

# Business & Management

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HOW CAN LEADERS  
HELP NON-EXECUTIVES  
PERFORM BETTER?

**KEY TO SUCCESS**  
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KPIs TO DRIVE  
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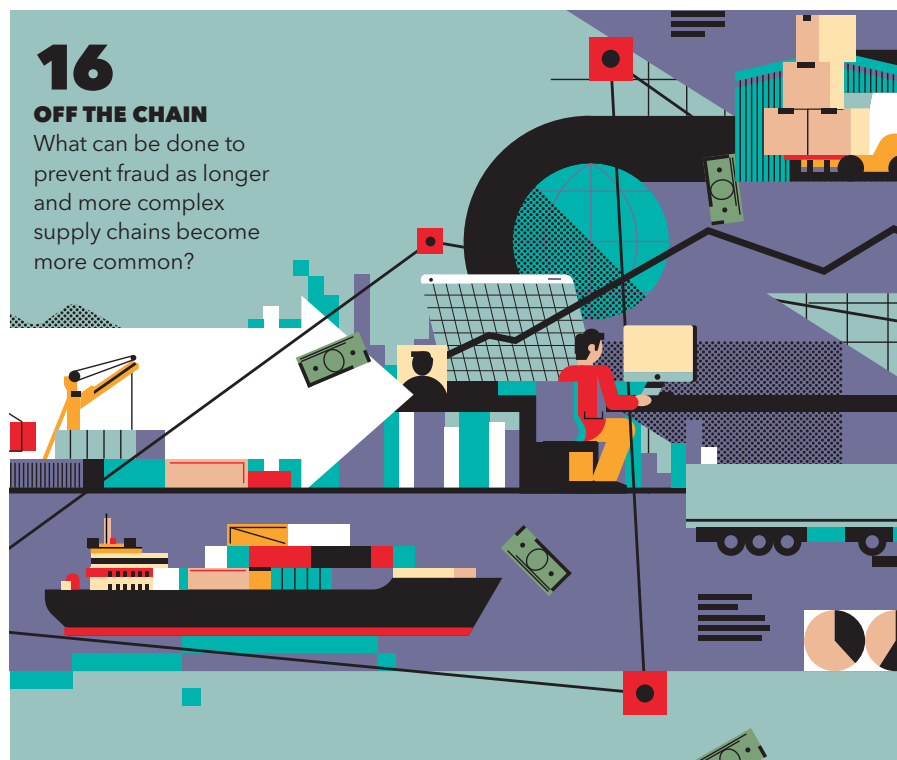
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What can be done to prevent fraud as longer and more complex supply chains become more common?



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# Universal truth



The announcement by the Finnish Government of their decision to abandon the Universal Basic Income experiment may come as no surprise to many. The idea of offering 2,000 randomly selected unemployed individuals a monthly stipend of just under £500 without conditions was a brave move.

The universal income idea is laudable – to remove poverty by offering everyone a

basic income level to meet their living needs – but the cost of doing so is prohibitive. The idea is not dissimilar to one of a non-means tested state pension, but rolled out for all ages. Some models would restrict this income to those aged between 18 and 67, but the more libertarian ones would offer it to all citizens.

The downside of course, is like most benefit systems, it is open to abuse and fraud. It additionally would have a tremendous inflationary impact that would result in a spiralling acceleration of prices that may well end up eliminating the benefit. The burden of taxation to cover the costs of the system would fall exclusively on the better off, who would have to pay for both their own extra income and as well as the extra income for everyone else.

A study into the costs of Universal Basic income (*The relative costs of a Universal Basic Income and a Negative Income Tax*, Harvey, 2006) revealed that the annual cost of the system was greater than all the income tax raised in any tax year in the US. The more than doubling of income tax would push higher rate taxpayers in the UK into the 90% bracket if the government were to keep all other taxes steady.

The Finnish decision to cease the project, without rolling it out to the employed, which was to be stage 2 of the project, was precisely due to the significant amount of money it was costing. There also appeared to not have been any material change in the behaviour of the recipients. Those still in receipt of the cash will now have to complete training courses or work experience of at least six hours a month to continue to be paid the money.

The Finnish finance minister, Petteri Orpo, has decided to look into trialling alternative welfare schemes, including a universal credit system similar to that being introduced in the UK, when the basic income pilot ends. It was a worthy experiment and luckily for them the plug was pulled before too much damage was caused to either the revenue or the reputation of the Finnish Government.

We hope that you enjoy this copy of the magazine. Please contact [robert.russell@icaew.com](mailto:robert.russell@icaew.com) or [matthew.rideout@icaew.com](mailto:matthew.rideout@icaew.com) if you have any comments or thoughts about the magazine or the faculty.

**Robert Russell**  
Technical Manager

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Annual membership of the faculty costs from £98 for the whole year.

### FACULTY EVENTS AND WEBINARS

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

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## NEWS

**AIRBUS TO MAKE RELAXATION AREA IN CARGO HOLDS**

Airbus has partnered with aviation supplier Zodiac Aerospace to create a new concept, which utilises underused cargo holds as sleeping quarters on long-haul flights. The designs for bunk beds and a bar area were revealed at last month's Aircraft Interiors Expo in Hamburg, Germany. The new lower deck would slot into the existing cargo space of the aircraft, leaving the structure of the plane intact. It can also be removed easily.

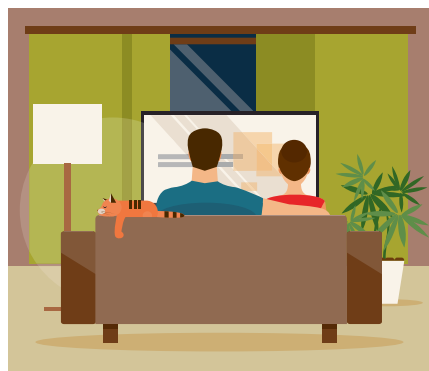
"Airlines came to us to see how they can better utilise the space in their aircraft," said Geoff Pinner, head of cabin and cargo at Airbus. "They can also generate more revenue without having to change the aircraft."

**EUROPEAN COUNCIL AGREE ON NEW PROPOSALS**

The European Council has agreed to new proposals for the European Travel Information and Authorisation System (ETIAS). The changes, made last month, mean that travellers from third-party visa-exempt countries heading into the Schengen

Area, comprising 26 European states, will be subject to advance checks.

It is proposed that non-EU nationals (eg, UK passport holders) will have to pay €7 to access the Schengen Area once the new conditions are in place.

**LACK OF ACTIVITY AFFECTS BRAIN FUNCTION**

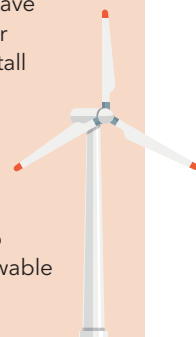
New research published last month by the Nathan Kline Institute has shown that sedentary behaviour has a deleterious effect on brain function. This compliments previous research that showed physical exercise can delay the onset of dementia. It concludes that low levels of physical activity correlate with poor brain health. The report can be found in full at [tinyurl.com/BAM-NKResearch](http://tinyurl.com/BAM-NKResearch)

**350ft**

Height of the wind turbines that are to be tested at the Offshore Renewable Energy Catapult Centre in Blyth

**GE STRIKES FIVE-YEAR WIND TURBINE DEAL**

US-based General Electric and the UK government have announced a five-year contract to test 350ft tall wind turbines at the Offshore Renewable Energy Catapult Centre in Blyth, Northumberland. It is said the deal will help develop the UK renewable sector supply chain.

