ECOMO INSIGHT COMO INSIGHT

DECEMBER 2015 | ICAEW.COM/ECONOMIA

ISSUE 44 | ACCOUNTANCY | FINANCE | BUSINESS

"I think part of my responsibility as a professional accountant is to give something back"



As Kathryn Cearns
prepares to hand over
the baton at the
Financial Reporting
Advisory Board, she
explains what it takes
to do the right thing



POWER TO
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AND COP 21
VOLKSWAGEN
AND ETHICS
PENSIONS REFORM

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Extra Urban 52.3 (5.4) – 83.1 (3.4) and Combined 44.8 (6.3) – 74.3 (3.8). CO₂ emissions: 144 – 99g/km. Images shown for 93/116/EEC). This allows a direct comparison between different manufacturer models but may not represent the actual fuel More information is available on the Audi website at audi.co.uk and at dft.gov.uk/vca

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This month's COP21 meeting in Paris is a significant moment for the global economy. Lord Stern has gone so far as to describe it as a "one off in human history"

That's a tall order for what is ostensibly just the latest in a line of gatherings on climate change. The last one (Copenhagen) failed to deliver much. If Lord Stern and others are to be believed, this one simply can't afford to fail.

At stake in Paris are issues of global and local significance. Over the last few months, as anticipation mounted, issues from international trade to poverty reduction have nestled alongside more parochial matters, such as saving jobs in the UK steel industry, in the box marked "for discussion at COP21".

How realistic these expectations are is questionable. There have been landmark meetings in the past (notably Rio and Kyoto), which continue to shape the economic and business landscape. But these far-reaching agreements were arrived at in more comfortable financial times. It's not clear how strong the appetite is today for solving long-term sustainability issues, with short-term economic uncertainties more to the fore.

As economic clouds continue to rumble over China, for example, what will it take to convince President Xi Jinping to adopt energy levies that might reduce emissions but would also give UK steel producers a leg-up against Chinese producers, putting them both on a more even playing field?

There are plenty of sceptics who question the validity of climate change science. And the sceptics will get louder

as the cost of action on climate change bumps up against recession. But this does appear to be an unstoppable force shaping how global economies develop. Whether they want to or not, world leaders are forced to think about how their economies manage carbon.

As Lord Stern made clear, there is little wriggle room in 2015. If concerns about changes in global temperatures are correct, by the time we find out they're accurate it will be too late. We need to act now, not in 10 years' time.

These political issues and uncertainties are matched in the business community. Business leaders are equally forced to consider how their organisations perform beyond the financial results.

What has become known as integrated thinking has already changed company reporting. While the integrated reporting initiative in itself has met with some resistance and is regarded by some as just an extra layer of complexity, the principle of explaining in greater detail the impact a company has on community resources continues to make progress.

Even if politicans waver and fail to agree to much in Paris, the benefits of reporting across all types of capital use (rather than just the financial) will continue to be felt on a micro level.

Employees, customers, shareholders and suppliers all prefer to engage with businesses able to take responsibility for their actions over the long term.

A question of resource at HMRC

It's a contentious view, but not an uncommonly heard one; HMRC, in its drive to encourage users online, is not bothering to invest resources in providing the proper level of service to more traditional users.

The theory, like all good conspiracies, is at once feasible and unlikely. The view that there is an evil scheme behind such mundane, but vital, issues as the continued failure to answer phone calls in a reasonable time, doesn't stack up. More likely is a less glamorous truth; that this is merely what happens when a greater workload (caused by tax complexity and users being asked to do things for themselves) meets a reduction in available resources.

It is not so much a conspiracy of a willing few, as a systemic failure resulting from those on the frontline being denied the resources they need. Many struggle on, doing the best they can.

Against this backdrop it is not surprising that last month's announcement of a new structure, based on larger regional centres, was met with sceptism. Few think it will improve things any time soon.

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ICAEW in this issue

"There is clearly a lot going on in our cities. The key to this is the availability of resources, but also access to funding, and what I think will be instrumental to successful devolution; strong local leadership"

P46 Stephen Ibbotson, ICAEW director of business

"Many practitioners with clients yet to stage [auto-enrolment] have their heads buried in the sand"

P72 Liz Cole, business law manager at ICAEW



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MEMBER
PROFILE
Emily Coltman

"Auditing capital ratios or riskweighted asset calculations is not necessarily straightforward. The process needs to be subject to cost benefit assessment. But given the importance of the numbers, they merit robust scrutiny and controls" **P36** lain Coke, head of the Financial Services Faculty at ICAEW

"The economy is going to decarbonise one way or another, and all businesses are going to have to adapt" **P58 Richard Spencer, head of sustainability at ICAEW**

"Sometimes professionals don't bring the same rigour of assessing a situation or advising on a situation to the charity as they might in their own business"

P74 Nick Brooks, chair of ICAEW's Charity and Voluntary Sector Group

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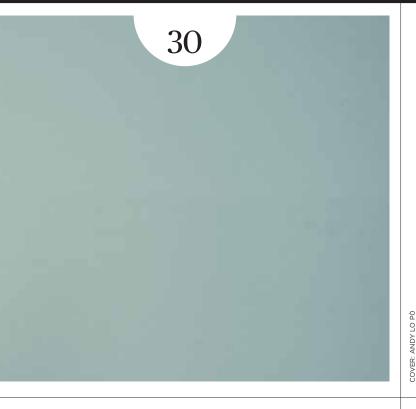
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The small bank surcharge

economia



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

WELLBEING Mental health, wellbeing and stress are all major concerns for accountants; Sinead Moore takes a look at how the big firms are tackling it

SKILLS Karen Young, a director at Hays Senior Finance, asks how finance teams and finance leaders can overcome the challenges of a growing skills gap

BUSINESS The issues facing VW in the wake of the emissions scandal and what business leaders should do when such a crisis hits

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PROFESSION

The accountancy profession is "sleepwalking towards a cliff", Hywel Ball, managing partner for assurance at EY, said as he spoke at the firm's annual Financial Reporting Outlook conference

WORKPLACE

A new Race at Work report from Business in the Community has revealed that nearly a third of all BAME employees have witnessed or experienced racism

ELSEWHERE ONLINE

Six of the best comfort foods

The economy needs pre-packs

PAC staggered by Kids Company evidence

ECONOMIA A.M.

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

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Fuel consumption and CO₂ figures for the Volvo Range in MPG (I/100 km): Urban 68.9 (4.1) – 19.1 (14.8), Extra Urban 85.6 (3.3) – 37.7 (7.5), Combined 155.2 (1.8) – 27.7 (10.2). CO₂ emissions 237 - 48g/km. MPG figures are obtained from laboratory testing intended for comparisons between vehicles and may not reflect real driving results.

In review

THE INTERNATIONAL PICTURE

00% 00%

Estimated turnout of eligible voters in Myanmar's presidential elections

NLD SWEEPS MYANMAR ELECTIONS WITH 70% OF VOTE

Myanmar's National League for Democracy (NLD) won a landslide in Myanmar's election this month, taking 70% of the vote.

But success is not all that it seems. Led by Aung San Suu Kyi, the NLD will have to continue to share power with the country's military, which holds on to 25% of seats as well as key government positions.

Suu Kyi is barred from being president by the constitution, which prevents anyone with foreign children from taking the position; along with her late husband, Suu Kyi's two sons have British citizenship.

Globally the elections were well recieved, with praise from the EU, United States and China.

CATALONIA ASSEMBLY STEPS CLOSER TO SECCESSION

Catalonian independence from Madrid could arrive by 2017, campaigners say, after the regional assembly passed a motion to establish its own treasury and social security system.

Passed by a vote of 72 to 63, the motion follows an ever-increasing number of calls for Catalonia's independence from Spain. The resolution has been led by Together for Yes, the Catalan Assembly's first pro-independence coalition.

Mariano Rajoy, the prime minister of Spain, vowed to appeal the vote.



PAC and Lin Homer clash on tax yields

HMRC is threatening tax yields by not improving its struggling customer service, MP Meg Hillier has warned. Hillier, who is chair of the Public Accounts Committee (PAC), said HMRC's customer service was "abysmal" and could be considered "a genuine threat to tax collection".

From 2014-2015, HMRC answered just 39% of its phone calls within five minutes. In the first half of this year, it reported answering just 50% of all the calls it received.

But HMRC's Lin Homer described the PAC's claims about tax yield as "absolute nonsense" and accused it of going after headlines.

Goldman Sachs closes BRICs fund after 14 years

Goldman Sachs has closed its BRICs investment fund. Described as the



"end of an era" by Bloomberg, the decision to close the BRICs fund, which is worth more than \$100bn, came after poor growth led to an investor exodus. It will be merged with a larger developing markets fund. Both Brazil and Russia are fighting recession, while China - which recieved more than 50% of BRICs fund investment - faces its lowest growth rate since 1990.

39%

Percentage of phone calls HMRC answered within five minutes between 2014 and 2015 **UK Race at Work findings**

Business in the Community published the results of its *Race at Work* report, which is based on a survey of 24,457 respondents. It is the largest such survey to ever take place in the UK.

Key findings taken from the survey show that on average businesses with greater racial diversity experience financial returns that are 35% higher than their less diverse counterparts.

Respondents also reported witnessing or experiencing racial harrassment in the workplace, something that 30% of people said they had encountered.

137

NUMBER OF HMRC OFFICES TO BE CLOSED IN THE NEXT 10 YEARS

NUMBER OF REGIONAL CENTRES TO BE OPENED

Source: UMDC

Javid addresses Europe over UK steel crisis

The business secretary, Sajid Javid, led a delegation to Brussels for talks on the UK steel crisis. Plant closures have led to thousands of job losses.

Experts say that a slump in global demand has led to over capacity and plummeting prices, worsened by Chinese firms dumping their cheaper steel in Europe.

Shadow business secretary Angela Eagle accused the government of "sitting on its hands" and being unwilling to take the "strategic and decisive action" to save the industry.

PwC: Boost performance with bonus transparency

According to PwC, big businesses can improve executive performance by publishing details of the bonuses they pay and receive.

The Big Four firm said in a report that performance in FTSE 100 firms was boosted after 2012 when the government pushed for disclosure.

But despite these improvements, 28% of Britain's largest companies are still failing to disclose how they calculate pay packages.

KBA examines car brands

German car regulator the KBA (Kraftfahrt-Bundesamt) said it is looking at a further 50 car models over elevated diesel pollutants.

Following last month's Volkswagen scandal, the KBA is now speaking to 16 other manufacturers including Ford, Honda, Nissan, and German marques Daimler and BMW.

Domestic and foreign cars will now be subject to strict checks and tests said Alexander Dobrint, Germany's transport minister.

Brazilian woes to worsen

Brazil looks likely to suffer more economic woes after the OECD forecast its economy will shrink 3.1% this year, followed by a further contraction of 1.2% next year.

This is worse than previous predictions, which estimated Brazil's economy would shrink by 2.8% in 2015 and then 0.7% in 2016.

Elsewhere, Russia's economy is predicted to shrink 4% by the end of 2015. However, unlike Brazil, Russia is expected to return to growth by 2017, growing by 1.7% that year.

Foul play?

Ex-footballer Richard Rufus, a former defender for Charlton Athletic Football Club, was accused of fraud this month following an Insolvency Service investigation. Civil proceedings have been brought against him.

As well as losing £8.7m for hundreds of investors – among them family, friends and two churches he attended – Rufus also lost a further £5m in currency exchange trading.

The former footballer was accused by bankruptcy registrar Clive Jones of decieving investors. Rufus collected £16m, a sum that he used to fund a "disastrous" ponzi scheme.

Jones said that it would be up to the authorities as to whether they would press criminal charges against Rufus, who was also found to have used £3.4m of investors' money for himself.

The Financial Conduct Authority (FCA) has not yet commented on whether or not it would be



more car brands, including Ford, are to be investigated by German car regulator KBA



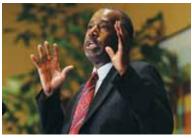
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economia DECEMBER 2015



BEN CARSON

Republican presidential runner Ben Carson has seen his support increase to 23% among GOP voters, putting him on equal footing with firebrand Donald Trump. Perhaps more importantly, Carson enjoys a lead in approval ratings over Hillary Clinton, who is most likely to secure the Democratic nomination.



STAINES-UPON-THAMES

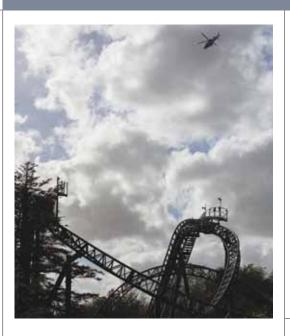
The Thames town in Surrey has been named the number one spot in the UK for business creation. It attracted 43 more new businesses per 10,000 people than it did a year ago. Accountancy firm UHY said Staines offered the "perfect mix" of proximity to London, low rent and start-up community spirit.

MOTORISTS

Drivers were thankful to see petrol prices fall for the fourth consecutive month as oil prices stayed below \$50 a barrel. The price of filling an average family sized car - around 55 litres - dropped 90p over October.

Good month Bad month

This month it's good news all round for Staines, motorists and Republican presidential candidate Ben Carson. There was less to be happy about at Alton Towers, Rangers and Kellingley Colliery



RANGERS

The beleaguered football club lost a court ruling against HMRC when three judges decided that the use of Employee Benefits Trusts did amount to tax avoidance. The month also saw Rangers postpone issuing shares and report losses of £7.5m for the year ending 30 June.



ALTON TOWERS

After a rollercoaster crash at the Staffordshire theme park in June, its owner Merlin Entertainments warned it could lay off 190 staff. The group said: "At the end of a very difficult year, Alton Towers Resort has confirmed a proposed restructure of the business to be completed in time for the opening of the new season in March 2016."

KELLINGLEY COLLIERY

The North Yorkshire colliery - the UK's last underground coalmine - announced it is closing this month, resulting in job losses for 700 miners. The decision marks the end of 300 years of industry at the site, caused by plummeting global coal prices.





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As I see it

Patrick Burrows is the CFO of London City Airport, bringing a highly-developed sense of purpose to a role that is also fun

After the financial crisis I decided I wanted to find a business that could grow. I learned from retail that if you aren't working in a growing business, then life isn't much fun.

Last summer we won the ACI award for best airport in Europe, which we've won three years in a row. I hadn't realised there were 490 airports in our category – that made me feel pretty proud.

When you're building an airport, you are building for the next 30 years. You have to get the strategic decisions right. It's harder than anything I've done before.

What I've learned from running an airport is that people want to land near where they are going. I'm not sure expanding regional airports is the answer to increase the UK's capacity.



PRESENTING MANAGEMENT

ACCOUNTS to a board is a totally backward-looking process, one that talks about what we did last month, or year. It's clear to me that what boards actually want to talk about is "where are we going?" and "should we be expecting more, or less?".

ACCOUNTANCY IS A MEANS TO

AN END for me, not a vocation. I realised that I didn't want to spend my life doing accounting, but you learn a lot about business if you take a finance qualification. When I was auditing my parents would ask, "What do you do? What do you make?". I wanted to be able to answer those simple questions.

WE LIKE TO EMPLOY LOCAL

PEOPLE because we open before public transport does, meaning they can get here more easily. Our Take Off To Work scheme offers long-term unemployed people a month's work experience. Combined with classroom learning, it prepares people for employment. We just put our 500th long-term unemployed person into work at the airport.

CITY AIRPORT IS UNUSUAL

because two thirds of our passengers are business passengers who book their tickets from outside London. We have two daily rush hours, one in the morning and one in the evening. While we have permission to increase our flight capacity, we are waiting for approval to increase our infrastructure to facilitate busier rush-hour periods.

THE UK NEEDS MORE AIRPORT

CAPACITY and London needs a decision. Delivering new runways takes a long time and we need politicians to be brave - you can't make everybody happy. London is one of the great world cities but it won't remain that way if you can't travel to it. My biggest fear is that the decision is too easy to kick into the long grass, or that the planning process will be measured in decades.



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KOREAN AIR

The graph

A Channel 4 News project reveals the sheer scale of the global refugee crisis this month, plus TalkTalk, UK toy sales and an average worker's career in numbers Refugee crisis In 2015 725,085 people travelled an average of 2,170 miles = 2 billion miles according to Channel 4 News **British toy industry** TalkTalk GB toy market size in 2015 customers' bank account numbers Christmas and sort codes were accessed The **total** number of customers whose **personal details** were accessed, the company says The Association of Accounting Technicians says the average UK worker... Works **9,024** Is late unpaid extra hours **141** times during their career Average annual spending per child cups of tea drunk by the average UK Has 6 different jobs worker over And takes and 9 pay rises a career 94 sick days





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The big read

Sustainability authorities Francesca Sharp and Richard Spencer review *Six Capitals*

In December 2013 at the launch of the first <IR> Framework, Professor Mervyn King said, "the time for integrated reporting has come". Two years on, Australian author Jane Gleeson-White explores the measures, merits and mysteries of the movement in an extremely well-written and mercifully jargon-free book.

Gleeson-White builds on the narrative from her first book *Double Entry: How the Merchants of Venice Created Modern Finance*. She outlines three "waves" of wealth creation that have transformed the accounting profession: double-entry; cost-accounting; and, perhaps most importantly in the case of six capitals, the information age of big data.

So will accountants save the planet? The profession lends itself to an expansion of accounting horizons - one in which interactions between nature and society as "capitals" become firmly embedded in the decision-making of the "integrated" business of the future. It's obvious that the accountant's license to sit at this table of six capitals exists because of measurement, reporting and assurance. But use of this mandate must be done with care if it is not to be seen as self-serving. The profession must be prepared to ask difficult questions before rushing in with new measures, reporting frameworks and assurance products to act as "answers", including <IR>.

Accountants must move beyond a narrow view and recognise that the profession has a big role in driving forward debates on the major issues such as the relevance of natural capital to economic success. Gleeson-White picks up on one very important such issue: valuation. There are those like George Monbiot who make the point that financial valuation of nature fundamentally undermines its actual value by changing it into a commodity tradeable to the highest bidder. Much of this derives from a distrust of the motives of business and a doubt that they can be good stewards of nature. Here the profession has a role in rebuilding that trust. Others such as Tony Juniper believe in identifying the value of nature in monetary terms so that it ceases to be invisible to business.

This debate alone makes obvious the need for a profession that understands these issues. If accountants don't recognise this they run the risk of being seen to generate fees without caring about whether that work is contributing to sustainability or other public interest goals.

Gleeson-White's most compelling point is that for six capitals to work, the way we do business has to change. The days of doing what we do but better - which was always an operational efficiency argument - are long gone. Gleeson-White highlights a few ways forward such as the "for-benefit" corporation model in the US. Accountants may be the unlikely heroes at the centre of this revolution. But they will not be alone.



Six Capitals, or Can Accountants Save the Planet - Rethinking Capitalism for the Twenty-First Century is written by Jane Gleeson-White and published by WW Norton & Co.

was invited to a dinner recently at which journalists, bankers, business leaders, marketing directors and advisors were in attendance. It was a bit like the time I was invited to play for the office football team and afterwards someone said it looked like I had won my place by bidding for it at a charity auction.

The conversation wandered far and wide. From Syria to Europe, from China to Corbyn, from the upcoming French election to the European referendum. I tried not to embarrass myself and on my way home later that evening, I reflected.

As a headhunter I have a unique set of skills that let me do my job effectively. The people I deal with know my skillset and work with me on that basis. So in many ways, I'm not unlike a CFO. My position affords me many opportunities to be in rooms with leaders of business. And these people are not always interested in my role, so I need to be able to converse with them on various other topics.

This does not come easy to me. I am shy and so conversing with people I don't know about anything other than my children or Liverpool Football Club is a significant challenge. A year ago at the same event, I didn't really know enough

Career clinic

Mark Freebairn on why it may be easier than you think to hold your own with the great and the good - and more beneficial

about those topics to converse very intelligently at all. I sat in complete silence from start to finish. But in the intervening period I read a great many articles and this time around I was better informed and more able to contribute.

As well as this being a cathartic thing to write, there is a point to this confession. The finance function as a whole is recognised to have a specific expertise. But this expertise also ensures that you are in the room with various senior business leaders and as is their wont, the conversation will range over diverse topics. Given the finance function would like to be seen as a much broader and worldly-wise function, this is a great chance for you to do so. I have had this conversation with many of you, which brings me to my point.

Most of you are comfortably more intelligent than me. We've all got good memories and can read. If I can turn an event where I became part of the wall into an event where I was able to speak within a year of research, you can do the same. And in so doing, you will continue to cement the development of the function as a commercial, broad, business-orientated one.

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Tales from the frontline

Since PwC put on its first charitable pantomime in 1987, the show has turned into a full-on theatrical bonanza as **Ben Gasson** and **Vaughan-Alicia Watts** explain



Vaughan-Alicia Watts (Jack Trott):

The show finishes in February and the production team starts planning and pitching the next year's show in March. For them it is all year round. The audition process starts in September, so for the cast it takes about six months of the year. We pull together the crew once it's cast. Everyone who's involved in backstage, the band, the costumes and make-up are PwC employees and alumni. There are around 200 of us in total.

Ben Gasson (Dame Trott): The huge number of people involved makes auditioning even more terrifying. The amount of new talent that comes through is phenomenal. There are quotas in place so you don't have the same cast each year. With so many people joining the firm you get a natural rotation.

VAW: We rehearse in the canteen. The Embankment Place office has an atrium that goes up through the whole building so we get to delight anyone who's still in the office with our repetitive learning of songs. By the time it gets to January the people in my team, which sits above the canteen, know the songs before they've even seen the show.

BG: We do a three-hour rehearsal after work mid-week and most Sundays during the rehearsal period, which can be anything from a few hours to six. It's a big commitment, and even though we rehearse outside work hours there are some projects that you have to work around it. When it comes to the performance week we do matinees, so the younger children can come, and the firm gives us time off for those. Sometimes on a cold dark Wednesday night in November, when you're practicing dance after dance and song after song it can weigh a bit more heavily. November is definitely the hardest month.

VAW: But sometimes if you've had a tough day at work, to go along to rehearsal and put that aside and do something else really helps. It's quite good to change your mindset.

BG: It's worth it when it gets to January. We do a week of shows and then go on tour. Each year we're

hosted by a different PwC office in a different city. This year we're in London and Birmingham.

VAW: Lots of different schools are invited to come along. There are various charities for children with disabilities so we have a night where we have a signer and a night where we have a describer. We also organise a touch tour, so that kids can come backstage before the show and get a feel for what the set is like. The children enjoy it and get so much out of the experience.

BG: I have been involved with the panto for 10 years now. It's one of the main reasons I enjoy working at PwC so much. I went to the audition without really knowing what it was all about but from that first year I have been hooked.

VAW: I'm involved with a society that does shows in London but it's a very different experience to this. We do shows in small studio-type theatres. With the PwC pantomime you're in a thousand-seat theatre full of screaming kids. It makes you feel like a rock star.

BG: After 10 years, it's clear that it's a great way to meet people. A lot of my good friends are involved. I even met my fiancée doing the panto, although I wasn't dressed as a woman then.

VAW: From the executive board to the guys that work in the post room, it involves people across the business. You can suddenly get post fast-tracked or something printed quickly because you know someone personally or you can ask someone a quick question about a random technical area when before you wouldn't know anyone in that team.

BG: It can get a bit surreal when you find yourself in a meeting with someone you last saw wearing thick make-up in an animal costume, but as Vaughan says, having a strong network like this in a company as big as PwC is a great advantage. ■

Jack and the Beanstalk runs at The Peacock Theatre in London from 18 to 23 January and at Birmingham's New Alexandra Theatre from 4 to 6 February

TOVIEW STORY

From the top

n 1 January 2016, we will make important changes in our regulatory affairs. We will modernise our regulatory processes by establishing a new ICAEW regulatory board (IRB) with greater independence. It will have an independently appointed lay chairman, one of six lay members who will comprise half of the total membership (the others being ICAEW members). We will change the balance of our disciplinary tribunals too. They will have two lay members and one chartered accountant, rather than the other way round.

