed to ensure that one of its members was an audit affiliate.

Agreement. A regulatory penalty of £750.

● WPA Audit Ltd, 26 Grosvenor Street, Mayfair, London W1K 4QW

Breach. The firm admitted it was in breach of audit regulation 6.06 when it had provided inaccurate information on its 2010 annual return.

Agreement. A regulatory penalty of £3,000.

CORRECTION

In the August issue of *economia*, we referred to a case involving the defrauding of the London Symphony Orchestra. The case in fact involved the defrauding of another national orchestra and we would like to apologise to the LSO for any negative impression caused by the article.

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Life

"Privacy is dead, and social media hold the smoking gun" Pete Cashmore, Mashable CEO



CORBIS

Leisure and life – explore new horizons with an ***evening class***, bone up on the best ways to use ***social media***, our top three restaurants for ***carnivores***, how to choose UK ***vegetable delivery services***, and ensure you get a good ***40 winks***

SOCIAL SERVICES

Social media has been around for a while, but do you make the most of it? **Helen Roxburgh** guides you through the plethora of sites that can enhance your life and business

A recent survey found that accountants were yet to “come to grips” with social media. An evaluation of the top 60 (by fee income) firms conducted by Flagship Consulting concluded that key opportunities were being missed by those using social media channels. The report said that accountancy firms “must move away from broadcasting on social media and actively engage in two-way communication with individuals on social networks. This will have a positive impact not only on amplification of brand messages, but also on recruitment and transparency”.

The same research pointed out that there are many benefits for a business if it actively engages in social media, amid predictions that more than one billion people are set to use mobile devices as their primary internet access point by the end of this year.

The bottom line is that these sites are social. They are first and foremost for making connections and building relationships; whether these prove to be business or personal. Once you’ve set up accounts, and are building up your followers, remember to post updates regularly and use the accounts to engage with contacts. You can also advertise your presence and add links to your company’s social media accounts on your email sign-off or your website, making it easy for clients and friends to get involved.

Here’s *economia*’s guide to how the four main social media hubs can be used to enhance the life of a busy professional, both in and out of the office.

TWITTER



Twitter is a micro-blogging site that lets users set up an account for free and post short, sharp updates. Following a largely unforeseen yet meteoric rise in popularity, there are now more than 340m tweets a day being

That profile picture of you on your birthday (yes, that one) might be fine for friends and family, but your boss and clients might be less impressed

posted by some 500m active users.

In terms of branding yourself, the possibilities are endless. Accounts on Twitter range from hugely popular celebrities such as Oprah Winfrey and Lady Gaga to firms large and small.

But for finding like-minded peers in and out of the office, Twitter offers instant access to new worlds. Use hashtags in your tweets to help listings connect you to issues you are interested in, such as #lfc or #tax. And you can find similar followers using sites like Klout.com or PeerIndex.com. The *economia* account has several lists of key accounts worth following, including more than 170 Twitter accounts in our finance list (twitter.com/#!/economiamag/finance). You can also find like-minded individuals by looking at the followers of @icaew.

Once you’re up and running, think about your target reach. The end of the working day in the UK is the start in Canada and on the US west coast, so is a good time to reach tweeps (followers) across the pond as well as commuters heading home in Britain. Lunchtime, inevitably, finds users hunting for inspiration and distraction, so that’s the time to post more esoteric information.

It’s worth keeping an eye on your followers once numbers start to build – TweetReach (tweetreach.com) is a good site to see where your tweets have been forwarded to and replied to from, and

Twellow.com lets you hunt out users who post on similar topics.

Above all, remember that Twitter is interactive. Thank followers with retweets, respond to questions, engage, play and be generous. Recommend others on “follow Friday” (#ff) and give shout-outs to those who help you build influence and authority. Many people now use it as their primary source of news and information, with 40% of people who actively log on to Twitter regularly never posting tweets themselves. Follow a few good news feeds like @Reuters (and @economiamag of course), and let the news come to you, while connecting with like-minded individuals, opening up business opportunities and legally stalking celebrities worldwide.