**FRC TO FOCUS ON BIG SIX**

The Financial Reporting Council (FRC) has announced that it would enhance its monitoring of the six largest audit firms – PwC, Deloitte, EY, KPMG, BDO and Grant Thornton. It will focus on five pillars that are "critical to the stability of the audit firms and quality of audit work", including: leadership and governance, values, financial soundness, risk management and audit quality. The regulator said: "The FRC will report to the firms on its findings on all five pillars. The results of the inspection of audit quality will be summarised in July."

**€7**

Amount non-EU nationals may have to pay to access the Schengen Area

**HONEY, I SHRUNK OUR HOUSES**

Last month, LABC Warranty issued research showing that the average size of a house in the UK had shrunk by just under 130 sq ft over the last 50 years. The study looked at 10,000 houses built between 1930 and 2016. Houses (at no more than 500 sq ft) are now smaller than in the 1930s. According to the report, the biggest houses were built in the 1970s.

**130**

square footage that the average UK house has shrunk by over the past 50 years

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

**SEARCH:** ALL-NEW FORD FIESTA

# EVENTS & WEBINARS

ALL WEBINARS AND EVENTS  
ARE FREE FOR FACULTY MEMBERS



## EVENTS

ICAEW.COM/BAMEVENTS

### ECONOMIC UPDATE AND AGM

15 May 2018 18:00

Chartered Accountants' Hall,  
Moorgate Place, London

The US Democratic Party won the 1992 election with the phrase "it's the economy, stupid" for good reason. Further to his well-received lecture in 2017, the IEA's Dr Stephen Davies returns to run through the constraints facing the UK economy - attempting to forecast how the next year might pan out for UK taxpayers, workers and the economy as a whole. The lecture will be preceded by the Business & Management Annual General Meeting, which should not take more than 10 minutes. To book, visit [icaew.com/bammayevent](http://icaew.com/bammayevent)

## WEBINARS

ICAEW.COM/BAMWEBINARS

### FREE LUNCHTIME LEARNING WEBINARS - 20 MINUTE UPDATES

#### STATISTICS SKILLS IN EXCEL - SMOOTHING DATA (CALENDARISING)

29 May 12:30

Another in our Excel webinar series on the basics of using statistics, this time offering you practical steps on how to make the most of Excel functions and incorporate basic stats tools to improve reporting efficiency. Excel expert John Tennent talks us through the tools that can assist with removing externally caused variations in your data to eliminate seasonal fluctuations. No previous knowledge of statistics is required.

To book a place, please visit [icaew.com/lunchmay](http://icaew.com/lunchmay)

#### BREXIT UPDATE - EXPERT OPINION

2 June 12:30

All the salient facts with regard to Brexit in 20 minutes. Dr Stephen Davies of the Institute of Economic

Affairs will impartially update us with any real news on trade arrangements, migration and details any progress on borders and customs agreements that will be pertinent over the next few years.

To book a place, please visit [icaew.com/lunchjun](http://icaew.com/lunchjun)

#### FRAUD RESPONSE - LEGAL REDRESS THROUGH THE CIVIL COURTS

28 June 12:30

Businesses that are victim to fraud should not assume that the financial loss is irrecoverable. Recovery of money lost can sometimes be sought through the civil courts by suing the fraudster.

Taking this kind of legal action can offer speed and control to businesses.

This webinar, presented in conjunction with the Fraud Advisory Panel, will explain the process and the types of cases most suitable to its use.

To book a place, please visit [icaew.com/lunchjun2](http://icaew.com/lunchjun2)

### FREE 60-MINUTE MORNING WEBINARS

#### ECONOMIC UPDATE

23 May 10:00

Dr Stephen Davies, head of education at the Institute of Economic Affairs, is back by popular demand. He will present a one-hour webinar on the state of the UK economy half way through 2018.

Davies will cover current growth and employment as well as looking at the state of UK public finances. He will also provide us with an idea of UK growth prospects and touch on any Brexit negotiation news and trade deals. To book, visit [icaew.com/bammaywebinar](http://icaew.com/bammaywebinar)

#### E-LEARNING LECTURE

12 and 13 June - 90 minutes each  
From £85

This three-hour e-learning lecture, split over two days and delivered by change management and performance expert David Parmenter, will focus on the rapid production of business forecasts and plans.

Annual planning, with its associated long-winded drama, is anti-lean and is preventing you and your business from being future ready. This lecture will help you learn how to introduce rolling forecasting and budgeting to speed up the process.

To book a place, please visit [icaew.com/forecasting](http://icaew.com/forecasting)



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1. L200 Series 5 Titan rental shown is for manual transmission. Business users only, subject to status provided by Shogun Vehicle Leasing (a trading style of Lex Autolease Ltd, SK3 ORB). Excess mileage charges of 10.79p plus VAT per mile. Vehicle must be returned in good condition to avoid further charges. The offer is valid for new vehicles registered between 1st April and 30th June 2018, whilst stocks last. Other terms and mileages are available on request. Available in the UK (EXCLUDES Channel Island and I.O.M) subject to availability. Offer cannot be used in conjunction with any other offer and is correct at time of going to print. 2. 3.5 tonne towing capacity is possible with 3 axle braked trailer; 3.1 tonne towing capacity is possible with 1 or 2 axle braked trailer; 0.75 tonne towing capacity is possible regardless of the number of trailer axles or trailer brakes. 3. Super Select 4WD is not available on L200 Series 5 4Life models. The air conditioning system contains fluorinated greenhouse gases. Chemical name: HFC-134a. Pre-charged weight: 0.52kg. Global-warming potential ratio: 1430. Converted CO<sub>2</sub> weight: 0.74t.



# DRAWING OUT THE BREAK-UP

Bored with Brexit?  
Bothered and  
bewildered by it all?  
You will be says  
**Nigel Hastilow**

With the official EU Departure Day only 10 months away, the politicking over what exactly Brexit looks like is only now coming to a head.

After all the months of wrangling and negotiation, demands and decisions, the big issues are still not resolved and, theoretically, time is running out.

For the average business, Brexit Britain is a land of confusion. For instance, we still do not know what kind of border there will be between Ulster and the Irish Republic, let alone whether we will be inside a customs union, partly in and partly out, or completely outside.

As a result, businesses cannot tell what the customs union question will mean for their future trading arrangements with the 27 EU countries or the rest of the world.

Yet, day after day, the airwaves are filled with politicians and pundits trying to explain what Brexit will look like, and why the others who think it looks somewhat different are certainly wrong.

Never in the field of international negotiations has so much been said by so many to so little effect. As we head towards *Le Crunch*, there are other clouds on the horizon which may or may not be Brexit-related: a slowdown in consumer spending; a spate of company failures led by Carillion; talk of another economic downturn; slow growth, if not outright recession.

These may only be straws in the wind, but it's a chill wind and it may well be blowing in from the continent where Brussels' approach to Brexit is by no means intended to be helpful.

At the same time, we have a parliament divided, not entirely along party lines, between a majority of politicians – including unelected Peers – in favour of Remain and a minority backing Brexit.

While the warring parties within are manoeuvring themselves into position for what may be a series of cataclysmic confrontations in the autumn, it is not surprising the EU's negotiators are in no mood for compromise. Brussels does not want to see the UK emerge

**Whatever happens, businesses that are hoping for a period of calm, certainty and stability will end up sorely disappointed**

from all this successfully. Elsewhere in Europe, there are political and economic arguments in favour of ensuring Britain is left at a disadvantage by withdrawing from the EU.

