INTELLIGENCE AND INSIGHT

# economia

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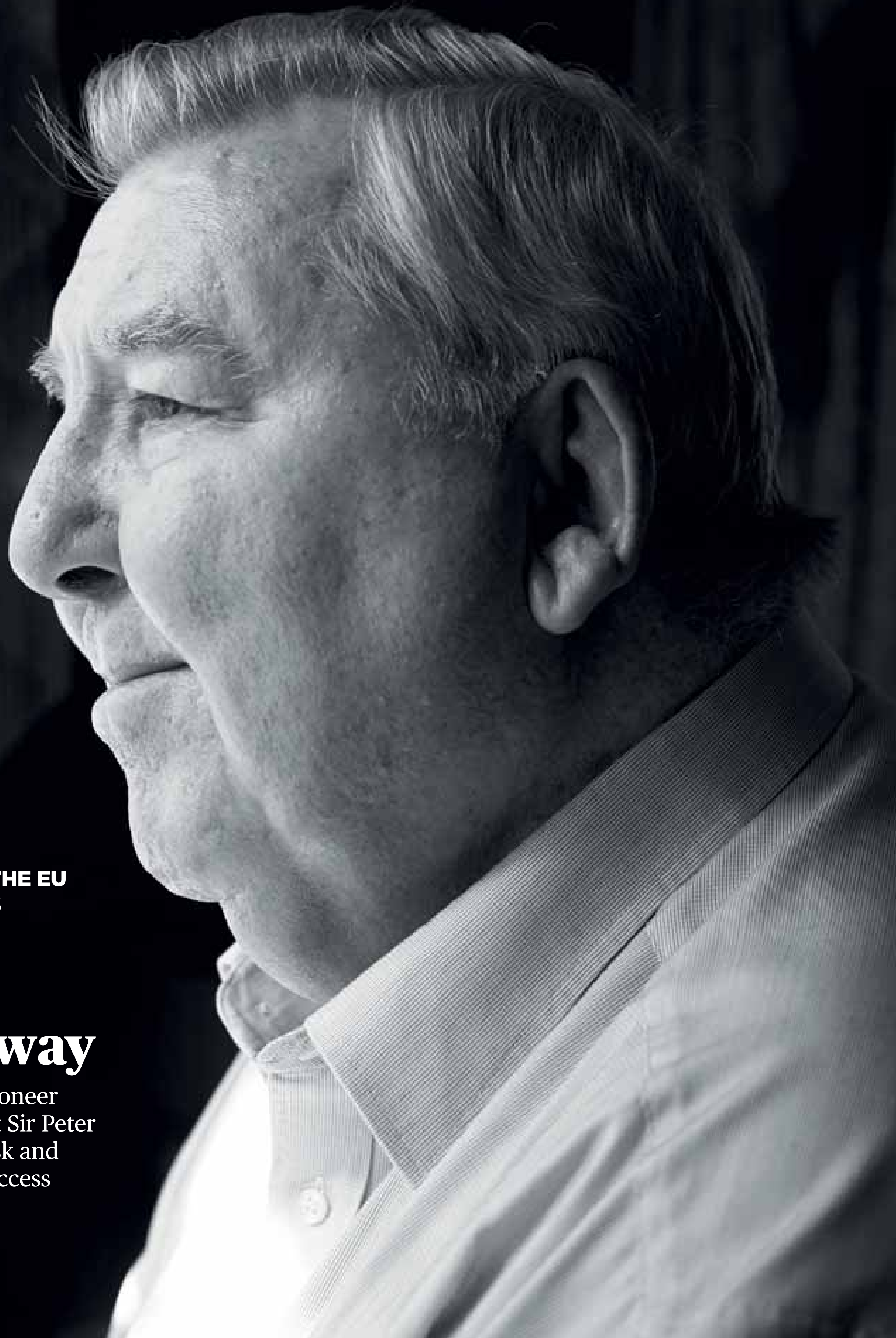


**THE FUTURE OF THE EU**
FAMILY BUSINESS
**INSOLVENCY**

## Peter's way

Sailor, telecoms pioneer and philanthropist Sir Peter Harrison took a risk and then shared his success


BlueMotion

# The UK election result has already had an impact on the rest of Europe. A referendum on the UK's place in the EU is coming, as is reform of the way its institutions operate.

But now is not the time for the UK to turn away from Europe and to become insular or more introspective. Today, perhaps more than ever before, we face major global challenges on issues ranging from terrorism to poverty and global warming.

These issues require big, global solutions and the UK has a vital role to play – as part of a reformed European Union. Even the most optimistic review of the past 200 years shows a steady decline in British influence across the world. What influence it has today is, in large part, the result of the UK being seen as a bridge into Europe.

London's status as one of the top global centres for financial services revolves partly around this principle. As last year's surprisingly strong diplomatic interventions suggested, the US government and investors perceive the UK as an important intermediary between it and the rest of Europe.

A UK on the outside of the EU would be far less useful in performing this influencial bridging role. It is partly the risk of losing it, along with the lack of clarity about what sort of free trade agreement would exist after an exit, that business leaders dislike.

Eurosceptics frequently point to the examples of Norway and Switzerland as proof that a country can be prosperous and remain on the fringe of European politics. But what influence on the world do these countries have? Should the limit of our ambition be "no worse than Norway"?

Even before the recent election, it was clear that a great deal of constitutional change would be sweeping the UK. After the 2014 Scottish independence referendum, demands for fiscal autonomy have come thick and fast from several directions. Countries, regions and cities across our union have demanded greater local control. And the government seems willing to listen, as the plans announced for more mayors demonstrates.

While the government must address many of these complex constitutional issues, it must avoid being dragged too deep into many internal squabbles over our own union, while the larger question of our place in Europe is still to be settled. The focus should now be on pushing hard for major reform of the EU, and pushing equally hard the positive case for the UK remaining inside it.

Supporters of the EU frame the debate largely in terms of economics, as if it were only about hard facts and choices. This contrasts with EU detractors, who speak the more emotive language of nationalism – a language which resonated during the election. What the British public deserves to hear is a clear and rational economic argument for and against membership of the EU. But for this to be a balanced debate we need more emotive language that enables internationalism supporters to match the nationalist appeals.

A Britain that takes a central role in a reformed EU will be a stronger nation. It will be better off economically, more relevant and more influential in the world.

We welcome the debate.

## Tax advisers are still in the spotlight

The past five years have been challenging for most tax professionals. There has been greater scrutiny of avoidance and evasion, as well as the arrival of the concept of "aggressive avoidance".

The work of most tax experts is still to keep clients on the right side of the law, while helping to minimise their tax payments. But the right side of the law and the right side of the public debate are no longer the same thing.

While the new government continues to extend its austerity measures, the reputational risk for those seen to be ducking out of paying their "fair share" will remain high.

As the Conservatives strive to eliminate the deficit, spending will come under further pressure. This sharpens the focus of those waiting to see who contributes what. The government itself set the tone with talk of anti-avoidance mesaures reaping £5bn a year.

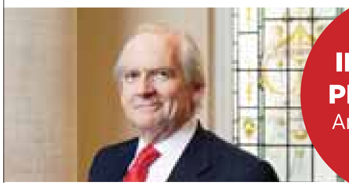
Elsewhere, the EU has plans for greater tax harmony, while the OECD's BEPS project will report soon.

The tax landscape continues to shift and all tax practitioners will have their work cut out to keep up. The public is watching.

# ICAEW in this issue

**"You can never be sure about what you don't know, or the best way to act when an unforeseen game-changing event happens. Risk considerations should be integrated into business decision making at an early stage. For complex businesses with a separate risk function, the chief risk officer should be given sufficient authority to challenge and help shape business strategy"**

**p59 Iain Coke, head of Financial Services Faculty, ICAEW**



**66 INCOMING PRESIDENT** Andrew Ratcliffe

"I like to encourage my clients to go off and enjoy a good retirement. There's nothing sadder in my book then seeing people who've worked like Trojans all their lives leave themselves no time to enjoy the fruits of their labour"

**P54 David Petrie, head of corporate finance, ICAEW**

"This isn't just an accounting change. There are wider and critical practical implications, such as bank covenants. If a company doesn't talk to its bank at an early stage about the changes to its accounting, it might find it has breached its covenant and lost its financing"

**P72 Eddy James, technical manager, ICAEW Financial Reporting Faculty**

"When employees – particularly talented employees – get wind of a problem, they're going to walk. That's another dilemma"

**p76 Bob Pinder, regional director professional standards, ICAEW**

## MORE ICAEW COMMENT



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## OPINION



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PHOTOGRAPHY: JULIAN ANDERSON



# Digital highlights
## icaew.com/economia

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

**BUSINESS**
After a "truly remarkable" General Election George Bull, Gary Heynes, Jim Meakin and Bill Longe from Baker Tilly offer their thoughts on what the tax regime might look like under a Conservative government

**GOVERNANCE**
Financial Reporting Council says UK accountancy firms are ahead of their global peers when it comes to corporate governance

**AUDIT**
EY the winner as Royal Dutch Shell announces a change of auditor

**TAX**
Paul Aplin asks if, after 10 years, a review of HMRC's role is necessary

**FINANCE**
In this month's instalment of our Diary of a Big Four tax advisor, Beatrice Friar of KPMG discusses the question of tax in Scotland

**LIFE**
Summer is finally here. We brave the elements to bring you six of the best outdoor cinemas and theatres

**ELSEWHERE ONLINE**
Mary Creagh and Norman Lamb announce leadership bids for Labour and Liberal Democrats
**UK businesses accused of paying lip service to anti-corruption codes**

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

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WELCOME TO THE
Internet of Everything
Every day, the Internet of Everything grows exponentially. Millions of devices and people are connecting, developing ideas and solutions that are the first of their kind. But these firsts are only truly interesting for the lasts they create. The last traffic jam. The last product recall. The last blackout. These are what motivate us, because we know big things are never achieved by thinking small. And those big things start here and now.
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CISCO
TOMORROW starts here.
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# In review

### THE INTERNATIONAL PICTURE

**30**

Number of **multinational corporations** targeted by Australia's new tax crackdown

**AUSTRALIA'S** treasurer Joe Hockey announced plans to introduce a new tax crackdown against 30 multinational corporations, which he said were "diverting profits earned in Australia away from Australia to no-tax or low-tax jurisdictions".

Hockey described the crackdown as "the first of its kind in the world" and, though he didn't name the corporations targeted, he said it was "pretty evident" which companies they were. He described the proposed legislation as going "much further" than Britain's current tax laws. The new law would allow the Australian Taxation Office to charge tax on profits diverted offshore.

However, Steve Healey, president of the Tax Institute, based in Sydney, said he was concerned the plan was "yet more tinkering with an already complicated tax system". He added: "We caution against hasty changes, against the backdrop of extensive global, co-ordinated efforts to address base erosion and profit shifting."

### ELSEWHERE IN THE WORLD

China's central bank announced plans to reduce the benchmark lending rate by 0.25% to 5.1% in an attempt to boost the country's economy. In a statement the bank said the cut would ease the cost of borrowing "to support the sustained and healthy development of the economy". It is the third such reduction in six months.

## General election 2015

The Conservative Party victory was the most unexpected election outcome in modern history, with Labour receiving just 232 seats - its worst result since the 1987 General Election - and the Scottish National Party securing a landslide victory in Scotland, boosting its number of seats from just six to 56.

It was also a shock day for some of the top brass in parliamentary politics, with Ed Balls, Vince Cable and Danny Alexander all losing their seats. Former business secretary Cable was replaced by Sajid Javid, who had been culture secretary, when David Cameron announced his cabinet reshuffle on 11 May.

A number of leading female ministers were also handed promotions in the reshuffle, with Amber Rudd appointed energy and climate change secretary, and Priti Patel made employment minister. John Whittingdale, former private secretary to Margaret Thatcher, joins government for the first time as culture secretary.

Though, arguably, the biggest loser of the election was a red-faced Paddy Ashdown, who was forced to eat his hat (albeit one made of marzipan) live on *Question Time* after stating on election night that: "if that exit poll is right I'll eat my hat".

For more accountancy news visit economia.icaew.com

**2,017**

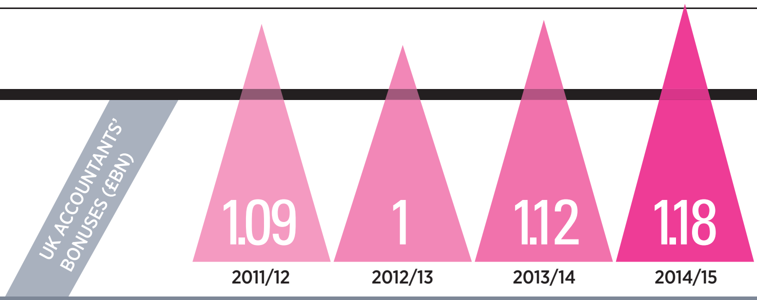
number of votes by which Vince Cable lost his seat to Conservative opponent Tania Mathias

## Scotland's economy on the up

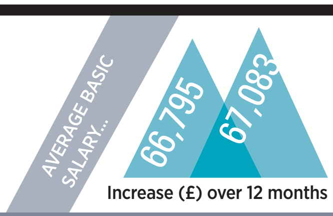
Scotland's ailing private sector economy is showing signs of a turnaround, with employment and new business increasing in April, according to figures released in May.

The Bank of Scotland's monthly purchasing managers' index, which measures manufacturing and services output, increased to 50.7, from 49.4 in March, (with the 50 separating expansion from contraction).

Donald MacRae, the bank's chief economist, said: "The slowdown of the first three months of this year is slowly being reversed with new business and employment increasing."




Source: Marks Sattin




Number of accountants receiving a bonus jumps

**53-61%**

## Tesco drops PwC

Supermarket giant Tesco has parted ways with PwC, its auditor of 32 years, following the £263m accounting scandal that hit the supermarket last year. A tendering process for a new auditor, initially planned for 2016, has been brought forward by a year and PwC has confirmed it will not put itself forward for consideration. The new auditors will be chosen by Tesco's audit committee, chaired by new non-executive director Byron Grote.

## "Complex" UK property tax system under fire

Britain's property tax system is the most "complex" in the world, according to research by PwC. The introduction of multiple layers of capital gains tax has made the tax system more complicated than that of property hubs New York, Moscow, Sydney and Berlin. Paul Emery, tax partner at PwC, said: "There are now four regimes dealing with capital gains tax on residential property... It has become an impenetrable system, but if you simplify it then people will be more compliant."

## UK banks windfall

Britain's high street banks could be in line for a multibillion pound windfall from the $20bn (£13bn) potential sale of the Visa Europe payments network. Lloyds, Nationwide, Barclays and Royal Bank of Scotland could all benefit if the takeover by its American sister company, Visa Inc, goes ahead.

## SMEs struggle to pay loans

Start-up enterprises are struggling to pay back taxpayer-backed loans, with over a third in arrears. The Start Up Loans scheme, part of the British Business Bank, has lent £150m since it started in 2012, with borrowers falling into arrears on more than £50m.

## Shared enterprise at GT

Grant Thornton is to become the first major accountancy firm to incorporate a shared enterprise model. In a significant move away form the traditional partner-owned structure for the mid-tier firm, the firm's employees will each have a say in how the firm is run. Of the company's 185 partners, 99% backed the proposal by the leadership team.

**4,500** employees will have a stake in Grant Thornton


ALAMY, PA, REUTERS

**Another goodbye...**

"Ironic, isn't it, Smithers. This anonymous clan of slack-jawed troglodytes has cost me the election, and yet if I were to have them killed, I would be the one to go to jail. That's democracy for you"

Harry Shearer, the voice of Ned Flanders, Principal Skinner, Mr Burns and his repressed assistant Smithers is leaving *The Simpsons.* The rumour-mongers suggested Shearer's departure was due to disputes over profit-sharing and merchandising, although he hadn't been named specifically. Whatever the real reason, it's a blow for the long-running animation show and its fans.

**Here's our favourite incredibly timely quote from the despotic Mr Burns. What's yours?**

# Good month Bad month

Our portrait of the ups and downs of the last month includes a victory for an Italian bank, a profitable year for a Japanese gaming company and trouble brewing in America


### JIM O'NEILL

The economist best known for coining the BRIC acronym will be given a peerage and become commercial secretary to the Treasury. George "northern powerhouse" Osborne says O'Neill, who chaired Goldman Sachs Asset Management after the financial crisis, is a "world-leading" economist who will make devolving power to English cities happen.

### BANK OF ITALY

The Bank of Italy has won a battle to boost its powers of oversight. It can now sack heads of domestic lenders when they can't guarantee the sound running of their banks, having previously only been permitted to launch inspections of banks and exert behind-the-scenes pressure on managers to step down.

### NINTENDO

Japanese video game maker Nintendo reported its first, albeit slim, annual profit in four years. It announced an operating profit of 24.8bn yen (£134m) for the year to March, well above forecasts of 20bn yen (£108m).


### HMRC

HMRC is facing a legal challenge over its decision to let hundreds of suspected tax evaders make use of the Liechtenstein Disclosure Facility amnesty rather than face prosecution. Online campaign group Avaaz claims the Revenue "encouraged" tax evaders to use the amnesty. HMRC said it will "strongly contest" any action.

### STARBUCKS

Hackers used the coffee giant's app to take money from customer credit cards, bank accounts and PayPal accounts. Starbucks said there is no flaw in the app, instead blaming weak passwords, but said its customers are not responsible for charges or transfers they did not make and their account balance will be protected.


### THE ECJ

Some of those kept waiting by delays at the European Court of Justice have sued it. They include David Kremer, president of Rubik's Brand, whose court battle over the trademark shape dates back to 2006.

GETTY, REUTERS

# As I see it

Michael Parsons is a Bitcoin entrepreneur, adviser and founder member of the UK Digital Currency Association

Retraining as an accountant taught me that you can do anything if you set your mind to it and have passion.

**James Dyson is my role model. He battled to bring his invention to market, nearly losing his home in the process.**

I work on the go. Nearly everything can be done on my mobile phone.

**My guilty secret is that I have 500 apps.**

PHOTOGRAPHY: FELICITY MCCABE

**CHILDHOOD AMBITION** I wanted to be a scientist, engineer or inventor. In my teens I hand-built an electric shocking coil at home, which survives to this day. I also invented a new type of candle, which was UK patented.

**CAREER PATHWAYS** I followed my father, an engineer at Duncan's Chocolate Factory in Edinburgh, and trained as a chemical engineer. Though I later retrained as an ICAEW chartered accountant.

**FIRST SENIOR ROLE** In 1977 I was made the first chief financial officer of the Union Bank of the Middle East (UBME) in Dubai. It became the first bank in the Gulf to install a computerised banking system.

**GREAT ACHIEVEMENT** I'm proudest of my work at UBME. As the bank grew I had to create and write procedures. There was no manual to refer to, no consultants to assist me – I was the only British chartered accountant employed by a UAE bank at the time.

**MOVING INTO BITCOIN** I was always interested in how money is created, accepted and used. But my epiphany came in April 2012 when I read an article in *The Times* about a unique invention called Bitcoin.

**DEFINING BITCOIN** It is the first usable form of digital private money. What appealed to me was that it could be fully decentralised with no central authority or bank acting as an intermediary.

**GROWTH OF BITCOIN** When I first became involved with Bitcoin, only a handful of people were familiar with it. But today there are roughly 10,000 developers working in Bitcoin-related projects.

**FUTURE AMBITIONS** As an ex-banker, I'd like to see the underlying Bitcoin Blockchain protocol revolutionise banking and the financial services sector, in particular the legacy settlement backbone.

# From the top

## In his final column as president, Arthur Bailey reflects on his year, and the landscape his successor faces

By the time you read this piece, I will have performed the last task of my presidential year: welcoming my successor, Andrew Ratcliffe, and placing round his neck the badge of office. It's a tradition that stretches back over the years and underlines the importance of continuity to our profession. While each president may bring his or her own approach to the role, at the end of the day we are here to do the same job - to represent the profession both in the UK and overseas, to act as a conduit between the membership and the governance at ICAEW and support the chief executive and the ICAEW board in pursuing our strategic aims. It is a tremendously rewarding and exciting role.

This year, the end of my presidency follows on closely from the General Election and of course the big political shake-up that saw the Conservatives elected into majority government. Despite the polls predicting a hung parliament, what the majority of the electorate voted for was continuity and a practised hand on the economic tiller, two key characteristics that are reflected in our own system of governance.

As a result, the country knows to a large extent what to expect from the new government and we, as a profession, know what the key issues for business will be. Many of them will be familiar to you - the regulatory environment, the ongoing tax debate, the future of the profession and compliance, what services the business community needs, the advance and future impact of technology - because we have already been addressing them and will continue to do so.

We will also continue to lobby government to ensure that it charts the UK's course towards long-term and sustainable prosperity. In our election manifesto for business, we identified five key steps that would see this happen: boosting growth, fixing the public finances, addressing the skills gap, simplifying the tax system and - something that is close to my heart - restoring trust in business. We will also be keeping prime minister David Cameron to those promises he made when he chose to launch the Conservatives' manifesto for SMEs at Chartered Accountants' Hall in the run-up to the election, and we will be actively engaging in the forthcoming debate on the in or out EU referendum.

Our institute goes from strength to strength, while our profession is clearly an attractive one for young people as evidenced by the record number joining us in 2014 as trainees. I have no qualms, as I hand over the reins, that ICAEW is in safe hands.

It's been an enormous honour and privilege to serve as your president.

Have your say
email *president@icaew.com*

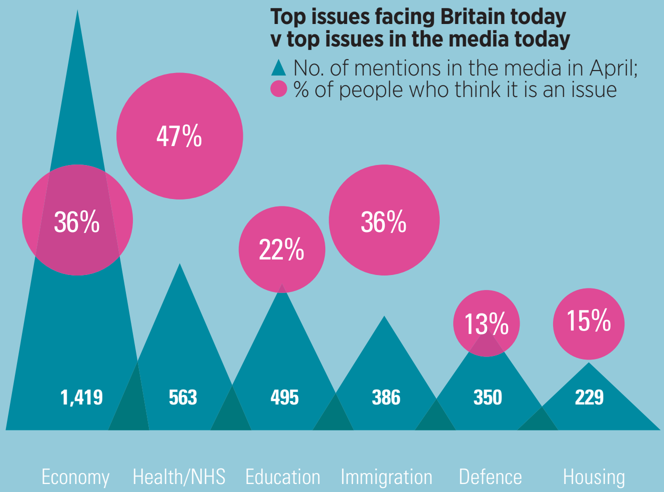
PHOTOGRAPHY: DAVID HARRISON

# The graph

How the general election turned out by numbers, the impact of potential EU exits, the world's billionaires by geographical distribution, and a model success

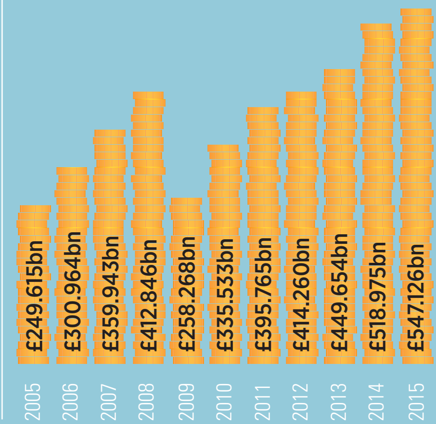
**Top issues facing Britain today v top issues in the media today**

▲ No. of mentions in the media in April; ● % of people who think it is an issue




**Britain's richest**

Total wealth of Britain's richest 1,000 people

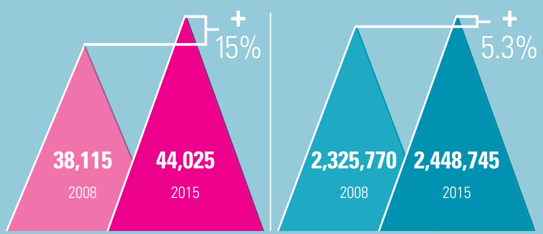



**Hornby**

Full steam ahead for model train maker, Hornby, reporting its first annual profit – £1.5m – in three years. In September, Hornby reported a half-year loss of £516,000

**£1.5m is enough to buy...**
**3,750 Majestic digital train sets**
**9,709 Flying Scotsman limited edition locomotives**
**300,000 adult tickets to the Hornby Visitor Centre**

**Accountancy surge**




Number of accountancy enterprises in the UK

Number of enterprises across all sectors in the UK

**How much an EU exit could cost the UK economy by 2030**

# £225,000,000,000

**Business is pessimistic about the idea of Britain and Greece leaving the EU. But where is the gloom greatest?**

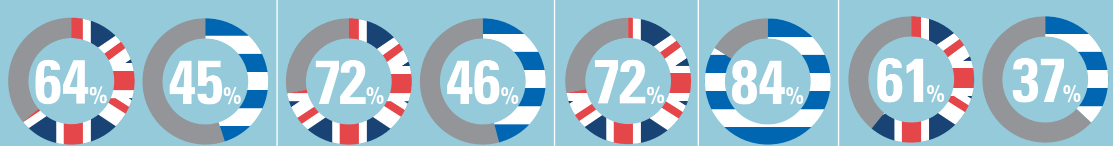
Eurozone firms are more fearful about UK exit (left) than they are of Greek exit

Fears around UK exit rise sharply for non-eurozone EU businesses

UK firms see exit as negative

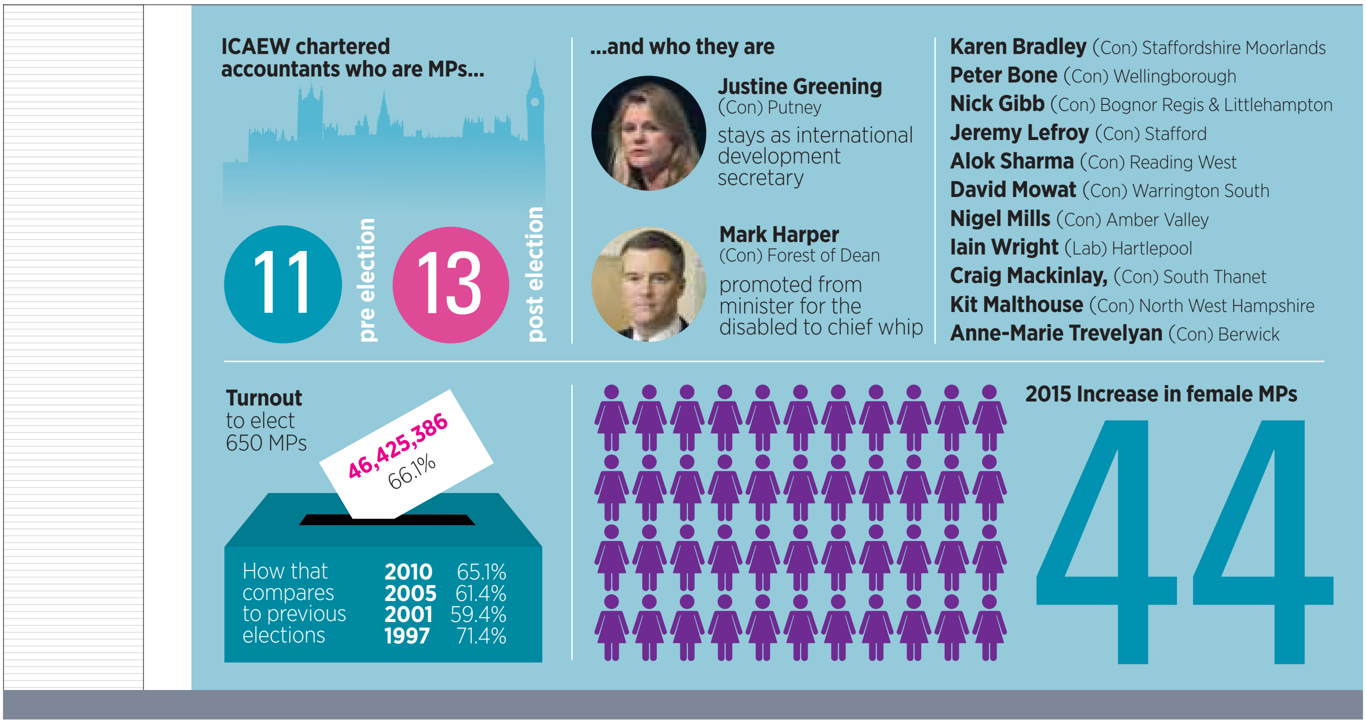
Most Greek firms fear EU exit

Germany's business leaders see UK exit as a greater threat




Number of billionaires by country


Sources: Media coverage v issues of importance, IPSOS-Mori and Media Standards Trust, Election Unspun; Britain's richest, *The Sunday Times Rich List*; Hornby financial results, BBC Business; Accountancy surge, SJD Accountancy; Impact of Brexit and Grexit, Grant Thornton; Billionaires by country, *The Sunday Times Rich List*




Sources: ICAEW MPs, ICAEW; Election statistics, Press Association, BBC

# ICAEW news and events

CEO Michael Izza sets out his view of the priorities for the new government as ICAEW increases its presence in Commons

### FOCUS ON EXPORTS AND AN EU DECISION, SAYS IZZA

Growing exports and sorting out the UK's relationship with Europe should be the new government's priorities, said ICAEW CEO Michael Izza.