FACEBOOK



Still more used as a personal networking site than a business tool, Facebook allows you to create a series of pages about yourself. You can post pictures, status updates, videos and links to news articles or relevant web pages. You have the capacity to connect to other people, who become Facebook friends, and subsequently comment on their pictures, status updates, videos and the like.

As a business tool, the jury is still out on Facebook. Some brands, *The Guardian* for example, have broken new ground in reaching readers on Facebook, with a ground-breaking tie-up between the two making it easy to share the newspaper’s content. A large number of companies have a Facebook page, where they post company news, links and pictures, and run competitions, all of which readers can share on their pages (go to facebook.com/economiamag or facebook.com/icaew to connect with us).

You can use Facebook to bring a different sort of attention to your business



or brand, in a more light-hearted way. Spend some time experimenting with Facebook Insights, a free data tool that lets you see who has visited your business page or group, and where from. And if you travel a lot, set your social media accounts to show where in the world you are.

But beware – if you're going to set up a business Facebook account and already have a personal account, make sure your privacy settings are set accordingly. That profile picture of you on your birthday (yes, that one) might be fine for friends and family, but your boss – not to mention clients – might be less impressed if they see said picture on your email signature.

LINKEDIN



As a personal business network, LinkedIn is a must-have for the 21st century. It works like an online CV hosting service, allowing members to post professional experiences, education and training, and connect to people they have worked with, or hope to work with. This is about marketing yourself as a professional, with members able to recommend other members – particularly good if your former boss is social media savvy and happy to put a good reference up for the world to see. It's an instant and free way of finding what others have done in their careers, and who they've worked with.

Various plug-ins can be added to your

LinkedIn presence – a blog or Twitter feed, for example. This means your online activity can be co-ordinated, making it easier to keep track of various social feeds and show what you are up to.

LinkedIn is a great way of introducing yourself to people you don't yet know. In social media terms, it's acceptable to ask to link with someone out of the blue, because you want to work with them in the future (or want their job). Having said that, avoid the hard sell on LinkedIn; it's not solely for job hunting and users get turned off if you are being too aggressive about yourself or your brand. It always pays to track traffic and LinkedIn is no exception, letting you see who has been looking at your pages and when.

LinkedIn has traditionally been seen as the business equivalent of Facebook, but you can do much more with it than just stick your CV up. LinkedIn groups such as ICAEW's are a way of talking to other like-minded individuals on matters of business or pleasure – for example, accountants in Denver, bridge players in Devon or fans of Lars Von Trier films.

Groups can discuss issues that are relevant to them via open or closed forums. Regular emails keep you updated on the latest discussions, and you can vote on key issues. Linking your profile or group with other social media sites using

free widgets means you only have to post once and your message is instantly shared across all the networks.

Above all, LinkedIn is an amazing networking tool. Use it well and you can find fellow professionals, share ideas and any problems, and hunt out new career opportunities.

PINTEREST



Pinterest has provoked debate in online forums worldwide. It is to social media types what the Phantom Menace is to *Star Wars* fans. The site is absurdly simple on the one hand; users create virtual pinboards, where they can attach items including images and media content from other websites, or upload their own content from scratch.

Pinboards are themed to group together similar content and help you find other users' pinboards that are related to your own posts.

A kind of visual Facebook, Pinterest soared from under 500,000 unique users in May last year to more than 18m in March, of which 85% were women. In addition to re-pinning from someone else's pinboard, you can also "like" another person's pin. It's exciting for marketers and fun for consumers, and has given a new lease of life to publishers that target very visual communities such as gardeners, or those planning weddings.

Although you need to be aware of the potential to breach copyright by using other people's work (including photographs) that you do not have the rights to, if you are a business with a lot of potential future clients as Pinterest users, then it might be a good place to tap into new, creative communities. ■

Helen Roxburgh is *economia's* online editor. For news and features aimed at ICAEW members, head to icaew.com/economia

BACK TO SCHOOL

Yes, you do have time. **Amy Duff** explains how joining an evening class can help you realise both your learning and earning potential

As students begin a new year at school, full of lofty ambitions to study hard and look good in their uniforms, it can be a time of self-reflection for us students of life as well. With the summer silly season over perhaps it's time for our own brand refresh. We ponder how we might challenge ourselves, expand our interests, learn skills and do things we never did at school – like pay attention in class.