These changes stem from the recommendations made by the working group led by Sir Christopher Kelly, former chairman of the Committee on Standards in Public Life, following that group's review of our regulatory governance in 2013.

Council considered their recommendations very carefully. The decisions we needed to make were not easy. We wanted to bring more lay representation into the IRB, its panels and tribunals, but not produce complete separation. As Henry Benson, a previous ICAEW president, famously said in the House of Lords, one of the criteria which defines a professional body is the ability for it to discipline and, if necessary, expel its members "should the rules and standards it lays down not be observed, or should a member be guilty of bad professional work".

Our touchstone for the new regime is that on every board, panel tribunal and committee there will always be at least one, often a parity, of ICAEW members who can say: "Yes, but let me tell you how this works in practice...". Their view may not prevail; but at least that voice will be heard in all debates before decisions are taken. This has made the new arrangements more complicated to arrive at; but we think we have the best of both worlds, combining people who

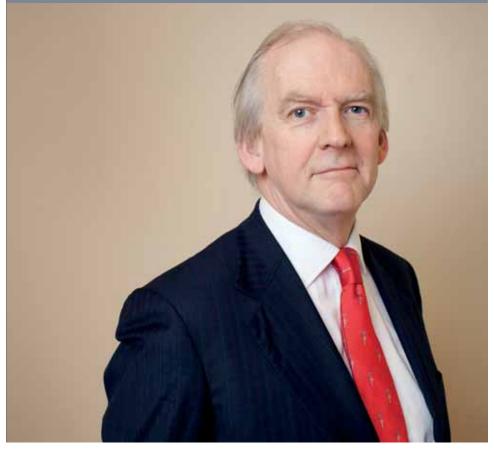
understand what is going on within the profession with people who are dispassionate and can articulate a public interest perspective.

We already have the lay chairman of the IRB - Michael Caplan QC, a partner in Kingsley Napley and an expert in international and UK regulatory law. As an important feature of his independence, we asked an entirely independent, external panel to interview candidates and appoint, rather than make the appointment ourselves.

As soon as he was in post, the process for the other appointments got underway. I am sure our new structures will ensure the regulatory affairs of our institute will show the right balance between the members of the profession and the public interest for many years to come.



Andrew Ratcliffe on how ICAEW is making historic changes to its regulatory structure



HOTOGRAPHY: DOMINICK TYLER

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CAPLAN TO HEAD REGULATORY BOARD

Kingsley Napley partner Michael Caplan QC is to be the first chairman of ICAEW's new regulatory board. His appointment follows ICAEW's decision to enhance the distinction between its representative and regulatory roles in response to an independent review carried out by Sir Christopher Kelly.

As well as being an expert in domestic and international regulatory law, Caplan is a member of the Sentencing Council, chairman of the Police Appeals Tribunal and a part-time judge in the Crown Court.

Dame Janet Gaymer, who chaired the independent appointment panel, said they looked for someone with "the skills to drive the creation of the new structure" and "the necessary experience and stature to command public confidence".

Caplan said he wanted to ensure

ICAEW news and events

First chairman of regulatory board confirmed, honour for innovative accountant, new advertising campaign and fee arrangements

> that the regulatory board would help to "maintain public confidence in ICAEW as a regulator and in the reputation of the accountancy profession more generally".

*

BALL AWARDED HONORARY MEMBERSHIP

Professor Ray Ball of Chicago University's Booth Business School has been awarded honorary membership of ICAEW. Ball, who delivered this year's annual PD Leake lecture, was given the honour to celebrate his achievements in accounting research.

Presenting the award, ICAEW president Andrew Ratcliffe said that if there were a Nobel Prize in accounting it would surely go to Ball. "Ray has been described as the

biggest and the greatest name in accounting," he said, adding that Ball was inspirational and an innovator in the field of accountancy.

In his lecture, Ball said that IFRS was a truly historical innovation in accounting. Over the last decade, 116 out of 140 countries have implemented and required IFRS, with a further 12 permitting its use. IFRS currently accounts for 58% of the world's GDP. However, he felt that the worldwide implementation of a single universal standard was not necessarily a great idea. "One of the features of economic history is that we've had competing economic models. They learn from each other."

*

ICAEW HITS THE HIGH STREET

ICAEW has launched an advertising campaign. The aim is to highlight the differences between those that are and are not ICAEW-qualified.

The campaign, which targets small business owners, promotes ICAEW chartered accountants and their high street practices as a source of advice and support for owners and senior managers in micro and small businesses. Ads will feature in seven UK national newspapers and 21 regional papers. They will also run on LBC and Absolute Radio.

The ads encourage business owners to visit the ICAEW Find A Chartered Accountant website. Members should ensure that their details on the website are up to date.

*

PAYING FEES OUTSIDE THE UK

ICAEW members living and working outside the UK can now pay their fees and subscriptions in their local currency using the Western Union Business Solutions (WUBS) bank transfer payment platform. Since neither WUBS nor ICAEW demand transaction charges, it is a more cost-effective way to pay and members will get an instant calculation of the total that they will be charged.

All members need to do is enter their contact details, the amount to pay and the chosen currency, and they will be sent a quote which is guaranteed for 72 hours. This gives time to instruct their bank to transfer funds to WUBS which are then forwarded to ICAEW in sterling.

116

The number of countries that have fully embraced IFRS

EVENTS

■ 7 DECEMBER

DETECTING AND PREVENTING FRAUD

This course will assess where and how fraud takes place and the ways in which practitioners can advise clients on preventing and detecting it. Birmingham.

■ 9 DECEMBER

VIEW FROM THE BOARDROOM

This seminar and networking event for non-executive directors will explain how to engage and influence beyond the boardroom and what is expected of them, using tips and case studies from experienced NEDs.

■ 9 DECEMBER

EU TAX POLICY - EVOLUTION OR REVOLUTION?

This seminar will provide an opportunity to debate if Europe is at the crossroads of a major shift towards greater tax co-operation and coordination. Brussels.

■14 DECEMBER

CONVERTING FROM FRSSE TO THE NEW UK GAAP

As FRSSE has been withdrawn for accounting periods beginning on or after 1 January 2016, most small entities that apply the FRSSE will probably switch to FRS 102. London.

■16 DECEMBER

MONEY LAUNDERING UPDATE

For accountants advising clients on accounts and tax, a half-day conference covering issues including the Money Laundering Regulations 2007 and legal privilege. Cumbria.

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Michael Izza



"We are on track to make a surplus... we intend to use it to invest in our future"

year and ICAEW's year-end and it's likely that our income will exceed £100m for the first time ever. We are also on track to make a significant surplus. The increase in income (up from £91.5m in 2014) is good news because it is a function of our growing activities, including another record intake year for ACA students - we have already passed last year's figure of 7,326 - and a membership that is set to top 146,000. However, the surplus is principally driven by several one-off items, including some very large disciplinary fines and cost recoveries from the Financial Reporting Council's disciplinary scheme.

e are fast approaching the end of the calendar

For the last 11 years the FRC has been responsible for investigating and, where necessary, prosecuting major public interest cases involving ICAEW members and firms. Funding for this process has come from ICAEW and to a lesser extent other UK bodies. As a number of cases have taken years to conclude or have ended in "no case to answer" decisions, this has been an expensive business and one where our outgoings vastly outweigh any returns. So far we have contributed almost £38m in funding and received back just £12m in fines and costs. So this is not a profit centre. Nevertheless, from time to time, we are going to see large swings on both the income and expenditure sides. And 2015 is the first year to deliver net income.

The surplus results from several significant sums of money we have received in recent months from the FRC. For example, we collected well over £3m from Deloitte and one of its partners in the MG Rover case and £1.15m from Grant Thornton and two of its partners over its audit of the Manchester Building Society.

Since the surplus represents fines and costs paid by firms and members, it would be inappropriate to use the money in any way that would benefit them directly (we must consider how this looks to the public). So we intend to invest in our future and are working on two major capital expenditure projects: digital transformation, including moving our examinations to computer-based systems to better reflect the way students work in the workplace; and a first refurbishment of Chartered Accountants' Hall in a generation to enhance its facilities for members. We will also be taking on new regulatory responsibilities arising from the Audit Directive and Regulation and we are setting up the new regulatory board, with Michael Caplan QC as chair, to oversee our regulatory functions. We will use the surplus to underpin these investments, which we regard as essential to ICAEW's continuing success. I look forward to reporting on the progress of these initiatives.

Michael Izza ICAEW chief executive

Your feedback



TOP 5 MOST

READ STORIES

ONLINE

Mental health

and stress in

accountancy

Profession is

"sleepwalking

towards a cliff"

4

KPMG retains

AIM top spot

HMRC wins

Rangers appeal

FRC THINKING ON NON-PIEs

In Technical Key Developments (November issue) you report that the FRC proposes to "restrict the ability of auditors of small non-public interest entities (non-PIEs) to give their clients

Auditors have always been required to identify, evaluate and address risks to their objectivity and independence arising from any service where they might act as advocate. Our proposed revisions do not introduce a new prohibition but address a perceived ambiguity in current Ethical Standards, where some auditors have interpreted that a threat to their independence of objectivity arises only where they act as an advocate "before an appeals tribunal or court".

This aspect of our comprehensive consultation covering changes to the Ethical and Auditing Standards, the UK Corporate Governance Code and Audit Committee guidance highlights a similarity as to the source of threats to the independence and objectivity of non-PIE and PIE auditors. It does not propose extending certain prohibitions introduced by the EU Regulation.

of PIE entities from providing services relating to "support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm is required by law". This is potentially wider than just "advocacy services" and we are not extending it to the auditors of non-PIE entities.

Melanie Mclaren

tax advice".

The Regulation prohibits the auditors

The FRC is not proposing significant additional restrictions or prohibitions beyond EU law. We will assess various member state options and existing UK practices. We welcome contributions to that assessment.

RULES OF THE ROAD

The article Running the Rules (November issue) refers to a coach operator said to be "the victim of contradictory

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regulations". There is not any contradiction between the HMRC views on payment to drivers and those of VOSA on driving time. HMRC says drivers should be paid for the time they work. VOSA says drivers should not drive longer than nine hours in any one day except twice a week when they can drive for 10. "Driving" defined by VOSA means the wheels are turning. The Tachograph (VOSA's key tool in policing the Driving Hours Regulations) distinguishes between "driving", "other work" and "rest". The regulations prescribe a daily maximum for driving and a minimum for rest. Other rules effectively control the total including other work per day and per week. **David Ambrose LIB FCA**

DEFINING DEFICIT

The October edition's leader referred in its headline to the country living within its means. The government deficit has been at the core of the political narrative since 2010. That is the government living within its means, not the country.

Unfortunately the country is further away from living within its means than ever: the current account deficit is larger than in any period in peacetime since at least 1830. This is a matter of great concern to the Office for Budget Responsibility. It should also be a matter of great concern for the rest of us.

Andrew Strickland

FACEBOOK CRITICISM NOT LIKED

Because Facebook paid Corporation Tax of only £4,000, the PAC has described it as "another example of a large multinational running rings round the tax laws". The article attributes the low tax bill to the company making share bonus payments to its 362 London staff.

Does this mean that PAC considers that no corporation tax relief should be granted for the above legitimate purpose? Anyway, since many of the recipients will pay tax at 40% or even 50% plus NIC, the tax-take from them will be higher than the corporation tax relief enjoyed by the company.

Laurence Factor

Online comment on BEPS

The problem with BEPS is that almost inevitably each country will interpret the principles differently in terms of legislating, mainly driven by domestic political requirements, as well as some (the UK and Australia) jumping the gun for the same reason. So we will likely end up with what we have now, the ability to "arbitrage" tax through exploiting different legisaltive application of the same underlying principles, even before considering that many countries are likely to pay lip service (again driven by a domestic agenda) to the rules with "light touch" of any enacted BEPS rules. In this reality forward planning for BEPS implementation is likely to be difficult. **Kerry Stephens**

Online comment on *Mental health and stress* in accountancy

CABA offers some excellent resources. I have been on the Building Resilience workshop and wholeheartedly recommend it. I believe that more firms should look at the work/life balance and offer more flexible working options, and encourage those who are suffering to seek assistance with their GP and/or contact CABA's helpline.

Rebecca Pridham

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The PAC vs HMRC

Lin Homer said there was "no evidence to suggest" that people were struggling to reach the Revenue by phone

FRC warns FDs

Letter highlights information that investors use to make investment decisions

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Bronwen Maddox



"The question is what have Cameron and the UK got for all the courtship of China's president Xi Jinping?"

s China's president Xi Jinping left Britain to return home, one US commentator noted, sounding startled, that: "The UK is gradually becoming China's best Western friend." Philippe le Corre, of the Brookings Institute, compared the visit to Britain with Xi's first state visit to the US in September, which attracted much less intense media coverage. "For the past two years, Britain has been cosying up to China in a way that has surprised even the Chinese," he concluded. Or as the Chinese media put it, Xi had a "redder than red carpet welcome".

Courting Beijing, a deliberate policy of David Cameron and George Osborne, began in December 2013, when the prime minister led a 120-strong delegation to see if British companies could make more inroads into a region where their German counterparts, for instance, seemed to have a long head start. The question, despite the flurry of announcements during the state visit, is what have Cameron and the UK got for all the courtship?

NUCLEAR OPTION

The keystone announcement was that China would invest £6bn in the new Hinkley Point C nuclear power station in Somerset, taking a 33.5% stake to help out the cash-strapped EDF, the French energy company, also an investor. That deal was signed despite intense criticism of the cost to UK electricity consumers and security concerns about whether China might embed controls in the software that would enable it to shut down the station in a dispute with Britain. As part of the deal, China will also put up cash for new reactors at Sizewell in Suffolk, and be able to build and operate its own plant at Bradwell in Essex, as a test site and global showcase for its Hualong reactor type.

The trip also brought a fistful of private sector deals in cars, low-carbon energy, property, and film and television. There have been other recent investments by the China Investment Corporation, a sovereign fund, in Heathrow airport (taking 9%) and Thames Water (9.5%). In total, Chinese foreign direct investment swelled to more than

£10bn in 2014, making the UK the top destination within Europe.

What does Britain get out of this? On the one hand, it gets big dollops of investment; China has three of the world's top 10 sovereign wealth funds, and UK estimates are that £100bn is needed for new power stations. Yet critics pointed out that with interest rates at historic lows, Britain and its companies are not short of ways to borrow. They noted, too, that although China is now the UK's sixth largest trading partner, that still amounts to only 3.6% of UK exports. Xi said that in the next five years, China would import £6.5trn of UK goods and services; we'll see – the slowdown of the Chinese economy could hit this projection hard.

The China overture came out of Cameron's and Osborne's strong personal beliefs in the value of the links. But given the scepticism in Britain about some of the terms of the deals, where else might the country look?

One area is eastern and central Europe; the former Soviet bloc countries are some of the strongest supporters of the UK within European Union negotiations, and given immigration from there, the cultural ties, if recent, are now extensive. However, this depends crucially on the outcome of Cameron's attempt to renegotiate the terms of the UK's membership of the EU.

INDIAN LINKS

The other obvious target is India, drawing on close historical links, despite the enduring prickliness that is the legacy of empire. The visit by prime minister Narendra Modi, just weeks after Xi, the first by an Indian prime minister in almost a decade, received a lower key welcome, but triggered around £10bn of deals.

Britain is not short of countries to court, but many areas are fragile in growth and politics; Russia is just one example where past investors have been burned. For all the prime minister's enthusiasm, it is right to keep a sceptical eye on the rewards that actually flow in from these much-trumpeted deals once the redder than red carpet has been rolled up.

Bronwen Maddox is editor of *Prospect* magazine

Nicholas Stern

"Climate funding provided by rich countries should help improve resilience to climate change"



n 2009, the world's rich countries pledged to mobilise \$100bn (£66bn) a year by 2020 to help poor countries tackle climate change. Since then, that promise has come to be regarded as a key test of the developed world's resolve to do its part in the fight against global warming.

The target is important. Poor countries must believe that rich countries will honour their pledges. Otherwise, the prospects for an effective agreement at the United Nations Climate Change Conference in Paris in November and December could be at risk.

Fortunately, there are encouraging signs that the commitment will be honoured. But larger financial flows are needed, particularly from the private sector. According to the OECD and the Climate Policy Initiative, developed countries collectively mobilised \$52.2bn in 2013 and \$61.8bn in 2014 to help poor countries reduce greenhouse-gas emissions and build resilience against the effects of climate change that can no longer be avoided.

CREDIBLE INDICATOR

While only an estimate, this figure represents a preliminary but credible indicator of climate finance, based on information provided by developed countries. If one assumes greater leverage for private-sector investment, the number would be higher. Similarly, conservative assumptions about how much "genuinely extra" money is being spent through overseas aid and multilateral development banks might have produced a lower figure.

In reaching their estimate, the researchers took into account major investments by the public and private sectors in a range of projects. The report reveals the relatively low level of investment by the private sector in projects that will increase poor countries' resilience - though the authors acknowledge limited information might mean the true amount is higher. With the right incentives, a sharp rise in private investment that enhances resilience could help meet the \$100bn target.

Reaching that goal will require increased confidence in the policies and institutions of the countries in which the money is to be spent. New processes for sharing and reducing risk will be

Nicholas Stern is chairman of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science and president of the British Academy

Copyright: Project Syndicate, 2015, project-syndicate.org necessary. In this effort, development banks and bilateral aid institutions have much to offer.

It is crucial that this new climate finance be used to complement the even-larger investments in sustainable development that will be necessary.

INFRASTRUCTURE

According to the Global Commission on the Economy and Climate, some \$90trn will need to be spent on infrastructure over the next 15 years, mostly in developing and emerging economies. If that infrastructure locks in dependence on fossil fuels, it will be very difficult to reduce global emissions of greenhouse gases.

However, if countries invest wisely in the transition to a low-carbon economy, they will stimulate innovation and generate decades of sustainable growth. Thus, it is important that climate finance be used to foster public and private investment in low-carbon infrastructure and technologies, particularly to lower the cost of capital, which is crucial to scale up projects and encourage renewable-energy adoption.

Climate funding provided by rich countries should help improve resilience to climate change in the most vulnerable countries. It should also be used to avoid deforestation and to protect fragile resources. And it should boost innovation and break new ground for climate action.

Some of the \$100bn will be channeled through the newly-created Green Climate Fund; but the existing multilateral development banks should also play a central role, along with national aid agencies and departments. Money spent on sustainable development and climate action should be mutually reinforcing. And finance ministries in developing countries should reaffirm that wise action to mitigate climate change can lower levels of air pollution and raise energy efficiency.

Success will ultimately depend on rich countries' willingness to live up to their promises. Their leaders must recognise that financial support for action against climate change in developing countries is not only morally right; it is also in the interest of their constituencies and the world community.

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A FRESH LOOK AT THE PENSION SCHEME MODEL

Imagine we could start from scratch when it comes to pension provision. How would we set up the running of a pension scheme?

What would the ideal scheme structure look like?

It might make sense that the starting point for a pension scheme would be to empower a group of investment professionals (the "group") with different backgrounds, tasked solely with the improvement and stabilisation of funding levels. This group of individuals should represent both the views of the sponsor company and the scheme members. This will also help the careful balance between contributions and risk/ return targets that can often be a point of contention.

Secondly, it is important that scheme knowledge would not transfer out when one of these investment professionals leaves or the sponsoring company changes (through takeover or merger, for example). It is also important that the scheme's benchmark should be designed around its specific liabilities. The risk and return targets around this benchmark should then reflect the collective views of the group, from both the sponsor and member perspective.

Expertise, systems and risk management are key

In an ideal world, the pension scheme's investment professionals would also have access to a range of comprehensive systems to model and monitor a wide range of potential investment strategies. This also requires them to have expertise across the whole investment universe and understanding to distinguish between the different options available, and what would work best for their specific scheme.

While those involved in the daily running of the scheme should have a robust understanding in these areas, we understand that the investment universe is incredibly vast and no one person can have sufficient expertise across all areas. Therefore, access to professional researchers in areas such as equities, private equity and infrastructure is important to give more in-depth analysis. These specialists should have the knowledge to be able to look through all the potential products and investment solutions available. assess these and then choose what they believe are the best in class. This will help ensure that only the very best the market has to offer is considered for inclusion in the scheme's portfolio, thereby increasing the chances of success, ie, meeting the end-goals of the scheme in the set timeframe.

Furthermore, macroeconomic outlooks from dedicated market economists with decades of experience in understanding the complexities surrounding the workings of the worlds' markets should also be fed into the decision-making process. This, combined with the professional research expertise, will help ensure that as new products develop, these are researched and managers identified in order to exploit opportunities as they arise.

A nimble yet risk-focused framework

With regard to the day-to-day running of the scheme, agility alongside robust risk management is key. Tools which provide daily details on funding levels, asset holdings, risk management and general portfolio oversight will help ensure the scheme's portfolio is being carefully monitored and managed.

Systems and tools are also important to ensure that all possible risk/return trajectories are

considered; including undertaking shock testing, scenario analysis and complementary manager analysis in order to assess the wide range of risks contained at an individual stock level, asset class level and overall portfolio level.

Achieving more: fees and reporting

Within this idealistic pension scheme environment, the group of scheme professionals would be able to combine with other schemes to collectively drive down the fees of underlying managers and improve the terms under which they invest.

Clear, concise and user-friendly reporting would also be easily available in the ideal world we are describing. It would be focused on the key metrics, as outlined by the scheme, and be tailored to the individual stakeholders within the group.

Time for change?

Legislation has evolved. The investable universe has expanded and become increasingly complex. Schemes are closing, which means a finite timeframe to reach the end-goal. However, we would probably all acknowledge that the pension scheme model has not evolved to the same extent or pace.

So, if we had our time again, would you set up a pension scheme as we have just described? If so, and you agree with what we have just proposed... then it is time to explore fiduciary management, as that is what we have just described.



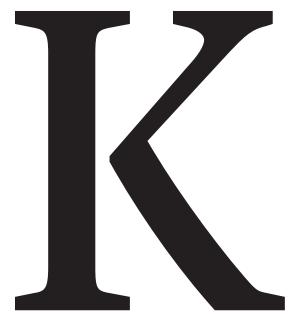
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SETTING THE STANDARDS



As chair of the Financial Reporting Advisory Board, **Kathryn Cearns** advised the UK government on the practical application of theoretical standards. She tells Peter Wilson how she's steered a course for consensus amid complexity

Photography: Andy Lo Pò Hair and make-up: Sarah Bullett



athryn Cearns has never been one for twiddling her thumbs. As a young accountant at Ernst & Young's London operations in the late 1980s, she was winning promotions but knew things were slowing down around her. "It was right in the middle of a recession so there was not a lot of work around and audit work was dying off," she recalls. "I wasn't made redundant so I still had a job but it was one of those situations where you can stay twiddling your thumbs or go and look for an opportunity to do something a bit different.

"Somebody pointed out a job at BPP, one of the big training companies for accountants and lawyers, to be a technical author writing text books for people taking accountancy exams. It just looked interesting and worth a try, so I went to work for them writing text books on financial reporting and auditing, which are the mainstays of the accountancy exams."

It was a natural fit for Cearns, who had left Leeds to study English Literature at Goldsmiths College in London before doing a graduate conversion course to accounting, and had always felt that the profession was more about communication than number-crunching.

"Everybody thinks about it being numbers-based but it is all about being able to communicate concepts and issues to people who might not have the same specialism as you. I have spent most of my career as an accountant having to explain and get across difficult conceptual issues to people and being persuasive in getting people to do the right things as far as business and accounting is concerned.

"And it has turned out to be a good combination of skills - the numerical side of it, but also having some communication ability has been a fantastic help."