The idea that Germany, in particular, would insist on a sensible accommodation in order to protect that country's export industry does not seem to have materialised as some Brexiteers hoped.

There is still everything to play for. Despite the 'transition agreement', which means nothing much will happen for 21 months after March 29 2019 (official Brexit Day), the terms of Britain's departure are as up in the air today as they have been for months.

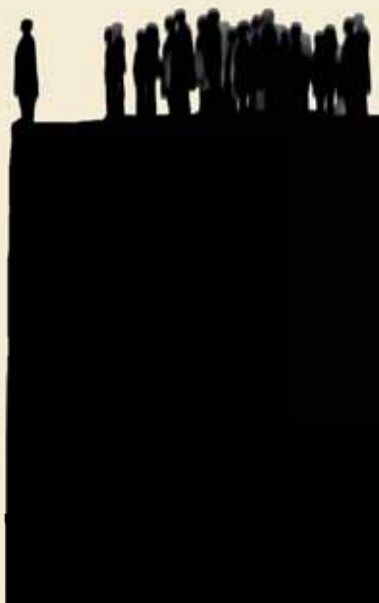
There is still an outside chance of a 'hard Brexit', where we crash out with nothing agreed.

It is more likely we will eventually achieve a 'soft Brexit' where everyone is content, compromises are reached and it's more or less business as usual.

Equally, there is the possibility of a disruptive Brexit which isn't quite as dramatic as a hard one but leaves nobody in any doubt the UK's economic and political future will be very different from its recent past.

At the moment, though, the most likely outcome looks like being a government defeat followed by general election and a return to square one.

Whatever happens, businesses that are hoping for a period of calm, certainty and stability will end up sorely disappointed. ●



**Nigel Hastilow**  
regional director,  
Midlands &  
communications,  
ICAEW



## SEVEN STEPS TO RECRUITING THE RIGHT TEAM

Building a successful and effective finance team is one of the most rewarding aspects of running a finance department, but it can also be daunting. Alongside identifying candidates with the technical finance skills, qualifications and experience that your department needs, you also need to consider candidates' potential for development and their personality fit with the rest of the team. But before you even start considering candidates, you need to be clear about the team the business needs. And you have to consider how those needs might change as the business grows or develops.

Clarity or purpose and a rounded approach are essential, finds Bethan Ashmead-Latham

## 01

### BE CLEAR ABOUT WHAT YOU NEED BEFORE YOU TAKE A ROLE TO MARKET

Finance professionals are intelligent, highly-qualified people who want a defined role and remit they can make their own. A common mistake those hiring them make is not planning the recruitment process. This can result in starting the process, meeting three or four candidates and then realising that the role needs a complete rethink.

If you are hiring to take pressure off an existing team, review structure charts, look at what people currently do and what they can easily give up. Before you recruit, work out duties and tasks you want the new role to cover, and make sure you have demand for the role.

Candidates prefer clarity on what a role requires before they apply for it.

## 02

### BE CLEAR ON THE TYPE OF SKILLS NEEDED

Examine the extent to which the role will be outward facing and whether it requires interaction with the rest of your business. This will help you determine the type and level of candidate that's right for you.

A role dealing with HMRC or other statutory requirements will require someone with attention to detail, who thrives on regulatory and compliance work. Business partnering, on the other hand, requires people able to engage easily with partners and be confident in presenting to them. Business partnering skills are in high demand. Martin Parr, a manager at accountancy and finance specialist recruiters Sellick Partnership, explains. "These skills include stakeholder management, building rapport with other departments and presenting finance reports and findings in way that is accessible to non-finance staff."

Olivia Kelly, divisional manager for the Legal Finance team at recruitment firm Ambition, adds that people with these traits often have the potential to progress through an organisation to very senior finance roles. The problem is that they're hard to spot on paper. Kelly explains that it's really important for senior staff to take the time to meet these candidates to get a better understanding of their day-to-day experience and whether they bring the soft skills and wider business skills along with their technical credentials.

## 03

### BE REALISTIC ABOUT THE LEVEL

Most ambitious finance candidates will seek out “stretch” or development opportunities. Kelly says this means there may be gaps in their experience, but adds this is not necessarily a bad thing. As Parr points out: “Accountants are career-minded professionals and it’s beneficial to work with, and not against, their career aspirations and goals.”

So part-qualified accountants will know the experience they need to progress through studies, sometimes applying for vacancies to cover syllabus requirements. This can be mutually beneficial to them as well as to the would-be employer.

Adelle Huntley, senior business manager at international recruiter Page Personnel, suggests considering the level of candidate that will work best, then designing the role around that rather than the other way around. She says: “Someone who is not long out of university won’t be able to prepare a set of management accounts on their own and work autonomously without support. Equally, an experienced candidate will seek a role with autonomy to put their stamp on.”

For transactional finance roles, it is worth looking at those with hands-on experience rather than just focusing on their qualifications. And it is always a good idea to weigh up any relevant experience candidates have gained in your particular sector.

Too often recruiting employers focus so much on internal communication they forget to engage fully with the candidates. Such communication is, says Parr, essential. He advises asking candidates about their career ambitions and expectations.

“Openly communicate the options, opportunities and limitations, and how the role may develop,” he says. “And don’t ever oversell a role.”

## 04

### BE QUICK

Don’t miss out on talent. The best candidates will always have lots of options open to them. If your recruitment process is slow, sluggish or poorly structured, you run the risk of losing these candidates at various points through your cycle. Huntley says the most common error is for employers to

**“Think about the role in the future. List the tasks you need to address now, the skills required to do this, and then consider the skills you’re likely to need in the future”**

meet candidates and then leave it too long between stages. And often they build in too many stages even for relatively junior roles. She adds that by the time you get two to three weeks into a process, candidates may well have lost enthusiasm or even been offered a role somewhere else.

Parr says a well managed process is key. “Before starting, be clear about what you need from the role, secure availability of all decision makers, set a timeline, and consider the interview process. Can three stages be condensed to two stages in one week, and one the following week?”

## 05

### BE STRATEGIC

For Huntley, hiring should never be governed solely by immediate needs, but also by the future needs of the business. “Perhaps the business is growing, and a mid-level role may demand someone more senior in 18 months. Maybe the business will be exposed to new regulatory requirements and will demand some compliance talent. Think about the role in the future.”

Parr suggests listing the that need to be addressed now, the skills required to do meet these and then consider the skills you’re likely to need in the future. This may mean managing the expectations of senior candidates. For example, you may require someone in a purely transactional finance capacity now but know that later the role will develop into a more compliance or business partnership role.

## 06

### BE AWARE OF PERSONALITIES THAT WILL FIT YOUR TEAM

Kelly says personality types are an important consideration. Businesses cannot underestimate this. And, adds Huntley, this is even more a factor in smaller teams. “Personality match is especially important in small to medium-sized companies, where there is nowhere to hide.”

Parr explains that for many such companies finding a candidate who is the right personality fit tops everything else. “They prefer to find the right person and then develop technical skills later. This can make sense because it’s so disruptive to both parties when companies get this wrong.”

There are lots of personality tests available for recruiters, and many can play in the later stages of hiring. But there is a simple way to understanding people – asking the right questions at interview. Parr suggests not focusing on technical skills. “Ask about values and reasons behind these,” he suggests. “Ask about activities outside work. Don’t miss out on important information that tells you about who a candidate really is.”