So in the spirit of self-improvement, *economia* has scoured the realms of further education and self-help to suggest evening classes that could bolster your career, improve your life skills or just enable you to have fun.

WORK

SOCIAL MEDIA

Like it or not, Facebook and Twitter are now business game-changers (see our feature on page 86). Twitter in particular allows you to directly interact with all sorts of people. You can keep tabs on hot topics, and it works well as an opinion poll. Twitter also offers daily opportunities for you to learn. If civic mayors are signing up councillors on Twitter courses to drag them into the digital age, you know it's time you did, too.

FOREIGN LANGUAGES

Everyone speaks English, right, so what's the point of learning a new language? Well, it could help you retain customers, increase your chances of working abroad, stand out from the crowd,



build relationships or expand your trading or exporting options. According to Bloomberg Rankings, the top three most useful languages for business after English are Mandarin Chinese, French and Arabic, followed by Spanish. The reasons are clear: China has the world's fastest growing economy, French is a useful tool for companies working in African markets and Arabic is spoken right across the Middle East. Quelle bonne idée.

COMMUNICATION SKILLS

You're far more likely to earn the trust, respect and loyalty of the people you work with if

you're able to communicate well. It's essential to building a cohesive and effective team and maintaining effective relationships with suppliers and clients. There are specifics you can focus on: body language, presenting, knowing how and when to release information, talking to a camera, addressing a large group or public speaking. There are even courses that teach you how to use your voice to make a living – doing voiceovers, for instance.

PRACTICAL SKILLS

PICTURE FRAMING

One experienced picture framer in Hampshire says the most bizarre thing he's ever framed is a stuffed canary called Jimmy. He's also framed a conductor's baton and military medals as well as the usual oil paintings and favourite prints. Learning how to cut glass, choose materials, and mount and assemble frames will not only give you a useful skill but it'll save you money as well. You can even learn how to frame 3D artwork. Now, where's that Stanley knife?

DIY

With the housing market still so flat, many people are improving instead of moving. But if you don't really know what you're doing the results can be disastrous. So whether it's tiling, decorating, bricklaying, plastering, lighting design or just general maintenance and home repairs, there are plenty of courses on offer. Absolute beginners can learn how to

select and use hammers, fix shelves or operate hinge mortises. Alternatively you can focus on a specific skill such as carpentry or woodwork. You can even design and build your dream home. Why pay (in cash) for a tradesman when you can learn to do it yourself?

CAR MAINTENANCE

"It's gonna cost ya, mate..."

Not if you know what's wrong with your car it won't. You don't have to be a piston head to learn the basics such as changing wheels, simple repairs, fault-finding, servicing and maintenance. Alternatively, you could go a bit more in-depth with an NVQ and learn how to remove and replace chassis units and components. Or there's the fun hands-on option of buying and restoring a classic car, which usually takes place in a body repair workshop. Say hello to Swarfega.

FUN

JEWELLERY MAKING

It's become very popular to make your own trinkets or jewellery because it's great for gifts, to earn some extra cash or simply to take pleasure in making something pretty. Good courses teach you the various skills necessary to make precious metal jewellery and design objects. You'll learn how to cut, form, solder and construct silver and other metals to create wearable jewellery pieces. You will also be shown a range of technical and decorative techniques such as roll-printing and polishing.

DANCE

If you've watched *Strictly Come Dancing* and wished you could move as well as Flavia, there are all sorts of classes to teach you how. From ballroom dancing and belly dancing to jazz, street or ballet, dance is a great way to improve strength, balance and co-ordination as well as boost your confidence and meet new people. Why not give flamenco a whirl? Bringing together the passion and rhythms of the hot Andalusian climate with refined footwork, graceful arm movements and syncopated toe-heels, who needs *Fifty Shades of Grey*?

