

INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia



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CHUKA CAN

HOW SHADOW BUSINESS SECRETARY CHUKA UMUNNA PLANS
TO GET AN ACTIVE GOVERNMENT WORKING WITH INDUSTRY

OLYMPIC FINANCES | MANAGING GROWTH | IFRS UPDATE | AUDIT REGISTRATION

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economia

It's time for a new deal between business and government

Former US president Ronald Reagan once made a quip about the role of government in business. He claimed the scariest words in the English language were: "I'm from the government and I'm here to help".

But in the light of the current economic turmoil it's high time we all recognised the relationship as more subtle and nuanced. Interactions between business and government have been awkward for too long. Politicians rely too heavily on business funding (in the US and UK certainly) and in return governments, once in power, generally agree to conveniently get out of the way.

Promises to reduce regulation and red tape, to foster a business-friendly environment, have become part of the political orthodoxy. The accepted wisdom is that the best thing government can do is get out of the way and leave businesses to get on with their business.

Founded in the economics of Milton Friedman, this perspective continues to inform a range of policies, from campaigns to change employment law to the current government's plans for a "big society" rather than "big government". The trouble is that

this adherence to small government ignores what used to be called industrial policy. That phrase may conjure up unfortunate images of the 1970s, with its overly strong unions, strikes and economic paralysis. Because of this the subject is rarely discussed. But it should be. A modern industrial policy should conjure up visions of a hi-tech future, not a smokestack past.

In this issue, shadow business secretary Chuka Umunna makes the case for a return to a more strategic, long-term approach to industrial policy. He describes it as "active government" and its role is to work in the interests of both business and the country.

Party politics aside, his call for a new kind of intervention is welcome. Alongside short-term measures to kick-start economic growth, we need government to take a more active role in providing assistance to sectors where as a nation we have an advantage.

Tax breaks for the video games industry and support for biotech and pharmaceutical companies are to be applauded, but we need a more coherent framework in which this activity can take shape.

THE MOST EXPENSIVE ADVERTISEMENT IN HISTORY

Government investments are rarely as high-profile as the Olympic Games. The top-line figures are well known, but are no less staggering for that. Even in an age of hundred billion dollar bailouts, allocating £9bn to spend on London 2012 is a big ask.

One defence for this has been that it is a great advertisement for British construction. If this is the case, it's the most expensive and least well-considered advertising campaign

in history. The key message seems to be "we'll deliver when we say we will for a bit less than budget, assuming your budget includes a whopping contingency fee". Hardly the stuff of *Mad Men*.

This is one of many uncertainties in the Olympic finances. LSE professor of economics Richard Jackman says there may be a gross benefit in terms of new facilities, but this is not an efficient way to achieve it.

But does all the Hollywood razzmatazz (with £27m to open the Games) drown out the work and dedication of athletes? Is the original Olympic ideal now totally lost in all the commercial din, as spiralling costs allow powerful sponsors to dictate what Olympians and spectators wear, eat, drink and think?

In the honest tradition of the Wenlock Agricultural Reading Society, *economia* wishes all competitors the best sporting luck.



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Official fuel consumption in mpg (litres/100km) for the ŠKODA GreenLine II range: Urban 52.3 (5.4) – 68.9 (4.1), Extra urban 67.3 (4.2) – 94.2 (3.0), Combined 61.4 (4.6) – 83.1 (3.4). CO₂ emissions for the ŠKODA GreenLine II range: 119 – 89 g/km.

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The *economia* website provides the same high level of insight and analysis as in print, with constantly updated news and daily content and the opportunity for readers to comment on the issues raised.

People featured exclusively online this month include...



MARGARET HODGE The Public Accounts Committee Chair argues customer relations at HMRC have a “long way to go” to reach acceptable standards.



VITOR CALDEIRA The president of the European Court of Auditors on why accrual-based accounting will play a key role in restoring public trust in Europe.

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“The Olympics created the imperative for significant spend that has prompted a lot of financial and economic activity”

Sir John Armitt p42

“We need leaders to properly prosecute an active government strategy with a proper industrial policy”

Chuka Umunna p39

In review

The stories that matter most from the month just gone



“If Britain wants world champions in the private sector, we have to pay competitively”

Sir Martin Sorrell adds to the debate on CEO compensation



China in your land

China's annual corporate investment in Europe tripled last year to \$10bn as Chinese companies went on an acquisition spree to gain access to new markets. The report by US firm Rhodium Group said outbound global investment by China could reach \$2trn by 2020. But the UK's not doing very well at attracting wealthy Chinese tourists, said senior diplomat Sebastian Wood. In a letter to the government he said a “fortress UK” image is sending holidaymakers to France rather than Britain. He wrote: “This is one area where the French are considerably better organised. Their PR work on tourism is all about positivity – ours seems to be more about self-flagellation.”

■ We shouldn't be afraid to say what we love about our country, said Ed Miliband in a speech about Englishness. As the country geared up for the Euro 2012 football tournament – a ritual of self-punishment if ever there was one – and the Olympic Games this month, Miliband declared the debate about Scottish nationhood and identity is in full swing, “but that debate should be going on across the whole country”.

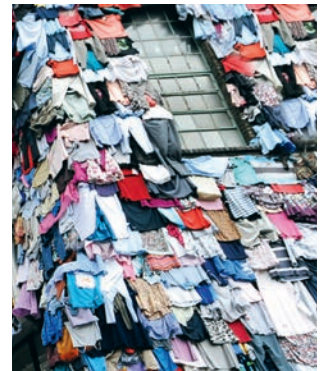


The English ability to adapt should be celebrated, he said.

■ There was no sign of the Bank of England adapting its plans though, as it held interest rates

at 0.5% and the monetary policy committee voted against extending the existing £325bn QE programme. Despite a call to action from the International Monetary Fund suggesting further monetary stimulus for the UK, fears over the worsening eurozone crisis and a particularly bad reading of factory output for May, the bank stuck to its wait and see position.

■ Retailer M&S has also stuck to its guns. A new report reveals that it has achieved



138 out of 180 commitments in its Plan A. M&S is now fully carbon neutral, it recycles 100% of its waste, and 31% of M&S products – £3bn worth – now have a Plan A attribute, such as Fairtrade, organic or made from recycled material.

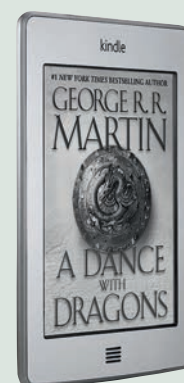
■ Less enchanting is a World Bank report, which estimates a sharp rise in garbage between now and 2025. The amount of municipal solid waste (MSW) will rise from 1.3 billion tonnes a year to a costly 2.2 billion tonnes. It said: “This report should be seen as a giant wake-up call to policymakers everywhere.”

CORBIS, GETTY, REX

GADGET OF THE MONTH

Amazon Kindle Touch, £110

We are often told that consumer happiness is connected to choice. But some technology choices are simpler than others. Hence the tablet and mobile phone markets are dominated by Apple and the ebook market has long been dominated by Amazon's Kindle. It has won through by keeping things simple and being good at one



thing, namely replacing paper and ink. Now it has brought out a new touch-screen version.

The Kindle Touch loses all but the home and sleep buttons, but retains all the original's functionality. While it takes a minute to get the hang of which parts of the screen do what, it is intuitive and connection to – and downloading from – the Kindle store, over 3G or wi-fi, is quick and easy.

The six-inch screen is recessed slightly to allow for the sensors and you can pinch and drag to expand font size. The touch-screen's keyboard is also nicer to use than the tiny keyboard on the old model. Whisper it quietly when existing users are around, but this Kindle makes the best e-reader experience even better.

The month in numbers

9.5% The average rise in salary for FTSE 100 finance directors according to a report by Data Services, which brings median income to more than £1m

£6.8m Sir Martin Sorrell's total pay last year

20,000 the number of tax disputes waiting to be heard by the new tribunal system

4.5% the allocation of income paid out in dividends by the big banks

43% the percentage of people who said they'd lend a friend £5 without asking for it back

80% the percentage of UK organisations that are still not compliant with new EU cookie laws

3m the number of BMW car engines made at the Hams Hall plant near Birmingham

9bn

Projected number of mobile subscriptions by 2017, up from 6.2bn in 2012

£1bn

The figure Diageo will invest in Scotch whisky production over the next five years

1,300

The number of UK jobs created in a multi-billion pound energy deal with Norway

Cost of living ranking

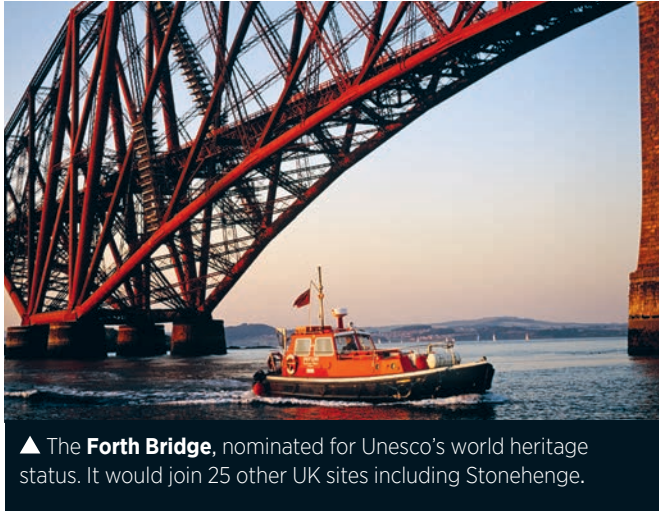
According to Mercer's latest city ranking, Tokyo is the world's most expensive city for expatriates, followed by Luanda in Angola, then Osaka, Moscow and Geneva. London is 25th. The survey measures the comparative cost of over 200 items including transport, food, clothing, household goods and entertainment.



"He is as entitled as any other to place his trust in people, to rely on that trust and to not go about his life thinking the worst of people"

Colm O'Brian, lawyer to U2 bassist Adam Clayton (above), on allegations that his client's former PA embezzled funds

Good news bad news



▲ The **Forth Bridge**, nominated for Unesco's world heritage status. It would join 25 other UK sites including Stonehenge.

▲ Flexitime, as the **Family and Parenting Institute** suggests the Olympics will force major employers to adopt new working practices that could last way beyond the Games.



▲ **Martin Lewis**, the high-profile personal finance commentator who has sold his MoneySavingExpert.com website to MoneySupermarket.com for £35m plus shares.



▲ **Lawyers**, as increasing numbers of farmers sign pre- and post-nuptial agreements to protect their wealth and land.



▲ **Shakespeare fans**, as the remains of the Curtain theatre, where *Romeo and Juliet* may have been first performed, have been discovered in east London.



▼ **LinkedIn** was the victim of a security leak as 6.5 million of its users' passwords were stolen and published on a Russian computer hacking forum.



▼ **JBS**, as Tesco cancels its contract with the meat exporter after Greenpeace claims its beef could be from cattle raised on illegally deforested areas of the Amazon.

▼ **German banks**, as Moody's lowers its investment-grade ratings by one notch on seven of them. It said the banks are likely to be affected by a worsening operating environment in Europe.



▼ **Michael O'Leary**, as Boeing expresses doubts that it can provide Ryanair with a 200-seat aircraft by removing the two toilets at the rear of its 737 jet.



▼ **Cardiff City football fans**, as the club's new Malaysian owners confirm that the Bluebirds will now play in red rather than their traditional blue kit in order to develop the brand.

Talking point

How would Adrian Beecroft's proposals affect economic growth?

John Van Reenen

The Beecroft report contains a mix of the sensible (making it easier to hire overseas workers) and the barmy. But the most depressing aspect of the report and the rancorous debate around it is the lack of evidence on the likely impact. Although Beecroft claims GDP would increase by 5% through labour reforms, there is no support for this in the report, and the number appears plucked out of thin air.

Theoretically, weakening employment laws could help growth by lowering employers' costs and making hiring more likely. But growth could also be harmed by increasing firing, lower security and reduced training as worker turnover rises. Which matters most is purely an empirical issue. Luckily this is an area where there is a lot of evidence.

The OECD's data shows that the UK has the lowest degree of worker protection in Europe and the third lowest of all countries examined. The vast majority of studies looking at changes in employment laws find no significant effect on unemployment (see the OECD's 2012 summary). Professor Stephen Nickell, a member of the Office for Budget Responsibility (OBR), looked at the economies of 20 countries between 1961-1995 and found that whereas unemployment benefits, the employment service and training policies affected unemployment, worker protection had no effect.

A similar conclusion was reached by the chancellor's economic advisor, Rupert Harrison, on more recent data. Neither does firm-level, micro evidence give comfort. There appear to be effects of employment protections on company behaviour, but these don't add up to large growth effects.

Too many of the government's policies seem to be based on ideology rather than pragmatism. There is no attempt in Beecroft to engage in the evidence of academics and international bodies such as the OECD, IMF, ILO and World Bank. At the LSE Growth Commission we are amassing more systematic evidence of what policies matter for long-term growth. It's time to move away from policy witchcraft and into an era where evidence is taken seriously.



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Politicians too often think they can frame the laws of economics themselves. It takes someone in business to explain the reality. And the reality is that in boom times, business can carry the burden of a lot of political nonsense, but in downturns, the destructiveness of regulation is starkly revealed.

Take the unfair dismissal rules and industrial tribunals. At present the employer shoulders the costs – and the business-disrupting worry. There is nothing to deter workers from making false claims. In boom times the employer may accept the injustice, pay up and move on, but in recession that cost may be a threat to a business. And the prospect of it is a turn-off to people thinking of starting a business. That costs a country real money.

Another of Beecroft's targets is the transfer of undertaking (TUPE) laws, which allow workers to maintain their working conditions when their firm is taken over by another. It was a bureaucratic/union reaction to our efforts in the 1980s to enable private contractors to take over state-run services, in the hope of injecting new capital, enterprise and ideas into them. One sure way to strangle such improvement, of course, is to legislate that the new owners can't fire anyone, change shift patterns, or create flexible holiday schedules. That costs taxpayers real money, too.

So too with the bizarre rule in the Equality Act that makes employers liable for claims of harassment from third parties. So if a customer comes into a shop and makes sexist or racist remarks to a staff member, the employee can make a claim against the shopkeeper. It seems unjust to hold someone liable for the actions of a complete stranger. Again, in the good times, you can grit your teeth and pay up, but not now.

Sadly, when politicians have economic reality explained to them, it just starts yet another discussion about how to impose an economic dreamworld on it. But we need to get real: only now are we beginning to see the cost regulations have been imposing on businesses for decades.

If you want to contribute
to this debate, go to
[icaew.com/economia/
beecroft](http://icaew.com/economia/beecroft)

The graph Euro bailout blues

Last month Spain became the fourth, and largest, eurozone economy to receive a bailout for its struggling banks. Although a considerable sum, the €100bn bailout represents less than 10% of the total Spanish economy, based on 2011's GDP. In contrast the €247bn paid to Greece (so far) represents 115% of total Greek GDP in 2011.



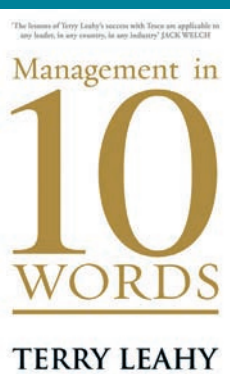
INFOGRAPHIC: PAUL WOOTTON. FIGURES FROM FINANCIAL TIMES 11 JUNE 2012

He's one of Britain's most successful business leaders, but he's not one to look back – Terry Leahy prefers to focus on the future. So when the man who transformed Tesco into Britain's largest supermarket chain writes a book about his 14 years at the retailer, what makes a company great and how to improve your chances of success, you're going to sit up and listen. Mostly the book is based on Leahy's own thoughtful observations: do the right thing for those who work with you, those whom you serve, and those whose lives you touch.

Simple solutions can always be applied to complex challenges, says Leahy, who describes his younger self as the irritating northern bloke who kept asking for things. In today's demanding global marketplace, brands need to form an emotional bond with their consumers, yet much of what managers are taught lacks basic humanity, writes Leahy. To avoid sleepwalking into a "quagmire of moral relativism", he says, try

BOOK REVIEW

Management in 10 Words by Terry Leahy



to hand over a business better than you inherited, make collective decisions, be fanatical about customers and aim for growth based on values. "That might mean taking a financial hit or a dive in the opinion polls", but you'll win and retain loyalty.

Interestingly, the leadership style of Field Marshal Viscount Slim had a huge impact on his thinking. Slim transformed a demoralised army into a formidable fighting force, which Leahy says struck a chord. It's critical to clarify the purpose of any organisation, says Leahy, and to understand that loyalty is a reciprocal bond. Listen and act on what you learn and have the ambition to make history, not be part of it: "When Tesco became the most successful retailer in the UK, we could have rested on our laurels like Marks and Spencer and Sainsbury. We didn't."

Bold ambitions require great change, says Leahy. And for a change, this business book is written by someone who's done just that. Well worth a read.

Amy Duff

If I ruled the world

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

Nick Auer

If I ruled the world I'd ban all junk mail and airbrushing. I'd also fine anyone switching lanes on the motorway without indicating.

In a wider context I'd force people to think about the long-term implications of their actions rather than merely the immediate cost. This makes me think about several articles illustrating "good examples" of cost cutting in the public sector. And without exception they are missing the point.

The articles all contain the familiar list of necessary changes: support service consolidation, better procurement, more commercial approaches to creating income, merging management posts, outsourcing. These things may be necessary but they don't work without thinking through your long-term objectives.

These objectives must be about delivering good value services (doing something less often but doing it properly) rather than simply cutting costs across the board.

My approach to cost cutting helps project teams complete two vital steps before implementation: Identify what an organisation does well (as well as what it does badly), and systematically prioritise outcomes and actions that have the biggest impact.

Three common failings in the public sector have led us



to adopt this approach.

Some change projects fail to consider what is currently done well. It often goes beyond that – good processes and effective links from inputs to outputs are ripped apart to make short-term cost savings. Madness.

Public sector organisations sometimes undertake step two before they have completed step one. The treatment is decided before the diagnosis is complete. More madness.

Thirdly, people don't prioritise properly – or the basis on which they prioritise is flawed. Instead of accepting that some services have a greater impact than others, cost cutting often takes the form of salami slicing. You end up saving some cash but you deliver suboptimal services in each area. And guess what – it happens again next year. People wouldn't do this if they were spending their own money.

While I'm not criticising individuals who have fewer staff, decreasing budgets and are acting with the best intentions, these three things tend to result in short-term decision-making, which doesn't deliver the right outcome for the public.

If I ruled the world I'd get project teams to adopt a different mindset and do something simple and that is to think about value for money not just cost.

Nick Auer is a founding director of Prederi

THE BIG IDEA

Tom Peters
Reinventing excellence



Who is he? One of the world's best-selling management authors. Along with fellow ex-McKinsey management consultant Robert Waterman, Peters co-wrote the 1980s surprise smash hit *In Search of Excellence*.

What was so surprising? That the pair sold in excess of five million copies at a time when no one thought there would be that sort of demand for turning arcane business and consultancy concepts into popular non-fiction. In some respects Peters defined the author-guru-speaker-consultant money machine. And where he led, hundreds have since followed.

He's a management pioneer? Kind of. We refer to the line taken by guru listing *Thinkers 50* (on which he's ranked at 24), which says, "if business is rock 'n' roll, Tom Peters is Elvis".

Did he launch a genre? To some extent. For most of the 20th century plenty of others had been writing and publishing worthy books about business and management. This was the first massive crossover bestseller, which packaged serious content in an easy-to-digest format. It coincided with the rise of the MBA and the boom in business schools (and with associated business publishers).

What's his big idea? In a word, excellence. He has made a career out of defining (and constantly redefining) excellence and how to achieve it. In 1982, this involved explaining McKinsey's 7-S framework, which separates out the more obvious and easy-to-fix areas such as strategy, structure and systems (the so-called hard Ss) as well as the softer, cultural bits that leaders often forget or struggle with, such as shared values, staff, skills and style (the soft Ss).

And since then? By taking his own advice, Tom Peters has turned into a huge global brand. In truth, little that he's written recently comes close to achieving the impact of his earlier works, including *In Search of Excellence*, *A Passion for Excellence* or *Thriving on Chaos*. Others have highlighted that few of the firms picked out as excellent in 1982 have stood the test of time.

EVENTS TO
LOOK OUT FORLEGAL SERVICES BOARD
CONSULTATION DEADLINE

16 July

Deadline for comments on will-writing, probate and estate administration activity regulation.

WORLD WATER WEEK

26 August

Organised by the Stockholm International Water Institute (SIWI) the theme is "Responding to Global Changes".

worldwaterweek.org

BANK OF ENGLAND
ECONOMIC OUTLOOK

7 September

A special off-the-record breakfast briefing by the Bank of England's agent for Greater London, Peter Andrews, on the economic outlook and business confidence. London.

icaew.com

LONDON DESIGN
FESTIVAL

14 September

Spread over 10 days, the festival will feature over 300 events and exhibitions showcasing the city's pivotal role in global design.

londondesignfestival.com

WORLD RETAIL
CONGRESS

19 September

Key decision-makers from retail including bosses at M&S, Disney, Google and ASOS come together to share ideas, network and make industry decisions. London.

worldretailcongress.com

FARMING & RURAL
BUSINESS GROUP
CONFERENCE

20 September

From precision farming to Common Agricultural Policy (CAP) reform, keep up to date with the latest developments affecting the farming and rural business sector. Leeds.

icaew.com/farmingconf2012

View from
the top

In his first column, new ICAEW president Mark Spofforth extols the virtues of a universal accounting language



As we review the events of the past few years and look to learn lessons from what went on, there is a small but vociferous minority seeking to place the blame for the 2008/09 financial crisis at the door of International Financial Reporting Standards. "If UK GAAP were still in place, it would never have happened," they argue.

I would be the first to say that IFRS is not a perfect system. As an institute, we frequently criticise proposals from the International Accounting Standards Board. But thinking that UK GAAP used to represent some "golden age" of accounting is, quite simply, wrong. The main area where it is thought to have been better than IFRS concerns the measurement of impairment on loans. It has been suggested that the UK GAAP approach led to higher provisions and this was better, given that we now know the actual level of provisioning failed to anticipate the losses subsequently incurred in the financial crisis.

But recent evidence – reviewed in a paper by John O'Hanlon, professor of accounting at Lancaster University Management School – is that the transition to IFRS in 2005 did not make a significant difference to the level of impairment provisions by UK banks. In fact, the introduction of IAS 39 led to more-timely provisioning, he says.

This conclusion was reiterated in evidence to the House of Lords' economic affairs committee during its investigation into concentration in the audit market. The Lords heard that, in moving from UK GAAP to IFRS, none of the major UK lending institutions released provisions within their transition adjustments of greater than 0.1% of their loans and advances. In fact, a number increased their provisions.

Every accounting system around the world is considered by someone or other to be seriously flawed. IFRS is no exception: its use of fair value to measure some financial instruments and its use of the "incurred loss" method to measure expected losses on loans have both come in for major criticism. Indeed, some have gone as far as to accuse fair value accounting of contributing to the financial crisis.

Again, there is no evidence for this assumption, and no good reason for returning to the days of UK GAAP. What IFRS gives us is a universal accounting language with which we can communicate globally – surely a prize worth fighting for and one that can and should be improved and refined to take account of developments in the business world. We also need to keep an eye on the length and complexity of IFRS financial statements to ensure they are comprehensible to the stakeholders who seek to rely on them. ■

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



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Good business



In an effort to inspire businesses to embrace a more sustainable model, ICAEW has launched a series of online films called *Just Good Business*. The short films reveal how SMEs have embedded sustainable practice into their business and seen a marked difference.

Just Good Business has been developed to show how sustainability makes business sense by positively influencing the bottom line, delivering long-term cashflows, encouraging staff retention and building business continuity to protect against threats.

Chief executive Michael Izza says: "Making businesses sustainable is about generating cashflow for the long term, which is at the heart of every business model. All investors want to make sure the businesses they invest in will be around for the next 10 or more years: sustainability is at the heart of this."

Sustainability is not the preserve of big business, says Richard Spencer, head of sustainability at ICAEW. Indeed, the SMEs filmed by ICAEW all have long-term strategic thinking embedded in their strategy and are seeing positive financial outcomes.

icaew.com/justgoodbusiness

Career Clinic

We all need to address the issue of gender imbalance at the top of business

Mark Freebairn

Headhunters are blind when it comes to recruitment. If there is discrimination in the recruitment process it does not come through the recruiters' involvement. We only care about one thing and that is finding the right person for the job. Who that person is and where they come from is irrelevant as long as they are right. Internal, external, national, international, male, female, experienced, inexperienced... It does not matter as long as you are able to do superbly the role for which we are recruiting and you suit the culture – and vice versa.

Maybe I've been lucky in my career. I have only ever worked in recruitment, which is a sector dominated by a large number of brilliant women. For my entire working life I have found myself working for and alongside men and women. In the two companies where I have worked there has always been a 50:50 gender split throughout every layer of the organisation. So the concept of discrimination never enters my head.

Yet I see the same statistics you all do. And I run very senior board finance events, and see the split between men and women who attend them, so I am clearly aware of the diversity issues businesses face.

I was asked to attend a conference last month. It was for finance directors and controllers at group or divisional level from right across the UK. More than 100 people attended. There was as wide a range of business size and scale and ownership structure and sector as I have ever seen. Salary levels ranged from £70,000 to £180,000.

At the event I ran a course on career development within finance. I have done this before – quite often for businesses at the request of CFOs – which probably



means CFOs are a lot more trusting than their title would have you believe.

As I walked into the room I quickly scanned to see how many people were there – at a rough estimate I reckoned we had about 60. But it was only as I got to the podium and looked around the room properly that I noticed that of the 60 or so people in there only four were women. Yet when I give these sorts of talks for companies the split is far more equal.

I have no idea why the audience in the room was so male dominated. I don't think it was because of me, and closer inspection of the list of attendees to the conference showed again that the group was ultimately male dominated. But I know that the proportions of men and women working at those salary levels in finance across business in the UK is nowhere near as male dominated as my test group would have you believe.

So why was I speaking to a sea of male faces? I genuinely don't know. I can speculate: the course was held outside London and required an overnight stay; it really was something to do with me; women don't perceive the value of networking as highly as men do – although the women I spoke to at the conference definitely did. There could be a million reasons but the bottom line is that I know these women exist because I meet them and see them regularly.

Events like this are useful in career development for lots of reasons and there should have been a more even split of attendees. Driving the career paths of middle management women has to be the most effective way of realigning the gender imbalance at the top of business. We all need to find ways of achieving that.

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



As I see it

Crawford Gillies is chairman of Scottish Enterprise and chairman of Control Risks Group

As he settles into the “next 25 years of his career”, which includes a non-executive directorship at Standard Life Group, Crawford Gillies looks back on his professional life so far

What was your childhood ambition? I wanted to go into business from an early age and saw accountancy as a stepping stone to a broader career.

Was your education influenced by passion or pragmatism?

Harvard Business School (HBS) was transformational. I'd just qualified as an ACA but was very naive and had no idea where an MBA might lead. I recall reading an article about Christopher Hogg having gone to HBS and the seed was planted.

And your career? My strong inclination after HBS was not to go into consulting as I wanted to get my hands dirty. But a certain Mitt Romney, responsible for recruiting at Bain at the time, was very persuasive. I intended to stay two years but ended up staying more than 25.

What was your first senior role? I became managing partner of

Bain in the UK in 1996 and really enjoyed the move from adviser to leader and general manager.

Who was or is your mentor? I've learned from a host of people. My mentors have reinforced values as much as anything.

What do you enjoy most about your job? After 25 years in consulting I set out six years ago on my next 25-year career as a non-executive chairman and director. I love the variety and the opportunity to make a difference. A different role but the same drivers as in the first 25 years.

What are the main challenges?

Having an impact while remembering that the executives are there to run the business.

What are you most proud of?

My well-balanced kids, who are making their mark on the world.

What's great about Scottish Enterprise? We're helping to transform the Scottish economy.