## 07

### BE OPEN

Many recruitment challenges can be addressed through clear, open communication and managing expectations. Parr says finance departments and staff are often good at this. “Establish whether success means longevity in the role, or a candidate developing and going on to do bigger things elsewhere.”

Huntley adds that the most successful hires are those where there is open communication on both sides from the start, where the timeline for process is clear and understood by both parties and where all relevant information is communicated well to all candidates. ●



# TIME SAVER



Sitting through dysfunctional meetings can feel like a marathon. But there are ways to save time and keep employees engaged, says **David Parmenter**

Meetings and human beings do not go well together. For the 40 years I have been working, I have seen very little improvement in the way meetings are run. For far too many of us, our working day is subjected to far too many meetings, scheduled across the day, that go nowhere quickly. Any agreed actions are soon forgotten.

Despite most managers at some point receiving training in managing meetings, the level of frustration with them remains the same. The problem has been that the training has not delved into the core reasons for failure. Even the legendary John Cleese's training video – *Meetings, Bloody Meetings* – serves to entertain rather than tackle these issues.

Dysfunctional meetings usually have the following characteristics: unclear agendas, lack of engagement, lack of linkage to the organisation's critical success factors, too many attendees, half of whom don't know why they are there, rambling discussions, a lack of understanding that some attendees' focus is elsewhere, poorly defined actions and no follow-through. Here are two ideas for more effective meetings:

### THE SCRUM

Scrum meetings are 15-minute, stand-up project updates that are held first thing each morning. During these meetings, team members are asked to talk about what they did yesterday on the project, what they are going to do today on the project, and what the barriers to progress are.

The debrief for each team member is to take no more than a minute or so. Some teams even have a dumbbell weighing 5-10kg to be held out horizontally with the weaker arm; the rule being you can only talk as long as you can hold the weight horizontally. At the end of the session, the group ends the session by bumping fists, a homage to the source of this technique.

The manager – known as the scrum-master – notes all the roadblocks and immediately sets about removing them with appropriate action.

This method does many things. It replaces loads of emails as the team gets to know what has been done and what is going to be done and by whom. It also makes everyone accountable. There is no place for a cruiser.

You can watch Jeff Sutherland's presentation (available at [tinyurl.com/BAM-Scrum](http://tinyurl.com/BAM-Scrum)) about scrums to understand more about this technique, or look on YouTube to learn more about the history of scrum (available at [tinyurl.com/BAM-Scrum2](http://tinyurl.com/BAM-Scrum2)).

### ACTION MEETINGS

A methodology has been developed by two management consultants, Mike Osborne and David McIntosh, that is breathtaking in its simplicity, yet profound in its influence. The action meetings methodology has attacked the core of dysfunctional meetings and there are a number of key features.

The first is getting people properly in and out of the meeting. This is done through the introduction of a "first word" and "last word", allowing attendees to briefly say what state they are in.

First words can range from, "I am very time-challenged and this meeting is the last thing I need," to "I am eager to make progress with this assignment and to hear Bill's view on project development". Meanwhile, last words could be, "The meeting has once again promised little and delivered nothing" or "I look forward to receiving Pat's report and working with the project team". The key to the first and last word is that attendees can say anything about how

they feel at that point in time. Their comment is just that – a comment. It should remain unchallenged.

It is also important to construct an effective agenda based on three types of outcomes, which requires precise wording about meeting outcomes. You are discussing an issue to understand it, agree on a course of action, and finally assign action. Outcomes provide focus and the ability to easily check whether an item has, in fact, been completed. Thus, once you understand an issue, it may be closed if the agreed action is to happen at a later meeting. A major benefit of establishing meeting outcomes worded in this way, is that nominated attendees can decline the invite if they do not think they can add value or assist in achieving the outcomes.

Making meetings participant-owned rather than chairman-owned is also important. All attendees should be trained in the action meeting methodology. Therefore, meetings are owned and policed by all participants and are less reliant on the capability of the chairman.

Once an outcome in a meeting is closed, it should remain closed. If, during the meeting, someone opens a closed item, remind them that it has been closed. Furthermore, any issues raised that are not related to the outcome under discussion should be tabled for another, future discussion.

Finally, write action steps. These can be entered into a software application, so all attendees can see what progress has been made, and the follow-up meeting can be deferred if an action has not been completed.

**For far too many of us our working day is subjected to far too many meetings, scheduled across the day, that go nowhere quickly**

**Only participate in meetings where action occurs. If progress is not being made, make it clear that the next meeting will be deferred until progress has been achieved**



The length of scrum meetings – project update meetings that are held first thing each morning

**There are other ways you can save time in meetings:**

**ABANDON AS MANY AS YOU CAN**

Only participate in meetings where action occurs. Monitor the action after a meeting and if progress is not being made, make it clear that the next meeting will be deferred until progress has been achieved.

CEO of General Electric Jack Welch would stop presentations when he realised nothing had been achieved. He told the culprits to come back later that evening with some implementation to report.

**BAN STAFF MORNING MEETINGS**

A beneficial start to the day is to avoid having staff meetings during your productive time. I fail to see why senior management feel the need to have meetings with their direct reports at nine on Monday mornings. Such meetings are often followed with more meetings as the debriefing is passed down the chain in larger organisations. Why not schedule most of your meetings for during the afternoon?

**DO NOT ALLOW LATECOMERS**

Every late arrival creates a two-minute disruption. That is 20 minutes lost if 10 are in attendance. In some organisations, you are only important if you arrive late. If you can get agreement on this rule, you will be surprised at the change in behaviour.

**ALLOW PEOPLE TO WALK OUT**

Organise the agenda so people who can only contribute to one agenda item speak to this issue first and are then allowed to leave. This simple change has the added benefit of letting the junior staff speak first, thus avoiding their opinions being influenced by meeting bullies.

Nathan Donaldson, an entrepreneurial CEO, allows attendees to remove themselves from a meeting, with a cursory nod to the chairman, when they feel their time would be better spent elsewhere. After the second departure, you can wrap up the meeting swiftly, as Donaldson pointed out to me.

**TURN MEETINGS INTO WORKSHOPS**

If you are having many meetings with your staff, they may not be progressing. Turn more of your meetings into lock-up workshops with whiteboards and laptops, and push the project on by

completing a delivery. By doing this you will also give your direct reports some training as they see how the master does it.

**DELIVER INSTEAD OF ATTENDING A BRIEFING MEETING**

As a manager, monitor the number of meetings your team gets drawn into. One IT manager I met vetted all meetings and in many simple exercises, told the in-house client that they would deliver the solution rather than have a meeting to discuss it.

**KEEP BELOW SIX PARTICIPANTS**

After this threshold, the meeting becomes dysfunctional. Taking too long will affect engagement as some junior participants will not have the allotted time or inclination to participate fully. Also, make sure you get the sitting arrangement right. As chairman, it may be best to sit in the middle of the table as you will be closer to all participants, including any troublemakers.

**FORTNIGHTLY ONE-TO-ONES**

Schedule your one-to-one meetings with your direct reports fortnightly, as weekly meetings are too frequent. They do not give staff enough time to address any issues raised in the previous meeting. Consider holding some of these off site over lunch, which gives staff a chance to unwind and share more confidential issues.

**TO DISAGREE MIGHT BE RUDE**

It's best to ask them a question rather than ask if they agree – in some cultures disagreeing may be viewed as rude. As Eon Black, an international troubleshooter and a long-term executive for BP Oil, pointed out to me, whenever local staff reverted to their mother tongue he knew there was a problem that he had to unearth.