The many concepts and accounting trends that Cearns had to master and then explain in her writing work included the fairly new field of International Financial Reporting Standards (IFRS), and she wrote some of the UK's earliest texts on IFRS and international auditing standards, well before IFRS were introduced in Europe.

Her early introduction to those standards led to a job at the Accounting Standards Board (ASB) as a project director helping to set new UK accounting standards, then she spent 14 years analysing technical issues as the consultant accountant at law firm Herbert Smith Freehills.

Now 51, Cearns still finds it hard to be idle. Alongside a busy portfolio of unpaid roles, which have ranged from trustee and chair

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of the audit risk committee of the charity Youth Epilepsy to chair of the Financial Reporting Committee, among other roles, at ICAEW, she has spent the past five and a half years chairing the Financial Reporting Advisory Board (FRAB), the independent body that advises the Treasury and other parts of UK government on the use and adaptation of international and private sector standards in public sector accounts.

Launched in 1996, the board advises on the financial reporting rules followed in departmental, local authority and whole of government accounts (WGA), advising Westminster, the devolved administrations in Scotland, Wales and Northern Ireland, and NHS trusts. The board is around 20-strong and comprises public sector representatives and several independent accountants.

Its remit includes ensuring the public sector handles its financial reporting with full transparency, and making sure the reporting rules for everything from the Ministry of Defence to academy schools, local councils and hospital trusts provide taxpayers and lawmakers with a fair presentation of their financial affairs.

Cearns says she has benefited from watching effective chairmen such as Sir David Tweedie at the ASB, and from her experience on various committees and advisory panels at ICAEW. "The FRAB is a very big board so just managing that number of people is quite a difficult thing. I learned that you have to make sure everybody feels they have been heard, then deal with disagreements that come up."

"I am a consensus person, I try to make sure that everybody has expressed their views and then try to make sure we can reach a conclusion where they might not be happy, but they know they have been heard and can recognise that overall people are not going with their points of view."

The board meets three to five times a year and is supported by a full-time secretariat within the Treasury. "The board's basic role is to say that the general rule is that the various agencies should follow, roughly speaking, the IFRS which the private sector follows, unless something really doesn't work for the public sector.

"If we agree that something doesn't work we have to listen to what the public sector is suggesting should be done, and look for the right approach to follow the spirit of what the standard intended and produce good information. If we don't agree with the approach we will say so, but try to offer constructive alternatives.

"Proper accruals-based financial reporting gives you a broader information set because it gives you a balance sheet that says what you are controlling, which cash accounting doesn't, but it also gives you a wider view of liabilities than the national accounts."

Some of the board's sharper debates have included proper accounting for new types of schools such as academies and free schools, and "quite esoteric things like what is the right discount rate to use for long-term liabilities in the public sector", Cearns says. "That is very technical but it is also very important because it makes a big difference to the numbers that appear in the final accounts."

One dispute over whether the accounts of health charities should be consolidated by related NHS trusts ended with the government allowing trusts longer to comply with consolidation standards than the FRAB had recommended, prompting something of a rebuke in its annual report.

Applying private sector accounting

"I am a consensus person, I try to make sure that everybody has expressed their views and then try to make sure that we can reach a

conclusion"

principles to the public sector has its critics, including academics Malcolm Prowle, Donald Harradine and Roger Latham, an ex-president of the Chartered Institute of Public Finance and Accounting. That trio argued in *The Journal of Finance and Management in Public Services* that public sector accounts have already become unnecessarily complex, irrelevant to the needs of users and costly to produce.

"We have concerns," they wrote, "that statutory financial accounting in the public sector has become more complex for two reasons. Firstly, accounting practices in the public sector have blindly followed those in the private sector without any consideration of the differences between the two types of organisation and the relevance of information provided. Secondly, it may be in the interest of the accounting profession and the auditors to have more complex arrangements."

Cearns is firm in her rebuttals. "I disagree with the claim that we don't think about the differences, because I think we do. What we also recognise, however, is that there are a lot of similarities. In other words, if you are going for accruals accounting, why reinvent the wheel from private sector reporting rules if they work in a significant number of situations in the public sector?

"That is the approach taken by the International Public Sector Accounting Standards Board in developing its standards. If government has a complex financial derivative instrument, why would it account for it differently? Simpler may be misleading.

"The second point to make is that the way financial reporting operates in the private sector is based on good internal financial management practices, and one of the great benefits of public sector accruals-based financial reporting has been to institute better financial management practices within government.

"The information base for the national accounts is much less transactional, based on very different ways of collecting information, and takes a more macro-economic approach. But the strength of a private sector approach has been to introduce some key financial management practices that produce, in my view, results which give different - and in some ways better - insights into government activity. However, both systems can support each other.

"Speaking as a taxpayer, I think it is hugely problematic if somebody can't tell me how they are spending money but also what commitments they have entered into that will affect future expenditure. That was the position that we were in before, we did not have proper financial management.

"People who are making those criticisms do not realise how

much financial management has moved on within the public sector. While it isn't right to think of government as a big company, in some of the things it does it is very like a company. It takes a lot of other people's money and it spends it, and that is what companies do. We make companies accountable in a fashion that lets those people that have given that money - taxpayers in the case of a country, shareholders for a company - judge what is happening. You can't keep asking people for money if you are not doing that.

"People underestimate the similarity in terms of what actually happens in the private and public sectors. There are obviously some very big differences, as you can raise your own taxes as a government

Career highlights

September 2014 Principal, Kathryn Cearns Consulting Ltd
June 2010 Chair, Financial Reporting Advisory Board, HM Treasury
May 2008 Chairman, Financial Reporting Committee, ICAEW
2000-2014 Consultant accountant, Herbert Smith Freehills LLP
1998-2000 Project manager, Accounting Standards Board, FRC
1991-1998 Technical author for BPP Publishing
1986-1991 Trained as an ACA at Ernst & Whinney (now EY)

1982-1985 BA English Literature,

Goldsmiths College, London

and if you are a healthy government you have got a potentially vast supply of credit. But you only have to look at what happens when you stop being able to access capital markets like Greece did. There are some similarities in what can happen to you and in terms of your cost of borrowing and the fact that people are looking at your finances trying to work out your viability and ability to repay debt.

"Our main focus has been on delivering really good information. The decisions that were made to move to private sector-based standards have achieved a great deal of that. In most cases, aligning with the private sector has produced more transparency and accountability but also better information for decision making, and better financial management practices. If you didn't have proper financial management you couldn't produce the information.

"It is keeping track of both the money and future commitments a lot better than before. Long-term value and long-term investment in the country is what we should be aiming for. I hope the accounting and reporting that we are doing, the financial management practices that have been brought in, will encourage that."

There is still a lot of work to do, she says, in encouraging the use of the new information by MPs and civil servants. "At individual department level, for example, it has already made a massive difference. Where it has taken longer to take hold is at the whole of government accounts level, where everything is consolidated together. It took a very long time to produce the first couple of sets of whole of government accounts but they are doing it much faster now. Information is becoming much more timely and useful and the Office of Budget Responsibility now uses the WGA information."

The public sector changes have helped the accountancy profession, she says, because "you need more accountants to run a proper accruals-based accounting system so that has meant there is scope for more profession within the public sector" and skills are now more transferable between the private and public sectors. "It helps accountants move between the two sectors and that must be good because there is a flexibility in your career planning which wasn't there so much in the past."

FRAB's first chairman, Elwyn Eilledge, served for 14 years but reforms supported by Cearns have imposed a limit of two three-year terms, which means she will leave next June. It is not clear whether the government will offer remuneration when it advertises for a new chairman but Cearns, who did the job in an honorary capacity, encourages other professionals to apply for the position.

"It sounds a bit twee but there is a public interest in doing something that is worthwhile and I think part of my responsibility as a professional accountant is to give something back. I also found it absolutely fascinating. It was good for me to have this experience of doing something with a very broad range of people and dealing with some really quite tricky but interesting technical issues."

Cearns plans to use her FRAB experience to lead a new ICAEW committee on public sector financial reporting. She also plans to do consultancy work for Herbert Smith Freehills along with freelance advisory and writing work and a growing number of non-executive positions, which she hopes will include company directorships.

"I am the independent member of the audit and risk committee of the Press Recognition Panel, which is one of the post-Leveson bodies, and also of the body that appoints local authority auditors. I would like to add some charitable work and put together a nice portfolio career: a really nice mixture of different things would be stimulating and keep me on my toes.

"There is a lot of opportunity out there. There are lots of organisations that want help and input, it is just about finding the roles where you can contribute most effectively."

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"WE'RE TRYING TO PROVIDE THE ULTIMATE JAMES BOND PROTECTION FOR FIRMS"



With cyber-crime costing UK businesses an average £4.1m a year, it's vital to control the data you hold, says Chaman Salhan, chief executive officer of law firm 2ndOpinionNow

yber-crime is the biggest threat to UK businesses, costing them an eye-watering average of £4.1m a year. It applies to the storage of data but also to the more complex financial world such as M&A activity, where standalone due diligence is becoming a prerequisite. Yet surprisingly few are doing enough to detect and combat it. This is where leading law firm 2ndOpinionNow and partnering IT Specialists LAN2LAN can help save the day.

"The new Bond film, *Spectre*, shows that if you control information and data, you can control the world. We're trying to provide the ultimate James Bond protection for firms," explains Chaman Salhan, CEO of 2ndOpinionNow. "Accountants are going to have their own and clients' confidential data stored on their office computers and most likely their mobile devices too, which could be lost, stolen or hacked. We (2ndOpinionNow and LAN2LAN) can put measures in place to protect this data, educate staff about how to be watchful for the different types of fraud, monitor any suspicious emails and investigate illegal activity to make sure firms are bullet proof."

By signing up to an annual retainer, which can vary from £199 per week for basic protection to tens of thousands of pounds for a full comprehensive service, firms benefit from a combined, bespoke service. They get LAN2LAN's technical expertise and protection

mechanisms (clients include John Lewis and Toyota) and 2ndOpinionNow's legal knowhow, including Salhan's own 20 years of experience working on serious fraud matters – he is authorised to be a Serious Fraud Supervisor by the Complex Cases Unit of the government's Legal Services Commission.

The costs involved in gaining this protection may seem prohibitive and even unnecessary, especially to the smaller

accountancy firm, but the impact of a breach of data, such as bank details being stolen, can be catastrophic. Aside from huge losses to the business, there's also reputational damage with clients and customers, and potential legal proceedings, including heavy fines and being reported to the relevant professional bodies for failing to protect all data. Perhaps most worrying is proposed EU legislation which, if passed, will fine businesses up to 5% of their global turnover.

"We can work with the accountancy firms, as well as their clients, to meet their specific needs and costs," explains Salhan. "They might want LAN2LAN to control their entire IT systems, or just provide a monitoring service, or put a system onto their computers and mobiles, so if they're stolen and important data is taken, they can cut off access to it. LAN2LAN additionally can offer a critical vulnerability test to show whether a business is exposed. Alternatively, it can provide a penetration test whereby attempts are made to hack into the software and, if successful, further firewalls created. It all depends on client need and budget".

Protection against cyber attack and internal fraud is a necessity, not a luxury. Firms should be allocating an annual budget to this end, and ensure that their chief technical officer is providing the degree of protection necessary. Falling foul of this could have a catastrophic effect.

"We will do everything we can to help businesses not only comply with, but surpass the Information Commissioner's data requirements by ensuring their work devices are protected and the correct measures are in place to detect and combat any fraud. We intend to

educate businesses and in so doing help them protect themselves from such attacks."

Cyber-crime is not a problem that is just going to go away. If anything it is going to get worse. There is currently a £5bn world trade of the internet of things (a network of devices collecting and exchanging data between themselves), by 2020 that is expected to rise to £25bn. As a result, there is going to be a lot of confidential information being exchanged and, in turn, potentially exposed to hackers.

Criminal gangs are finding ever more innovative ways of accessing this data by targeting individuals and businesses directly. This could be through phishing emails, where they pose as reputable organisations to gain information, such as passwords and bank details, or pharming, which involves a hacker redirecting users from a legitimate website to another similar-looking fraudulent website.

In the accountancy world specifically, a fraudster might impersonate a client saying something like 'I know you're holding money for me which is going to pay the VAT, I now need that money to pay for an invoice, can you please transfer it to me.' It seems simple enough to follow instructions, especially when you're busy with several clients, but, "if there are any doubts or suspicions, it would be better to be able to run it by us first to make sure that it's nothing untoward,"

advises Salhan. "Our 24/7; 365 SPOC service (Single Point Of Contact) provides peace of mind."

Equally, it is important for firms to be aware of any internal crimes taking place. "When firms have cheques intercepted or bank details stolen, they often instigate investigations of external sources, but it could just as easily be an employee of the firm," adds Salhan. "This is again why it is important to have an independent

company like us on board to ensure that an internal investigation isn't compromised, because if it is handled internally it might be by those who are complicit."

Accountancy firms that sign up to the retainer will be allocated a SPOC in the cyber-crime team at 2ndOpinionNow who will be available 24/7, because invariably it will be the early hours of the morning when the firm's accounts are being cleared. The law firm also has access to highly-trained private investigators to handle any complex cases or internal investigations.

"We can provide advice and education about what cyber-crimes are out there, how to handle them, any trends in fraud (through monthly updates), such as cold-calling scams, advance fee fraud or identity theft, and discuss the set up and issues faced by each firm, because they're all different, and dependent on the retainer, help firms retrieve any money lost through fraud," concludes Salhan.

Failure to act can be hugely expensive and may have a far reaching impact on the businesses long term success. Isn't it time you revisited your strategy?



"There's an opportunity

for the accounting

profession to look at

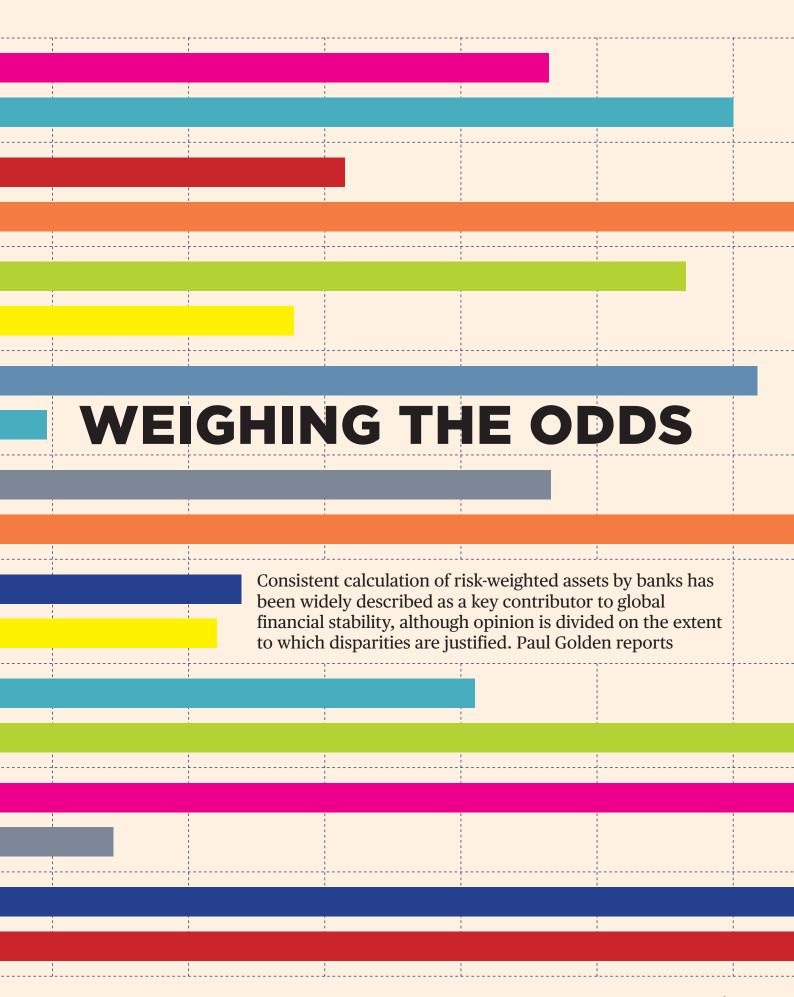
different ways to help

clients become more

effective"

To find out more about Chaman Salhan's business, visit 2ndopinionnow. co.uk 020 7936 3177





apital ratios and the risk-weighted assets (RWAs) that underpin them are among the most important balance sheet measures that banks produce. They are used by regulators as a tool for imposing standards of solvency and financial stability (as well as for assessing the risks that banks face), while external parties such as investors and creditors use the information to assess a bank's financial performance, its ability to pay dividends and the likelihood of the need to raise additional capital.

In a discussion paper published earlier this year, ICAEW described the production of capital ratios and RWAs calculations as complex, with financial institutions needing to use data from a range of sources - including their risk management, credit and financial reporting systems - and apply a variety of judgements to this data.

Iain Coke, head of the Financial Services Faculty at ICAEW, says inconsistency in capital models can be attributed to the fact that the rules were designed to match how banks assess the risks they run with the capital required. The fact that regulatory capital is not necessarily subject to the same controls or governance as financial statements, for example, there's no audit requirement, could potentially also add to that inconsistency.

He explains that there are different ways of calculating capital

"These are issues that assurance can address and hopefully provide comfort that the operation of the model is sound"

depending on the sophistication of the bank and the amount of data it has on specific portfolios.

"Banks with larger exposures are expected to have more sophisticated risk management systems and to use modelling to assess regulatory capital," he says. "This can lead to inconsistencies between banks. However, there are no requirements for independent checks that banks apply their models consistently over time."

ICAEW is currently assessing the viability of a standard assurance model for regulatory capital information. Assurance can question whether a bank is using the capital model that was approved - does it have regulatory approval for any changes, and are the people applying judgement on how to apply the model suitably qualified?

"These are issues that assurance can address and hopefully provide some comfort that the operation of the model is sound and subject to appropriate controls," says Coke. "Auditing capital ratios or riskweighted asset calculations is not necessarily straightforward. The process needs to be subject to cost benefit assessment. But given the importance of the numbers, they merit robust scrutiny and controls."

Vincent Papa, director of financial reporting policy at the CFA Institute, observes that limited comparability and variation of RWAs across countries and banks has been an ongoing concern for investors and other stakeholders in recent years.

Factors that cause variation include different business models and asset mixes across banks, variation in model assumptions (for example, point-in-time versus through-the-cycle probability of default and loss-given default for low-default asset classes) and differences in supervisory requirements across countries.

"Varied levels of adoption of Basel requirements is another factor," adds Papa. "Basel II requirements, unlike Basel I, allow a variety of methodologies for determining RWAs including internal rating-based models. These allow flexibility on the probability of default, loss-given default and exposure at default assumptions applied by banks that are deemed to have sophisticated risk management capabilities. Furthermore, Basel II.5 requires risk-weighting for market risk, while earlier versions of Basel do not."

Basel III enables financial institutions to determine RWAs using

either the standard approach, the foundation rating-based approach (F-IRB) or the internal rating-based approach (A-IRB or IRBA). The problem, explains Juergen Pelz, a chartered accountant and partner at Capco, is that the Basel III recommendations for F-IRB and especially A-IRB are principle rather than rule-based and as such there is limited guidance on how to apply these principles, which contributes to inconsistency across institutions.

"Within the asset quality review and stress testing performed by the ECB [which does not apply in the UK], a uniform methodology for measuring risk and stress tests was rolled out," he says. "This makes comparison among different European banks a little easier. However, it is not proven that these risk measures are more adequate than the risk measures used when applying internal models."

In addition, RWA density disparities between US and EU banks can be explained by differences in accounting offsetting of financial assets requirements during balance sheet presentation that result in relatively lower total assets for IFRS reporting banks.

ut Papa also points out that the Basel regulatory consistency assessment of hypothetical portfolio exposures across banks reveals unexplained differences for similar portfolios, which in theory should be expected to yield the same level of RWAs.

He adds that there is no industry-wide standard process for calculating capital ratio because banks have differing levels of risk management sophistication depending on their scale and business model complexity.

"This includes their ability to calibrate risk and determine risk parameters for respective portfolio/ asset classes," says Papa.

"Consequently, the regulatory authorities deem it appropriate to allow a differentiation in the methodology (standardised, foundational and advanced) to measure risk-weighted assets."

A uniform process for calculating capital ratios would require that all national banking regulators agree on a single methodology, which Pelz says would bring challenges as there are national specialities which might not be adequately reflected in a blanket process.

"Past experience has shown that international agreement on regulation will only be achieved if national political and economic interests are adequately reflected. Therefore, such an approach will have limited value for users as rules will be softened."

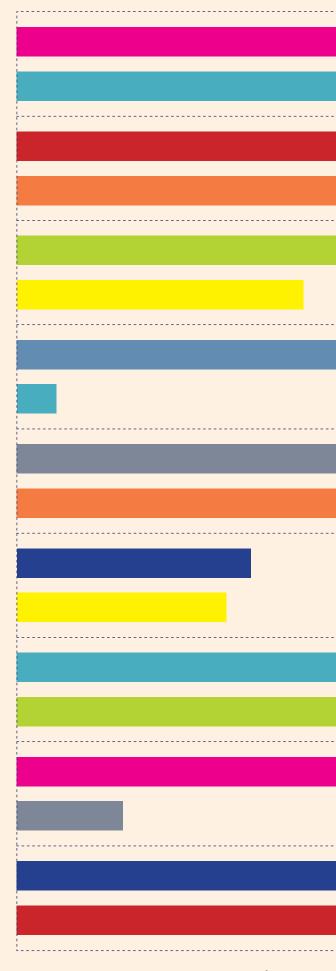
The main challenge with capital ratio calculation is that it is not suitable for all banks, says Frances Coppola, an economist who spent almost two decades in the banking sector. "The standardised method works well for smaller banks, but doesn't adequately capture the complexities and idiosyncrasies of larger institutions."

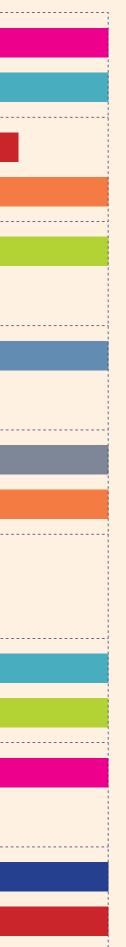
Many of the contributors to the growing body of literature investigating the determinants of RWA discrepancies suggest that reported capital ratios may mask differences in risk coverage across individual banks. That is the view of Brunella Bruno, a researcher in Bocconi University's Department of Finance and co-author of The Credibility of European Banks' Risk-Weighted Capital: Structural Differences or National Segmentations?

"Banks can decide to adopt the standardised model (based on external ratings released by rating agencies such as Moodys' and S&P) for calculating capital ratios," she explains. "The point is that Basel II has also introduced the possibility for banks to adopt 'internal' rating models, in principle with the idea to enable low risk banks to hold less capital compared to riskier institutions by taking advantage of a more granular procedure to calculate risk weights."

According to Bruno, the drawback of this approach has been that, given the complexity of internal risk models, banks might have the incentive to manipulate risk weights in order to improve their capital ratios artificially and independently of the actual riskiness of their loan portfolio.

"In order for a bank to use internal rating to calculate risk weights and capital ratios, the internal rating model must be approved and validated by the national supervisor," she continues. "But





"Banks, with supervisory approval, have to take views on how to approach their modelling"

again, the complexity of such internal models may make the assessment and validation procedure difficult even for regulators."

The reintroduction of leverage ratios was intended to produce greater consistency, but many observers feel the case has yet to be proved one way or the other. The Basel Committee is reviewing the measurement of RWAs with a view to issuing policy responses to reduce the scope for regulatory arbitrage, promote simpler and more transparent risk assessment criteria and achieve greater consistency across banks and jurisdictions.

"As part of this effort, the committee has proposed to revise the standardised approach for credit risk in a way that should also discipline inconsistencies in internal ratings, via a system of regulatory floors," adds Bruno.