It's a privilege to assist and encourage businesses across the full spectrum of the economy.

What's the best way to get things done? I've learned it is through others, but I still have to restrain myself from wanting to get stuck in and do things myself.

If you didn't work in finance, what would you do? I have not really worked in finance since I qualified but it's the cornerstone of the general manager's skill set.

What makes a good accountant? Commercial awareness and empathy for other functions. The best are integral members of the management team and add value well beyond the numbers.

What would you do differently? Very little. I had no grand plan but I've been incredibly fortunate.

What motivates you? Helping companies and individuals to reach their full potential.

What's your biggest bugbear?

Companies that just toddle along satisfied with how they're doing, but have the potential to be so much better. In other words, satisfactory underperformance.

How do you maintain a work/life balance? I learned early on that to be effective I needed time to switch off. My family – my wife and I have been married for 33 years and have three boys – has always been a very important counterweight to work.

What's your guilty pleasure?

Planting trees. I am creating an arboretum that will not be fully grown until long after I am gone.

What's your big extravagance?

Season tickets to my local rugby and football clubs.

Which media do you turn to in the morning? Radio 4 while I shave, then *The Times* app over breakfast – first sport, then

business, then politics.

Tales from the front line

Real stories from the cutting edge of business and finance

Elaine Clarke

Managing director of cheapaccounting.co.uk

My school and I decided that staying on to do A levels wasn't the best idea – I hated school and was a bit rebellious. But my parents would only let me leave if I got a proper job. Among the As in the *Yellow Pages* are accountants, so I wrote to several firms and surprisingly was invited for an interview at what was then Kidsons (now Baker Tilly). If I'd started with Zs I might have been a zookeeper.

I went to college and did a day release course, went to university at 18 to do data processing and accountancy and then joined KPMG in Leeds at 21. There were about 20 of us in the same position. You worked and played hard. You'd do the audit season and then go headlong into exams. It hasn't got any easier and nor should it. Accountancy is a profession that should be held in high regard and be tough to pass. The ACA gives you a fantastic foundation and put me in good stead for my career.

After leaving KPMG I spent years in corporate roles, a combination of IT and accountancy. But I never really settled – I think it was the rebel in me again. I took a year out a few years ago and did a masters in computing. That was the foundation for launching cheapaccounting.co.uk

Having started at Kidsons at 16 (I'm 48 now) it dawned on me that nothing much had changed in preparing accounts for sole traders and one-man bands. But in the rest of the business world, everything's changed.

It was the birth of cloud technology. I thought more people were going self-employed and wanted accountants they could afford. I'd spent a long time in the corporate world looking at business process re-engineering and thought: "There must be a different way of doing that." And of course there is – put cloud computing where it should be, right there for the client.

When I launched five years ago a lot of people were cynical. There are people in the accountancy world who are prepared to sling mud. But they don't know me, my principles or the service we offer clients. Now so many people are copying me.

You can either spend all your time and money to take these people to court when they've copied your website word for word or you can say: "I must have the right idea and I'm five years ahead of

them". I know how long it takes to get a good web presence and build a brand. I funded the business through savings and I've done all the web development myself. I'm very risk averse, a typical accountant. I wanted control; what I develop is exactly what I want. Having been in the IT world that whole development lifecycle always goes wrong in the translation of requirements.

The business has grown organically. I'm a huge believer in solid foundations. If you have those, you're there for the long term. I had the choice of opening an office and taking on staff or going down the franchise route. In the first year I took on four franchisees. We're coming up to 20 now. I expect over the next 18 months that will double. You have to prove something, particularly when you're doing something revolutionary, and you can use that term in the accountancy world.

I enjoy the flexibility. I live on a country estate on the banks of the Thames in what is effectively a holiday lodge. The role I've carved for myself gives me the flexibility to work hard but also take time out, go for a walk or cycle. I've had two back operations and sometimes I need the flexibility to work when the pain's not too bad.

I've just taken on two directors because as you grow you need to put more controls and processes in place. The way you operate when you have four, five, six franchisees is very different to the way you do when you have 20, 30 or 40. It's about looking at what the shape of the business will be and the sky's the limit for where we can go with it. This is my pension pot, it's my future.

If I'm bad at anything it's being able to focus on one thing at a time. But an entrepreneurial role suits me. You can't be an accountant all the time. In fact accountancy is no longer a big part of my role. I move the business forward. Because of the market we work in we're expanding. The business has grown so much during the recession I wonder what we'll look like coming out of it.

Some of the franchisees tried to start their own practices beforehand and took one or two clients from friends and family but then struggled. They've found coming with us so much more refreshing because the brand name is really bringing the clients on board. ■





**If I'm bad at anything
it's being able to focus
on one thing at a time.
But an entrepreneurial
role suits me**

CHARLOTTE PLAYER

Michael Izza



Your feedback

U-turn on consultation

They say that where the US leads the UK follows. That certainly seems to have been happening recently. Last year Barack Obama earned the sobriquet the “flip-flop president” after a spectacular run of U-turns on issues ranging from Guantanamo to tax breaks for the wealthy. Now, it seems, the UK government is following suit.

When the coalition government came to power two years ago, one of its commitments was better pre-consultation with stakeholders. We now get to see significant amounts of draft legislation ahead of the Finance Bill and in plenty of time for proper scrutiny. But a number of times policymakers have failed to consult with industry, trade and the professions to see what the potential consequences of the proposed legislation might be.

This is proving disastrous politically, as the week before the Jubilee weekend showed. The press was having a field day with its “half-baked” headlines as the government was forced in the face of a ferocious public backlash into humiliating U-turns over pasties, static caravans and charities.

Part of the problem is the government’s communications strategy. One could argue so much of the Budget was leaked before the event that commentators only had a few negative surprises to latch on to. But these measures would have benefited from prior consultation, however informal.

The government should also have talked to the accountancy profession about plans to allow unincorporated businesses to present their tax on a cash basis before issuing its proposals for general consultation. These also have the potential to end up as an own goal.

The idea came from the Office of Tax Simplification (OTS) and was designed to simplify the tax system for small businesses. The OTS recommended the measure apply to businesses with a turnover of £20,000, later increased to £30,000, a move that had considerable support. But in its consultation proposals the government has decided to increase that to the VAT threshold of £77,000, with the prospect that businesses be allowed to calculate their tax on the cash basis until their turnover exceeds £150,000.

We recognise this might be welcome in some quarters and from a public policy perspective cash accounting will allow a great deal of flexibility in the final profit figure that any one of these businesses declare in a year. As such it could have a major impact on the amount of tax these businesses pay.

The Treasury has estimated the change will cost more than £400m in the first year but then be cost-neutral. I’m sceptical about this. With the consultation period over, we can only await the government’s decision. But events of recent weeks make me hopeful that policymakers in this country, across Europe and the rest of the world take on board the benefits of consulting with practitioners and specialists to avoid falling into bear traps.

Axe public spending



Your leading article in June’s *economia* opines that the squeeze on public spending has failed to encourage a private sector-led recovery. It is unreasonable to expect a rapid recovery to follow public sector retrenchment – and where is the evidence that any real attempt has been made to pin back government expenditure?

Some sources suggest public spending, far from declining, is now at higher levels than those achieved even by Labour.

The truth is that we and many other nations in Europe have been living beyond our means for some time, with a brief respite while we squandered the North Sea oil bonanza. We have built up an obscenely large public overdraft and expect our children and grandchildren to pay it off.

Ask Angela Merkel whether it makes sense to take on more loans to get out of hock? The world does not owe the West a living and some serious public expenditure cuts must be undertaken to make us competitive. The alternative is economic annihilation by the newly emerging powerhouses.

Alan Quinton

Pre-pack concerns

In your article on pre-pack administrations (*Prefab doubts*, June) no concern is shown for the shareholders. No notice is given to them, no meetings of shareholders are held, no accounts of the subsequent administration are transmitted. Both the company and the administrators have a free hand to do whatever they want. They do not go the extra mile to demonstrate they have obtained the best price. I was involved with Ennstone and I was told the company was

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transferred for a price that would not benefit the shareholders – 17 months later the newco sold the business for £2.25m plus 55 million warrants that six months later were worth £3.85m. The company (Breedon) is now quoted on the stock exchange and already the shares have increased 60%. I would be surprised if the administrators were able to satisfy the ousted shareholders that they had achieved the best price. This practice of pre-pack administrations gives the whole profession a bad name.

Ian R Collins

Rethink the crash

June's leader, which states, "The dawning reality of a 1930s-style depression caused by the reckless action of a few" is misleading. May I suggest that you and your readers get a copy of the Institute of Economic Affairs' *Verdict on the Crash: Causes and Policy Implications*. There were many contributory factors and our profession is not excluded from a contribution to the failure. I suggest that readers review the publication even though it was published in 2009.

Keith Miles OBE

Information overload

I would like to endorse Mark Spofforth's comments (*Family guy*, June) about the format of published accounts. When I receive a public company's annual report and accounts I invariably find them difficult to understand. Admittedly I have been retired for a long time but I did practise in the City for 30 years. So if I find it hard to find the information I am looking for, what chance is there for an ordinary shareholder?

As Mark Spofforth points out, there is too much information provided. This is done as a substitute for exercising judgement as to what is material. So more power to his arm for pressing for simplification.

Graham Elcombe

Emperor's rags

I was amused by the headline on *economia*'s front page saying "Audit quality is better now than ever" (June).

It's like saying the Emperor's clothes are now better than ever. When was the *ever*, the Enron era or the recent bank audits?

There are those outside the narrow world of audit who think that the bank auditors should be disciplined. That could, however, lead to a collapse of the Big Four firms. We could then find there was no one to audit the banks and other large companies. This means the banks would be able to trade while insolvent, and use dodgy products without anyone to blow the whistle or ring the bell.

Brian Wiseman

A paperless future

As the cost of postage soars to a record 60p for first class and 50p for second class, businesses need to think carefully about how much post the finance department is mailing out. Too many organisations still rely on print, photocopy, post and manual filing of paper documents. Yet with Britain now officially in a double-dip recession businesses need to realise that a paperless strategy in the finance department can deliver significant savings.

Electronic creation, delivery, authorisation, storage, management and processing of financial documents will not only reduce business postage costs but will also eliminate manually intensive admin tasks while supporting environmental policies.

The streamlined authorisation will also enable businesses to focus attention just on exceptions, minimising time spent answering queries, searching for invoices and tracking authorisation across the organisation. By integrating document management technologies with financial

systems, organisations will reduce their postage costs, transform business effectiveness, impose greater control and, typically, achieve ROI within six months.

Gary Waylett, Eclipse Group

Accounting at Alf's

I was pleased to see your review of Café Alf Resco in the "Dining Alfresco" section of your June issue. I worked for five years at Café Alf's as a cash-strapped student and owners Kate and Pete Ryder helped me get on the career ladder. They not only paid my train fare up to London for my first interview at a West End-based PR firm but I believe it was the hours I spent in the cafe, totting up bills in my head – no till in those days – that gave me an excellent grounding in accountancy.

It is a great place, amazing food – the smoked salmon and scrambled eggs on granary toast is a must – and incredible people. I'm proud to have worked there and would encourage anyone who fancies a tantalising of the tastebuds to pay a visit.

Philippa Hutton, Deloitte

TOP FIVE STORIES ONLINE IN JUNE

- 1 The accounts of the Queen
- 2 Deloitte promotes 63 partners
- 3 Stealthy change shapes corporate tax regime
- 4 HMRC poised for industrial action
- 5 Now is the time to speak out on the taxation of business

To join the debate online, visit
icaew.com/economia
 Letters and comments may be edited
 for clarity and space.

Cathy Newman



Royal flush, cheap booze and house rules

Though I hate to be a party pooper, there's no doubt the Diamond Jubilee celebrations have left a hangover, both alcoholic and economic. If, like me, you attended one of the 10,000 street parties, you'll no doubt have consoled yourself that a glass or two of your favourite tippie ought to help the stricken economy. Really it would have been rude not to, especially when you bear in mind official government estimates from the Department for Culture, Media and Sport that the extra-long bank holiday weekend could cost the economy up to £3.6bn.

The *FactCheck* team raised a glass to the Queen, but not before putting her finances under the microscope. Royalists claim the Windsors pay for themselves, but as Her Majesty basks in the kind of national adulation politicians can only dream of, is royalty – like the long Jubilee break – a luxury the nation struggles to afford?

The royal family's official cost to the taxpayer was £32.1m last year – covering the civil list and departmental government grants for things such as travel and communications. That could well be an under-estimate if you take into account money spent by councils on royal visits and security costs. The former head of Scotland Yard's royal protection squad has put the cost of protecting Prince Andrew alone at £1m a year.

That looks like a bit of a bargain when you bear in mind the Crown Estate (the monarch's private land, various prime locations in central London and almost all of the country's seabed) brought in £230.9m for the Treasury. Tourism is the real winner, though. Number-crunching, by the consultancy Brand Finance, factors in expenses like security and comes out with a back-of-the-envelope estimate that the monarchy's net value is £44bn. Have a look at our *FactCheck* at bit.ly/LRAcvx

If all this is giving you a sore head, perhaps a hair of the dog might be the best policy. And, according to a confidential government memo I got hold of, cheap alcohol may well be here to stay. David Cameron, you may remember, has promised

According to a confidential government memo I got hold of, cheap alcohol may well be here to stay

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

to increase the price of booze by introducing a minimum unit price. But he's now been told by one of his own ministers that the policy could be illegal. A minimum price may fall foul of European free trade legislation. The crux of the issue is this: the EU forbids its members from restricting the free movement of goods, and Cameron's plan could do that. The PM reckons he might get round these legal objections by claiming the public health benefits as a defence. That's called into question, though, by the memo from his universities and science minister David Willetts. It quotes figures from the Home Office suggesting a minimum price will result in a reduction in alcohol consumption of just 2.9% in the first year. For more, and the memo in full, have a look at our *FactCheck* on bit.ly/KCKjtz

The *FactCheck* team has found time to tear itself away from cheap booze and the Jubilee – not to mention the combination of the two. The housing minister Grant Shapps is one of the government's more energetic performers. Tipped for the cabinet, he's been making his presence felt at the local government department. There's never any shortage of press releases or statements from Shapps, but are they always firmly rooted in fact? We think perhaps not.

Shapps has an answer to our housing crisis: build your own. Just 14,000 new homes were self-built in the UK last year, fewer than in most developed countries. Now the housing minister believes more of us could don our hard hats, and he makes the startling claim that a three to four bedroom house could be built for a mere £150,000. Leaving aside how people can construct their own *des res* and hold down a job at the same time, the bigger problem is that Shapps's calculations omit the cost of buying the land. That might not be a problem in Northern Ireland, where the average plot would set you back £50,000, but in London you'd need to spend £430,000 for a standard building plot. For more on the housing minister's grand designs, take a look at bit.ly/JEYri6

So whether it's Buck House or Grant Shapps's house, there's no such thing as a free lunch. ■

Jason Cowley



It's when, not if, for a Euro referendum

We are living through what economists are calling a “contained depression”. UK 10-year bond yields remain at historic lows of 1.54%. The Bank of England interest rate has been frozen at 0.5% for more than three years. Output remains 4.4% lower than it was at its peak in 2008. The economy has contracted by 0.4% since the government’s Comprehensive Spending Review of October 2010.

If the government has a coherent strategy for recovery, no one seems to know what it is. From the right the chancellor, George Osborne, is being urged to cut public spending faster, especially on welfare; to cut taxes; and introduce more supply-side reforms such as liberalising employment law, shredding red tape and so on. If Britain wants growth, it should liberate entrepreneurs, as Margaret Thatcher did in the 1980s.

From the left, the chancellor is being urged to cut public spending more slowly, to show greater flexibility and even to take advantage of extraordinarily low interest rates to borrow so as to invest in large-scale infrastructure projects. You cannot cut your way out of recession, it is said. What is required is greater fiscal activism and more, not less, government.

Meanwhile, the crisis in the eurozone will not be resolved any time soon. How to reconcile the wealth of Germany with the desperate poverty of Greece? Again, no one seems to know. What will happen if Greece chaotically exits the eurozone, destroying confidence in the integrity of the single currency? Or if leftist parties in Greece and elsewhere continue to do well in elections – or win, as Françoise Hollande’s Socialists did in France – and use their mandates to challenge the prevailing EU-wide orthodoxy on austerity? There are many questions but few answers.

What is clear is that the hard eurosceptics within the Conservative Party, and outside of it, have been vindicated: the “remorseless logic” as David Cameron once put it of monetary union is that it would ultimately lead to fiscal union. For the sceptics and anti-federalists, the project to create a single currency was flawed from the outset. The Mediterranean nations are enduring extraordinary hardship as

A vote on Britain’s relationship with and even membership of the EU is inevitable if not before the 2015 general election then in 2016

Jason Cowley
is editor of the
New Statesman

austerity measures lead to the degradation of public services and rising unemployment (more than half of all young people aged between 16 and 24 are jobless in Spain), even as the markets push their borrowing costs higher.

For better or worse, the euro countries are being cajoled (if not quite coerced) by Germany towards agreeing some kind of “fiscal compact”. The eurozone is being remade and restructured and with it the institutions of the European Union.

What does this mean for the United Kingdom, which is part of the single European market but remains outside the eurozone? The simple answer is this: a referendum on the UK’s relationship with and even membership of the EU is inevitable, if not before the 2015 general election then in 2016.

The prime minister and the foreign secretary, William Hague, are self-declared eurosceptics, but they are also pragmatists: they long to weaken the hold the EU has over this country’s affairs, especially the supra-national European Court of Human Rights in Strasbourg. But they would not wish for a straight in/out referendum on EU membership, as some of their more restive backbenchers would. They want the UK to continue to enjoy the benefits of being part of the single market, but accept that any further transfers of power to EU institutions must be agreed by the British people in a referendum.

In his new book *Europe Restructured? The Eurozone Crisis and Its Aftermath*, David Owen, the former Labour foreign secretary and leader of the defunct Social Democratic Party, proposes that any future referendum should ask two questions:

1. Do you want the UK to be part of the single market in a wider European Community? Yes/No.
2. Do you want the UK to remain in the EU, keeping open the option of joining the more integrated eurozone? Yes/No.

Over the next three to four years the British state is set to be profoundly challenged by referendums on Scottish independence and on the UK’s relationship with Europe. Month by month the old pre-crisis certainties are crumbling but what will replace them? No one knows. ■

Nouriel Roubini



A united Europe is the key to global stability

Dark financial and economic clouds are rolling in from every direction. The global economy in 2013 could be a very difficult environment in which to find shelter. For starters, the eurozone crisis is worsening, as the euro remains too strong, fiscal austerity deepens recession and a credit crunch in the periphery and high oil prices undermine recovery. A disorderly breakup of the eurozone remains possible.

Economic performance is also weakening in the US, with first-quarter growth a miserly 1.9%. And job creation has faltered, so the US may soon stall. Worse, the risk of a double-dip recession next year is rising. Moreover, political gridlock over fiscal adjustment is likely to persist, regardless of whether Obama or Romney wins November's election. Thus, new fights on the debt ceiling, risks of a government shutdown and rating downgrades could further depress consumer and business confidence.

And China, with its unsustainable growth model, could be underwater by 2013 as its investment bust continues and reforms to boost consumption are too little, too late. A new leadership must accelerate structural reforms to reduce national savings and increase consumption's share of GDP. But divisions within the leadership, together with the likelihood of a bumpy transition, suggest reform will be too slow.

This economic slowdown in the US, the eurozone and China already implies a massive drag on growth in other emerging markets, owing to their trade and financial links with the US and the EU (that is, no "decoupling" has occurred). At the same time, the lack of structural reforms in emerging markets, together with their move towards greater state capitalism, is hampering growth and will reduce their resiliency.

Finally, long-simmering tensions between Israel, the US and Iran on nuclear proliferation could boil up in 2013. A military confrontation in 2013 would lead to a massive oil price spike and global recession.

These risks are already exacerbating the slowdown: equity markets are falling everywhere, leading to negative wealth effects on consumption and capital spending. Borrowing costs are rising, credit rationing is undermining SMEs and falling

A full banking union, starting with eurozone-wide deposit insurance, should be initiated

commodity prices are reducing exporting countries' income. Risk aversion is leading people to adopt a wait-and-see stance that makes the slowdown self-fulfilling.

Compared to 2008-2009, when policymakers had ample space to act, monetary and fiscal authorities are running out of policy bullets (or policy rabbits to pull out of hats). Monetary policy is constrained by near-zero interest rates and repeated rounds of quantitative easing. Economies and markets no longer face liquidity problems, but rather credit and insolvency crises. Meanwhile, unsustainable budget deficits and public debt in most advanced economies have severely limited the scope for fiscal stimulus.

Using exchange rates to boost net exports is a zero-sum game at a time when private and public deleveraging is suppressing domestic demand in countries running current account deficits. Structural issues are having the same effect in surplus countries. A weaker currency and better trade balance in some countries implies stronger currency and a weaker trade balance in others.

The ability to support, ring-fence, and bailout banks and other financial institutions is constrained by politics and near-insolvent countries' inability to absorb additional losses from their banking systems. Sovereign risk is becoming banking risk and sovereigns are dumping a larger fraction of their public debt onto banks' balance sheets, especially in the eurozone.

To prevent a disorderly outcome in the eurozone, today's fiscal austerity should be more gradual, a growth compact should complement the EU's fiscal compact, and a fiscal union with debt mutualisation (Eurobonds) should be implemented. A full banking union, starting with eurozone-wide deposit insurance, should be initiated, and moves toward greater political integration must be considered, even if Greece leaves the eurozone. Unfortunately, Germany resists all of these key policy measures, as it is fixated on the credit risk to which its taxpayers would be exposed with greater economic, fiscal, and banking integration. As a result, the probability of a eurozone disaster is rising. Time to batten down the hatches. ■

Nouriel Roubini is founder of Roubini Global Economics and top of the *economia* Twitter Finance100
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Norman Lamb



Employee ownership and growth

Growing our economy out of a period of crisis is this government's most pressing priority. We want to encourage investment and exports and make Britain one of the world's most enterprise-friendly countries. And we want to build a more responsible business culture, where the rewards of capitalism are shared fairly across society.

We have already taken action on tax, regulation and planning to support British businesses and promote economic growth. And we are reviewing investment in UK equity markets and strengthening the relationship between company pay and performance. But we are determined to get the culture right on the shop floor, too. This is where employee ownership becomes potentially very powerful – by spreading capital and empowering employees I believe we can establish a more diverse economy and help drive future growth.

Employee ownership is a great liberal principle, which is still as persuasive today as it was when John Stuart Mill advocated aligning capital and labour, to ensure the division between the two was “gradually superseded by partnership”.

Evidence from Cass Business School suggests employee-owned businesses can be more profitable, productive and resilient during tough economic times than conventionally owned businesses. Indeed, although it's still a small part of the economy, the challenging period between 2009 and 2011 saw a 25% increase in the number of employee-owned businesses, and the sector now covers around 130,000 employees.

This success is entirely logical. If you own a stake in your workplace then you have a greater interest in its success. Ownership encourages responsibility, which motivates employees to be more productive. Companies with engaged staff also enjoy reduced absenteeism, increased retention, greater innovation, collaboration and job satisfaction.

Employee ownership doesn't guarantee company success, but it can play an important role in driving future economic growth as part of a balanced economy. The deputy prime minister asked me to make employee ownership models as well known

This isn't about compulsion. It's about making it easier for businesses to adopt employee ownership

Norman Lamb is minister for employment relations, consumer and postal affairs

and understood as franchising or management buyouts. But to be clear, this is about making it easier for businesses to adopt employee ownership. This is not about compulsion.

Since February, Graeme Nuttall, a partner at Field Fisher Waterhouse, has been reviewing the barriers to employee ownership. There is a lack of awareness of employee ownership models. This needs addressing if more are to get off the ground. We're discussing whether government should introduce a light-touch “right to request” for employee ownership and share schemes. There would need to be a right to say no, but it could ensure ownership is considered at key stages of the business.

The review has been examining whether smaller employers have access to the best possible advice when they are setting up or expanding a business. I want employee ownership models to be among the default options professional advisers consider. Government can also help reduce the complexity in adopting employee ownership. We will look at the possibility of developing a simple off-the-shelf model and I'd encourage ICAEW members to support us with their expertise.

The Treasury is reviewing the role of employee ownership in supporting growth. This includes looking at how tax and other barriers to its take-up can be addressed. We also need to think about how we sustain high quality public services in an age of austerity and with an ageing population. The key is to empower those delivering public services so we increase productivity and improve quality. New models of ownership – social enterprises and mutuals – should be a part of this. Francis Maude, in the Cabinet Office, is leading on this agenda.

My ambition is to take employee ownership into the mainstream British economy. I don't imagine the bulk of UK businesses will be employee owned in 20 years time, and I don't reject other models. But there is a case for more diversity of ownership in terms of benefits for the wider economy. Facilitating this diversity is my top priority as a government minister and it has support across the Coalition. ■

Letter from America

Facebook. What's not to Like

Much was riding on the public offering of Facebook. The listing, which initially valued the social network at an imposing \$100bn, had the potential to rekindle enthusiasm for public companies as a whole.

Going public has been going out of vogue. The number of American initial public offerings (IPO) has plunged by close to 70% over the past decade compared to the previous 20 years. As a result ordinary investors have far less choice than in the past. There are 38% fewer public companies in the US than in 1997. In Britain the number has almost halved.

If stock exchanges were hoping that Facebook would help reverse this trend, they must have been sorely disappointed. Almost everything that could have gone wrong did go wrong. For a start, the Nasdaq exchange botched the listing. Despite the months of hype that preceded the IPO, Nasdaq was ill-prepared for high transaction volumes. As a result there was a 30-minute delay before the shares actually started trading on May 18.

Then the exchange's system failed to confirm trades or cancellations until after lunch. That left underwriters and investors using pen and paper to track their deals.

Thomas Joyce, the chief executive of Knight Capital, one of the nation's largest underwriters, described the event as "the worst performance by an exchange on an IPO ever".

Nor was Facebook itself just an innocent victim. The price of the stock was considered exorbitant by many investors. With just \$1bn of net income in

2011, the company launched with a value of close to \$100bn. Investors soon balked at this towering price-to-earnings ratio – which compares to a median of closer to 15 times for the Standard and Poor's 500 composite index. The result was that the stock quickly slid. Three weeks after the public offering, Facebook shares had lost over a third of their value. This already appears to have damaged the Facebook brand. A Reuters/Ipsos poll showed that 44% of respondents felt less favourably towards the company because of its IPO flop.

The damage inflicted on the prospects for future public offerings may be far more significant. Ordinary retail investors who have lost money on Facebook are likely to be more wary of future high profile IPOs.

Worse still, businesses that are weighing different methods for raising capital may opt instead for alternatives to a stock market listing. Private equity firms have plenty of cash to lend out and private markets such as SecondMarket can also help insiders cash out. The hassle and red tape of running a public company has already deterred many.

The decline of the public company is a shame. If more businesses are run privately, ordinary investors have far fewer opportunities to bankroll the best companies. As a result the best returns will be hogged by wealthy and privileged insiders.

So Facebook's public flop affects more than just the company itself. It risks accelerating the flight away from public markets. ■

The latest views from
Christopher Alkan, our
insider in Washington

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10 KEY COUNTRIES FOR ACCOUNTING CAREERS

As economies such as China, India and the Middle East grow, so too does the demand for qualified accountants. Tougher trading climates also make the financial insight provided by chartered accountants even more valuable. As the adoption and updating of International Financial Reporting Standards (IFRS) gathers speed, qualified accountants will be needed in increasing numbers to help organisations interpret and apply these complex standards. ICAEW's ACA qualification is recognized in 170 countries in the world. So if you're contemplating broadening your horizons and working in pastures new, here are 10 to whet your whistle.

Romania

Since the fall of communism in December 1989, Romania has undergone dynamic changes. The country experienced a boom on the back of accession to the EU in 2007 and, according to the World Bank, the last eight years have seen rapid economic growth. Despite the problems in the eurozone, the former finance minister says Romania has a "very comfortable" financing buffer amounting to €5bn.