**HOLD MORE VIRTUAL MEETINGS**

This can be achieved by using technology, such as GoToMeetings. In GoToMeetings, all attendees are visible on camera and you are able to gauge their involvement. ●



**David Parmenter is an expert in KPIs, quarterly rolling forecasting and planning. He is an international presenter of workshops and the author of four books.**



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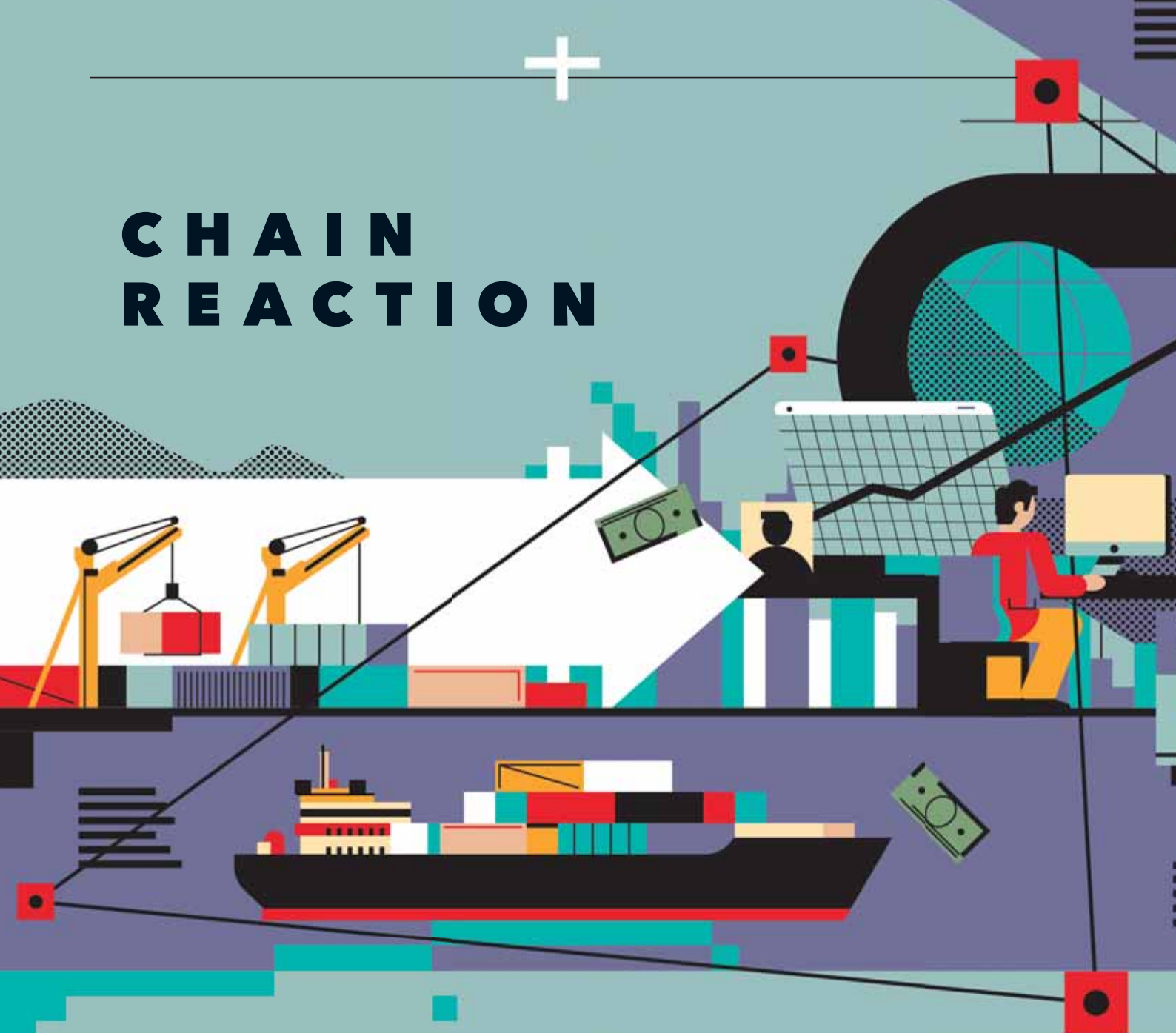
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# CHAIN REACTION



As businesses are becoming increasingly reliant on longer, more complex supply chains, the opportunities for fraud are increasing. Tim Philips looks at what can be done to prevent it

ILLUSTRATION BY ALEKSANDAR SAVIC

For 23 years, Rob Holmes, a private investigator at IP Cybercrime, has been travelling the world on behalf of multinational companies to investigate fraud. "The crimes never go away," he says, "but the medium changes."

In the 1990s, globalisation and the development of longer, more complex supply chains changed the scale and scope of crimes he investigated. Recently, Holmes investigated how organised criminals have been purchasing genuine goods and returning them for a refund. A footwear manufacturer hired him after discovering thousands of pairs of shoes that, according to its records, shouldn't have existed. The returns were fakes, only discovered by the retailer when the items were retagged and resold. "They were leaving the overseas warehouse early, before they were tagged for shipment," he says. "That happens a lot when you're dealing with a manufacturing supply chain. You're often dealing with a factory somewhere else that you don't know much about."

It's hard to accurately estimate the extent of supply chain fraud, not least because of the wide range of



crimes it encompasses. Kickbacks on raw material purchases, intellectual property theft, counterfeiting, fraudulent certificates of origin, quality assurance fraud, and inventory fraud are just a few. According to PwC, food fraud alone costs the global economy more than \$40bn a year, which adds around \$5 to the price of an average weekly shop. The extent of food fraud has pushed many retailers and suppliers to consider radical technology solutions, notably blockchain (see *Blockchain and Food*).

#### SPOT THE PROBLEM

In 2017, Deloitte surveyed 3,200 supply chain professionals in the US and found that three out of 10 had reported at least one instance of supply chain fraud in the last 12 months. If you have not found supply chain fraud in your organisation, this may not be good news as it may mean that you simply haven't found it yet. KPMG's 2016 survey, *Global Profiles of the Fraudster*, found that 61% of frauds benefited from weaknesses in internal controls that allowed the criminals to remain undetected. Additionally, two out of three frauds were done by, or were carried out with

help from, employees who were able to exploit this lack of control.

"Supply chain fraud is not something that a firm would advertise, so we don't know the exact nature and extent of the crime," admits David Clarke, a director at the Fraud Advisory Panel, and group head of anti-corruption and due diligence services at Today Advisory. "Also, the reason the firms haven't got these controls is that they have put supply chain fraud in the too difficult tray."

Clarke admits that much of the supply chain fraud he has uncovered is "not Sherlock Holmes stuff". It ranged from contractors being added to the payroll; suppliers claiming to have shipped more goods than they have to hit target; fraudsters pretending to be existing suppliers and submitting fake invoices; and contracts being awarded to friends and relatives. One example was a case he investigated involving a fraudster impersonating a supplier. The fraudster convinced the supplier's accounts department to change its address and bank details, and supplied fake invoices for two years before being discovered. "It wasn't sophisticated. They were even using an out-of-date logo," he says.

Clarke points out that while all your employees, and the employees of your partners and suppliers, superficially have the same goal; many of them have the incentive to exploit lack of control and processes. He says that a clear statement that suppliers will be audited and a firm commitment to procurement standards and processes is the first step. You can introduce them alongside a temporary amnesty to help uncover existing problems.