The government needs to move quickly to get the UK economy moving forward again, he said, commenting on the results of the latest ICAEW/Grant Thornton UK Business Confidence Monitor. "The prolonged period of political and economic uncertainty has had a material impact on business confidence and led to businesses putting investment, hiring, wage increases and exports on hold."

Where exports are concerned, he said, the UK economy needs rebalancing because of the increasing gap between domestic demand and exports. "While growth built on domestic demand is fine for now, the benefits of low inflation and cheaper petrol will soon evaporate. It is crucial that we look to boost our exports both inside and outside the EU. Businesses need to think global from the start and we need to make it easier for them to trade internationally."

Izza also looks to a referendum being held sooner rather than later. "The risk is that, for the next two years, the UK is effectively closed to inward investment from countries within and outside the EU," he said. "The prime minister must agree a package of reforms without delay and put them to the British people."

### ICAEW NOW HAS MORE MPS THAN THE LIB DEMS

ICAEW has increased the number of members in the House of Commons by two to 13 - including Craig Mackinlay, the Conservative candidate who thwarted UKIP leader Nigel Farage's hopes of taking Thanet South.

Ten ICAEW MPs held their seats and there are two other newcomers in addition to Mackinlay. The two, Kit Malthouse, a former deputy mayor for policing in London (2008-2012) and then for business and enterprise [featured in our April issue], and businesswoman Anne-Marie Trevelyan took the seats of North West Hampshire and Berwick respectively.

The 10 old-timers are all Conservatives except for Iain Wright, MP for Hartlepool, who is Labour's shadow minister for competitiveness and enterprise. They include Justine Greening, MP for Putney, Mark Harper, MP for the Forest of Dean, and Karen Bradley, MP for Staffordshire Moorlands.

A full list of ICAEW MPs can be found on page 17.

### MOORGATE REFURB GETS UNDER WAY

A two-year refurbishment of Chartered Accountants' Hall starts this month in a move designed to protect the heritage of the Grade 1 listed building, replace the building's essential services - which have reached the end of their life - and make the most of the member space.

The work will be staggered to reduce the impact but the restaurant and some meeting rooms will close temporarily. The business centre will stay open but its café will be shut from 10-17 June. From mid-June, the restaurant at One Moorgate Place, the Council Chamber and all level 6.5 meeting rooms will be closed. However, ICAEW staff will try to accommodate members who want to book meetings in nearby spaces.

The self-styled "minister for small business and enterprise", David Cameron, meets ICAEW CEO Michael Izza before the launch of the Conservatives' SME manifesto at Chartered Accountants' Hall

**600k** the annual number of start-ups the government wants to see by 2020

## EVENTS

**9 JUNE**
**INSOLVENCY AND RESTRUCTURING GROUP ANNUAL CONFERENCE**
This one-day conference will offer guidance on the latest issues and challenges facing insolvency practitioners, including safeguarding business against cybercrime. London

**9 JUNE**
**ECONOMIC INSIGHT BRIEFING**
Experts discuss fiscal sustainability of the GCC countries in the context of lower oil revenues. Dubai

**12 JUNE**
**THE SUCCESS OF THE AUTOMOTIVE INDUSTRY**
A free event with a tour of the Jaguar Land Rover factory and a discussion about the prosperity of the UK car industry. Solihull

**16 JUNE**
**PROPERTY: AN ASSET, NOT A LIABILITY**
A half-day conference addressing the vexed issues of the cost and benefits of having an effective premises strategy. London

**17 JUNE**
**ICAEW SUMMER RECEPTION**
Professor Jacob Soll will look at the role played by effective accounting and political accountability in making or breaking nations from Renaissance Italy to the British Empire. Brussels

**30 JUNE**
**BUSINESS FUTURES**
An event covering the second stage of the ICAEW business futures project, looking at changes in the business environment during the next 30 years. Topics for discussion include public spending, urbanisation, and energy and natural resources. Castle Donington

# Career clinic

**Audit tendering on a mass scale - a surprise success story or not worth the hassle? Mark Freebairn discusses**

As we are a few years into audit tendering, it seems like the time to ask: is it worth it? At the start, this was a move met with negativity. The pitch process was going to create additional expense. Big Four firms, making a lot of money from other services, were not going to tender. Audit committees were going to block them from other work if they didn't tender.

Everyone was nervous about the amount of time they would have to spend on the exercise, not to mention the handover period. Would the outgoing audit be good? How long would it take for the new firm to come up to speed? What would get lost in the interim? The list of questions mounted.

Then there was the debate about the dominance of the Big Four, and whether anyone would ever award an audit to a firm outside this group.

The answer to the last question is yes - albeit a qualified yes - and it brings me to one of my favourite audit tender stories. A FTSE 250 business was managing its tender process and had three of the Big Four and two other firms involved. The Big Four firms spent a great deal of time kicking lumps out of each other, ignoring the other two. When decision time came, the board was unanimous in awarding the audit to one of the two smaller firms.

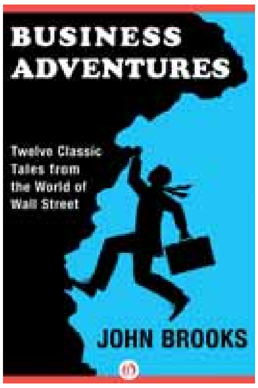
The Big Four firms reacted identically: they believed the two firms were there to ensure the numbers offered choice, but there was no way either could provide the service of a Big Four firm. That was two years ago, and I know the audit relationship is working well.

Which brings me back to my original question. Is it worth it? The feedback from all sides is excellent. Outgoing audits are being done superbly because the relationship management ethos demands it. Incoming audits are fantastic since that justifies the change. Fees have gone down because tendering encourages it. The power of the Big Four is shifting and, by not winning every time, they are being properly tested.

Fees may drop in the first year, but I expect they rise in the years that follow. Increasing operating costs - thanks to tenders - and reducing fees while losing the most profitable non-audit work is not a sustainable business model. Not unless the partners all reconcile to earning 35% less. And they thought losing to a non-Big Four firm was tough.

# Book review

## Amy Duff looks at John Brooks' republished tome on corporate life in America




**BUSINESS ADVENTURES – TWELVE CLASSIC TALES FROM THE WORLD OF WALL STREET**
JOHN BROOKS (JOHN MURRAY LEARNING, £9.99)
Splashed across the cover of this book by the late financial journalist John Brooks is a blurb by Bill Gates, describing it as "the best business book I've ever read". Now that's an endorsement. Even more so for a book that's more than 40 years' old. Say what? Yes, that's right, it's back on the bestseller list after Gates blogged about it in 2014 and has been republished this year by John Murray in the UK. So what's so good about it?

Well, for a start, it may be a non-fiction business book on the machinations of the world of American finance but it's written in a flowing, storytelling style that is accessible and engrossing. And as one would expect from a *New Yorker* contributor in the 1950s "golden age" of writing, it's impeccably well researched.

So whether it's the $350m Ford Edsel failure, the rapid rise of Xerox and supermarket chain Piggly Wiggly, the GE and Texas Gulf Sulphur scandals or the bold attempt by American bankers to save the British pound, Brooks injects his personality onto the page, backed up by quotes from people who were influential or there at the time.

He starts with a chapter on "the little crash in '62", when the stock market became a national preoccupation and Wall Street was consumed by panic and "near chaos" when, in May 1962, the Dow-Jones average of 30 leading industrial stocks dropped 34.95 points, "or more than it had dropped on any other day except October 28, 1929."

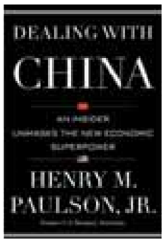
In the post-crash analysis, writes Brooks, the cause of the crash remained "unfathomable". But as one anonymous seer observed, it could happen again: "People will be careful for a year or two, and then we may see another speculative buildup followed by another crash, and so on until God makes people less greedy." As readers with hindsight in 2015 soon realise, time moves on but people don't change all that much.

The Xerox chapter and how it became "the most spectacular big-business success of the 1960s" is fascinating. Starting with a description of how a Mr A.B.Dick obtained the rights to produce a mimeograph from its inventor – a Mr Thomas Edison – it goes on to illustrate how one of Xerox's founders, Joseph Wilson, placed so much importance on the value of its staff and social responsibility, long before they became boxes for corporates to tick. The chapter on the three-year international effort to prevent the devaluation of the pound, meanwhile, is timely.

Bill Gates was on to something here. Well worth a read.

# New releases


**PEERS INC**
ROBIN CHASE (HEADLINE, £14.99) Renting your spare room via Airbnb, selling jewellery you've made on Etsy, learning a new language on DuoLingo, or sending a message on WhatsApp. All of these things are made possible by the collaborative economy and are what Chase, the co-founder of Zipcar, means by Peers Inc companies. Dedicating her book to the heroes (the entrepreneurs, change makers and nurturers building us all a sustainable world) she explains how web-enabled companies are creating exciting new ways to work. "We need Peers Inc because we need new minds with new approaches to tackle seemingly insurmountable problems," she writes.




**DEALING WITH CHINA – AN INSIDER UNMASKS THE NEW ECONOMIC SUPERPOWER** HENRY M. PAULSON, JR (HEADLINE, £25) The problem with much of the narrative about China, its economic growth and how to really get business done there is that so much of it is hypothetical. This book is written by the former US Treasury Secretary amd former head of Goldman Sachs, Hank Paulson, who claims to have had a pivotal role in opening up China to private enterprise and now runs the Paulson Institute, which promotes sustainable economic growth between the US and China. So his insight should be valuable to business leaders from the West looking at how to work with, compete with and benefit from China. His message is clear, China is not the enemy. "If we want to benefit from an expanding global economy, we need the most dynamic growth engines, like China's, to thrive," writes Paulson. It's written from an American perspective, but should have universal lessons.


**SMART MONEY**
ANDREW PALMER (BASIC BOOKS, £18.99) Described by chief economist at the Bank of England, Andy Haldane, as "an optimistic and compelling vision for finance of the future", this book argues that the much-maligned finance industry is not only capable of doing great good for society, it offers the most powerful means we have for solving some of its most intractable problems. Palmer, business affairs editor at *The Economist*, looks at various financial innovations, from social-impact bonds to human-capital contracts, with an objective eye. It's been a long time since the finance industry has been written about as a force for good, and is worth the wait.

PHOTOGRAPHY: RICK MORRIS PUSHINSKY

# Tales from the frontline

**Jim Gee,** partner and director of counter fraud services at PKF, on cutting the cost of fraud in public and private sectors alike

I was the first person ever to be given the task of tackling fraud in the NHS. It was 1998 and for 50 years nothing had been done about the problem. That was when Frank Dobson, the then-secretary of state for health, gave me £210,000, three staff and said: "Go and stop fraud in the NHS".

I'd worked in counter fraud services since graduating from the London School of Economics – initially heading the counter fraud team in the London Borough of Lambeth, and later serving as special adviser to the House of Commons Social Security Select Committee – so I knew the best place to start was to measure the problem. But two weeks later the health secretary called me into his office and said: "Have you caught anyone yet?" We hadn't.

It was a slow process. We met resistance, with finance directors of major hospitals protesting: "There's no fraud in my organisation". Our answer was to measure fraud carefully, with high levels of accuracy. I'm proud to say that by the time I left the NHS eight years later, we had cut fraud by 60%.

Developing a strong anti-fraud culture was the solution. The "anti-fraud culture" label might sound woolly, but it works. I did 283 presentations in eight years to get the message across, demonstrating what fraud is and how to spot it.

What I learnt is that wherever you work – and I later moved from the NHS to KPMG and, more recently, to PKF – fraudulent activity tends to follow the same pattern. Payroll and procurement are the main areas of expenditure and so these are the most susceptible to fraud. From newspaper coverage of the Bernie Madoff and Enron stories, you'd think that most fraud comes from low volume, high value cases. But most fraud is high volume and low value.

Tell-tale signs are things like ghost employees and people not having the employment history or qualifications they claim to have. Fraud is often so embedded that the people doing it think it's simply the way things are done.

When I moved to the private sector and the world of accountancy in 2007, the biggest difference was bureaucracy. But not in the way you might think, given the public sector reputation for red tape.

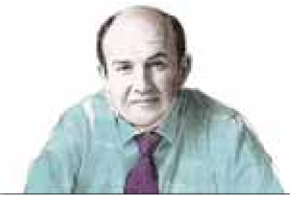
Just before I moved to KPMG to take up my role as director of fraud services, Richard Douglas, head of the government finance profession, warned me: "You're going to find it more bureaucratic at KPMG than here." I didn't believe him, but I soon discovered he was right. Things don't happen quickly in government, but the pace of change can be even slower in large private organisations.

That's not to say I didn't adapt; today I feel very much at home in the private sector. And I've been fortunate to have varied experience: I've worked in 38 countries, including Zambia, Cameroon and Indonesia. I was one of the first consultants to work for the Chinese government, advising them on how to protect their health and social insurance system against fraud.

In one West African country, I investigated the manager of a large mining company, who was accused of channelling the company's procurement expenditure through his own companies for personal gain. The situation became so dangerous I had to flee the country. But wherever I'm working, and no matter how great the challenge, the same thing gives me satisfaction: cutting the cost of fraud.

When I save money for the public sector, I know austerity will hit less hard because it means fewer cuts in services. When my work involves a charity, I know it will have more resources to do a good job. That's what makes my work so rewarding. I wouldn't still be doing it after 30 years if it wasn't.

# Michael Izza



## "Taxation is a subject at the top of the EU agenda - and likely to stay there"

Forgive me for talking to you for the second month running about the European Union's increasing focus on taxation, but it is a subject that is already top of the EU agenda - and likely to stay there, if the commissioner for economic and financial affairs, taxation and customs, Pierre Moscovici, has his way.

As he made clear in his speech at FEE's (Fédération des Experts Compatables Européens) recent tax conference, he intends to spend his time at the European Commission advancing an agenda "focused on fairness, transparency and a truly single market from a taxation point of view". This includes revisiting the introduction of a common consolidated corporate tax base (CCCTB).

Moscovici says that the current fiscal rules fragment the internal market along national lines, they increase the administrative burden of doing business in several European countries and they lead to legal uncertainty. They are also manifestly unfair. SMEs that operate in a single country are not able to use cross border "tax minimisation techniques" so are disadvantaged when competing for market share, while multinational corporations put democratic accountability at risk because they can exploit the rules that member states set to attract them to their particular country.

The CCCTB, he argues, would end all that because it would harmonise the tax base for companies and enable businesses to consolidate their taxable profits across member states. It would also limit companies' opportunity to manipulate their tax position.

Of course, setting taxes remains the prerogative of the 28 member states and to cede some of those powers to the EU would require their unanimous agreement. Despite this, Moscovici still believes his campaign will make substantial progress.

I am not sure what he has up his sleeve that would persuade the likes of Ireland and the UK to give up tax powers. He certainly thinks that the transparency measures announced in March will play their part. The proposal on tax rulings, for example, will make governments more aware of the effect of others' rulings on their own revenues. This will deter them from granting unreasonable tax rulings. "Transparency will thus open the door for EU countries to apply peer pressure on one another to amend their systems."

Moscovici is not the only one to be piling on the pressure in the EU. A number of MEPs are calling for an EU BEPS initiative and TAXE, the European Parliament's special committee, is currently considering tax rulings in the context of state aid and competition. If audit was the defining issue for the accountancy profession in the last parliament, it's looking increasingly likely that it will be tax this time round. Not forgetting the referendum, of course, but more of that anon.

**Michael Izza**
**ICAEW chief executive**

### TOP 5 MOST READ STORIES ONLINE

1. EY pays more than Big Four rivals
2. Grant Thornton to become shared enterprise
3. PwC scraps UCAS requirement
4. Accountants warned over data protection
5. Accountancy profession growing five times faster than law

# Your feedback

**GRANT THORNTON'S TOP WOMEN**

As a former partner in Grant Thornton in a previous life, I was most interested to read about Sacha Romanovitch and her exciting plans for the firm (*I'm a believer*, *economia*, May 2015). I wish her every success and look forward to following her adventures. But "first woman to take the top job"? I know that life is long and memories are short, but did Ann Baldwin not occupy Sacha's shoes (as it were) in the late 1980s to early 1990s? Gone - and evidently forgotten?

**Nick Lambert**

**MORAL IGNORANCE ON TAX**

Diarmid O'Sullivan (*Tax where tax is due*, *economia*, April 2015) compares corporate taxpayers and their advisers to "medieval theologians insisting that... peasants don't understand the subtleties of religious doctrine". If we are to use such comparisons I would argue that it is more a case of "peasants" being whipped up by religious fanatics to attack non-believers.

The "moral case" for taxation is often based on ignorance, a lack of willingness to understand facts and the consequences of actions and arbitrary actions. I would rather that governments closed down the worst of the loopholes and egregious tax avoidance structures and made taxes clearer and less arbitrary.

As CFO of a multinational group my biggest problem is not threats to tax structures but the mafia-like depredation of certain countries' tax authorities combined with mindboggling complexity and arbitrary rulings regarding taxation. Sort the latter out and international taxation will be placed on a much more robust basis, keeping both the "priests in sumptuous robes" as well as the "peasants" happy.

**Paul Norton**

**INCENTIVISING CLIMATE POLICY**

I was delighted to see Michael Izza's column on integrating climate change into the financial system (*economia*, March 2015).

One of my post-retirement roles is senior advisor to the VerdeXchange Institute in Los Angeles. A core topic has been the identification, measurement, management and reporting by business and public organisations of their carbon footprints. It is rewarding to see how business is increasingly embracing this responsibility.

It is helped by the financial markets incentivising sustainability performance; stock exchanges demanding information; and technology helping a wide range of entities collect and leverage this new type of performance information.

**Jeremy Davies, OBE FCA**

**REFORMING THE VOTING SYSTEM**

I have been a chartered accountant since 1958, and a member of the ICAEW since 1959, and am now in my 80th year. The debate about the fairness of the 2015 UK election turns on arithmetic, and that is an accounting "thing".

The election has demonstrated how unrepresentative and consequently, undemocratic, the present voting system is. In South Africa we had 80 years' experience of a highly unrepresentative electorate and a first-past-the-post constituency-based legislature. We shared the present UK experience, though never as extreme as a government for whom little more than a third of the electorate voted. (For the past 21 years we have experienced universal franchise and a proportionately based representation in the legislature.)

Is it possible to overcome the problems? I would suggest the 13th-century innovation of de Montfort and King Edward the First. They summoned two representatives from each borough and two from each county to their Council. Perhaps this double representation provides a solution?

**(Prof) Wesley J Gavin, FCA**

**Online comment on billable hours**

I could not agree more with the views expressed in *How much are services worth?* I have a small practice in South Africa and I have long ditched the idea of selling hours. Hours are a limited resource. Throw in cloud computing and clients thinking that financials are prepared by "the push of a button".

That's true, but my clients know that they pay me for knowing which button to push!

**Willie Burger**

**Online comment on PwC scrapping UCAS requirements**

This is the best thing for the drive for equality for students who had a tough upbringing and were not provided with the opportunity to perform so well in their A-levels. I have a first class degree in accounting with finance and a Masters from a top business school; I was still not able to get to the assessment stage of the recruitment process because of my poor A-levels. I hope all the other big firms follow suit.

**Adrian Mizzi**

**Online comment on Grant Thornton's shared business model**

Full marks to GT whose Shared Enterprise model will certainly ensure they stand out from other firms. The main effect of this will probably be seen on the recruitment side at least until and unless the new model can be seen to evidently benefit clients.

The link to John Lewis always amuses me as it is only notionally a shared enterprise. Although there are no external shareholders, the shares are held in a trust. Employees do not receive dividends. The money that might otherwise be paid out as such is paid as fully taxable bonuses through the PAYE system.

I see no prospect of GT (or any other firm) moving the partners onto PAYE – if only because their salaries would attract employers NICs at 13.8% which would significantly reduce the monies available to pay to partners and staff.

**Mark Lee**

**Online comment on TTIP of the iceberg**

This is a very worrying article – it misses a critical point about TTIP, which is that it is being negotiated in secret, between governments and lobbyists from the largest businesses, which can be expected to negotiate in their own interests. Any benefits to small businesses will be merely incidental, and economic benefits to the country as a whole could easily be wiped out by a single instance of the government being sued under ISDS.

And with negotiations being secret, there is no guarantee that anything will be excluded from the scope of TTIP – vital protections for people, the environment and public services are all at risk. Fundamentally, giving so much power to large businesses is a threat to democracy. More than 1.6 million European citizens have signed a petition against TTIP.

**N Stevenson**

I entirely agree with N Stevenson. Editorial balance needed.

**JE Butler**

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**Letters and comments may be edited for clarity and space.**

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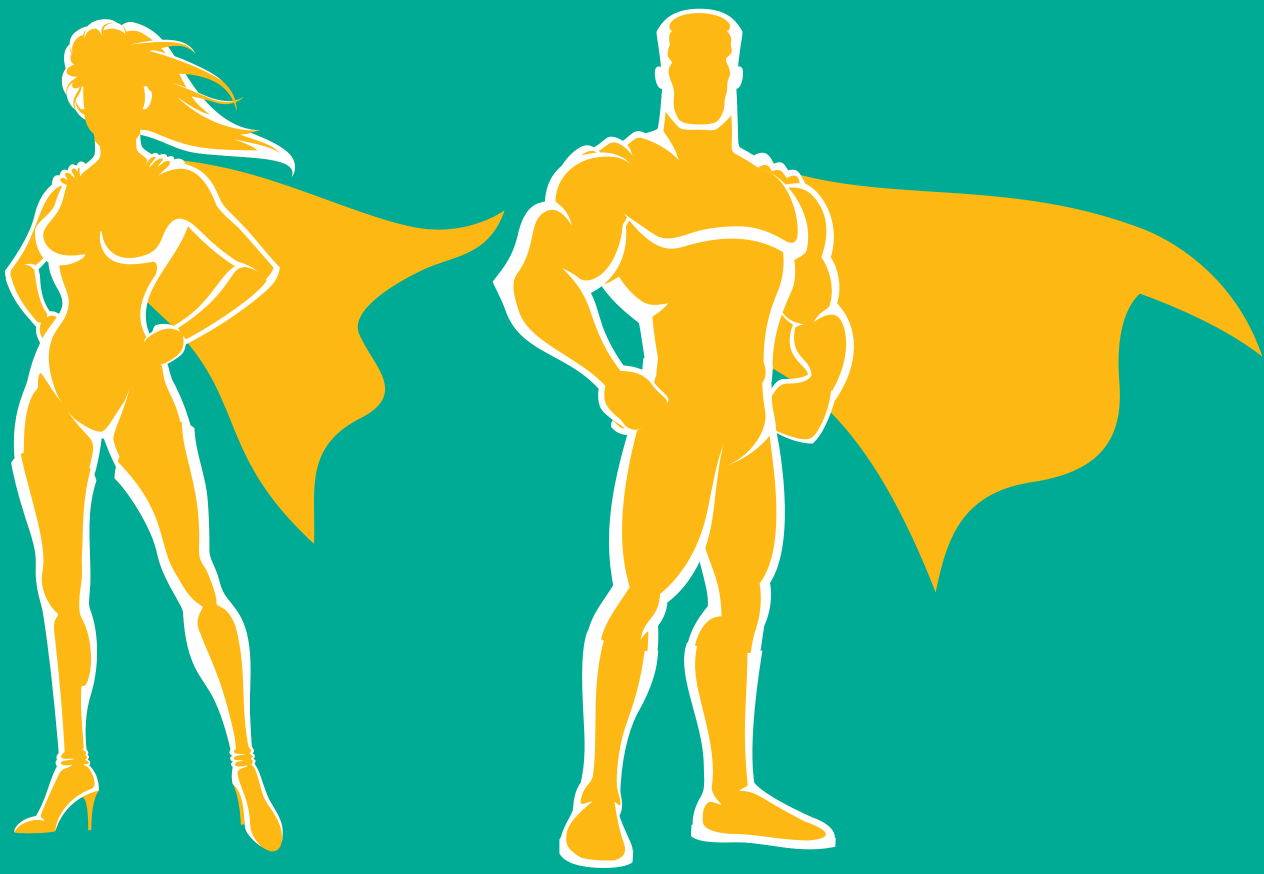

# Jason Cowley

## "What mattered more to the electorate was economic credibility and fiscal rectitude"

They used to be known as the sons of Brown: Ed Miliband, Ed Balls and Douglas Alexander. They were three clever, ambitious young men who came to prominence under the influence of he who was known as the 'great clunking fist'. Miliband and Balls worked for Brown at the Treasury before being fast-tracked into safe seats and then the cabinet. (Balls's seat, Morley and Outwood, turned out not to be so safe in the end.)

Meanwhile, Alexander acquired a reputation for being a first-rate strategist and one of Labour's most articulate MPs. Until his defeat to a 20-year-old student, the SNP's Mhairi Black, now the youngest MP for more than 300 years, he was preparing to be foreign secretary. Now he has been swept away in the SNP tide.

After Brown's defeat in the 2010 general election, the so-called Brownites fragmented, like members of a rock band going their separate ways. Balls and Miliband stood against each other for the leadership of the party. Alexander chose to run the campaign of a third contender, David Miliband, who was expected to win.

During the leadership contest Brown let it be known that, if Balls could not be leader, then the younger Miliband would be his chosen brother. Some of those closest to Brown and Balls – such as the MPs Tom Watson and Michael Dugher – also eventually fell into line behind the younger Miliband. Several of Miliband's closest advisors, such as the former Oxford academic Stewart Wood, had also worked for Brown. It was as if, even in his absence, Brown's presence could be felt everywhere in the high command of the party.

### SURPRISE VICTORY

Now what is left of his legacy after the Conservatives defied all poll predictions to pull off a great victory? More pertinently, after the dramatic felling of Balls, who was shadow chancellor, and Alexander, the shadow foreign secretary, and the resignation of Miliband, we are witnessing not only the end of Brownism, but a Labour Party that has lost all confidence and sense of purpose. It seems unable to understand the calamity that has befallen it in Scotland nor why so many people in the Midlands, Home Counties and southern England rejected Miliband's cerebral socialism.

Miliband's leadership was predicated on a belief that the financial crisis and consequent Great Recession had created a moment of great opportunity for the left. But, as it turned out, what mattered more to the electorate was economic credibility and fiscal rectitude.

As Labour embarks on another leadership contest many of its MPs remain traumatised, not knowing which way to turn. The Tory victory was all the more shocking because they never saw it coming. They were convinced, right up until the release of the exit poll at 10pm on 7 May, their man would be prime minister, even if he would have been dependent on SNP support to sneak over the line into Downing Street. Labour was preparing for a heavy beating in Scotland for sure, but the party was convinced it would win many key marginal seats in England from the Tories.

It did not happen: indeed the Tories took seats from Labour in England as well as destroying their former coalition partners, the Liberal Democrats, who ended up with just eight seats (the same number as the Democratic Unionist Party).

### MORE OF THE SAME

David Cameron is the first Conservative leader since John Major in 1992 to have won a majority. But it is a slender majority of only 12 – and, in time, he will face rebellions from the backbenches, especially on the vexed issue of Europe.

Cameron has promised to hold a referendum on whether Britain should remain a member of the EU, having pledged first to renegotiate the terms of membership. He has also promised a new settlement for Scotland, which may amount to an offer of full fiscal autonomy, whatever that might mean.