In 2005 it adopted IFRS and in 2008 ICAEW launched its ACA qualification in Romania. Former ICAEW president Martin Hagen described accountants and

Where in the world can you find the warmest welcome for accountancy skills?

Amy Duff takes a look

auditors as "crucial for the continuing growth of the Romanian economy."

The cost of living is currently very low in Romania. Bucharest, its lively capital, is packed with restaurants, cafes, bars, museums and parks. Companies including all of the Big Four, Citibank, Renault and Visa have offices there and most expats in Bucharest work for major European corporations with smaller operations in Romania.

United Arab Emirates

The vibrant UAE is a federation of seven Emirates: Abu Dhabi, Dubai, Sharjah, Fujairah, Ajman, Ras Al Khaimah and Umm Al Quwain. With its liberal business environment, high standard of living, sunny climate, affordable housing and hospitable locals, the UAE continues to attract expats from around the world. The region experienced strong economic growth until the global economic downturn – in 2009, Abu Dhabi had to bail out Dubai to the tune of US\$10bn. But its free zones remain attractive to business and companies including

Rolls-Royce, BAe Systems and Deloitte have a presence in the UAE.

Companies generally follow IFRS and best industry practices for financial reporting. In terms of job opportunities the emirate is refocusing on its traditional strengths: trade, logistics and tourism. But professional services and advice is also sought by other sectors including banking and financial services, real estate, leisure and hospitality, retail construction, telecoms and energy.

Singapore

Consistently ranked as either the best, cleanest, easiest, efficient or most competitive country in which to work, Singapore's open immigration policy makes it easy for foreigners to enter the city-state. Its pro-business attitude means that government agencies work closely with the business sector to promote economic growth.

It slipped into recession in 2009 and the forecast for GDP growth stands between 1% and 3%. But compared with Western economies, growth is robust. Singapore's vision is to be a leading global accountancy hub for the Asia-Pacific region. The Singapore Financial Reporting Standards are closely modelled after the IFRS. Major industries include manufacturing (particularly electronics,



engineering, biomedical sciences and chemicals) and commerce. Many of the major long-term British investors have increased their footprint in Singapore recently, including Barclays, Dyson, HSBC, Rolls-Royce, Shell and Standard Chartered. Development of the IT, bio-medical and tourism sectors are the government's next priority.

Malaysia

A multi-ethnic, multicultural and multilingual society, Malaysia has become one of the world's top locations for offshore manufacturing and service-based operations. The capital, Kuala Lumpur, is home to the Bank Negara Malaysia and a hub for finance, real estate, business, arts and media companies. There's a diverse expat community and lots of expat jobs.

Already a "tiger" economy, Malaysia aims to become a developed country by 2020. In 2010 the country recorded a GDP growth of 7% – one of the strongest showings in the region. However, foreigners are encouraged to take up employment only in areas where there is a shortage of suitably trained Malaysians. CFOs, partners and senior accountants

are predicting buoyant demand for qualified accountants over the next five years. Expats speaking a second language will have an advantage, particularly if it is Mandarin or another Asian language.

China and Hong Kong

No longer an emerging market, Greater China has transformed itself into a global superpower. According to ICAEW's 2012 *Economic insight: Greater China* report, average annual growth of 10% for the past three decades means its output has roughly doubled every seven years. Hong Kong's top spot on the World Economic Forum's ranking of financial development and Shanghai's fast growth as an important financial centre in its own right is attracting global corporations to the East. But as James Lee, ICAEW's representative in Beijing says, there is still an acute shortage of qualified accountants in China. The Ministry of Finance and the Chinese Institute of Certified Public Accountants (CICPA) are working with ICAEW to attract top talent into the accountancy profession. "ICAEW actively encourages contact between Chinese and UK accountancy practice firms," says Lee. "We promote our members' expertise to business and ICAEW has a reciprocal recognition agreement with the Hong Kong Institute of Certified Public Accountants (HKICPA)."

From left: cafes in Bucharest, Romania; skyscrapers in Dubai, UAE; ArtScience Museum, Singapore; the streets of Kuala Lumpur, Malaysia; downtown Hong Kong; Seafarer's Bridge, Melbourne, Australia

Australia

The Australian economy has been ranked as the world's most resilient for six out of the last eight years and is currently one of the best performing economies in the OECD. But the laid-back lifestyle is also a big draw. With the low cost of living, affordable quality housing, extensive healthcare benefits and one of the best education and social systems in the world, Australia has much to offer.

Key business centres in Australia include Sydney, Melbourne, Brisbane and Perth. Australia is a leading financial centre in the Asia Pacific region and its alliance with markets throughout the region provides business people with a comprehensive range of financial services. As Richard Stokes, contact member for the Institute of Chartered Accountants in Australia says: "Our members continue to find good career challenges and opportunities in Australia as well as enjoying the lifestyle. We have around 3,500 members here and we are ICAEW's largest group of UK-qualified members based outside the UK. The local economy continues to expand while many other world economies struggle."



Mauritius

"With its warm and sunny climate, beautiful beaches and great golf courses, Mauritius is a nice place to live... and to work as a chartered accountant," says Jacques Pougnet, international liaison partner at BDO in Port Louis. It enjoys a long-established democratic tradition and political stability, while the people are friendly and bilingual (English and French). "Its economy (mainly financial services, tourism, ICT, sugar, textiles) has so far withstood the financial crisis and growth is currently estimated at slightly less than 4%," adds Pougnet. International Financial Reporting Standards (IFRS) have been adopted since 2001.

"The ACA qualification is prestigious and always in demand," says Pougnet. "There are over 10 organisations that are ICAEW authorised training employers. Mauritius is one of the countries with the highest number of ICAEW members in relation to its population."

Professional accountants must be registered with MIPA (Mauritius Institute of Professional Accountants) and non citizens must obtain a work permit.

Vietnam

PwC recently listed Vietnam as the fastest-growing economy among emerging markets. In 2011 the Vietnamese economy recorded an annual growth rate of 5.89%. With an increasing number of Vietnamese companies looking to trade internationally, and multinationals setting up base in Vietnam, there has been a private sector boom in recent years. The changes in Enterprise and Investment Law in 2005 also created new opportunities for foreign investors in Vietnam by establishing partnerships with local private firms. The major goal of Vietnam's foreign direct investment (FDI) policy is to attract capital but also management skills in order to exploit the country's potential and improve living standards.

The capital of Vietnam is Hanoi, which lies in the north of the country, but other major cities include Ho Chi Minh City (the primary economic hub), Can Tho, Hai Phong, Hue, Da Nang, Nha Trang and Da Lat. Over half of the US Fortune 100 companies have operations in Vietnam and it will only become more attractive with its continuing tax incentives, long



Clockwise from top left: Hiking in Mauritius; the streets of Hanoi, Vietnam; a fashion show in Karachi, Pakistan; the Swiss exchange, Switzerland's main stock exchange, in Zurich

coastline, low cost of living, increasingly modern and sophisticated port infrastructure and very friendly locals.

Vietnamese Accounting Standards are followed and ICAEW works closely with the Vietnam Association of Certified Public Accountants (VACPA) to advance the accountancy profession in Vietnam and South East Asia.

Switzerland

It manages around a third of all private and institutional offshore funds, but Switzerland is also renowned for its high-quality precision engineering industry. Other key sectors include pharmaceuticals, chemicals, telecoms, food processing and packaging, graphics and electrical and mechanical engineering.

The Swiss economy did relatively well during the global financial turmoil but is now struggling with the knock-on effects of the sovereign debt crisis in the neighbouring eurozone. Its largest banks, UBS and Credit Suisse, suffered significant losses in 2008-09 and the EU, the US and international institutions have increasingly put pressure on Switzerland to reform its banking secrecy laws.

But business expectations for revenue, profitability and employment are positive and Switzerland offers ideal operating conditions for foreign companies, including liberal and business-friendly legislation, political and financial stability and first-class infrastructure. According to expatfocus.com, a large percentage of

Switzerland's population consists of foreign nationals who move there for employment. Professionals working for large multinationals or in financial services tend to be found in Zurich.

Pakistan

Pakistan's economy has fared much better than other developed economies during the financial crisis. The UK business community already has a significant presence in Pakistan, with investments in oil and gas, IT and telecoms, education, pharmaceuticals, and the financial services sector. Major British companies include HSBC, Barclays, GlaxoSmithKline, Royal Bank of Scotland and Standard Chartered.

Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad, Gujranwala and Sialkot are the country's key business centres and, according to expat Heather Carreiro, there is a big market in Lahore for qualified professionals. Many educated Pakistanis leave their country to settle in the West, which leaves a lot of room in the market for those with experience and education. "You may find yourself with several job offers within a short period of time," she says, adding: "Qualified foreigners can afford a higher standard of living in Lahore than in many North American or European cities." ■

See icaew.com/economia for a list of the 35 countries with just one ICAEW member

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United Arab Emirates

AT A GLANCE

The UAE has a GDP per capita comparable to any western nation. But as **Penelope Rance** says, a fear of over-dependence on black gold is leading to a diversification of the economy



VITAL STATISTICS

POPULATION: 5,314,317 (July 2012 est.)

CAPITAL: Abu Dhabi

COMPOSED OF: Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah, Umm al-Quwain

LANGUAGES: Arabic, Persian, English, Hindi, Urdu

ECONOMIC STRENGTH

GDP PER CAPITA: \$48,000 (2011 est.)

EXPORTS: \$265.3bn (2011 est.)

IMPORTS: \$185.6bn (2011 est.)

EXCHANGE RATE: £1=5.899AED (Emirati Dirham) (April 19, 2012)

The global financial crisis constricted the UAE economy. Dubai even had to be bailed out by a \$10m loan from Abu Dhabi. The need for diversification is being met by Free Trade Zones; education and employment of nationals; and growth of the service and tourism industries.

PROFILE

In the 19th century, the Trucial States of the Persian Gulf signed treaties handing their foreign policy and defence to the UK. In 1971, six of these states broke away to form the United Arab Emirates (UAE), joined by a seventh in 1972. Vast oil production and moderate foreign policy made the region a focus of western influence in the Gulf, and it grew a robust economy based on oil and global finance. Since 2009, however, falling oil prices and the global banking crisis have led to calls for some political reform and more investment in the poorer emirates.



GOVERNMENT

Voting rights to elect half of the seats of the Federal National Council (FNC) extend to a mere 12% of the Emirati population, with the remaining 50% dictated by the rulers of the Emirates. The FNC is a quasi-legislature with limited powers and no political parties, and calls to establish a full parliament are growing. The FNC elects the President, currently Khalifa bin Zayid Al-Nahayyan, ruler of Abu Dhabi, for an unlimited number of five-year terms. The ruler of each emirate retains absolute power within that monarchy.

EX-PAT PARADISE

Just under 20% of the population are UAE citizens, due largely to the huge ex-patriot population working in the oil and gas industry. By 2020, this proportion is expected to fall to 10%. The preponderance of ex-pats has also resulted in a male-female ratio of 2.2:1 – the highest disparity in the world. This mobile workforce means the region also tops the rankings with the world's highest net migration rate, at 21.71. Increasing the numbers of Emiratis in the workforce has become a priority.

DIVERSIFYING

Massive investment is being made in the region's infrastructure, in terms of tourism, real estate and leisure, in order to diversify the economy. The richest states of Abu Dhabi and Dubai have benefited from the majority of this, such as the Dubai World Central development, which is forecast to provide 900,000 jobs. The poorer northern emirates are also being developed, with grants from central government supporting the growth of residential and commercial properties and road and service networks.

INSOLVENCY

ICAEW has been one of a number of organisations collaborating with the UAE to reform its approach to insolvency in the hope of instilling a greater rescue culture. Proposals aired earlier this year, after consultation with several professional bodies, are aimed at decriminalising and encouraging business survival through financial restructuring. A new law is expected that could shift the emphasis towards helping struggling business avoid reaching crisis point.

ACCOUNTANCY

Since the establishment of a Middle East regional office in Dubai in 2009, ICAEW has worked to support members and enhance the profession across the region. Activities include the ICAEW Emiratisation Scholarship Scheme (IESS), helping Emiratis gain professional qualifications; regular panel debates with the Dubai Financial Services Authority on regulatory matters; and the Middle East Accountancy & Finance Excellence Awards, which raise awareness of the importance of the profession as a career choice and contributor to businesses in the region.



CHARLIE BEST

HE'S HERE TO HELP

When Harold Wilson first said that a week was a long time in politics, he might have had the shadow business secretary Chuka Umunna's career in mind. A relative newcomer to politics, Umunna only entered parliament at the last general election. In the two years since, he has experienced a career trajectory that would give astronauts vertigo. Having entered parliament in May 2010, representing his home constituency of Streatham, Umunna was elected to the Treasury Select Committee in June, became Ed Miliband's parliamentary private secretary when the latter was elected opposition leader in October and became shadow minister for small business and enterprise in May 2011. He then joined the shadow cabinet as shadow business secretary when John Denham stepped down from the post in October 2011.

Before becoming an MP, Umunna was an employment lawyer. When I ask what has surprised him most about his new career, he doesn't hesitate. "The most unexpected thing is the demand on your diary," he says. This is partly due to an impressive media profile, which Umunna says is because the business brief touches on so many areas, from the economy to employment to foreign policy and overseas trade. Other observers suggest that Umunna's busy schedule

is partly of his own making, pointing to his honest, engaging style, lawyer's intellect and ability to carry an argument – not to mention the fact that he is so damn easy on the camera. As our interview gets going, it's also clear that he has an admirable ability to stay on message. In short, he's that rare politician who is loved in equal measure by the media and by his party's spin doctors. The fact that his brief covers such a broad range is grist to the spinners' mill.

But it's also obvious that Umunna is relishing the brief, claiming there isn't another shadow cabinet post he would rather hold. He also bemoans the fact that this great office of state has been "emasculated" by its current occupant.

"The beauty of the business brief is that it is very broad and covers education, foreign policy and trade. It is the largest brief in cabinet with more ministers than any other ministry. But it has been emasculated under Vince Cable, because he doesn't have clout across Whitehall and doesn't have the ear of Number 10 or the Treasury. That's why it became such a powerhouse and a great office under Peter Mandelson, because he had that clout."

Umunna describes his personal politics as those of a "European social democrat", and places himself "right in the

Labour's biggest challenge has always been to connect with business. **Chuka Umunna** is the latest person to take on the task. He took time out to talk to Richard Cree about his vision for active government

centre of the broad church that is the Labour Party". Those politics are becoming increasingly influential within Ed Miliband's senior team, as Labour attempts to formulate a cohesive and coherent ideology and build a set of policies that might resonate with voters. Umunna believes the current government has misjudged the public mood. The UK, he says, is not a place for the "me, myself and I" politics of the Conservatives. He adds that he doesn't know what the LibDems stand for any more. The country, he says, is in the mood for government that acts for the common good. Indeed, apparently not afraid to sound a little naive, he admits a desire to help others remains his driving force.

"Ultimately I got into politics because I wanted to change the world, not because I was after praise and glory – you are quickly disabused of that notion," he says. "It sounds glib and idealistic but I want to make a contribution that will impact on millions of people. That starts on my doorstep in my constituency. If at the end of my career I can look back and see I have been able to implement policies that have affected millions, it will have been worth it. The starting point is making a difference to my constituency, but I want to impact as many people as possible."

This, he says, is about being a "changemaker". He is on the verge of naming other great changemakers in history before pulling himself up, conscious that such a list might not fit comfortably with party politics. One influential Tory he is happy to name check, however, is Lord Heseltine. The Tory grandee and former secretary of state for trade and industry remains a champion of what Umunna calls "active government". If senior politicians had catchphrases, this would be Umunna's. His speeches since taking his current role have been filled with variations on the theme of "active government working in partnership with productive business". There are also plenty of references to the good work started by Lord Heseltine.

But the idea of active government is more than a mere soundbite. The interaction between government and the private sector looks set to become a key battleground in international politics and a major differentiator between political parties in the UK in coming years. With the global economy still suffering the effects of the 2008 crash, there has been a widespread reaction against completely free markets and growing interest in the exploration of new, more regulated models of capitalism. This leads naturally to the question of the precise relationship between government and business.

"It is very interesting, because there is a big debate in politics about the proper role of the state viz-a-viz business and the private sector and how it works and interacts with government," says Umunna. He says the divide on the best approach doesn't always cut neatly along party lines, but there is a broad left/right split, with the right seeking to reduce the size and role of government and the left seeking to, if not expand, then at least change that role.

Here Umunna delves into a bit of the management speak all modern politicians are prone to. He admits to sitting "in the same space and mindset" as Vince Cable, Lord Heseltine and even Conservative universities and science minister David Willetts. On the other side of the debate is a group of Tory politicians, past and present, including the likes of current

"He has some of Lord Mandelson's shrewdness and Lord Heseltine's enthusiasm for government activism. And he has a touch of Tony Blair's tone"

AMBER ELLIOTT, TOTAL POLITICS

"You'd be hard-pressed to find a better personification of Labour's new generation. He shares Ed Miliband's desire to focus on equality, fairness and social justice"

MEHDI HASSAN, NEW STATESMAN

"Chuka values direct engagement with businesses, start-ups and entrepreneurs. It is an approach that will help us find solutions to problems"

ALEX MITCHELL, ENTREPRENEUR

foreign secretary William Hague as well as David Cameron and George Osborne. Umunna names a long list of previous Tory ministers including Nicholas Ridley, Norman Tebbit, Keith Joseph and others on the right who championed the cause of small government. It was an approach and philosophy pursued in government in the UK by Margaret Thatcher and in the US by Ronald Reagan. The complaint is that the orthodoxy they established was only questioned after the crash of 2008. The approach is still best summed up by President Reagan's joke about the most terrifying words in the English language being "I'm from the government and I'm here to help".

But Umunna's vision of active government is precisely that it should be there to help. This requires taking a strategic view of industrial policy. But it's a phrase too redolent of heavy industry and the dark days of the 1970s; hence his preference for "active government" instead. "We have a mixture of excellent industries that don't fit the classical view of industry, including the creative industries, pharmaceuticals, biotech and business services. These are not what people think about when they hear the phrase industry," he asserts.

He then attempts to explain what an active government should be doing. But, unable to announce policies or commit any spending before the party's policy review is complete, his answer is somewhat vague. "It is about government using all the tools and levers at its disposal to back business as far and as much as possible. Within that there is a debate about how far you go. There are traditional horizontal interventions that government can affect, for example making sure we have a financial services sector that delivers for the real economy, which is why we have been arguing for a British Investment Bank."

It also includes the policies around skills and education that Labour used when they were in power, including setting up Regional Development Agencies (RDAs). Here he gives one firm policy commitment, setting aside the party political in favour of the practical. He says while he disagreed with scrapping the


CV

■ 1978: born, London

■ Studies law at the University of Manchester, the University of Burgundy and Nottingham Law School

■ 2002: joins Herbert Smith working on behalf of corporate clients

■ 2006: joins Rochman Landau as an employment lawyer

■ May 2010: elected to represent Streatham

■ June 2010: elected to Treasury Select Committee

■ October 2010: appointed parliamentary private secretary to Ed Miliband

■ May 2011: appointed shadow minister for small business and enterprise

■ October 2011: appointed shadow secretary for BIS

RDAs and replacing them with Local Enterprise Partnerships (LEPs) – “instead of throwing the baby out with the bath water, we could have improved the model” – he says he is committed to improving rather than scrapping LEPs.

“There is an inherent problem with LEPs because they are reliant on businesses to make it happen. At a time when 50 businesses are going bust every day, expecting people running struggling SMEs to keep their own business going and run an LEP is a big ask. As a result there is under-representation of SMEs on LEP boards.”

This grasp of the detail is an example of how Umunna has thrown himself into the business world to get an understanding of the ways his active government strategy might help. He has travelled extensively to see different approaches in action elsewhere. In our short interview he cites examples of best practice from Germany and the US. “SMEs, as the saying goes, are the lifeblood of our economy and if we want to see more people setting up, leading and running businesses then there has to be a support structure to help people do it,” he says.

In his view, active government has to function regionally as well as nationally to be effective. “We have to decide what our most competitive sectors are and where we’ve got comparative advantage. We have to pick things we can be the best at. If we try and spread ourselves too thinly we’ll lose the advantage that comes with being the best. But that shouldn’t stop nationally. Regions know their businesses and their strengths better than Whitehall. This control from the centre has been a constant complaint and it’s a point Lord Heseltine has often made.”

A point made equally often since the 1970s is that rather than spending money on all this intervention, and rather than build the “right support architecture”, to use Umunna’s own phrase, government would be better passing money back to business in the form of business tax cuts, allowing businesses to spend the

money themselves. Umunna dismisses this as “the retro-Thatcherite model that is broken and has been proven not to work for our economy”. He says this approach, with a lack of coherent industrial strategy, led to the UK’s current structural issues. “Part of the reason we have become imbalanced is because there has been insufficient strategic direction. If we are to become more balanced, which sectors are we going to back? This lack of direction goes back 30 years. Politicians from all parties bear responsibility for it, but the important point is what are we going to do about it in the future? The idea that we will become more balanced without any strategic thought or direction – which is the approach of that retro-business policy – is absurd.”

He is reluctant to get drawn into a discussion of what he would target as an acceptable rate of business taxation. Not least for fear of stepping onto the shadow chancellor’s patch. But he points out that in a growing economy, the overall tax take would increase. He adds that seeing taxation as a burden is in itself ideological posturing. “Clearly you want to relieve the tax and regulatory burden for businesses as much as possible. But your readers will recognise that if they want better roads, transport and digital infrastructure to provide a platform for them to do business, it has to be paid for. While we look at taxation as a burden, it can actually be an enabler. How else will we provide the infrastructure business needs to thrive?”

He adds that another reason for not making a promise on corporate taxes is that a large part of the “trust deficit” between business, politics and government has been caused by politicians over-promising and under-delivering. “Part of the problem has been people promising sweet nothings they can’t or won’t deliver. I am not going to go around promising to cut red tape. People have been making that promise for 30 years and, having practised as an employment lawyer, I know that is not people’s experience. Of course we will reduce the regulatory burden where we can, but this is not just an issue of the quantity of regulation, it is an issue of its quality.”

The key message is that economic growth won’t take care of itself. He supports his party’s short-term fiscal boost to encourage growth, but adds there also needs to be a longer-term strategy. “We need leaders to properly prosecute an active government strategy with a proper industrial policy,” he says. “The starting point is that you have to provide policy certainty if you want to unlock the private sector cash that is sitting on balance sheets. Fostering uncertainty will not give businesses, particularly large ones, confidence to invest. If we want to move away from quarterly capitalism and fast-buck practices, responsibility does not just lie with business. It is also on politicians to provide that certainty.”

Just before we leave his office for the photoshoot there is a moment of comedy as he picks up his jacket and some loose change spills out. As he bends to pick it up I joke it’s typical of a Labour business secretary to throw money everywhere. He looks at me mischievously and hoots with laughter. ■

WORLD VIEW

The series continues with **Philip de Klerk** of SABMiller talking about innovations in finance with Adrian Holliday



How would you define SABMiller's Business Capabilities Program?

It encompasses everything from IT to procurement to outsourcing. And that's the radical element. There's an appetite in the business to improve every function and process, from manufacturing to back office programs, on an international basis.

One of the four key strategic priorities of SABMiller is to leverage skill on a global scale. The smart way is to do it in bite-size chunks. So there's a project leader to look after centralisation of manufacturing, another for regionalisation of treasury. For every single program we have a business case. But the key is to try and achieve everything transparently.

If you're centralising manufacturing in Europe, for example, you need to have a clear benefits case. If people don't see the value of this in their part of the business, it's harder to convince them to change. You always start with the value part.

What are the most radical aspects of your program currently, and how are these changes genuinely smart?

Because we started relatively late on this journey, many companies before us have found out what hasn't worked, and we can learn from that. We have got quite a few people joining from other companies with lots of experience. We standardise and centralise the back-office processes so the

"If people don't see the value in their part of the business, it's harder to convince them to change"

Philip de Klerk
is global finance director
of SABMiller's Business
Capabilities Program



business units can focus on the customer and consumer. An example of a smart change is extending our procurement initiative to cover other categories.

For example, it becomes relatively easy to buy raw material or packaging on a global scale. But when you move to indirect procurement – services, marketing materials, IT – it's more difficult to make it global. If you can do it globally, there are significant savings.

Everyone must be willing to improve their processes. The challenge is that you might have already plucked the low-hanging fruit in some areas. How do you go to the next value driver?

So where does the value element take you now?

In the last 12 months we have been more successful in the outsourcing of financial

activities. SABMiller is quite big in the less developed countries – Poland, Czech Republic, Peru, Panama – so the labour cost differentiator is less than other companies. Therefore we are looking at other opportunities, such as centralising the finance function internally.

The biggest challenge is language. It's not necessarily easy to get a Czech-speaking person to operate in Poland at a lower cost. So before we act, we need to ask: what's the value in going ahead?

What about business workflow and process changes in the next year – and what savings have been made?

This is a very important trade-off on every process. You might want to use a simple solution that's proven in the industry. Or the advanced, more difficult approach that might give you a competitive edge but is unproven. This is worth debating, and it has taken us to the leading-edge route in quite a few processes – mainly in the front office and business information, the info you get out of your transactional systems: stock, distributors, market share data, etc.

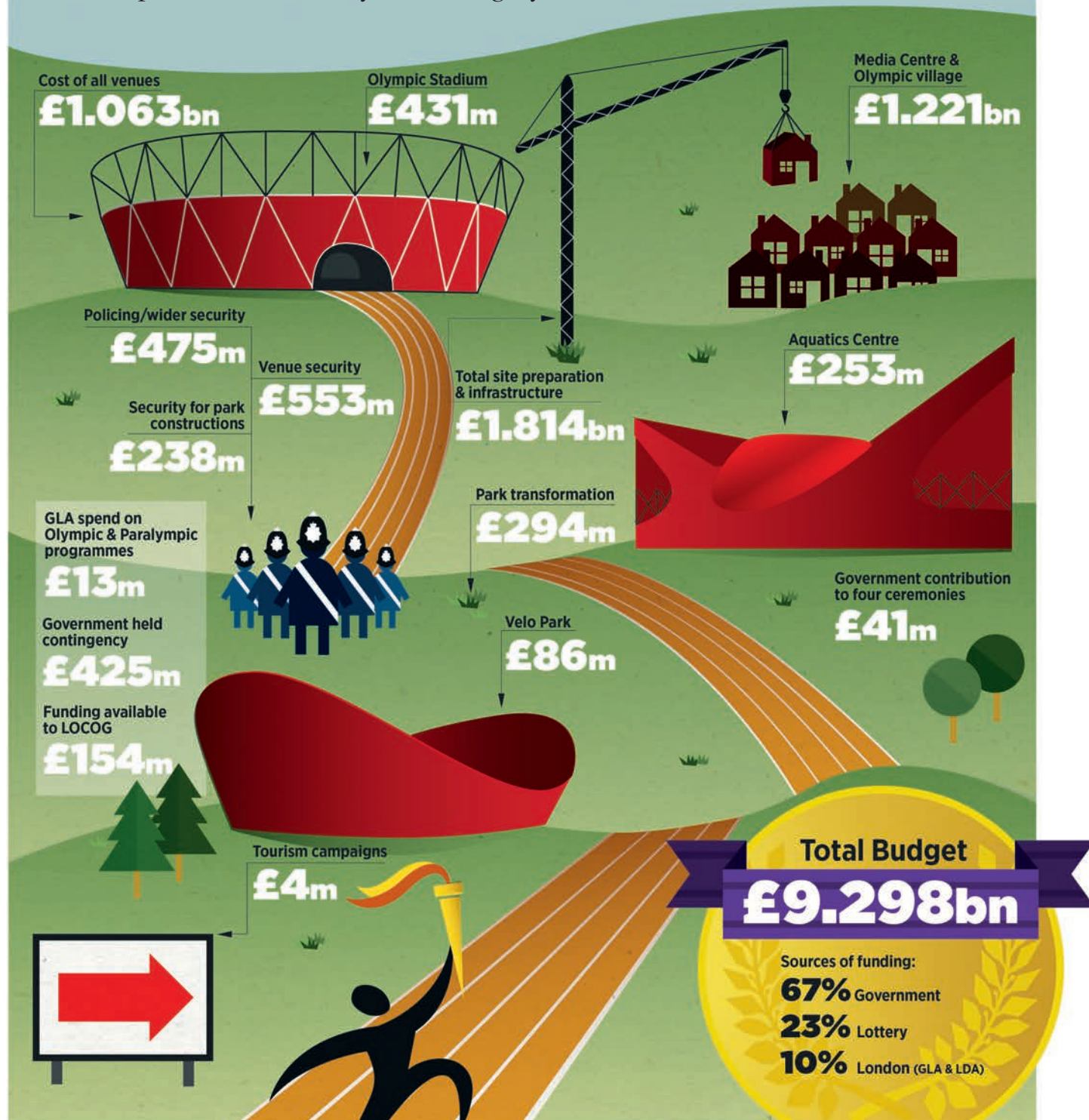
You take a risk when going through such non-proven territory. So we are willing to accept that it doesn't work all the time in every country. But if it does work, you win. For example, to support a procurement organisation from scratch globally has been difficult in the first couple of years. Now, in the fourth year, the benefits are significantly better than we had expected. You need to believe in what you're trying to achieve.