While the reintroduction of leverage ratios has included a second risk measure which limits total on-balance and off-balance risk positions, Pelz suggests that it does not have a risk-limiting impact based on the risk portfolio structure of the vast majority of banks.

However, Jacqueline Mills, director of prudential regulation at the Association for Financial Markets in Europe (AFME), says the degree of inconsistency in capital adequacy models used by banks and financial institutions may well have been overstated.

"The results of the European Banking Authority's low default portfolio benchmarking exercise and work done by the Basel Committee for credit risk in the banking book indicate that three quarters of the variance in modelled outcomes can be explained by differences in banks' portfolios and underlying asset structures. This is a positive because it means models reflect differences in risks."

The obvious question in relation to the remaining 25% is whether banks are not modelling properly or trying to game the models. However, Mills says this variance can be explained by a host of factors.

"Flexibility in the regulatory environment enables supervisors in different jurisdictions to take different decisions. In addition, regulations are not completely prescriptive, which means that banks, with supervisory approval, have to take views on how to approach their modelling, which can also give rise to differences."

The European Banking Authority's analysis shows that the impact of defaulted exposures explains about 40% of the "global charge" [the overall RWA and expected loss outcome] differences for the large corporate portfolios, while the remaining 60% may be due to differences in bank-specific factors, such as risk management practices.

According to the AFME there is no evidence to suggest that banks are gaming capital base and ratios models, although it also accepts that variance needs to be minimised. The association says it supports harmonisation of the supervisory approach within Europe and that banks are working with regulators to reach agreement on the best way to deal with areas that are not sufficiently detailed in the regulation, ensuring that firms use common approaches to the extent possible.

hen asked how banks and financial institutions would be affected if auditors were required to provide assurance on the governance, internal control and processes behind RWA data, Papa states that while a greater assurance requirement may appear to impose yet another compliance burden for banks, RWAs are necessary to give investors comfort on the reported capital adequacy and relative riskiness of balance sheet assets.

"In fact, an argument can be made that there is a need to go beyond simply providing assurance around the process of generating RWAs and to also provide an assurance opinion on the numbers," he says.

However, given that in many countries, supervisors can already call on auditors when they feel they need additional external assurance, Mills is unconvinced that further oversight is worthwhile: "For instance, the new eurozone supervisor managed by the ECB is going through an internal review process of firms' internal models and has engaged external firms to assist in this process."

Banks now report a great deal of risk information to give better insight into their RWAs and how they've changed over the year, says Philippa Kelly, financial services assurance manager at ICAEW. "However, this is a mixture of audited and unaudited information, which can be confusing. Many will see the capital ratios and RWA amounts in the front of the annual report and assume it is covered by the auditor's opinion, when in fact only limited pieces are.

"Whether there is a role for auditors in doing more on this risk information is under discussion, but there is a role for the Prudential Regulation Authority, which can be more explicit about auditors', and its own, responsibilities to help people understand what is independently reviewed."

Bruno is not convinced that requiring auditors to provide assurance on the governance, internal control and processes behind RWA data would necessarily improve either the quality of the data or the analyses behind the calculation, suggesting that regulatory improvements are the way forward.

"The level of complexity of the internal rating models is very high, so maybe the rules should change (and eventually become simpler to reduce the incentive to manipulate info) and bank authorities' supervision powers should become more comprehensive and pervasive," she says.

There are some national regulations, like the PrüfBV in Germany, for auditors to report on regulatory capital, liquidity ratios and risk processes, and Pelz reckons similar regulations for all auditors globally would provide more comfort for the users of the financial reports.

"Auditors only provide negative assurance on the figures reported, though," he says. "Comparability of information from different financial institutions is not achieved by having them audited."

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Neither a lender nor a borrower be... Nick Martindale looks at the current state of small business financing he UK's lending landscape has been under fierce scrutiny since the start of the economic downturn some eight years ago, with banks particularly in the spotlight. Yet while the availability of finance has fluctuated, so too it seems has the desire of small businesses in particular to borrow money.

According to BDRC Continental's *SME Finance Monitor*, released in September, 49% of small firms now meet the definition of "permanent non-borrowers" - those with little appetite for borrowing in the past or plans to in the future - and this has increased from 34% in 2011. And 73% of SMEs say they intend to pay down existing debt and remain debt-free.

This may in part reflect either a reality or a perception that finance is hard to find, but could also indicate a more fundamental shift among the priorities of entrepreneurs and business owners. "We know from our own surveys that quite a few businesses have a cash pile and some of them are quite happy not to be thinking of spending it," says Clive Lewis, head of enterprise at ICAEW. "Others say they're just waiting for the right opportunity."

This is particularly the case among smaller businesses, typically those where the owner is still involved in running the organisation, suggests Jonathan Russell, a partner at ReesRussell, and member of the UK200 Group. "A majority of these are lifestyle businesses where the purpose of the business is to

provide a family income," he says. "They are less aggressive and more risk averse than true entrepreneurial businesses. They are very pro-risk, they will spend anybody's money who will give it to them, so it's a different scenario."

In fact, if the permanent non-borrowers are excluded, some 70% of small businesses have accessed some form of external finance so far in 2015, according to the BDRC study; a slight increase on the 2012-14 period where the figure fluctuated between 65% and 68%. Bank finance remains a source for many, and there is evidence that this is more

partner at Whittingham
Riddell. "There are certain
banks that have come into the
sector which tend to have a
good reputation for looking
at things pragmatically, and
some banks that are very
clearly open for business
and will lend." However,
there is also a perception that
applications for finance will be
tortuous, which puts off those
who aren't in desperate need
of the funds, he adds.

New applications for funding, however, fare less well, with a success rate of 67%, although this has risen steadily since the second quarter of 2013, while 62% of

49%

OF SMALL FIRMS ARE NOW "PERMANENT NON-BORROWERS"

73%

OF SMALL FIRMS INTEND TO PAY DOWN EXISTING DEBT AND REMAIN DEBT-FREE

readily available than realised. The study found 96% of small firms applying to renew borrowing in the form of loans or overdrafts were successful in the 18 months to the middle of 2015, compared to 57% who were confident they would get the money.

"Banks are still the first port of call for borrowing and that is then used to benchmark other possibilities," contends Duncan Montgomery, a tax overdraft applications from first-time borrowers were successful, up from 36% in 2013, and 53% of loans were granted (up from 40%). "There is a slight improvement but it's still a problem," says Lewis. "Roughly half of first-time applicants are not getting the funding they require."

Sarah Abrahams is SME finance manager at Grant Thornton. She says around 20% of her clients still rely on



the bank but also points to a growing appetite for equity finance and angel investment. "Two years ago it was pretty much 50:50 in terms of companies choosing debt and equity," she says. "We're now more like 65:35, so 65% are choosing equity."

Television programmes such as Dragons' Den have helped to raise the profile of wealthy business angels, she says, but there remains a lack of interest among venture capitalists in start-ups that have proof of concept but have yet to start trading or turn a profit. "They're not even looking at businesses with turnover of less than £500,000 to £1m, and even angel investors want to go in when there is real traction and perhaps a few very early customers, rather than funding pre-revenue."

Yet other methods are also having an impact. Alternative finance, such as peer-to-peer lending, crowdfunding and peer-to-peer invoice discounting, are generating considerable attention, entering the thinking of entrepreneurs. The BDRC survey found 37% of small firms, excluding permanent non-borrowers, are now aware of crowdfunding - up from 22% in early 2014 - although just 1% have actively raised money through this route.

Research by UK Bond
Network, meanwhile, suggests
68% of small firms in the UK
would consider using some
form of alternative finance
to raise capital, increasing to
94% for those with turnovers
of more than £1.1m.
"Crowdfunding and peer-to-

peer lending have given the market a jolt in that once they have a fully completed application it takes them a very short time to decide whether to loan or list them, and that's forcing the banks to sharpen up their practices," points out Lewis.

The government initiative due to come into force in 2016, under which banks will be able to suggest alternative finance providers as another potential avenue for businesses they are unwilling to lend to, will also give this sector a boost, he adds, although he warns this will increase the need for business owners to seek professional advice around what is the best source of finance for their needs.

Asset-based finance borrowing against a debtor book or other assets - is also an option for small firms, and one which can avoid business owners having to commit to long-term finance. It has also been given a boost by online and peer-to-peer-based products. "Online invoice factoring and discounting is becoming more popular because they will be much more flexible than traditional factors and discounters, who normally ask for your whole debtor book," says Lewis.

Many entrepreneurs also rely on their own finances, or those of their family or friends. BDRC's research suggests 26% of small businesses put their own money into their businesses, with half of these choosing to do so rather than doing so out of necessity. But this is dwindling; in 2012 some 42% of entrepreneurs put their



- NEW DEBT MARKET
 INSTRUMENTS have
 emerged that will increase
 funding flows and allow
 firms to access more
 flexible, and in some cases
 less expensive, financing
 alternatives to bank loans.
- 2 SME-SPECIFIC BOND
 MARKETS have developed in countries including
 Germany and Italy and in the UK and France the private placement of debt has flourished.
- THE UK'S PEER-TO-PEER LENDING
 MARKET, the largest in
 Europe with a cumulative
 lending volume of £3.15bn
 by Q2 2015, predominantly
 funds SMEs. Securitisation
 is another option that
 holds promise.



Sarah Abrahams, Grant Thornton

"Even angel investors want to go in where there is real traction and perhaps a very few early customers, rather than funding pre-revenue"

OF SMALL FIRMS
LOOKING FOR
FINANCING HAVE
ACTIVELY RAISED
MONEY FROM
CROWDFUNDING

URCE: MOODYS (TRENDS IN SME FUNDING)

42



"Crowdfunding and peer-to-peer lending have given the market a jolt... that's forcing the banks to sharpen up their practices"

own capital into their business. Bibby Financial Services's SME Tracker, meanwhile, suggests 14% of small firms use either their own savings or money they have borrowed from friends or family.

Government schemes are another option that can provide entrepreneurs with grants or access to loans, helping to fill the gap for businesses yet to fully establish themselves. One option is the British Business Bank (BBB), which helps put small firms struggling to get finance in touch with more than 80 different partners including the Start Up Loans Company.

Keith Morgan, the BBB's chief executive, says: "It could be an angel syndicate, a venture capital firm, an asset finance provider, an alternative marketplace lender or a bank, but in all of these cases it

Case study: A steak at the heart of it

Despite having owned a Brazilian steak house, Andy Aldrich was unable to find any bank willing to finance his vision to start a Brazilian restaurant in Liverpool. "I went out to three different banks and got knocked back from all of them," he recalls. It was 2010: bank finance was thin on the ground, and sources of alternative finance had yet to become properly established.

Aldrich had some of his own capital from his previous business to invest, and also raised £200,000 from local investors, but still needed more to launch the venture. It was then that he came across what was then the Small Firms Loan Guarantee - a government initiative to guarantee loans to small firms that were struggling to get finance, which has since morphed into the Enterprise Finance Guarantee, operated by the British Business Bank.

With the guarantee in place, Aldrich was able to borrow £200,000 from Santander, and later a further £250,000 to open a Glasgow outlet and £375,000 for a Cardiff branch: all of which has now been paid off.

Since then, Viva Brazil has opened outlets in Newcastle and Birmingham, which have been financed through conventional bank loans, and currently turns over just under £10m, employing 190 people.

"We're now at a point where we're self-sufficient and we're above and beyond the criteria to meet the British Business Bank lending criteria, in terms of turnover," says Aldrich. "But without it we wouldn't have got open at all."

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Case study: Equitable thinking



Having already taken a business

– Actinic Software – from start-up
to stock market, Chris Barling
was hopeful he would be able to
attract finance for his invoicing
app business Powered Now. "It
was still really difficult," he says.

The business was too young to attract venture capitalists, while a bank loan did not fit the business model. "If you're funding a high-tech start-up business that might underperform the business plan by 20% or 30% but will then ultimately be very successful, a loan is probably inappropriate," he says. "If you can't make a repayment you might go out of business."

With high initial costs and operating in a high-risk but high-return environment, Barling opted for equity investment. After initially attracting angel finance, he raised £585,000 in 2014 on crowdfunding site Crowdcube, and then a further £575,000 in September 2015.

"Crowdfunding was the easiest way of raising money for our business at that stage," he says. "We're building a product which typically requires quite a lot of upfront investment and our revenues are mainly through monthly subscriptions, where the value is in the long-term. In that case, equity funding is both appropriate and necessary."

allows us to bring in private sector funding," he says. To date, some 40,000 businesses have benefited from more than £2.3bn of funding, he adds (see box, page 43).

Other British schemes include grants from Innovate UK, as well as those such as the European Regional Development Fund or the Regional Growth Fund, although Abrahams warns that there can be an over-reliance on these in certain parts of the country, particularly the north.

Many businesses, though, have simply chosen to self-finance, using profits retained in the business to fund purchases or even business acquisitions. "Many traditional small firms that existed pre-2007 have generated cash surpluses for which they have no immediate home or need," says Les Leavitt, managing partner at Manchester-based accountancy firm Leavitt Walmsley Associates (LWA). "This has led to a number of acquisitions that are funded significantly from existing resources." LWA itself made use of this, he adds, funding the recent purchase of Moore Hill out of its own resources.

This is also the preferred route for capital investments, according to the GE Capital SME Capex Barometer, which found 70% would look to finance these through existing capital, followed by 60% who would seek to lease equipment and 44% who would consider a bank loan.

In the longer term, the proliferation of new financing options are likely to become established parts of the overall borrowing mix for small businesses, sitting alongside a banking sector with a renewed appetite to lend. "There will be some restoration of the acceptability of bank borrowing, particularly as businesses decide to be more adventurous," suggests Montgomery. "We're aware of people who have tendered for projects where frankly without bank borrowing they cannot finance it. As they get more appetite for that they will have to revert to a more traditional model. But for people who aren't looking at too big an expansion we may end up looking at a paradigm shift in the way things are done."

Adam Tavener, chairman of Clifton Asset Management and catalyst for the creation of the Alternative Business Funding (ABF) collaboration and non-bank funding portal, believes ultimately there will be a gradual blending of bank finance with newer options, as seen in the bank referral legislation. "Basel and other restrictions mean that banks are unlikely to ever regain their former risk appetite, but they do want to keep the customer, the goodwill, and those bits of the funding package that they want to write," he says. "Bank relationship managers will morph more into the advisory or at least outcome-focused space, and a bank versus non-bank marketplace will be transformed into an environment designed to ensure that the customer gets the best outcome, even though that may be sourced from a number of different providers." ■

CAPITAL MARKETS UNION



The Capital Markets Union aims to tackle investment shortages head-on by increasing and diversifying funding sources for Europe's businesses.



Capital markets, venture capital, crowdfunding and the asset management industry should play a bigger role to help companies that struggle to get funding.



Before the end of the year the EC Prospectus Directive will be amended with a view to making it easier and less expensive for SMEs to raise capital.



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BREAKING

As a manufacturing organisation calls on the UK government to help the business community play a greater role in devolution, Alison Coleman looks at how far it is possible to give power to the regions in a national economic framework

evolution confers responsibility for the collection and spending of taxes on local people and their elected local authorities.

The aim is to deliver better outcomes across a number of areas - infrastructure, health, transport, housing - for the people and the areas.

Over the last few years, calls for devolution have been growing louder across many UK cities and regions. The Conservative government, under its mantra of localism and aided by the example of the Mayor of London and the effect of the "No" vote in Scotland, has helped accelerate cities' growth plans for greater independence from Westminster.

But are the city authorities prepared? Will their regional growth plans stand up to the inevitable challenges of

The Cities and Local Government
Devolution Bill provides a very broad
framework for government to move
functions from other public sector agencies
to local government. As the Bill progressed
through parliament, the government
invited local authorities to make their
devolution bids and received a total of 38,
creating a patchwork of different proposals
and structures to deliver new powers and
spending freedoms.

While concerns have been expressed about the lack of a consistent framework for the power reshuffle, this has enabled local governments to try to get a good deal in their own areas, says Michael Mousdale, head of local government at business law

APART DECEMBER 2015 economia firm DWF. "In this tight financial climate, local government will fight for whatever powers and money it can get. But this will not result in a clear redrawing of the legal framework for local government. If anything, it makes the local government landscape that bit more confusing," he says.

PwC partner Jonathan House agrees that

PwC partner Jonathan House agrees that with 38 different devolution deals in England, ambition and vision is bound to vary between each one.

He says there is the risk that some of the requests being made are "not based on as much evidence as you would want to see. But nevertheless, every one of these cities has massive ambition."

Central to devolution in any city is a thriving business community and a strong base for new business growth that will attract the right calibre of talent and the skills needed for the growth sectors.

And a lot of cities are getting it right, as highlighted in the *Enterprising Regions* report, compiled by ICAEW and Enterprise Nation.

It studied five locations with a good entrepreneurial track record, including Manchester, Bristol, Northamptonshire, Brighton and Sunderland, with the aim of identifying the characteristics that make a successful entrepreneurial hub.

The qualities valued most by entrepreneurs included access to useful networking (62%) availability of funding (34%), easy access to low-cost co-working spaces (28%) and good media coverage (27%).

ICAEW director of business Stephen Ibbotson says: "There is clearly a lot going on in our cities. The key to this is the availability of resources, such as broadband connections and working space, but also access to funding, and what I think will be instrumental to successful devolution; strong local leadership."

Manchester was singled out by the report for having ticked many of the boxes, and is making huge strides along the road to devolution. At the end of 2014, Greater Manchester agreed an historic devolution settlement with the government, laying the cornerstones of a "northern powerhouse", to quote the chancellor, to maximise the economic potential of the north.

Powers to be devolved to Greater Manchester include responsibility for local transport, with the government providing a longer-term budget to enable better planning and a more co-ordinated transport strategy, and control of a new Housing Investment Fund of up to £300m.

spokesman for Manchester City Council (MCC) said: "Devolution in Greater Manchester is about the twin goals of growth and reform, creating the conditions for economic growth, while reforming public services to ensure they help support people to have the skills, facilities, confidence and indeed health to access these benefits. "We are working closely with key

"We are working closely with key employers, including those in the financial and professional services sector, to ensure that Greater Manchester residents have the skills that match those required in growing sectors."

Across the Pennines, the city of Leeds and the wider region of West Yorkshire are "up for devolution", according to Gerry McCormack, a professor of international business law at the University of Leeds.

He says: "I think there are questions concerning the scope of the geographical region to which devolved powers are being given, the extent of any devolution of powers and also the co-operation mechanisms in respect of any other devolved regional authorities, for example, the Greater Manchester authority in respect of the northern powerhouse initiative.

"But for the northern powerhouse to be given sufficient wings to fly, it must be more than a piece of political rhetoric. At the very least the plan for speedier rail links between northern cities must be brought back on track."

Since announcing its ambitious growth plan in 2011, and securing a City Deal the following year, Nottingham has been building strong foundations for independence.

Kathy McArdle, CEO of Nottingham's Creative Quarter, winner of the 2015 Enterprising Britain Award for Improving the Business Environment, says: "We have a great opportunity to capitalise on our strong existing infrastructure and plans for growth with the HS2 rail line, further extension of high-speed broadband and to retain more of the huge talent pool in the region's universities

"The main challenge we face is how to meet employer demand for skills and ensure that education and training is equipping young people and residents with skills that will enable them to enter the workforce."

s Nottingham and other UK cities work towards greater independence, each will face its own unique set of challenges, but one thing they all have in common is a reliance on their finance community and the finance professionals working in it. Many believe that ACAs and finance professionals hold the key to making devolution work.

Fraser Wilson, PwC partner in Glasgow, agrees. He says: "As we've seen in the past, major infrastructure projects can be complex, costly and potentially high risk, and against an economic backdrop where every penny counts, finance professionals have a vital role to play.

"The public sector is instrumental in driving economic growth and facilitating infrastructure development, however it's clear that funding to deliver significant programmes will be scarce in the next few years. And while the economy may be improving, the recession has taught the private sector to be more measured in its approach to investment risk."

Local government leaders and respective industries face a highly-competitive investment arena, and here finance professionals can deliver invaluable support, bringing expert knowledge of both their local markets and investor needs.

"This can include identifying the growth story, developing financial structures such as joint ventures, helping show the economic value of each project and demonstrating, for public sector investors in particular,

TOP 20 UK CITIES BY POPULATION

London

Birmingham

Leeds 720.000

Glasgow

Sheffield

Bradford

Edinburgh 450,000

Liverpool

Manchester

Bristol

Wakefield 316,000

> Cardiff 310,000

Coventry

Nottingham

Leicester

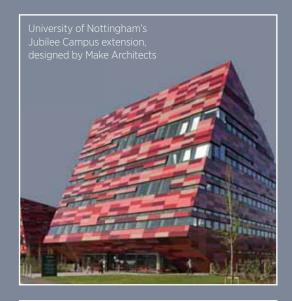
Sunderland 280,000

Belfast 280,000

Newcastle upon Tyne 259,000

Brighton 248,000

Hull 240,00



how investment can help deliver fiscal improvement either through delivering more growth and tax or reducing spend on things like welfare," says Wilson.

And as ICAEW's Ibbotson points out, for SMEs caught up in or affected by the devolutionary process, the most important business advice they have will come from their accountant.

Among the many issues raised by the prospect of decentralisation is that of social responsibility. For example, will the rich metropolitan areas that are pushing for it be prepared to take on the support of the poorer rural areas around them, as the government must?

"We believe that the successful economic growth of areas such as Greater Manchester will be good for neighbouring areas and the country as a whole," says the MCC spokesman

"This is about empowering those places with the greatest potential to unlock it. It is absolutely not about taking resources or support from other areas."

hen there is the problem of local government fatigue and people not turning out to vote. The way to counter this, says McArdle, is to have more public debate about devolution.

She says: "People, especially young people, don't feel that it's relevant to their local context and this needs to change. Devolution has the potential to give power back to the people, both economically and socially, and I think if more people were given the opportunity to debate this we'd see much higher levels of engagement."

With an elected Manchester mayor in place from 2017 (subject to legislation), an accountable figure will be at the head of this,

"As the role of the mayor becomes better understood, the benefits of devolution become more tangible," says the MCC spokesman.

The arguments for and against devolution are set to roll on for some time to come. "Those in favour recognise the benefits that devolution could bring," says Ibbotson. "Those against have expressed concerns, for example, about the process becoming overly bureaucratic."

is well underway, the obvious question is, just how far can it go?

"Local government rightly believes in its abilities to do more for its citizens if it had more powers and freedoms," says DWF's Mousdale. "But it needs to be recognised that for most primary authorities, devolution is not on offer to them.

Government wants to put the powers into the newly emerging Combined Authorities and newly created authorities formed by existing upper-tier authorities.

"There are no dissenting voices in local government against the proposition that it should receive more powers and fiscal freedoms from central government. However, some sense of perspective is necessary. Central government has limited powers it can actually devolve and while fiscal freedom could potentially change the whole tax base for citizens and businesses, the fact is that the government will at best only grant limited freedoms around business rate retention."

But PwC's House believes that in the absence of a one-size-fits-all solution, there will be a point at which devolution will become "comfortable", and that will be different in each city.

"It will take time for cities to gear up to capacity, to get funding coming through and to realise regional growth plans. The real measure of success in devolution will be where you see outcomes changing for the better."

CASE STUDY: GLASGOW

Glasgow's City Deal delivered a £1.13bn spending boost to the city and other west of Scotland councils.

Kevin Rush, head of economic development and regeneration services, Glasgow City Council, says: "It will bring tens of thousands of jobs to Glasgow and the Clyde Valley over the next few decades through 20 major infrastructure projects. It will drive innovation and growth through the support of key sectors such as life sciences and address challenges in the region's labour market."