Keeping Britain in the EU and the United Kingdom together will be the defining challenge of the next phase of his premiership. David Cameron has shown himself to be cool-headed and admirably pragmatic, in the style of Harold MacMillan. More of the same is required.

Jason Cowley is editor of the *New Statesman*

# Philippe Legrain

## "Germany's powerful industrial lobby frets that American tech companies could eat their manufacturing lunch"

American tech companies are under attack by EU regulators. The European Commission has charged Google with abusing its near-monopoly over internet search in the EU to favour its own shopping services. It is probing Google's Android mobile operating system. And calling for an investigation of the role of (mostly American) internet platforms, such as social networks and app stores.

Questionable practices by companies from any country should be addressed. But the key driver of the EU's regulatory onslaught is not concern for the welfare of ordinary Europeans; it is the lobbying power of protectionist German businesses and their champions in government.

**START-UPS STIFLED**

With Germany's digital start-ups stifled by overregulation and underinvestment, traditional media companies resent their reliance on Google to direct traffic to their sites and its ability to sell advertising based on snippets of their content. The partly state-owned Deutsche Telekom hates not earning revenue when people use its network to make calls on Skype, send messages on WhatsApp and watch videos on Netflix and YouTube. TUI, the world's largest travel agency and tour operator, feels threatened by TripAdvisor. Retailers fear Amazon's ever-expanding empire.

Germany's powerful industrial lobby frets that American tech companies could eat their manufacturing lunch. As Günther Oettinger, the EU's (German) digital commissioner said: "We might invest in producing wonderful cars, but those selling the new services for the car would be making the money." Whereas Oettinger's predecessor, Neelie Kroes, championed the potential of disruptive technologies to benefit consumers and boost economic growth, Oettinger unashamedly advances German business interests.

The debt crisis has thrust Germany, the eurozone's largest creditor, into the EU driver's seat. European Commission president Jean-Claude Juncker owes his position to the European People's Party, the centre-right political grouping dominated by German chancellor Angela Merkel's Christian Democratic Union, which holds sway over the European Parliament. Juncker is also indebted to the Axel Springer media group, which backed him when Merkel was wavering. And his German chief of staff, Martin Selmayr, ensures that his country's concerns are heeded.

**REINING IN PLATFORMS**

The investigation into internet platforms was demanded by Germany's economics minister, Sigmar Gabriel. In a leaked paper, Oettinger reined in online platforms. He recently spoke of the need to "replace today's web search engines, operating systems and social networks".

Whereas US antitrust law focuses on whether consumers are being harmed, EU competition authorities also consider whether rival firms have lost out - including old-fashioned shopping portals such as ladenzeile.de, owned by Axel Springer.

Creating a digital single market makes sense. American internet start-ups benefit from a huge domestic market, their European counterparts are limited to smaller local markets. The Commission's proposals don't focus on enabling Italians to buy from British websites or opening a market of 500 million Europeans to Spanish start-ups. Their goal seems to be to constrain American digital platforms.

As Gabriel put it in a letter to the Commission last November: "The EU has an attractive single market and significant political means to structure it; the EU must bring these factors into play in order to assert itself against other parties involved at the global level."

Instead of conspiring to hobble its American rivals, stifle innovation, and deprive Europeans of the full benefit of the internet, Germany should boost investment in broadband infrastructure and digital technologies.

And it should throw its weight behind a genuine EU digital single market that benefits consumers and enables start-ups to flourish, instead of a backdoor industrial policy that favours Germany's digital flops.

**Philippe Legrain is a visiting senior fellow at the London School of Economics' European Institute**

# Stephen Platt

## "An aversion to identifying the causes of global recession is mirrored in the treatment of financial crime"

A new chapter in social and economic history was opened on 15 September 2008 when Lehman Brothers Holding Inc. collapsed under debts of $613bn (£395bn) in the US's largest ever bankruptcy. Ripples swelled to waves and one by one the major names in international finance became engulfed by the threat of total ruin. Governments across the globe pumped trillions into the global financial system to calm the waters and halt contagion.

Six years after the crisis started, the dominos are still falling: job seekers, evicted homeowners, and users of public health and education systems worldwide continue to experience cuts and austerity. As the spotlight has remained on the industry, other harmful and abusive practices have been revealed, with new scandals emerging with monotonous regularity. Despite this, the discourse around preventing a repeat of the events of 2008 appears to be sliding down the agenda, especially with recent figures indicating that economies are in recovery and the World Bank proposing that the global economy had reached a 'turning point' in 2014.

### HARMFUL SPECTRUM

I propose that a commonality of causal factors underlies a spectrum of harmful conduct, from excessive risk taking of the type seen in the run-up to the Lehman collapse, to mis-selling, fixing, sanctions evasion and the finance industry's role in money laundering and the facilitation of crime. An aversion to identifying, examining, and remedying the causes of the global recession is mirrored in the treatment of financial crime. Now we are at the stage where legislation and regulatory action risks reaching a point of diminishing returns, further reform is called for – not only to avoid another 2008-style meltdown, but also to specifically address money laundering and the facilitation of crime by the finance industry.

Nobody could dispute that an unprecedented amount of time, energy, and money has been poured into understanding the gremlins in the system, and there have, of course, been some significant developments as a consequence. The Financial Services Act has overhauled the UK regulatory system, calling time on the FSA and instituting the Prudential Regulation Authority and the Financial Conduct Authority; the Banking Reform Act has separated high street from investment banking and, in the US, the Dodd Frank Act has resulted in the largest reforms to the regulation of the banking industry since the Great Depression.

But there can be no denying that what remains is a tangible sense that the sum total of measures taken globally since 2008 fall short. In May 2014, Christine Lagarde, managing director of the IMF, said of banking reform: 'The bad news is that progress is still too slow, and the finish line is still too far off. Some of this arises from the sheer complexity of the task at hand. Yet, we must acknowledge that it also stems from fierce industry pushback, and from the fatigue that is bound to set in at this point in a long race".

### EVERYTHING CONNECTS

Given the interconnectivity between all of the parties involved in oiling the money machine, plotted against a host of jurisdictional variables, knowing how to approach risk and effectively anticipate impacts can seem a little like joining a game of three-dimensional chess halfway through. Set against a backdrop of lobbyist rhetoric, regulatory capture, and other kinds of conflicts of interest, the task sometimes seems almost impossible. Certainly it is not just a few rogue overpaid bankers operating beyond the wit of legislators, regulators, and the banks themselves who pose the greatest threat; although approached from the view that greed is to blame, bankers and their bonuses are commonly painted bullseye red.

Clearly the pursuers of profit are prominent actors in shaping the behaviours of the financial industry, but financial institutions and their employees do not operate in a vacuum. Uprooting the underlying causes of institutional weakness turns up a tangle of responsibilities borne not only by the banks themselves, but also by lawmakers and regulators.

Meaningful reform is dependent on robust and properly enforced regulation and legislation, which is meshed with systems within financial institutions that are adequately designed, implemented, and governed.

**Stephen Platt is the author of *Criminal Capital: How the Finance Industry Facilitates Crime***

# Sarah Wicks

## "Short-term profit does not automatically translate into shareholder value"

The need for instant results is everywhere. We only have time to read articles giving us six top tips, we want to get fit in just 10 minutes a day, and football managers must turn around a club in a handful of games. In reality, achieving fundamental objectives takes effort - and time.

We see similar impatience in our organisations, showing in the constant push to increase revenues and profits with every quarter. Yet short-term profit does not automatically translate into shareholder value. Neither does short-term success equate to sustainable, long-term results.

Our obsession with short-term focus can create many corporate ills. Continually discounting tickets to ensure a full boat or plane might bring short-term profits. But, over time, the strategy may well erode a company's reputation and brand. Exploiting a technological advantage in a market where you have a captive audience may bring bonanza profits. But high prices and poor service will drive customers elsewhere when competitors move in.

Relentlessly chasing short-term profits disconnects an organisation from its core purpose. It distracts a company from developing a deep understanding of its markets and stops them from innovating to retain a competitive edge.

The promotion of financials above all else means a company fails to devote resources to the human elements required for sustainability: leadership, teamwork and culture. All of these are essential to deliver results in the present, while adapting quickly to the future.

Organisations who fail to hit their quarterly targets often chase them harder, accelerating a race to the bottom. Think of Kodak, which developed the world's first consumer digital camera, yet battled through Chapter 11 bankruptcy in the US thanks to a reluctance to kill the golden goose of film.

Another case is travel agent Thomas Cook, a business forced to renegotiate its debts when hit by the eurozone crisis, unrest in the Middle East and Africa, and flooding in Thailand. Harriet Green, the now ex-CEO of the company, led its initial transformation and suggested it could take six years. "You can't do a transformation on this sort of scale in a year or two years," she told an Inspiring Women conference. She quit after just two.

At worst, short-termism drives companies into liquidation - like Comet, Jessops, HMV, and similar casualties of the last recession.

**BUSINESS FOCUS**

Organisations need to make money to pay a return to investors while enabling the company to grow. A better balance of focus is needed so an organisation can deliver today while still maintaining its relevance in tomorrow's world. Pixar Animation Studios has a business model that achieves this. The company recognises the potential of talented people and it invested in innovative ways of fusing art and technology, doing it in a way that made such financial sense that Disney bought the company.

Unilever is proud of its business model, designed around sustainable growth. When Paul Polman, CEO, was criticised for missing sales targets, he said: "We would be a hostage to the financial market if we ran this company judged on expectations". In January, Polman dished out his own criticism: "Profit is not a purpose, it's an end product. I always want a deeper result." Meanwhile, the Unilever share price has tripled since 2009, showing that the long-term approach can appeal to investors.

In fact, a recent survey by McKinsey estimated that at least 50% of an organisation's long-term success is delivered by having strong "organisation health", a term McKinsey uses for a people-oriented approach.

In this uncertain market, organisations that have a clear purpose and invest in people so they can adapt to, and deliver, change will have a competitive advantage. This will deliver real shareholder value.

As Jim Collins, author of *Good to Great*, said: "Enduring companies don't exist merely to deliver returns to shareholders. Indeed, in a truly great company, profits and cashflow become like blood and water to a healthy body: they are essential for life, but they are not the very point of life."

Pioneering animator Walt Disney put it a different way: "I don't make movies to make money - I make money to make movies".

**Sarah Wicks is the managing director of New Road Consulting**


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# PETER'S PRINCIPLE

After he sold the business that he pledged his house on for £300m **Sir Peter Harrison** decided to use some of that capital to help others make their own impact. Amy Duff meets a most agreeable entrepreneur

Photography: Julian Anderson
Grooming: Sarah Bullett

The phrase "giving back" has become something of a cliché over the past couple of decades, over-used by politicians and corporations as a useful marketing sound bite. But how much "giving back" is about image and ticking a corporate responsibility box and how much is a real desire to improve peoples' lives?

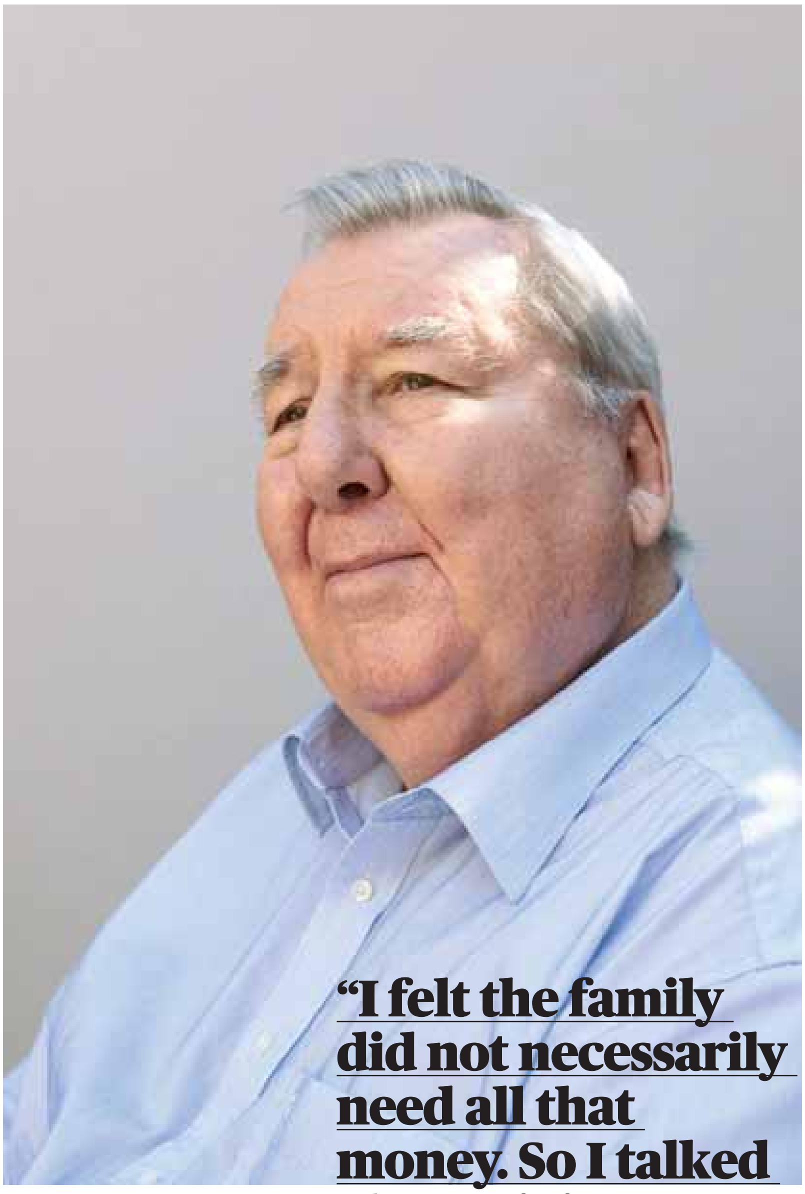
Sir Peter Harrison uses the phrase when he explains why he founded the Peter Harrison Foundation in October 2000 with £31m (and then £15m in 2011). He sold 49.9% of his telecoms business, Chernikeeff Networks, for £100m in 1999, and then 50.1% for £200m in 2000, to South African firm Dimension Data and rather liked the idea of sharing his success, he says simply. And as I learn, he sure as heck didn't do it for the sake of appearance.

His generous contribution to society and passion to help others reinvests the phrase "giving back" with some substance. He's a philanthropist in the purest sense of the word, because he can afford to be. He was ranked 29th on *economia*'s inaugural Accountancy Rich List last year. But in the 15 years to 2014 the Peter Harrison Foundation and the Peter Harrison Heritage Foundation (formed in 2012 to give grants to heritage/historical projects), have given £37.3m to a range of charitable projects, primarily in the field of disability sport and to help disadvantaged young people.

"When I came to sell the company, first of all I felt extremely pleased I'd brought it up to that level," explains Sir Peter. "But I also felt that the family did not necessarily need all that money. So I talked about giving something back. It gives me enormous pleasure to be able to help so many people." Cynicism: get back in your box.

He has recently turned 78 but Sir Peter is still very hands on with the governance, management and day-to-day running of the two foundations. He and his son-in-law, fellow trustee Peter Lee, decide where to invest in order to fully distribute the net income each year, and carry out due diligence on grant requests over a certain size. Ever the chartered accountant, he will thoroughly investigate how strong the charity is, look at its accounts, interview its leading people, and then, by combining his capital with their volunteers, strive for maximum effect.

When Harrison sold Chernikeeff (which was the largest privately-held computer networking-company in the UK at the time) he decided to invest primarily in commercial property in order to achieve the best return. "You don't want to over-risk the capital; hopefully you can invest into properties or assets that will grow and increase the income," explains Sir Peter. And although the wealth management departments of banks were surely tripping over themselves to win his custom, he says he won't work with them, preferring to invest direct. "I do have a relationship with a smaller company, Chancerygate Asset Management, because I identified with the people, formed an opinion, and they're good at what they do," he adds. When he



**"I felt the family did not necessarily need all that money. So I talked about giving something back. It gives me enormous pleasure"**

describes himself as "a pretty independent fellow", this is what he means. Typically entrepreneurial, he makes his own choices and writes his own rules.

Peter Harrison Heritage Foundation was formed on the back of a £7.6m net profit from the sale of a property portfolio after the property market crashed, which enabled him to support a different set of projects from the ones the Peter Harrison Foundation focuses on. "I've financed something like £210,000 for the rebuilding of a Fairey Swordfish," he says with a glint in his eye. "It's a double-winged aeroplane from the Second World War and there was only one flying in this country. This is the second."

He makes frequent reference to historical events and political milestones. He proudly declares himself a *Guardian* reader since 1954, but one who votes for and donates to the Conservative Party. He loves his history and knows which prime minister did what and when. Wilson's National Plan, Thatcher and the unions, Heath and the unions, Macmillan and his "events, dear boy", the origins of charity – Queen Elizabeth 1 and her Poor Law, formalised in 1601, since you ask – the gates at Hougoumont at Waterloo...

With his accountancy training, his early management experience at Ford Motor Company, his capacity to take a calculated risk and seize an opportunity, and with a memory like that, it's no wonder he's achieved what he has. He's an entrepreneurial accountant who foresaw the potential of the microprocessor computer and telecoms market and became very rich.

It's a long way from his childhood in Cheadle, Cheshire, where "his people" couldn't afford to pay for his further education and he left school at 16. But Sir Peter says you make your own luck. So, with an ambition to be part of a profession and equipped with his five Ds (desire, drive, determination, dedication and discipline) he trained at Campbell Toulmin, a firm of chartered accountants in Manchester that didn't require him to pay a premium, and got his articles in January 1954. After qualifying, he joined JB Boyd, Wrigley, another Manchester firm, "and that had consequences, because that's where I met Joy, my wife to be," he smiles.

Without his accountancy training he reckons he wouldn't have had a chance at Ford, which he joined in October 1961 (it only took graduates or professionally-qualified people, he says). At Ford he learnt things that he carried with him for his whole career. "If you wanted to learn marketing, you'd join a company like Mars," he says. "Ford was the very top in statistics, management and the number control of its business. I put together financial justifications for a particular move or process; did forecasting on volumes or market size; did project analysis on something's potential because we were working five years' forward, or 10. I have to say, Ford was the most important business learning for me – you didn't have management schools then."

From there he joined the M&A department of Firth Cleveland, an industrial group founded by one of his heroes, philanthropist and entrepreneur Sir Charles Hayward, who set up the Hayward Foundation in 1961. But it was at Crest Nicholson Group, the housebuilding company, that he was to fulful his destiny. "Bryan Skinner, the chairman [and co-founder], was a Cambridge man himself, but he liked the discipline of the numbers guys. So my qualification stood me in good stead," says Sir Peter. "It was Bryan's idea, when I joined in 1970, to build a conglomerate, which was fashionable then. The idea was to try and balance the cyclical nature of property. Bryan allowed me to have small percentages in the companies we were acquiring – if we successfully built up the company then Crest could buy my 25% back and I'd go on to another project."

In 1976, he acquired a 25% holding in Chernikeeff, a marine instruments company started in 1921 that "hadn't really kept up with the times", but was a tantalising prospect. "In 1977 I reviewed the naval market and I didn't think it was going to grow," he recalls. "We were using an early form of microprocessor to distribute data around a naval vessel. I was looking for new ideas and became aware of what this could do and, after being introduced to a guy who had an idea to build a computer that would automatically handle the sending and receiving of messages on the Telex network, we diversified." The idea was to build a computer to automatically transmit and receive messages over the international Telex network that it would typically take 10 Telex operators to handle.

But much to Sir Peter's shock, Crest couldn't see its potential and he was told to either find another partner, or sell off Chernikeeff and continue acquiring other companies with Crest. "I argued strongly for it to be kept in but nobody was interested in putting up money," explains Sir Peter. "So I thought long and hard about this (I have my best thoughts in the shower in the morning) and I remember saying to myself, 'I had better buy it'. This was the really, really big risk."

To buy the remaining 75% of Chernikeeff at a price of £133,000, Sir Peter had to pledge the family home and other assets as security and part company with Crest. He also secured £100,000 from a private pension fund – "such were the rates of interest then, they charged me 2% a month: 24% per annum" he snorts. "But my wife believed in me and in 1979 I bought Chernikeeff. We were 100% and alone."

In his business event speech notes, which he has voluntarily shared before this interview, Sir Peter describes himself as "ambitious", "competitive", "determined" and "imaginative". He relied upon all of those traits, plus his finance training – "I wasn't dreaming all this" – to learn about who he would be selling to (merchant banks, brokers), forecast his sales,

**"Ford was the very top in statistics, management and number control of its business. It was important learning for me – you didn't have management schools then"**

analyse costs, understand company culture – "I dropped the word computer, it made people afraid" – and then go out and sell. And in 1981 he launched his Telex message switching system. "This is where my commercial brain kicked in," he reveals. "We were selling this equipment as a capital item (British Telecom only rented its Telex machines). So to get customers to buy our equipment, I gave them a three-month free trial. I then invented a rental scheme where, at the end of your period, if you bought any of the equipment I gave you 50% of your rental back. Gradually, over time, we clawed our way in."

With a couple of big contracts under his belt – Shell and the UK Home Office – Sir Peter felt the itch. Realising that Telex wasn't going to last forever, he took his search for new ideas to Boston and California, where a new wave of smart young tech companies were germinating. In 1987 he met Len Bosack, Sandy Lerner and Richard Troiano, the founders of Cisco Systems, and Chernikeeff signed an exclusive licence to sell Cisco products in the UK. "Cisco had developed the world's first multi-protocol router, and that was massive," recalls Sir Peter. "When I met them they'd gone through around 15 months of business and had three or four universities [using their routers] in the US. So I took another big leap in my judgement and imagined how we could connect all of those different computers across wide geographical areas. That led to, of course, what we call the internet today. So I've been a pioneer," he declares proudly.

When Dimension Data came knocking, with a desire to list on the London Stock Exchange, Sir Peter decided to sell. With 40 years of business experience under his belt, he knew what he was doing. "I knew how to negotiate," he says. "You should never say you know it all, but I knew enough. So I negotiated a PE [price-earnings] ratio of 25. They didn't want to pay that but they did. After three years on the board I left and haven't been involved since."

These days, Sir Peter is far from idle. He is a vice-president at Chelsea Football Club and has a 115ft bespoke yacht, Sojana. He has sailed across the Atlantic Ocean 15 times, won Cowes Week in 2004, Antigua Week in 2010 and is founder and chairman of GBR Challenge, the British team entry for the 31st America's Cup in Auckland 2002. Though nobody would deny Sir Peter a little plain sailing at the age of 78, he would rather race in a regatta than laze around the Carribean. He's clearly as competitively driven as he was the day he qualified.

# FIT FOR LENDING

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Creating and launching an Indian wine brand sounds tough enough. But when two novice wine entrepreneurs tried it, they managed to overcome the sceptics. David Adams talks to **Alok Mathur** and **Melvin D'Souza** about their soulful journey into grapes

Were Alok Mathur and Melvin D'Souza, co-founders of Soul Tree Wine, asked for advice on setting up a business, they would surely have many useful tips. But they could also offer what might sound like some pretty wacky advice, based on their own experiences. Try creating a new global consumer brand in a complex, conservative industry - about which you know almost nothing - with a product that tends to make most people check they've just heard you correctly: "Did you say 'Indian wine'?"

But why not? India is a vast country, with extraordinary agricultural resources and wine has been made there for thousands of years. So why do so few people in Europe or the US - where people drink wine produced in many different countries - know anything about it?

Soul Tree is not the first Indian wine available in Europe: a handful of others have been on offer through wholesalers and a limited number of retail outlets for at least five years, but none have met with significant success so far.

Soul Tree is trying to do something different from the rest. After spending the best part of five years creating the business from scratch, the company announced in February 2015 that it had raised £388,000 in investment - beating its £350,000 target - from 235 investors via online crowdfunding platform Crowdcube. The money will be used to increase production, headcount and marketing and help take Soul Tree on its next step towards becoming a genuinely global brand.

At present, the company's wines are available in several hundred outlets in the UK, including many Indian restaurants, along with some luxury bars and hotels, and a handful of locations in Germany, France and the US. In future, if the company's plan succeeds, Soul Tree wines will be available in many more places.

Mathur and D'Souza are both from India. They met in 2007 as mature MBA students at the University of Oxford. Mathur's background was in mechanical engineering and he worked for the Tata Group for 14 years, arriving in the UK in 2000 to set up a UK operation for the company. By 2007, he says he was asking himself: "Is this what you're going to be doing for the rest of your life?"

He adds: "It didn't sound exciting enough. I decided to resign, go back to university and figure out what to do next." Meanwhile, D'Souza was completing his MBA during a sabbatical from working for his family's international poultry genetics business.

The idea for Soul Tree was born, appropriately, in an Indian restaurant: Aziz, on Cowley Road in Oxford. The would-be entrepreneurs noticed they could drink Indian beer with their meal, but not Indian wine. D'Souza knew a little about Indian wine, as he'd grown up in Nasik, in the heart of the country's main winemaking

Alok Mathur (left) and Melvin D'Souza

PHOTOGRAPHY: ROBIN PALMER

"We started dreaming about seeing Indian wine as a category. We want to be the people who make that happen"

**INVESTMENT RAISED BY SOUL TREE IN THREE MONTHS:**
Nov 2014-March 2015
## £388,000

**GROWTH**
in 2014
## 125%

**TARGET GROWTH**
for 2015 and 2016
## 300%

region, where Soul Tree wines are now produced.

"We realised that this was a massive opportunity," says Mathur. "Cobra had matched Indian beer with Indian food and made it a great success. It was going to happen with Indian wine one day - and we could do it."

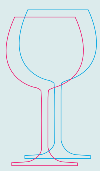
From the start, Mathur and D'Souza had big plans. "We wanted to create something that millions of consumers would enjoy," says Mathur. "We started dreaming about walking into a wine shop, or down a supermarket wine aisle and seeing Indian wine as a category. We want to be the people who make that happen," he says.

They are also trying to create wines with an identifiably Indian taste. Part of their strategy is based on the operation being led by Indian winemakers, rather than with experts brought in from an established wine producing country. "Our winemaker really understands the *terroir*," says Mathur - *terroir* being the term that describes qualities of the climate and soil in a specific location responsible for the character of a wine. "We're going to keep the wines true to their region."

The Nasik area, which produces around 70% of India's wine, is in the west of the country, around 100 miles north-east of Mumbai and at the northern end of a 1,000-mile mountain range, the Western Ghats. This is a tropical region, but the 2,000ft altitude means that vineyards here are subject to daily temperature variations during the growing season that are beneficial for wine production: 20C to 28C during the day, dropping to around 10C at night. "That's brilliant for wine: the daytime sun adds to the sugar content, the night coolness adds acidity," says Mathur.

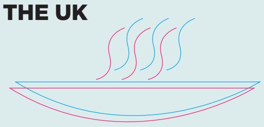
They knew their ambition was going to be difficult to achieve. "We had no background in wine, other than as consumers; and the wine industry is so conservative," says Mathur. He points out how long it took the Australian, New Zealand and Chilean wine industries to gain international recognition. He and D'Souza are convinced that Indian wine can acquire a similarly strong reputation.

Their business model was unorthodox: their Indian wine business would be UK-based. Mathur says: "The traditional model is that the wine is produced by a company in the country of origin and they hand it to a distributor and hope they do a great job of marketing



**40M**
**ESTIMATED NUMBER OF WINE DRINKERS IN THE UK**

**9,500**
**ESTIMATED NUMBER OF INDIAN RESTAURANTS IN THE UK**



# FIT FOR LENDING
## Issue six



it. We saw ourselves as more than a production company - we would be a marketing and branding company too. We have the ability to develop relationships here that would be impossible if we were based in India."

The UK's 9,500 Indian restaurants have formed the company's initial market. Mathur and D'Souza believe their wines go particularly well with Indian food, a view endorsed by *Eastern Eye* columnist Priya Mulji, who praised a Soul Tree wine on her blog when she sampled it at the Delhi Brasserie restaurant in Soho, central London. "It was delicious with rich spicy undertones," was her verdict. Soul Tree's website also quotes an impressively large number of favourable remarks about the wine from TripAdvisor reviews of restaurants where the wines are served. "We have a wine with international appeal, wine different enough to stand out and that also pairs well with food," says Mathur.