If you could change one thing that you don't control currently about your organisation what would that be?

I would like to be able to implement SAP without the need to make any modification. I have been working with SAP R3 in one way or the other for 20 years and you would have hoped that in that time SAP would have captured all country specific requirements, so you don't need to define, design, build and test them and you don't need to convince local businesses that "less is more".

A SPORTING CHANCE

A political vanity project or a fillip to a struggling economy?
Joanna Higgins asks those involved and outside observers how the Olympics will impact on the economy, and the legacy it will leave for London and the UK





THE DEVELOPERS

Sir John Armitt

Chairman, ODA

"The legacy was part of every conversation from the outset: we'd regularly ask how something worked in legacy and what we could get away with not building or renting. We looked for ways to modify buildings like the Aquatic Centre: it has a 3,000-capacity core and 15,000-seat wings that will come off (and may be bought by Rio for their Games). Even the stadium was designed to scale down. ArcelorMittal funded most of The Orbit (Anish Kapoor's viewing platform sculpture), and will recoup its investment afterwards through ticket sales and venue hire.

"Financially, projects were very tightly managed and controlled, with the overall budget broken down into projects, crawled over and value engineered. Every contract also includes a shared pain/gain element – for example, incentives for coming in on time.

"We've spent about £6.78bn, and have provided a significant amount of work to the construction industry and its supply chain over the last five years. Longer term, we've got the skeleton of a development in Stratford that will grow over the next 20 years.

There's a social legacy, too, for the companies involved: high standards of safety and diversity have enhanced their corporate governance, and people have learned skills they can use for life. It's acted as an exemplar for public procurement projects.

"It's bound to be London-centric, but the event has a direct impact on the UK economy. Half of the contracts went to businesses outside London and the south-east. But London's taxpayers put in £1bn, so they've paid more for it.

"If it hadn't been spent on this, it wouldn't have been spent at all. The Olympics created the imperative for significant spend that has prompted a lot of financial and economic activity. There's also satisfaction in seeing the UK construction industry show what it can do – it's already won the first gold medal."

The Olympic Delivery Committee is the public body responsible for developing and building the new venues and infrastructure for the 2012 Games.

Neale Coleman

Director of London 2012 at the Greater London Authority

"Probably the biggest boost for London has been the scale of transport investment, especially in the overground system. People are benefiting from that work now.

"The ODA has spent more on roads and infrastructure than on venues, with an eye on the longer-term legacy.

"We went into it with some very clear objectives around securing private investment for a deprived area of London. The aim is that Stratford becomes a major centre that could provide 30,000 jobs.

"We're already seeing results: a big pension fund has invested, and IKEA is building its first UK residential development. These wouldn't have happened without the Games. Is it worth the spend? Overwhelmingly so. The shopping centre is already 80% occupied, and 12,000 new jobs have been created – that's beyond expectation.

"This is drawing in desperately needed investment in tough economic times, and providing a tangible hard impact. You've only got to go there to see it."



Duncan Flint

Communications manager, Dorset 2012

"When they were chosen to host the London 2012 sailing competition, Weymouth and Portland used the Games as a catalyst to pitch for government and other money they might not have won otherwise.

"Redevelopment had started before the Games, but winning the sailing event accelerated it. The desperately needed £89m relief road was fast-tracked as a result.

"The government provided £16m towards local transport upgrades. The improved marina at Osprey Quay has created a hub for marine businesses – Sunseeker has moved part of its operations there, 500 jobs have already been created, with an expectation of 1,300 by 2013.

"Weymouth's tatty seafront got a £2.5m facelift that has attracted private investment from Merlin Entertainment, which opened the £7m Sea-Life Tower in June. BT has offered to leave the brand new fibre-optic link installed for the media centre, which will be a boon for local businesses.

"The ODA estimates the area will attract an extra 500,000 people over the four weeks of the Games, generating £30m for the local economy exclusive of accommodation.

"It's not been without pain: we've squeezed 10 years' investment into two. But for the first time since the Second World War, we've had pan-Dorset, multi-agency co-operation that might even leave us with a longer-term political legacy."

HOW OLYMPIC FUNDING WORKS

A lot has been made of the £9.3bn total cost of organising and hosting London 2012. It compares to £4bn for Sydney 2000, £7bn for Athens in 2004 and an eye-watering £20bn for Beijing in 2008.

But Olympic finances are highly complex and alongside the funding from central government (67%), the Lottery (23%) and London (LDA & GLA 10%), the Games also attracts inward investment:

According to property consultancy CBRE at least £1.6bn of private sector money has been invested in the region around the Olympic Park. Recent investments include:

- £870m from Canadian Pension Plan Investment Board & Dutch fund APG for a 50% stake in Stratford City;
- £60m Siemens' Crystal Knowledge Hub;
- £200m Stratford Regional Station;
- £1.3bn LendLease Development of the International Quarter;
- £1.45bn Westfield;
- £557m QDD's purchase of 70 acres of Olympic Village site;
- £268m Triathlon Homes spend in 2009;
- £750m – additional spend Olympic sponsor Visa predicts will be spent by fans during the Games;
- roughly £670m from an expected 4.2% increase in UK ad spend in 2012 because of the Games.

(continued on page 42)



Hannah Holmes
Director, Merrythought

"LOCOG (the Games organisers) were keen to have UK-made merchandise, so we won the opportunity to make the Olympic bears. We're a family business, and our Dad died just two months after we won the contract in 2011, so my sister and I had to take on the management and hit the ground running.

"We've already attracted a lot more interest from the media, retailers and customers. People are nostalgic and like the idea of a handmade, British bear. We've also been able to hire new employees, who we hope we'll be able to keep as a result of the exposure.

"Ours is not a volume product – it takes about one hour to make each bear – so we have had to cost it tightly and the margins are tight. We see this as more of a marketing project than a way of making quick cash. As long as it can pay for itself, it remains low risk. Being in the UK allows us flexibility and ensures we're not jeopardising regular customers' orders.

"We've managed everything as we would normally, but everyone is really excited. It's been one of the best things to happen to the business in a while – it feels like we're creating a bit of history.

"You never know how it's going to go, but hopefully, the Games will give the UK a boost. For us, the main benefit will be in helping to strengthen awareness of Merrythought internationally. We've had a tough few years, so I hope this will prove there's room for UK manufacturing."

"Most people are delighted London is hosting the Olympics. But the downsides need to be offset by clear benefits. Organisers need to engage people, give a clear message about how the UK is going to get their money back"



Raj Tulsiani
CEO, Green Park
interim management

"It's a great opportunity for the country. My concern is that the promises that the Games would bring benefits to the east end of London have not been delivered.

"Big contracts have been outsourced to the PLCs. Many are using an international talent pool with a specialism in staging similar events. How does this benefit the small businesses and people of east London? It would be almost impossible to create more disenfranchisement among east London SMEs. There's a danger small firms will continue to see the procurement process as a justification of jobs for the boys.

"Most people are delighted London is hosting the Olympics. But the downsides, such as disruption and lost revenue, need to be offset by clear benefits. There hasn't been enough consultation with the public or communication of the legacy. Organisers need to engage people, give them a clear message about how the UK is going to get their money back over the next 40 years.

"It's also a missed opportunity to change procurement scoring to encourage SME participation or to follow the US model and earmark part of the spend for small businesses.

"The most positive outcome may be that organisations give flexible working a try. We're looking at investing in video-conferencing upgrades to offset potential difficulties and a potential cost to the business of £50,000."



THE SPORTS LOBBY

Andy Sutch

Executive director, Business in Sport and Leisure

"The Games are crucial to growing our market and attracting more visitors and participants to sport. Winning the Games is also a stimulus to attracting other events. There's been a huge injection into the 'hard' legacy of sports facilities.

"The risk here is that no single body is co-ordinating these efforts. No one was given responsibility for the soft legacy from the outset.

"The legacy won't make itself. It's up to organisations and companies to engage people. But I think we've tackled obstacles with typical British pragmatism."

Peter Grant

Senior fellow, Cass Business School

"It's difficult to evaluate an event as complex as the Games purely in financial terms, but I think the real cost is only the Games themselves. The Lottery means we have the ability to sustain funding.

"Some might say we could've spent the money better, but that's a non-argument. It wasn't a question of 100 hospitals or the Games. If you followed that argument you might never be able to justify spending on cultural activities because they aren't strictly necessary.

"The most disingenuous part of the bid was the promise that participation in sport would increase. There's little evidence of that. But the way disabled sport is covered in the UK has changed beyond recognition."

HOW OLYMPIC FUNDING WORKS

LOCOG receives its funding through a mix of public and private sources. It has a core budget of £2bn, with revenue raised largely from the private sector via ticket sales, merchandising and sponsorship.

It also receives income from the International Olympic Committee (IOC) as well as getting £66m from the Olympic Lottery Distributor for the Paralympic Games, (which represents one-third of the total Paralympic budget). A further £57.7m comes from public money: this is mainly for crowd, transport and what's called "movement management".

The Olympic Delivery

Authority (ODA) is responsible for venue and infrastructure development, as well as the use of the venues afterwards.

Funding contributes to construction of the venues and the supporting infrastructure in the Olympic Park, the Lea Valley White Water Centre, improved facilities at Weymouth and Portland and Eton Dorney. The ODA is public sector-funded, with budget coming from a range of sources.

The National Lottery provides £2.2bn towards facilities and to help increase wider participation in sport and improve community sports facilities across the country. It also shares profits made from the future sale of land and property.

(continued on page 44)



THE ECONOMISTS

Richard Jackman

Professor of economics, LSE

"Hosting the Games is not a bad decision. More questionable are some of the arguments in favour of it as an economic event.

"It's possible to measure financial elements of the Games – the costs, the immediate income and spin-off revenue from restaurants or hotel spend. It becomes less straightforward when measuring the impact afterwards – the change in the character of an area, the sites that London inherits as a result. To what extent their impact is new or a result of displacement is less clear. There may be a gross benefit in terms of new facilities, but this was probably not the most efficient way of achieving it.

"The Games haven't created additional resources; they are not self-financing. So the benefits are in second-round financing. Those benefits are real and they are there: it's just a question of whether they could've been more cheaply achieved.

"Perhaps any excuse for developing derelict land will do, given how difficult it can be to win approval for regeneration projects. The Olympics are an incredibly expensive excuse for redevelopment.

"That's not to say we shouldn't do it. The social return may be worthwhile, but it will be costing money – we're not getting it for free through the Olympics."

Raymond Sauer

Economics professor, Clemson University, South Carolina

"Investment in the Olympics is first and foremost an investment in sport. That's the spirit of the Games. To see it devolve into an excuse or a vehicle for economic development would be unfortunate.

"Claims that it'll do much for the economy are overstated, but it makes sense to think ahead to have post-Olympics value; you want to avoid white elephants. London had to have looked at other host experiences. LA is perhaps the most similar – it came out in the black, which shows it can be done.

"London 2012 has the potential for a great legacy, particularly since some of the venues were pre-existing, so you're not building everything from scratch. Longer term, it's about how the event has been organised. We'll know when and if the sites aren't maintained and organisers have to go back to the government asking for money. The proof will be after the fact."



THE LEGACY ARCHITECTS

Rosanna Lawes

Director of development,
London Legacy Development
Corporation

"We are further ahead than any previous host city in securing a legacy. LLDC has a 20-year plan to develop the Queen Elizabeth Olympic Park and surrounding areas. We've used the power of the Games to bring investment to one of the most deprived areas of the city.

"We are acutely aware of the economic pressure on the UK and our responsibility to spend public money wisely. Our aim is to ensure the venues are commercially viable, but it is also about delivering a great space for people to enjoy. So GLL, a social enterprise, will operate the multi-use arena and Aquatics Centre to ensure both venues remain affordable and commercially viable, even if the Aquatics Centre makes a small loss.

"We are seeing around 40 years of regeneration in four years and £12.5bn of public and private sector money has been invested into Stratford (excluding the cost of building the Park). Westfield alone has generated over 10,000 new jobs and there will be thousands more from the Park after the Games. We've made a commitment that 85% of jobs will go to local people and the cost of a swim in the pool or hiring a court will be the same as it would be at other leisure centres."

Iain Edmondson

Head of major events,
London & Partners

"The Games are a shop-window for London. Figures suggest we'll reach a global audience of 4bn. Even if the city's already a business destination, we need to remain competitive. The Games alone may not be a reason to invest here or visit. But they add another layer.

"One of our targets is linked to the Games in that we want to show that they've added millions of economic benefits to London over the next 12 months through attracting major events.

"Hosting 2012 should also help us attract the growing number of sports tourists to the UK. Having the Olympic Park facilities and hosting experience allows us to create new opportunities. We might not have won the chance to host the World Athletics Championships without the stadium, and we're looking at launching an annual cycling event that could blossom into the cycling equivalent of the London Marathon.

"Some of the wider stuff is harder to value: the return on investment for east London is likely to be measured over 50 years in terms of quality of life and industries that benefit. There are complaints, but I suspect most local business people and residents see the changes as positive."

London and Partners is the official promotional organisation for London.



Stuart Corbyn

Chairman, QDD

"QDD is lined up to take over the athletes' village in about a year's time. Our involvement is in around 70 acres in the south-east corner, which will be re-named East Village. The handover period is incredibly short and so it calls for an amazing amount of housing to be delivered very fast, and to a very high standard.

"The area had been earmarked for development for about 10 years, but the Games stimulated everything. No developer would have produced that amount of housing at once for any reason other than the Olympics.

"Almost half the accommodation, developed by Triathlon Homes, is earmarked as affordable social housing. QDD will develop 1,439 homes to rent, although ultimately there may be as many as 11,000 in the region. The school, an Academy run by Harris, is a real attraction. London – and for that matter, the UK – has a housing shortage, so this development will be a major advantage. And the strength of London's economy benefits UK as a whole.

"From our point of view it's like any investment: £557m is not a small sum of money, and we hope to make a return. But we're not expecting that to be quick. We see this as a long-term project."

"Some of the wider stuff is harder to value: the return on investment for east London is likely to be measured over 50 years in terms of quality of life and industries that benefit"

HOW OLYMPIC FUNDING WORKS

The Greater London Authority provides £925m for infrastructure, facilities and regeneration throughout London.

Central government provided £12m towards Olympic land debt costs over the next three years.

The London Legacy Development Company (previously the Olympic Park Legacy Company) is jointly owned by the Mayor's office and the government and is responsible for legacy development.

The Mayoral Development Company takes over planning in October 2012. Its funding includes £290m from central government.

Up to £10m a year until 2013/14 has been committed by the Mayor to support the running of the legacy park.

London taxpayers will contribute around £625m as a contribution to a public sector funding package for the Games.

About £3m was contributed by the London Development Agency to ArcelorMittal's Orbit (Anish Kapoor's viewing platform sculpture).

The GLA has also provided an estimated £68.8m to meet the costs of settling compulsory purchase order cases related to the Olympics.

The London Legacy Development Company has a capital expenditure programme of £161.4m for 2012/13, most of which is set aside for transformation work. It will also make a £14m investment in training for Londoners, "particularly workless Londoners".



THE PAST MASTERS

Alan Marsh
CEO, Sydney Olympic Park Authority

"The Sydney 2000 Olympic and Paralympic Games were the first to incorporate legacy planning into their bid. A succession of forward-planning blueprints ensure that Sydney Olympic Park builds on that legacy – the most recent outlines the vision for the Park for the next 20 years.

"The Park is now a significant economic centre, hosting over 130 organisations employing more than 12,000 people. It has attracted significant private sector investment, with more than AUS\$1bn worth of projects approved and more proposed.

"There are almost 6,000 events a year, and 12 million people passed through the Park in 2011, generating more than AUS\$1bn in economic activity for New South Wales annually – and that number will continue to grow.

"Such significant economic benefits more than justify the investment."

"The only way you make sense of big sporting events is not the event itself but the long-term economic impact. At Manchester, the positive impact went beyond our expectations – by 2008, £600m had been invested in the city thanks to the games, and 20,000 jobs were created"



Frances Done CBE
Chief executive,
Manchester 2002
Commonwealth Games

"The only way you make sense of big sporting events is not the event itself but the long-term economic impact. That was how we approached the Manchester Commonwealth Games.

"You need to plan from the outset how you will deliver the legacy. At Manchester, the positive impact went beyond our expectations. Just on the ground, the redevelopment of east Manchester has attracted investment and young people who'd left the area are coming back. Overall, by 2008, an estimated £600m had been invested in the city thanks to the games, and 20,000 jobs were created.

"But best of all has been the self-confidence that has come from hosting the Games. During that period, the atmosphere was electric. It put us on the map for visitors, and gave the city confidence to stage large events – the biennial Manchester International Festival; the 2008 World Sport event, which contributed some £23m to the city's economy. It has given Greater Manchester a reason to be proud. It's extraordinary how powerful that is.

"And we may have helped win the 2012 bid, because in 2002, Olympics president Jacques Rogge claimed the Manchester Games had helped to restore confidence in the UK's ability to host major events."

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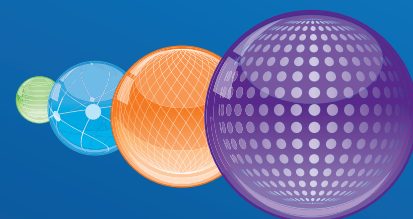
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LLOYDS BANK



One of the keys to turning a start-up into a profitable medium-sized business is getting the right team in place. Nick Martindale reports

LETTING GROW

We constantly hear about how hard it is to start up a business, often because it is associated with giving up a job or putting personal savings on the line. For many, though, getting started is the easy part. What is harder is the leap from a thriving small business to an established medium-sized enterprise, employing scores of staff and turning over eight figures.

One of the reasons many companies, and founders, struggle with this is that it requires them to abandon much of what made them successful in the first place. The dynamism, entrepreneurial culture, lack of bureaucracy and the ability to make decisions based on gut feeling all cease to become benefits and emerge as potential weaknesses.

Robert Bolton, partner and head of KPMG's HR Transformation Centre of Excellence, suggests there are various triggers for organisations needing to put formal processes in place. "It could be the point at which, in order for the business to continue to grow or expand into neighbouring markets, all roads

Peter Bauer says having a clear vision in place early on helped drive the success of his company Mimecast

can no longer continue to lead to the person who set the business up," he says. "It's about ensuring a wider group of people can make decisions in the context of the leader's vision."

Dave Allanson, area director, Lloyds Bank Wholesale Banking & Markets, says that while many companies seek to bring in new blood, the existing team can also develop as the business grows. "Running a £100m business is a different kettle of fish from running a £10m business. But management teams can sometimes learn and develop their skills as the business grows. Equally the people who got the business to its current state might not be best suited to take it forward. Founders don't always recognise that."

Failing to put formal management structures in place can prove detrimental to the evolution of the business, warns Norman Burden, managing director of True North Human Capital, particularly when it comes to attracting external investors whose funding may take it to the next level.

"A decade ago a venture capital investor would look at the senior management and if they liked what they saw, they were happy. Now they will be looking at how successful the business is at hitting key milestones," he says. "Those often revolve around sales but can also be about people, structure and technology." Problems can also arise when a business wins a major contract or experiences high sales after a marketing campaign, as they can be overwhelmed without sufficient resources to absorb the work.

Peter Bauer is co-founder and chief executive of cloud-based email management provider Mimecast, which started in the UK in 2003 and now employs 300 people globally. He believes the secret of success was having a clear vision. "My co-founder was a software architect. He was writing software with our development team but I was doing everything else, from managing the finances to selling, marketing, updating the website, choosing offices and making

sure there was milk in the fridge," he says. "I realised early on that I had to replace myself with people who could be better than me in each of those areas. In order to be able to do that, you've got to be able to see yourself in your future state today and have a clear picture of where you're headed and what the organisation needs to look like. That forces you to see gaps."

Putting in place more formal structures means bringing senior individuals into the business, although exactly which aspects are targeted first is likely to depend on the founders' skills. "Some people had a great idea and were visionary in terms of the concept but now need sales skills to grow," says Bolton. "Others might be natural salespeople but need finance skills to get more of a grip on the business or around manufacturing operations. All of the research about what successful leadership looks like is around playing to your strengths."

Don Brame is managing director of First for Business, a consultancy that helps to position small firms to attract investment. He points to four areas: sales and marketing, operations, people and finance. "All of these are integrated in overlapping circles," he says. When businesses have finance problems it's because something is out of line in one or a combination of the other areas.

Sheila Bryant is chief financial officer at Leading Resolutions and specialises in advising small firms. Often, she says, it is the people aspect that is most neglected in expanding businesses. There is a need for a chief operating officer or equivalent with a strong internal focus. "It's things like implementing clear objectives or ongoing feedback that get left out, because the client requirements come first," she says. "If somebody comes in with more of an internal focus and is respected by the people who have grown the top line and are dealing with customers, they can put a framework in place. The biggest change is usually in decision-making, objectives and appraisals." For Bauer, bringing in a

CASE STUDY

MD Nationwide

When Dave Symondson set up direct-to-consumer financial services firm MD Nationwide in 1999, he did so with the clear aim of selling the business in the future. With this in mind, he and his co-founder decided to invest in predictive dialling and customer relationship management technology that would enable the company to take advantage of the growing demand for remortgages.

"We turned over about £500,000 in the first year and we then had to commit to more lease agreements which cost us about £200,000," he says. "It was a big risk but it was the right decision because it gave us a platform to build on."

The other part of his strategy was to recruit people he had worked with before and set about turning them into potential future leaders, locking them into the business through a share scheme. "We wanted to tie them in and reward them when we eventually did exit," he says.

The company grew from £3m to £15m turnover in two years and in April 2007 was bought by The Beacon Group. Today, Symondson is a partner with Hamilton Bradshaw Venture Partners, advising small businesses looking to grow. "A lot of these people have had a tough few years and feel they're on their own with no one to talk to," he says. "They don't know where to go next."

“A lot of the people I deal with have had a tough few years and feel they’re on their own with no one to talk to”

Dave Symondson, founder, MD Nationwide



RICHARD ANSETT



"We used to have five board meetings a week, but only because we'd come into my office and chat and make decisions on the hoof"

Rob Anderson, managing director, FES International

RICHARD ANSETT

CASE STUDY

FES International

Like many small businesses, when offshore oil and gas fluid transfer systems manufacturer FES International first started up in 1997, the firm's two founders took responsibility for everything and shared the load between them. It was only when a business approached them with a view to buying the fledgling firm and questions were asked about how the company operated that the two realised they needed a more formal approach.

"We used to have five board meetings a week but only because we'd come into my office and chat and make decisions on the hoof," says Rob Anderson, managing director. "Now we have a non-exec who chairs our board meetings and takes minutes."

As the company has grown, the founders have let go of other areas, including outsourcing HR to a specialist consultancy. "HR is a bit of a minefield and every other week something changes," says Anderson.

Today, the business is expanding overseas and has recently opened new offices in Singapore, Houston and Rio. Last year the firm turned over £11m and hopes to hit £15m in 2012.

"We're currently sitting on more than £100m-worth of live enquiries," says Anderson. "That means we could double our turnover."

sales leader was the start of the departure from a more conventional small business setup. "We figured early on that revenue would forgive many ills and although I considered myself a good salesperson, I realised if I could find the right person I'd do that," he says. Sometimes timing can play a part; his next step was to recruit a CFO he admits was "well over-qualified" but who wanted to move from North America to the UK.

"He's been a great asset because it has enabled investors to have confidence in us as we have a strong financial management component in the business," he says. "To some extent you have to remain open-minded towards the serendipity of meeting somebody who could be a great member of your team, because sometimes you meet people in unusual places who have a slightly different way of looking at the world."

Another solution for expanding a business is to consider interim managers as a means of buying in expertise for a limited period of time or a set number of hours every week. Jason Atkinson, chairman of the Interim Management Association, says small businesses are gradually waking up to the value interim managers can bring.

He gives the example of the owner of a generator business, who had a number of other assets and yet was struggling to find the cash to develop the business. "Our mentor helped him several days a week to work with the banks, restructure the finances and divest some assets," he says. "He realised this expert was going to cost £30,000 over the next nine or 12 months for a day or two a week. But he knew he would be able to work through those decisions, sales would increase and he would reach 10% over budget. He's now a big fish in a bigger pond, on the board of a competitor which swallowed them up."

The exact point at which developing businesses need to evolve will vary. "It could be the numbers of employees, the amount of outlets or channels, revenue, the number of products and services or

even the size of your supply chain," says Bolton. "Any one of those could be a trigger, and certainly a couple of them working together would be."

The time it takes to make a decision is also a good indicator of where a business is on the evolutionary curve, says Bolton. "If you're running a shop, the time frames are matters of months, in deciding what stock to order and when you might want to run a sale," he adds. "But when decisions start to be three years-plus, you get into strategic territory and you start to realise there's too much for one person at the top."

The economic downturn has had an impact too, both on the ability of organisations to take the next step and how they finance expansion. "It's a much harder environment to grow in and clients are taking longer to make decisions than they would," says Bryant. Everyone has to work harder to close a deal and to attract people from larger organisations. "It makes people more cautious because it is difficult to plan for future growth at the moment."

But on occasions the real problem may be that the founder fails or refuses to recognise the need for change. "For these organisations on the cusp between small and medium, a risk is that the person in charge holds on to old ways," warns Bolton. "These organisations get to a certain altitude but get dragged back down. It's a pivotal point. The ones who fail to recognise that will plateau or even decline."

Keeping a business growing often requires finance. Allanson says banks have a role to play in encouraging FDs to seek new types of finance. A good FD recognises that more complex arrangements open up as the business grows. While start-ups rely on overdrafts or loans (often with personal guarantees), options such as trade finance and revolving credit later become available. "Our role is to make the options known, but the senior team at the business has to have skills to manage and understand them," says Allanson. "There is no shortage of cash, it's just a matter of finding the right businesses and management to lend to." ■

The Squeezed Middle campaign is supported by Lloyds Bank Wholesale Banking & Markets. For more information, visit lloydsbankwholesale.com/growthchampions Read more coverage of the campaign at icaew.com/economia/sqzmld

Universal international reporting standards have been in the making since the 1960s. But, asks **Gavin Hinks**, will they ever be universally accepted?

SETTING THE STANDARD

Globalisation has not left accountancy behind. Accounting standards have been at the heart of the movement with the development of international financial reporting standards (IFRS). The standards have spread far and wide – though not yet everywhere. Their development has involved experts, accountants, regulators and political will across the world from some of the world's most developed trading nations to some of its most dynamic emerging economies.

After decades of talk, development and huge progress, the project for a single system of accounting standards is approaching a milestone. The US is on the brink of coming on board, yet the world's biggest economy is still to take the final step, along with a small number of other major states including India and Japan.