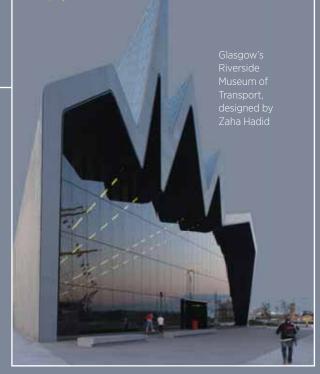
One of the city's flagship regeneration projects is the International Financial Services District (IFSD), which has transformed a run-down, unproductive waterfront area west of the city centre.

The vision set out by Glasgow City Council and Scottish Enterprise was to create a centre of excellence for financial and business services employers. Launched in 2001, the IFSD has attracted over £1bn of mainly private sector investment, and is now home to many of the biggest names in global finance, including Morgan Stanley, JP Morgan, Barclays and BNP Parihas

The IFSD benefits from Glasgow's City Deal in many different ways. Public realm enhancements and improved transport connections directly within the District itself will add to the IFSD's attractiveness as a great location for husiness.

One lesson learned early on in the promotion of the IFSD is that the benefits o a specific district cannot be effectively marketed to inward investors without simultaneously selling the attractions of the city as a whole

And so, the major infrastructure projects funded by the City Deal across the Greater Glasgow area will be instrumental in encouraging further interest and investment in the IESD in the future



Should the government rethink the bank surcharge?

YES Alex Wild

The 8% surcharge has to be looked at in the context of the government's overall approach to the taxation of banks. The bank levy was hitting UK domiciled banks far harder than their foreign competitors, so the moves to apply the tax to UK assets only and reduce the rates are both welcome.

The bank levy has failed to bring in the forecast revenues despite a 170% increase in rates as banks have deleveraged balance sheets post-crisis. Given the increases in capital requirements and other regulatory changes, the case for an industry specific tax to act as an insurance premium is diminishing.

It is important that the chancellor encourages competition in the sector. Relatively small banks with less than £20bn in liabilities on their balance sheets are exempt from the bank levy, but will now be hit with the surcharge on their profits over £25m, limiting their ability to expand.

Banking groups will have to consider differing rates for banking and non-banking companies, internal transfer pricing, interaction with reliefs and a new "targeted anti-avoidance provision".

In the absence of more fundamental reform of corporate taxes that uses distributions rather than profits as its base, the chancellor should at least look at increasing the £25m threshold next month.

NO Richard Murphy

Banks make super-normal profits because they can create money out of thin air, a fact the Bank of England acknowledged in April 2014. Commercial banks do not lend deposited sums; they instead lend money newly created by them for the purpose. This creates a profit for banks called seigniorage and it rightfully belongs to the state. This new tax is a potential return of that profit.

Almost all serious commentators agree; banks are under taxed. VAT is not charged on their services, which are relatively underpriced as a result, giving them a chance to earn super-normal profits. The bank surcharge helps correct that.

The UK has stayed out of a financial transaction tax (FTT), arguing that this would harm the City. But the dominance of the City on our economy

imposes externalities that need to be paid for. The Bank Surcharge is, in effect, a Financial Activities Tax (FAT) that helps compensate for those costs. The City got what it wanted in having no FTT, but the bank surcharge is the price it must pay for that.

The bank surcharge is justified on top of the bank levy, which pays for the free cost of capital society has provided to banks. The case for a bank surcharge is irrefutable.

Alex Wild

When a bank makes a loan, it does indeed create a corresponding deposit in a borrower's account, but the amount of money any given bank can create in the form of deposits is limited by market forces, prudential regulation, customer behaviour and monetary policy.

Commercial banks make profits by receiving higher interest payments on assets (mainly loans) than they pay on liabilities (mainly deposits). They decide how much they lend depending on the profitable lending opportunities available; they can't just create money and force customers to take out loans and pay interest *ad infinitum*.

Profits generated by banks making loans are no more the property of the state than profits made by bakeries through the sale of cakes.

Banks can't pay taxes in any meaningful sense. Burdens must be borne by shareholders through lower returns, workers through lower pay and customers through lower returns on their deposits and savings products or higher fees. The surcharge is thus a burden on pension funds, cashiers and savers, none of which are "under taxed".

The powers being handed to the Bank of England to wind up failing banks without causing systemic crises are the correct policy response to the crisis. This surcharge is a levy on an unpopular sector imposed by a cash-hungry government. It's only politically acceptable because those paying it don't realise they're doing so.

Richard Murphy

Your opening comments sound like the special pleading of an already favoured sector. You ignore



YES *Alex Wild* is research director at the TaxPayers' Alliance



NO *Richard Murphy* is an economist and professor of practice in political economy at City University, London

the fact that UK-based banks pose the greatest risks to the UK economy. This justifies the higher charge they suffer. The assumption is foreign banks may be subject to charges elsewhere: a lower rate for them therefore makes sense.

Tax is often meant to encourage changed behaviour. The bank levy was one such case: revenue raising is by no means its sole objective. In that case under-collection may be seen as a success.

In addition, if the tax is an insurance premium then these are paid in advance, not arrears. We learned in 2008 that UK banks would in some situations never have enough capital to cover the risks they impose on society. So your retrospective perspective is wrong on the insurance-related element of this charge: this is for the next crash.

I do have some sympathy for the "challenger" banks. A reduced rate may be appropriate for them: tax should encourage market entry in this sector. But to presume that a bank should not be taxed except on its distributions to shareholders is hopelessly inappropriate. Why on earth should banks make money tax-free in the UK given the enormous cost they impose on us all?

Alex Wild

Ostensibly the bank levy was brought in as a temporary tax seeking to encourage banks to move to lower risk funding profiles, but research from the Oxford University Centre for Business Taxation has shown such levies have simply shifted risk to the other side of the balance sheet.

Only the risk profiles of relatively safe banks have been reduced; not those of riskier banks. Combined with below forecast receipts, this clearly demonstrates that the levy has failed.

Generally, financial services are exempt from

"UK-based banks pose the greatest risk to the economy. This justifies the higher charges they suffer" VAT under EU law, mainly because of how complex levying it would be, but some such as bookkeeping are not. This means banks can't recover much of the VAT they incur on purchases. Most food is zero-rated, but does that mean grocers should also be subject to a supermarket surcharge?

The way to ensure taxpayers are protected from bank failures in the future isn't higher taxation, but giving powers to the Bank of England to order bail-ins from bondholders and take control of failing banks so they can be wound down safely. Thankfully, this is happening.

Besides, incorporation certificates can't bear the economic burden of business taxes. That has to be done by shareholders, workers and customers. They're the people who'll pay the surcharge.

Richard Murphy

Thanks for agreeing that banks create their raw material - money itself - out of thin air solely as a result of a licence granted to them by the state in which they operate. That some banks make poor judgements despite the privilege they are granted changes nothing: no other sector is literally granted a licence to print money and pay so little for it.

Let me be clear; it is limited liability entities that are granted this privilege. Their shareholders would want nothing to do with those banks without that limited liability. Pretending companies do not exist when they have separate and an enduring legal personality that makes their activities quite distinct to the activities of their members means they can be appropriately taxed. To say otherwise is to suggest policy for a land of make-believe.

The bank levy is a tax on some of the activities of banks imposed for reason of the benefit they obtain from society; the fact that their activities are under taxed generally (as the Mirrlees Review agreed); and because of the exceptional, and distortionary, role they play in UK society. This is a tax charge to correct for the externalities banks create that markets do not price. As such it is fair, economically rational, and a justifiable cost of business to expect shareholders to bear.

Tell us your views on this topic







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SFO v Barclays: The fight for disclosure

Detail emerges of probe into how the bank raised funds during 2008 crisis

Fall out from the tax credits vote

George Bull asks if the Lords' vote has made the entire tax system vulnerable

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Truesday
Friday

DAY IN THE LIFE

After travelling to diamond mines around the world for De Beers, **Tom Beardmore-Gray** switched sectors to become FD of the Girls' Day School Trust. Raymond Doherty meets him to find out how he managed the transition

PHOTOGRAPHY: TOM CAMPBELL



enjoys aligning business acumen with the essentia human side of working in



HOW I CHANGED CAREER

I had an incredibly interesting time at De Beers, holding several senior management positions, but it was a young man's game. I travelled and worked across the world; in different parts of Asia, North America and Russia. I had a fascinating time in Southern Africa and moved my family to Canada for a period. I met some great people through my work in diamonds including Nelson Mandela, who had the most amazing presence, Vladimir Putin and Bill Clinton.

I left university and went to India for nine months and taught in a school. When I came back I had this job lined up in the police. I did it out of a sense of enquiry more than anything. It was at the tail-end of the miners' strike and the Wapping dispute with News International, I remember policing the picket line there.

My father was a chartered accountant who ran his own business after qualifying but decided at the age of 40 to change course and become a teacher. I'm one of seven children. My youngest brother is a headmaster and another is a deputy head, so there's quite a lot of education in the family. I was about 26 when I joined Price Waterhouse, but left soon after qualifying to move into the business world at Pepsi.

I moved back to London with my wife and three children in 2002 (I'd had enough of spending so much time away). After De Beers I wanted





"In this role I've got visibility of the whole organisation and if I see an area I think I can improve then I can do something about it, which is very satisfying"

something different. I thought of the education world but didn't want to be a teacher. I was in the right place at the right time when this job at the Girls' Day School Trust (GDST) came up in 2010.

MY RESPONSIBILITIES

The GDST was facing a number of strategic challenges in 2010; pupil numbers had been declining.

When Helen Fraser (the chief executive of the GDST) was appointed, she was very clear that we were going to take the organisation back to core principles. Making the GDST financially robust has been vital. In the year before I joined we made a loss; last year we had a turnover of £250m and made a surplus of £50m, which we re-invest.

It's a big organisation, by any measure, so unless you run it in a reasonably commercial way you can get yourself into a lot of trouble. I've adopted a relatively conservative philosophy that we shouldn't borrow money. My belief is that you're only storing up problems for future generations of management.

TYPICAL DAY

My day is hugely varied. It's a very collegiate environment, that's one of the joys of working in education. I have a finance team of between 25 and 30 and another 15 in the IT team. There's a lot of planning; one of the curious things about schools is that they're not there for 17 weeks of the year, so you have to plan quite carefully.

I try to get out to schools as much as I can, ideally I'd spend at least a day a week out at schools and I wish I could get out there more.

In this role I've got visibility of the whole organisation and if I see an area that I think I can improve then I can do something about it quite quickly, which is very satisfying.

MY RITUALS

I get up at 6am, take the dog (a pretty mad Irish terrier) for a walk and grab a bowl of cereal at home. I listen to BBC Radio 4 in the car on the way to the station. I'm still really interested in history so I try to read on the train. I go occasionally to our schools and give a lecture on Russian history and I like relating my knowledge of Russia to today's business environment and my own experiences there. I don't watch a lot of TV and prefer sport to help me relax. It's easy to switch off on the golf course or tennis court.



Coming from the corporate sector, where things can be quite impersonal, it was a change. Here you're dealing with the lives of children, that's very, very different to dealing with widgets on a manufacturing line or diamonds in a diamond mine. The financial reasons for doing something



The Girls' Day School Trust has two academies which are thriving, but competition is keen



might be incredibly sound but that's not what the organisation is about. "Girls first" is a value that informs everything we do.

Recently I've tried to instil more of a culture of customer service. When you mention that phrase in our sector people get wary, but our parents are paying a lot of money. If you want to send your child to one of our senior schools in London you're probably going to be paying around £15,000 a year, so you've got a right to expect a good level of service.

INDUSTRY QUIRKS

The market for all-girls in the independent sector was in decline for quite a long time due to the number of all-boys schools that had gone co-ed; that appears to be bottoming out now. I believe that the arguments for single-sex education are actually stronger in today's world of social media and the sort of relatively new pressures that brings for young people. Young girls growing up today need some space of their own where they can really be themselves, where they don't have to worry about their image and how they look to other people.

The academy movement has been radical and what we're seeing now around our schools is a plethora of education offerings that are quite attractive, not least because they're free. The gap has narrowed so you have to find ways of distinguishing yourself from the competition.

"I've tried to instil more of a culture of customer service. When you mention that phrase in our sector, people get wary, but our parents are paying a lot of money, so they've got a right to expect a good level of service"

HOW THE ACA HELPED MY CAREER

I had a great time doing my qualification at Price Waterhouse but I always knew I would never want a career in the profession so I left a year after qualifying. I felt that I wanted to experience industry from the other side.

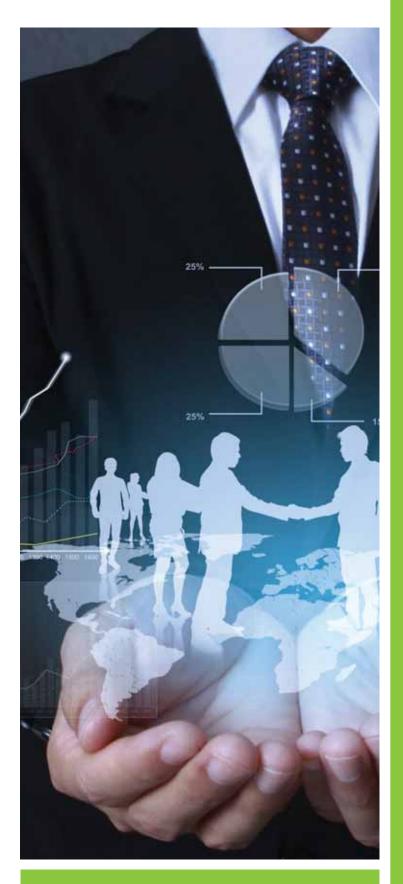
The funny thing is that I'm not that technically skilled, but it's just made me quick with numbers. It means that you can assess a commercial opportunity or a business situation very quickly.

THE HABITS OF AN ACCOUNTANT

I have learned to surround myself with really able people who report directly to me. I've got a financial controller who is on top of compliance and finance and management accounting. I've got a business development manager, a head of IT and a head of fees, whose team administers bursaries and scholarships. Having this support allows me time to think about the more strategic aspects of how the GDST should be developing.

Working in the field of education is something of a family tradition





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THINK OUTSOURCING. THINK ADVANCETRACK®









With the environment forcing its way to the top of the business agenda, David Adams looks ahead to the COP21 conference in Paris and considers the extent to which firms have adopted sustainable business practices

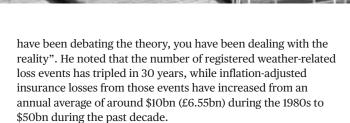
SUSTAINABILITY

here was a time when business and the environment appeared to be in perpetual conflict. I am reminded, for example, of the 1970s children's book *Barbapapa's Ark*, in which business is portrayed as so rapacious and polluting that the animals of the world leave to live on a greener and more pleasant planet. At the end of the story, the animals are persuaded to return when humans, realising what a mess they have made on Earth, clean everything up. Such a happy ending to our current environmental predicament seems unlikely. The current scientific consensus suggests climate change will have profound consequences for humanity and the natural world during most of our lifetimes.

Today, primarily out of self-interest, businesses of all types and sizes across the globe, along with governments and regulators, are actively working towards creating more environmentally sustainable economies. Almost every month we see another illustration of the acceptance of the sustainability agenda into the mainstream. In September, Mark Carney, governor of the Bank of England, made a major speech at Lloyd's of London in which he warned that climate change poses a huge risk to global stability, as the costs of catastrophes related to extreme weather increase.

"There is a growing international consensus that climate change is unequivocal," Carney told his audience, highlighting research findings suggesting that in the Northern Hemisphere the past 30 years have been the warmest since the Anglo-Saxon era; that eight of the 10 warmest years on record in the UK have occurred since 2002; that atmospheric concentrations of greenhouses gases are higher than at any time in the past 800,000 years; and that the rate of sea level rise appears to be quicker than at any time during the past 2,000 years.

Carney noted that the insurance sector has been swift to react to the consequences of these changes, because "while others



Carney called for more disclosure from businesses on their climate change footprints and their plans for managing climate risks. He also anticipated some positive outputs from the 2015 United Nations Climate Change Conference (COP21), to be held in Paris this month. Its key objective will be a legally binding, universal agreement on climate, ideally one that will succeed in restricting the average global temperature rise over the next

century to no more than two degrees Celsius - although this will be difficult to achieve.

Another notable contribution made in 2015 to the discussion around climate change was a report from The Economist Intelligence Unit, The cost of inaction: recognising the value at risk from climate change. It calculated the value at risk of the world's current stock of manageable assets as a result of climate change. It suggested the average expected losses would total \$4.2trn this century - roughly the equivalent of the GDP of Japan. But it also looked at losses in worst case scenarios. If global temperatures rose by five degrees Celsius, losses could reach \$7trn (greater than the total market capitalisation of the London Stock Exchange), while a six-degree increase could wipe out \$13.8trn - approaching 10% of all global manageable assets.

Energy, utilities, transports and infrastructure, agriculture and real estate were identified as sectors facing large direct risks; with metals and mining and industrial sectors also facing

smaller direct risks. There would also be significant systemic risks for sectors including construction, technology, health and consumer goods.

In any case, many businesses will ultimately have no choice: it seems certain that in most geographies there will be a significant increase in regulation designed to mandate sustainable business practices. If this does not affect an organisation directly, larger entities are sure to compel supply chain businesses to improve sustainability in order to help them meet their own obligations. Rising energy prices in many countries will also force more businesses to become more sustainable.

So the threat-based case for sustainability is clear. But becoming a more sustainable organisation can also deliver valuable benefits, in cost savings, efficiency and productivity improvements; and for an organisation's reputation.

Clearly progress is already being made. In September 2015 the Carbon Disclosure Project (CDP), a not-for-profit organisation that runs a global system for measurement and disclosure of environmental information, announced a tripling in the number of companies pricing greenhouse gas emissions over the previous year - up to 437 from 150 in 2014. A further 583 companies say they will start using internal carbon pricing within two years.

The CDP also works with 822 institutional investors, holding assets worth around \$95trn, encouraging companies to measure,

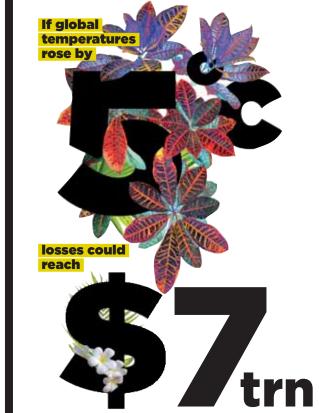
disclose and seek to mitigate environmental impacts. And it has worked with over 300 cities in Europe, the Americas, Asia and Africa to help reduce greenhouse gas emissions and mitigate climate change.

Kate Levick, director of policy and regulation at the CDP, highlights progress in applying pressure to businesses through supply chain relationships: "That is becoming an increasingly powerful lever, as we see more organisations using this in supplier selection criteria. It is becoming more powerful than the institutional investor lever."

Levick is pleased that at COP21 there will be more emphasis placed on the role private sector companies play in mitigating climate change. "There's a growing recognition that decarbonising society is all about the private sector," she says. CDP is also involved in a number of other initiatives and collaborative projects feeding into COP21. These include the We Mean Business coalition, which encourages companies to use science-based emissions

reduction targets, to price carbon emissions, procure 100% of electricity from renewable sources, include climate change information in mainstream reports as a fiduciary duty, remove commodity-driven deforestation from supply chains (by 2020) and reduce pollution.

Companies should be considering doing all of these things in part simply because so many of them are likely to be compelled to do so in the future, as a result of increased regulation, or increased energy prices, or both, says Levick. "There's a lot to be said for positioning yourself ahead of the trend and getting a competitive advantage."



September 2015 also saw ratings agency Moody's publish a report explaining how it incorporates environmental, social and governance (ESG) risks into credit analysis. "It is not our role to make moral or ethical judgements," says Henry Shilling, senior vice-president at Moody's. "Moody's provides forward-looking opinions on the credit risks of financial obligations. [But] this topic has become of rising interest and there is a greater sense of awareness of the environmental issues, so Moody's is setting out its approach."

Shilling suggests that around a third of institutional assets under management are now managed with at least some reference to a socially-responsible investment (SRI) strategy. Around 75% of S&P500 companies now issue corporate and social responsibility (CSR) reports - a huge increase on the number doing so 10, or even five, years ago.

Major businesses to have embraced sustainability include BMW. "The company integrates environmental considerations into all major investment decisions at an early stage, setting ambitious targets and using key environmental indicators to track and monitor how it is performing," says Ursula Mathar, vice president sustainability and environmental protection at BMW Group. "One method of enhancing resource efficiency is to take account of environmental aspects when planning new investments. This allows potential improvements in efficiency to be identified and implemented at an early stage."

BMW also encourages suppliers and other business partners to follow its example. Since 2013 the company has been participating in the CDP's supply chain programme. Suppliers surveyed reported savings of over 21 million tonnes in carbon equivalents in 2014, representing significant savings on energy costs.

"Resource efficiency reduces the risk of availability bottlenecks and price fluctuations, thus contributing directly to higher earnings by reducing costs," Mathar points out. "Between 2006 and 2014, energy and water consumption and waste and emissions per vehicle in the worldwide BMW Group production network were reduced significantly. This allowed us to achieve €15.8m (£11.36m) in cost savings in 2014." By 2020 the company aims to have reduced energy consumption per vehicle produced by 45% compared to 2006.

Another major brand, Siemens AG, plans to halve its 2014 carbon footprint by 2020; then to work towards carbon neutrality by 2030. "In the next three years we plan to invest more than \$100m in projects that improve energy efficiency at our sites worldwide, starting in the US, Germany, China, Brazil and the UK," says Michael Stevns, senior communications manager at Siemens AG.

"Siemens is not just interested in sustainability because we believe this is the right thing to do, but because deploying energy efficient, low carbon technologies has a clear business case. Through our $\rm CO_2$ Neutral programme we hope to demonstrate to other companies that cutting your carbon footprint is not only possible, but profitable.

"It might require an up-front investment, but it will pay for itself quickly and produce even greater returns over time," he claims. "We expect our \$100m investment to pay for itself in just five years and generate \$20m in annual savings thereafter. Cutting your carbon footprint is not only good corporate citizenship - it's

KPMG has set itself emissions reduction targets, developed new approaches to account for social and natural capital it and its clients consume or create; and has contributed to collaborative programmes such as the UN Global Compact. KPMG is also supporting the Carbon Price Communique, a call for making setting a price on carbon emissions a key building block of climate change policy; and also the work of the Climate Disclosure Standards Board to bring climate change disclosures into mainstream corporate reports.

Elsewhere, PwC has achieved carbon neutrality across its UK operations, while cutting carbon emissions by 25%, and reducing both energy use and waste by 50% since 2007. Both firms are

helping clients become more sustainable and to measure and benchmark their progress.

More companies of all types should be following the lead taken by these major brands, says Richard Spencer, head of sustainability at ICAEW. "The economy is going to decarbonise one way or another and all businesses are going to have to adapt," he says. "The other

thing is, as regulation hits big companies they're going to push that down their supply chain.
What if you, as the supplier, are ready for that, when it happens? You'd have an advantage over competitors." There are also opportunities for smaller accountancy practices to provide clients with energy or waste audit services.

Will COP21 produce a deal that compels businesses of all kinds to become more sustainable? There are, says Spencer, reasons to be optimistic. For one thing, since the last major UN summit on climate change both the US and China are now more fully committed to achieving an effective agreement. China has also announced it will create a carbon pricing market, as have a number of other significant economies, including South Korea. The EU is to review and refine its own carbon market.

Nor does the opposition of climate-change-denying groups now seem to be having much affect on mainstream business opinion, or at policymaking level - even if there are many in the UK, for example, who fear the current government is taking some backward steps in this regard.

"There is still some debate in business, particularly in sectors exposed to international competition, about what the right balance is between investment and innovation," says Levick. "But I don't think any companies are calling this nonsense any more. All businesses are seeing climate change as a risk to their business in one way or another."