Hopefully the future is bright. But none of this was certain when Mathur and D'Souza decided to put their idea into action in mid-2009. It took around a year to select the right winemaker and begin production, to start learning about wine and the industry, and begin to create a brand. In mid-2010 they launched a small sales pilot, limiting themselves to just 25 customers.

"By early 2011, when we had fine-tuned things, we appointed our first UK distributor," recalls Mathur. "It took another year of hard graft before we started to get anywhere. There was no knowledge of Indian wine within the industry, and the trade didn't want to take the risk." But, in February 2012, they appointed a second distributor and now have 26 of them, supplying more than 600 outlets.

In India, small independent growers in India produce the grapes, and an independent winery produces the wine, overseen by an experienced Nasik winemaker.

"Technically, it's contract production, but we control the production and quality," says Mathur. "The operational day-to-day side is handled by the winery owner, which means we don't have to invest directly in equipment, land, or manpower."

Back in the UK, the company has four full-time employees and hopes to hire more during the next 12 months. Mathur pays tribute to external advisers who have played important roles in the company's success so far. These include wine expert Laura Clay - "We have leaned heavily on her skill and advice through the years, especially in the early days," says Mathur - and Pavi Binning, currently president of food retailer George Weston and formerly a senior executive at drinks industry giant Diageo.

But most of the work has been done by two men who knew almost nothing of the wine industry when they set up the company. At the start, they trod a familiar path for entrepreneurs, relying on their own savings and upon family and friends for financial support. "We decided early on that we would bootstrap ourselves to a state where we could say this no longer needs to be proven - it's done," says Mathur. "In mid-2014 we started to see ourselves as a growth business. Angel investors, traditionally, would have been the most natural choice and another option was to go to the banks, something that is hard and risky in this environment.

"Crowdfunding came up as a third option. What appealed to us was that we were

**£10.6BN**
**CURRENT VALUE OF THE UK WINE MARKET**

**£11.2BN**
**PREDICTED VALUE OF THE UK WINE MARKET BY 2018, MAKING IT THE SECOND LARGEST IN THE WORLD, BEHIND THE US, WHICH IS ANOTHER KEY SOUL TREE MARKET**

creating a consumer brand and needed ambassadors to spread the word. What better way to do that than to crowdfund?" He also highlights the value of the tax relief available to UK investors via the Enterprise Investment Scheme (EIS).

The five-minute film put together for the company's Crowdcube pitch stressed the speed at which the company had already grown. The 225 investors who bought into 18.3% of the business through Crowdcube come from more than 20 countries, including Germany, Colombia and

**"Crowdfunding appealed to us. We needed ambassadors to spread the word. What better way to do that than to crowdfund?"**

Singapore. The biggest single investment was for £25,000.

"Like most people I've spoken to who've been through the crowdfunding process, we found it harder than we thought it would be," says Mathur. "Nothing prepares you for the fact that it's going to suck up all your resources for a time." They have also discovered that once you have a couple of hundred investors, keeping in touch with them becomes a whole new task.

The money invested will be spent on increased production, manpower and marketing. "We've already got a foot in the door in Indian restaurants," says Mathur. "That strategy gets cashflow going and organisational capabilities up and running.

"We will also be placing the wine in more upmarket outlets and we're gradually getting into UK retail. The wines are sold in a few outlets already, because some of our wholesalers already have outlets. The wines are listed at prices of about £8.50 or £9 per bottle, which we believe is good value." The company intends to expand sales to other territories and already has distributors in Germany and the US.

"The idea is to start slow, in markets most likely to present the best prospects," says Mathur. "The US market is huge. Germany is an open market. France is more tricky, but might be an important market. We've also had interest from the UAE, Singapore, parts of South America, and Canada."

He is coy about revealing current turnover, saying only that Soul Tree grew 125% year-on-year last year, and that they believe it will grow 300% in each of the next two years, becoming profitable in 2016. The pair aim for Soul Tree to be a £12m business within five years.

He believes their proudest achievement so far is simply the creation of the brand in the face of widespread scepticism. "A number of people advised us to drop the idea, or told us we should be working with French wine. But we said: 'What's the point?'" he says. "Our satisfaction comes from doing something that has never been done before."

6

# Taking the chair

## The qualities needed to be a successful non-executive chairman are increasingly those accountants deploy as a matter of course. Jane Simms talks to three company leaders about how their financial background helped them

A chartered accountant qualification can take you anywhere - and increasingly, it seems, straight from the position of CFO to chairman without stopping at the traditional CEO base. There are a number of reasons for this, according to Mark Freebairn, partner and head of the CFO practice at Odgers Berndtson. One, the typical finance director plays a far broader commercial, operational and leadership role in business than they used to. Two, FDs are becoming audit committee chairmen at a younger age, which can give them valuable experience and exposure on a number of different boards. And three, their personality is an ideal complement to that of the CEO.

Freebairn explains: “The CEO is an alpha personality who has to win every battle. The CFO, like the chairman, also has to be an alpha personality in order to avoid being eaten up by the CEO and to be able to play the part of supportive and critical friend. But the key difference with the CFO and chairman is that you know which battles you can afford to lose and feel comfortable being ‘the power behind the throne’.”

If you own a business and want a chairman, in eight out of 10 cases the background, set of skills and personality you would describe would be those of a CFO, reckons Freebairn.

We tested out his hypothesis on three chartered accountant chairmen, asking how they did it and adapted from an executive to a non-executive role.

YIANNIS KOURTOGLOU, DAVID VINTINER

**Name: Irena Georgiadou**
**Chairwoman, Hellenic Bank, Cyprus**

**Background: Economics and politics graduate, University of Bristol. Chartered accountant (qualified 2001); six years at PwC**
**2004: CFO and corporate finance manager, Cybarco**
**2008: CFO, Megabet**
**2011: Manager, House of Representatives of the Republic of Cyprus**
**2013: Adviser to the Minister of Finance**
**March 2014: Commissioner for the reform of the civil service**
**May 2014: Director, Hellenic Bank. Also chairs the nominations, internal governance and remuneration committees**

"The government jobs were key to my transition from CFO to chairwoman. They were critical positions at a challenging time in Cyprus: I was at the heart of decisionmaking when the banking system collapsed in March 2013. I witnessed at first hand and dealt with very difficult situations, and with officials at senior level in Brussels, Washington, Frankfurt and elsewhere. It was a period of very intensive learning.

I was interested in politics from an early age and although I never thought I would become involved full time, I seized the opportunity when I had it. As director of the Ministry of Finance office for a year I was heavily involved in helping to turn the economy around: rebuilding the banking sector, getting public finances back in shape and introducing structural reforms.

I resisted the idea of business as usual, and was willing to challenge everything – qualities that Hellenic Bank needed. Business as usual has failed in Cyprus: the banking system collapsed and everything had to change. The bank's new shareholders wanted a new approach and a new young board of directors who were uncontaminated by the practices that had contributed to the crisis.

As a 37-year-old woman coming in as chair I was something of a culture shock. These sorts of roles have traditionally been held by grey-haired men. But my appointment was a tangible signal of the change we wanted to make and it helped to effect that change. People saw this young, well-dressed, modern woman going around the building talking to people. I'm not a banker, but the bank of the future will be very different from the bank of the past and it is important to look forward and outside the industry to identify new trends, sources of competition and so on.

My chartered accountancy training has proved a strong base for everything I've done. I understand the numbers and their implications, and quickly tie everything together and see the complete picture. But I've deliberately taken opportunities to use the qualification and training to build my experience, open doors and stand out from the crowd.

I became chairwoman of this company knowing that it was a very important and challenging role. The bank is one of 159 in Europe that are directly regulated by the European Central Bank in Frankfurt, and operating in such a highly-regulated environment means that you have to keep abreast of trends. But shaping and managing a board of 15 people, all with different skill sets, backgrounds and personalities, is a challenge too. Having the right team around you is critical to aligning shareholders, other stakeholders and the CEO behind the strategy, and the more successfully you can do that as chairman, the easier your life is.

A chairman shouldn't tell people what to do: in the bank my role, along with the rest of the board, is to set the strategy and priorities and the risk appetite and risk framework limits, and ensure that the executives operate between the two. But you also set the tone, the culture, the ethics, and you role-model integrity: corporate governance starts from the top and people look to you for direction. On top of that you provide oversight, challenge, focus, guidance and mentoring to the executives, and particularly the chief executive. Having been so recently on 'the other side of the river' I feel I know all the right questions to ask.

The profession has changed beyond all recognition – even at the point when I started studying for the qualification nearly 20 years ago I realised it was about far more than debit and credit. A chartered accountant qualification is a very solid base on which to build a career, but it is up to you how you use it."

# "Corporate governance is as important as ever because business is more challenging, particularly since the crisis of 2007/08"

**Name: Keith Hamill**
**Chairman, Horsforth Holdings Group, chairman Bagir Group Ltd, non-executive director, easyJet, non-executive director, Samsonite**

**Background: Politics graduate, University of Nottingham. Chartered accountant (qualified 1978); 13 years at PwC**
**1988-1993: Director of financial control, Guinness, and CFO, United Distillers**
**1993-1996: Group finance director, Forte**
**1996-2000: Group finance director, WHSmith, chairman WH Smith USA**
**2000-2014: Chairman or deputy chairman of 12 other companies, including Tullett Prebon, Travelodge, Moss Bros, and a non-executive director of five more**

"I stopped being a CFO at the age of 47. I was about to do another one and got quite a long way down the route and decided I didn't want to do it. It was announced that I was leaving WHSmith and my neighbour, who is a stockbroker, came round to see me and said he was floating a small tech company called Alterian, and needed a chairman. So the art of becoming a chairman is to live next door to the right person.

But then things happened very quickly: I got six chairmanships and two non-executive directorships within 12 months. I think the reason was that I was fairly financially oriented and well known, not least for the role I played in defending Forte against takeover by Granada [the bid ultimately succeeded, but at a price 25% higher than the original offer].

There are circumstances where it is best if someone who is not necessarily one of the 'great and the good' but who is technically strong and knows their own mind, and is known to investors, is made chairman.

I have never chaired a FTSE-100 company, because I think they are more likely to look for CEO experience on the grounds that it is difficult to

understand what it is like being a FTSE 100 CEO unless you've been one yourself.

A CFO brings a facility with numbers and extensive board experience to the chairman's role, but a chairman needs a range of skills, not least a reasonable capacity to get on well with people and the ability to figure out what's important and what is not. By the time I took on my first chairman role I knew that I was becoming relatively good at understanding what was important. I had accumulated lots of experience quickly and had managed through lots of turbulence – when I was at PwC I handled the firm's work on the 'Guinness affair', then I went to Guinness to sort it out, then I got involved in the Forte/Granada takeover, and then came the turnaround at WHSmith.

But making the relationship with the CEO work is core to being an effective chairman, and you don't need to be the life and soul of the party to be able to do that. A CFO will have spent much of their career working in close co-operation with the CEO as part of a team and be very used to the division of work, which helps to reduce the sense of 'threat' to the CEO when they become chairman. And the nature of the CFO role is to be supportive to the CEO – so that helps in the chairman role too.

But being a CFO or chairman is not about playing second fiddle. The CFO needs a high degree of self-confidence to push themselves forward and cope with situations that can be bruising. As a chairman you don't need that in the same way, because you aren't confronted by daily problems that you need to fix and are accountable for, so it is less intense. But while, as chairman, you are part-time, and providing leadership rather than exercising management control, you do have the 'nuclear weapon' in some circumstances – and your and the CEO's knowledge of that is something you need to manage with great subtlety and sensitivity.

Corporate governance is as important as ever because business is more challenging, particularly since the crisis of 2007/08. Progressive corporate governance codes are requiring everyone, including the chairman, to work harder at getting corporate governance right and working out where responsibility lies.

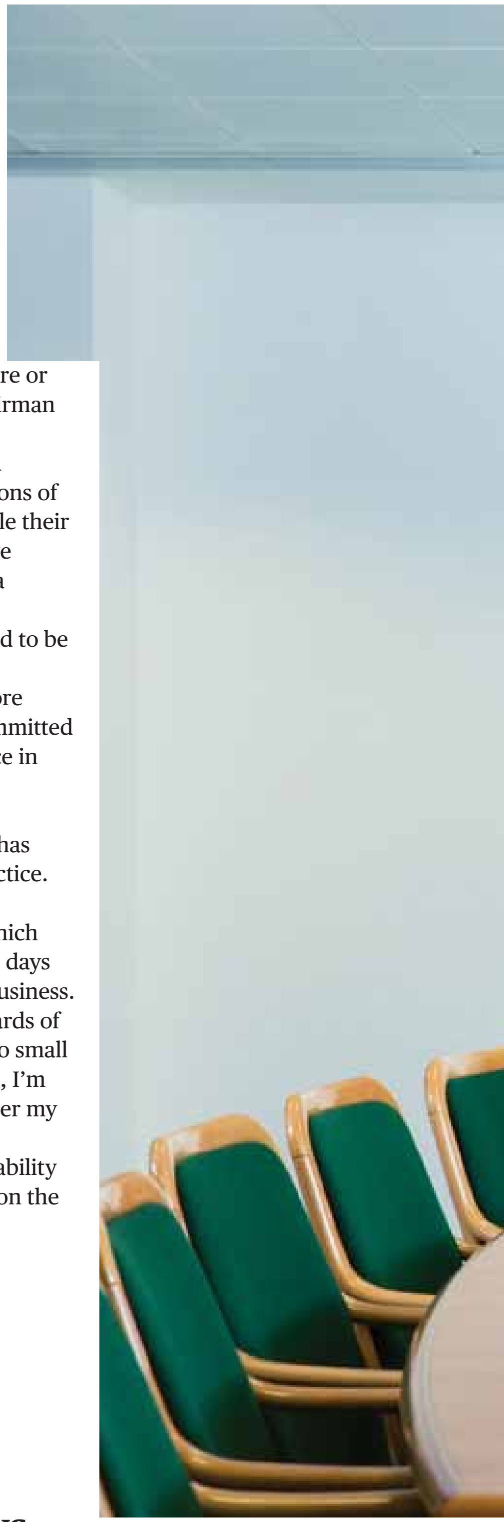
However, I believe that Rona Fairhead [head of the BBC Trust and a long-standing non-executive director of HSBC] was unfairly criticised by the Public Accounts Committee [for her apparent lack of knowledge about the alleged tax avoidance scandal at the bank]. You can't possibly know everything as a chairman or non-executive: you rely on process and on your assessment of people. You can't check everything all the time.

But business has also become more strategic and chairmen have to be more strategic too. The kind of chairman who just chairs a meeting or forms a view doesn't work these days. The chairman and chief executive must work in tandem on strategic matters and they need to sort out any issues between them in advance of the board meeting because in front of their board colleagues they need to be more or less aligned. In the board meeting the chairman must let the CEO take the lead, but act as sounding board and support, be open and contribute, and then support the conclusions of the board. So the chairman needs to handle their strategy role very carefully, but if they have nothing to say on strategy, it is a waste of a position.

In private companies, where boards tend to be smaller and the chairman plays less of a shareholder protection role, they have more freedom, and can be more influential, committed and creative, and their business experience in that context can be more useful.

It's significant that, internationally, the separation of the chairman from the CEO has started to happen too, in line with UK practice. Other countries' views of the contribution accountants can make is also changing, which means there are more opportunities these days for CFOs to get involved in international business.

I'm winding up now. I still sit on the boards of easyJet and Samsonite, but I only chair two small companies. After PwC, CFO and chairman, I'm moving into my fourth career – looking after my grandchildren. I've gathered a wealth of experience to help me there, not least an ability to be more laid back because I only focus on the important things."



**"A chartered accountancy qualification is always an advantage, because there will never be a board meeting where the numbers aren't discussed"**

**Name: Jeremy Newman**
**Chairman, Single Source Regulations Office, and Arkarius**

**Background: Chartered accountant; joined BDO in 1978, partner in 1986**
**2001-2008: Managing partner, BDO UK**
**2008-2011: CEO, BDO International**
**2012-March 2015: Chairman, Audit Commission**

"I spend most of my time as a chairman mentoring the CEO and acting as a sounding board on strategy. To do that you need credibility, and having been a CEO gives you that. Would the CEO have sufficient respect for you to take your advice if you'd spent most of your career in a functional role? If you'd been CFO in a much bigger business I can see that would work, or if you have particular experience in an area the company wants to move into. But otherwise there is the danger that they won't take direction from someone who has been 'subordinate' to them.

A chartered accountancy qualification is an advantage for a chairman, because there will never be a board meeting where the numbers aren't discussed. If you've worked in practice you will have gained a wealth of experience and understanding by being out and about among a variety of businesses. You're also used to dealing with a portfolio: people who have worked in a single environment might find it more difficult to adapt quickly between different companies.

After leaving BDO I went trekking in Peru: I knew that if I didn't as soon as I moved into a chairman's role I would risk trying to 'out-CEO the CEO'. I turned down the chairmanship of various professional services firms because I knew there would be a greater temptation there to try to run things. But yes, there have been moments when I've had to bite my tongue.

Each chairmanship I take on involves a different challenge, but I'm careful to manage the stretch. My first role was at the Audit Commission. Ironically, I was the first chairman who was an auditor by training. I had decided I wanted a public sector role, and as that was going to be the 'stretch' it made sense to stay in an area that was familiar to me, and where I had strong credentials. There are limits to the amount of transition you can handle at once.

Now I've taken on the chairmanship of SSRO too, which is in defence. I knew nothing about defence, but I had the credibility of having been chairman of a public body so I minimised the challenges of the transition. I am also chairman of a private-equity-backed business, Arkarius, that provides accountancy services to contractors and SMEs. So I have knowledge of the sector, but private equity is a different environment.

Leadership ability is paramount but it's a much more collaborative style than the one you need as CEO. Running a partnership, where you're trying to align different stakeholders, has helped me. If you've always been a CFO do you have the skill set to talk to someone about sales, marketing, HR and so on and are you comfortable engaging with all those people and sufficiently knowledgeable to be able to challenge and/or support them?

Personal ethics should matter across the board, but maybe the chairman's skill is to see where others draw the ethical line and, where necessary, to help them redraw it.

The main downside of the chairman's role is that you have less sense of engagement with people in the business. And, as the role of CEO grows increasingly onerous, the demands on the chairman grow too: the lines between executive and non-executive responsibility are blurring, which exposes the chairman to more risk. As chairman you have absolutely no grounds for saying you don't know what's going on."

# Does the UK voting system need an increased sense of fair play?

**YES** *Nick Tyrone*
On May 5, 2011, the British public rejected the alternative vote (AV) as a system to replace first past the post (FPTP) in a percentage split of 68 to 32, a clear rejection of change. As a result, electoral reform, for good or bad – and I think it's a mix of both – is off the table for a generation at least.

Yet change is still needed and I'd push for two in particular, both of them interrelated: a change to the voting system at local level for England and Wales, and more devolution to core cities.

Local elections in England and Wales should be run under STV (single transferable vote), the model used in Scotland. The prime reason is straightforward: there are too many one-party states – particularly in England. Take Manchester City Council, where there are 96 councillors – 95 of which are Labour. For any democratic body to work well there needs to be effective opposition, a group of elected officials prepared to scrutinise the governing party's work, a basic component of any democratic system.

This feeds into my second change: more powers should go to core cities, similar to those already granted to Manchester. One of the strongest arguments against this is the one-party state problem already raised: the change to the voting system at local level mostly solves this. The UK is one of the most centralised countries in Europe; localisation would unlock economic opportunities and reverse any 'centralisation equals more equality' beliefs that prevail on the left.

**NO** *Tim Knox*
No electoral system is perfect. It is a question of which system is likely to provide the best combination of accurately respecting the views of voters while providing strong and stable government.

The FPTP system operates in two of the oldest and most stable democracies in the world: Britain and the US. It rests on the widely accepted principle that the individual chosen to represent a constituency should be the one who receives the most votes. This, in turn, also ensures a close link between MPs and their constituents. And, as we have seen this year, it encourages as wide a range of "voter choice" as any other system.

This year, as in 2010, it appeared likely that coalition government would emerge after the election – until the votes were counted. Coalition, under FPTP, is the exception. Not so where proportional representation (PR) is concerned, a system we already use to elect our representatives to the European Parliament. Under PR, the need to form coalitions predicates intensive bargaining between political parties. Politicians, not voters, choose the government, and it further reduces accountability of politicians to the electorate.

Proponents of electoral reform claim that FPTP disenfranchises many voters who live in safe seats. Yet, the last election demonstrated only too clearly how few constituencies were "safe". Roughly 85% of constituencies representing approximately 39 million voters in the UK were either marginal or gave voters a reasonable chance of changing their Member of Parliament.

Yes, political change is needed. A return to ideological politics would be a good start and the main parties may realise this as they analyse the weak impact of their "retail politics". Tinkering with the electoral system is dealing with symptoms, not the causes of the problem.

*Nick Tyrone*
Debate on electoral reform in the wake of the general election result will be interesting. We've seen, for instance, UKIP get almost 13% of the vote – while gaining only a single seat. This raises two conflicting arguments: one, that this level of disproportionality is unfair; two, that FPTP saved us from a possible Tory-UKIP coalition – many people's worst political nightmare. The second argument is bound to dominate people's thinking, on the left and right of British politics.

The arguments for electoral reform are, for the moment, academic: the Conservatives will not enact any voting reform legislation during the life of this government. But I hope that the other areas I've raised, such as devolution to core cities, makes inroads at some point. It was, after all, the

**YES** *Nick Tyrone*
associate director of external affairs at CentreForum

**NO** *Tim Knox*
director at the Centre for Policy Studies

Tories who came up with the Manchester deal.

Surely the Conservatives, even if unlikely to be won over to electoral reform, can see that the UK is over-centralised and needs to pull power away from Whitehall? This was a key component of David Cameron's Big Society - at least as I interpreted the concept.

*Tim Knox*

Despite the uncertainty during the General Election campaign, FPTP has delivered stable government. Yes, there are anomalies. But the simple principle that the candidate who wins most votes in each constituency is elected - and that the government is formed by the party with the largest number of MPs - holds strong.

I welcome Nick's acceptance of this. I can see much in his arguments for introducing proportionality to local elections. The low turnout in local elections is a problem - and many voters must feel that there is little point in voting where there is effectively one-party rule.

Equally, over-centralisation is a problem and localism can be part of the solution. And we can go further. Were councils to become genuinely self-financing (with some degree of redistribution from, say, Kensington to Tower Hamlets), we might see - for the first time - real pressure on councils to outperform each other in terms of quality of services and competitiveness of tax rates. That surely would be a win-win.

*Nick Tyrone*

Proportionality in local elections and over-centralisation of power are two (interlinked) areas that I see as the best way forward in terms of what is achievable on electoral reform during the next decade. Greg Clark being named Communities Secretary gives me hope that over-centralisation - if nothing else - might be tackled by the Tory government. As for electoral reform of the Commons, the parties likely to shout loudest about the need for change are UKIP and the Greens - who sit at the extremes of modern British politics with two MPs in total while gathering far more votes than the SNP. While the left complains about a Tory majority based on only 37% of the vote, had the 2015 general election been held on a PR system, the present government would likely be a Tory-UKIP one. The idea that PR produces a more progressive executive is perhaps the greatest myth about it, one its supporters have done little to debunk. The people that electoral reformers most need to convince are those within the upper echelons of the Conservative Party.

*Tim Knox*

I am delighted that Nick accepts that electoral reform is off the agenda for the next five years, regardless of any "unfairness" in the recent result.

And it is interesting that we agree on the need for further steps towards localism, combined with a greater degree of proportionality in local elections. The composition of the new Cabinet suggests that the localist agenda initiated by George Osborne will gain traction in Whitehall [Osborne promised "radical devolution" for English cities in his first post-election speech in May].

What will be fascinating, if localism is truly to be enacted, is to see how quickly voters and the media catch onto the reality of greater devolution of powers. It will be a brave and wise politician who stands in the House of Commons and says: "This is not my problem to solve: it is local councillors who are responsible." But if there is cross-party agreement on the principle that decisions should be taken as close as possible to those they affect, and by individuals who are demonstrably accountable, then we may see the emergence - at a local level, at least - of politicians competing to do their best for their electorate.

## "More powers should go to core cities, similar to those already granted to Manchester"

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# United we stand?

Nick Martindale asks a panel of experts about the future of the EU, the UK's role within it, and the implications of a possible UK exit

**VICKY PRYCE** Chief economic adviser at Centre for Economics and Business Research (CEBR), author of *Greekonomics*, and co-author of *It's the Economy Stupid, Economics for Voters*

Most economic studies suggest that European GDP is 2-3% higher than it would have been without the single market. This may not sound like much, particularly given the complaints from businesses of the regulation they have had to endure.

The response is three-fold. First, the creation of the single currency in 1999, and the removal of constraints needed to manage different exchange rates, has yet to lead to the predicted benefits. As a result, the public's faith in Europe as a whole, and in its institutions, is weak - particularly in the case of the European Commission.

Second, a true single market is a long way from completion. Look at energy, banking, digital, and all of the professions such as accountancy or law where different qualifications exist. Welfare is another area of difference.

Finally, there seems to be one rule for big countries and another for smaller ones. France and Italy have been allowed to miss fiscal targets while Greece is penalised and publicly humiliated.

The single currency may not survive, but an improved single market will. The UK sells 50% of its goods to Europe and is its main exporter of financial services. CEBR has calculated that four million jobs are linked to our EU membership. They will not all disappear, but it will be harder to sustain them, given that inward investment will be less certain if access to Europe is constrained.

PHOTOGRAPHY: FELICITY MCCABE

**ROBERT ACKRILL** Professor of European economics and policy, Nottingham Business School

Much has been spoken of a Greek exit from the euro, while less has been said about what this might mean. The impact of a rapidly-depreciating 'new drachma' on inflation, the loss of credibility in international financial markets, and insufficient export capacity to deliver trade surpluses, could trigger a further, worse, economic crisis than we've previously seen. Even the left-wing Greek government is working to implement reforms from within the eurozone.

For me, the bigger challenge is to get Germany to recognise how its macroeconomic policy hegemony contributes to tensions in the euro area. Admittedly, some countries failed to follow the fiscal rules, although nor did Germany in the early 2000s. But we are where we are; imposing austerity measures on economies too weak to handle them makes the situation worse for everyone.

Overall, the UK has much to contribute to the debate about where the EU goes next, especially the promotion of free trade and market liberalisation. But the biggest problem for UK politicians lies with the Westminster style of politics: government/opposition, us/them, right/wrong. The EU, meanwhile, operates on a consensual basis.

Until UK politicians accept this difference in approach, they will never maximise their influence over the EU's future direction.

**MARTIN BECK** Senior UK economist, Oxford Economics

The economic impact of a UK exit is likely to be relatively small. Recent analysis by think tank Open Europe found that leaving the EU, even on highly unfavourable terms, would cost the UK, by 2030, the equivalent of a year's GDP growth or three weeks' worth of public spending. Leaving on favourable terms, and driving through radical reform, would add an extra year's worth of growth to the UK's national output. Neither would be negligible, but neither would be game-changing.

The success of the UK economy comes down largely to domestic issues about controlling costs, maximising productivity and producing goods and services that people want to buy.

An exit could highlight these aims were the greater autonomy available after an EU withdrawal used in the right way. An example would be the reduction or elimination of tariffs the UK has to impose on imports from non-EU countries, or the adoption of a lighter regulatory environment for those parts of the UK economy, around 85%, which do not consist of exports to EU countries.

That said, leaving the union could hinder the aim of achieving a strong economy. Remaining EU member states might seek to punish the UK by spurning a free-trade agreement, a situation that would hit exports and inward investment. UK policymakers would also have to tackle the economy's ills without resorting to the fig leaf of blaming Europe. That in itself could be a significant and oft-overlooked result of a UK exit.

**KAI PETERS** Chief executive, Ashridge Business School

During the 12 years I've lived in the UK, compared with the previous 13 in Rotterdam, I've never understood why the EU causes such hysteria. It's a free-trade zone and a political superstructure which keeps the peace in Europe and aims to ensure that Europe's small global geography is as coordinated as possible. It also provides European countries with a single voice.

Would the UK be worse off were it to leave the EU? It is always better to be at the table arguing about issues, than to be excluded. You cannot win arguments where you are not entitled to be involved.