CREATIVE WRITING

Talking of which, *Fifty Shades* author EL James started out writing on specialist forums – they're a great place to earn a bit of cash and unleash your, ahem, creative juices. But if you'd prefer something more virtuous, there are courses where you could learn how to write an autobiography by channelling memories, diaries, photos or even dreams. Or you could learn how to put together a comedy sketch, be a good blogger, create a script or write fiction, poetry or a play. Whatever route you choose, a course will help you craft your skills and make your writing more evocative and powerful. ■

Find out more

hotcourses.com
u3a.org.uk
artacademy.org.uk
nationalcareersservice.direct.gov.uk
learnndirect.co.uk



You don't have to be a piston head to learn the basics such as changing wheels, simple repairs, fault-finding, servicing and maintenance

PLATES OF MEAT

We pig out at the restaurants that make the capital a carnivore's delight



BREAKFAST

**Hawksmoor,
Guildhall, London**

Famed for serving London's best steaks, Hawksmoor does meat, and does it well. Even chips are cooked in beef dripping. You can try the 35-day hung, book-thick steaks for breakfast, complete with eggs and hash browns, but if you're going for a real meat feast, choose the Hawksmoor breakfast. To share.

Arriving in an immense cast iron dish, this glory of gluttony includes a smoked bacon chop; pork, beef and mutton sausages; black pudding; chunky bubble and squeak complete with short ribs; grilled marrowbone and trotter baked beans. For a decadent flourish you could wash it down with a Number 7 Bloody Mary with horseradish gin and London stout. Best breakfast ever? Quite possibly. thehawksmoor.com

LUNCH

**JW Steakhouse,
Hyde Park, London**

The clue is in the name – this is a restaurant in the true US tradition of supersizing. It's not sugar-laden burgers they serve, but hand-cut slabs of Creekstone Kansas Black Angus American USDA prime beef. Or, if you're feeling patriotic you can opt for the Aberdeen Angus.

Lamb, chicken and burgers feature on the menu, but here it's all about the steak. We recommend you peruse the blackboard for the best cuts of the day. A Porterhouse on the bone is plenty for two, but if you need a protein boost, add in a fillet.

Going all American with the sides? You could opt for the chopped salad with nine vegetables and fries. Despite intentions, there may be no room for your dessert. jwsteakhouse.co.uk

MENU OF THE DAY

BREAKFAST

Hawksmoor breakfast	£35
Bloody Mary	£7.50

LUNCH

Porterhouse,	POA
8oz fillet	£34
JW chopped salad	£10
Fries	£4

DINNER

Salmon ceviche	£4.75
Chicken coxinhas	£4.45
Spicy malagueta chicken	
half skewer	£4.95
Pork tenderloin, half skewer	£5.65
Chilli cumin lamb with	
palm heart, half skewer	£6.25
Cassava chips	£3.45
Black beans	£2.95
Cabana cheesecake	£4.95

DINNER

**Cabana,
Covent Garden, London**

The Brazilian *churrascaria* is close to heaven on earth... skewers of prime meats are brought to your table and carved onto your plate until you can take no more. Fresh sides arrive randomly, and all-you-can-eat salad bars assuage the fat-induced guilt.

Cabana is a more civilized take on this, with skewers coming in nice half sizes. Small plates can be sides or starters and the traditional chicken *coxinhas* are delightfully crunchy, while the *ceviche* was tender and properly citrusy.

Skewers are served onto a wooden platter, which doesn't help heat retention, but the meat is well seasoned, and pork especially tender. Totally irresistible was the Cabana cheesecake in banana and caramel. Ask for two spoons. cabana-brasil.com

SIX OF THE BEST

VEGETABLE DELIVERY SERVICES

As people become more aware of the quality of the food they eat, demand for organic vegetables is soaring. More farmers have responded, setting up local delivery services. Here, we round up the best of them

RIVERFORD

Originally started by Devon farmer (and self-confessed “vegetable nerd”) Guy Watson as a local delivery service, Riverford has grown rapidly in recent years and now delivers a staggering 40,000 boxes of organic produce a week all across the UK. With four farms, numerous other suppliers and a network of franchised delivery businesses, it’s more like an online organic supermarket. Its vegetable boxes start from as little as £10. riverford.co.uk

ABEL & COLE

Founded in a south-east London basement in 1988, Abel & Cole switched to selling organic produce when customers preferred it to the regular vegetables. It thus pioneered taking organic vegetables from the farm to the front door. Abel & Cole now sells a wide range of vegetable boxes (from as little as £9), but like Riverford also offers a complete range of other organic produce and is also a full-blown online organic supermarket. In most locations, deliveries are limited to a specific week day. abelandcole.co.uk