Prickly arguments drag on over the role of international standards in the financial crisis, especially in their application by banks, and around the world various countries continue to harbour irritation with a collection of individual standards.

Big questions remain over what happens next. The world's accountants are getting used to IFRS but how should the quality and integrity of the standards be maintained over the longer term? And how will the International Accounting Standards Board (IASB) shore up its authority as global standard setter?

Andrew Gambier, technical manager with ICAEW, says, "We are not uncritical cheerleaders of the IASB or even for IFRS. But we think there is a public interest in a single set of reporting standards. Therefore we want the project to succeed."

50 YEARS IN THE MAKING

The campaign to create a set of accounting standards for international use goes back as far as the early 1960s. The work only gained substance, however, with the creation of the International Accounting Standards Committee (IASC) by eight leading countries in 1973. This marked the start of three decades of discussion and development. There was much collaboration but it was largely only countries without their own standard-setting resource that took up the offer of standards being produced. That is until the noughties.

In 2001 the work of the IASC was taken over by the IASB, which had a remit to develop IFRS. But the tipping point came the following year when Brussels announced that as of 2005

companies listed in the European Union would have to report using IFRS. Until this point a single set of standards was the arcane passion of accountants and regulators who saw the post-war acceleration of globalisation. In Europe IFRS received a political push from rulemakers eager to see the harmonisation of standards across the Europe Union.

GATHERING MOMENTUM

The number of countries committed to using IFRS has now risen to 120, either to fully adopt or incorporate international standards into their local reporting requirements. The UK along with all the major European countries has been using IFRS for seven years, China is converging and recent additions to the ever-growing membership of users include Russia, Mexico, Argentina, Brazil and South Korea, with Malaysia due to join soon.

In short, IFRS have enormous momentum. Distant parts of the world have committed themselves to them and most professionals see the standards as a done deal, unlikely to be derailed.

More recently the campaign received an additional political spur when international standards were shoved centre stage in the reaction to the financial crisis. In November 2008, after a meeting of the G20 to discuss a coordinated reaction to the credit crunch, the world's top economies unveiled the Washington action plan and its five principles for reform. At the head of these was strengthened transparency and accountability, which included a series of steps to improve accounting, especially for financial instruments – the asset class that did so much to bring the economic system to the brink of disaster.

More importantly, however, the plan effectively offered an emphatic political endorsement of IFRS in its declaration that "the key global accounting standards bodies should work intensively toward the objective of creating a single high-quality global standard." Suddenly an IFRS regime was no longer an arcane pursuit. It was at the centre of efforts to make the world's financial system a more secure place to do business. However, if the world is to have a single set of standards the US should be involved. Indeed American accountants have been working on helping develop such a project for years and the nation has committed considerable resources to its own project to converge with IFRS.

There is widespread support for IFRS. A PwC survey of US executives revealed that 70% believe international standards



The most ticklish subject is that of valuing financial instruments and the way banks account for losses on loans. This goes right to the heart of the financial crisis

would bring about “increased global comparability of results”, while more than 60% believe the US will require mandatory use of IFRS. And yet the country has still not made a firm decision on whether it will throw its weight behind IFRS.

Expectations were that the Securities and Exchange Commission (SEC), the US financial watchdog, would make a decision in 2011. But the timetable was knocked off course by work on the raft of regulatory measures contained in the 2010 Dodd Frank Act. A decision had been expected in the first half of this year, but there remains a possibility that regardless of the SEC’s recommendations a decision could be postponed until after the presidential election in November.

Not everyone is fretting over the delay. The more time spent on the project the better, according to Aaron Anderson, director of IFRS policy and implementation at IBM. “We can’t just issue standards that might work,” he argues.

Anderson believes the SEC is looking for assurances that there are proper mechanisms in place that will ensure the continuing independence and quality of IFRS.

Greenlighting IFRS for the US therefore involves some big decisions for regulators and policymakers in Washington. There is still wrangling to be resolved over the content of particular standards and then there’s the political question of how the US will go about adopting IFRS.

In March the SEC’s chief accountant Jim Kroeker told a London meeting that his preference was for what is termed an endorsement model. This would mean that as each new international standard appeared it would be reviewed by US standard setter the Financial Accounting Standards Board (FASB) and either endorsed or respectfully rejected. Such an

attitude would be in contrast to countries such as Russia or Brazil, which have chosen to opt for the full array of international standards as a ready-made solution to their accounting needs. Similarly, China has decided to adapt its own standards to be more like IFRS.

Whatever the US decides to do will partly depend on how a small collection of standards in progress work out – these include work on leasing, revenue recognition, financial instruments and insurance.

Insurance, which is new work, is unlikely to affect US decision-making. Progress on revenue recognition is advanced, with the IASB and FASB expected to conclude their work later this year. Leasing has proved tricky because it involves a proposal to bring operating leases on to the balance sheet as if they were finance leases. This has airlines up in arms as it means lease payments are treated like loan repayments for the purchase of the aircraft. The plane goes on to the balance sheet as an asset and the lease payments are recognised as an uncomfortable liability. The two bodies recently announced a consultation on adopting a two-model approach.

But the most ticklish subject is that of valuing financial instruments and in particular the way banks account for losses on loans. This goes to the heart of the financial crisis, though the issue has been the cause of divisions in Europe since well before the crunch. The issue was placed at the heart of regulatory recovery proposals by the G20’s Washington plan and has proved controversial. The choice is whether losses on loans should be booked when there is evidence of a loss or when they can be reliably anticipated as an expected loss. In London, Kroeker indicated that more progress on this issue would make it easier for the US to make a decision.

COLD FEET ELSEWHERE

The US is not entirely alone in its reticence. India was heading for adoption but announced a delay and has since given little word on when international standards will be back on the agenda. Japan is also expected to sign on this year but observers believe it will wait to see what decision the US makes.

Meanwhile, Britain has already made its decision – or rather Brussels made it – so UK companies have been wrestling with IFRS since the go-live date back in 2005.

And yet last year anti-IFRS sentiment resurfaced in the UK. There had been some background noise scorning the standards for some time but it eventually found full voice last spring when the House of Lords economic affairs committee reported on their investigation of the crisis. Their lordships attacked IFRS emphatically, claiming the standards were “an inferior system which offers less assurance” that did not allow auditors to “exercise prudent judgement”.

Inside the IASB the declaration was greeted with irritation and surprise. But the attacks have continued into this year and the “prudence” claim has converted into further opposition – this time from institutional investor consultancy PIRC. It says shareholders should oppose the approval of bank audits because IFRS fails to embody the accounting principle that accounts should represent a “true and fair” view. And, it says, as a result of that IFRS is at odds with UK corporate law, which demands that



accounts be just that – true and fair. “It is essential that the accounts, irrespective of the standards, reconnect with the law. That can only be achieved by understanding that it is the law that is rational, and the standards that are defective,” a spokesman for PIRC says.

Insiders at the IASB say they are confident of their position while many practitioners remain perplexed by the claim. Peter Holgate, senior technical partner at PwC, says the IFRS principle that accounts should “fairly represent” the financial position of a company is the equivalent of a “true and fair” view. “It’s very clear that in virtually all cases compliance with IFRS gives a true and fair view as required by the UK Companies Act,” he says.

The House of Lords demands that the government reassert the role of true and fair but also attacks the IFRS regime for the way it allows financial assets to be valued using the incurred loss model. The standard setter is already trying to fix accounting for financial assets and has made good progress, according to Gambier, but the true and fair claim is set to run and run – especially if, as some observers suggest, the European Commission becomes involved. What worries many is that the UK row could deter other countries from getting into bed with international standards. One senior accountant told *economia*: “Unfortunately, they have some potential to disrupt the project.”

WHAT THE FUTURE HOLDS

As unsettling as the UK row may be, senior figures at the IASB have already turned their attention to the board’s future work.

In March, Hans Hoogervorst, chairman of the IASB, told an audience in Mexico that he believed it was time to formalise its relationship with standard setters and financial regulators

around the world. He said, “The formalisation of this network will greatly assist our global standard-setting activities by binding in national and regional standard setting bodies more closely and earlier on in the standard setting process.”

Depending on what these “formal” arrangements mean, this could transform the status of the IASB from a group of distant counsellors whose advice can be embraced or passed over to a body that is much harder to ignore. Some believe Hoogervorst’s comments mean he is searching for some form of agreement that will give the IASB a similar status to the World Bank.

Veronica Poole, global managing director for IFRS at Deloitte, says such a move would give the IASB buy-in at a point that would mean it could not be held hostage by any single country that might demand concessions in return for a switch to international standards. “The IASB’s future is linked to whether IFRS have a future,” she says. “There has to be recognition of the fact that the IASB has to find different ways of working and getting international buy-in.” ■

STANDARD LEARNING

In May ICAEW published the results of its first ever diploma in IFRS. The programme builds on the certificate level to create a deeper understanding of the international standards in addition to the knowledge to provide informed business advice. Some 30% of those who registered for the distance learning course were based outside the UK, including students from Brazil, the US, Australia, Greece, Portugal, China, Nigeria and Cyprus. In the September and January rounds of exams, the overseas intake is expected to be as high as 50%.

Are the richest 1%
of society
contributing their
fair share?
And will
taxing them
more stall much-
needed growth?
Christopher Alkan
navigates the
political minefield of
high-level taxation

TAX THE RICH

Robin Hood wouldn't have approved of the trend in tax policy over recent decades. Taking from the rich to give to everyone else has fallen out of favour, especially in Britain and the US. Since the early 1950s the top rate of income tax has tumbled in the US from above 90% to 35%. And a mix of different types of income means many of the super-rich pay an overall rate less than that. In Britain, too, the levy on the rich has halved since peaking in the 1970s at 83%. And while HMRC reports that the share of total tax paid by the top 1% in the UK has increased since 1999, tough fiscal times mean politicians on both sides of the Atlantic have been casting a covetous eye over the bulging wallets of the wealthy. While the UK's Conservative-Liberal coalition recently edged the top rate of income tax down, there have been other proposals to force the rich to contribute more – notably the idea of a higher charge on £1m homes, the so-called mansion tax.

In the US, Barack Obama is seeking re-election on a platform of raising top-rate income tax and imposing a minimum 30% tax on those earning more than \$1m a year, a policy originally suggested by billionaire investor Warren Buffett. "This debate is partly about fairness," says Len Burman, a professor at Syracuse University and former Treasury official under Bill Clinton. "But there is no right or wrong answer to the question of how much of their money the rich deserve to keep." There are also myths about the dangers of taxing the rich that are often repeated with little evidence to back them up, he argues.

In reality, many economists believe governments can extract more money from their wealthiest citizens without chasing them out of

the country or hobbling economic growth. Most clashes on high-end taxes begin with the tricky question of justice. The starting point for this debate is one of necessity. Most governments would like more cash. Government debt held by the public in the US is on track to climb from about two thirds of national income to as high as 100% over the coming decade.

"Levels this high would make America vulnerable to a debt crisis that would make the fallout from the Greek debt crisis look like a picnic," says Bob Williams, an economist at the Tax Policy Center in Washington.

Meanwhile, despite far more active effort to control spending, Britain's fiscal position still looks precarious. Thrift by the government has been hurting growth, further undermining tax revenues.

"The depressing fact is that cuts in spending won't be enough to fix public finances," says Joel Slemrod, a tax specialist at the University of Michigan. "Painful as it is, we will need both spending cuts and tax increases."

Many right-leaning experts acknowledge that taxes will need to rise. But they also point out that high earners already pay more than their fair share. To back this up, friends of the rich observe that in recent years the top 1% have paid about a third of all income taxes in the US – an impressive \$318bn. (To make it into the 1% club, you need to earn more than \$344,000 per year.) On average they handed over roughly 25% of their income to the taxman. By contrast the bottom half of American earners chipped in just 2.3% of income taxes and were taxed at an average rate of just 1.8%. Close to half of Americans pay no income tax at all. Rich Brits aren't far behind. The top 1% shoulder a



full quarter of Britain's total income tax burden. Still, these figures tell only half of the story. As Occupy protestors never tire of saying, the rich have secured a bigger share of the national pie. As a result higher tax rates would merely be clawing back part of the outsized gains in income the wealthy have claimed over the past few decades. In 1970 the wealthiest 1% of Americans took home just 9% of the nation's total income. Now that is closer to 24% – the highest level since 1928.

Even if America doubled the effective tax rate on the top 1% this golden group would still have an after-tax income twice as high as in 1970 in real terms, according to Professor Emmanuel Saez, an economist at the University of Berkeley. Income gaps have widened in the UK too.

Public anger is also roused by the fact that some of the super-rich pay an extremely low tax rate indeed. This may be a small minority but they attract a lot of attention. In an announcement to accompany his Buffett tax plan, President Obama disclosed that 22,000 households that made more than \$1m per year paid less than 15% of their income in tax – and 1,470 managed to pay no federal income tax at all, according to figures for 2009 from the Internal Revenue Service.

Mitt Romney, the Republican presidential nominee, paid 15% tax on his \$21m income partly because his money comes from investment dividends, in a form of payment known as “carried interest”, which attracts a lower tax to reward risk taking. He also donates money to charity, which would further reduce his tax liability. America also offers a 15% tax rate to hedge fund managers on fees they get for investing other people's money.

A similar case can be made in the UK. Research by the Treasury showed that about 550 people earning more than £1m a year were paying a lower average tax rate than those with an annual income of £20,000. Some 330 of these super-high-income Brits were managing to get away with a tax rate of less than 10%.

So there is an argument in favour of both sides of the fairness debate. But assuming politicians will have to levy higher taxes on the rich, it is worth asking how this can best be done.

For decades, right-wing economic theorists have offered dire warnings about the consequence of trying to squeeze the rich. The first line of defence is that the rich will simply manage to avoid the

£15.2bn

UK budget deficit
February 2012

\$231.7bn

US budget deficit
February 2012

1,470

US millionaires
paying no
income tax
in 2009

10%

UK tax rate paid by
330 super rich

\$4trn

estimate of
money raised
by 67% tax
on super rich

30%

Warren Buffett's
millionaire
tax rate



tax. Second, in grabbing more from the rich, governments actively retard economic growth. That leaves everyone worse off. “These theories are intuitively appealing,” says Williams at the Tax Policy Center. “But the evidence that this happens in practice is not terribly compelling.”

Take the idea that government revenues actually decline as tax rates rise. In 1974, economist Arthur Laffer impressed US President Gerald Ford and advisers Donald Rumsfeld and Dick Cheney by demonstrating how higher taxes could actually reduce tax revenue. The theory behind the famous Laffer curve – first drawn on a cocktail napkin for the president – is that tax hikes encourage the rich to work less, find more creative ways to evade taxes and postpone or scrap investments. As marginal tax rates move close to 100%, government revenues would actually fall to zero.

Fans of Laffer claim that the celebrated curve was recently put to the test in the UK – and passed with flying colours. Eager for revenue, the Labour government raised the top rate of tax from 40% to 50% in 2010. While revenue didn't actually fall, it didn't rise much either. Affluent Brits found various ways to avoid the hike. Bankers asked for bonuses to be paid before the tax came into effect. After the tax came into force, others asked for income to be delayed in the hope that Labour would be replaced by the Conservative Party. Some even moved overseas.

Some would argue Britain was not an entirely fair test. Many tax avoidance strategies relied on delaying tactics. Had the tax remained in place for longer it would have been harder to avoid. There is also plenty of heavy-hitting economic research that shows higher tax rates can deliver more government revenue, especially if the tax code is simplified to reduce avoidance.

Professor Saez and Peter Diamond, the Nobel Prize-winning economist, published a paper in November 2011 concluding that even without closing tax loopholes, top tax rates in the US could be pushed as high as 48% without falling foul of the Laffer curse of declining revenues. If the tax loopholes were removed, the rates could go up to 76%.

Saez helpfully estimates that a tax of 67% on the top 1% would actually raise \$4trn over the coming decade – far from enough to close the deficit but a very big step along the way. The common assumption that higher taxation – especially on the



rich – slows the economy has even less foundation. Start with a geographical comparison. Many countries around the world tax at far higher levels than Britain or the US and achieve similar rates of growth. The Swedish government, for example, claims 53% of GDP in tax – far higher than the 32% collected by the government in the US, even including state and local authorities. And while it's true other factors may have played a part, the nation's economy has outpaced that of the US over the past decade. In fact Anglo-Saxon nations have not grown faster than countries that ignored Laffer's advice, including Germany and Denmark.

A time-based comparison goes against defenders of the rich too. There has been no noticeable acceleration of growth in the US or UK as their governments have gone about pruning the top rates of tax.

"In fact the US economy grew very swiftly in the 1950s and 1960s, when top rates of tax were draconian by current standards," observes Mark Weisbrot, the co-director of the Center for Economic and Policy Research in Washington. Professors Diamond and Saez contend that this is because a lot of what the rich do does little to

TAX THE RICH AT A GLANCE

Taxing top earners is no longer simply about justice but, in the midst of financial crisis, necessity.

Some argue that top earners pay proportionally their fair share, and that squeezing them too hard risks choking growth.

But these arguments don't stack up, leaving a compelling case for upping tax on the top 1%.

promote economic growth – a claim that many on the right will dispute. So this leaves the question of how best to tax the rich. Buffett's tax, which sets a 30% floor under the tax rate of those earning more than \$1m, makes for gratifying politics. Sadly, this type of approach can cause policymakers real headaches (witness the charity tax in the UK) and would raise pocket change in budgetary terms, about \$47bn over 10 years, compared with expected federal revenues of \$41trn.

There is a way of taxing the rich that will yield far more revenue and be much harder to avoid: plugging leaks in the tax code. "The US tax code is riddled with loopholes that the rich can exploit," says Professor Burman. "And many of these deductions are skewed to benefit the rich."

One example is the mortgage interest tax deduction, which allowed Americans to exclude from their income payments on home loans of up to \$1m. This disproportionately benefits the rich. Those in a 35% tax bracket will save \$35 for every \$100 of mortgage interest. Those in the humbler 15% tax bracket save just \$15 per \$100 on what is likely a lower interest payment. Scrapping this deduction could raise \$80bn a year – 20 times more than the Buffett tax over 10 years. Even capping deductions at a lower rate could garner impressive sums. And other policies benefit the wealthy, including a deduction on state income tax. A bolder move in the US would be to tax investment income at the same rate as income.

"Among the main reasons the rich pay less is the privileged treatment of investment over sweat and toil," says Dr Weisbrot. Equalising the two could yield enough to scrap corporate income tax, which is really a form of double taxation on profits. "The best way to ensure the rich pay more is to simplify the tax code," says Professor Burman. "You can even have lower rates and yet raise more money."

Of course, soaking the rich won't solve the fiscal problems of Britain or the US. One study by the Tax Policy Center showed that if policymakers tried to rely on top taxpayers alone to bring down the deficit to 3% of GDP, the highest rate would need to rise over 90%.

Few believe this is practical or desirable. Instead the pain will have to be more evenly spread throughout society. But on both sides of the Atlantic there is a compelling case for demanding a bigger contribution from the super rich. ■



LONG LIVE THE KING

Failure to plan for succession threatens the stability and value of small practices. **David Adams** outlines what you can do to safeguard your kingdom and ensure a smooth handover

The chances are many of us will have to work much longer than we expected, as retirement is delayed and finances get tighter. But when we do eventually get the chance to retire the process is likely to be fairly straightforward. The same is not so for those accountants running their own practice in the twilight of their careers. They will have to work out what will happen to their employees and clients, and to themselves, when they step back from the business or sell up.

Succession planning is something you should start thinking about almost as soon as you set up the business, experts say. If a practice has several partners it should be relatively easy to maintain continuity as older partners leave. But if the business is wholly owned the accountant must decide whether to try to sell the business and retire on the proceeds, or develop a succession plan for passing the business on to someone else, possibly a relative. And although many accountants will have helped clients go through this process, everything will feel quite different when it's your business and your future under discussion.

If you want to sell, the more time you put into planning and settling on your objectives the better your chances of achieving them. One big problem is that potential buyers, particularly if they are existing employees or family members, may not be able to finance the deal.

"Generally speaking, as firms get larger the scope for selling up for a capital sum is diminished," says Patrick Harrison, tax partner at accountant and business adviser PKF. "Most people don't want to pay cash for companies. They'll do a deal on a merger or to buy a stake in the business."

This could be done using some form of vendor finance, such as a loan note-based deferred payment agreement, possibly in the form of deferred loans or shares from the vendor. This type

of arrangement can take several years to complete so probably isn't the ideal option for someone who wants to sell up and go relatively quickly.

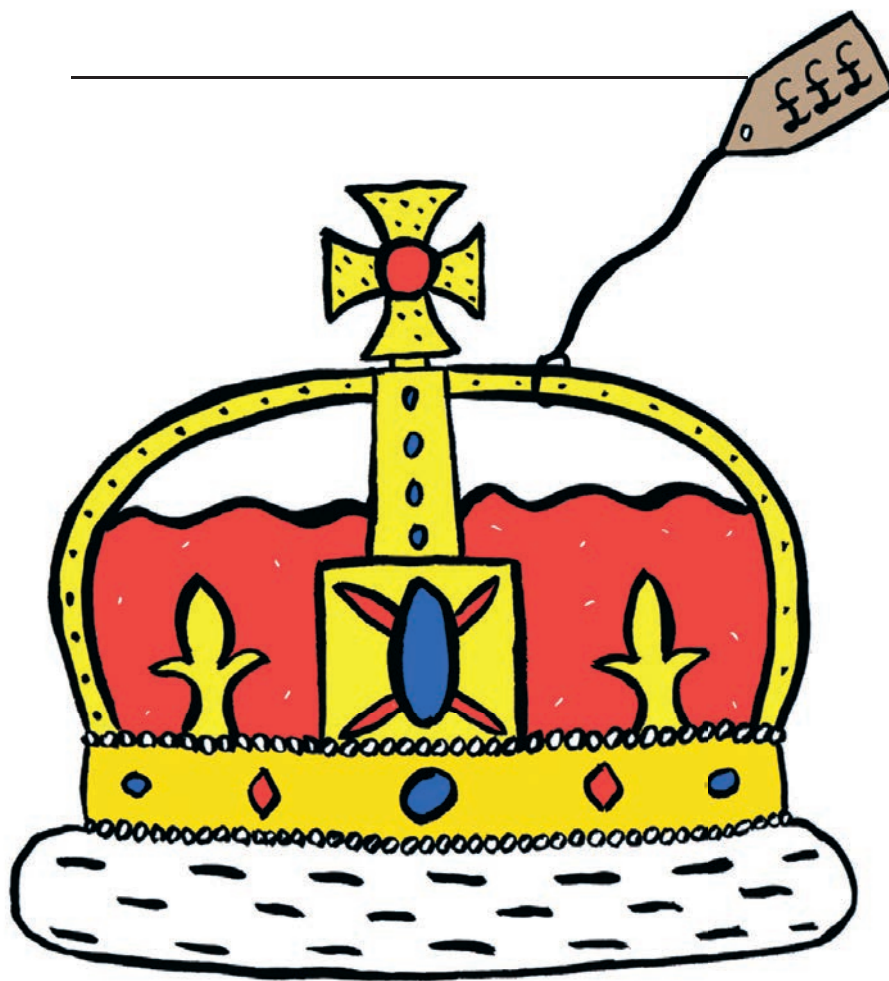
The best thing you can do to maximise the value of the business before a sale is to run it well, says Harrison. "A lot of what determines the price will be the state of the business. There won't be much you can do cosmetically to make it more attractive," he says. "You need to be running a tight ship. You also don't want more capital invested in the business than you really need because it will be harder to refinance." It may be that you have someone in mind

"Most people don't want to pay cash for companies. They'll do a deal on a merger or to buy a stake in the business"

WHAT SOLE PRACTITIONERS SHOULD DO

"Sole practitioners have to have some arrangement for passing things on in case they die in harness, to make sure clients continue to get a service," says PKF's Patrick Harrison. "There may be some contact with other firms, but you've got to have a proper service for your business."

There will be some scope for selling on your fees. Again, the best solution would be to think carefully about this several years in advance in order to make sure you sell through, or to, someone you trust. "It may be that the only terms being offered are not especially attractive," Harrison warns. "You've got to look at generating some kind of succession planning in the business so you can rely on people you trust to do a deal."



to take over the business. They may already work for you and you may want to arrange a management buyout. Or they may work for someone else, who you would like to conduct a buy-in to the business.

Other than trying to keep the business healthy, trying to work out who might be best suited to run the business is the next most useful thing you can do in preparation for a sale, says Harrison.

Angela Baron, adviser at the Chartered Institute of Personnel and Development (CIPD), says she's seen numerous cases of businesses being sold to the wrong person and suffering as a result. "You should think about the sort of person you want to take over," she says. "Maybe the thing to do is to bring them in now and then you can gradually fade into the background."

If you want to retain some involvement in the company another set of questions arise. How much influence would you like to have? Are you ready to stop working completely or would you like to stay on in some sort of consultancy role?

It's also worth considering what the new management at your company will want you to do. On the one hand, says Harrison, "people may want you to hang around for a bit if you've got the client relationships". On the other hand, he says, "they may not want you to be too involved for too long".

He continues, "They may want goodwill to be transferred and not want this person lurking in the background, who the client really wants to deal with. You need to draw the line somewhere."

Nick Carter-Pegg, partner and head of professional services at BDO, agrees. "Clients value long-term, strong, stable relationships with their advisers,

so planning to hand that relationship over to somebody else does take time," he says. "There can be a mismatch between what the consultant thinks they're going to do and what the firm thinks they're doing. I've seen some situations where the firm expects the consultant to be bringing in new work and the consultant doesn't. Objectives need to be clarified." In other words: get it all in writing in unambiguous terms.

The most important consideration is to keep clients happy and well informed. "You've got to make sure the clients get used to dealing with new faces," says Harrison. "Again, you've got to do it gradually, over time."

If you want to pass the business on to a member of your family there are other questions to consider. Passing the reins to more than one family member will entail careful examination of the tax implications. But perhaps most important is how different members of the family will feel about any proposed changes.

It's best to discuss possible options in an open way to make sure there aren't any unwelcome surprises. When this process goes wrong it can cause damaging disputes within a family, as well as harming the business.

Baron acknowledges that a frank and open discussion can be an excellent solution for all parties but stresses that the same core principles apply: the outgoing business owner thinks deeply about what the business is going to look like after they have gone, what skills a new owner should have and how best they can ensure the sustainability of the business.

"To some extent the succession planning [in a family business] can be easier because the basis of the gift or sale may be dealt with without advice," says John O'Donnell, a chartered accountant and practice consultant with Practice Support Services, an ICAEW member services offering. "And frankly it is a wonderful thing to be able to hand down a business without being concerned that the son or daughter has to build it up."

But there can also be problems to overcome. "You don't want to lose other potential good partners or senior staff members because they perceive that, however good they might be, the next partner is inevitably going to be the son or daughter," says O'Donnell.

"You could say you might see the same situation at any firm where there was only one partnership going, but I think the situation is slightly different if the perception is that the other person will get the partnership because they're a son or daughter of the boss. So there needs to be some expectation management. You've got to make sure [those

employees] are kept on board and incentivised because the loss of a good staff member can lead to quite significant issues, particularly if you're having a change of ownership."

Even if you have advised clients on succession planning it is often worth taking external advice from an independent observer. "You may find you need some help from someone outside the business to make sure you don't end up drifting into the sort of deal you didn't want or end up spending another five years in the business that you hadn't wanted to work," says Harrison.

O'Donnell outlines how ICAEW can help. "Often we have identified value in the client portfolio that the accountant hasn't realised may be particularly attractive to potential purchasers," he says. "It may

"Conversations with key clients and key staff could keep those important people on side and make the practice more attractive to sell"

be that you have developed a specialism in a particular area and not realised there could be a commercial premium for that. So there are some very good reasons to take a few hours of advice."

One guiding principle is to try to avoid any nasty surprises for clients or staff. "You need to keep clients informed," says O'Donnell. "If you tell them nothing they may get to the point where they think you are retiring and start thinking about moving to another firm. Conversations with key clients and key staff could keep those important people on side and make the practice more attractive to sell."