Economically, Open Europe estimates the cost to the UK of exiting Europe at £56bn, more if the UK fails to make significant free-trade deals and maintains open borders to energetic, youthful immigrants as a way of ensuring a steady working-age population. Putting a price tag on the cost of new legal frameworks, regulations and bilateral agreements would add further to costs.

What is unknown is how business would react physically. During the Scottish referendum, business threatened to leave Scotland for England to ensure that they remained within the EU. If businesses decide to move their UK headquarters to the continent in the wake of a UK exit, UK taxpayers would be left with an even larger bill.

**KEVIN BUTLER** Former economist at the Bank of England and consultant economist at Milsted Langdon Chartered Accountants

The UK could never exit the EU without substantial economic risk. As a stable and open market, Europe is larger than the US and accounts for 50% of the UK's exports, including services and goods.

For all its petty rules and impenetrable bureaucracy, the EU has successful economies such as Germany, the Netherlands, Finland and newcomer Poland which invest in the UK and/or supply labour upon which the UK depends.

The UK has a record peace-time deficit of nearly 11% of GDP in 2010-11, a stubbornly large current account deficit, and relies too heavily on consumer spending and the housing market for economic growth. Is this the fault of the EU?

Among leading western economies, it is the US that arguably led us into the 2008/09 recession, and its economy still has one of the largest debt/GDP ratios. Meanwhile, Japan struggles to achieve growth in a deflationary world in which only the Asian powerhouses such as China seem to thrive.

Today, we have cheap oil, but it will not last. Geopolitical risks intensify from the Middle East and Russia. In an unstable world, the EU provides relative stability. Staying in the EU is the sensible solution.

**JONATHAN BRANTON** Head of EU/competition at law firm DWF

As a collection of sovereign states with substantial political, economic and cultural differences, Europe seems ever further away from Jean Monnet's "ever closer union". But this is not to say the EU is not, or will never be, an economic powerhouse.

European nations form half the G8 membership through the UK, Germany, France and Italy. In 2014, UK, French and German GDP was $2.8trn, $2.9trn and $3.8trn respectively. According to the IMF, the GDP of the EU was more than $18.3trn in 2014 – the US was $17.4trn, China $10.2trn. All of this was despite economic challenges in many member states and a lack of cohesive political unity overall.

The Transatlantic Trade and Investment Partnership (TTIP) is the largest bilateral trade agreement in history, estimated to be worth £100bn. It aims to make access to the US market of 300m consumers easier for the EU, and access to the EU market of 500m easier for the US. A trade deal of this size shows the power of the EU bloc.

Negotiating as one trade bloc, and having the customs union and internal market, has generally made doing business in the EU easier. The same can be said for the ability to keep up with the US and emerging markets like China. It may not be unified, but the EU remains an economic powerhouse.

**STEPHEN HYDE** Professor in management practice, Bedfordshire University Business School

Accepted wisdom is that the EU is "the UK's largest trading partner". Yet this isn't true. The reality is that the EU is a collection of 28 states, using 10 different currencies, with only 19 of the EU's countries using the euro. If you add up the trade between the UK and the remaining 27 countries the total is certainly substantial, but the reality is that it still involves dealing with multiple labour laws, tax regimes, competition regulations, vested interests, and so on.

Each foray into a new country means familiarisation with the way each country works - officially and unofficially - along with the foibles, tastes, characteristics and, of course, the language of consumers in that marketplace. This is a resource-hungry process and a real deterrent to genuine European expansion of businesses.

So will the EU become the truly unified economic powerhouse that some claim? And will Britain miss out on a financial bonanza, should it decide to leave? For me the answers are no and no.

The EU won't become unified economically until fiscal regulation is truly centralised and the population homogenised. It is difficult to see this happening in the foreseeable future. And trade between the UK and the EU members would continue, even after a UK exit; proximity and the simple financial imperative for commerce between the European nations would ensure that, regardless of the UK's status.

**ROGER BOOTLE** Executive chairman of Capital Economics, and author of the recently-updated *The Trouble with Europe*

The EU is at a critical juncture. One way or another it will change, because the survival of the eurozone demands closer fiscal and political integration. This will make things difficult for EU members operating outside the eurozone, particularly the UK. To avoid being dominated by the eurozone group, and/or being drawn inexorably into it, the UK would have to negotiate cast-iron guarantees. Effectively the EU would become a 'two-speed' Europe.

Of course the UK could avoid negotiating such a deal by voting to leave the EU. Whether this is viewed as a disaster or a godsend differs greatly from one observer to the next. I think it would be neither. It would be an opportunity to do things differently and to regenerate our democracy, which has been damaged by the near-impotence of Parliament in the face of Brussels.

Simultaneously, the EU is being drawn in the wrong direction. The euro has been an economic catastrophe. It will not become less of one even when put on a firmer footing. Further integration will almost certainly bring more harmonisation and regulation and that will only drag European economic performance down further.

The EU is slipping down the international rankings of GDP per capita. This is obscured by the high initial level of living standards in many countries and by the EU's size. But bigger doesn't always mean better. We should try hard to reform the EU fundamentally but, if we don't succeed - and I doubt we will - we should leave. If that happens, I fully expect the UK to do well.

**LAURENT NOËL** Professor of strategy, Audencia Nantes School of Management

Would life without its prime trading partners be realistic for the UK? According to a recent study by Open Europe the answer might be yes, but only if Britons accept the social price of immigration and wage decreases.

The price might well be too high, result in a deep industrial shift back, with an economy plus banking and insurance activities dangerously exposed in a world of sub-primes, US student loans and debt derivatives. In the long-term, worst-case scenario, leaving the EU could reduce the UK's GDP by 2%.

Leaving the EU seems unrealistic and would come at a high price, but it could be the way to avoid a larger shambles and help to reform the UK's economy. A choice has to be made because, as we say in France, you cannot have the butter and keep the money you spend on the butter.


BISHOP & SON. Dairymen.
BISHOP
R. WHITE'S GINGER BEER
R. WHITE'S HOP ALE
ROMFORD DAIRY
BISHOP & SON
B S
RY.
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In uncertain financial times, keeping it in the family would seem to be a strong business model. So why, asks Xenia Taliotis, do so few family firms make it into the hands of the third generation?

# FAMILY AFFAIR

Family businesses are a good thing, right? When we see those two little words – family business – on a shop, or a decorator's van, or on anything at all – we're reassured, seeing them as endorsements of quality and care. We expect the owners of a family concern to look after us, their customers, because we believe we are their lifeblood. Without us, there is no them, and we expect every person we meet within that business to have a vested interest in its survival.

But in reality, a family business can be anything from a micro firm – a mother and son combo – to a Sainsbury's, Morrisons or Wilko. "There are three million family-run businesses in the UK. More than 50% of all medium-sized businesses are family-owned, and 12% of the largest firms, which employ more than 250 people, are still in family control," says Mark Hastings, director general of the Institute of Family Business (IFB), a not-for-profit organisation that supports the sector. "It's a very successful business model the world over." Hastings is right – 19% of companies in last year's Fortune Global 100, which tracks the world's largest firms by sales, are family-controlled. And in the UK, family firms contribute £1.1trn to the economy, make up 25% of the GDP and employ more than 9.5m people.

Six out of 10 UK businesses are family-owned, but percentages in other countries are even higher. According to the *Perspective from the Gulf* report by Chartered Accountants' Worldwide, 80% of non-oil businesses are family-run. "More than $1trn (£658bn) in assets in the region is expected to be handed over by the second generation within the next 10 years, yet globally only 15% of family-run businesses survive to the third generation," it says. "Professionalisation through increased emphasis on best practice corporate governance and transparency is critical."

What's notable about family businesses is how few survive beyond the working life of the original owner, and this is true wherever they're based. While there are certainly more first generation firms than you can shake a stick at, you'd be waving your twig at a rapidly dwindling number if you asked the first and second generations to stand aside. Figures released by the IFB show that in the UK only about 30% survive into the second generation, only 12% make it through to the third generation and only 3% go to the fourth generation. Stats for many other countries are in the same ballpark: only 13% of Indian family businesses and between 10% and 15% of those in Malaysia reach the grandchildren, for example.

But why is this? Why should such a thriving sector be littered with so many casualties? The answer, says Hastings, is largely down to two big, multi-faceted and connected issues – succession and governance; together they have many weapons at their disposal with which to curtail longevity, among them family loyalties/squabbles, owners not knowing when to let go, not having the right team in place to take over, and/or having an insularity of mind that resists letting in talented outsiders. Richard Kleiner, CEO at City accountants Gerald Edelman, who looks after many family concerns, raises another point. "The companies that succeed and prosper through the generations are those that put the business first.

"Those that fail are those that put the family first. It really is that simple. The key to survival is being able to stand back and look at your firm objectively. The decisions you need to make as a business owner may differ wildly from the decisions you want to make as a parent. Everyone wants to hand over something they've built to their son or daughter, but if that son or daughter has insufficient interest or ability, and you want to keep your firm going, then you have to bring in talent from outside the family."

This is precisely what happened at Booths, the high-end supermarket that has 30 stores in the north-west. The retailer, established in 1847 by Edwin Booth, appointed Chris Dee as its first non-family CEO in February. "Booths is now a sixth generation business," says current chairman Edwin Booth, great-great-grandson of the founder, "and until recently both the family and the operational boards were populated with family members - latterly by me, my cousin and my brother. But serious and widening cracks began to appear - so much so that customers were contacting me over Christmas to complain that new services were just not working. Clearly, we had to make immediate changes - the first and most important of which was to appoint Chris as chief executive, and to ask family members to accept non-executive positions."

Dee may not be part of the Booth family, but he's certainly part of the Booth business. He's worked for them for 20 years and was chief operating officer before his promotion. In other words, he is totally embedded in its culture and has a complete understanding of its values.

"It wouldn't work otherwise," says Booth, who remains executive chairman. "Chris knows what we want to achieve and what our core principles are. At the heart of any and every family firm there is a strong, passionate individual who brought his values to bear when he started the business, however long ago that was. Whoever takes on the firm also takes on that legacy and that responsibility but does, of course, have to adapt and modernise it so that it remains relevant and profitable. We've evolved but I would hope that if my great, great grandfather were to pay us a visit today, he would still find much to recognise in the way we're running Booths."

Nigel Atkinson, formerly chief executive of heritage family business Gales, was also brought in as an "outsider" but in this case it was to fill a generational gap. Atkinson, who is currently chairman of two and NED at three family businesses, helped the family to transform the brewery over a period of 16 years from a £20m to £100m business when the fourth generation showed no

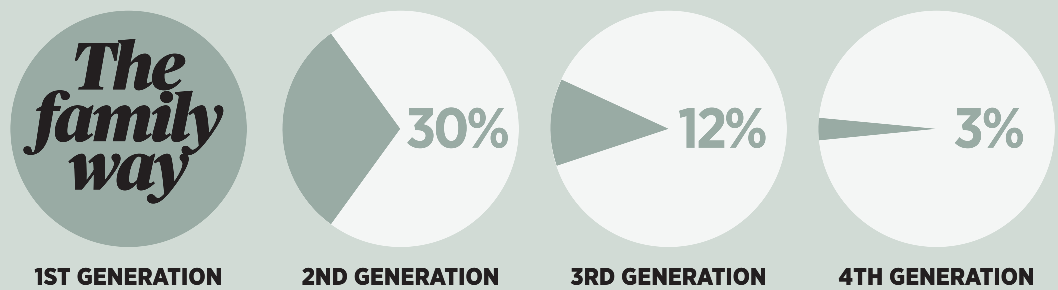
**"The companies that succeed and prosper are those that put the business first. Those that fail put the family first"**

interest in taking the reigns. "I was the first non-family CEO they'd had [since 1847] and we transformed it so much the family received an unsolicited offer to sell," explains Atkinson. "It was an extremely good offer and an elegant deal and I advised them to take it," he says. "But that's not always the case, which is why you need particular skills to take on an outsider family business role. You need to be tactful, understand the rules of the game and know that yes, you are there to advise but at the end of the day it's their train set," he says.

Another company that has tackled succession and governance head on is Wadi Group, an Egypt-based agri-business with subsidiaries and interests in the Middle East. Jointly founded by Philip Nasrallah and Musa Freiji in the 1960s, the two-family owned group recently worked with the International Finance Corporation (IFC), which helps companies build sustainable operations, to establish new structures for its future prosperity.

Speaking to the *Financial Times* last October, Ramzi Nasrallah, vice president and chief financial officer, identified some of the specific problems that can hamper family businesses, including a false sense of entitlement to join the firm. "We were growing fast and we knew it would become more challenging to survive as we moved into a second and third generation. We sought advice because something needed to be done about organising the family, working on the succession and addressing our employment policy. People thought they were entitled to join simply because they were family, and that mindset had to change."

Under the guidance of the IFC, Wadi set up an elected family




According to the Family Business Institute, there's a disconnect between the belief of today's family business owners and the reality of the failure of family firms to survive through generations. As these stats show, poor succession planning so often picks off firms that had been around for years.

**CASE STUDY:**
**MCMILLAN & CO LLP**

McMillan & Co is a family practice in Lancashire. Started by former KPMG partners Douglas McMillan and Bernard McLaughlin in 1995, the firm provides audit, tax, business advisory, company secretarial and payroll services for small- to medium-sized companies. In 2010, McMillan's son Neil joined the firm as partner. "Neil had been a senior manager at KPMG before joining us," says McMillan, "so he'd already proved himself elsewhere. I think that's an important consideration for anyone going into any family firm – they've got to show they can cut the mustard in the 'real' business world before joining mum's or dad's company. It's working very well for us, but then McMillan is pretty non-hierarchical; I like to think of everyone who works for us as extended family.

"Since Neil joined, a natural division of labour has developed – I work with our older clients, and Neil takes on their sons and daughters. That's important, too, in a family firm, giving the new generation distinct roles so that they're not treading on toes – or eggshells.

"I like to think that my exit from the firm will be painless – Neil is nurturing the next generation of clients, but aside from that, he's already been working with McMillan for several years, so our staff and clients should have the reassurance of continuity."

**"People thought they were entitled to join simply because they were family, and that mindset had to change"**

council, brought non-family members onto its board and introduced a new employment directive whereby younger members of the family could only join the group if they had worked elsewhere for at least two years, there was a job going, and they had the relevant skills and experience to fill that job.

Nasrallah admits that implementing the changes was a challenge, a point acknowledged by Amalia Brightley-Gillott, who, with her mother, runs Family Business Place (FBP), supporting owners with every aspect of running a family concern, including mediation when conflict arises.

"Getting family members to accept change can be a big problem," says Brightley-Gillott. "We find ourselves acting as a kind of counsellor, helping business owners accept that their organisation needs to evolve if it is to survive and prosper. We've seen some very tricky situations - ones where the founder doesn't want to stand down, or else does stand down but then won't let his successors get on with the job; situations where he wants to overlook his son or daughter and hand the business over to a niece or nephew. We've seen it all. Entrepreneurs are dynamic, passionate people who have given their all to their business. It can be very, very hard for them to disengage."

Though IFB and FBP exist to help family firms survive and thrive, there are times when the only way forward is for founders to sell up; in a recent survey by FBP and law firm Charles Russell Speechlys of 500 business owners, 65% of those questioned said they would cash out if the price was right. "In cases where there's no one from the family who is willing or able to take over the reins, then selling can be a very attractive exit strategy," says David Petrie, head of corporate finance at ICAEW, "particularly when you consider that they'll probably only have to pay 10% tax on capital gains of up to £10m, under the Entrepreneurs' Relief scheme. Assuming there is still value in the company, then new ownership can be enormously beneficial both to the founder and to the business itself."

An outright sale is undoubtedly the easiest way of exiting a business, but there are other options for those who want to retain some involvement, including, for example, setting up various employee incentive arrangements such as an Employee Stock Ownership Plan (ESOP) or an Enterprise Management Incentive plan, both of which enable an owner to remain with the company, and often in control, while still taking money out of it. "There are all sorts of structures we can set up to enable them to keep their foot in the door," says Petrie. "However, I like to encourage my clients to go off and enjoy a good retirement. If they manage to sell at the right time, when the business is still on a growth trajectory, they could do so well out of it. There's nothing sadder in my book then seeing people who've worked like Trojans all their lives leave themselves no time to enjoy the fruits of their labour."

**£1.1trn**
**Amount UK family firms contribute to the economy**

**25%**
**Proportion of GDP UK family firms contribute**

**9.5m**
**No of people employed by UK family firms**

# FLIGHT OF THE BLACK SWANS

By their very nature, unpredictable events are impossible to foresee. So what can be done to protect businesses against the unknown? Peter Bartram looks for an answer

ILLUSTRATION: SAM CHIVERS

When the Swiss National Bank (SNB) decoupled the franc from the euro in January, it took financial markets around the world by surprise. Deutsche Bank and Citigroup were reported to have lost £97m each as a result of the move. Investors panicked as they hunted for safe havens for their cash. The price of gold rocketed by £32 an ounce in a single day.

The SNB's decision was the latest in a series of "black swan" events - unpredictable happenings with a potentially devastating impact - that have shaken the business world in the past two decades. Others include the collapse of Lehman Brothers, 9/11, civil war in Ukraine, and the halving of the oil price during the past year.

As top executives around the world grappled to manage the impact of the SNB's decision on their own businesses, economist Steen Jakobsen, chief investment officer at Denmark's Saxo Bank, would have enjoyed a quiet smile. He had predicted that SNB would make such a move two years earlier. For nearly 12 years now, Jakobsen has been something of a global sage in thinking the unthinkable.

Every January he publishes 10 "outrageous predictions" for the coming year - which would be devastating black swan events if they happened. In the past, as many as three or four of them have come to pass. This year's crop of predictions includes a massive eruption of the active Icelandic volcano Bárðarbunga - shifting world weather patterns, disrupting agriculture and doubling the price of grain - and aggressive hacking of online shopping sites causing consumer panic and slashing Amazon's valuation by 50%.

Jakobsen insists his predictions are more than an exercise in spreading gloom and doom. "It's all about forcing people to look at the world slightly differently," he says, adding that boards should try a similar exercise for themselves. "The world is too complacent and too many people spend too much time projecting the past into the future."

And that is the key problem with black swan events: the past is no guide to what happens next. The black swan concept and theory were first developed by statistician and risk analyst Nassim Nicholas Taleb in his books *Fooled by Randomness* and *The Black Swan*. He argues that looking for patterns in the normal distribution of numbers, such as a bell curve, misses the outliers that may predict black swan events.

It is those outliers that cause businesses major headaches when they change from a random statistic into a real event. And the chances of that happening are not as remote as it may seem from the comfort of an oak-panelled boardroom. When Deloitte studied the performance of

the world's 1,000 largest companies over nine years, it discovered that almost 380 of them had suffered a "value killer" event - more than a 20% share price decline in one month compared to the average performance of the MSCI All Country World Index.

Among the 100 companies with the worst records, share price dipped by an average of 42% in the month following the value killer event. The biggest single cause was a black swan, which often triggered a chain reaction of other problems in the victim companies.

"These events often expose a company's biggest strategic, operational or financial weakness, triggering a further cascade of negative events for the company," notes the Deloitte research.

Steven Hall, partner in risk consulting at KPMG, says life has simply become riskier in the past 25 years, accelerated by more open and transparent global business. "Life moves more quickly now than it did then - so the transmission mechanism between events is shorter and faster. There is less chance to mitigate them before they become bigger."

Bill Waite, group chief executive at the Risk Advisory Group, a risk management consultancy, is often called in to help pick up the pieces when a black swan event hits a company. He has been helping clients navigate the problems caused by the civil war in Ukraine. "Five years ago, they wouldn't have seen this situation developing," he says.

Ukraine had always been a high-risk investment target with corruption and political instability two of the main problem areas, he points out. "But outside investors believed they could manage those factors with internal controls and procedures - including political risk forecasting," he says.

But Russia's seizure of the Crimea coupled with its military sponsorship of rebels within Ukraine were not on their radar. "The situation has been like a flock of black swans," says Waite. "Companies can respond to one event but when you've got several at the same time, it's very difficult to keep on top."

He says that ensuring the safety of staff has been a top priority for companies with operations in the region. That has been complicated because large numbers of workers have been drafted into the military on both sides of the conflict. Another priority has been protecting the value of assets in Ukraine. "You have to look closely at the micro-political situation and the reality of being able to protect them physically," Waite says.

In the face of violence and uncertainty, it is tempting to pull out of the country. But Waite argues that one of the lessons of the Russian sovereign default of 1998 is that if a company withdraws from a territory it is difficult to re-establish there when the crisis has passed.

Every black swan event is unique and presents its own problems. "The world throws out so much novelty that the best scientists and computers won't even be able to predict possibilities - let alone events," says Jochen Runde, professor of economics and organisation at the University of Cambridge's Judge Business School.

Runde has been delivering a series of lectures on how to avoid black swan events. One of the problems his research has identified is a "confirmation bias". People are conditioned by their history, experiences, social position and other factors, he argues.

"Confirmation bias is a psychological tendency to look for and interpret evidence in a way which is consistent with our world view," he says.

In other words, executives sitting round the boardroom table are more likely to think of the future in the way they have experienced the past.

"So the trick is to find strategies that take you out of your normal way of looking at things," he says.

He believes the 17th century philosopher Francis Bacon may have the answer. Bacon argued in favour of testing a whole range of different hypotheses to see if they challenged the accepted view. "When you look at a business plan, consider outliers that could be devastating for it," advises Runde.

Some companies already adopt an approach very similar to this. One of them is Lego, maker of the famous building bricks. When the credit crunch hit the firm in 2008, the board found that financial projections for the core building bricks part of the business were less robust than those for its short shelf-life product lines, often based around Hollywood blockbuster films such as *Pirates of the Caribbean*.

Paul Dennis, who heads the EMEA finance division at business advisory firm CEB, was a partner in Lego's review process and privy to the thinking of the company's finance team. He says: "Lego decided to use the more agile planning process used for the short shelf-life products for the whole business."

Now the company produces a baseline budget, but with three high-level variations on it, which it can switch to at short notice if the firm is suddenly hit by an unexpected change in its prospects. "As a result, Lego invests more time upfront, stress testing chosen scenarios more thoroughly. If it sees the scenario underpinning the base budget proves to be wrong, the company can switch to a variant of it quickly because the business has already given an implicit sign-off for it," he explains.

The message, which comes through from companies that perform best when a black swan soars into sight, is that it is wise to be more flexible in your thinking. "You can never be sure about what you don't know, or the best way to act when an unforeseen game-changing event happens," warns Iain Coke, head of the Financial Services Faculty at ICAEW. "However, to manage the risks you can look at – and challenge any assumptions in your thinking – risk considerations should be integrated into business decision-making at an early stage.

"For more complex businesses

## BLACK SWANS MASSING: POTENTIAL CHAOTIC EVENTS

### CYBER ATTACK

**Precedent** North Korea's apparent attack on Sony over its film *The Interview*, 2014.
**Early warning signs** Could be many but including small, unexplained errors; slower system performance; corrupted back-ups.
**Likely impact** Loss of data; disruption of business; significant need for rework.
**Mitigation** Focus on the basics, says Richard Anning, head of ICAEW's IT Faculty. Install latest version of systems; use anti-virus software; train staff not to open dubious emails.

### GLOBAL HEALTH PANDEMIC

**Precedent** Severe acute respiratory syndrome (SARS) outbreak, South-East Asia, 2002/03.
**Early warning signs** Cases exhibit resistance to existing vaccines with higher than expected death rate.
**Likely impact** Restrictions on travel; high workplace absenteeism; overstretched medical facilities.
**Mitigation** Crisis planning; identify key staff; plan for more temporary home working.

### REGIONAL CONFLICT

**Precedent** Russian invasion of Ukraine, 2014.
**Early warning signs** Raised geo-political tension over regional issues.
**Likely impact** Volatility in stock markets; possible rise in oil price; restriction of some commodities depending on region of conflict.
**Mitigation** Stress-test business plans in various risk scenarios; seek alternative suppliers in event of conflict; limit exposure to high-risk markets.

with a separate risk function, the chief risk officer should be given sufficient authority to challenge and help shape the business strategy.

"If the unexpected does happen, you should have well-organised processes to deal with it. These could include being able to mobilise a crisis response team, set up emergency board and risk committee meetings, and get quick access to up-to-date management information."

Nigel Peters, a former RAF group captain, trained in asymmetric warfare where the strength or strategy of belligerents differs considerably. He believes the flexible mind-set this training provides is why the military are so effective at handling black swan events, such as the fall-out from the 2001 foot-and-mouth epidemic.

Peters, now managing partner at Alium Partners, says: "Strong plans enable you to mitigate risk and an agile responsive workforce enables you to cope with the demands of a challenging and unexpected environment."

But John Lunn, partner at transformation consultancy Moorhouse, believes that black swan events can have positive, as well as negative, consequences. Lunn has gained business perspectives in Africa where firms expect things to go wrong, such as last year's west Africa Ebola outbreak. As a result, instead of trying to identify every risk, they focus energies on coping when a problem occurs.

Lunn believes European firms could learn from Africa's can-do-under-pressure culture. When hit by a black swan, companies spend all their time trying to protect their assets, Lunn points out. "But if a company were to split off a small team tasked with finding new opportunities from the crisis - and have this capability as part of its delivery culture - it could find itself ahead of competitors when the problem subsides."

Chartered accountants have a strong role to play if a black swan lands on their organisation. They need to challenge cause-and-effect-type thinking, says Dev Mookherjee, business director at Ashridge Business School, and a specialist on working with risk. "The idea that you can always project into the future based on previous experience is wrong," he says.

Accountants should be well placed to encourage managers to think about a range of outcomes, he adds. "They should seek out and be open to data that challenges the organisation at an existential level. They need to challenge the idea that there are risk-free options. And they need to take on a facilitating role, helping to test out future scenarios by asking 'what if?' questions."

Felix Naumann, professor at the Hasso Plattner Institute at Potsdam University, Germany, reckons he has just the tool to help.

He encouraged a group of students to build a black swan information system that enables researchers to ask 'what if?' questions about the past in a search for patterns that may hold a clue to future threats.

"The system contains practical lessons for business people who want to use the past as a guide to finding sets of circumstances that may recur in the future," Naumann says. (The system is free to use online at blackswanevents.org)

No company is ever likely to be able to foresee every threat. But the experience of the past decade suggests that those who seek to plan for black swan events are more likely to emerge from them stronger and healthier than those that don't.

"In my opinion, every single board should be under a legal obligation to make a worst case scenario for their business," says Saxo Bank's Jakobsen.

"They should be ready for a perfect storm."

# MOVING TOWARDS PENSIONS STABILITY: HOW TO PREPARE FOR THE JOURNEY

Aon Hewitt's Jackie Daldorph explains why operational excellence is an essential first step on your journey towards Pensions Stability

"Life is a journey, not a destination", wrote Ralph Waldo Emerson, but it is unlikely that he was thinking about pension scheme management. But, when looking at the issue of Pensions Stability, it is a sentiment we should explore.

As a finance director, your required Defined Benefit destination is likely to be a scheme where contributions are stable and predictable. It might be a scenario where the pension scheme is removed from the balance sheet entirely. The journey to this position can be a challenge.

Removing the scheme's impact on the balance sheet is, in one sense, easy – if you pay enough into the scheme, the liability disappears. But this is costly; there is a balance to be struck between a speedy resolution and a contribution strategy that is achievable, sustainable and predictable.

It is essential to remove the scheme's liability from the balance sheet in an affordable way. While increased contributions provide an answer, this may not suit or be an option for the business.

Many schemes are looking at the available liability management options. Once the preserve of larger schemes, we have seen in recent years these solutions being explored by schemes of all sizes. Pension Increase Exchanges (PIEs) and enhanced transfer value (ETV) exercises, along with newer options that join the market all the time, can reduce liabilities without the need for large contribution commitments.

It is important to get your scheme in a position where you can implement your preferred liability management solutions when the time is right. Acting at the appropriate time is key; often the opportunities are available for a limited time only.

Clear operational structures can assist schemes to be prepared. It is little surprise that, as the number of financial solutions and tools available to schemes has grown, operational structures have needed to adapt. While financial risk has been the main focus for many years, we believe now is the time to look more closely at operational risk.