TOLHURST ORGANIC PRODUCE

At the other end of the scale from the household name operators, is Iain Tolhurst’s locally focused organic

vegetable farm delivery business. Tolhurst Farm is one of the oldest organic farms in the UK, and is based on the Hardwick Estate near Pangbourne in Berkshire. Rather than doorstep deliveries, Tolhurst delivers to a number of specified local reps in the Berkshire and Oxfordshire borders area. Prices start from as little as £8 for a simple box of vegetables. tolhurstorganic.co.uk

THE ORGANIC DELIVERY COMPANY

While many of these organic delivery schemes start with farmers spotting an opportunity to sell their produce directly to consumers, the Organic Delivery Company was started by a group of Londoners who wanted better organic food. Sourcing good produce from organic farms across the UK, it delivers boxes of fruit, vegetables and salad across London. Boxes start at £11.95. organicdeliverycompany.co.uk

WOODLANDS ORGANIC FARM

Located in the wide, flat and open Lincolnshire fens, Woodlands is a large mixed organic farm. Farmer Andrew Dennis started to deliver boxes of his vegetables from Woodlands as long ago as 2000. Demand rapidly grew and the farm now delivers its organic fruit, vegetable and



Many of these organic delivery schemes started with farmers spotting an opportunity to sell produce directly to consumers

meat boxes across Lincolnshire, Cambridgeshire and the east Midlands. woodlandsfarm.co.uk

GREENBEAN ORGANICS

Early converts to the organic message, Bill and Liz Lawrence converted their Welsh beef and sheep farm to producing a broad range of organic produce in 1999. They now offer a wide range of fruit and vegetable boxes for delivery (prices start at £12) as well as a full range of other organic produce. They also run the Face of Flowers organic beauty range. greenbeanorganics.co.uk

SLEEP WELL

Having trouble dropping off?
Wendy Saunders offers top tips
 for getting more than 40 winks



Stress will often be accompanied by lack of sleep. And if you don't get enough sleep, you will frequently feel increasingly stressed. It's a vicious circle that affects many accountants, especially at times when they really need some quality rest.

Research by the University of California has shown that only a tiny minority of the population – around 3% – can lead healthy lives on limited sleep. Most people need between 7.5 and nine hours and anything less than six is almost certainly not enough. However, the good news is that some simple strategies can be very effective in beating sleeplessness.

BUILD GOOD HABITS

Your body likes routine, so go to bed and wake up at regular times. Don't be tempted to break this cycle at weekends by treating yourself to a late night and a lie-in, and don't take naps. Try to get some sunlight every day – natural light helps regulate your body clock and makes you feel sleepy at night by stimulating

your body to produce melatonin, a hormone that regulates your sleep cycle. Morning sunlight exposure can be especially helpful.

CREATE AN AMBIENCE

Sleep in a dark, cool room on a good quality mattress. It is best to avoid having a television or computer in the bedroom – even dim standby lights can confuse your body clock – so keep noise and distractions to a minimum.

WORK AT RELAXING

Learning to wind down is a skill that responds to practice and routine. Get ready for sleep by taking a shower or reading a book. Try relaxation techniques such as deep breathing, visualisation or meditation. Write down any problems keeping you awake on a piece of paper kept by your bed. This mentally “clears your desk” and allows you to relax, knowing you are prepared for the next day.

LOOK AT YOUR DIET

A balanced, nutritious diet and maintaining a healthy weight

Write down any problems keeping you awake on a piece of paper kept by your bed. This mentally “clears your desk”

will help you sleep. Stay away from big meals at night. Try to make dinnertime earlier in the evening, and avoid heavy, rich foods within two hours of going to bed. Fatty foods take a lot of work for your stomach to digest and may keep you up. Also be cautious when it comes to eating spicy or acidic foods in the evening, as they can cause stomach trouble and heartburn.