"Investing in sustainable business practices is investing in the success of your company," says BMW's Mathar. After all, as Spencer says, every business depends, ultimately, upon sustainable natural resources. You're not doing this for the sake of being a "good" business - it's just good business.

"

also good business."

Cutting your
carbon footprint is
not only good
corporate
citizenship - it's
also good business

33

economia DECEMBER 2015

EMBEDDING A SOLID CASH CULTURE

Making working capital a business proposition rather than simply a financial consideration was at the heart of a discussion hosted by American Express at ICAEW on how gaps in the financial market are being filled

ost-crisis market growth has seen a surge of new players entering the financial market to fill gaps made by traditional players. Iwoca in particular launched its same-day funding solution for brokers earlier this year, while Fleximize, which offers alternative finance options to SMEs and start-ups, launched in early 2014.

American Express has its own cash flow management solution, which places partnerships at its heart. Working Capital Solutions allows companies - from SMEs to multinationals - to finance purchases with increased days payable outstanding (DPO), while their supplier is paid via BACS within five working days.

Speaking at a recent American Express roundtable workshop at ICAEW, Gregg Morris, senior manager at American Express, said: "It's a flexible solution which can be drawn upon at any point. There isn't a minimum requirement and there are no tie downs."

Central to the workshop were discussions around working capital and its importance to business success. There was a consensus that finance appeared to work in a vacuum, with some delegates expressing concern that creatives and those responsible for product design could be so focused on creating exceptional products and services, little thought was given to funding.

"Scientists want to create an amazing car but they don't think about who is going to pay for it," said Susanna Rixon, finance manager at McClaren Automotive Limited. "There's the perception that we have unlimited cash. They'll put so much focus into the tiniest of product details like a door handle, but there needs to be a limit as to how much money you can throw at such aspects."

It's something that resonated with Steve Williamson, VP finance at AstraZeneca. "I've known businesses which focus entirely on profit whereas their cash focus is right at the bottom," he said. "Profit is fantastic, but it's just a number on a balance sheet. You can't do anything with profit, but you can do things with cash."

Working capital should be a business proposition instead of just a financial one, Williamson argued. It was a prevalent theme as delegates discussed how to embed a cash culture as a sustainable approach to working capital management.

Yet creating a solid cash culture - which incorporates policies and controls, targets and KPIs, incentives, performance and metrics, key tools, clear accountability and responsibility - is no easy task. The overriding advice was not to take on the burden of creating a cash culture alone. One person may be able to implement small internal changes, but cultural change is unlikely to happen unless there is buy-in from other areas. The general feeling though, was the importance of effectiveness, rather than efficiency.

Growth Street CEO James Sherwin-Smith wondered if the cash culture concept was actually rather restrictive: "We should be more

"Profit is fantastic but it's just a number on a balance sheet. You can't do anything with profit"

effective rather than just being efficient with working capital practices, but in doing so, that could create fewer opportunities to negotiate." His concerns weren't universally shared, however. Cash culture is about partnership rather than negotiation, it was felt.

Morris recalled several instances where his customers had expressed a desire to negotiate mutually beneficial payment terms. "One of the surprising dynamics I've seen in the marketplace is businesses actually asking, 'how can we support our suppliers' working capital? How can we get them paid on time? How can we make sure they are able to grow at the rate they want to?"

Monitoring business performance and working capital management performance as a way of incentivising cultural change was also discussed. For Sarah Mitchell, financial analyst at AstraZeneca, implementing a system which rewards people based on effective balance sheet management was key: "You need to measure and penalise poor performance or motivate people by driving good performance. If you are trying to drive balance sheet management as a priority, then you've got to identify who is

WESTCOAST WORKING CAPITAL

Westcoast, a wholesaler for the computer industry's household names, wanted to increase the amount of available working capital.

It looked for an alternative payments solution that could supplement its traditional invoice process and complement its existing business credit and insurance structures. It also wanted this additional capital to be available at a competitive rate.

Making use of American Express' straight forward and simple electronic payment solution enables Westcoast to access incremental working capital. By implementing the solution, both as a buyer and a seller, it has also been able to take advantage of process efficiencies.

American Express' payments solution gives Westcoast more days to pay than previously experienced. The working capital solution is advantageous for Westcoast because the payment period of up to 58 days with American Express is considerably longer than the conventional arrangement with suppliers.

As a result, days payable outstanding (DPO) are increased and Westcoast's working capital is optimised. Westcoast can access the multimillion-pound credit facility that it has with American Express. This incremental capital facility enables Westcoast to buy at competitive prices and meet customer demand.

Benefits for Westcoast as a buyer

- Improved working capital
- More stable and predictable working capital
- Diversified capital resources and reduced need for external financing
- Improved cashflow from extended payment periods
- Increased DPO
- An additional payment tool

Benefits for suppliers to Westcoast

- Ability to fund market demand
- Prompter receipt of payment a decrease of DSO (days sales outstanding)

Benefits to Westcoast as a supplier

- Ability to meet market demand
- Access to incremental funds
- Improved working capital
- More stable and predictable working capital
- Faster and easier customer payments
- Reduced credit control administration

Sunil Madhani, finance director of Westcoast, said: "The flexibility and the incremental nature of the facility that American Express offers is clearly a great benefit to me and my customers.".









Ruth Holland, finance director at The Groundwork South Trust, said incentivising good balance sheet management was also a major responsibility for frontline staff in the charity sector. "You want to avoid a Kids Company charity situation. It's going to be an increasing trend in charities where people are going to have to shout really loud to get their financials in place, but without losing the unique thing that makes people want to work for them," she said.



Stephen Price, finance director at Future Capital Partners, recalled a bank division that had very little understanding of billing cycles, no control of cash flow and didn't have enough money to pay their senior credit controls, despite having large operations across the globe "racking up time".

"They weren't billing for three months, sometimes even longer. You do wonder how they got into that situation in the first place," he said. "Fortunately, actual cash collections were relatively straightforward. They put in a global system and people started monthly billing. It made a massive change. So often, it can be quite easily solved with processes, systems and education."

Credit control was another concern for Sunesh Aggarwal, finance director at Athi Steel, which does a lot of its business in Kenya. "If you've got a customer and you say, 'show me your financials and I'll be able to give you a better return', it's just a no-go."

But financial specialists such as Williamson are confident that the payment world is changing and for the better, thanks to working capital programmes and cash management programmes, which he claims are massively underexploited opportunities. In Williamson's view, if companies get cash management correct over a period of time, they will start to see the benefits. "If you can reduce your borrowing costs by having more cash, then it's a zero sum game. You're then going to have more money for advertising your product or service and that, in itself, is quite motivating," he added. For more information visit americanexpress.co.uk/corporate

ETHICS VERSUS PROFIT

PROFESSOR CAROL ADAMS examines the Volkswagen scandal, "green" revenue manipulation and what it means for corporate governance

or anyone interested in the subject of business ethics, these have been tantalising times. The Volkswagen (VW) emissions scandal has brought business ethics to the forefront of the global news agenda and into public consciousness. In this case up to 11 million global consumers are potentially affected. This is perhaps an unprecedented mass business ethics failure in terms of scale and reputational loss. But questions remain as to whether this incident will fundamentally change how companies are run. In the case of VW, the motivation to mislead environmental regulators was significant and the supervisory board's reportedly blissful unawareness that this was occurring was in the company's interests. Further, a number of statements made prominently in VW's most recent annual report, with hindsight, are dubious and increase the trust and reputation crisis that VW now faces.

What's so magnetic about the case of VW is that it concerns an *über* global brand seen as dependable by ordinary families and business executives. VW has become synonymous with robustness - it's a good product. But more than that, the latest annual report states up front, "the brand delivers innovative, responsible mobility to people worldwide". Not so responsible. While an environmental scandal was brewing, up front in the report Martin Winterkorn, former CEO of the VW Group, claimed "our responsible approach will help to make us the world's leading automaker by 2018 - both economically and ecologically". Instead, a reputation built up over decades was in tatters overnight.

The VW emissions scandal must shake up corporate governance and risk management, and accountants and non-executive directors should consider how they work in the light of it. In today's broader interconnected world, consumers and regulators will not put up with questionable business practices - especially where they have been self-proclaimed as "responsible", "ecological" and "leading".

The VW crisis is the result of a three-pronged governance and culture failure in marketing, risk management and internal controls, and the failure came from the inability of these three parts to connect. Reputation loss follows in part from the approach to marketing. Marketing is about driving sales (excuse the pun) and crisp environmental messages are a marketer's

dream. In the process of marketing products there can be a tendency to brag in order to increase sales. With environmental issues there is always a danger that the promises of marketers are PR fluff. Ultimately, a lot of consumers bought cars because they were led to believe they were environmentally friendly. When such marketing approaches and promises are found to be incorrect, consumer mistrust and reputation loss follow. Rebuilding trust, if indeed possible, is a long and hard process.

Secondly, there is the risk management process in the organisation. It is vital in this interconnected digital world, where brands are under growing public scrutiny, for businesses to look beyond financial and operational risks. All businesses, particularly large, multinational conglomerates, which have huge global footprints, must start to think more broadly about potential risks that might impact on reputation. These risks very often come from social and environmental issues and ethical concerns. They often don't appear on the radar because they are hard to quantify and manage. They are often difficult to even identify because they often fall outside traditional areas of expertise.

The big lesson for risk management is that organisations need to make sure major reputational threats are incorporated into the risk register and the board should be asking managers to look at all potential risks that could affect the company's balance sheet. Branding yourself as an ecological leader when you are not coming clean with the environmental regulator is begging for a reputation risk crisis.

The third aspect of this crisis and the lessons to learn stems from internal control and audit. This monitoring is part of the governance function. Firms need to get a grip on what's going on by cataloguing potential issues and then developing governance systems and controls, including for non-traditional issues that could have a big financial impact. In essence, businesses need to prioritise looking at non-financial issues that could bite back at them and develop appropriate controls, particularly where there is an incentive for manipulation.

In the VW case there was an incentive to manipulate the software, the outcome of which increased sales, revenue and profitability, and with it the remuneration of the board of management and supervisory board. Such incentives to overstate revenue and profit should lead to internal controls and internal audit of the possible means of manipulation - whether the sources are financial or non-financial. Large companies are getting better at monitoring environmental compliance and other possible sources of reputation risk in their supply chains, but do they have appropriate internal controls over such matters in their own operations? Are they judging their own operations by the same standards? It's a simple analogy, but there's a lesson there.

Over recent weeks there has been a lot of debate around who has been responsible for VW's problems, with various finger pointing from the board to management. But the buck stops with

the board. Indeed, in the report of the supervisory board in the 2014 Annual Report, board members attest that they received from the board of management all documents relevant to their decisions on "compliance-related topics and other topical issues". The audit committee, which was also responsible for risk, held just four meetings in 2014, focusing "primarily on the consolidated financial statements, risk management (including the internal control systems), and the work performed by the company's compliance organisation". Clearly the work was not enough to support the claims in their report.

In my experience as an adviser to organisations on sustainable business and reporting on long-term value creation, avoiding reputational problems is not just about the functional areas identified above - marketing, risk management, internal control and audit - functioning properly, but also about synchronicity between them. This is a holistic issue and solution.

To illustrate this: the marketing person working on their own trying to sell a car as a green car is not such an issue, but when you link that to the potential for manipulation in order to increase sales elsewhere in the organisation, the risk manager should be alert to it and internal audit should be monitoring for compliance breaches and other unethical behaviour.

The risk management people should be looking at the operational and financial risks that could occur from any potential wrongdoing, particularly where the incentives are there. Having a risk management team that speaks across departments and functions will enable an organisation to understand and document what's happening in different parts of the business, lessening the chances of such matters going awry. In this respect, the tone is set by the board. Corporations, particularly large multinational ones, need to prioritise that connectivity and integrated approach.

The other point to make about this VW scandal is it exposes some topsy-turvy thinking on how corporations are rewarding and incentivising executives and board members.

Senior executives in charge at VW and supervisory board members responsible for governance have benefited from a false premise being sold by the company. According to the most recent annual report, a proportion of the remuneration of supervisory board members "depends on the amount of the dividend paid". Consumers bought the cars because, among other things, they thought they were environmentally friendly, increasing executive and board remuneration. To get a pay out when the remuneration has already been inflated is ridiculous and companies must heed this lesson to make sure their reputations are maintained and their businesses sustainable longer-term. The very first performance indicator in VW's annual report for 2014 is volume of vehicles sold, an increase of 5% over 2013. It is clear what mattered and why.

Culture is directly related to governance. Culture and the ethical tone are led from the top of the organisation, by senior executives and board members. VW's supervisory board includes,

among others, owners and employees who have links back to employee organisations and unions. Some members of the board thus have a conflict of interest. The owners are looking to maximise dividend and share price and employee groups have an interest in maintaining or increasing pay and employment, therefore having an incentive to increase profitability. Given that supervisory board pay is linked to dividend payouts, there is a conflict of interest to question anything that might have a negative impact on short- to medium-term revenue, profitability and dividend payouts. The irony is that the reputation crisis will have a long-term impact.

VW highlights the vital role of independent directors on company boards. Contrary to some opinions, an outsider can understand a corporation's culture and have a broader perspective with which to question it. Having someone from outside looking in is sound business practice. Negative cultures can embed within organisations which become blinkered to them. At times boards need to be challenged and questioned.

My work with boards and board directors indicates a gap in board competencies around Corporate Social Responsibility (CSR), particularly in understanding the risks and benefits. CSR isn't on the skills matrix. There is a view that you have to have skills in a mainstream business area and CSR on top of that might be a "nice to have". But boards should also be explicitly looking for someone with CSR know-how in addition to other skills. An understanding of how CSR and sustainability practices add value, and present risks and opportunities, is a vital component of strategic oversight today. Culture and strategic direction flows from the top of the organisation and the board has a role to play.

There is a very big gap in terms of their understanding of CSR and the impact on reputation and trust. And how to integrate that into mainstream business practices. CSR is relevant to risk management, financial performance and how you market products. There is an essential role for it on the corporate board.

So will business learn the lessons from the latest corporate ethics failure? Corporate problems such as the emissions scandal tend to happen to businesses that are blinkered, who think they are beyond these sorts of things happening to them, who are not challenged by differing perspectives. It falls upon all directors and independent directors to speak up when they have concerns. Boards operate on consensus and it takes courage to go against the majority or an influential individual. Having a positive boardroom culture where different views are respected and allowed to be discussed can play a big role. It could be that someone on the VW supervisory board did have some concerns, for example about communication with the management board, but went unheard. It would be interesting to know.

Carol Adams is a professor in accounting at Durham University Business School, an adviser and non-executive director. She writes on her website at drcaroladams.net



PHOTOGRAPHY: MARTIN HUNTER

mily Coltman, chief accountant at accounting software company FreeAgent, says her job is perfect. And from whichever angle you look at it, it's a great fit for her, giving her ample opportunity to flex her skills and develop some of her key areas of interest.

"I do feel very fortunate to be working for FreeAgent," she says. "Our product is something I believe in and it's great being able to use so much of the knowledge and expertise I've built up over the years. But what I most love is that FreeAgent is doing something to take the fear out of tax and money for small businesses and freelancers."

According to Coltman, FreeAgent makes easy-to-use online accounting software that enables even the most tech-averse and finance-phobic business owners and contractors to stay on top of their finances. The software, she explains, keeps tabs of every element of a business's money issues - from expenses and payroll to cash flow and project profitability.

Coltman has been with FreeAgent since she was headhunted by its founder, Ed Molyneux, six years ago. The two met while she was at Ask M, where she was making screen-capture training, sales and marketing videos. "Ed was one of my clients," she says. "I was doing a video for FreeAgent for him, and we hit it off immediately. The more we spoke, the more we realised we were aiming for the same goals, so I didn't hesitate when he offered me a job."

She says one of the main reasons she joined the company was because it chimed so well with her

desire to make finance, money and accountancy easy to understand. "People are intimidated by figures, but ultimately it's all about perception; it's almost as if we're brought up to fear them, and so we do. That has to change, with the change starting at school: teachers need to explain maths to children in a way that doesn't frighten them. And the same goes for other professionals involved in finance. Certain industries - and I'm afraid accountancy can be one of them - all

too readily reset to jargon when there is really no need for it."

Coltman jokes that she speaks two languages - accountantese and English - but actually looks forward to the day when accountantese, and all jargon, is replaced by plain writing and speech. "One of my best quotes of all time, and one I refer to again and again," she says, "is Albert Einstein's 'If you can't explain it simply, you don't understand it well enough'. To which I would like to add, 'and if you don't understand it well enough, you shouldn't be explaining it'."

Coltman herself clearly understands and explains very well, as demonstrated in her three books: Refreshingly Simple Finance for Small Business; Micro Multinational: A Guide to International Finance for Small Businesses; and Very Awkward Tax: A Bitesize Guide to VAT for Small Business.

All three aim to demystify tax and finance. "Business owners and freelancers need to understand tax. If they don't, they'll either forever be reliant on someone else - an accountant - to work things out for them, or end up doing it themselves without fully capitalising on all the breaks they're entitled to."

Looking back on her CV she acknowledges it includes a few surprises, but says she is exactly where she wants to be. "It always throws people off balance when they see that I studied music at Cambridge," she says. "I loved music - I still do - but I was just a second violin and when I got to university I met so many truly gifted musicians that I knew I could never really compete with them. Plus, if I'm honest, I knew I wanted a more lucrative career."

After graduating, she joined Whitbread's financial training programme and stayed with them for two years, before leaving to join Cannon Moorcroft. That's where she got her first taste of how accountancy software could be used to improve the lives of business owners. "I was with Cannon Moorcroft for seven years," she says, "from 2000 to 2007 - a time of rapid development in accountancy software. I found it very exciting and particularly enjoyed training our clients to use Sage. I saw how big it could be potentially, how it would change the face of accountancy forever, and I knew that's what I wanted to do full-time."

She's pleased to have joined FreeAgent when it was tiny - just a handful of staff and 1,000 clients. It now employs 80 people and has 40,000 customers. "Our client base is growing daily and we've had some amazing reviews, but of course the feedback that most interests us is that from our clients, and I'm glad to say that has been excellent too."

Asked to reflect on her career, Coltman says: "The crucial lesson I've learnt along the way is never think you know it all. The minute you start thinking you know all there is to know about accounting, tax, financial reporting or whatever your area of expertise is, give it up and start breeding Angora rabbits for a living instead! Over-confidence can come back and bite you hard. If you're not sure, always ask - talk to a more experienced colleague, look something up in a manual, or contact a network of experts. There's always something new to learn - perhaps because the tax law has changed, or because you're looking at a slightly different situation. Always keep your mind open and listen."

She intends to stay at FreeAgent to work on new projects such as auto-enrolment, improvements to the mobile app and lots more useful features for accountants. And aside from that, she has a new life goal to achieve - to learn to fly a plane. That, when added to her other interests - walking, running, sailing, knitting, writing and playing in a folk band - should keep her as busy out of the office as in.

"I love my life," she says. "I enjoy everything I do, socially and at work. I've had quite a few jobs in my time and changed direction a couple of times, but now there's nothing else I'd rather be doing."

CAREER IN A NUTSHELL 2009-present chief accountant, FreeAgent Central 2009 videomaker, Ask M 2007-2008 accountants software trainer, More Software 2007 director, Ask M 2000-2007 accounts

1998-2000 trainee

economia DECEMBER 2015

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Technical

Key developments

Our at-a-glance guide to the latest measures practitioners need to know

AUDIT & ASSURANCE

AUDIT DIRECTIVE CONSULTATION

The Department for Business, Innovation and Skills (BIS) has issued a technical consultation on changes to the regulation of auditors in the UK. This confirms the government's approach of not making unwarranted changes and suggests that the definition of a public interest entity (PIE) should only cover those entities with securities admitted to trading on a regulated market, banks, building societies and insurers. So the new regulations will not apply to companies traded on AIM.

All PIEs will have to put their audit out for tender at least every 10 years and change their auditor at least every 20 years. Differing transitional rules apply depending on when the audit was last tendered or changed.

The consultation document also contains draft legislation to enable the Financial Reporting Council (FRC) to introduce changes in ethical and technical standards for auditors. The deadline for comments is 9 December 2015.

gov.org

LEXCEL REFERENCE WORDING

The latest version of the Law Society's Lexcel accreditation scheme (version 6) requires accountants to confirm that a practice applying for the practice quality mark is considered good for its normal business engagements and that it is able to pay its debts as they fall due.

ICAEW was not consulted; so the wording runs contrary to its guidance on providing references (technical release, Audit 2/01). It has now come up with specific wording for members to adopt in response to receiving a request for a reference, which follows the principles of the existing guidance on references. This has been accepted by the Law Society.

icaew.com

BUSINESS

COMPLIANCE COSTS ASSESSED

The FRC is to review its regulatory requirements for companies to see if there are opportunities to cut compliance costs without compromising standards. This follows a government decision to require a number of regulators to report on the impact of their requirements on business.

The decision to review regulatory costs was revealed in the FRC's recently-published 2016/19 strategy. This set twin objectives - seeking to put the UK "indisputably" in first place both when it comes to corporate reporting and for the quality of its auditing.

As far as the first objective is concerned, the FRC says that over the next three years it will work with companies to make the most of the changes to codes, standards and regulations introduced during the financial crisis.

It will avoid introducing further changes unless they are essential.

On audit quality, it says that by 2019, when it monitors FTSE 350 audits, it wants at least 90% to be assessed as only having limited improvements to make. frc.org.uk

NEW BONUS DISCLOSURE RULES

David Cameron has announced new measures requiring big businesses to disclose information about bonuses paid to male and female staff. This is in addition to the rules announced in July forcing businesses with more than 250 employees to report the difference between male and female pay. The requirement will also be extended to the public sector.

Cameron plans to "name and shame" the companies that pay men more than women on the grounds that "opportunity is nothing without equality".

The government also intends to tackle the root causes that prevent women from prospering in the workplace by providing a wide programme of support, introducing 30 hours of free childcare, giving 20.6 million employees the ability to benefit from flexible working, and rolling out a new careers service putting businesses in the lead and showing schoolgirls that no profession is off limits.

FINANCIAL REPORTING

GUIDANCE ON GOING CONCERN

The FRC has issued draft guidance for directors of companies outside the scope of the UK Corporate Governance Code on implementing the new rules relating to going concern and liquidity risk.

The exposure draft is intended to explain how they should apply the relevant requirements in accounting standards and company law, including recent regulatory developments such as the introduction of new UK and Ireland GAAP and the strategic report.

It is based on the guidance provided for directors of companies that are required to follow the Code, which was published in September last year, but it is intended to be proportionate and to reflect development in the FRC's thinking since the Sharman inquiry. The deadline for comments is 15 January 2016. frc.org.uk

SAVING MATERIALITY

Concerns that management is frequently unsure about how to apply the concept of materiality has prompted the International Accounting Standards Board to issue a draft practice statement for consultation. The aim is to avoid the situation where, because they don't understand what they are supposed to be doing, managers use the disclosure requirements in the standards as a checklist. This can result in a number of problems, including excessive disclosure of immaterial information that can obscure useful information.

Deciding whether information is

material depends on a number of factors and entity-specific circumstances, and ultimately is a question of judgement. The IASB adds that managers also need to have an understanding of those people who use the financial statements and the decisions they reach based on them.

The draft guidance follows the 2014 amendment to *IAS 1, Presentation of Financial Statements*, which made it clear companies do not need to apply specific disclosure requirements in standards if the related information is not material.

The amendment also states that companies should think about providing additional disclosures when compliance with the specific requirements would be insufficient in disclosing material information. The deadline for comments is 26 February 2016.

ifrs.org

INSOLVENCY

TRANSPARENCY IN RESCUE

The government and creditor groups have backed a package of reforms launched by the insolvency profession to improve transparency in UK business rescue - and in particular in the use of pre-packs.