Our research shows that schemes cite lack of time as one of the main reasons they struggle to make the best decisions. To counteract this, schemes need to focus on making changes to the way they operate to focus their limited time on areas that make a real difference.

One easy place to start is to look at the delivery model – does it work efficiently and align with the scheme's aims? Everything you need to do can be categorised into a spectrum of: Get Busy, Get Simple, or Get Help.

- 'Get Busy' means empowering your stakeholders to take prompt action where required – ensuring they have the time, knowledge, data and budget they need to drive correct scheme decisions.

- 'Get Simple' is where the scheme runs a deliberately simplified model. It is straightforward to manage, and probably carries a low running cost, but may take longer, carry more risk or be more costly long-term.

- Get Help means you want to do everything that 'Get Busy' does but appreciate that you don't have the time. So you decide what can be delegated to third parties – implementing your investment strategy; member communications; group life insurance placement or any number of elements. This extends your approach of outsourcing non-core functions to cover how the scheme is run.

**"Research shows that schemes cite lack of time as one of the main reasons they struggle to make the best decisions"**

The right approach will differ for different items – in some you may decide to 'Get Busy'; in others delegation will be the right route. This is an area where many groups of trustees would welcome input from the sponsor company in choosing their operational model.

Operational excellence in your pension scheme is essential if you are to make tangible progress towards your endpoint. Focus on taking one step at a time, and see good governance as a key accelerator towards your objective of Pensions Stability.

**Email: graham.ord@aonhewitt.com for a copy of Aon Hewitt's latest research into pension scheme governance and delivery models**

**Jackie Daldorph is a senior partner at Aon Hewitt and has more than 25 years of experience in the pensions industry**

# HAS COPYRIGHT KILLED THE COPY CATS – OR HAS IT KILLED CREATIVITY?

31 With payouts for music copyright infringements hitting the headlines, creative industries specialist **DR JONATHAN WHEELDON** argues that the deadlock in the reform of copyright for the digital age is stifling growth. And that it may be resolved only by imagining longer-term scenarios

At the dawn of the new millennium, I returned to the UK after seven years of international assignments for the world's largest music company. Back in London I was asked to manage the £16m budget of an ambitious and innovative project designed to capture the potential of digital innovation, and to transform consumer engagement with music and artists. The project was called Voxstar.

My return coincided with the peak of the dot com boom and, as it turns out, with the historic peak of the global recorded music market. London was buzzing with the anticipation of growth still to come. It was an exciting time to be in the cultural industries: full of possibilities for creating a new experiential platform of content and community, to be provided seamlessly via new technology channels and devices as they emerged.

The century-old business model looked obsolete. It could best be summarised as "expert" curation of talent, and global-scale formulaic marketing and distribution, through producer-friendly channels, of physical products to be owned and collected. Now there were new values to be explored: choice, convenience, personalisation, discovery, sharing, experimentation, immediacy, community and mobility. These were the consumer-empowering determinants of value for the 21st century.

Consumers were no longer passive recipients of culture: they were interactive generators, or even patrons, of new or adapted output. Anything seemed possible, and the winners would be those who could innovate and execute the quickest. Or so we thought... In the end, Voxstar was only one of a number of now forgotten, but arguably heroic, industry initiatives that crashed and burned in the early years of the new millennium.

The main reasons for industry decline tend to be conveniently ignored, namely fear-induced deadlock in rights negotiations and the absence of trust and collaboration between (in theory) strategically aligned corporate giants of old and new media. More often, industry failure to adapt is attributed to the rampant piracy stimulated by Napster (launched in 1999), and its long line of file-sharing successors. As the first, and most written-about, industrial casualty of the internet age, the music industry is frequently imagined as a national treasure, one plundered by an unregulated wiki wild west of "freetards" and "dotcommunists".

Yet this is a misleading narrative with a much misunderstood and maligned variety of antagonists. It incites a heightened fear and mistrust of anyone who promotes an alternative narrative, especially of those who call for copyright reform. A more balanced interpretation of events might recognise the value of the morally ambiguous pirate counter-narrative. This continues to play a role in questioning the relationship between the individual and the state in matters of freedom, creativity, innovation, knowledge-sharing and competitive advantage in international trade. It reminds us that the prevailing system of rights protection may preserve capital, but at the cost of repressing the possibilities of other intangibles that drive 21st-century growth, such as networks and human relations.

Examples abound of how the legacy of the Statute of Anne (1710), considered to be the first copyright law, conflict with the values of the internet age. Martin Luther King may well have turned in his grave recently at the irony of Oscar-nominated movie *Selma* excluding the words of his iconic speeches of freedom, the copyrights having been sold to DreamWorks for a future Steven Spielberg production.

Yet the fault (if there is one) lies not with the origins of copyright. Historians reveal that 21st century calls for copyright reform have plenty in common with its earliest 18th century incarnation. Original copyright law was a state-granted monopoly privilege with a 14-year term, renewable on application for a further 14 years. Anything that stood in the way of the free flow of knowledge was anathema to The Enlightenment. The temporary granting of exclusivity to an idea - "the fugitive fermentation of an individual brain" to use Thomas Jefferson's words - was not a right, but "a gift of social law". A monopoly on ideas for a minimal term was conceded as a necessary evil that would promote further knowledge and learning, to the benefit of a progressive commonwealth.

Jefferson was talking about patents rather than copyrights, but by the late 18th century, literary authorship and scientific invention were talked about as similar processes, deserving similar rights and protections. The fact that computer programs carry the status of literary works is evidence that, even in recent times, the lines get blurred. But in legal terms, the divergence in rights since that time has been dramatic. While patent term has remained relatively constant (20 years with onerous registration and maintenance requirements), copyright is automatic, requiring no registration, and its term has grown potentially tenfold, extending to the life of the author plus 70 years.

Continental European concepts of authors' moral rights, compounded by corporate cultural lobbying for greater protection, have brought us to a world where "the commons of the mind" are in danger of becoming ever more enclosed by the few. Some may dismiss that as ideological fear-mongering, but such dismissal may have growth-limiting consequences.

Copyright reform for the digital age is on the political agenda. "If one needs an army of lawyers to understand the basic precepts of the law, then it is time for a new law", said Maria Pallante, US Register of Copyrights, setting a recent challenge to Congress for a comprehensive revision of statute. Similar challenges have been set by the European Union. In commissioning the 2011 Hargreaves Review, David Cameron posed the question: "Could it be true that laws designed more than three centuries ago with the express purpose of creating economic incentives for innovation by protecting creators' rights, are today obstructing innovation and economic growth?" Yes, the report concluded.

Yet reform moves at a snail's pace. The law is years (even decades) behind the evolution of digital practices. Millions of people doing things every day with media and technology without giving a thought to possible copyright infringement. The UK private copying exception (based on a 2001 EU directive) that allows individuals to copy media from one device they own to another, only came into effect in October 2014, with its implementation still subject to judicial review. This is one of hundreds of complex and esoteric copyright arguments fought bitterly for more than a decade by diametrically-opposed stakeholders in the digital future. Unsurprisingly, the public is disengaged and, as the gap between the rules of law and the new social norms shaped by technology increases, the law risks losing the support of the public, and of business.

Without reform, an antagonistic equilibrium will prevail, where content-users make a risk assessment, consciously or intuitively, whether or not to infringe, while content-owners make a cost-benefit analysis of how much to spend on anti-piracy. This is neither socially nor economically ideal in societies that aspire to be progressive. I have experienced the contested narratives of copyright as a corporate manager and protector of rights, as a potential infringer and as a scholar.

After 15 years, I am of the opinion that we are going nowhere. The number of IP lawyers continues to grow, and antagonism makes the status quo ever more entrenched. We should not be surprised. Copyright reflects a natural dilemma. It is deep, complex and difficult to reconcile. There are good arguments (intellectual, political, and emotional) for both sides. On the one hand, genius "gives birth" to an idea or composition – the brain-child and property of its originator, who should be incentivised to contribute to a society that might not otherwise benefit from their gift and labours. On the other hand is the concept that most creators are "dwarves standing on the shoulders of giants", and that creativity and innovation thrive on shared, borrowed or plagiarised ideas. Mozart is unimaginable without Bach and Haydn, and Shakespeare may have been ruined had he faced current levels of infringement litigation. Complexity, diversity and vested corporate interests mean that policy reform based on objectively generated empirical evidence doesn't stand a chance. It will always be about the most powerful narratives and rhetoric. This does not mean that change is impossible, just that it will not happen based on rigorous and relevant evidence, which is the Holy Grail, or rather the red herring, for policymakers.

Governments undoubtedly enjoy their role of referee in this story-telling contest between the corporate giants of old and new media and open rights groups. They assume that weakening or dismantling copyright will mean upsetting an admittedly flawed, but at least well-understood and controllable, balance of power in a field of creativity and innovation that they believe is critical to the continuing competitive advantage of Western economies. That might feel like a safe strategy for a 10-year time frame, but I very much doubt it will hold true in the long term.

So what is my proposition? To reduce political risk, take heat out of the argument and transcend the deadlocked positions of opposed parties, we could start by generating consensus for re-framing the problem. Construct it as a long-term future challenge. Call it "Copyright 2050" – a date far enough away that most would shudder at the thought that we might by then still be wrestling with the current statute. Biases would be reduced – not necessarily the abstract self-interest of corporations, but of those of us whose beliefs and careers are embedded in an increasingly obsolete paradigm of IP. Make "no copyright" the starting point, and build alternatives from scratch.

This proposition sounds radically anti-copyright. It is not. Far from destroying the creative industries, laws that resonate more intuitively with the creative and social practices of the 21st century could strengthen public respect and compliance, and make enforcement more focused and effective. Good compliance with a minimal copyright regime would be more economically attractive than the flagrant abuse and frustrations associated with a maximal regime.

Where can accountants contribute to this project? As CFOs and finance directors we often find rights management within our sphere of responsibilities. Accountants have been notably absent from this debate, and the lead has been taken by lawyers and economists. Yet accountants are pragmatic problem-solvers. We can model scenarios, and manage risk, and make transitional proposals to assess and minimise the impact of any reform on balance sheets and corporate valuations. We have much to contribute. So, if any of this resonates with the big accounting firms who are contemplating long-term industry research projects, I urge you to consider "Copyright 2050" as a priority.

*Dr Jonathan Wheeldon is the author of* Patrons, Curators, Inventors & Thieves: The Storytelling Contest of the Cultural Industries in the Digital Age *(Palgrave 2014). He is a chartered accountant, consultant, and visiting fellow at Henley Business School*

# The professional

Incoming ICAEW president **Andrew Ratcliffe** wants the profession to be seen as a mark of integrity and fearlessness. He tells Julia Irvine how he plans to achieve it

PHOTOGRAPHY: DOMINIK TYLER

**CAREER IN A NUTSHELL**

**2014-present** chairman of audit committee, Royal College of Music
**2014-present** treasurer, Film on Friday
**2005-present** member, ICAEW board
**2001-2004** chairman, ICAEW audit and assurance faculty
**2001-2005** chairman, PwC global board
**1998** partner, PwC
**1986-1998** partner, Coopers & Lybrand
**1979** qualified, Coopers & Lybrand

"Professionalism" is a word you are going to be hearing a lot about over the coming year if Andrew Ratcliffe, incoming ICAEW president and soon to be retired PwC senior audit partner, has anything to do with it. He believes the word – which is so important to the chartered accountancy profession – has become devalued and during his presidency he's determined to restore its proper meaning.

"Professional, as opposed to amateur, can just mean that you are paid for what you do; but when we use the word we mean more than that. The word has become overused, but if we are to reclaim it we need to be able to explain what we do mean and by what right we continue to call ourselves a profession. The word comes from belief, commitment and making a promise. Yes, for us, it's about public interest, values, integrity. And that's the difficulty," he adds wryly. "You're exchanging one rather squashy word for a whole load of even more squashy words where there is even less consensus about what you mean."

A tricky task then, but Ratcliffe loves a challenge. He will bring to the question nearly 40 years' experience as an auditor to some of the world's largest and most complex companies, including Royal Dutch Shell, GlaxoSmithKline, Royal Sun Alliance and Barclays, as well as seven years as a member and then chairman of PwC's global board.

Those years were really challenging times, he recalls, but ones he "would not have missed for the world". His tenure as chairman began as the profession (that word again) was still suffering the aftershocks of the collapse of Enron. In short order the board had to appoint a new chief executive, Sam DiPiazza, work with him to dispose of the worldwide consulting businesses to IBM and determine a new strategy for the network.

Ratcliffe's career could have ended up very differently. He cheerfully admits that he had never heard of chartered accountancy until he left the University of Cambridge armed with a maths degree and a strong desire never to find himself "sitting in a room on my own thinking weird, abstract stuff".

He thought he might like to "do something with people", which gave him the idea of going into business. "I realised I knew nothing about it, found out about chartered accountancy, and decided I wouldn't be wasting the next three years because I'd learn how companies worked, get a qualification and maybe discover at the same time what I really wanted to do."

He joined Coopers & Lybrand (now the Coopers in PwC) and was hooked. "What kept me in the profession is the variety. I can't claim there was a master plan, but I took opportunities when they came along. I have been fortunate to work with clients in a lot of different industries," Ratcliffe says.

Being an auditor is a privilege, he adds. "I think the relationship between an auditor and his client is unique – genuinely – in terms of professional services. You are there with your client with a common goal of producing a set of accounts that are true and fair, balanced and understandable. In that sense you are like any other professional in assisting your clients to do what they want to do. Yet you have the added responsibilities of your profession and the public interest. If you don't like what your client is doing, it's not just a matter of 'do I feel happy acting for you any more?' You actually have the sanction that stops them doing it.

"There may be times when you need to have that tough conversation, but then, the next morning, you start again with the same open constructive respectful relationship you had before. I've always enjoyed that dynamic, not just helping people to do things that they want to do, but also that sense that you are there to help them do what's right."

If Ratcliffe's career choice was down more to luck than choice, so too was his involvement in ICAEW affairs. Following the merger that created PwC, the two heads of audit who previously represented their old firms on the Audit Faculty committee decided that the new firm should just have one representative. Rather than battling it out, they picked him.

"I thought of it as a duty thing, but when I started I absolutely loved it. It opened my eyes to the fact that the profession is so much more than what I had seen in my own firm. The people sitting on the faculty committee ranged from the biggest audit firm in the land to Peter Upton, a very successful sole practitioner from Nuneaton. It was a chance to get involved in thinking more widely about what happens with audit.

"Of course, if you stick around for long enough, people ask you if you would like to chair it, then the technical strategy board, and before you know it, you're running for president..."

He says he started seriously thinking about being president when he saw the impact of the financial crisis on the profession and decided that "we needed to up our game and tell our story". He wants the profession to be seen as open and inclusive rather than succumb to the easy description of being a "conspiracy against the laity".

This means attracting young people from all walks of life and giving them equal opportunities. It's also about responding to the issues of the moment fearlessly – whether it's ensuring that business has its voice heard through the ICAEW general election manifesto or reacting to the current pressure on the profession over tax.

Of course, the next 12 months won't be all seriousness and "professionalism". At home, Ratcliffe keeps bees ("fascinating") and grows vegetables ("the greatest satisfaction") and he's just as likely to ask how to grow okra ("it germinates, it grows and then it just goes 'blurgh' and dies on me") as discuss the latest developments in auditing standards. But rest assured, he will bring the same care, thoughtfulness, dry wit and rigorous intellect to bear on the profession's problems as he would his prize tomatoes.

# Technical
# The top five

Advice on conduct of tax advisers, fresh scrutiny of corporate governance compliance and criticism of new accounting regime's unnecessary complexity

### GUIDANCE FOR TAX ADVISERS

1 A number of professional bodies - including ICAEW - have jointly published guidance on professional conduct in relation to taxation. It came into operation on 1 May.

TECH 02/15 is in response to the increasing public focus on the actions of tax advisers and their clients particularly over tax avoidance and evasion. It sets out "the hallmarks of a good tax adviser" and the fundamental principles of behaviour members are expected to follow, and offers guidance on situations that advisers may find themselves in.

The guidance does not take into account the joint HMRC and Treasury paper, *Tackling Tax Evasion and Avoidance*, published in March, which called on the bodies to take "responsibility in setting and enforcing professional standards". They say the paper will form the basis of discussions later in the year.

icaew.com

### PROPOSED STANDARD FOR MICROS INACCESSIBLE

2 There is a growing disquiet among small practitioners and small businesses about the implementation of the new accounting regime for micro entities. They point to the length and complexity of the Financial Reporting Council's proposed standard (FRED 58 is 144 pages long) and question how a move to simplify accounting for micro entities could have ended up so complicated and inaccessible.

ICAEW agrees. Although it supports the idea of FRS 105 as a standard for micros, it does not "believe that the FRC has yet achieved the right balance between maintaining consistency with FRS 102 and developing a standard that will be sufficiently accessible for preparers". It says in focusing too much on maintaining consistency with FRS 102 layout, structure and terminology, the FRC has limited the standard's overall clarity. "In our view," it adds, "there should be a greater emphasis on ensuring that FRS 105 is an accessible document tailored to the needs of micro entities."

icaew.com

### FRC FOCUS ON EXPLANATIONS

3 The Financial Reporting Council is to focus on explanations companies give when they choose not to comply with the UK corporate governance code. It will monitor explanations to ensure companies are not just paying lip service to "comply or explain".

FRC chairman Sir Win Bischoff says that one of the reasons behind the success of the two UK governance codes is that they operate on a principles basis "rather than relying on strict regulation to bring about change".

frc.org.uk

### EMPLOYMENT INTERMEDIARIES REPORTING REQUIREMENTS

4 HMRC has issued updated guidance on the new reporting requirements for employment intermediaries. Under new rules, which came into operation on 6 April, most employment agencies and other intermediaries have to send information about workers to HMRC on a quarterly basis where they don't operate PAYE. Intermediary is defined widely as:

- an agency;
- having a contract with a client;
- providing more than one worker's services to that client under the contract;
- providing the workers' services in the UK or abroad (but if the latter, the workers must be resident in the UK)
- making one or more payments for the services (including payments to third parties).

The intermediary must provide the workers' details (including payment details) whether they are working in the UK or overseas on temporary or permanent contracts. Following the end of the first reporting period from 6 April to 5 July 2015 you will have until 5 August 2015 to send your first report to HMRC.

gov.uk

### EUROPEAN COURT OF JUSTICE RULES ON REDUNDANCY

5 In a landmark ruling, the European Court of Justice has decided that, for the purposes of collective redundancy legislation, "establishment" refers to the site where an employee works and not to the employer as a whole.

This means that employees working in small units that employ less than 20 staff but which are owned by a larger group, are not covered by the requirement under UK employment law to consult over redundancies. As a result, they do not qualify for compensation.

The case, *USDAW v Ethel Austin Ltd (in administration)* and another (Woolworths), which the court dismissed, was brought by the shopworkers' union on behalf of 3,200 former Woolworths employees and 1,200 former employees of collapsed clothing chain Ethel Austin. It argued unsuccessfully that the workers had unfairly been denied redundancy payments that had been given to workers at other larger sites.

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

# Key developments

## AUDIT

### Information sharing aims to promote high-quality audits

Members of the International Forum of Independent Audit Regulators (IFIAR) have agreed in principle on the text of a multilateral memorandum of understanding (MMOU) that would provide a framework for information sharing among members in a move to promote high-quality audits.

IFIAR comprises 50 independent audit regulators from jurisdictions in Africa, the Americas, Asia, Europe, the Middle East and Oceania, including the UK's Financial Reporting Council.

Members also approved the publication of a report summarising the results of a survey aimed at developing an understanding of the mandates, objectives and legal authority of IFIAR members' enforcement regimes. It will enable members to share information and enhance discussion of current and emerging enforcement issues, methodologies, and techniques.

### Updated guide to IFRS use

The IFRS Foundation has published the 2015 edition of IFRS as *Global Standards: a Pocket Guide*. This summarises the use of international financial reporting standards in 138 countries around the world, provides a history of the development of IFRS, discusses the advantages they bring and lists their current requirements.

It can be downloaded from the foundation's website along with full jurisdictional profiles.

ifrs.org

## FINANCIAL REPORTING

### FRC moves to halt unintended consequences for FRS 102

The Financial Reporting Council is amending the provisions of FRS 102 that relate to share-based payment transactions with cash alternatives. The aim is to get rid of potential "unintended" accounting consequences of applying the standard under these circumstances.

According to the FRC, commentators had pointed out that "the accounting requirements of FRS 102 applicable to share-based payment transactions, where the entity can choose to settle with cash or equity instruments, differ from those in IFRS and previous UK and Irish GAAP and, as a consequence, are more onerous to apply and may result in inappropriate accounting outcomes".

The FRC has revisited the provisions and released a consultation document. This proposes a narrow scope amendment to the requirements set out in s26 to achieve greater consistency with the equivalent requirements of IFRS 2, *Share-based Payments*, and previous accounting requirements under the similarly titled FRS 20.

The proposed date for the finalised amendments is for accounting periods beginning on or after 1 January 2015.

frc.org

### A "true and fair view" poses a challenge for small entities

The law governing small company accounts is in conflict with the need for them to show a true and fair view, according to ICAEW. This, it says, is likely to prove a major challenge for some entities classified as small.

In its response to the Financial Reporting Council consultation paper on draft amendments to FRS 102 relating to accounting standards for small entities, ICAEW has identified significant concerns. While it agrees that FRS 102 should have a new separate section setting out the reduced presentation and disclosure requirements for small entities, it is worried about the proposed structure, layout "and in some places the drafting" of the section which "does not clearly identify the disclosures required by law or their interaction with FRS 102".

"We are particularly concerned about the lack of a clear, upfront explanation of the requirement for small company accounts to show true and fair view despite the restriction on the specific information that can be required by law in those accounts.

Also, with the lack of a clear explanation of the different legal restrictions that apply to the accounts of a small company compared with those entities that, though small within the definition of the thresholds, are not in fact companies."

Rather, ICAEW says, the section should start with a brief summary of the revised small companies' regime, including the restrictions that apply only to small companies. It should contain a complete and clear list of the small company disclosures required by law, referenced to the Companies Act, and with explanations of how they interact with the rest of FRS 102.

icaew.com

### FRC updates guidance on transition to FRS 102

The Financial Reporting Council has updated its Staff Education Note 13 on transition to FRS 102 to clarify the examples and revise the descriptions of the transitional exemptions to align with the requirements in the August 2014 edition of FRS 102.

frc.org.uk

### One-year deferral proposed for revenue recognition standard

The International Accounting Standards Board is proposing to defer, by one year, the effective date of IFRS 15, *Revenue from Contracts with Customers*, to 1 January 2018.

This is the converged standard on revenue recognition issued by the IASB and the US Financial Accounting Standards Board in May last year. Under this standard, companies will be required to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be fully entitled in exchange for those goods or services. There will also be enhanced disclosures about revenue, guidance on transactions that were not previously addressed comprehensively (such as service revenue and contract modifications) and improvements to guidance on multiple-element arrangements.

The IASB wants the year's deferral because it plans to issue an exposure draft with proposed clarifications to the standard. It also wants to stick to the same implementation date as FASB's, which has also been proposed for a one-year deferral.
ifrs.org

## INSOLVENCY

### Fraudulent directors can't blame the company and walk free

Directors who commit a crime in the name of a company cannot blame it on the company and walk away scot free, says the Supreme Court.

In a unanimous decision in *Jetivia SA and another v Bilta (UK) Ltd* and others, seven Supreme Court judges dismissed an appeal by Swiss transportation company Jetivia and chief executive Mr Brunschweiler.

Bilta was compulsorily wound up in November 2009 following a petition by HMRC. Liquidators Grant Thornton brought proceedings against its two former directors, Jetivia and Brunschweiler, alleging that they were party to an "unlawful means conspiracy" to injure Bilta through VAT fraud. The appellants had been involved in a "carousel fraud" scheme involving carbon credits, claimed Grant Thornton.

The appellants argued, before the Supreme Court, that Bilta was barred from making such a claim because of its criminal conduct. The court disagreed. It said that, under normal circumstances, the acts and state of mind of a company's directors and agents can be attributed to the company. "In an action like the present for breach of duty against directors for using the company to commit a fraud on a third party in a way alleged to have caused the company loss, it is inappropriate to attribute to the company the fraud to which the alleged breach of duty relates, even if it is being practised by a person whose acts and state of mind would be attributable to it in other contexts."

The defaulting directors, it added, should not be able to rely on their own breach of duty to defeat the operation of the Companies Act in cases where the intent of the Act was to protect the company.

## REGULATION

### Changes to in-house practice rules are futile, says ICAEW

Further relaxation in the practising rules governing in-house lawyers is pointless, ICAEW has told the Legal Services Board.

It believes that alternative business structures (ABSs), which effectively allow lawyers in non-law firms to provide legal services to the general public, already provide protection to clients, and it would not want to see that protection weakened.

In its response to the board's discussion paper, *Are Regulatory Restrictions in Practising Rules for In-house Lawyers Justified?*, ICAEW says any relaxation could create more problems than it solves. "We are particularly concerned that any slackening or removal would increase the potential for conflicts of interest, particularly if there were no clearly-defined boundaries put in place to reduce this possibility."

It points to ICAEW members with dual qualifications who practise as both lawyer and accountant. "It would not be appropriate for the ability of such professionals to advise clients as an accountant to be inadvertently and unnecessarily restricted as a result of new legal services regulation."
icaew.com

## TAX

### Tax proposals should beware bias that non-doms pay too little

ICAEW has warned the government against the presumption that non-doms do not pay a fair amount of tax to the UK exchequer.

It has told the Treasury that its consultation paper, *Ensuring a Fair Contribution from Non-UK Domiciled Individuals: Consultation on a Minimum Claim Period for the Remittance Basis Charge*, is biased towards the perception that they don't pay enough to access the remittance basis.

"It is of course entirely open to the government to raise tax in whatever manner it sees fit," it says. "But there must come a time when the costs and the accompanying complexity of the tax rules operate more as a deterrent than in a manner conducive to raise tax yields.

"Our perception is that the current proposals are not so much concerned with fairness as with raising revenue, and that the way they are framed is likely to discourage the long-term resident but non-UK domiciled from electing to be taxed on the remittance basis for foreign income and gains."
icaew.com

# Getting to grips with GAAP

Changes for small companies take effect this year – and there is plenty for their professional advisers to think about, as Caroline Biebuyck discovers

Until recently, the debates about new GAAP have centred almost exclusively on large companies. That's changed this year, with amendments to FRS 102 in the pipeline, introducing an accounting framework for small companies that is similar to that used by their larger counterparts.

In practice, this means all companies will use the same recognition and measurement policies, with small ones simply publishing less information in their financial statements. "The best way to look at this is not as small company accounting, but as reduced disclosure," says Paul Creasey, audit director at Wilkins Kennedy.

"Small companies will still be running the same accounting systems as larger ones, using full FRS 102," says Creasey. "On the outside you have something that looks simple and straightforward, but underneath you are expected to operate the same way as larger companies do."

This can lead to traps for the unwary, perhaps the greatest of which is accounting for financial instruments. FRS 102 divides these into simple instruments and complex ones, with the latter needing to be carried out on a fair value basis. Many small companies think they don't hold financial instruments: they could be in for a nasty surprise. "You might have loans with complex terms, which takes them outside the definition of a basic financial instrument," says Robert Carroll, head of UK GAAP reporting at Grant Thornton.

"Many companies use interest rate swaps and foreign currency forward contracts - these could be complex financial instruments," says Carroll. "If you hold shares in a company and can measure their value reliably, you have to use fair value here as well."

Then there are changes to accounting for investment properties. "Previously, gains and losses on these went through reserves - now they have to be booked to the P&L," says Matt Howells, national technical associate director at Smith & Williamson.

FRS 102 also introduces the concept of a financing transaction in which if the finance part of the deal is at a non-market rate of interest, this now has to be recorded at the present value of future payments discounted using a market interest rate. "This could affect intra-group loans and loans to directors that are either not at a market rate of interest or which don't have defined agreements in place at the moment," says Howells.

Another big change concerns acquisitions. In the past, goodwill - the difference between the balance sheet value and price paid - would be written off over a period of typically 20 years. Under the new standard, a company will have to dig further and identify and value any intangibles that have been acquired. "You might be looking at customer relationships, contracts, intellectual property and brands," explains Creasey.