TAKE SOME EXERCISE

Regular exercise at least two hours before you go to bed also helps promote sleep. However, exercising too late in the day actually stimulates your body by raising your temperature – a cooler body

temperature promotes sleep. Sleeplessness is also one of the long list of health reasons to stop smoking, because nicotine is a stimulant and smokers take longer to fall asleep. Also, try to avoid caffeine, which can cause sleep problems up to 10 to 12 hours after drinking it.

AND IF YOU WAKE UP...

Stay in a relaxed position and don't get stressed about your sleeplessness. Try to relax rather than to sleep. If you've been awake for more than 15 minutes, try getting out of bed and doing a quiet, non-stimulating activity such as reading a book. Keep the lights dim so as not to cue your body clock that it's time to wake up. Remind yourself that although they're not a replacement for sleep, rest and relaxation still help rejuvenate your body. ■

Wendy Saunders is head of strategy and development for the Chartered Accountants' Benevolent Association (CABA). Contact CABA at caba.org.uk or by calling 01788 556366.

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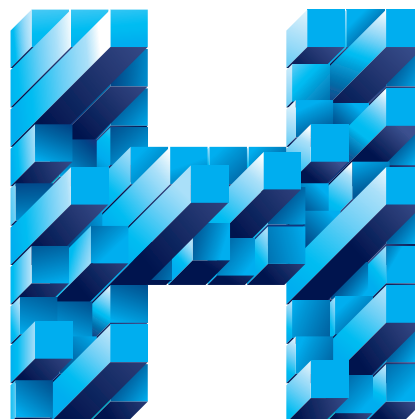
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LIFE AFTER WORK

THE ART OF GIVING

Since choosing to take early retirement to make way for fresh blood, Michael Zampelas has been busy. He talks to **Penelope Rance** about opening an art gallery, among other things...

Retire is not the word I would use," says Michael Zampelas, philanthropist, organic farmer and art gallery owner. "Doing something different, but equally important, is my philosophy." It's an outlook that he espoused throughout his career as a founding partner of PwC Cyprus.

"Some 40 years ago as the only local partner in a firm with 17 employees, I decided that a professional firm can only survive and grow if the opportunity is given to younger people to take control. This philosophy of management helped develop PwC Cyprus into a company of 1,000 people.

"For a founder and lifetime senior partner, it is not easy to plan retirement. But once I had made sure that the firm had other partners to take control, I chose, at a relatively early age, to move on and do something other than accountancy. So I

stood as an independent candidate and won the election for Mayor of Nicosia."

These days, following five years as Mayor and despite still being Consul General of Estonia, Michael keeps his political activities to a minimum, focusing his attention on charitable work with, among others, Muscular Dystrophy Research (MDR), the Achilleas Athletic Organisation and the Friends of Christos Stelios Ioannou Foundation.

"The Foundation is Cyprus's largest and best-organised charitable institution for mentally-disabled children and adults," he says. "It is a blessing to be able to assist those who are in need of love and support. The MDR transformed itself into the Cyprus Institute of Neurology and Genetics, a world-renowned bi-communal research centre. It is a wonderful organisation," he says. "Achilleas is my athletic

club from the neighbourhood where I grew up. It carries a lot of good memories and has a lot of sentimental value for me. I will never abandon Achilleas."

But Michael's main project is the recently opened Loukia & Michael Zampelas Art Museum. "Art and culture is in my blood and, thank God, it is also in the blood of my wife, Loukia.

"In 1966, when I returned to Cyprus as an ICAEW chartered accountant, I did the audit of a hotel in Nicosia. There was a receivable for £40 from an artist in Greece who

had an exhibition in the hotel. I said the amount must be written off since the artist had returned to Greece and its collection would be difficult. They refused to write it off and showed me a painting they kept, valued at £100. I offered to buy it for £40. That is how it started, and today our collection has more than 2,000 pieces."

Despite a full-time philanthropic schedule, the couple are also dedicated to organic farming. "We try to keep the weekends for us. Just outside Nicosia we own a country house, which is surrounded by an orchard where for 12 years now we have produced organic vegetables, fruit, poultry and eggs for family and friends. My wife says that this is the nicest thing we have ever done." ■

"I decided that a professional firm can only survive if younger people are given the opportunity to take control"

For more information on Michael's gallery, visit zampelasart.com



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