"Just the fear of getting caught changes behaviour," he says. "I have investigated this all over the world and if you don't have the tone from the top, you get the scandals that we have seen in the last few years. If a leader says that they will not tolerate this, then we immediately see changes."

#### COUNT THE COST

Risk management firm Kroll has investigated many examples of supply chain fraud for its clients. Matthew Weitz, associate managing director in the firm's investigations and disputes practice, explains that in some boardrooms supply chain fraud may be accepted as a cost of doing business, especially if the supply chain is very long and international, where different standards may apply. The problem is that there is unquantifiable reputational risk too: for example, from tolerating poor working

# 61%

Number of frauds that benefited from weaknesses in internal control







## **"THE ORGANISATIONS THAT HAVE GOOD VISIBILITY ARE TWO-AND-A-HALF TIMES MORE LIKELY TO BE LEADING PROCUREMENT ORGANISATIONS THAN THE REST"**

conditions or even modern slavery somewhere within the supply chain.

"Measuring the true cost of supply chain fraud can be a challenge, so assessing the prevalence of it can often only be done by measuring perceptions of fraud, which is not always the most reliable measure," Weitz says. "In some cases the revenue lost may not be material to the business, but the damage to the brand can potentially be devastating."

The fight against fraud will also be undermined if the entire organisation is not aligned against it. "There can be a disconnect sometimes between people in the business who are selling or buying, and people who are trying to keep the supply chain clean. So talk to the business leaders around the organisation and make sure you understand who they are dealing with. Use that knowledge to design your processes with the resources you have. Don't drive it from a textbook, your risk management must be driven by, and integrated with the business," he says.

Given alignment, what can businesses do to investigate potential fraud? A proportionate response, he explains, is to use some basic data analytics to investigate the information that the organisation holds, or can easily access.

"There is a vast universe of data both within your organisation and externally in the public record," he

says. "But there is a risk of drowning in the noise from all this data. There's so much data it can be a challenge to standardise it in a way that means you can get something out of it. The best detection is crosschecking datasets against each other. Analysing payments to suppliers over time with a geographical split can be one tool in the box. But to be more effective, it should always be complemented by on-the-ground risk assessment, which allows the business to put the data in context, rather than analysing data in isolation."

On-the-ground assessment means going out and seeing if the data you hold matches reality. Weitz argues that putting a clause in any supplier contract that you have the right to perform an audit is a useful deterrent, even if it is rarely used. "Educate the supply chain about your culture. Ask the suppliers to treat their suppliers that way as well. The discussion is that this is the way you do business, rather than being a threat to come and check every transaction."

### **RISK MANAGEMENT**

One of the problems in managing the fraud risk from a supply chain is that most organisations know little about the other companies that are in it. Deloitte's *2018 Global Procurement Officer Survey* found that 65% of procurement leaders had limited or no visibility beyond their tier 1 suppliers. Financial services, with their cultural emphasis on risk management, came out best – but a majority still had little visibility of their supply chain below immediate suppliers (55%).

Lance Younger, EMEA head of sourcing and procurement at Deloitte, and the author of the report, says this has two effects: it increases risk, but also prevents firms from innovating to improve the way their supply chains work. "The organisations that have good visibility are two-and-a-half times more likely to be leading procurement organisations than



the rest," he says. "If you're in automotive, for example, and you're getting 50% of your innovation from your supply chain, then procurement has a critical role to play."

The problem may be that procurement is seen as a policing role with a role focused primarily on cost. While this gatekeeping function will always be a goal, cost cutting can also stimulate fraud further down the supply chain. Balancing this with a procurement role as "an enabler and an accelerator" can help cut fraud, says Younger. This might be by creating a common standards process, such as a blockchain ledger, or creating a shared ethical commitment.

Uncovering and investigating supply chain fraud has dominated the risk management agenda. But creating a shared culture of integrity, and backing that up with technology, may one day stop fraud before it develops. "Ten years ago, organisations might say they would just sort out their own issues. In the last 18 months, we have seen a huge increase in the number of organisations using shared or managed services to control risk in the supply chain," Younger adds.

Meanwhile, Holmes is not short of supply chain frauds to investigate. "As long as there's a dishonest person in the world, I have work," he jokes. ●

# 65%

Amount of procurement leaders who had limited or no visibility beyond their tier 1 suppliers



## BLOCKCHAIN AND FOOD FRAUD

In January 2013, the Food Safety Authority of Ireland, alerted to the fact that some of the beef products on sale in supermarkets weren't all they seemed, found that many supermarkets had been conned by their suppliers. A Tesco "Everyday Value" burger it tested was 29.1% horsemeat and contained traces of pork. The scandal, known colloquially as "Horsegate", was traced back to Silvercrest Foods in Ireland and Dalepak Hambleton in Yorkshire. Further tests found other suppliers equally guilty: Rangeland Foods and Freeza Meats beef were 75% and 80% equine, and a Findus Lasagne made in France contained 100% horsemeat.

Chris Elliott, a food specialist and professor at Queen's University Belfast, wrote the official report into Horsegate. He concluded that weak regulation created an "incentive for criminals to pursue food crime".

Food fraud is a global problem that illustrates how modern supply chains rely on trust, and how difficult it is to find out when that trust has been broken. It is a global problem: together, Interpol and Europol co-ordinated Operation Opson against food fraud. The latest wave of raids at the end of 2017 took place in 61 countries and seized €230m of fake products, from stock cubes to caviar.

Today, it is very hard for retailers or consumers to find out the provenance of their food. With a European office in Belfast, arc-net is one of a small number of start-ups using blockchain technology to change that. "Horsegate started us off," says arc-net CFO Barry Millar. "Given supply chain complexity, trust among participants is critical and that is a natural application for blockchain technology."

At each stage in the supply chain, arc-net's blockchain application captures the relevant data, which is then available to anyone who queries it. Because the shared, distributed blockchain ledger cannot be changed, the entire history of every single item in a supply chain travels with the item. Blockchain creates, in Millar's description, a "chain of custody".