"Now there's a presumption that unless you can prove otherwise the write-off period should be five years. If you can come up with a good argument as to why a longer period is more appropriate, then you can use that. The flip side is that if you buy an early stage tech business and it's not entirely clear that it's going to succeed, then maybe five years is too long."

Practitioners are reporting that despite their best efforts in publicising the changes, many small companies are simply not well enough prepared for the transition. This could be because they think new GAAP is only a technical issue. However, this is not the case.

"This is more than an accounting change," says Eddy James, technical manager of ICAEW's Financial Reporting Faculty. "There are wider and critical practical implications, such as bank covenants. If a company doesn't talk to its bank at an early stage about the changes, it might find it has breached its covenant and lost its financing."

"People say it's a change to accounting standards and doesn't affect the real world," says Howells. "But once you say to them: it changes your ability to pay dividends and your cash flow for tax purposes - then they start to get interested."

While the changes are part of the price of having a consistent accounting framework, a big advantage is that it should be easier for companies to adapt their accounting as they grow. While they fall into the small category they can use FRS 102 with reduced disclosure under section 1A; when they pass the size threshold (see new size thresholds boxout, right) they should be able to move fairly seamlessly into FRS 102.

And if they then want to list, they can move on to IFRS. "That transition is going to be a lot easier than under old UK GAAP because FRS 102 is very much based on IFRS principles," Carroll points out.

**MICRO MANAGEMENT**

**Accounting for microcompanies is a simpler proposition than using section 1A of FRS 102, with no fair value and little by way of disclosure (microentities will only have to prepare a balance sheet and a couple of statements). But there are reasons why micro accounting might not be appropriate. "If you are micro, and expecting to stay micro, that's fine," says Robert Carroll at Grant Thornton. "But if you are growing, and think you will exceed the micro limits soon, it might be easier to follow FRS 102 from the start."**

**Also, will microentity accounts satisfy company stakeholders? "Some clients have decided that since stakeholders will ask them for more, they might as well produce a full set of accounts," says Matt Howells at Smith & Williamson. "They are sticking with the FRSEE and will move onto FRS 102 next year."**

ILLUSTRATION: MARIA CORTE

Timing is an issue. The changes to FRS 102 affecting small companies are still in FRED 59 and should be finalised later this summer. But companies with a December year-end had a transition date of 1 January 2014 for the preparation of comparative figures. They can choose to adopt section 1A early and bite the bullet now, restating their 2014 figures.

However, some are opting to use the original proposal, FRSSE 2015, for their financial years ending during 2015 - since this standard is similar to the previous FRSEE and minimises problems with preparing comparatives.

Eventually, though, all small companies will have to face the realities of life under the new standard. The good news is that the volume has reduced dramatically - from roughly 2,000 pages down to about 240. However that pithiness comes at a cost. "There is simply less authoritative guidance out there," says Nigel Sleigh-Johnson, head of ICAEW's Financial Reporting Faculty. "The onus is on our members to exercise professional judgement; to look at the areas involved and consider the choices, based on the facts and circumstances at each company."

Revised FRS 102 marks an unprecedented change, as it brings together the project to update UK GAAP and converge it with international principles, with the latest Accounting Directive's reforms aimed at modernising and simplifying small company accounting.

"This is a good opportunity for companies to look at their accounting policies and the options available to them under the new GAAP, seeing what works best," says Sleigh-Johnson. "It's a once in a lifetime chance to make significant decisions, ones that will affect their financial statements for some time."

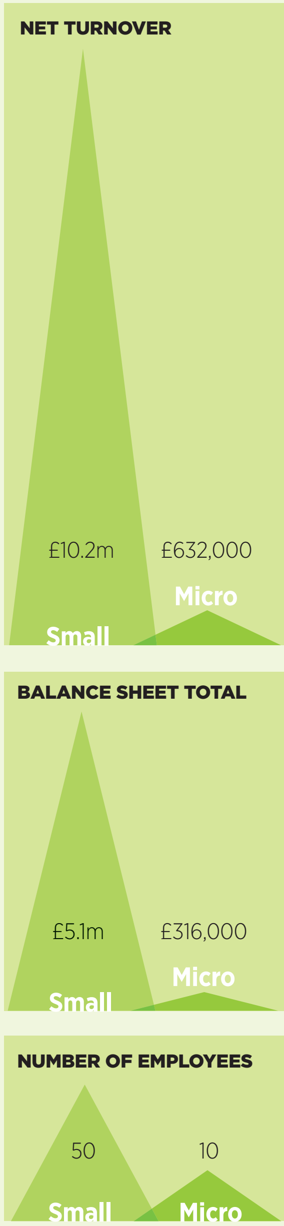
The challenge for members is steering their clients through this. "Members need to advise clients on the type of regime they can buy into, the choices about accounting policy, and the wider practical implications," explains Sleigh-Johnson.

"As well as looking at covenants, tax payable, and dividends, companies will need advice on upgrading information systems, retraining employees, and explaining the differences in their financials to their stakeholders. Members need to understand the full implications for their clients and we are working hard to help them through this."

"It's time we started gearing up for the advisory help our clients are going to need in areas such as how to value intangibles, share options, and financial instruments," adds Creasey. "As auditors we will need those skills as well: we need to be able to know enough about these kinds of areas to be able to challenge them as well."

## NEW SIZE THRESHOLDS

Companies wanting to make use of the reduced disclosure for small companies, or to follow the micro entity standard FRS 105, will need to fall below two of the three following thresholds:



# Keeping tabs on audit

The Audit Quality Review Team is charged with determining whether audit quality is high enough. But, asks Liz Loxton, is it missing the big picture?

With the continued focus on the audits of our largest companies and public interest entities, the work of the Financial Reporting Council's (FRC) Audit Quality Review is firmly under the spotlight.

The Audit Quality Review Team (AQRT), successor to the Audit Inspection Unit, monitors the quality of listed and major public interest audits. But there is some discussion within the profession as to whether it is unduly focused on technical issues at the expense of big picture questions.

Paul George, executive director for conduct at the FRC, explains that audit inspections start with the team determining which firms are in scope and which audits to concentrate on. The Big Four, Grant Thornton and BDO meet the AQRT's inspectors annually; Baker Tilly, Crowe Clark Whitehill and Mazars are on a three-year inspection cycle.

And the AQRT is under pressure to do more. "Where a firm carries out fewer than 10 major audits, we delegate. Going forward, if the audits meet the public interest entity definition, we will be taking back that inspection work," says Paul George.

The FRC's Draft Plan, Budget and Levy Proposals for 2015/16 sets out a £1.2m increase in the cost of reviews, which largely results from the inclusion of recommendations from the Competition and Markets Authority (CMA) to increase the frequency of reviews as well as taking them back from professional bodies.

In fact, the AQRT inspection load is increasing steadily - from 100 a year two years ago to 130 last year and 150 next year - as the FRC seeks to meet recommendations from the CMA, and comply with the EU Audit Directive as well as new responsibilities heralded by the Local Audit & Accountability Act.

As well as an increase in levies charged to the firms, the FRC is carrying out an effectiveness review. "We are focusing on those areas that are important to stakeholders. We look not to do more and more of the same activity, but towards continuous improvement," says George.

The inspection process identifies risk areas or queries and, having reviewed files and audit documentation and quizzed the firm concerned, the AQRT delivers its verdict - ranging from good to needing limited improvements and needing more or significant improvements.

A letter-style report on each audit inspected goes to the audit committee chairman concerned, and a report on each major firm goes to them during May or June. "We invite comments from firms and provide opportunities for dialogue. We don't see it as a negotiation, although the firms do," says George.

Report card time is never going to be enjoyable; each of the Big Four firms will, during the past few years, have read the words "significant improvement" from the AQRT or the Audit Inspection Unit.

However, without giving away any confidences about the contents of the AQRT's 2015 reports to major firms, George says that, during the past few years, the FRC has seen improvements in audit

"Our profession has been desperately over-regulated. Although they haven't always behaved well, we have locked auditors into a process-driven approach"

ILLUSTRATION: MARIA CORTE

quality. "But they are not happening as quickly and they are not as universally achieved as we would like," he says.

"The frustration for me is that we still find audits that require significant improvement," says George. "An audit is a complex thing and anything you review independently will tend to show some area where it could be improved," he says.

"What we would like to see would be significant improvement. It should be very different today."

There is broad agreement that the inspection team does good work and has helped firms raise the bar in terms of their documentation and their internal processes.

Mark Cardiff, head of audit at Grant Thornton, believes the AQRT has undoubtedly helped to improve the quality of audit across the profession, but questions whether the approach it takes is capable of assessing the quality of audit opinions as rigorously as it assesses audit documentation.

"I'd say the quality of audit papers and the ability of the AQRT to follow through has improved substantially," he says. "I would say there has been less pronounced development around the quality of opinions," he adds.

From some quarters, the inspection as it is currently designed is poorly placed to do little but monitor how well the firms adhere to the standards and rules as they exist – and it is those standards and rules that are questionable and not the audits themselves.

Stella Fearnley, professor of accounting at Bournemouth University School of Business, feels that the AQRT, by necessity, monitors a strong but wrong-headed enforcement regime.

"Our profession has been desperately over-regulated," she says. "Although they haven't always behaved well, we have locked auditors into a process-driven approach."

Corporate failures and reporting shortcomings going back to Enron have led to a more onerous regime, largely because each time regulators had to be seen to be taking action. "Enron led to firmer enforcement. Regulators took inspection away from the profession, because it had to be seen to be doing something," says Fearnley.

> "We provide opportunities for dialogue. We don't see it as a negotiation, although the firms do"

There are also questions around the risk-based and report-led approach. Cardiff suggests that the eight to 10 audits looked at for a firm of Grant Thornton's size compared with perhaps 15 for a Big Four firm presents less than a level playing field.

"In statistical circles, or within the profession, we are aware that the sample taken is not significant. But in reading a report, the natural thing to do is to focus on the stand out findings," he says.

When it comes to the idea of taking a different approach, he suggests the inspection process might be better served by focusing more time on more significant aspects of audit.

At one Grant Thornton review, the team spent more time looking at audit planning documents than on the entirety of the audit, he says.

He also suggests that the approach to a review can vary from inspector to inspector and that the AQR needs to look at the big picture issues more consistently.

"The remit at the AQR is clearly to ensure that the quality of audits is at an appropriate level, so there is a clear line back from AQR work to investors. There is an opportunity to match the work that the AQR does in line with what matters to investors," says Cardiff.

"Investors are interested in cash flow, profitability, the sustainability of revenues and perhaps less around the niceties of standards on intangibles, or on discounted value. A lot of that detail is irrelevant to investors yet it has made up a good part of the AQR's focus."

Colin Jones, deputy chairman of the Quoted Companies Alliance's corporate governance committee and head of audit for London at UHY Hacker Young, says continuous improvement in the profession would be better served by a different approach.

"It could do more in terms of balance and suggesting improvements. The US system is slightly different. It tends to be more focused on helping people improve."

"AQRT reports seem quite critical," he says. "Yes, there is a risk-based approach and a focus on key areas, but my experience is that reports tend to be quite technical. Standing back I'm not sure we get that overview; that – 'overall, what is the quality like?'."

All debate aside, it is clearly in firms' interests to get a high grade from the FRC.

"The challenge is to collectively make sure there are improvements," says George. "What are the incentives for firms to perform work in such a way that reports stand head and shoulders above the rest. Is the system rewarding enough for high quality audits?"

"With a non-statistical risk-approach you will always have an assessment that flags up issues. In this context, is it important enough to firms to make sure they stand out? I think tendering is having an impact on that. Greater visibility [on performance] to Audit Committee will be a driver," he adds.

One perennial issue for the FRC and the profession as a whole is the regulatory overload. "How do you get that balance between making continuous improvement and complying with the things you have to do?

"If something goes wrong, you – investors, audit committees, regulators – want to know why and in detail. Then we correct that detail for everybody, even if it's not relevant," says Jones.

Fearnley agrees: "The basic problem is we kept on adding to the rules.

"But nothing's perfect. If you have a strong enforcement regime, you have to be careful that you're not enforcing rules that aren't effective ones. Like everyone, regulators are at the mercy of those rules." ■

# Solving insolvency

For insolvency practitioners there is a tension between disposing of the assets of an insolvent company and meeting the legal rights of its employees. Rob Haynes looks at how IPs stay on the right side of the law


ILLUSTRATION: MARIA CORTE

As in politics, a week is a long time in the world of insolvency. Yet while it is not uncommon – especially in the case of pre-packed sale – to see a swift disposal of a distressed business in a matter of days, some high-profile cases in recent years have highlighted the often unwelcome position many insolvency practitioners (IPs) find themselves in when balancing their insolvency duties while adhering to employment legislation.

In early 2015, IPs Duff & Phelps and the Gallagher Partnership found themselves being scrutinised by the Insolvency Service for their actions in the administration of fashion outlet USC. The issue is whether the pre-package deal in which 28 USC stores owned by Sports Direct were taken on by its Republic division was the appropriate solution. Meanwhile, 60 former USC employees are taking legal action. The staff, based at USC's Ayrshire warehouse, claim they were informed of the restructure 15 minutes after entering the consultation process.

And it is that issue of timing that is proving a flashpoint for the IP industry. Mike Jervis, restructuring and insolvency partner at PwC, has worked on a number of high-profile insolvencies, including Enron, Lehman, and more recently, video entertainment retailer Game. He explains: "There can be a clash between employment law and insolvency law. Employment law provides set consultation periods for employees facing redundancy or a transfer of employer; IPs often find themselves in a situation that practically doesn't allow that. For example, there may not be funding to pay wages and the IP may need to close down part of the business."

The aspect of employment legislation that is proving contentious is section 188 of the Trade Union and Labour Relations Act (TULRA) 1992.

As executives of the court, insolvency practitioners are called upon to sort out the often chaotic finances of distressed businesses with a view to returning funds to creditors.

But TULRA demands that consultation must start once there is a "clear intention" to make at least 20 workers redundant and commence at least 30 days before the first dismissal happens. In cases where there are more than 100 planned redundancies, the time requirement rises to at least 90 days. The two aspects of the law are clearly at odds. Jervis continues: "Practically, IPs must do everything they can to engage in consultation, which often has to be limited. Without having made cuts on the first day at Game, for instance, it would have been impossible to have sold the business on the seventh day. Nobody would have paid lock, stock and barrel for it."

So why the apparent clash in the law? Robert Forsyth, senior associate at DLA Piper, which advises IP firms on the legal position in such cases, explains: "There is tension between the duties of IPs after their appointment, and the strict obligations on companies when making collective redundancies, given the lack of time and funding often available to IPs in insolvent situations. Since the credit crisis, the number of insolvencies has risen and these issues have come under increased focus."

He welcomes an end to the invidious position in which IPs often find themselves and prefers a change in employment law, or at least clarification. "Ideally, there would be some relaxing of the collective redundancy procedure in insolvency situations, though this will need to come from the EU," he says. "While there needs to be some regulation, the current obligations are extremely onerous. IPs are required to act in the best interests of the creditors, and part of that may involve reducing the risk of disgruntled ex-employees taking legal action against the insolvent company."

It is an issue that concerns government, with payouts by the Insolvency Practice for unacceptable insolvencies running into the tens of millions of pounds every year. Indeed, in 2014, the Insolvency Service referred IPs at Deloitte to ICAEW over the administration of failed high street electronics retailer Comet. In a statement, the service said the Employment Tribunal "made a Protective Award of between 70 and 90 days because of inadequate consultation with employees prior to them being made redundant as required by law". Under the Insolvency Service's Redundancy Payment Scheme, some £18.4m in redundancy fees was awarded to 4,838 ex-employees of the chain.

For Bob Pinder, ICAEW regional director, professional standards, there are significant practical issues in complying with the requirements. "It's particularly difficult where the IP is appointed and there are no funds to retain and pay staff. In these cases little meaningful consultation can take place. When the IP gets involved at the 11th hour, there is often little manoeuvrability."

He sees an added problem by the time the IPs get involved: retaining people while at the same time letting them know what's going on via the formal consultation. "When employees – particularly talented employees – get wind of a problem, they're going to walk. That's another dilemma."

Pinder recently spoke at a BIS Select Committee on the issue of insolvency regulation. Where once the government was cut and dried in its advice to IPs, insisting they must adhere to the rigours of TULRA, there are signs the government finally recognises the conflict between employment law and insolvency legislation following its recent call for evidence. The call asks for input into three main areas: understanding of the current requirements, their purpose and benefits; factors that facilitate or inhibit effective consultation; and ensuring timely notification and effective consultation.

Although it is early days, many in the industry expect the government to issue more practical advice to IPs, given the often impractical demands of TULRA. A change in the law is not out of the question.

"Government seems to recognise that the issue should be about good quality consultation with the resources available, rather than insisting that where more than 20 employees are going to be made redundant IPs have to consult for a certain period of time," says Pinder. "The call for evidence will hopefully tease out practical solutions. For instance, IPs may need to provide more information about re-training options for staff, or establishing a staff representative when unions are absent."

In a statement, Jo Swinson, former parliamentary under secretary of state for employment relations, consumer and postal affairs, confirmed the government's backing of consultation periods, while acknowledging the possible need for change: "Constructive engagement with employees is important for business at all times, but especially when facing situations such as insolvency. The purpose of this call for evidence is to look at consultation with employees where a business is facing insolvency or has moved into an insolvency process."

She also stated the current system generally works well, is effectively complied with and its benefits agreed upon.

Perhaps this is why the IPs *economia* has spoken to fail to see the industry changing its stance in the wake of high-profile cases such as USC and Comet. Yet the call for evidence in England and Wales matches moves by the EU (first made in 2011) to align insolvency law across the continent, and for Jervis these moves could have serious implications for IPs in the UK.

He sees a problem with inconsistency in many of the jurisdictions, and highlights France as a case in point. "In France, insolvencies are driven by the position of employees, and there is a statutory element that preserves employment, regardless of the company going through an insolvency." The French approach also treats redundancies as a direct cost of the insolvency, which is different to the approach in England and Wales. In Germany, too, employees are entitled to "insolvency money", which covers wages for three months.

> "Constructive engagement with employees is important at all times, but especially when facing insolvency"

The framework for IPs in England and Wales is to prioritise businesses as a going concern, which sits at odds with the French model mentioned earlier by Jervis. "The risk in France is that businesses often get sold without the problems having been solved in any way, so they merely get passed along to the buyer," adds Jervis.

Therein lies the rub, and although many practitioners in England and Wales would prefer a revision to employment law to meet the special needs of insolvencies, developments in Europe may force the industry to move in the opposite direction.

In March 2014, the European Commission recommended national insolvency frameworks that enable companies "to restructure at an early stage with a view to preventing their insolvency, and therefore maximise the total value to creditors, employees, owners and the economy as a whole". It is this kind of rhetoric, and the state of insolvency law in countries such as France and Germany, that suggest the winds of change may begin to blow in England and Wales.

Jervis concludes: "Over time, I think English insolvency law will move more towards the continental model. Inexorably we'll be following regulation that is tilted towards employees."

# Türner & Co: professional in any language

Since **Christine Turner** launched her UK-based, German-focused practice, she has had no shortage of clients. She tells Xenia Taliotis how she matched her skills to a gap in the market

There are many roads to becoming a chartered accountant, but the one Christine Turner took 20 years ago must surely be among the most circuitous.

"I was a personal assistant for a professor of clinical psychology in Germany before I became an accountant," she says. "My mother is German and I was brought up to be bi-lingual; I moved to Germany after graduating to get my language fully up to speed.

"I lived there for three years, and looking after the professor was the last job I did before coming home. It was a good job and I enjoyed it, but even then I knew I'd be better suited to being the boss than the underling."

Becoming an accountant never crossed her mind until her return to England. It was a rational calculation rather than a deep-seated desire: unlike many people in their early 20s, she had the foresight to consider her goals first and then find a career that would help her reach them, rather than choose a job she fancied doing without thinking of what she wanted it to deliver.

"I chose accountancy not because it was something I'd always wanted to do but because I wanted a qualification that would be recognised throughout the world, and a career that would be intellectually challenging and give me a good income," she says. "And I wanted something that would enable me to run my own company; chartered accountancy fitted the bill on all counts."

It was doubtless this clarity of mind that helped Turner secure a position at KPMG almost the minute she arrived home. "I applied to all the big six in the East Midlands," she says, "had interviews with four of them and accepted the first job I was offered, which happened to be with KPMG."

She stayed with them for eight years, working as an auditor and tax adviser, before leaving to work first - and briefly - as tax manager at RSM Tenon, then as tax compliance director at Nottingham-based accounting firm Marsden Walker.

Her stint at Marsden Walker helped shape plans for her next move, which was setting up her firm, Türner & Co, dealing exclusively with German-speaking businesses that have UK operations. Her decision was made by looking at the skills she had learnt, among which was a fluency in German - technical and business language included - and seeing a gap in the market she could fill.

"By the time I left to set up on my own, in late 2008, I'd been in practice for 14 years," she says. "I felt the time was right for Türner & Co, even though the economy was going into recession. I prepared a detailed business plan and knew there was a niche for a firm that could provide services to inbound German-speaking companies: I already had good contacts, including about 10 businesses ready to work with me. With my husband's support - he is also a chartered accountant - we went for it."

Five-and-a-half years on and her Nottingham-based firm is thriving. It looks after 110 Mittelstandsunternehmen (medium-sized enterprises) - handling their UK accounting and tax compliance, bookkeeping, monthly management reporting, VAT, and payroll, as well as advising on the international tax issues that inevitably arise. In fact, around 50% of the firm's income comes from advisory work. Though the bulk of its work is tax-related, the firm is a one-stop shop, dealing with all the issues that might face a company setting up in the UK.

"Our expertise is in complex international tax issues and in acting as the outsourced finance team, but we also aim to make our clients' entry into Britain as smooth as possible," says Turner. "We will often help them with many other issues including, for instance,

> "We have a trusted group of experts, some of whom have worked with us since the beginning"

**HOME-GROWN TALENT**

**The biggest challenge for the firm is recruitment, the one thing that could stall growth. The problem, Turner says, is two-fold. The first is finding accountants who are fully bilingual or at least competent in German. The second is finding bilingual accountants who are happy to live in Nottingham, since many are attracted to working in London. Her solution is to recruit and train her own talent. The firm has offered six-month internships to German undergraduates for the past five years. Recently, Turner decided to offer full-time employment to one of the interns, who will start next year and train with the firm. In the meantime, the search for qualified German-speaking accountants continues.**


ILLUSTRATION: MARIA CORTE

helping them to find solicitors, sorting out car leasing arrangements, or reviewing recruitment ads. Our clients' needs can be quite broad, and it's part of our role to fulfil as many criteria as we can."

Turner employs five staff - including her husband - and is recruiting for a tax manager. She also works with freelance experts on an ad hoc basis.

"Bringing in freelancers works well for us, and is a good way forward for many small- to medium-sized firms," she says. "We have a trusted group of experts, including expat tax and VAT specialists, some of whom have worked with us since the beginning. They come in to advise and help out when we need them.

"We also work with two independent firms. Just Audit handles client audits, and we use an agency that specialises in legal and business translations. These flexible arrangements enable us to provide high-quality specialist advice while keeping overheads low - critical when setting up a business."

All communication with clients is in German. Were you to call or look up Türner & Co online, you'd have no initial idea that the firm is based in the UK, since calls are answered in Germany and then routed to the UK, and the website, which has a German domain, is solely in German.

The only time English comes into play is when contracts are drafted - they are written in English, translated, and sent out in both languages. At the moment, Turner is the only fluent German speaker on the accountancy team, so the onus to write, edit and proofread everything falls on her shoulders.

However, the firm has just recruited its first native German-speaking graduate. "In 2010 we introduced a rolling programme offering six-month internships to German undergraduates studying for relevant degrees," says Turner. "We've offered one of them a full-time post to train for her ACA with Türner & Co. She will join us next year, once she has completed her degree, and I'm sure she will be a huge help."

Türner & Co typically works with multinational companies that are already trading outside Germany - in Poland, Austria, Switzerland and the US, for example. "Many clients are already experienced multinationals that have left entry into Britain until fairly late in their development. They often start by setting up a workforce of between one and 10 people in the UK, and want us to handle all financial aspects of their UK activities".

The firm's clients specialise in many varied fields and include construction, renewable energy, industrial software, manufacturing and engineering.

Business is growing steadily through recommendation and networking. "We don't advertise, so attending industry events and trade fairs is crucial to our growth," says Turner.

"I'm an active member of the British Chamber of Commerce in Germany, the German Chamber of Commerce in England and the International Fiscal Association. This has led to opportunities to speak at events in Germany, which is an effective way of reaching a large audience."

There is huge potential for expansion, first into German-speaking countries and then beyond. But, says, Turner, she has her foot on the brake until she decides how big she wants her firm to be.

"There is an optimum number of clients we can work for while maintaining the level of client care we are committed to," she says. "To go beyond that, we would need more staff, larger offices, and be able to really scale up.

"It's not set in stone, but there is a lot to consider, and things are going so well with the balance between work and family life, that I'm not sure we want to go all out for expansion - yet."

# Criminal activity sees three members excluded

Fraud, a stash of stolen money (and a Premier League striker) are at the heart of these very serious cases. Julia Irvine takes a closer look at the people concerned and why they were thrown out of membership

## EXCLUDED FOR HANDLING CRIMINAL CASH

An ICAEW member caught up in a money laundering scam related to the Morecambe Bay cockle picker deaths has been excluded from ICAEW membership. Philip Freeman of Henley-in-Arden, Warwickshire, was the boyfriend of Yan Li, one of two sisters who made £1.07m laundering cash linked to the human trafficking operation which caused the deaths of the 23 Chinese cockle pickers in 2004.

Yan and her sister Bo were sent to prison in 2009 and ordered to pay back around £1m. But they had hidden cash which, as soon as they were released, they attempted to spend. Unbeknown to them, though, the £20 notes they were trying to use had been withdrawn from circulation while they were in prison and they were rearrested three weeks later in Bath.

At the time they were staying in a hotel in Chippenham and had stashed £18,190 in the hotel room safe. While in police custody, Yan telephoned Freeman and asked him to get rid of the money. He gained access to the safe, removed the money and hid it overnight in a locker in the hotel's spa where staff found it during a clear out. They contacted the police.

Unaware of this, Freeman returned the next day, recovered the money and drove to an address in Solihull where Bo's boyfriend, John Bowkett, lived. Bowkett then put it in a plastic container and buried it in Bowkett's garden where it was disinterred shortly afterwards by West Midlands police.

Freeman pleaded not guilty to a charge of possessing criminal property. But on 8 November 2013 he was convicted at Birmingham Crown Court and sentenced to four months' imprisonment, suspended for 12 months, and ordered to pay £10,000 costs. His conviction meant that exclusion from ICAEW membership was inevitable. As the disciplinary committee tribunal said: "The defendant has been convicted of possessing criminal property: he took money which was the proceeds of a crime, hid it, retrieved it and then gave it to another person (who also tried to hide it).

"He did so at the request of another person who had commissioned the original crime. This is, self-evidently, conduct which is unacceptable from a member of ICAEW and constitutes serious professional misconduct."

## FRAUDULENT TRADER THROWN OUT OF ICAEW

The ICAEW member whose fraudulent activities led to former Chelsea and England striker Chris Sutton being declared bankrupt in May 2014, has been excluded from ICAEW.

A disciplinary committee tribunal had no compunction about handing the sanction down to Simon Grinter of Plymouth after hearing that he had defrauded 77 clients - a number of whom lost their life savings and pension funds - out of up to £3.3m.

Grinter, who is currently serving six years at her Majesty's pleasure, was a sole trader who placed clients' money in spread bets on the foreign exchange markets. Over almost four years, he received a total of around £7.9m from clients. Each month he sent them all an email telling them that they had earned profits of between 3% and 7%, which did not in fact exist. He did so in order to encourage them to maintain their funds with him and to invest more money.

Grinter admitted that he had lost around £2.5m although, according to evidence given at his trial, the figure was actually more like £3.3m. The jury heard that he had used some of the money to live on, including £526,000 which he spent on credit card bills and other personal expenses.

Sutton and his wife put in £50,000 each and at the time of his bankruptcy, neither had received anything back.