"I've certainly seen people who have left it too late and are clinging on, and clients are starting to think they may be served better by somebody else," says Carter-Pegg. "This situation can arise for a number of reasons: either the person hasn't given enough attention to retirement planning or they may have inflated views of what the practice may be worth so are clinging on in the hope of achieving a sale. But actually all they're doing is potentially losing clients and damaging the business." ■

ICAEW event

ICAEW is holding a half-day Practice Succession course at Chartered Accountants Hall on Tuesday 17 July. It will take a workshop format, aimed primarily at smaller firms. Speakers will include John O'Donnell. For details visit icaew.com/successionplanning17july

CASE STUDY: IAN HURSLEY

Ian Hursley, 67, set up as a sole practitioner in the mid-1980s, then formed a company. When he sold the business in 2006 it had 15 staff and more than 600 clients. He had started planning for his retirement and succession after two accountants he knew died before doing so, leaving their staff and clients distraught and directionless. "I thought to myself: I can't leave my practice in such a state."

Hursley sold the business to a member of staff, having lent the purchaser three quarters of the money required. Six years on the purchaser has paid it all back. Hursley remains a sole practitioner with a handful of clients and he and his former company do some work for each other. His old firm still rents its office from him.

What will he do next? "I would still like to be involved with clients," he says. "Meeting clients is one of the joys of being a practitioner. I shall deal with these clients until I'm 70 and then I'll stop. Some will join what was my original firm, others may want to go elsewhere."

And then where will his income come from? "We've been prudent. I could probably live for 10 years or more on the capital, but my income will come partly from the state, partly from the capital and partly from a pension pot that will probably provide an annuity of about £20,000 a year. And we'll have income from one rental property, which is the office. I think I'm going to be all right."

How did he feel when the business was sold? "Initially it felt fantastic to be able to walk away and not have to sit at the phone and computer until nine at night." He and his wife immediately left for a fortnight's holiday in the sun. But Hursley says he loved running the business. "It could be exhausting and emotionally draining but I couldn't have chosen a better job."

So was it a wrench to relinquish control? "No, because I did it for the right reasons. I don't regret it – but I regret it not being there to occupy me (I don't play golf). It's a funny feeling."

SUCCESSION PLANNING AT A GLANCE

You need to start thinking about succession planning almost as soon as you set up the business

Avoid any nasty surprises for clients or members of staff. It may be worth taking advice from an independent observer

Lack of preparation can lose you clients and damage your business

Join the debate at icaew.com/economia

PLEASURE BUSINESS

Keep it simple. Confuse and lose. Have a goal. Paul Kerr, CEO of Small Luxury Hotels of the World, shares his favourite slogans for success with **Penelope Rance**

Paul Kerr has always had a plan. And if things don't work out, he makes a new one. The original strategy was to be a doctor, but when he didn't get the required A-levels, he regrouped. "I looked around the family, and my godfather was pretty well off and he was a chartered accountant," recalls Kerr. "Nobody told me that he actually inherited the money."

Nonetheless, once on his new path, he threw himself into the ACA. "I enjoyed it, because there's no lying in figures – if you do they catch up with you," he says. "It is hard, probably harder than. If you failed a subject you had to take the lot again. But you have to have goals and the ACA was one."

His approach to exams typifies his approach to business. Needing to retake Elementary Financial Decisions (EFD), he went for belt, braces and extra string. "Before the exam, I took a weekend, a residential and an evening course," he recalls. "I ended up doing the exam in two hours rather than three, and knew I'd got it all right."

During his training contract with Harmood Banner, later part of Deloitte Haskins & Sells, he was the youngest in the company, but not the most inexperienced. "It was interesting to see how people who'd been to university and never failed anything met failure, and how they coped with it. There were a lot of dropouts. They told us anyone who stayed the course would end up a partner."

Kerr credits Sir Michael Pickard, a chartered accountant and founder chairman of Happy Eater restaurants, where Kerr flipped burgers to pay for his courses, with keeping him focused. "Sir Michael said, 'There's only one failure rate – your own, 100% or 0%.' It doesn't matter how anyone else does."

Following Pickard's example, Kerr left Deloitte to go into industry. "I was hospital director (finance) for the Princess Grace Hospital. But life was a little too easy, so I decided to go abroad," he says. He opted to emigrate to Toronto in 1981.

"The country was in financial crisis. So I moved into receivership, because I thought I'd be busy and it was all chargeable hours," he says. "Once I was dealing with a receivership of Charolais cattle, and woke up one morning to see a photo in the *Toronto Star* of the dead cattle on the Royal Bank

of Canada's doorstep and the CEO walking over it. It was like the Wild West."

It was during this time he cemented his belief that, no matter how good your product, success is about business management – you need a plan.

Returning to England, that plan was the hotel business. "I wanted to do something I enjoyed," he says. He worked at Trusthouse Forte, overqualified for a role at the coalface as a hotel financial controller, then for a tour operator, and in venture capital, picking up the skills he needed. "I ended up being headhunted for Cunard Hotels & Resorts as finance director for the Ritz, Stafford and Dukes hotels," he says. "Then came the 1989 property crash. The owner of the hotels was a property company called Trafalgar House. My job was to break up the group and sell them individually."

Kerr had to ensure the hotels were running at a profit, reorganising balance sheets. They were part of Small Luxury Hotels of the World (SLH), a recently formed, non-profit organisation, limited by guarantee. "I was paying cheques to this company and I didn't know what it was all about," says Kerr. "So I asked the general manager of the Ritz how it was going and he said 'not very well.' So I said I'd look into it with my financial hat on. I took two weeks holiday to do so, and decided it was going bust."

He founded Hill Goodridge & Associates (HGA) with Brian Mills to act as the outsourced management company for SLH. "We purchased the rights to manage the brand. We had our assets on our balance sheet, and they had the cash to pay us our fee. So in effect we tipped the balance sheet into the P&L and paid ourselves via SLH," he says. "The boring bits in the hotel business produce results. If you get the database right in the electronic systems, then you release a lot of the reservations. A lot of the hotels' databases were incorrect. So when travel agents searched the systems, the hotels wouldn't come up, or had the wrong prices. By unlocking the channels, reservations started flowing."

HGA sorted out the databases and ensured the travel agents had access to the hotels through GDS, a bespoke system that was a forerunner of internet booking. "Keeping it simple helps people make decisions," says Kerr. "It is the same on the internet. We have a saying: if you confuse, you lose."

"We track weekly figures for reservations, have a strategy meeting every year, produce a 280-page bible of figures and goals." On the whiteboard in the SLH conference room, these goals are listed in a neat hand, waiting to be ticked off.

The number crunching has led to huge success. Even in a time of alleged austerity, the luxury



brand is booming. "The model is working because there are people who spend money," he says. "You can't keep a luxury man down for long, and he will not give up his holidays. Money goes around, it doesn't disappear."

"I'm a surfer. GDS was a huge wave where there were millions of pounds of marketing money spent trying to get the people to book electronically. In comes the internet in 1997 and we're riding that tsunami now. As a global brand, you need that geographic penetration the internet allows. And now we have this new wave that's social media. You have to keep reinventing a brand. If you don't change, you die."

Whether it's a social network or the loyalty club, the hotels' contracts mean they must subscribe to the brand ideal. "We market the brand and the hotels have to connect to the brand, or they don't get the business," says Kerr. "A key strength of SLH is that there's only one contract, one set of fees." SLH now generates annual reservations revenue of £65m for member hotels.

Over the last 20 years, Kerr has overseen the growth of SLH from 70 hotels in 12 countries to over 520 in 70, transforming it from a "club of hotels" into a "club of customers" through the

"A global brand needs that geographic penetration the internet allows. You have to keep reinventing a brand or you die"

slh.com website, which hosts a loyalty club with over 150,000 members. "There's no one to look up to, there have only been three other competitors in the business in 20 years," says Kerr. "I did read a book about branding in the late 1980s and I thought about the hotel business, do they have anything? They do, but they don't use it business-wise."

"SLH wasn't doing well because it was run by hoteliers. They had conflicts of interest. They wanted cheap reservations for their hotels, but the brand has to make a profit. It was a good idea, and I thought if you brought a business focus to it, it would work."

"Qualifying as an accountant was the best thing I did," he says. "It gives a complete base for the business world, as long as you have the imagination. If you have goals you can achieve anything. And I'm a great believer in keeping it all simple."

Kerr cites his greatest satisfaction as the proof that his plan worked. "I enjoy the graphs that go upwards," he says, "and the fact that the business plan I wrote 20 years ago hasn't really changed. ■"



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Briefing

Integrity, audit transparency, SAO rules and enterprise focus

This month, ICAEW studies on corporate integrity and audit transparency, plus tighter SAO rules

ORGANISATIONAL INTEGRITY

1 A lack of integrity played a significant part in various scandals from Enron to the banking crisis, via MPs' expenses to phone hacking. But there is no consensus over what it is and how to go about encouraging it.

ICAEW has carried out research to create a framework of techniques seen as having an impact on organisations' integrity, including values, support for whistleblowing, tone from the top and open culture.

Elizabeth Higgs, ICAEW ethics and integrity manager and author of the report, says that while promoting integrity is a board role, responsibility for implementing the framework should be owned by HR, which has access to the key organisational levers.

This doesn't absolve all employees of responsibility. "The environment can be made more conducive to integrity," she says, "but it still requires individuals to make the right decisions. Ideas such as openness rely on individuals."

She says leaders tend to be unaware of the effects of whistleblowing or rewarding ethical behaviour, while discipline and training can have a negative impact on integrity.

Copies of *Real Integrity* are available from icaew.com

BANK AUDIT TRANSPARENCY

2 A lack of transparency on decisions in the bank audit process has "damaged public confidence", claims an ICAEW Financial Services Faculty report. *Enhancing the*

Dialogue Between Bank Auditors and Audit Committees says there should be more public access to details of accounting judgements challenged by the audit committee and that key decisions should be published in banks' annual reports. Its recommendations include:

- Considering the extent to which the objectives of the auditor, audit committee and management are aligned for annual reporting activities;
- Balancing the level of co-operation and challenge accordingly;
- Making any challenge and debate that has taken place more transparent, by including details in the annual report on key accounting judgements challenged by the audit committee, and debates between the auditor and audit committee, as well as auditor and executive management;
- Ensuring bank auditors and audit committees have good relationships with the bank's risk committee;
- Considering key accounting judgements in the light of risk; and
- Planning for an efficient year-end.

The full report can be downloaded from icaew.com/fsfinspiringconfidence

SAO REGIME TOUGHENED UP

3 HMRC has warned companies to prepare for the end of the "light touch" on senior accounting officer (SAO) rules. Those who have already submitted their first certificate will no longer be eligible for the gentle approach adopted in the first year. SAOs will face stiff personal penalties if they have failed to sort out issues raised in the initial period.

The rules, introduced in the 2009 Finance Act, require large companies to establish and maintain tax accounting arrangements. Responsibility for ensuring their effectiveness lies with an SAO, who is expected to monitor the arrangements and certify controls are fit for purpose. The revisions will also bring banks and insurance companies within the scope of the SAO rules, include overseas activities and apply the rules to insolvency procedures.

ENTERPRISE BILL PUBLISHED

4 Business secretary Vince Cable has presented the Enterprise and Regulatory Reform Bill to Parliament in a bid to make Britain more enterprise-friendly. "Growing our economy out of a period of acute crisis is the most pressing issue for this government," he said. "We want to make sure the right conditions are in place to encourage investment and exports, boost enterprise, support green growth and build a responsible business culture."

Measures include binding shareholder votes on directors' pay and giving £3bn of initial funding to the UK Green Investment Bank to help it "accelerate long-term private sector investment in the UK's transition to a green economy".

The Bill will streamline the employment tribunal system and merge the Office of Fair Trading and the Competition Commission to create a Competition and Markets Authority. It will tackle anti-competitive behaviour and ensure dynamic and open markets.

There are also measures to extend copyright for mass-produced artistic works for the life of the creator plus 70 years and to deter the import and sale of unauthorised replicas of classic designs.

EU AUDIT REFORM DEBATE DELAY

5 The European Parliament has decided to defer scrutiny of Michel Barnier's controversial audit reform proposals until later this year. This is because it is awaiting the initial findings of the UK Competition Commission's investigation into concentration in the audit market, which is not due out until October.

The parliament's two committees leading on audit reform – legal affairs and economic and monetary affairs – will not look to issue draft reports until autumn.

Sajjad Karim, chairman of the legal affairs committee, said the commission's initial views would be "one of a number of factors" considered when designing the future of the EU audit market.

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

Updates

ADR FOR SMEs ON TAX DISPUTES

An alternative dispute resolution (ADR) service pilot has proved so successful that HMRC has decided to roll it out across the whole of the UK.

Aimed at individuals and small and medium-sized enterprises, the scheme uses HMRC facilitators to resolve disputes that arise between HMRC and customers during a compliance check, but before a decision or assessment has been made.

Launched in January in north-west and south-west England, Wales and London, the aim of the pilot was to find a fair and quick outcome for both parties, thus avoiding a costly trip to the tribunal.

The scheme covers both VAT and direct taxes. Cases that are suitable for the scheme would usually include one of the following features:

- Facts that are capable of further clarification;
- Disputes that might benefit from obtaining more suitable evidence;
- Factual or technical matters in which there is legitimate scope for any party to obtain a better understanding of the other's arguments; or
- Issues that are capable of further mediation and settlement by agreement within the framework of HMRC's Litigation and Settlements Strategy.

Any taxpayer wishing to have a case considered for the ADR process will need to complete an application form. This can

be downloaded from hmrc.gov.com/adr and HMRC will then consider the application and inform the taxpayer of its decision within 30 days.

COOKIE COMPLIANT?

The 26 May deadline set by the Information Commissioner's Office (ICO) for websites to comply with EU regulations on cookies is long passed, but there are likely to be thousands of sites that have still not made changes.

Cookies are tiny files saved by a user's browser when the user visits a website. They allow certain information about the user's visit to be stored by the site.

Some cookies are essential in order for a website to run smoothly (for example, placing an item in a shopping basket). Others enable the site to provide the user with a better service (for example, recognising what content is popular with the user and providing more of the same).

The EU regulations require sites to ask permission from their users before starting to track their behaviour.

The ICO has recently updated its guidance on what the regulations involve and what is required of websites. It explains the steps to ensure compliance and gives information on the issue of implied consent.

It has also provided a video summarising how sites can comply and the approach the ICO is taking to enforcement.

Visit ico.gov.uk/cookies for further information.

TREASURY RELEASES TAX CALCULATOR APP

The Treasury has released a mobile phone app to make it easier for people to work out how much tax they pay.

The app will function as a tax calculator, available for smartphones and downloadable through the HMRC website, that can track expected tax liability for income tax and national insurance contributions.

It comes in response to surveys in February that demonstrated most taxpayers do not know how much tax they pay annually. It also showed only 26% check their bank statements to work out how much tax they have paid.

The Treasury says the app will make it easier for taxpayers to understand the tax system. It will work in tandem with plans to provide all taxpayers with a personal tax statement detailing their total income tax and the government spending it funds by 2014/15.

NO GIFT AID DECLARATIONS FOR CHARITIES

ICAEW has raised concerns in its response to the HMRC consultation on the Gift Aid Small Donations Scheme.

Under the scheme, due to come into operation in April 2013, charities will be able to claim top-up payments on small donations without needing to have Gift Aid declarations.

Each small donation must be worth £20 or less and the maximum aggregate

PENSIONS LAW

A number of regulations affecting pensions come into effect on 1 July:

- **The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010**, which explain the arrangements employers need to make for individuals to become active members of a qualifying scheme and for postponing automatic enrolment for up to three months;
- **The Employers' Duties (Registration and Compliance) Regulations 2010**, which lists the information employers

need to provide to the pensions regulator, the records they are required to keep, as well as the regulator's powers where employers fail to make contributions;

- **The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2010**, which detail the certification test an employer may use to ensure that its defined contribution scheme meets the quality requirements for such schemes;

- **The Compromise Agreements (Automatic Enrolment) (Description of Person) Order 2012**, which specifies that, for the purposes of s58(5)(c) of the Pensions Act 2008, a legal executive is a "relevant independent adviser" and can give advice about compromise agreements under the Act.

Copies of the statutory instruments can be downloaded from legislation.gov.uk

amount for which a charity can claim is £5,000. The top-up payment will be 25p for every £1 collected.

To qualify, the charities must have a three-year record of claiming Gift Aid and continue to make Gift Aid claims. This, says HMRC, is to reduce the risk of fraud.

The ICAEW Tax Faculty says the proposals are too complex and may not achieve the policy objective of reducing the administrative burden on charities. It also expresses concern that many smaller charities will be excluded because they do not have Gift Aid donations.

It says: "As a general point we suggest that greater reliance could be placed on the regulatory role of organisations such as the Charity Commission as a measure to deter fraud and counter abuse of the scheme. This could be by reference to the number of years a charity has been registered and compliance with their regulatory requirements on submission of accounts."

Copies of the response, TAXREP 19/12, are available from icaew.com/representations

HELP FOR ENTREPRENEURS

Prime minister David Cameron has given his backing to a new government-sponsored StartUp loan scheme that aims to provide 18- to 24-year-olds with the finance and support to start businesses.

"I want this to be the year when people think 'Yes I can do it', that we can get as many viable businesses as possible off the ground, that people can have a go, and that we see a whole new wave of entrepreneurs who start small but think big," said Cameron.

The £82.5m loan scheme offers expert advice and personal support to help budding entrepreneurs develop a business plan and access training.

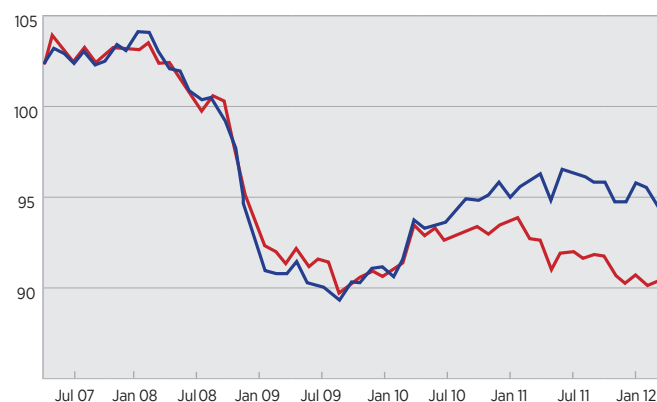
If the business plan is approved, they will be able to access financial support in the form of a loan typically in the order of £2,500, with a repayment period of up to five years. For further information, visit businessinyou.gov.uk.

ICAEW has published a guide to help small businesses. *Get the Best Start for Your Business* offers a nine-point plan for a successful launch.

Visit icaew.com/enterprise for copies.

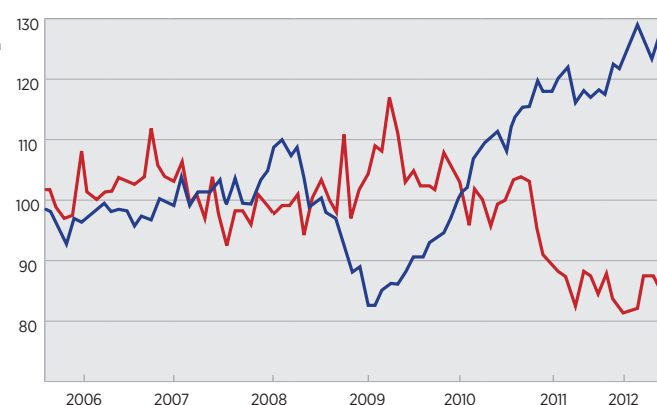
UK MANUFACTURING OUTPUT

■ Manufacturing output
■ Total output



While the overwhelming impression from economic data is that we are in a continuing recession, there are some indicators that suggest things are picking up. What does the latest production data say about the prospects for the UK economy? In truth, not much can be read into the figures. Divergent trends of components and serious bouts of volatility leave the picture far from clear. The chart above shows total output, which feeds into GDP, and manufacturing, which is probably a better indicator of what's really happening. The latest total output figure shows a tick downwards, but output has been level for the best part of two years. The aggregate figure is being dragged down by mining and oil production.

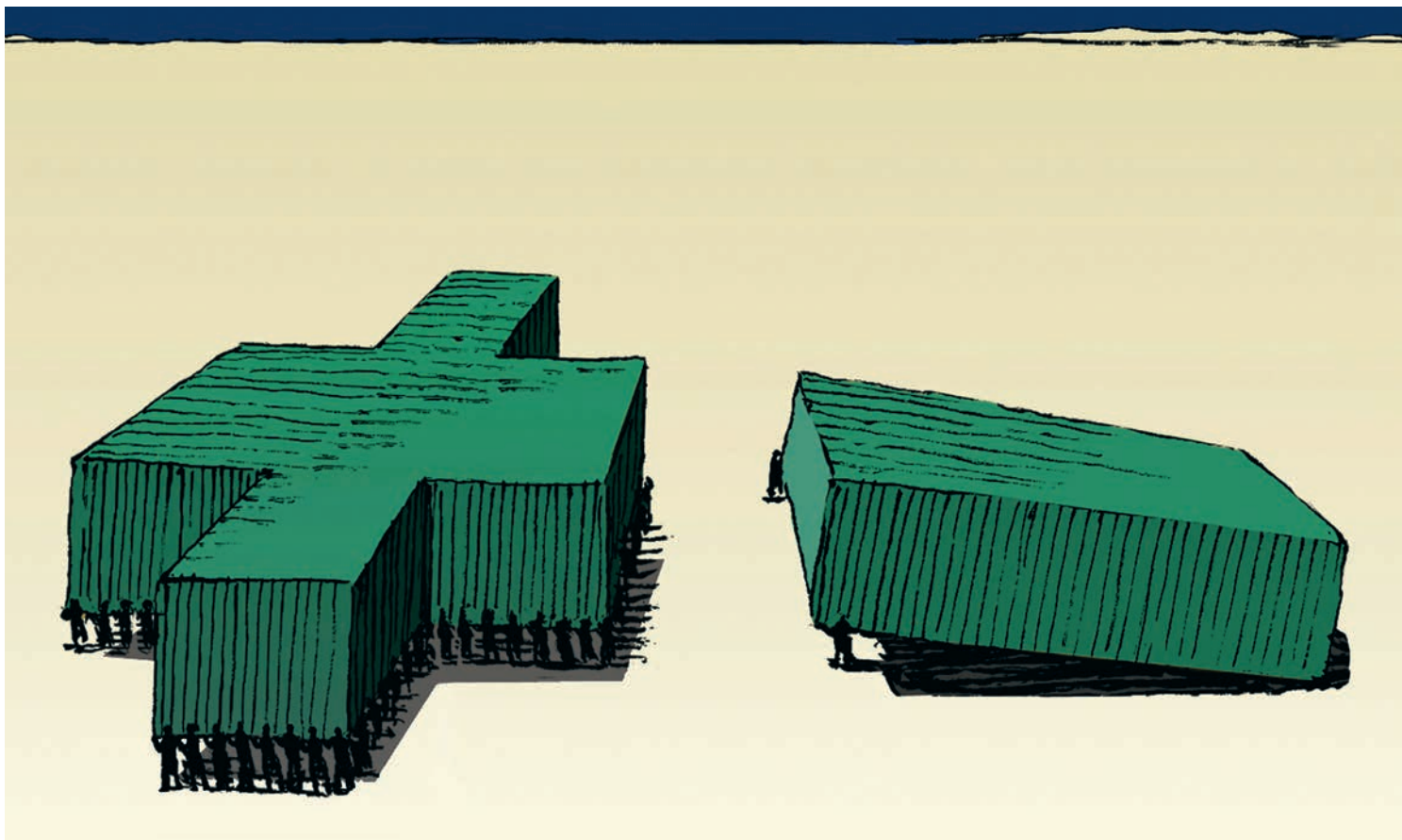
■ Manufacture of transport equipment
■ Manufacture of pharmaceutical products



But within the manufacturing sector there have been widely divergent trends since the recession. The chart above shows pharmaceutical and transport equipment output. The former fell very sharply in 2008 but has since risen rapidly. In contrast, pharmaceutical output didn't suffer a slowdown in 2008 and 2009 but has since fallen to new lows with no sign of pick up. It's as if these sectors are operating in different economies. They certainly lead to different conclusions about the health of the economy. So, what's the answer about where's the economy going? A rather boring "wait and see" is the only conclusion, unless the ONS can shed light on what is happening with the components.

For an interactive version of this chart, visit timetric.com/topic/UK-manufacturing-output

SOURCE: TIMETRIC



When audit doesn't add up

As scrutiny of audit grows outside the profession and audit exemption levels increase, will small practices step away from an increasingly unreliable income stream? **Liz Loxton** reports

A parliamentary probe into the audit profession, European Commission scrutiny and a banking sector in a fragile state of repair – all these are telling reminders that auditing large public interest companies can be risky.

But business risk for auditors doesn't dissipate when you look at smaller-scale audits. Small firms of accountants, from sole practitioners to firms with a handful of partners, are increasingly finding the balance of risk and reward for audit work to be adrift.

Some 3,800 firms of chartered accountants are registered with ICAEW to carry out audit. Registration is not mandatory, says Paul Simkins, director of quality assurance at ICAEW, but is required for firms that want to conduct audit or related work. Registration, he believes, goes a long way to signalling a firm's commitment to quality. "If they don't have the right

client base or a range of clients who together make it worthwhile to be in audit they may choose not to retain their registered auditor status. Our firms will have a pretty clear idea of when it is worthwhile and when it's not," he says.

While the decision to hold registered auditor status is a business one, Simkins says firms should recognise that not only would deregistering rule them out of audit as a line of business, it could also rule them out of other activities. Firms of solicitors that hold client money require an accountant's report carried out by a registered auditor, as do some travel agents, employment agencies holding client money and government bodies. "We would say to firms that they do need to be careful about whether their clients need the services of a registered auditor," he says.

Practice adviser Phil Shohet, director of KATO Consultancy, says the firms he sees tend to fall into two camps. "One type of firm will say: 'We are in this to make money. If someone comes to us and says they require an audit we can make a commercial decision on maintaining our registration'. The other perspective is to do with the fact that there is still a degree of cachet around audit. Whether they make money at it or not, dispensing with audit is unthinkable to some firms."

For firms that would like to become registered auditors, the ins and outs of registration don't appear contentious from ICAEW's perspective, Simkins says. But it does acknowledge dissatisfaction among members over issues such as the tough demands of the International Standards of Auditing (ISAs) that must be applied to small and large clients alike.

A common concern coming through on ICAEW's helplines is keeping up to date with ISAs and how they

CASE STUDY: PETER MITCHELL & CO

Peter Mitchell, a co-partner in Buckinghamshire firm Peter Mitchell & Co and chairman of the Society of Professional Accountants (SPA), says audit is increasingly a specialism rather than a given for small practices. The number of small accountancy firms providing audit has been falling over the past decade. According to a report from the FRC's Professional Oversight Board last year, *Key Facts and Trends in the Accountancy Profession*, the number of audit firms registered in 2010 (7,457) was 21.9% lower than in 2005.

From the SPA's perspective, as audit exemption limits have gone up the number of clients requiring an audit has fallen. Those dwindling numbers plus the compliance and registration burden of audit mean audit business starts to look too onerous.

About four years ago, Mitchell and co-partner Bridget Makinson decided audit was no longer a viable business stream for the firm. The risk of giving up audit – losing clients to other firms – has been offset by business it has picked up as result of increasing complexity on the taxation side. "The gap caused by giving up audit has been largely filled," says Mitchell.

What's more, the firm can be less compliance-driven and more proactive with clients. "We can give them greater guidance," he says, "rather than piling the data into a set of accounts at year end."

Giving up audit work is a one-way decision, Mitchell says. But few firms appear to regret it. His experience is that it improves work-life balance. "There is less stress and less concern that you might do something to disappoint the regulators."

should be applied. But working in a highly regulated and public-interest field such as audit necessarily involves a degree of squaring up to the realities of compliance, Simkins points out.