Key to the reforms, which comes in response to Teresa Graham's review of pre-packs last year, is an independent "pool" of experts whose brief will be to review the acquisition of a business through a pre-pack sale, at the request of directors, shareholders and others connected with the insolvent company who are hoping to buy it.

Pre-packs involve arranging the sale of a struggling business before it is put into administration which is then completed shortly afterwards by the administrators. While pre-packs do have economic benefits, such as saving jobs, in the past they have proved highly contentious, not least when the sale is to people already involved in the business.

The pool will comprise 20 independent senior business experts who will deliver a response within 48 hours. Their opinion will not be binding but will be made available to creditors once the business sale has gone through. This will reassure creditors about the reasonableness of the pre-pack transaction and its justification in the circumstances.

IT

IMPACT OF SAFE HARBOR RULING

Following the decision by the Court of Justice of the European Union (CJEU) that the US Safe Harbor regime is invalid, ICAEW has come up with interim guidance for members who transfer data to the US. The helpsheet is not a substitute for independent legal advice but it does explain who may be affected by the ruling and what they need to do now.

In the first instance, members need to establish what personal data (if any) is currently being transferred by their firm or suppliers to the US and whether it is covered by the eighth principle of the Data Protection Act 1998 (DPA). This bans personal data from being transferred outside the European Economic Area (EAA) unless the receiving country "ensures an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data".

An exception to the eighth principle includes where the data subject has agreed to the data transfer outside the EAA. In other situations, members will need to take steps to ensure that an adequate level of protection is afforded by the US supplier, potentially through the use of model clauses.

icaew.com

LEADERSHIP IN A DIGITAL AGE

The ICAEW IT Faculty has launched an initiative to assess the growing impact of

digital technology on the accountancy profession and work out how to meet the future challenges it will bring.

In *Providing Leadership in a Digital World*, it explains that digitalisation is changing the nature of work as software increasingly automates tasks and frees people to create "novel types of value". Capabilities like cloud computing and data analytics are enabling accountants to do things better, more quickly, cheaply and with less human intervention. And there are opportunities to create innovative services and different organisational models, to serve new markets and to utilise fast-growing networks.

However, the new digital world brings challenges as well, not least because if the profession fails to adapt, it risks losing relevance and being marginalised.

The initiative will seek to establish how the profession needs to position itself to serve a digital world better and how it needs to work together to achieve this positioning. The faculty is focusing on trends, ranging from big data and analytics to cryptocurrencies and distributed ledger systems, that have particular application to the accountancy profession.

The faculty would welcome feedback from members.

icaew.com/Itleadership

PROFESSION

LESSONS FROM MG ROVER

ICAEW has reviewed aspects of its Ethics Code and guidance for members in light of the questions of interpretation that were raised in the FRC tribunal reports on the MG Rover case.

Although ICAEW does not believe that any of the issues raised by the case requires substantive changes to the Code, it says that there are a number of aspects relating to members' duties in respect of the public interest, conflicts of interest and fees, where guidance on the requirements

of the Code could usefully be given for the avoidance of doubt.

As a result, it has now issued for consultation draft expanded guidance for members on acting in the public interest, identifying and acting on conflicts of interest, and determining the basis of charging fees. The deadline for comments is 23 March 2016.

icaew.com

TAX

BEPS MEASURES PASS MUSTER

The G20 finance ministers have given their backing to the OECD's final package of measures for an extensive reform of international tax rules. These comprise 15 action points which are based on the organisation's 2013 BEPS (Base Erosion and Profit Shifting) action plan. They look at areas including the digital economy; countering harmful tax practices; and ending inappropriate treaty benefits.

The OECD wants multinationals to report their tax planning so it can be broken down in to a country-by-country basis, and for more emphasis to be put on the profits created in each country, making it more difficult to shift profits to low-tax jurisdictions.

It also calls for those companies to pay local tax on any profits arising from sales in that country. It cracks down on countries allowing multinationals to set up financial subsidiaries, and sets out reforms to tackle complications arising from the digital economy such as intellectual property rights, patent box and intangible assets.

IHT NIL RATE BAND

The ICAEW Tax Faculty is concerned about new rules on inheritance tax (IHT) which it says will add unnecessary complexity.

The new IHT relief applicable to the main residence, which was included in the Finance Act 2015, will eventually reach a

maximum of £175,000 on top of the nil rate band of £325,000.

It will be introduced in stages, starting at £100,000 in 2017/18, increasing in annual £25,000 increments until it reaches £175,000 in 2020/21.

The intention is that the relief remains available even when the taxpayer downsizes their main residence on or after 8 July 2015 and a consultation was published on 18 September 2015 to gather views on how the relief would work. But the faculty's view (TAXREP 57/15) is that the extension adds even more complexity and it would force many lay executors to engage professionals just to calculate the available nil rate band.

In situations where the deaths of a couple are many years apart, there will be a significant problem for executors who will need to obtain records where the main residence has been down-sized. Then there's the situation where a widow and a widower marry each other where both have a residential nil rate band (RNRB) available from their deceased spouse, which is not covered in the technical note.

In addition, there is no indication as to how the RNRB will interact with deeds of variation or s144, IHTA 1984 appointments. Also, the faculty remains concerned that a main residence within a qualifying interest in possession is not specifically included within the measure for relief, nor is it clear that a property left to a trust for minor children is treated as a direct inheritance.

There is clearly a need for an increase in the nil rate band to prevent the estates of ordinary families becoming liable to IHT, the faculty says, but there must be a better way.

For example, it would be much simpler to increase the nil rate band to £500,000, while retaining a taper on the extra £175,000 for estates over £2m.

NEW APPROACH ON PATENT BOX

The work of the OECD has resulted in a new internationally harmonised framework for preferential intellectual property (IP) regimes, including the UK's Patent Box. HMRC has been consulting on how to change the existing UK patent box regime so that it complies with Action 5 of the OECD BEPS action plan and the "nexus" approach, which "uses expenditure in the country as a proxy for substantial activity and ensures that taxpayers benefiting from these regimes do in fact engage in R&D and incur actual expenditure on such activities".

The UK government plans to publish draft legislation later this month taking into account the results of the consultation process.

According to the consultation document, for a business to gain the benefit of a preferential regime, it should also have conducted the substantial activities which generated the income benefiting from that regime. "The agreed approach uses R&D expenditure as a proxy for substantial activity and links benefits to the requirement to have undertaken the R&D expenditure incurred to develop the IP," the document explains. "This is referred to as the nexus approach."

The UK proposes to modify its Patent Box to operate within the new framework. It is suggesting an approach based on streaming, a method of calculating profits already used in the Patent Box, where companies first attribute turnover and expenses to IP assets (for example, patents), products or product families and calculate a profit for each. They then modify this based on the nexus principle. Where, exceptionally, the principle did not give a result reflecting the true substance of the company's development activity, it would be able to challenge this (the "rebuttable presumption").

Like a rolling stone

Pensions auto-enrolment has so far been a political success story. But as Rachel Willcox reports, with up to 1.8 million small businesses required to set up workplace pension schemes by 2018, there is still much to do

n the three years since it was launched, pensions auto-enrolment seems to be having the desired effect. The biggest revolution in UK pensions for 100 years, it has seen 5.4 million people automatically enrolled into workplace pension schemes and has propelled saving for retirement up the list of consumer priorities.

However, with up to 5 million more employees due to follow them and up to 1.8 million small and microbusinesses still required to stage their workplace pension schemes for staff between now and 2018, autoenrolment is entering a critical stage.

While the experience of the UK's large companies was generally problem-free, it was certainly not without its costs. Lloyds Banking group is one of the few large employers to go public with the price of its own auto-enrolment implementation, after admitting it spent over £Im adapting its payroll systems for the new regime.

Average auto-enrolment costs for small businesses will be £8,900, says economics consultancy the Centre for Economics and Business Research (Cebr). But experts warn that the real challenges of pensions auto-enrolment are yet to come as, without the financial clout or in-house expertise of their larger counterparts, the UK's smallest companies are likely to struggle.

Already, a significant increase in the number of compliance whistleblowing reports to pensions watchdog The Pensions Regulator (TPR), together with enforcement action over auto-enrolment, is underlining a growing concern that SME employers will struggle to comply with the new regime.

Under the workplace pensions law, which came into force in

2012 and beginning with the largest employers, all businesses must enrol eligible workers - those at least 22 years old and under state pension age, earning over £10,000 a year and working in the UK - into a qualifying workplace pension scheme by April 2017. Employers need to repeat the automatic enrolment process approximately every three years, known as re-enrolment.

By now all businesses should have received notification of their staging date - the date from which an employer's legal duties begin. And yet, ignorance is rife. Only a third of business owners surveyed by accounting software provider Intuit said they could accurately describe the legislation and 65% admitted to not knowing their staging date. "A lot of SMEs can have the mentality that this doesn't apply to them and it doesn't matter how much press you put out there if they're not listening," says Chris Roberts, a trustee representative at Dalriada, the UK's biggest independent pension trustee.

Charles Counsell, executive director for auto-enrolment at TPR, told *economia* that a revamp of its website was designed to make it easy for an employer to work through the process and understand which duties apply to them. "We're not trying to educate them in pensions, we're trying to get them through auto-enrolment."

Despite attempts by TPR to simplify the task ahead, the majority of small businesses will look to a third party to help them. According to a survey conducted by Enrolsme, 42% of small businesses plan to turn to either their accountant or bookkeeper for guidance when it comes to getting their staff enrolled into a workplace pension. This figure

rises to 59% in businesses with one to five employees.

Auto-enrolment offers a great opportunity for accountants to expand their service offer, and those already offering payroll service are well geared up to talk clients through the mechanics of the new regime. Where they are most likely to add value is translating the different definitions of earnings that can be used in contributions calculations and identifying which staff are eligible to be enrolled. Accountants can also help clients communicate the new rules to employees.

However, there has been a mixed reaction from the profession. "My sense is that many accountants currently see it as a threat rather than an opportunity," says Liz Cole, business law manager at ICAEW. "Many practitioners with clients yet to stage have not yet grasped the nettle."

Even though the selection of a qualifying workplace pension scheme is a non-regulated activity, scheme selection is a new area for many practitioners and concerns about crossing the line into financial advice have led many firms to drag their feet over engaging with clients on pensions auto-enrolment, so ICAEW has issued a helpsheet for members on scheme selection.

The launch in May 2014 of the voluntary assurance framework for master trust pension schemes by ICAEW in association with TPR was supposed to take some risk out of the selection process by giving an independent review of master trust governance and administration against an industry-wide benchmark of quality.

However, just four large master trusts of around 50 involved in auto-enrolment have achieved the



voluntary assurance standard, with NEST, the workplace pension set up by government, the most recent scheme to do so.

Paul Budgen, head of business development at NEST, admits the pension industry has historically done a good job of hiding behind a wall of jargon, but auto-enrolment is putting the onus on simplicity and usability. "We've put ourselves in the shoes of someone who's earning an average salary. Employers and members tell us the system is very intuitive. We're trying to make the journey as easy as possible."

Firms should structure a proposition that meets the needs of clients, and revisit engagement letters. "You need a strategy. If you don't have the resource and competence in house you should look to some kind of strategic alliance," says Anthony Carty, group financial planning director at Clifton Wealth.

With 100,000 small businesses due to stage in the first three months of 2016 - more than the total to date - automation is key to getting through the impending "capacity crunch". But Cole says software for autoenrolment remains a moot point. Firms should review their payroll software to make sure it has auto-enrolment functionality.

"Many of the glitches between software and schemes are being ironed out," Cole says. "It's fine for a practitioner to have a link with only one or two schemes, but they must tell the client that other schemes are available. The Pensions Regulator doesn't want software compatibility to be the tail that wags the dog by restricting scheme choice."

Companies and their advisors should start planning at least six months ahead of their staging date. The risk of leaving things too late is that companies end up with a pension scheme that they don't really want. Accountants should be thinking about the cost of autoenrolment for clients and factoring that in to financial planning, warns Will Aitkens, leader of Deloitte's national defined contribution and employee benefits business.

The choice of workplace pension schemes seems to boil down to a choice between cost and a better member experience, says Chris Faulkner, an associate director in Grant Thornton's employee benefits team. "Do you want to do what you need to get you over the line or do you want to embrace pensions auto-enrolment and make it a clear benefit to individuals and help them pay for their retirement?" he says.

Bear in mind, too, that pension providers may get choosy about the types of scheme they take on. "Not every pension provider is interested in every employer," warns Aitkens.

Enforcement action against employers has stepped up from just five in the first quarter of 2013/14, to 247 in Q1 2014/15. The regulator's most frequently-used power is to issue a compliance notice. Failing to comply can lead to fixed penalty notices and unpaid contribution notices, forcing the employer to pay the employees' contributions as well as their own.

For those businesses that have already set up workplace schemes, the pensions auto-enrolment journey is just beginning. In October 2017, contributions rates increase from a minimum of 2% overall to a minimum of 5% overall with at least 2% from the employer. They will increase again in October 2018 to a minimum of 8% total with at least 3% from employers. Questions remain over the impact increased contribution levels will have on opt out rates. The hope is that by then a culture of saving will have been instilled in the collective psyche.

The challenge of encouraging savers to save still remains. Recent research from Deloitte found that the annual savings gap for the total population will reach £350bn by 2050. "There's a healthy realisation that this is the start of the journey," Budgen says. "But this is getting pensions into everyday language. People need to get comfortable talking about the size of their pot."

Back to the boardroom

In the wake of the Kids Company collapse, Caroline Biebuyck looks at the lessons charities can learn from the commercial world



he Kids Company collapse sent a shockwave through the charitable sector. If such a large and well-connected organisation can go to the wall, what does this mean for the other nearly 165,000 charities in the UK? How can they improve their chances of staying solvent and carrying out the tasks they were set up to do?

The answer, charity accounting and finance experts say, is in going back to basics. The organisational objectives of a charity might be very different from those of a commercial company, but the foundation is the same - good governance. And good governance relies on having good and effective trustees.

Charity board members are called trustees rather than directors, but

they are effectively non-executive directors, with the same roles and responsibilities that that term implies. Trustees have to make sure the charity complies with the law and regulations, and with its governing document. They must act with integrity and avoid any personal conflicts. They have a duty of prudence and duty of care towards the charity and its assets, and must use their skills and knowledge base to make sure the charity is well-run and efficient.

However, the experience of those interviewed for this article was that many charity boards do not have the same focus and sense of purpose as commercial boards, and are not concentrating on objectives and strategies in the way they would in

their day job when they enter the charity's boardroom.

"Sometimes professionals don't bring the same rigour of assessing a situation or advising on a situation to the charity as they might in their own business," says Nick Brooks, partner at Kingston Smith and chair of ICAEW's Charity and Voluntary Sector Group. "It may be because their motivations are different that trustee boards are not necessarily as focused as businesses."

The key to avoiding this is viewing the charity's work as that of a business, says Kate Sayer, partner at Sayer Vincent. "We talk about charitable business, quite deliberately, rather than charities," she says. "These organisations have to be run in a business-like fashion."

People get involved in the charitable sector because they see societal needs and are driven by their passion and connection with those they are helping. That doesn't stop them needing to run the charity on business lines, says Gillian McKay, head of the Charity and Voluntary Sector Group at ICAEW. "It needs as much management as any other organisation," she says.

To make sure they keep on target and work within their objectives, charities need to have a balanced board, covering all the bases from underlying business to fundraising, and from communication to finance. The board as a whole should review its members' skills and consider whether there are any gaps.

McKay points to a Charity Commission document with 15 questions for trustees to ask themselves. "This basically walks them through their responsibilities. If you can't answer these well then you need to take some action, either for an individual to re-consider their

ILLUSTRATION: MARIA CORTE

position or for the board to agree it needs to fill a skills gap."

As is the case in any organisation, relationships are vital. Brooks thinks the most important of these is the relationship between the chair and the chief executive. "The chair influences the trustees and the chief executive influences the staff. If that axis breaks down then you might end up with a dysfunctional charity."

One of the main failings at Kids Company appeared to be that the board was not directing the organisation - the chief executive was. Sayer points out that this is not uncommon and that the board needs to be willing to challenge the executive. "Kids Company did not have a viable business model and was funding things hand to mouth. Where was the voice on the board that said: 'This is untenable'?"

Another point trustees often forget is that they have a collective responsibility. This means that the trustee in charge of the finances, regardless of whether they are called the treasurer, needs to ensure that all the other trustees are kept informed about, understand and agree the charity's financial situation and strategy.

This can be a problem. Other trustees might be on the board because of their involvement with the social aspects of the charity's work, and they might be frightened by figures and want to abdicate responsibility in respect of the finances. But the fact is that they cannot - they are just as responsible for the finances as all other trustees.

The finance trustee needs to make sure everyone understands this responsibility in respect of the charity's financial affairs "without banging the table", says Sayer. "You could chat with the chairman and make sure that meaningful discussions about the important issues are always scheduled into the annual cycle of meetings," she says. "Rather than relying on reports generated by accounting software,

highlight the issues trustees need to know. Perhaps preparing a short written report, a one-page narrative, will help draw out the key points for trustees from a non-financial background. And you could offer a one-to-one session with any trustees who don't feel confident about looking at the accounts or budget."

Directors use KPIs to understand a company's position at a glance. Charities need to do the same, but they must formulate KPIs that fit their business model. "They need to have something to work towards while ensuring good financial practice," says Rosemary Spencer, director of finance and resources at Cause4. "It's about making sure they are doing the right thing, doing it well, and that no money is wasted while doing it."

An effective charity needs to have defined processes in place that are regularly reviewed, with clear direction from the board to the executive and from the executive down through the organisation.

This is particularly important when volunteers are involved, says Spencer. "Volunteers might come in with their own idea of what they are going to be doing, but that needs to match what the charity actually needs for the organisation to be efficient. So you need good governance from the board and good communication."

Brooks says there are four main principles for good charity governance. "Trustees need to be positive about the charity and what it is doing. They need to be professional and run the charity as if it were their own business. They have to be pragmatic: nothing's ever perfect. And they have to look at things in perspective. It might be great to do things in a certain way but the charity needs to cut its cloth to its size."

ICAEW members are ideally placed to help out with their financial skills - skills that the charity sector needs. A couple of years ago ICAEW set up a website that matches volunteers with charities looking for help. "I would like to see more of our members stepping up and getting involved," says Brooks. "It can give another avenue to your life and help you put something back." ■

Potential volunteers and charities looking for volunteers can connect via the ICAEW's free-of-charge website, icaewvolunteers.com.

If you are concerned about a charity you are involved in, you can discuss the situation in confidence with ICAEW's Ethics Advisory Service or a support member. Contact details for both are on the website at icaew.com

GETTING INVOLVED

ICAEW member Mike Mansfield has been a volunteer for several years with the Prince's Trust, encouraging young people to become self-employed, lecturing on accounting and tax and mentoring start-ups. A couple of years ago he wanted to take on another volunteering opportunity and, using the ICAEW volunteers website, got in touch with Active8, which works with young people with physical disabilities.

Chair Liz Olive says Active8 had been without a treasurer for nearly two years before they connected with Mansfield and she credits him with getting their finances into shape. "We now have a budget, the accounts are ready to be signed off soon after the year end, and we have bigger reserves than before," she says. "All these are very helpful for fundraising."

Mansfield's deeper understanding of the finances has helped him work with the charity's manager to focus on medium-term plans. "We have been able to realise new ambitions by setting up projects to take our young people beyond the initial 18-month programmes," he says.

He also recommended that Active8 become a charitable incorporated organisation, as he was concerned about the potential liability of the trustees. "Most trustees don't understand the implications of the law," he says. "ICAEW members bring this knowledge and have the professional confidence to take on matters like changing the charity's structure, which the charity staff find daunting."

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When small isn't beautiful

Europe's small company reporting regime is at odds with UK audit exemption limits and, says Liz Loxton, this may make for difficulties in providing a true and fair view that auditors can sign off

ccounting standards are often ushered in with the promise of greater simplicity. Regulators and policymakers commit to streamlining and rationalising agendas: even the European Commission (EC) has said it wants to lessen the compliance burden companies face, especially smaller ones. But simplification can sometimes be wrong-headed and complexity and standards - or at least unintended consequences and standards - seem to go hand in hand.

So it is with the new accounting standards for small company and micro-entity reporting, brought in as a response to the EU Accounting Directive. UK company law has evolved to reflect the EC directive and as a result, the Financial Reporting Council (FRC) has revisited the accounting framework for small and micro-entities and brought out new standards to align the UK and EC accounting regimes.

The new framework, of course, does away with FRSSE and brings small companies into the scope of eligibility for FRS 102. It also introduces a new section 1A to FRS 102 that sets out the different disclosure and presentation requirements for small companies. The FRC has also introduced a new standard, FRS 105, that applies to micro-entities. The changes take effect for accounting periods beginning on or after 1 January 2016.

For micro-entities and smaller companies, the new approach significantly lightens the load on disclosures. For micro-entities, as long as the financial statements are prepared in line with legal requirements, they are presumed to

give a true and fair view. So directors are not required to think about the broader information that might be needed and only need prepare a balance sheet and profit and loss account. They no longer need to prepare a statement of recognised gains and losses or a cash flow statement and, while they can volunteer additional disclosures, they are only obliged to provide two.

Small companies only need provide a balance sheet and profit and loss account, and they too can limit the disclosures they make. But while micro-entity accounts are deemed as true and fair if put together in line with the legal framework, small company directors have an obligation to ensure their financial statements provide a true and fair view.

As efforts to reduce reporting and compliance burdens go, these changes do reflect the needs of smaller businesses in principle. The UK government and the FRC have gone for the most generous limits and exemptions that the EC directive offers. Under the regime, small companies are still small at a turnover of up to £10.2m and micro-entities are defined as micro up to a turnover limit of £632,000.

However, concerns remain about the usefulness of financial statements with such limited disclosures. Fiona Hotston Moore, partner at Ensors, says: "I remain concerned that these provisions will reduce the quality of information and management reporting in qualifying entities. I suspect these provisions will not significantly reduce our workload, and thus fees, as we still need to prepare sufficient information for the tax returns and to advise the client."

"As an auditor, you could be left with a set of accounts without disclosure around going concern. If the directors refused to add it, you would have to resign"

The issue around lack of information in financial statements prepared under FRS 105 resonates with Colin Jones, head of audit at Hacker Young London. Where companies might ordinarily look to financial statements for information as to the solidity or otherwise of a potential customer or supplier, the limited disclosure regime offers little comfort, particularly in relation to micro-entities. "Clients are already saying: what will we learn from their accounts? I think confidence in terms of dealing with smaller companies is going to take a knock - although that will be difficult to quantify. SMEs won't have access to the level of information they are used to."

The moves may also encourage smaller enterprises to do without professional input. If an entity is below the thresholds, it may well take on its own accounts preparation, which could cause issues later if it grows to the point where it exceeds the exemptions and needs to revert to a greater disclosure framework.

The viability of financial statements for micro-entities, deemed to be true and fair even without much in the way of disclosure, does give auditors a

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problem - albeit at this stage a theoretical one. Micro-entities are *de facto* exempt from audit. Because audits would not usually be needed, ICAEW's Audit and Assurance Faculty has assumed the changes have very little impact on auditors apart from one anomaly that has come to light via a small number of enquiries to the technical helpline.

As Chris Cantwell, the faculty's

As Chris Cantwell, the faculty's technical manager says, these enquiries have come from members with micro-entity clients, who do have an obligation to commission an audit - perhaps written into their constitution or within lending requirements - but who have going concern issues. A number of such companies appear to have cottoned on to the reduced disclosures that FRS 105 brings.

"In a situation where an audit is required, they might feel they meet the criteria and are eligible for the micro-entity standard, but they realise that by taking that option they can avoid a going concern disclosure. That puts the auditor in an almost impossible situation given that they are obligated to follow auditing standards requiring disclosure but the accounts are deemed true and fair without it. Do they put something in the audit report, or not?"