## SELF DETERMINATION LEADS TO JAIL SENTENCE

ICAEW has excluded a member who is currently serving a five-year sentence in a Cayman Island prison for theft of $1.3m (£929,136) from a client.

David Self was formerly the sole director and 80% owner of Monkton Insurance Services, which provided insurance services to captive insurers.

Over a year, from January 2011 to January 2012, he stole around CA$717,388 (£386,315) and US$125,000 (£84,821) from a client and possessed criminal property of around US$675,000 (£444,430) that lawfully belonged to the same client.

According to evidence put before an ICAEW disciplinary tribunal, his motivation was to finance a lifestyle he wanted, but could not otherwise afford to lead.

Eventually, Self confessed. He pleaded guilty to two counts of theft and one of possession of criminal property at the Grand Court of the Cayman Islands and was sentenced to five years' imprisonment. Monkton was put into liquidation as "hopelessly insolvent".

*Sources used in these stories include newspaper reports as well as the monthly disciplinary reports*

# Report listings

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

## DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Simon Renshaw, Langley House, Park Road, London N2 8EY
**Complaint** He engaged in public practice without holding a practising certificate contrary to principal byelaw 51(a).
**Order** Reprimand, £12,038 costs.

● C W Barnes & Co Ltd (dissolved), South Lodge, Ropsley, Grantham, Lincolnshire NG33 4AS
**Complaint** Between 2008 and 2010 Kesteven Accounting Ltd (later known as C W Barnes) breached s280.3, Code of Ethics when it received £393,330 from clients or directors of clients as consideration for the issue of cumulative unsecured loan stock in order to purchase the accountancy practice of C W Barnes. Between January 2011 and June 2011, C W Barnes failed to have sufficient regard to s280 in that it did not adequately address the threat to its objectivity arising from receipt of the money.
**Order** No sentence could be passed as the defendant did not exist at the time. Had it existed, it would have been reprimanded, fined £5,500 and ordered to pay costs of £4,500.

● Richard Brown, 1 High Street, Roydon, Harlow CM19 5HJ
**Complaint** Contrary to practice assurance (PA) regulation 4, he failed to obtain an external review of his firm's compliance with the PA Regulations, as instructed by the PA committee.
**Order** Reprimand, £1,500 fine, £2,300 costs.

● Christopher Monks, 19 Lentworth Drive, Worsley, Manchester M28 3EX
**Complaint** He prepared a number of documents (including accountant's reports, letters, tax returns, a balance sheet and payroll extracts) in the name of the firm when he knew the documents had not been prepared for clients and he therefore had no authority to use the firm's name. Also, between January 2009 and May 2011, he engaged in public practice without a practising certificate contrary to principal byelaw 51(a) or professional indemnity insurance (PII) in breach of regulation 3.1 of the PII Regulations.
**Order** Severe reprimand, £3,450 fine, £4,700 costs.

● Graham Hill, 6 Nottingham Road, Long Eaton, Nottingham NG10 1HP
**Complaint** On behalf of his firm, he failed to submit to HMRC a client's corporation tax returns for 2011 and 2012, failed to respond to an HMRC enquiry, and failed to act in accordance with s 210, Code of Ethics when he did not provide information on the first client or the personal tax returns of two other clients to another accountancy firm on request.
**Order** Exclusion, £4,400 costs.

● Stuart Gordon, Suite 3, Capital House, Speke Hall Road, Hunts Cross, Liverpool L24 9GB
**Complaint** Between 2008 and 2014, he failed to comply with written assurances he had given on behalf of his firm following a QAD visit in 2008, that he would obtain identification evidence for established clients over the work production schedule for the next 12 months, and that he would issue engagement letters within six months to all of his clients.
**Order** Reprimand, £1,500 costs.

● Redmayne & Co, West Lea, Beechthorpe Avenue, Waddington, Clitheroe, Lancashire BBY 3HT
**Complaint** The firm failed to reply adequately to a complaint letter from a former client, following the firm's failure to complete eight VAT returns accurately on the complainant's behalf and to submit its 2008 accounts and contractors returns (P35s) for three years by the required dates.
**Order** Reprimand, £1,300 fine, waiver of any outstanding fees not paid by the complainant, immediate payment of £4,300 to ICAEW (the fee paid by the complainant), £16,500 costs.

## APPEAL COMMITTEE PANEL ORDERS

● Hong Kee Ng, Suite 1, Central House, Woodside Park Commercial Centre, Catteshall Lane, Godalming, Surrey GU7 1LG
**Appeal** He was appealing against costs of £4,750 imposed by a disciplinary committee tribunal which also excluded him from membership.
**Decision** Appeal dismissed, £1,269 appeal costs.

● Simon Nunn, Unit 2, Guards Avenue, The Village, Caterham, Surrey CR3 5XL
**Appeal** He was appealing against the costs of £6,500 imposed by a disciplinary committee tribunal which reprimanded him and fined him £500.
**Decision** Appeal allowed, costs reduced to £2,030.

## INVESTIGATION COMMITTEE CONSENT ORDERS

● P Willson & Co, Carlton House, High Street, Higham Ferrers, Rushden NN10 8BW
**Complaint** The firm prepared financial statements which included a statement that the company was entitled to exemption from audit under s477, Companies Act 2006 when this was not the case because gross assets exceeded the audit exemption threshold in 2011/12 and gross assets and the number of employees exceeded the small company threshold in 2012/13.
**Order** Reprimand, £1,500 fine, £1,280 costs.

● Richard Barrowclough, Victoria Court, 91 Huddersfield Road, Holmfirth HD9 3JA
**Complaint** He failed to have sufficient regard to s 240.7b, Code of Ethics because he did not disclose to his client that he had received commission of £10,519 from another firm, in or around August 2010, and he did not obtain his client's express consent for him to retain that commission.
**Order** Reprimand, £5,000 fine, £2,605 costs.

## AUDIT REGISTRATION COMMITTEE ORDERS

● Sigmatax Ltd, JO Hunter House, 409 Bradford Road, Huddersfield HD2 2RB
**Breach** The firm admitted it was in breach of audit regulation 3.02 when a principal of the firm acted as company secretary to one of the firm's audit clients for the years ended 31 March 2010 to 2013.
**Order** Regulatory penalty of £750.

● Moore Stephens, 12/13 Alma Square, Scarborough YO11 1JU
**Breach** The firm admitted breach of audit regulation 3.01 and ethical standard 2 because a person in a position to influence the conduct and outcome of the audit acted as trustee of a trust that held a financial interest in the audit client that was material to the trust.
**Order** £16,650 regulatory penalty.

## INSOLVENCY LICENSING COMMITTEE ORDER

● Zafar Iqbal, Cooper Young Partnership LLP, Hunter House, 109 Snakes Lane West, Woodford Green, Essex IG8 0DY
**Breach** He failed to comply with a previous assurance that he would insure all property.
**Order** A regulatory penalty of £1,000.

## INVESTMENT BUSINESS COMMITTEE ORDER

● AlixPartners UK LLP, 20 North Audley Street, London WK1 6WE
**Complaint** The firm admitted breach of regulation 2.03b of the DPB Handbook as a result of not obtaining DPB affiliate status for a non-ICAEW

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

# Life

reviews/food/skills/people

GALLERY STOCK

this month:

# seaside

**Beside yourself** Six original twists on seaside holidays **Accessories** Kit for the beach **In review** Including a Hockney exhibition and a winter (yes, really) festival in June **Restaurants** Dining by the sea **Life skills** Survive the sun **Life after work** Keith Slade

# Beyond the beach

## If you prefer exhilaration to lying on a towel like a beached barracuda, then William Ham Bevan has identified six adventurous seaside holidays for you

A picturesque cottage by the fjord in Flåm, Norway

### 1. Kayaking in Norway

Hemmed in by mighty cliffs and almost a kilometre deep, Aurlandsfjord is spectacular even by the impressive standards of the Norwegian fjords. At its end sits the village of Flåm, a tiny cluster of yellow, white and oxblood-red wooden buildings around the terminus of the Flåmsbana mountain railway. Here, a number of excursions offer guided kayaking on the fjord, from leisurely three-hour trips to week-long itineraries with nights spent under canvas. Njord (njord.as) based in Flåm itself, is a good choice.

Even when maintaining a decent pace, paddling on the Aurlandsfjord is a relaxing experience, but it's worth staying alert to scan for the seals and otters that call the fjord home, and to spot sea eagles soaring above. There's also a chance to experience Norway's Viking heritage by landing at Fronneset to see burial mounds built by Norsemen more than 1,000 years ago.


**Smart tip:** The Flåmsbana is often touted as the most beautiful train journey in the world. This is one occasion where you should believe the hype – the trip up to Myrdal mountain station, more than 860m above the sparkling fjord, is a must.
**Stay at:** Fretheim Hotel was once known as "The English Villa", and provided for aristocratic visitors who came to hunt and fish in the late 19th century. Today's hotel is built in Swiss chalet style but still boasts historic rooms with quirky antique furnishings. Double rooms start at around £100. *fretheimhotel.no*

### 2. Storm watching in Canada

Gale-force winds and near-horizontal sleet may seem like an invitation to draw the blinds and throw another log on the fire, but that's not how they do things on Vancouver Island. Storm aficionados are more likely to zip every inch of their anatomy protectively into waterproofs and head on down to the oceanfront.

Tofino, on the Pacific coast of the island, has won fame as the world capital of storm watching. The season runs between November and March, with particularly high chances of bad weather from December to February:

***Norway***
***Ægir Brewery & Pub*** offers local produce such as crayfish from the fjord and beers crafted on site
***flamsbrygga.no***

***Canada***
The highly acclaimed ***Wolf In The Fog*** makes bold and unusual use of local ingredients
***wolfinthefog.com***

***Vietnam***
***Sandals Restaurant***, in the Mia Resort, offers traditional Vietnamese food with a fusion twist
***miamuine.com***

locals expect up to 15 major squalls during each of those months.

And don't worry about oilskins and gumboots: the hotels and shops in the town can supply all the kit and clothing you need to stay cosy.

**Smart tip:** Around 30 miles up the coast from Tofino is Hot Springs Cove. At the end of a cedar boardwalk through the rainforest is a geothermal spring that feeds a series of five pools in which you can sit and soak. The cove is accessible only by boat or seaplane, but local outfits run year-round trips, subject to the weather.
**Stay at:** The Wickaninnish Inn occupies a plot directly on the beach, with sea views from every guest room; and the Lookout Library, with its panoramic windows, will satisfy anyone who prefers to storm-watch from indoors. For the more intrepid, full rain gear is provided and rubber boots can be borrowed. Double rooms start at around £161. *wickinn.com*

## 3. Kitesurfing in Vietnam

Not long ago, the Vietnamese fishing village of Mui Ne was unknown territory to all but the savviest travellers. Thanks to the clockwork-like reliability of its wind conditions, it has become one of South-East Asia's most celebrated spots for kitesurfing, but has still hung onto its charm and easy-going beach vibe.

The sea is pretty much free of rocks and obstacles - save for other kitesurfers - and a number of places offer English-speaking lessons, along with kit hire. For an independently maintained list of what you'll need, visit *kitesurfingmuine.com*

**Smart tip:** After scudding around on the water, you may feel in need of an antidote to all that adrenaline. A day trip to Po Shanu Cham Towers is recommended; an atmosphere of timelessness and tranquility surrounds these relics of the ancient Cham Kingdom. The three towers, now in a state of picturesque decay, are around three miles from Mui Ne.
**Stay at:** Full Moon Village offers comfortable accommodation in a cluster of villas, and the on-site watersports club can organise surfing, sailing, windsurfing and kayaking as well as kitesurfing. Double rooms start at around £65. *fullmoon-village.com*

## 4. Diving in Australia

Tell people you're heading to Australia on a diving trip and they assume you're bound for the Great Barrier Reef, but it's worth considering the wild west of the country. Ningaloo Reef, some 750 miles north of Perth, is Australia's largest fringing reef - a

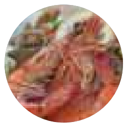

coral formation that lies immediately next to the land. From the small town of Coral Bay it's less than a third of a mile offshore.

Ningaloo is home to more than 500 species of fish, but the show-stealers are the whale sharks - gentle giants that arrive at the reef between March and June - and manta rays. Outfits including Ningaloo Reef Dive

Above left: Storm clouds over Blackcomb Mountain, Canada. Above right: Mui Ne, Vietnam. Left: Whale shark and snorkeller at Ningaloo Reef

***Australia***
Head to ***Bill's Bar*** for prawns by the bucket, ice-cold beer and scuba diving stories
***coralbaywa.com.au***

***Spain***
Costa Brava is a gastronomic wonderland these days, try Michelin-starred ***Els Brancs***
***elsbrancs.com***



***St Kitts and Nevis***
***Spice Mill*** combines African, Portuguese and Indian influences in its food, to exotic effect
***spicemillrestaurant.com***


Main picture: Wind-powered fun in Spain Below: Mount Liamuiga on St Kitts

(*ningalooreefdive.com*) offer boat tours to look for the sea life, and can provide equipment for experienced scuba divers and snorkellers, and PADI-certified tuition.

**Smart tip:** Don't miss out on a drive into the Cape Range National Park. Its deep canyons, mighty limestone formations and hidden creeks equal anything found in Arizona, and the park is home to a profusion of wildlife including emus, wallabies and red kangaroos.
**Stay at:** Surrounded by rolling lawns and palm fronds, Ningaloo Reef Resort occupies one of the best sites in Coral Bay. Double rooms, many offering views of the reef, start at about £115. *ningalooreefresort.com.au*

## 5. Sailing in Spain

If you'd like to learn to sail, but don't care for the often-bracing conditions of the Atlantic, consider Catalonia. At the southern tip of the Gulf of Roses, L'Escala is a mecca for wind-powered watersports. There are many outfits offering tuition: for dinghy sailing and windsurfing try Funtastic (*funtastic-emporda.com*), or visit the Barcelona Sailing School (*barcelonasailingschool.com*) for cruiser sailing accredited by the Royal Yachting Association. The Competent Crew course for beginners includes six nights aboard and five days' sailing tuition.

**Smart tip:** The Salvador Dalí Theatre-Museum in Figueres contains the world's biggest collection of the great surrealist's works, including paintings, sculpture, jewellery and installations that play with your sense of perspective. *salvador-dali.org*
**Stay at:** After learning the ropes – or sheets, lines and halyards – you may fancy a spell of relaxation on dry land. Incorporating an 18th century Catalan townhouse, Mas de Torrent Hotel & Spa is a delightful rural retreat with a large swimming pool, extensive gardens and a spa. Double rooms start at around £235. *hotelmastorrent.com*

## 6. Swimming in St Kitts and Nevis

The twin-island nation of St Kitts and Nevis is divided by a two-and-a-half mile stretch of the Caribbean Sea called The Narrows. Every spring, close to 200 people take part in the annual cross-channel swim, plunging into the warm waters at Nevis's

Oualie Beach to make for Cockleshell Bay on sister island St Kitts – and the event is open to allcomers.

The swim challenge is inclusive, thanks to a two-tier entry system. The "racing" class attracts some of the world's best open-water swimmers; meanwhile those who don't want to swim competitively can sign up for the "assisted" class, which allows the use of flippers, snorkels and masks (see *neviscycleclub.com*).

Aside from the race, opportunities for sea swimming and snorkelling around St Kitts are excellent. Sites such as Pinney's Beach on Nevis and Frigate Bay on St Kitts offer the chance to see maritime life without strapping on scuba gear, including an established local population of sea turtles – if you're lucky.

**Smart tip:** Take a break from the beaches to explore the forested interior of the islands, both of which are dormant volcanoes. Guided hikes are available to the top of Nevis Peak and Mount Liamuiga on St Kitts.
**Stay at:** It's easy to come up with the top three reasons to stay at Timothy Beach Resort: location, location, location. It sits directly on South Frigate Beach, at one end of the line of bars and restaurants, known as The Strip, that form the focus of the island's vigorous nightlife. Double rooms start at around £90. *timothybeach.com*

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## *Life* *style*

# Everything you need for a holiday beside the sea


**01. Sport aid** Beach ball, £3, John Lewis, *johnlewis.com* **02. Designer deckchair** Limited edition by Michael Craig-Martin, £135, Royal Parks Foundation, *supporttheroyalparks.org* **03. Ultimate sun umbrella** Pink parasol, £20, Tiger Stores, *tigerstores.co.uk* **04. Standout luggage** Miami 4-wheel medium suitcase, yellow, £89, *johnlewis.com* **05. Flip flops** Women slim paisage, £26, Havaianas, *havaianas-store.com* **06. Bats and balls** Tamarama beach paddles, £19.50, *asos.com* **07. Towel** Sidewalk linen towel in Copacabana orange, £120, Frescobol Carioca, *frescobolcarioca.com* **08. Swimming trunks** Okoa long-length printed swim shorts, £160, Vilebrequin, *mrporter.com*

HOTEL

**Africa** This is luxury camping in central Serengeti with a difference. Roving Bushtops is a mobile camp that can up sticks as the game moves, meaning you're more likely to be at the right spot at the right time. The high-spec tents feature king beds, bath and shower and open up on three sides to ensure panoramic views of the bush. Opens this month. ***bushtopscamps.com***

ART

David Hockney turns his attention to perspective in this exhibition of works produced in his LA studio. He moves from his familiar Yorkshire landscapes to group portraits, which sit between photography and painting. The exhibition runs at the Annely Juda Fine Art gallery in London until 27 June. ***annelyjudafineart.co.uk***

GADGET

**Wired for sound**
Lovely warm, resonant sound and stunning good looks in the mid-sized headphone range. Prices start from €119 (£85). ***mezeheadphones.com***

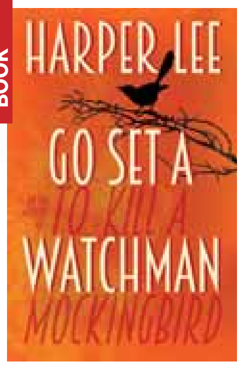
SPORT

**Sports brand Head** has collaborated with the entertainment gurus at Sony to create a tennis racquet that captures players' stats, evaluates their performance and then shares the results. The ***Graphene XT*** range is designed to give players a faster swing. Check it. ***head.com***

FILM


***Spy*** An espionage comedy by Paul *Bridesmaids* Feig and starring Melissa McCarthy as a desk-jockey CIA analyst who has to prevent a nuclear disaster.
**Release date:** 5 June
**Also starring:** Jude Law, Jason Statham, Rose Byrne, Miranda Hart.

BOOK




This summer's literary sensation has to be the release of *Go Set a Watchman*, the lost-and-found second novel by Pulitzer Prize-winning author Harper Lee. Featuring characters from Lee's famous novel *To Kill a Mockingbird*, it focuses on Scout's struggles 20 years' later to resolve the issues that shaped her.

***Let there be light*** Pretty, solar-powered, cordless and can be left outside all year round. What's not to like? ***gacoli.com***

GARDEN

**Putting more green into Greenwich**

Enhancing London's reputation as one of the world's greenest capitals is the new public oasis on Greenwich Peninsular. Created by Tom Dixon's Design Research Studio, along with landscape gardeners Thomas Hoblyn and Alys Fowler, Peninsular Gardens is the first new park to open in London for a century. The park recalls the area's heritage as the city's kitchen garden, with open spaces, beehives and orchards surrounding an amphitheatre, styled like the Giant's Causeway in Co. Antrim and hosting cinema, theatre and music. ***designresearchstudio.net***

EXTERIORS

FESTIVAL

**Queenstown, New Zealand**

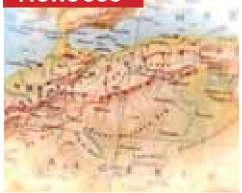
Can't wait until November for your snow fix? Then New Zealand's biggest winter party may be for you. Winterfest began in 1975 when locals decided winter needed another party, these days it's a 10-day celebration with mountain races, street parties, fireworks, international and local acts, jazz and comedy. ***winterfestival.co.nz***

**What:** Tesla P85D.
**How much?** About £67,000.
**Where:** Owned by Silicon Valley entrepreneur Elon Musk, Tesla see itself as a tech business rather than a car firm.
**Specification:** Pulls seven people from 0 to 60mph in 3.1 seconds.
**What's so special?** A family car operating in top super car territory, the combined 691hp from the two motors (one on each axle) is available as soon as you stamp on the accelerator.

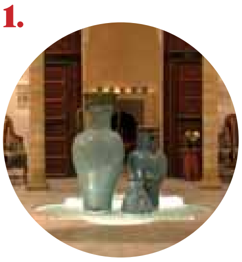
MOTOR

**Best riads in...**

MOROCCO



**1.**

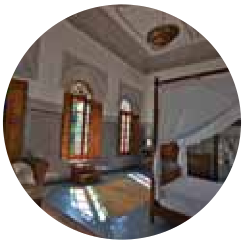


**Riad Malaika, Essaouira**
**Why:** Exquisite antique furniture and Moroccan pastries for breakfast. In the heart of the medina, yet just 55 yards from the beach.
***riad-essaouira-malaika.com***

**2.**

**Riad El Fenn, Marrakech**
**Why:** Three swimming pools, a family of tortoises and only a three-minute walk from Djemaa El Fna square.
***el-fenn.com***

**3.**



**Dar Roumana, Fez**
**Why:** Panoramic views of the ancient medina, rich cedar ceilings, and mosaic tiled floors that are the work of local artisans.
***darroumana.com***

***Dish of the Day***
*"Prices can be salty but the sea bass with crab fritters is worth it"*
***Porthminster Restaurant***

# Restaurants
## by the sea

*Laura Powell enjoys the gifts of the briny in St Ives. Plus, two more seaside stunners*

***Porthminster Restaurant***
***Porthminster Beach, St Ives***
***porthminstercafe.co.uk***

This is the sort of restaurant you'd prefer not to tell people about; it's already hard to get a table for dinner, particularly during the summer.

It has been solidly good for more than 10 years, even when it was lesser known. And these days it remains good but is rather busy too, being a favourite among critics and foodies.

Inside, there is a fabulous driftwood console table, abstract artworks, waiters and waitresses who would look at home in an Abercrombie & Fitch advertising campaign, and a heated terrace that makes you feel you're picnicking on the sands of Porthminster Beach. Luckily, a screen keeps away the seagulls, which are fairly brutal in these parts.

Herbs, salad ingredients and vegetables are picked fresh from the small, steep allotment opposite the restaurant. The wine list is long and descriptive, and accompanied by a small selection of elegant and chi-chi cocktails: espresso Martinis, and champagne cocktails with raspberry sorbet and cranberry pressé.

The dinner menu too is fairly short, and seafood-heavy. Crispy black squid with a Japanese touch of miso dressing, or gurnard fillet with Spanish flavours - patatas bravas and chorizo - are on offer for starters.

For main course there's sea bass with crab fritters, Asian salad and jasmine rice, or roasted turbot with celeriac, green beans and a surprisingly good hazelnut, chocolate and rosemary sauce. But in some ways, the simplest dishes are the best - namely the fish and chips with homemade tartare sauce, mushy peas, and sea salt.

Prices can be salty - £22.95 for the sea bass - but worth it. After all, there are some things - a mouthful of the double chocolate tart, a slug of a post-dinner espresso Martini, an uninterrupted view of the iconic Godrevy Lighthouse and, if you're lucky, a glimpse of dolphins playing in the bay - that are worth paying for.

### Breakfast
***The Salthouse Eaterie, Salthouse Harbour Hotel, Ipswich, Suffolk***
***salthouseharbour.co.uk***

*On a sunny weekday morning, Ipswich harbour is an oasis of calm. Start the day al fresco at this quirkily nautical hotel, amid the sound of waves lapping on the dock and halyards gently slapping masts – even the seagulls sound almost sonorous. At £11, the full Suffolk is excellent value, the eggs Benedict are good and there's healthy porridge, too.*

### Lunch
***The Royal Harbour Brasserie, Ramsgate, Kent***
***royalharbourbrasserie.co.uk***

*Not so much by the sea as nearly in it (the brasserie sits at the end of Ramsgate's harbour pier where, on a clear day, you can see France), this is an informal place to enjoy lunch. It's pleasantly kid-friendly too. The 1kg of Scottish mussels in garlic and white wine sauce is always a winner. And there will be some sort of succulent local fresh fish on the specials board, served with a smile.*

**STEP ONE**
Be sure your skin is never dehydrated. Avoid harsh acids or exfoliation treatments, use moisturisers containing humectant (water attracting) and emollient (lies on the surface and seals in moisture) ingredients.

**STEP SIX**
Drink lots of extra water, as hydration is essential for the skin's immune response and wound-healing processes.

# How to...

*...survive the sun, with advice from Rachael Pontillo, author of* Love Your Skin, Love Yourself

**ESSENTIAL KIT**
Floppy hats, natural sunscreens, moisturisers, aloe vera gel

**TIPS**
Stay hydrated and never spend more than two hours in direct sunlight

**STEP TWO**
Eat fresh fruits and vegetables, which contain high amounts of antioxidants. Eat foods rich in essential fatty acids (salmon, anchovies, chia seeds, walnuts, flax seeds).

**STEP FIVE**
If you do get burned, use cool oatmeal or green tea baths to help reduce inflammation. Frankincense or lavender essential oils help soothe and heal the skin.

**STEP THREE**
Apply enough sunscreen, and reapply often. Avoid those containing ingredients such as oxybenzone, avobenzone, octylmethoxycinnamate, which can be skin irritants.

**STEP FOUR**
No amount of sunscreen can be effective when out all day. Take frequent breaks under a large umbrella or shady tree.

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## NOTARIAL SERVICES

# Flight of the mechanic

**Keith Slade**'s memoir of his wartime experiences in the RAF brings back some vivid memories of an extraordinary time, as he tells Julia Irvine

Small practitioner Keith Slade is a remarkable man. At 92, he still works one day a week at a client, David Neville in Droitwich, that he helped set up in 1968. But he admits with a laugh that these days he finds his war service as a flight mechanic in Bomber Command "more etched in my memory" than the intricacies of auditing standards.

His fascinating and engaging memoirs – prompted by his daughter Susan asking "Daddy, what did you do during the war?" – are in the national archives at the Imperial War Museum, and anecdotes from his time looking after bombers feature in Andrew Simpson's *Ops: Victory At All Costs*. "To this day," he says, "I could still go up to a Lancaster and take a propeller off one of the Merlin engines, without any trouble at all, provided I had the right tools and a decent crane."

Slade joined up in August 1941, aged 20. He originally wanted to be a pilot but when he went along to the RAF recruiting centre, he was told that there were "far too many chaps volunteering for flying duties" and if he didn't volunteer for ground duties, he would be called up to serve in the army, probably the infantry. "Knowing what happened to the infantrymen in the First World War," he adds drily, "I decided that working on an aircraft would probably give me a better chance of survival, and possibly later I might actually become a crew member."

Fortunately, he observes, this never happened. Had he become crew, the chances are he would not have survived. Around 13% of all British and Commonwealth deaths during the Second World War were among bomber crews and of the 125,000 men who volunteered for Bomber Command, 55,573 were killed. There were hairy moments on the ground too – Slade's memoirs recall planes crashing, ears cut by propeller blades, boilers exploding and his almost being run over by a Spitfire. ("There was no time to get out of the way. I just 'dropped dead' on the ground and felt the propeller part my hair – I had a good mop then.")

Music helped get him through, from the Brahms' *1st Piano Concerto* that accompanied the aero engine training film when he first started to the Music Circle, which taught him about classical music and allowed him to socialise with officers, several of whom saved him later from getting into trouble. But it is Rachmaninoff's *Piano Concerto No.2* that is his equivalent of the "madeleine moment". Every time he hears it, he is back in the NAAFI at Bottesford in March 1945, with his mug of tea and a "wad" (a sugary bun), listening to the music with tears running down his cheeks because he's just discovered, two weeks before his wedding to Peggy, that he's about to be posted abroad instead.

In fact, he managed to bring the wedding forward and had a three-day honeymoon before embarking on RMS Mauretania for India and Hong Kong where he spent the next 18 months, finally returning to the UK in October 1946. "Sometimes I think my life as a chartered accountant has been just as interesting but not quite so dangerous," he adds. "But I do not think it merits a book."

PHOTOGRAPHY: RICHARD ANSETT

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