"We tend to say an audit is an audit. If you are going to provide a service within a regulated area then you need to comply with the requirements as they stand," he says.

For some, audit exemption levels, which have been increasing over the past decade, are the issue. As clients fall out of the audit net firms see less of a need to register. And an audit can still appear demanding to those smaller businesses that qualify.

"The government should look at alternatives to a full ISA audit," says Simkins. "The UK has some of the highest thresholds in Europe, but an audit needs to mean something very specific and needs to be carefully regulated."

Stephen McAlpine, whose firm SBM provides assurance services to small audit firms, says audit

If a firm has clients that would require an audit regardless of exemption levels, then registration is a no-brainer. But others will start asking themselves whether it's time to move out of the audit market

exemption increases mean firms are often prompted to decide whether audit registration is worthwhile.

If a firm has clients that would require an audit regardless of exemption levels, then registration is a no-brainer, he says. But others will start asking themselves whether it's time to move out of the audit market. "All of them recognise that this is a one-way street," he says. "Once they close the door to audit they are unlikely to open it again."

Some practices may find their need for audit services fluctuating – if their clients experience peaks and troughs in turnover for instance. In such cases should the practising certificate, which all practising members must hold, cover small-scale audit? Simkins points out that practising certificate holders are also subject to monitoring by QAD and are expected to maintain high standards of CPD and experience.

So what are the requirements and how do smaller practices decide whether they stack up? Small firms – a sole practitioner with one office, for instance – would pay an annual registration fee of £405, which includes inspections by ICAEW's quality assurance division. There are other costs, too, such as CPD, adequate

systems and technical update services. Audit faculty membership costs £200 and is something ICAEW recommends. Checks on audit conduct and activity by a specialist firm – known as cold file reviews – are recommended. The cost can vary a lot, about £200 per review to £1,000 for a day's coaching, but the QAD finds fewer problems with firms that commission external reviews, Simkins says.

The flipside of audit, meanwhile, is risk. Many small firms are well set up for tax computations and business advice, but don't have the critical mass within audit to make it worth their while keeping up with CPD, systems and training, reviews and annual fees.

Firms' decisions about maintaining an audit function will be driven by clients. And clients buy one of two things, believes McAlpine – solutions to problems or good feelings. If there is no problem to solve in the form of a regulatory requirement and clients don't derive added assurance from the notion of having an audit, why would they buy it?

Given that backdrop, maintaining and staffing a viable audit function is seen as increasingly onerous. "It's not that easy to get good audit staff," says Shohet. "Non-audit staff are easier to find." ■

A viable alternative

The grouping of accountancy and legal services is an obvious step, and many practices are taking the chance to become an alternative business structure. But, asks **Julia Irvine**, how long will it be before ICAEW can regulate these firms?



Over the next few months, a number of accountancy firms are likely to gain approval either to become an alternative business structure (ABS) under the Legal Services Act 2007 or to set up one as a subsidiary.

In order to do so, they have had to apply to one of the two existing approved licensing authorities – the Solicitors’ Regulatory Authority (SRA) and the Council for Licensed Conveyancers (CLC) – rather than to their own *alma mater*.

It’s something that ICAEW is keen to rectify, despite having initially decided that there were too many difficulties in trying to become an approved regulator and licensing authority under the Act. But the interest from the profession in using the ABS structure to form a multidisciplinary practice with lawyers, together with the number of firms needing to be authorised to carry out probate activities (which is a reserved legal service under the Act), has led to a change of heart.

“It does make sense for ICAEW to become an approved regulator,” says Peter James, ICAEW head of regulatory policy. “We will be able to combine the monitoring process with our other regulatory visits to firms, which will save them time and the cost of having to deal with the demands of two separate regulators.”

It will also deal with the problem of the Separate Business Rule in the SRA’s code of conduct, which prevents accountancy firms from owning an ABS as a subsidiary unless they are granted a waiver by the SRA.

It is not clear how many accountancy firms have already applied to become an ABS. Commercial sensitivities means that they are reluctant to discuss the issue publicly and the SRA won’t reveal how many applications it has received from accountants.

By the end of April, it had had more than 200 expressions of interest from firms, 74 of which had progressed to “stage 2” and five law firms – including Co-operative Legal Services, which is part of the Co-operative Group – had become

ABSs. The CLC has only licensed one firm, Premier Property Lawyers, so far.

But as the advantages of becoming an ABS become clear, ICAEW anticipates that the number of firms expressing interest will increase. According to ICAEW lawyer Imelda Moffat, there are cogent reasons for wanting to become a multidisciplinary practice. “When firms employ solicitors, they are not allowed to call themselves solicitors and advise clients directly,” she says.

“This has led to absurd arrangements where an accountant and a solicitor both attend a client meeting together but only the accountant can give advice. The solicitor is considered to be advising the firm. So even if the advice that the client receives comes from the solicitor, it does not attract legal privilege. Had the solicitor been working for a law firm, that same advice would be covered by legal privilege.”

Firms can get round these problems as an ABS, she points out. Not only do they offer solicitors and accountants the possibility of genuinely being in partnership, but they also enable lawyers both to call themselves solicitors and to act directly for clients within a multidisciplinary practice.

“Whether you set up a brand new multidisciplinary practice or reconfigure your existing firm, once your solicitors start delivering client services, they can potentially be generating legal privilege. And depending how the practice is structured, that legal privilege will also apply to accountants’ advice if it is delivered to the client at the direction of or under the supervision of a solicitor within that firm,” says Moffat.

The institute has long argued that legal privilege should apply to chartered accountants as well as lawyers when delivering legal advice, particularly in contentious areas such as tax. Which is why it has backed the Supreme Court appeal in *Prudential v HMRC*, to be heard in November, in the hope that the court will recommend a root and branch review of legal privilege.

ABSs will also be of interest to smaller accountancy firms on the high street that are interested in joining up with other professional firms. The obvious example would be a one-stop finance and conveyancing shop run by accountants, lawyers and estate agents. Another might be a partnership of lawyers and accountants specialising in probate services and estate administration.

Probate activities are one of the six areas designated as reserved services under the Legal Services Act. This means that firms and individuals engaging in “the preparation of probate papers for



the purposes of the law or in relation to any proceedings in England and Wales" will also need to be monitored by an approved regulator.

Bearing in mind the number of its members involved in this area, ICAEW is applying to the Legal Services Board to become an approved regulator and licensing authority for probate purposes. This will allow it to license accountants who wish to add reserved probate services to their existing business offering without forming a multidisciplinary practice with lawyers.

However, the scope of the Institute's application will be restricted to applications for a grant of probate or letters of administration (in other words, non-contentious probate work). It will not be seeking authority to accredit firms wishing to oppose a grant of probate or letters of administration.

With encouragement from the Legal Services Board, ICAEW has also considered whether or not to extend the application of the probate oversight arrangements to estate administration, in the light of moves by the Board and the Legal Services Consumer Panel to recommend making will-writing and estate administration become reserved activities.

However, it has decided to defer any decision until it knows the outcome of the Legal Services Board consultation on will-writing and estate administration, which was launched at the end of

April. The deadline for comment is not until mid-July, after which there would be another consultation period in the autumn and, if the Board decides to go ahead, a final report in the winter recommending that the Lord Chancellor amends the list of reserved activities.

Instead, ICAEW will move to the next stage in the approval process for ABSs and probate, and launch a consultation with members and stakeholders on the draft regulatory framework for probate. Details will appear online shortly.

For the most part, the new framework will apply equally to firms whether they are seeking to become an ABS or to do probate work. Members who wish to conduct or supervise probate work will have to apply to become authorised individuals and will need to meet various conditions, including appropriate probate qualifications or experience.

For the most part, ICAEW's proposed monitoring of probate will take much the same form as in other regulated areas – monitoring visits and annual returns giving details specific to practitioners' probate practice. ICAEW would aim to visit most firms in the first year of accreditation: thereafter, visits would be carried out in tandem with the Practice Assurance scheme where possible.

Accredited probate firms would also have to make special compensation and professional indemnity insurance arrangements.

Reaching this point has been a long and painful process, James says. "It has taken a year just to put our application together. Not only is the Act very complex, weakly written and open to interpretation, but we had to ensure that the new rules are consistent with those ICAEW has in place for its other regulatory activities. We have had to take legal advice every step of the way."

Ideally, ICAEW would like to be up and running as a regulator by early 2013 but it is aware that the timing may slip due to forces beyond its control. Its own consultation will last for eight weeks and then, once any consequential changes are made, the application will go to the Legal Services Board.

Under the Act, the Board has to consult with the Office of Fair Trading, the Legal Services Consumer Panel and the Lord Chief Justice before making recommendations to the Lord Chancellor. Then, provided everything has gone according to plan, a draft statutory instrument will be presented to Parliament for debate in both houses.

How long that will take with the demands on Parliamentary time is anyone's guess. ■

For further information, visit icaew.com/abs

Members who would like to register an early interest in gaining accreditation should email abs@icaew.com

Watching the watchdogs

In a time of financial uncertainty, self regulation creates public confidence in the audit industry. But, asks **Caroline Biebuyck**, is the system working?

Introducing independent regulation helped restore public confidence in the audit profession after the major corporate scandals of a decade ago. As business reels from the recent financial crisis, regulation is in the spotlight again, with questions being asked whether the level of oversight is appropriate – or whether audit firms are struggling with too strict a regulatory regime.

Audit regulation in the UK now works under a two-tier system. Until seven years ago, ICAEW was responsible for monitoring audits its members performed under the Companies Act. In 2005, as part of the post-Enron reforms, the Audit Inspection Unit (AIU) took over the monitoring of audit work on public interest entities. ICAEW continued to be the frontline regulator for all audits of private companies and other non-public-interest entities carried out by its members. This is done through the Quality Assurance Department (QAD). Feedback from firms reviewed is that QAD's approach is tough but fair.

Pauline Wallace, PwC's head of public policy and regulatory affairs, says her fellow partners feel QAD is an effective process and the monitoring is the right level for non-public-interest entities. "This area can be dealt with more efficiently by ICAEW," she says.

On the other hand AIU reviews are highly demanding on the reviewed firm's time and resources. In some cases the regulator has an almost permanent presence at the audit firms, raising the intriguing possibility that the regulator spends more time regulating an audit firm than the firm does doing its clients' audits.

Some practitioners have privately commented that the process is too much (while several firms subject to detailed AIU reviews declined to comment for this article). One of the firms that did agree to an interview was Mazars, which has recently completed its first AIU inspection. This involved the AIU team working at the firm's offices for six months during which it carried out a review of four Mazars' audits

and more than 600 documents dealing with practice-related matters. "The process was very time intensive," says David Herbinet, head of Mazars's corporate and public interest markets. "Providing the information, discussing findings, then the AIU report tied up significant resources."

While Herbinet says that Mazars did not see much duplication between QAD and AIU monitoring, he reports that other firms say they have. "It would make sense for the different regulators to look at how the system as a whole is functioning, to see if the scope can be improved and any duplications minimised," he says.

BEING ACCOUNTABLE

If the AIU is so deeply embedded in the work of the auditors it is monitoring, why didn't it pick up on the problems with the banks? This point was raised in last year's House of Lords' review of the audit profession and its regulation.

ICAEW executive director of professional standards Vernon Soare says this point brings up some important issues both about the accountability of the AIU and its parent body, the Financial Reporting Council (FRC). "The proposed changes to the FRC's structure and governance will have the FRC reporting annually to the BIS Select Committee," he says. "It's a question of who monitors those who audit the auditors; of accountability and where this eventually rests."

Wallace says the thinking to come out of the financial crisis is that the whole system – not just audit – should have warned of what was to come. "The whole corporate reporting system probably needs to change. Audit will inevitably play a part in the redesigned system but you can't just tweak one component, you have to look at the entire framework."

The legal side of the audit framework, including audit monitoring, is enshrined in the EU Statutory Audit Directive. This specifies the need for an independent regulator to be responsible for ensuring that audit work on public interest entities is done to a proper standard. While the UK has a clear split between the work of the AIU and that of ICAEW and other recognised supervisory bodies, other EU countries have a different interpretation of



the directive: in several countries professional bodies review all types of audit work while independent regulators review all work of the professional bodies.

While the approach differs, the basic move towards independent regulation has been happening not only in the EU but elsewhere in the world. "It's no longer acceptable for professional bodies to be completely self-regulating for audit," says Soare. "There's an increasing tendency for independent oversight, particularly of the public interest sector audits."

Wallace is happy with the way the audit regulation system works in the UK, but is concerned about current proposals from Brussels, which would insist on all audit regulation coming under the remit of the independent regulator. "A professional body ought to have some regulatory obligations – that's what makes the difference between it and a trade body," she says. "It's right that the AIU as a completely independent body should continue to review the audits that matter to the capital markets. But the rest can be dealt with more efficiently by ICAEW."

SHINING A LIGHT ON AUDITS

The AIU's independence should give investors confidence in audits of public interest entities, as should the transparency over its findings. In 2010 the regulator started issuing individual reports on the outcomes and conclusions of its work at the larger individual firms. The AIU has what have been described by several practitioners as, "very lively" discussions on the reports with the firms involved before the content is made public. The latest set of reports displayed what ICAEW president Mark Spofforth describes as "clear improvements on 2010", despite some less favourable coverage in the media.

"We're encouraged by the transparency of the results," says Phil Crooks, head of audit at Grant Thornton. "The advantage of results being made public is that we can say: look, the regulators say our audit quality is as good as anyone else's." Herbinet agrees. "When you look at the reports you see there aren't really significant differences between the very large firms and firms like Mazars."

Transparency has a flipside though: although they get to see the reports before



"It's no longer acceptable for professional bodies to be completely self-regulating for audit"

they are issued, the firms cannot control what's reported. Crooks says some audit committees at client companies have been keen to find out more about the comments that the AIU has made on their audits. "It's quite legitimate that they want to know what the comments really mean. We then need to put these into context. As the AIU reports make clear, the team doesn't review all of an assignment but looks at what they perceive to be the high-risk areas. It's not surprising their findings can be, well, challenging."

Crooks believes more work is needed to understand the way stakeholders read the reports and their interpretation of them. "The FRC has done much to engage audit committee chairs but further work could be done to make sure the reports issued meet stakeholders' requirements," he says. "If you want to engage with readers, you have to ask how they're interpreting the material."

Another issue for Crooks is the tricky matter of consistency. "You need to strike a balance between the inspector having the freedom to highlight and report issues or giving inspectors a lead on what they should focus on. You run the risk of reporting what

you think should be there as opposed to reporting what you find."

The AIU states that its monitoring approach includes critical assessment of key audit judgments made in reaching the audit opinion. However, in practice Herbinet says there is a strong focus on compliance with standards. "There is a certain degree of judgment – as there should be – in international standards on auditing. The AIU has to form a view based on what it sees in the audit files"

He feels the system would benefit from dialogue between the regulator and the firms about building continuous improvements in audit. "There needs to be a balance between doing a good job from a compliance point of view and from the adding-value point of view. Some of the expectations gap arises from this, with the client expecting one thing and the audit firms and regulator delivering something else. This is an ongoing issue that firms have to get a grip on."

Overall, Wallace thinks the AIU reports make clear that audit quality is "really good". She says: "There are times when things don't go according to plan. You wouldn't have confidence in a regulatory process that never found anything wrong."

She says the UK should be trumpeting the fact that its audits are of such a high quality. "The positives to come out of the AIU process are that the systems are good, the right messages are coming from the top down, firms are focused on audit quality and this pervades everything they do." ■

Ignored letters and ethical breaches

Audit manager made false expenses claims, member protests he was kept in ICAEW against his wishes, and an ethical breach over commission payments

KEPT IN MEMBERSHIP AGAINST HIS WISHES

Simon Spector tried to argue that he did not have to respond to a letter from ICAEW seeking information about a serious matter because he had resigned from membership three months before. He claimed ICAEW had no right to proceed against him because to do so would be a “breach of human rights legislation”, and if he were being kept in membership, it was against his wishes.

His arguments did not hold water with the disciplinary committee tribunal. “The defendant has, without good reason or justification, failed to provide that information and maintains that he is not obliged to and refuses to,” it said. “This is not acceptable conduct: for ICAEW to regulate itself properly, it must be able to rely on its members to co-operate.

“In this case, the defendant has failed to co-operate when he ought to have done. He cannot escape his obligations by simply trying to resign from membership, particularly when enquiries are being made about his conduct before he tried to resign.”

It was not the first time Spector had failed to provide information requested by ICAEW. In 1996 he had been reprimanded and fined £500 for failure to respond to a letter.

Another aggravating factor was the seriousness of the underlying subject of the correspondence, which Spector was failing to address by refusing to co-operate with ICAEW. It concerned his fiduciary duties.

Spector was severely reprimanded, fined £5,000 and ordered to pay costs of £1,265.

COMMISSION BREACHED ETHICS CODE

A member who, through his firm, paid commission for the introduction of insolvency appointments has been reprimanded and fined £2,000.

The leads came through a website operated by Phoenix Company Consultants, a pre-packaged administration business run by sole director Tony Costigan. The leads led to Gordon Johnston’s appointment as officeholder in formal insolvency proceedings. Between January 2009 and 30 September 2009, Johnston paid Costigan £5,000 a month, regardless of work undertaken and any subsequent introductions to his business, HJS Recovery. The money, he said, was intended for the promotion of HJS services and also as payment for ad hoc services in various insolvency cases.

At no time was he or HJS in a relationship with Phoenix although Costigan has since become an HJS employee. It was an informal arrangement with no written agreements, contracts or letters.

During the period in question, Costigan introduced 22 insolvency cases through Phoenix and Johnston admitted that in part the monthly fee was payment for those introductions, although he did not think of it as commission. Such payments breach paragraph 400.63 of the Code of Ethics.

Johnston also ran foul of paragraph 400.68, which states that where an insolvency practitioner advertises for work via a third party, he is responsible for ensuring that the third party complies with the Code’s requirements for adverts.

In its report, the tribunal said: “The rule against payment for introduction to third parties is an important element of maintaining the standards of independence of the insolvency arm of the profession.”

Johnston was also ordered to pay costs of £5,015.

Report listings

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

INVESTIGATION COMMITTEE CONSENT ORDERS

● WPA Audit Ltd of 26 Grosvenor Street, Mayfair, London W1K 4QW

Complaint. Between July 2007 and June 2010, the firm issued audit reports in respect of X plc when its independence was threatened, contrary to audit regulation 3.01, in that: Mr A, a director of a network firm, was also a director of the client; Mrs B, a shareholder of the firm, was also a director of the client; C Ltd, a member of a network firm, was a shareholder of the client; and D Ltd, a member of a network firm, was company secretary of the client.

Order. Severely reprimanded, fined £7,000 and ordered to pay costs of £2,969.

● Simon John Llewellyn Horsman of 18a Friars Road, Coventry CV1 2LL

Complaint. Between 20 July 2009 and 30 September 2011, he engaged in public practice without holding an ICAEW practising certificate, contrary to principal byelaw 51a.

Order. Reprimanded, fined £2,500 and ordered to pay costs of £1,080.

● David Stuart George of 246 High Road, Harrow Weald, Harrow HA3 7BB

Complaint. He engaged in public practice without professional indemnity insurance as required by regulation 3.1, Professional Indemnity Regulations: between August 1992 and September 2010, in respect of A Ltd; between May 1986 and September 2010, in respect of B Ltd; and between May 1993 and September 2010, in respect of C Ltd.

He also failed to comply with regulation 9(b)(iv) of the Clients' Money Regulations, in that he did not obtain a letter from the bank to acknowledge the terms of the

client bank account: between July 2003 and February 2011, in respect of D; and between August 1992 and June 2011, in respect of A Ltd.

Order. Severely reprimanded, fined £2,000 and ordered to pay costs of £3,980

● Andrew Andronikou of 4 Thomas More Square, London E1W 1YW

Complaint. In his capacity as Mr X's nominee and supervisor, he wrongly recommended in his nominee's report, dated 8 March 2007, that a creditors' meeting should be summoned to consider the debtor's proposal, when he had not undertaken sufficient investigations into the validity of certain creditor claims.

Furthermore, in connection with the court proceedings brought by Y Ltd, trading as Z.com, to set aside a decision of the creditors' meeting held on 29 March 2007 to approve the debtor's proposals, his conduct in those proceedings was manifestly inappropriate, in particular relating to the evidence he filed on the respondent's behalf.

Order. Severely reprimanded, fined £5,000 and ordered to pay costs of £6,500.

● Gibbons of Carleton House, 136 Gray Street, Workington, Cumbria CA14 2LU

Complaint. Between December 2008 and November 2009, the firm issued unqualified audit reports in respect of the financial statements of X Ltd for the years ended 31 December 2007 and 2008 (audit reports dated 22 December 2008 and 25 November 2009, respectively). In doing so, it breached audit regulation 3.07, because it failed to prevent Mr Y, who was not a responsible individual, from having any influence which would be likely to affect the independence or integrity of the audit.

The firm was also in breach of audit regulation 3.10 because the audits were not conducted in accordance with ISA 500 *Audit Evidence* in that the firm failed to obtain and document sufficient appropriate audit evidence regarding the provision for credit

notes in trade creditors and retro discounts included in other debtors on which to base the audit opinion.

Order. The firm was severely reprimanded, fined £10,000 and ordered to pay costs of £5,505.

● Fiona Bell-Scott of Houghton Stone, The Conifers, Filton Road, Hambrook, Bristol BS16 1QG

Complaint. Between November 2009 and July 2011, she engaged in public practice without a practising certificate, contrary to principal bye-law 51(a).

Order. Reprimanded, fined £1,130 and ordered to pay costs of £500.

AUDIT REGISTRATION COMMITTEE ORDERS

● Wong & Co Chartered Accountants of Astoria House, 62 Shaftesbury Avenue, London W1D 6L

Breach. Failure to comply with audit regulation requirements.

Order. The firm's registration as company auditor was withdrawn on 22 March 2012.

● A & R Accountancy Ltd of 77 High Street, Yeadon, Leeds LS19 7SP

Breach. Failure to comply with audit regulation requirements.

Order. The firm's registration as company auditor was withdrawn on 26 April 2012 under regulation 7.03(h) of the Audit Regulations and Guidance 2008.

● Marshall Roche Ltd of 1 Portland Buildings, Stoke Road, Gosport, Hampshire PO12 1JH

Breach. Failure to pay the annual registration fees due under regulation 2.13.

Order. The firm's registration as company auditor was withdrawn on 17 April 2012 under regulation 7.03(d) of the Audit Regulations and Guidance 2008.

INSOLVENCY LICENSING COMMITTEE ORDER

● Edwin Kirkwood of EKJ Associates Ltd, Kidd House, Whitehall Road, Leeds LS12 1AP

Complaint. He provided inaccurate information on his 2011 annual return.

Order. A regulatory penalty of £1,150.

INVESTMENT BUSINESS COMMITTEE ORDERS

● Perkins Copeland of 15 Gildredge Road, Eastbourne BN21 4RA

Breach. The firm breached regulation 3.35(e), Investment Business Regulations by failing to complete the review of three pension transfer cases within a reasonable timescale.

Decision. A regulatory penalty of £7,500.

● TWP Accounting LLP of The Old Rectory, Church Street, Weybridge KT13 8DE

Breach. The firm was in breach of Code 4.15, Designated Professional Body Handbook.

Order. A regulatory penalty of £2,500.

● Chantrey Vellacott DFK of 10-12 Russell Square, London WC1B 5LF

Breach. The firm was in breach of Code 4.15, DPB Handbook.

Order. A regulatory penalty of £10,000.

Use your faculties

Membership of one of ICAEW's faculties gives you access to a wealth of advice and information. Find out which one's right for you



AUDIT AND ASSURANCE FACULTY

The Audit and Assurance Faculty is an authoritative voice on external audit and other assurance activities. It sits at the cutting edge of development and provides a clear, up-to-date review of relevant pronouncements including those issued by the International Auditing and Assurance Standards Board and regulators. Active members, along with faculty staff, work together to create first-hand knowledge and valuable resources to support members through changes, and give guidance on practical implementation and best practice.

The faculty's monthly magazine, *Audit & Beyond*, features a mix of technical updates and advice for auditors and assurance practitioners, analysis of key trends and regulatory changes they face in the field.



FINANCIAL REPORTING FACULTY

Financial reporting is at the heart of many ICAEW Chartered Accountants' work. The Financial Reporting Faculty provides practical help in a complex world, helping its members navigate through the maze of current and emerging reporting requirements.

The faculty covers both UK GAAP and International Financial Reporting Standards (IFRS). Members benefit from a series of practical factsheets, monthly e-bulletins, journals and webinars.

One of the faculty's unique features is an online standards tracker, which allows its members to check which IFRS apply to their financial statements, with direct links to eIFRS – the IASB's impressive online resource. The online resources help members keep abreast of changes in financial reporting standards, regulation and practice.

The bi-annual faculty magazine, *By All Accounts*, explores key themes in the work of financial reporting standards-setters as well as explaining how reporting principles are best applied.



FINANCE AND MANAGEMENT FACULTY

Strong financial management skills are a core competency required of many ICAEW Chartered Accountants. The Finance & Management Faculty provides accountants who are running or advising businesses with the knowledge and tools to improve the performance of their businesses. It also helps members accelerate their careers by supporting their personal development.

The faculty's services enable accountants to stay on top of a wide range of issues while remaining focused on the bigger challenges ahead, covering topics ranging from business improvement to managing people.

Membership includes exclusive access to online resources plus in-depth insights into topics such as decision-making and managing change, covered in a series of quarterly special reports.

With features on the latest management thinking, interviews and practical guides, the monthly faculty magazine *Finance & Management* is considered brain-food for those in finance who also want to stay ahead in business.



INFORMATION TECHNOLOGY FACULTY

Business IT and the finance function are uniquely connected. The first computers in business were designed to support finance and accounting, and although they now pervade every aspect of business, it's still typically FDs who have board-level responsibility for IT strategy and purchasing.

The Information Technology (IT) Faculty plays a leading role in making IT work for its members, keeping them informed of the IT issues that affect business.

The services provide a single source of news and guidance, with advice ranging from virus and data protection to choosing software, internet service providers and web hosts.

The IT Faculty's Excel community helps members use Excel more efficiently and gives support to help minimise spreadsheet risk.

The bi-monthly faculty magazine *Chartech* not only looks at how accountants use technology but at the broader issues and trends defining key IT decisions.

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TAX FACULTY

The Tax Faculty is the ICAEW voice in tax and its unique position and expertise means its sharp and focused views are valued by senior politicians and representatives at HMRC.

With tax legislation as complex and fast-moving as ever, it's essential for practitioners to have information at their fingertips. The faculty keeps members up-to-date with breaking news via its website and publishes a weekly Newswire, which goes to over 33,000 practitioners. It provides clear information and practical points to give faculty members the help and support they need to stay on top of their game.

The monthly magazine *TAXline's* readership is mostly accountants in practice advising companies and individuals on their tax affairs.



CORPORATE FINANCE FACULTY

The Corporate Finance Faculty is the largest network of professionals involved in corporate finance, ranging from accountants to many others in advisory, investment and business. Emerging trends, insights and challenges facing businesses, advisers and investors in the tough international commercial and business environment are addressed. Members are also provided with online access to a range of in-depth and best practice guidelines.

The faculty's monthly magazine *Corporate Financier* goes to professionals working in the corporate finance field - in investment banks, private equity houses and advisory firms. With a healthy and growing corporate membership, the magazine also reaches many non-accountant corporate financiers.

Covering innovation, enterprise and leadership it examines the deals, ins and outs at corporate finance firms, changes in regulation, trends and opportunities and is focused on how readers can generate deals that help them build their business.



FINANCIAL SERVICES FACULTY

The financial services sector is a crucial one for both the UK and global economies - and accountants play a vital role in managing financial services firms, defining how they're regulated and helping them innovate. The Financial Services Faculty aims to give focused support for a changing world and works across the many areas of financial services. It delivers industry-focused information and guidance to its members, whether they work in banking, insurance, investment management or provide regulated financial advice.