It is an issue that doesn't yield a ready answer. And there are situations, hypothetical for now, where the anomaly might enable a less than scrupulous director to try to use an audit as a smokescreen for a less than solid set of accounts.

Richard Churchill, partner with Shelley Stock Hutter, says: "The directive says the financial statements and notes represent a true and fair view. So as an auditor you could be left in a situation with a set of accounts, in theory true and fair, but without that disclosure around going concern. If the directors refused [to add that disclosure] the auditor would have to resign," he says.



The directors would, Churchill points out, have to be reasonably sophisticated to recognise this as a potential route of securing a financing deal or proposing a sale of the business, for instance. In both those instances he would, in any case, advocate scepticism, as there is an element of self determination built in to the regulations. Eligibility for the small company or microentity regimes depends on a two out of three rule. To qualify as microentities, companies must not exceed two or more of the following criteria: a £632,000 turnover; a balance sheet total of £312,000; and a headcount of 10. So is it possible to qualify as a micro-entity with a turnover of more than £632,000? "If I was presented with a set of accounts from a micro-entity that had been audited, I might ask why a company chose the least onerous route and then chose to be audited, which obviously increases the cost and compliance burden," says Churchill.

The two out of three rule also applies to the small company standard. A company qualifies as small if its limits are below two out of three of the following: its turnover does not exceed £10.2m; its balance sheet does not exceed £5.1m; and its headcount is no greater than 50.

There is also currently a mismatch between the turnover limit set out in FRS 102 for small companies and the UK audit threshold limit. The UK government is widely expected to raise the audit exemption turnover limit for small companies to £10.2m. According to the Department for Business Innovation and Skills, this increase brings 11,000 more businesses into the small company regime. The business world expected that to happen soon after the General Election. In fact, the limit currently remains at £6.5m, so some companies that qualify for FRS 102 1A will still need to commission an audit.

"Small company directors still have an obligation to provide more of an all round perspective under FRS 102," says Richard Churchill. "And I fully expect that alignment to happen. It would be a backward step for that to remain out of line. If nothing else changes, small companies will require an audit, whereas before, a small company was automatically exempt," he says. ■

ILLISTIBATION: MARIA CORTE

Culverhouse & Co: On the same team

Setting up his own practice and expanding into financial planning gave **John Culverhouse** the freedom to create a business model to match his ethics. He tells Xenia Taliotis what he's learned

ohn Culverhouse was working for a merchant banking company in London when he had his light-bulb moment: "I had a young family, a full-time job and I was looking after a number of private clients in my spare time, and I thought: 'I'm working an eight-day week here, surely there's a better way of going about life?' So I resigned and set up Culverhouse & Co. That was in 1982 and I can say, hand on heart, that I've not had a single second's regret."

And why would he? His 33-year-old firm, now based in Farnborough Village, Orpington, Kent, is doing Culverhouse & Co Chartered Accountants and Culverhouse Financial Planning, which was demerged from the accountancy practice in 2013.

There is such an overlap between the two professions, says Culverhouse, that it seemed an obvious next step to qualify as a chartered financial planner. "I set up my practice partly so that I could offer the greatest value and benefit to my clients," he says, "and I felt I was missing a trick when I couldn't advise them on financial products and services. My clients like the convenience of having their affairs managed by the same people and there are

weren't properly trained, mis-sold products. That has resulted in far more rigorous regulations, thank goodness, but we also have our own internal procedures to ensure that we are absolutely unimpeachable. These are there to protect not only our clients, but also ourselves. I constantly evaluate our risk exposure - if it's too high, I will not take on the case."

planning took quite a knock

in the 1980s when rogue

traders and brokers, who

The split between the revenues generated by the two companies is 70% accountancy and 30% financial planning. The core of its work on the accountancy side is accounts production.

"Accounts compilation work is our biggest source of income," says Culverhouse. "As well as preparing annual accounts to fulfil clients' compliance requirements, we also prepare management accounts and assist clients to make informed business and tax planning decisions. We also assist clients with their taxation affairs, both personal and business, and offer a comprehensive range of back-office services, including real-time information payroll, bookkeeping and company secretarial."

Culverhouse says that his role as director of both companies is changing and in time he is likely to spend more time developing his

KEYS TO SUCCESS

Be proud of your ethics "Use them to your advantage."

You are, or you should be, an entrepreneur "Focus on the fact that you live in the results economy not the time and effort economy."

Recognise the importance of having a quality team to support you "Nurture, invest in and continually coach the team and make sure they develop entrepreneurial as well as professional skills."

Promote team culture

"Make sure each member of the team understands and adopts the ethos of the practice."

Shape, modify, improve and update your client proposition "Your clients should enjoy a great experience working with you."

Continually evaluate risk

"Get a risk/reward balance."

Be pro-active "Look to see where you can add value. If, for whatever reason, you are unable to add value, then consider resigning from that account and recommending the client on to someone who can offer them the services they require."

"I set up my practice partly so I could offer the greatest value and benefit to my clients"

well, with revenues up by 14% in 2014 and likely to exceed 25% for this year. "We're in a good position now," he says. "Our client numbers are back up following the recession and they're growing at a healthy and sustainable rate. We lost some ground during the two downturns - 2008 was particularly hard, with its effects hitting us in 2012/2013 - so we're very relieved to see such a healthy increase in our turnover over the past couple of years."

The firm is actually two limited companies -

many, many advantages to being a one-stop shop, both for them and for us. We do have some clients who only use the services of one of our companies, but many are clients of both."

The financial planning practice was awarded Corporate Chartered Financial Planner status by the CII in 2009, which is the industry's gold standard. Culverhouse says he's proud of this and of the rigid controls he implements over and above those imposed by the industry. "Financial

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companies and his staff than on dealing with clients.

"Delegation and succession planning is key to every single business, mine included. I currently employ seven staff across the practice as a whole, and am in the process of recruiting another two people, one for each company.

"I have spent a lot of time and resources on training people who will eventually take on the day-to-day running of the office. Dave Knight, who joined me 11 years ago as a university graduate and has gone on to qualify as both a chartered accountant and a chartered certified accountant, is now a director of both companies, and my daughter Claire, who recently passed her CII Diploma in Regulated Financial Services, is taking a more active role in the running of our financial services company."

Recruitment can be tricky and particularly so for Culverhouse Financial Planning, where the bar for ethical conduct and practice is set so high that it makes sourcing the right people difficult. "Finding a great salesman is not hard, but finding someone whose ethics are as high as ours can be challenging," says Culverhouse. "That's why I often prefer to hire a novice, someone I can train myself, coach them to do business in our way."

Culverhouse has implemented a process of "continually learning" across his companies and each member of the team has a structured continuing professional development programme that is specifically tailored to their circumstances and needs.

The firm has 140 clients, a number of whom have been with the practice since the beginning. Sole traders, family-run concerns, small businesses, retired and high net worth individuals are the main clients and, though the practice is bang up to date with its technology, Culverhouse still prefers the personal approach, regularly meeting with and talking to his clients in person.

"Long-standing relationships are at the core of our approach to business," he says, "and I've made a point of having clients I like and whose company I enjoy. Getting on with the people you work with - and that also applies to your team members - is the best way of understanding what makes them tick.

"Mutual trust and respect are the best foundations for successful partnerships. We're in a team with our clients, working with them to find the optimum solution for them and their circumstances. Ultimately, we're not about chasing perfection but about getting the best possible outcome."

LESSONS LEARNED

Embrace freedom
"Recognise you are in a fortunate and privileged position to be able to run your own practice. Make sure you make the most of the freedom it brings you and make sure you get the right work/life balance so that you enjoy both your work and your life."

Delegate
"It takes trust and communication with those you delegate to for things to run smoothly. Without delegating you are not going to able to expand or take on new and bigger projects."

Be practical
"Don't try to be a
perfectionist. Always look for
the optimum solution."

Nurture talent
"Develop your team, so
that everyone reaches their
potential. This should ensure
that you get the best results."

Be constructive
"Don't get into the
blame game; it's negative
and destructive. Instead view
mistakes and errors as a
learning opportunity and
consider what you would
do differently to achieve a
successful outcome."

Maintain the human connection

"Stay in regular touch with your clients, through face-to-face meetings, by letter, telephone, email, newsletter. Clients need reassurance and guidance from their accountant. They need to know that you are thinking about them and their business. Clients welcome such added value support."

ILLUSTRATION: MARIA CORTE

PENSIONS

Work to do

Business clinic



As Baroness Altmann told *FS Focus* magazine last month, the radical package of pension reforms is reaching a critical phase

The one thing that is certain about pensions at the moment is the uncertainty. As former minister of state for pensions Steve Webb wrote in *Money* Observer in November: "The investment risk, the longevity risk and the inflation risk of pension provision have now all been transferred to the individual. While this does not make defined contribution pensions 'bad' pensions, it does mean that individuals face a lot more uncertainty than in the past."

In his new book *Neoliberalising Old Age*, John Macnicol, visiting professor in social policy at the London School of Economics, claims that the private pensions industry has always sought to shape state pensions policy in Britain, and successive governments have been too willing to listen to it.

Pension systems are notoriously complex and forbidding but are designed to be so, says Macnicol, and this complexity baffles all except those who work full time in the financial services industry.

In FS Focus magazine last month, Webb's successor, Baroness Ros Altmann, addressed consumer rights. "We have launched a consultation to gather evidence on what is actually happening, which we will use as a basis for taking action to ensure customers are treated fairly," she wrote. "The pensions landscape is unrecognisable to that of five years ago, with more people saving into workplace pensions, new freedoms allowing savers to access their cash, and a new state pension that will be far easier to understand. But much work remains to make these changes work in the interests of those who matter most."

So is it time for chartered accountants to step up and clear the complexity? For more on auto-enrolment see page 72 of this issue.

ICAEW Support Members Scheme is a network of volunteers trained to help fellow members who are facing difficulties

CAEW Support Members Scheme has been supporting members for more than 20 years. Support members provide a listening ear and free, confidential and non-judgemental assistance on anything from personal worries about health, money or family to work-related concerns about professional ethics, regulation and discipline.

The top five subjects of enquiry in 2015 were:

COMPLAINTS AND DISCIPLINARY

Enquiries from members who are the subject of a complaint being investigated by ICAEW. Normally those speaking to a support member asked for guidance through the process, which can be stressful.

EMPLOYMENT ISSUES

Typically enquiries from members who are facing redundancy or dismissal and need signposting towards the specialist support and advice that is available to them.

PRACTICE ISSUES

Questions from members in practice about issues that have arisen in the workplace. Often a support member is contacted following a breakdown in the relationship between partners in practice.

SUDDEN DEATH OR INCAPACITY OF SOLE PRACTITIONERS

If a member dies unexpectedly while still in practice it can be difficult for the family to sort out their affairs. Often they will have had no involvement with the practice and won't know what to do in terms of notifying clients, dealing with client records or sorting out professional indemnity insurance. In these circumstances a support member can help the family members identify what needs to be done. This was the most downloaded Support Members Scheme information sheet in 2015.

PERSONAL FINANCIAL DIFFICULTIES

Members considering IVAs (individual voluntary arrangment) and wanting to discuss possible impact on membership of ICAEW.

Nicky Swaisland, who runs the scheme, says: "Experience over the years has certainly shown that support members can provide help and advice in a wide-range of circumstances. Often simply discussing your situation with an objective outsider will help to clarify the way forward."

Find out more at icaew.com, call the scheme for free on 0800 917 3526 or email support.members@icaew.com

It's not your money

Failure to comply with Clients' Money Regulations is a theme running through many recent disciplinaries. Julia Irvine investigates

t is always surprising that of all the cases that come to the public's attention through ICAEW's disciplinary processes, so many relate to firms' failure to comply with one or other of the Clients' Money Regulations (CMRs). A quick glance at the last three months' disciplinary listings shows that of the 34 orders published, three involved CMR breaches that ranged from paying clients' money into a personal bank account to withdrawing money from the firm's client money bank account without the client's written authority.

The CMRs govern the way ICAEW members and firms deal with clients' money. "The basic premise of the CMRs is a straightforward one wrapped in a lot of - possibly from a member's perspective - irritating detail," says ICAEW regulatory policy manager Tracy Stanhope. "It is not your money, don't treat it like your money and look after it better than if it was your money. But people fall down on the detail."

CLASSIC EXAMPLE

A recent example is a consent order reached in October. An eight-partner firm breached the regulations on four counts: it held funds in excess of £10,000 each for a number of clients for longer than 30 days without paying them into client bank accounts designated by the name of the client or in some other way (in breach of regulation 13); it did not ensure that the interest earned on the sum was paid or credited to the clients or treated as instructed by the client in writing (regulation 14c); and it did not regularly reconcile the total balances in its main client account with the corresponding credit balances held for clients (regulation 25). The fourth issue was that the firm withdrew funds on behalf of 28 clients from main client accounts which were greater than the credit balance held

for that client (regulation 21).

Usually the failures are inadvertent, as Linda Barnes, a manager in ICAEW's quality assurance department, knows from her review visits to practices of all sizes. "We always look at client money on a standard visit because it is an obvious risk." Firms trip up, she says, because they don't follow the regulations to the letter. "A common problem is that all accountants are really busy and if they haven't got the process in place to ensure that they follow the CMRs easily, then there is a lot to get wrong."

PRESCRIBED WORDS

There are two issues she comes across regularly. The first is failing to open a designated bank account under the £10,000 rule or failing to ensure that this is done correctly. "Banks aren't very good at setting up client accounts. They have to follow prescribed words [regulation 9] and you'd be surprised how many banks fail to do so even when asked by the firm. But it is up to the firm to check that the wording is right."

The other is firms withdrawing their fees without the client's authority. A common example is where a client's tax refund is sent to the firm so that the firm can take its fees. The client gives their consent for this to happen in the tax return and there is a common misconception that this also allows the firm to take the fees. In fact, the firm will need the client's written permission.

Stanhope adds that firms tend to think that their client account is a safe place so will put anything they consider not their money into it even though it is not client money. "Maybe they have had a charity raffle in the office and they have got the proceeds and they don't want to put it in the office account in case it gets spent on biscuits, so they put it in the client account," she suggests. "And you can see

why they might do that. But the charity is not a client and it leads to all sorts of mixed money issues."

In recent years, the number of firms handling client money has dwindled, largely because of the bear pits and admin involved. But there are still plenty of firms holding client money or being approached by clients to do so.

Ray Farren, technical advisor in ICAEW's members' advisory service, says that the service fields over 100 calls annually relating to the CMR. "Often, it is because the client wants them to take a lump sum payment and pass it on and they want to know if they can. The question is why? If not incidental to the services provided then it should not be going through the client money account."

COLLECTIVE RESPONSIBILITY

Farren adds: "Sometimes the client wants to give the firm access to their own bank account. That's an interesting one because it is not strictly client money, but they need to approach it as if it was."

Given that partners have collective responsibility for CMR breaches, it makes sense for firms to decide whether to carry on providing the service. Barnes thinks that they should appoint someone to have direct responsibility for looking after client money so they don't take their eye off the ball.

After all, as Stanhope says: "If you are a chartered accountant, there is really no excuse for not doing it properly.

"These are the kind of services that our members sell to their clients on the basis they are good at them, so it is a bit embarrassing when they get caught out making a mess of it."

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

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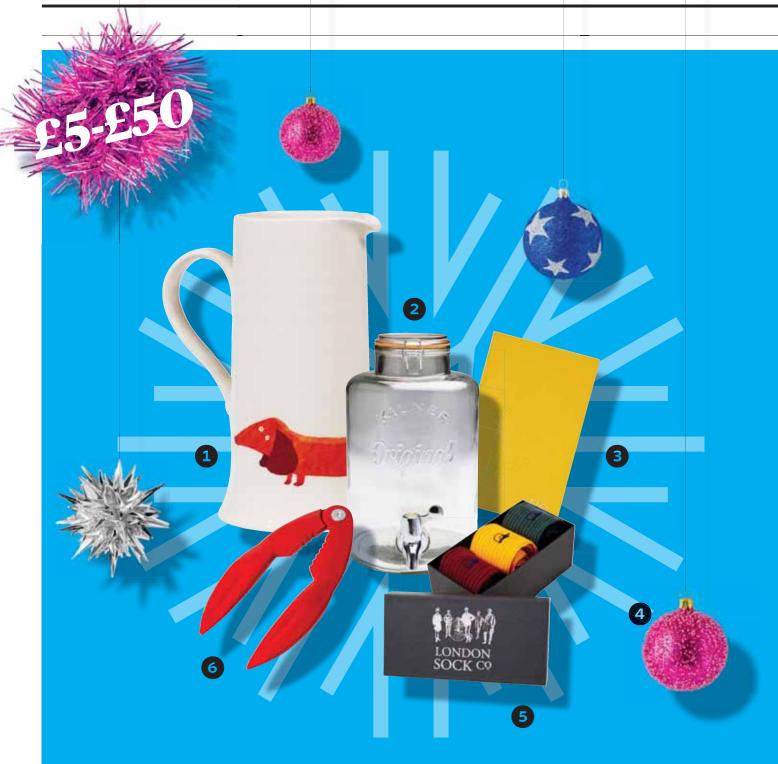
this month:

Gift guide

Inspiration for the perfect gift Our hand-picked selection of the best Christmas gifts to suit every budget **Restaurants** Unusual festive fare **Life after work** Catherine Green dons her walking boots

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Life gift guide



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Life gift guide







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Life reviews



Restaurants

Festive fancies

Neil Davey rings in the Christmas season with a round of restaurants full of good cheer





Breakfast Contini Ristorante, Edinburgh

Victor & Carina Contini serve hale and hearty fare with the best of ingredients allowed to shine. Their Christmas menus are a thing of simple beauty but it's the pre-event - or recovery - breakfast that stands out, from the bounteouslystuffed focaccia to the breakfast cocktails and the soothing viscosity of the classic hot chocolate. It should be available on prescription, frankly.

Australasia Spinningfields, Manchester australasia.uk.com

Cynics will argue that Australasia is indicative of all that's wrong about the Manchester dining scene - very "blingy", too cool for school, all about being seen. They've probably got a point: this place encourages a glam crowd. It's also "pan-Asian", a hybrid term that has come to fill many a restaurant goer with dread.

The thing is, most of the above only becomes a problem when it's a

matter of style over substance and, in Australasia's case, substance just about forces the draw. Some of the food is excellent, the service is slick and it's incredibly friendly. My fashion sense is a long way from cutting edge and my tolerance of places full of thin and beautiful people is low, mostly because I always suspect it's only a matter of minutes before I'm asked to leave so they can fit another four thin and beautiful people in.

But the welcome at Australasia was genuinely warm. Even the booths - all too often a device designed by restaurateurs to make anyone with a waist size over 26" feel like a beached whale were spacious and comfortable.

All this wouldn't matter if the food was no good and, while occasionally things aren't quite as smart as they look, there are flashes of brilliance. The Christmas menu is a solid blend of the greatest hits plus some novel, festive influences. The softshell crab California roll, with cucumber, kimchi and chilli

mayonnaise, is in the former camp, ditto skewered prawns, shiso and wasabi - that's properly pokey Kentish wasabi, by the way - and the Korean BBQ beef skewers with shiitake mushroom, a plate of pure umami.

On the more festive side there's a mapleglazed duck breast with spiced apple, red currants and watercress purée, and a sweet miso and fig Christmas tart - something for everyone, then. If that doesn't make for a decent Christmas celebration, I'll eat my party hat.

Lunch Zaika of Kensington, Kensington, London zaikaofkensington.com

Zaika was the first Indian restaurant to be awarded a Michelin star. Then lost it when the chef moved on and it relaunched as an Italian place. Now connected to Tamarind, things are back on track. Their Christmas menu is a simple affair of well-crafted classics and big spices, and duck shammi kebab, simmered lamb masala (bhuna gosht) and chilli chocolate tart are delightfully far from turkey and sprouts.

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Things our reviewers say about their role



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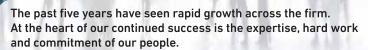
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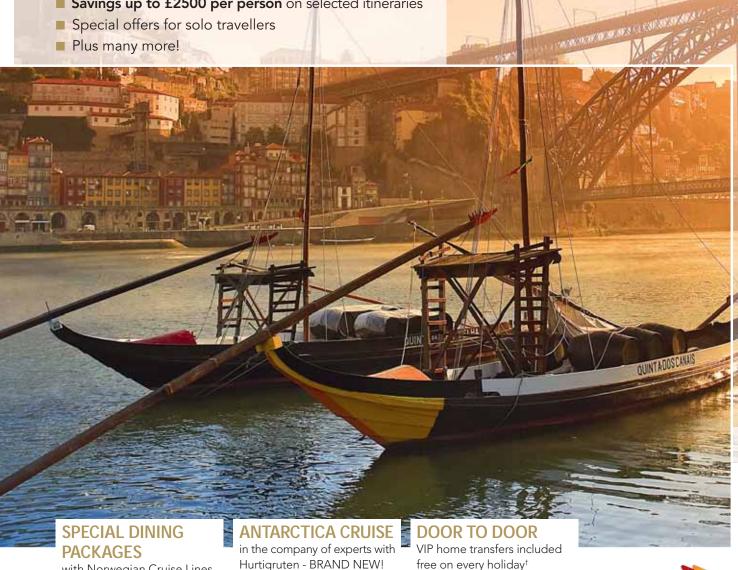


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A walk in the wild

Catherine Green tells Peter Taylor-Whiffen about how she's preparing to take on the Grand Canyon, and why she's up for the challenge

ramble through the countryside. Catherine Green is not most people.

Next Easter she will spend a week trekking from Phoenix, Arizona, through the Grand Canyon and across the desert to Las Vegas. Along the way she will sleep under the stars amid the less than welcoming company of poisonous snakes, venomous spiders and scorpions.

ost people who fancy a walk are content with a

"I just fancied doing it," she says simply. "One morning I heard Jenni Falconer on Heart Radio saying she was taking part in this Beyond The Grand Canyon trek and I thought: 'I can do that.' Now I'm on her team - and raising money for a good cause, too."

The trek is a marked contrast to Green's day job as financial accounts manager at the Post Office, which she started in November. But the 31-year-old is not afraid of a challenge. "I do tend to do things like this on a whim," she says. "A couple of years ago I took part in a tall ships race from Cardiff, round Ireland and back up the Thames estuary. Maybe it's a midlife crisis!"

Green came into accountancy almost by accident after her A-level grades dented her ambition to go to university. "I intended to resit but then I got a junior accountancy job (at Andertons Liversidge & Co of Rotherham) and stayed there for the next two and a half years."

She moved on to Sheffield chartered accountants Hawsons for seven years until 2013, then she joined Sheffield firm Landin Wilcock & Co, where she stayed for just over two years specialising in corporate tax. "I really enjoyed my work," she says, "and they were really supportive of my trek."

Green is now in training for the adventure during which she will wade across creeks, walk through natural tunnels and climb down waterfalls - all in dry desert heat.

"We're travelling an average of around six miles a day, which doesn't sound much," she says, "but we're constantly climbing across mountain terrain and trekking at an altitude of nearly 1,000 feet. I've been going to the gym to do some weights but they've also given us a training plan to follow - which includes an awful lot of walking up and down stairs."

Green, who lives in Sheffield, is working equally hard to raise money for the charity, Global Radio's Make Some Noise, which gives grants for projects across the UK that include workshops for young people with life-threatening illnesses and support for young carers.

"Make Some Noise does vital work supporting young people and to do the trek I have to raise £3,850 - although any more than that would be fantastic," she says. "People have been very generous but I still have a way to go."

And with that, it's back to the training. "The trek is still a few months away but I'm determined to finish it and that means being as prepared as I can be," says Green. "And that means lots of long walks. The dog thinks it's great." ■

Catherine Green's sponsorship page can be found at: beyondthegrandcanyon.everydayhero.com/uk/catherine

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