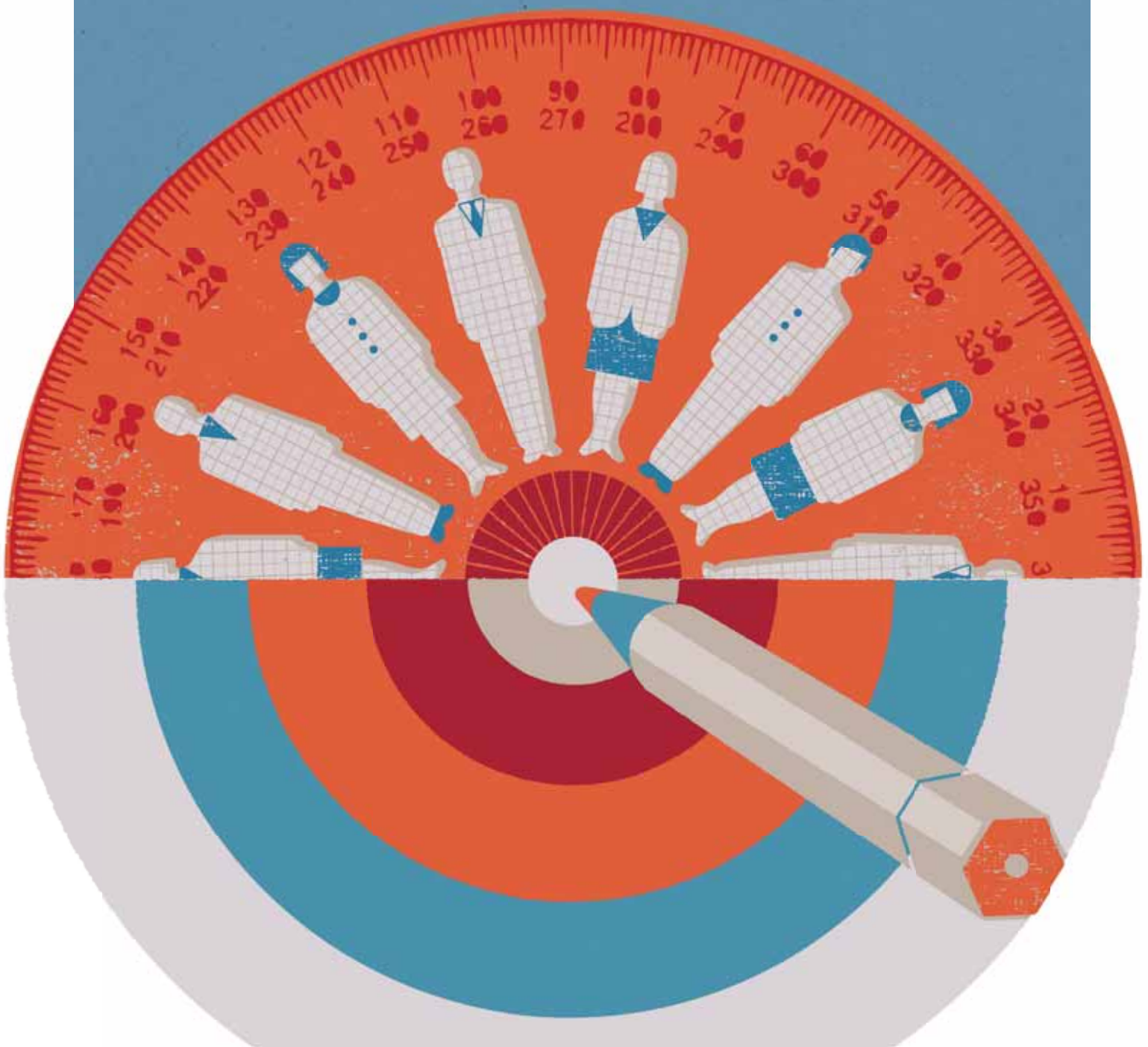
An example is the application arc-net created for the Downstream craft brewery (down-stream.io). By pointing your smartphone camera at the QR code on the side of the bottle, you can learn when it was bottled, when the fermentation took place, at what temperature, for how long and who did it. Arc-net is working with Scotch whisky distillers on a similar application and is talking to dairy farmers who would like to know where their milk goes after they sell it.

For retailers, even the best current technology makes a problem almost impossible to trace to one supplier, or one batch. This means when there is a problem with a good, all stock has to be recalled or taken off shelves. In 2016, Walmart traced the origin of a mango. It took six days, 18 hours, and 26 minutes to trace back to the farm. Now, Walmart is trialling blockchain applications and tracing the same product takes two seconds.

For arc-net's application to work every link in a supply chain needs to update the blockchain and everyone involved needs to use it. "The technology is only one part of it," warns Millar. "It's mostly about process."

# EMBRACE THE METRIC SYSTEM

With crucial KPIs buried deep in every business, finance professionals speak to Lauren Razavi about how they harness their company's hidden depths for success





Monitoring success and tracking business development is most easily assisted by one thing: key performance indicators (KPIs). And there are few areas in any organisation that are better suited to utilising KPIs that contribute to overall business growth than the finance function.

Careful definition of ongoing operational goals is essential if, for example, a manufacturing company wants to repeatedly achieve zero defects in a product or if a digital service provider seeks to reap five-star customer satisfaction ratings. But with the right KPIs selected, it's possible to shed new light on the inner workings of a business - and create effective plans to make greater use of resources.

A company's KPI success can focus on progress towards strategic goals or instead focus on wider themes, such as health and safety, employee wellbeing and environmental impact. The foundation to choosing the right KPIs, however, is understanding your organisation's goals.

According to research by PwC, every one of the companies in the FTSE 350 makes the effort to identify their KPIs, although many targets are by no means universally considered to be the correct ones, the same research revealing that FTSE 100 companies have an average of six financial KPIs on top of three non-financial KPIs.

### MAKING THE MOST OF INDICATORS

The nine KPIs that FTSE 100 companies typically use may be too many. According to David Parmenter, widely regarded as one of the world's leading gurus on KPIs and a regular contributor to *Business & Management*, any more than a handful is excessive. Parmenter prefers that organisations focus on a very few KPIs with the other targets being PIs (ie, performance indicators that are not "key", but are still vital to the organisation).

A big problem that many organisations face is the successful implementation of both PIs and KPIs. Parmenter offers some simple tips to ensure success (see box).

Being able to adjust a company's strategies and procedures often depends on understanding the wider marketplace trends. Without these insights, those at the top will find it much more difficult to make meaningful decisions about their company's future.

Rob Kelly is a financial director at Marriott and Kelly, an accountancy firm that regularly helps smaller businesses identify and implement KPIs to gain in-depth insights about their companies.

**"The purpose of KPIs is more to do with keeping an eye on what's going on from day-to-day than being purely focused on growth for growth's sake"**

"Developing KPIs does drive growth," he says. "But the purpose of KPIs is more to do with keeping an eye on what's going on from day-to-day than being purely focused on growth for growth's sake. Paying attention to KPIs - often on a daily basis - means there are no nasty surprises when you get to the end of the month or year."

### STAYING AGILE FOR KPI SUCCESS

KPIs must be reviewed and adapted regularly to stay useful and relevant. But assessing an individual KPI doesn't mean you should stop paying attention to the bigger picture. In fact, it's just as important to keep an eye on the broader context as it is to look at any individual department or goal. A good example of this might be the UK train network. Train operators highlight punctuality as one of their KPIs and will deliberately cancel trains or miss stations out en route in order to ensure compliance with the lateness target. This achieves the KPI at the cost of customer satisfaction.

David Biggs, chief financial officer at technology company Pusher, knows this all too well. His firm creates developer tools to help programmers use less code and release apps more quickly. Since he joined the company three years ago, Biggs has worked hard to create an effective strategy around KPIs and he believes they are just as important to growth and success as they are to understanding the business.

Biggs says: "When I joined, Pusher had a product that was making money; we knew it made money and we knew it was growing. But we didn't really know where that growth or our new customers were coming from - and whether or not the advertising, marketing and sales activity we were doing was working."

Biggs and his team began by measuring basic KPIs, such as monthly targets and revenue growth, and then built their strategy further based on what they were learning. The detailed knowledge and increased awareness around what was happening in the business - and which challenges they needed to overcome as a priority - had a positive overall impact for the company. But he advises businesses to stay focused and resist changing core KPIs too often.