The faculty has the unique strength of drawing together knowledgeable professionals from across stakeholder groups. It filters a mass of information to provide members with what they need to know on key issues ranging from Basel III to Solvency II.

The faculty's monthly magazine *FS Focus* tackles issues including audit and reporting of financial services firms; financial planning (including personal finance advice); and risk and regulation - one of the hottest topics across the worlds of business and finance over the past five years.

WHAT IS AMAZING?

The new Lexus GS F SPORT and RX F SPORT bring an unexpectedly sporty dimension to the previously understated world of the hybrid.

Simon Hertson enjoys two new amazing driving experiences



Stylish, dynamic and sporty



Performance matched by efficiency

BREAK THE MOULD

In motoring, as in life, people have prejudices and preconceptions. Mention you drive a hybrid and people will make certain assumptions. That might include feeling positive about your obvious social conscience, but it is unlikely to be taken as proof you are interested in an engaging, immersive driving experience. And almost no one will assume you drive something with a sporting heritage. But if you delight in surprising others and amazing yourself the new Lexus GS F SPORT and RX F SPORT are undoubtedly the cars for you.

SPORTING CHANCE

Whether it's their dynamic and stylish design, with a subtly aggressive and sporty stance, the gorgeous honeycomb spindle grills, or the 19-inch darkened, lightweight alloy 10-spoke wheels, the visual clues on the all-new Lexus F SPORT models point to cars built for fun and not to save the planet (or your fuel bills). But, thanks to being developed by the same team behind the LFA supercar, both offer the thrills and performance you'd expect from a powerful sports saloon, while also

offering the economic, environmental and tax advantages of any other full hybrid.

AN ENGAGING DRIVE

Those sporty exteriors are about more than looks. Both cars offer performance without compromising fuel economy or emissions. The 3.5-litre V6 full hybrid delivers up to 343bhp and fuel economy up to 44.8mpg. The four-wheel drive RX model has more power than a Range Rover Sport, is a second quicker to 60mph, (7.5 seconds), yet returns 44.8mpg (to the Range Rover's 32.1mpg). Emissions of 145g/km means it qualifies for 20% benefit in kind (BIK) company car tax. The impressively quick GS F SPORT is capable of hitting 60mph in 5.9 seconds, with the same emissions and tax.

TESTING TRADITIONS

Lexus is dedicated to creating cars that stimulate, engage and delight drivers and passengers alike. To continually achieve this every new Lexus is put through a rigorous testing regime. The new GS, for example, was tested over one million miles of driving in the Lexus driving simulator

(the most advanced in the world) and on the open road. In keeping with the F SPORT's heritage, it also spent some development time at Germany's legendary Nürburgring. Every single Lexus goes through 1,800 tests using the latest technology and the human touch of a Lexus master craftsman before it can leave the factory. This includes testing that the car is properly weatherproof by subjecting it to worse-than-monsoon conditions. And the exterior is examined for minute imperfections by exposing it to every spectrum of light. Shining this onto the paintwork reveals the top layer of paint and each of the seven layers below that.

FINE TUNING THE DETAIL

Creating amazing cars is only part of the Lexus journey. Customers are cocooned in the sort of luxury they enjoy elsewhere in life. That's why five years were spent perfecting the world's most comfortable driver's seat and why over 2,000 hours were put into optimising the design and position of the optional 17 Mark Levinson speakers. The GS range starts from £32,995 and the RX range from £44,495.

For a chance to drive either the RX or the GS range, contact your nearest Lexus dealer via lexus.co.uk

Life

“Industry is a better horse to ride than genius” Walter Lippmann



DAVID SINCLAIR

Leisure and life** – calculate the odds on making an investment in a **racehorse**, submerge yourself in the best **scuba diving** sites around the world, get fit and fierce with **martial arts** and pray for sunshine with six of the best **picnic baskets



SUBMARINE SURPRISES

Ask an accountant what their favourite pastime is, and they might well say scuba diving. **Mark Evans**, editor of *Sport Diver* magazine, reveals some unusual, interesting and unexpected dive sites

Scuba diving is a rapidly growing activity, and one of the main reasons for its popularity is the fact that it can be enjoyed all over the world, from inland lakes and flooded quarries to sun-drenched coral reefs and even under solid ice. Here's a selection of some of the most interesting dive sites across the globe.

SCAPA FLOW, SCOTLAND

Without a doubt, one of the world's best wreck-diving locations is situated off the northern tip of Scotland. Scapa Flow is a natural harbour nestled in the Orkney Islands, and it probably wouldn't figure that highly on a diving must-do list if it wasn't for the actions of a certain Rear Admiral Ludwig von Reuter. He was the commander of the German Imperial Navy's High Seas Fleet, which was interned in the Flow at the end of the First World War. On 21 June 1919, he mistakenly believed that hostilities were about to

resume and gave the signal to scuttle (sink) the entire fleet of 74 warships.

A total of 52 of the great ships sank beneath the surface, while the remaining 22 were beached or prevented from being sunk by Royal Navy boarding parties. Sadly for divers, from the early 1920s up to 1946, there followed the greatest marine salvage operation in history, which removed 45 of the sunken German vessels. This left just seven – the battleships *König*, *Kronprinz Wilhelm* and *Markgraf*, and cruisers *Brummer*, *Dresden II*, *Cöln II* and *Karlsruhe* – in various states of disrepair after some salvage and blasting work.

Thankfully, German craftsmanship was as good back then as it is now, and so while the *Karlsruhe*, *König* and, to a lesser extent, the *Brummer* are deteriorating rapidly from a recognisable ship-shape, the other ships – in particular the *Cöln II* and the *Dresden II* – are holding up pretty well considering they are only

seven years from celebrating 100 years underwater.

MALAPASCUA, THE PHILIPPINES

The Philippines is known around the world for the quality of its coral reefs and critter dives, but Malapascua, as well as offering all this and more, is famed for one more thing – it is the only place in the world where thresher sharks put in a daily appearance. At Monad Shoal, these bizarre-looking sharks – with their comical large eyes and huge tails – come up from the depths to cruise around a sunken island at a depth of 18-24m of water. It's a thrilling and memorable sight for divers lucky enough to bear witness to this amazing event.

CAPERNWRAY, LANCASHIRE

Diving doesn't have to be exotic. Sunk in the heart of the English countryside are several flooded quarries that have become well-equipped dive sites, and Capernwray is one of the best. Above water you have heated changing

rooms, a dive shop and restaurant, and below the surface you can dive on a fully intact airplane with a 30m wingspan, swim around Thunderbird IV, or even go for a ride on a submerged Shergar. Then there's the flying saucer, disco-dancing pigs and a five-metre-high devil...

STINGRAY CITY, THE CAYMAN ISLANDS

The Cayman Islands are blessed with crystal-clear warm water, near-constant sunshine and a tropical climate, making them a diving mecca. Sheer drop-offs, shallow wrecks and prolific marine life are all available, but the most famous dive of them all is just 4m deep. Stingray City is a sandbar where fishermen used to gut their catches and dispose of the innards over the side. Southern stingrays soon realised this was a rich source of food and began appearing as soon as boats turned up on the site. Now it has become a major tourist attraction where you can dive or snorkel with



Divers exploring inside the holds of the wreck will find a veritable museum of military hardware

CORBIS

hundreds of these docile creatures, which swarm about you in search of food.

THE THISTLEGORM, EGYPT

One of the most famous wreck dives in the world, the huge British cargo ship Thistlegorm gets more visitors than even the iconic pyramids at Giza. Carrying military supplies for the Allies, it was sunk at anchorage by German bombers and now sits upright (apart from the stern section, which is on its side) at 30–32m. Divers exploring inside the holds of the wreck will find a veritable museum of military hardware, including rifles, shells, bullets, motorcycles and even rubber boots. On the seabed either side of the ship are two steam locomotives sitting upright.

WHITE CITY, RUSSIA

Russia might not be a country you'd associate with scuba, but if you want to do a spot of ice-diving, this is one of the places to be. White City,

which lies on the edge of the Arctic Circle, gives you the chance to dive below metres of solid ice. Getting there is an adventure in itself, requiring an approximate 20-hour train ride from Moscow, and then a few hours in a multi-wheeled former military truck. To reach the dive site, you head out on a fleet of snowmobiles across the ice, and then the team uses chainsaws to hack through the ice and create a hole to dive through. Yes, it's cold, but it is truly awesome.

USS ORISKANY, FLORIDA, US

Off the coast of Florida in the Gulf of Mexico lies the world's largest artificial reef, the 911ft long USS Oriskany. This vast aircraft carrier was purpose-sunk several years ago, and is now the most accessible of this kind of ship anywhere on the planet. Dropping down on to the control tower, it is hard to fathom the sheer size of the vessel, as the massive flat deck disappears out of sight in every direction. There are shoals of barracuda and

jacks around the structure, and whalesharks and manta rays put in an occasional appearance.

THE MALDIVES

It is hard to fault the Maldives as a diving destination. Approaching from the air, tiny dots of sand studded with palm trees are scattered throughout the azure blue of the Indian Ocean and, once you arrive on your chosen island, you'll find this idyllic paradise forces you to chill out from the stresses and strains of everyday life. The diving is superb, with ripping drift dives, coral gardens, sheer walls, sharks galore and even manta rays and whalesharks in season. The shoals of reef fish are impossibly thick on some dive sites, creating stunning spectacles. ■

Sport Diver is the official magazine of the PADI Diving Society, and is available monthly in print and digitally via your PC, smartphone or tablet. Visit sportdiver.co.uk for more information



HOLD YOUR HORSES

Not just a status symbol, a racehorse is an investment that could have you rolling in oats, or limping home at the back of the field. **Xenia Taliotis** assesses the odds

“There is something about the outside of a horse that is good for the inside of a man,” said Winston Churchill. But can it also be good for the inside of his wallet?

When Demeter, goddess of the harvest, wanted to shake off the unwanted attentions of Poseidon, god of the sea, she set him what she thought was an impossible task. She told him that to win her love, he must make for her the most beautiful animal the world had ever seen.

Poseidon toiled for years until finally he gazed on perfection: in front of him stood his magnificent creation – the horse. There are more brutal versions of the myth but in all the horse remains central – eternally linked to Poseidon. Even now his stallions leap through the seas as foamy white horses. Beyond

ancient mythology, some more modern thoroughbreds have also become legendary.

And if you thought the story about the gods and the waves and the stallions was fanciful, let us tell you the one about how you can earn a fortune by investing in bloodstock. That really is a fantasy because, while your investment will repay you in heart-palpitating excitement, it's less likely to repay your mortgage.

“Risk definitely outweighs return,” says Jimmy George, marketing director at Tattersalls, Europe's largest bloodstock auctioneers, and a horse owner himself, “but for those who love thoroughbreds, the pleasure outweighs the risk. At Tattersalls we emphasise that this is a sport. Our advice is to go into it for fun. That's not to say you can't make a profit. People do see very healthy

returns, but you'd have a rude awakening if you went into it expecting to make a profit.”

One major risk owners face is that this is a long-term investment that can't respond quickly to economic downturns. William Sporborg, former jockey, former PwC accountant and now managing director of Breeding Capital – which sells limited shares in its bloodstock funds to those wishing to invest in quality brood mares, foals and yearlings – explains.

“The lifecycle of breeding, from sending a mare to stud to selling her foal as a yearling, is 30 months; if the economy goes into a sudden tailspin, as it did in 2008, there's nothing you can do about it because your foals are already on their way. The years preceding 2008 had been so buoyant that everyone sent their mares to

stud, resulting in a surplus of foals at exactly the same time as demand plummeted. In such situations, revenues for breeders and investors fall dramatically."

Other risks are down to the sheer cussedness of nature. Horses become ill, get injured, die. Beyond that, you could buy a thoroughbred with outstanding bloodlines only to find that nature has played a cruel joke. Take Snaafi Dancer, bought for \$10.2m in 1983. Sired by top stud Northern Dancer – who produced a remarkable 147 stakes winners in his lifetime – Snaafi failed to qualify for a single race. And worse, he proved infertile.

More recently, the most expensive thoroughbred ever sold at auction, The Green Monkey, bought for \$16m in 2006, was retired after injuring himself in his third race, having won a paltry \$10,000. He is now standing at stud but, at \$5,000 per live foal, has a way to go before his earnings make a dent in his price tag.

His story illustrates the vagaries of the market. Seven months before his price broke all records, The Green Monkey was bought as a colt for \$425,000. What happened in 2006 was phenomenal – a frenzied auction that raised his price in increments of \$500,000. And while he's not earning much as a stud right now, that's because his foals are still unproven. If they prove good runners when

they start racing next year, his stud price will soar; it's still all to play for and it's possible he'll recoup that \$16m.

While buying a racehorse, or a share of one, is the most exciting way to invest in thoroughbreds, the more cautious might choose to go in to breeding instead. This, says market analyst and consultant Bill Oppenheim, who writes a weekly column for the *Thoroughbred Daily News*, is a "better investment than racing... but only because the returns on investment from racing in the UK and Ireland are so lousy".

Again, says Oppenheim, "this is not a pursuit for the faint-hearted or badly financed, because to show a profit you need quantity as well as quality. People do make money but potential investors should know that even in good times, only two out of nine horses sold as yearlings show a profit on what it costs to produce them. And in bad times, that figure drops to one in seven."

If, after this, you're still keen to invest in a nag, how much can you expect to pay? "Prices have rallied because supply and demand are in line again," says George. "The average price at Tattersalls' October 2011 Yearling Sale, the premier sale of yearlings in Europe, was 141,852 guineas (£148,944), but you can buy a good horse for less than 10,000 guineas (£10,500). And cheaper thoroughbreds can deliver very big gains. We

IMPROVING YOUR ODDS

DON'T

Go solo

Buying a thoroughbred is highly specialised; find an expert with a proven track record to help you. Bloodstock agents charge 5% of the purchase price but forgoing their services could cost you more. The Federation of Bloodstock Agents lists reputable agents. If you're a novice, join a syndicate.

Get involved

...unless you love the sport and can treat it as an indulgence, rather than a must-win investment.

Fall in love with your horse

...unless you want to keep it. The resale market for UK trained horses is the best in the world; if you want to make money, you'll need to sell your horse on.

Be a graceless loser

Remember, your horse was a gift of love from one god to another, so behave with dignity at the races.

DO

Decide how much you can comfortably spend

– and lose: your horse may never show a profit, and could cost you a lot in oats.

Have a business plan

to help you identify your investment goals. If you're buying through a syndicate or fund, ask about exit strategies.

Make informed decisions

Research the subject and buy through a good bloodstock auction house.

Buy low, sell high

Sell after your horse has a few wins under its saddle. Visit a couple of auctions before you're ready to buy. Bidding is extremely fast and it's easy to get carried away. Ask your advisers to value the horse first and stick to their advice.

sold a colt called Makfi for 26,000 guineas (£27,300) in 2009. The following spring, he won the 2,000 Guineas in Newmarket and his value shot up to in excess of £8m. He's now standing at stud for £25,000 per mare and covered 146 mares in his first year."

And you can always split the costs, including the subsequent stabling and training fees – typically £20,000 per annum – by joining a syndicate. Well-managed syndicates, such as those run by Highclere Thoroughbred Racing, could enable you to invest in more than one horse as well as taking care of the tricky stuff, including finding a jockey, deciding when and where to race your horse and when to sell it on. Highclere's share price for two horses ranges from £6,950 to £36,950 (before VAT), depending on the size of the syndicate.

Shares in Sporborg's Breeding Capital funds, meanwhile, cost an average of £30,000. "We invest in high-quality breeding stock – most of our brood mares are around £400,000," says Sporborg, "but we do qualify for the Enterprise Investment Scheme so investors get 30% tax relief on shares held for more than three years."

So what to do? If you can take a long-term view on investments, and if you can afford to indulge your passions, then thoroughbreds are for you. If not, then hold your horses. ■

FAST FOOD

We grab a quick bite in the capital's speediest restaurants



BREAKFAST

**The Table Café,
Southwark, London**

Attached to a south London architectural practice, the Table Café was always going to look good. It's a bright space with bench seating and cool background music. But it's the food that draws a lively mix of professionals, locals and tourists.

When we sit down for two poached eggs on an organic muffin with oak-smoked salmon and hollandaise, the place is buzzing. Service is speedy and friendly, which is perfect for the workers around burgeoning Bankside. Coffee beans are from the brilliant Monmouth Coffee Company and other breakfast options include muesli, brioche, French toast, waffles and the Borough Full English. This place will even lure north-Londoners across the river.

thetablecafe.com

LUNCH

**One Moorgate Place,
The City, London**

For a lunchtime business meeting with delicious food and wine, this little gem in the basement of Chartered Accountants' Hall is the place to go. What the restaurant lacks in décor, it makes up for with a series of dishes beautifully prepared by head chef Gavin Dunn with creative combinations of different textures and colours.

For the time-pressed, there's a £16 lunchtime two-course menu, which comes with a promise that if the food hasn't arrived within 30 minutes, it's on the house. Less pressured diners can choose à la carte. And the secret to the successful lunch? Try the truffle and walnut whip chocolate ganache with Italian meringue and glazed walnuts. Perfection.

onemoorgateplace.com

MENU OF THE DAY

BREAKFAST

Eggs Royale	£9.00
The Borough Full English	£12.00
Bircher muesli	£4.00
Latte	£2.40

LUNCH

Anjou pigeon with pumpkin ravioli and spiced dressing	£8.50
Gruyere omelette with violet artichokes and truffle	£11.00
Poached cod with butter bean samosa and curried cauliflower	£15.50
Walnut whip chocolate ganache with Italian meringue and glazed walnuts	£6.00

DINNER

Hand chopped Scottish beef tartare	£17.95
Veal ragu, fresh pappardelle, mint and celery	
Riz au lait, lemon curd	

DINNER

**Les Deux Salons
Covent Garden, London**

Opened by Anthony Demetre and Will Smith (the duo behind Soho's Arbutus and Mayfair's Wild Honey), Les Deux Salons brings the grand Parisian brasserie to Covent Garden. Situated on the edge of Theatreland, it is a perfect spot to enjoy fabulous food before a show.

The pre-theatre menu (just £15.95 for two courses or £17.95 for three) features a sample of the restaurant's classic European fare, with nods to southern Europe (veal ragu, pappardelle, mint and celery), as well as plenty of British ingredients (Cornish pollock, Scottish beef and Welsh lamb).

The atmosphere is bustling and exciting and the only downside is you are likely to be having such a good time you might miss the first act.

lesdeuxsalons.co.uk

SIX OF THE BEST

PICNIC HAMPERS

If the weekend forecast is sunny, you can picnic proudly with any one of these happy hampers

1 OPTIMA CLASSIC BLYTON PICNIC TIN

A little bit retro, a little bit chic, this tin picnic hamper is also a sturdy little fella. Containing a classic willow basket inside, it also comes with the usual array of glass tumblers, ceramic plates, china mugs, cutlery and napkins. And at £69.99, it's a bit of a bargain. gardenchic.co.uk

2 JOHN LEWIS GREY WILLOW PICNIC HAMPER

If the traditional basket feels a little tired, but wicker still appeals, this beautifully crafted grey willow basket may be just the job. It carries all the gear you need to feed four including cutlery, ceramic plates and cotton napkins. It's as solid and well made as you'd expect from the nation's favourite retailer for £75. johnlewis.com

3 CONCEPT SAFARI PICNIC SHOULDER BAG

Let's face it, the "safari" in the name of this lightweight yet well-stocked hamper is in your imagination. You'll be using it in a field in Britain, rather than on real safari somewhere exciting. At £95 from John Lewis it's twice the price of Concept's backpack, but looks much more sophisticated. johnlewis.com

4 CATH KIDSTON BLEACHED FLOWERS TWO-PERSON HAMPER

From the outside this looks like a regular basket, but inside the trademark Cath Kidston flower design abounds, and the wipe-clean interior is perfect for an outdoor afternoon tea. The lightweight, beautifully crafted hamper comes in at a slightly heavyweight £85. cathkidston.co.uk

5 GOURMET TROTTER

Forget the world of wicker with this take on the hamper from a picnic-loving husband and wife team. Built on a golf trolley, it's the perfect companion for an outdoor feast. The inventors say if a wicker basket is a Morris Minor, this is the Range Rover of hampers. At £599, it has the price tag to match. gourmet-trotter.co.uk

6 AEGEAN BASKET TOTE

A change from the picnic basket or backpack, this tote bag wouldn't look out of place on the high street. Nevertheless, it's still packed with the usual accoutrements for hungry walkers. It's thermally insulated, and comes with two drinks chillers to keep your liquids refreshing. Available from online retailers for £64. picnicshop.co.uk



FIGHTING FIT

If you're looking for a way of staying healthy that exercises mind, body and spirit, a martial art could be the answer.

Penelope Rance outlines the most popular of the ancient oriental fighting forms

While it's hard to throw yourself into vigorous exercise and retain any dignity behind the red face, sweaty back and dishevelled hair, martial arts are just cool. Ever since Keanu Reeves in *The Matrix* yelled, "I know kung fu" every superhero, special agent or uber-villain worth their screen time has had a full arsenal of blocks, strikes and flying roundhouses. And with a bit of hard work and some of that unsightly sweat you could too.

The good news is you don't have to spend months conditioning your limbs against a wooden dummy to see the benefits, though you can if you want to. With more styles to choose from than Jackie Chan has broken bones there's an art for everyone.

KUNG FU

Cantonese for "hard work", kung fu is a generic term for Chinese martial arts. Another common one is wushu, or "art of war", more often used to refer to modern acrobatic performances than traditional fighting styles. Developed over hundreds of years, many styles are rooted in the movements of animals – tiger, crane, snake or monkey.

Wing chun, the basis for Bruce Lee's martial arts development, is popular in the west as it is less complex and more accessible for beginners.

Good for: Fitness; self-confidence; self-defence.

T'AI CHI

A soft style of kung fu, these days t'ai chi is associated with the elegant exercise practised by elderly Chinese people, and consequently with a long and healthy life. There's no disputing that t'ai chi is one of the few exercises that can strengthen organs, joints and ligaments as well as muscles. But it originated as one of the more deadly martial arts, using internal strength and an opponent's own momentum against them rather than muscular force. Don't be fooled by the slow, hypnotic movements: in the hands of a t'ai chi master you'll be putty. The 14th century monk Chang San-Feng said, "In every movement, every part of the body must be light and agile and strung together." A complete exercise for the body and mind.

Good for: Finding inner peace; surprising larger opponents.

KARATE

Where kung fu is soft and fluid, karate is hard and solid. Karate developed in isolation on the island of Okinawa, where oppressed islanders learned movements from traders from China, Thailand, Borneo and Malaysia and built them into their own form of self-defence.

Practised at night in secret and in pyjamas (the basis for the modern karate uniform), Okinawa-te became known as kara-te or "empty hand", reflecting the ban on locals



You don't have to spend months conditioning your limbs against a wooden dummy to see the benefits

carrying weapons. The exercise of peasants and fishermen was adopted by the Japanese overlords and has become one of the world's most popular martial arts.

Good for: Feeling hardcore; punching things and shouting.

MUAY THAI

Also known as Thai kickboxing, this is how many mixed martial arts (MMA) stars start out before switching to cage fighting. Fortunately it's also popular in western gyms, where you'll spend more time punching bags and practising sweeps than following a traditional training regime of conditioning your shins by kicking trees. Known as the "art of eight limbs", muay thai wields fists, elbows, knees and feet as if they were weapons of ancient Siam. It was the last defence of the royal guard

should they lose their swords and spears on the battlefield.

Good for: Intense workouts; if you drop your sword; bruises.

TAE KWON DO

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Penelope Rance is the author of *Martial Arts*, the definitive guide to kick flicks

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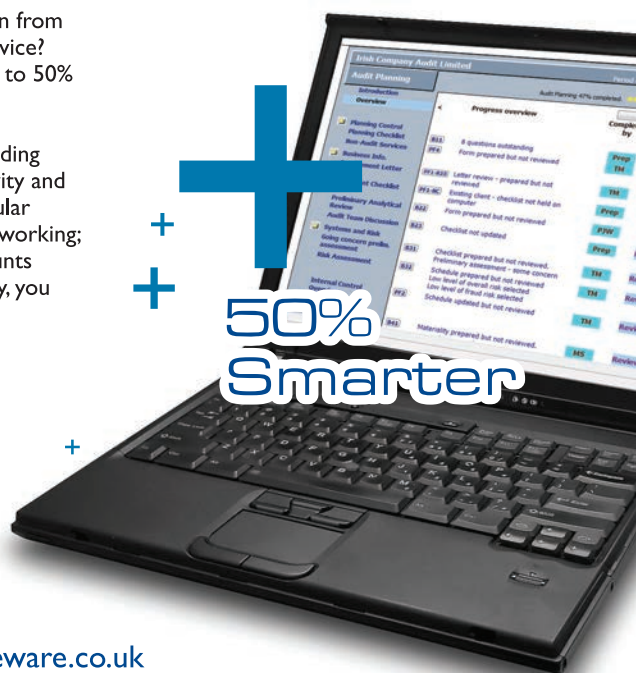
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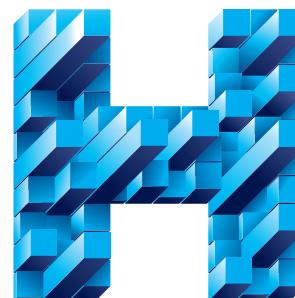
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RICHARD ANSETT

LIFE AFTER WORK ON A MISSION

After three decades as head of Sheen Stickland's charity division, Trevor James is using his skills in retirement to make charity work his life, not just his job. He tells **Penelope Rance** about his motivation

Since Trevor James joined Sheen Stickland 33 years ago, the firm has come to oversee the governance of 140 charities. That's a lot of experience, much of it concentrated in James.

So when in March he handed the baton to the team he trained to replace him, there was a rush to take advantage of his knowledge. "Once it was known I was going to retire, I had sufficient offers to keep me going for a long time," he says. As a Fellow of the Royal Society of Arts and an elder of his chapel, James will be working on a pro bono basis and plans to concentrate on Christian and arts charities.

"I decided to go when people were still saying 'why are you going?' not 'why haven't you gone?'" he says. "I feel that, if you've been successful, you should give something back."

James says he got into accountancy by accident. "I

ended up in hospital before my A-levels, so didn't go to university. I looked around and accountancy was one of the careers I thought about.

"I was advised that if I didn't know if I wanted to be in industry or commerce, it was easier to train in the profession then move into industry. So I went into the profession and stayed there.

"The firm's specialisation in charity came out of trustee and personal tax work. There was a lot more to do after the 1992 and 1993 Charities Acts. Firms building up expertise came to be seen as the experts.

"It's fulfilling, working with charities. It gives you a glow. And it's taken me to some interesting places," recalls James, including Tanzania to sign off EU funding for a water project and Lebanon to look into charity fraud.

He also travelled to the Amazon to investigate claims of

financial malpractice within a missionary society. "Until you get there, you don't realise how isolated it is. I went to four villages, and each had totally different cultures. In one, they counted in binary.

"It turned out the story had been planted by drug cartels in Colombia who were being pressured by the government there and wanted to move into Brazil. The only outsiders there were the missionaries, so they wanted them out."

One of three elders of Swanfield Chapel, West Sussex,

"It's fulfilling, working with charities. It gives you a glow. And it's taken me to some interesting places"

as well as trustee, treasurer and Sunday school teacher, James is the only one authorised to conduct marriages. "I also get the thrill of pressing the button at cremations," he says. "I stepped up because somebody was needed. You end up doing things because you happened to be there."

He is also chairman of the St Olav Trust, a religious bookshop which he helped save from receivership. "I was the one person who knew how to do something about it. I negotiated with the receiver and the Charity Commission to get it reopened.

"My advice is try if you can to concentrate on an area you really find fulfilling. I've enjoyed my professional life because as the charity work has grown, I've grown with it. I'm very fortunate to have had a career I've really enjoyed, and now be able to use what I know to help." ■



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