"When we release new products or new versions of things, we still keep our main business performance indicators the same, but we segment them off and treat individual new revenue streams with their own KPIs," says Biggs. "The fundamental levers of the business don't change, so the indicators don't change either. For example, we have revenue as

### A QUICK GUIDE TO KPI SUCCESS

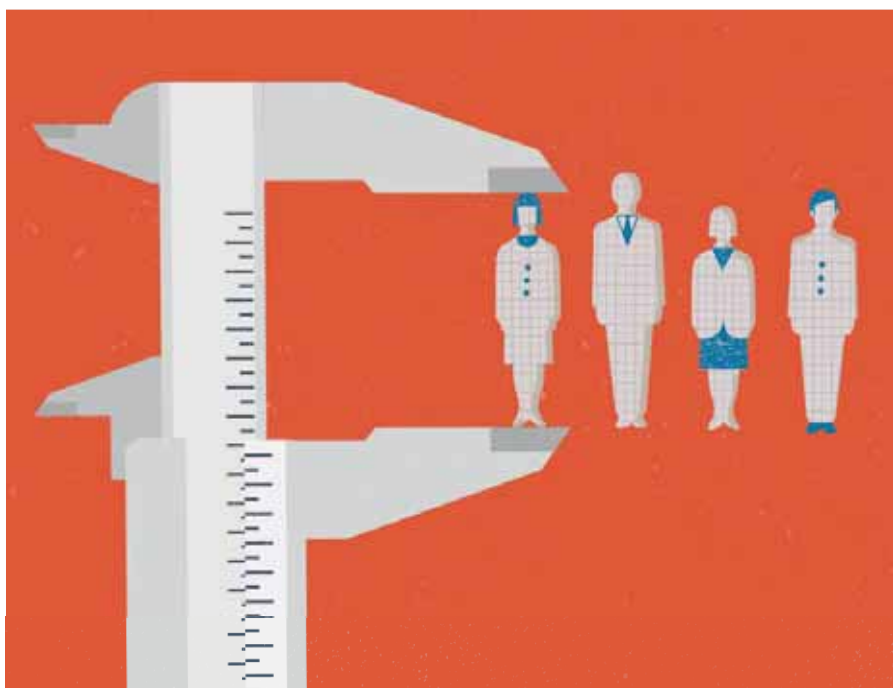
**To be effective, KPIs have to meet the following criteria:**

- Are non financial
- Can be measured frequently
- Must be acted on by the CEO and other senior leaders
- Clearly indicate what action is required by staff
- Tie responsibility down to a team or group of connected teams
- Have a significant impact, affecting more than one critical success factor
- Encourage appropriate action and only a small "dark side"

**The most common reasons KPIs fail:**

- Too random
- Prepared with little expertise
- They signify nothing
- Based on a mix of operational and governance measures
- Not linked to critical success factors
- Too many, too late

SOURCE: DAVID PARMENTER



**“For those on the finance side, there’s huge value in knowing how to use the systems and get the most relevant data out”**

one of our KPIs, but the growth rate we’re trying to achieve might change. In this instance, the KPI stays the same but the metric you’re measuring has changed.”

As part of its KPI strategy, Pusher also tracks commercial spend carefully – so it examines not only achievements, but what it took to get there. This approach can unearth a lot of useful business information.

“We can grow our business from 50,000 to 100,000 users in one month, but whether or not we pay £5,000 to do it or £50,000 to do it is incredibly important,” Biggs explains. “In our business, we need to closely monitor how much we’re spending to achieve top-line growth, revenue growth and user growth. Those areas might have their own KPIs, but looking at the goals collectively and against commercial spend is crucial too.”

#### **NO KPI IS AN ISLAND**

When it comes to understanding and measuring business growth and success, it’s important to remember that KPIs don’t exist in a vacuum.

Different departments will have different priorities and ambitions. Sales might be concerned about customer satisfaction while marketing may want to measure its success in terms of creative output or the number of views its content receives.

Finance professionals are very well-positioned to take this kind of bird’s-eye view of the business. Segmenting performance indicators from different business areas and thinking

about them as separate measures may actually be a major disadvantage for organisations. The best-constructed KPI strategies for growth take a broad view of measuring performance and make an effort to ensure that common goals are embraced and utilised.

“Everything is connected in a business, which means that all the different performance indicators work together,” Kelly explains. “For those on the finance side, there’s huge value in knowing how to use the systems and get the most relevant data out. In a manufacturing business, for example, customer service affects how much production is needed – and the operations side and the factory unit have to be aware of what manufacturing have on-site at any given time. KPIs from a finance perspective can really bring these concerns together and route the best way forward.”

Biggs agrees, adding that this interconnectedness is applicable across all industries and functions. Tying KPIs into departmental goals can be beneficial all round.

Ultimately, measurement is an essential part of understanding a business and its potential. Key performance indicators have been at the forefront of this for more than three decades now – and they will undoubtedly remain so for years to come. ●

#### **HOW TO IMPLEMENT A KPI STRATEGY**

David Parmenter, widely regarded as “the King of KPIs”, is clear that to be effective a KPI strategy has to be taken as seriously as any major change initiative and suggests the following five-stage process to implementing KPIs:

1. Get the CEO, senior leadership team, management and staff committed to the change.
2. Up-skill your in-house resources to manage the KPI project.
3. Ascertain the key aspects that need to be done well day-to-day, including operational critical success factors.
4. Determine the measures that will work best in your organisation.
5. Get the measures to drive performance.



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# REAL WORLD DATA SCIENCE

Matthew Leitch extols the considerable  
business benefits of bespoke data analysis

Buzz phrases such as big data, machine learning, and data science conjure up images of the big tech companies like Google and Amazon doing complicated and expensive things with computers. While for others, artificial intelligence will one day put some of us out of a job. But in the decades before that happens on a large scale, if it ever does, there will be plenty of opportunities for intelligent, numerate people to get useful results from simpler initiatives involving some of these technologies.

Those initiatives could, for example, help clean up data efficiently, target efforts to boost sales, keep customers, reduce the costs of operational mistakes and help justify investment in decisions where the outcomes are otherwise too uncertain to support a major investment. The biggest advantage of data science methods over just slicing and dicing data is the ability it offers to quantify the combined significance of multiple variables at the same time.

But what do you need to know to run a simple, low-budget exercise to gain more from your data with data science methods?

## RESOURCES

You could spend hundreds of thousands of pounds on statistical analysis tools and then far more on implementing a data warehouse to pull data from different databases into one database to feed those tools. If your ambitions are more modest, you could download the software used across the world in universities to do data science work, completely free of charge. That software is called R, and the core software can be expanded with literally hundreds of packages, usually written by academics, that are also free. R has support for a huge range of statistical regression methods, plus support vector machines (SVMs), random forests, neural networks, symbolic regression, and many others.

There are packages to allow you to load more types of data, and at least one package dedicated to really big data files, which otherwise are a problem for R. The R documentation is pretty comprehensive and standardised, though not the most user-friendly. There are also many books published to explain R and its

**Besides being free, R has one more key advantage: it is the software most university students doing mathematics or statistics learn to use for data science work**

packages. Often an author writes a book and a package together.

Besides being great and free, R has one more key advantage: it is the software most university students doing mathematics or statistics learn to use for data science work. That means most new graduates in mathematics or statistics today have used R, have written programs in R, know about the most important packages, and are used to reading R documentation and working out what to do.

An alternative to employing someone in the UK is to go offshore, but there is an important reason for preferring someone who will be on site with you and speaks perfect English. It is hard to learn anything useful by data analysis alone. As explained below, a much more effective approach is to cycle between analysing data and talking to people. A good understanding of the organisation, or at least a good ability to ask people questions and understand their answers, is crucial and likely to be more important than a more advanced degree.

Realistically, this type of work is intellectually difficult and you need very clear-thinking, mathematically competent people to do it. It helps if they can also conduct a fact-finding meeting competently. Experience and knowledge of real organisations and systems is enormously valuable, but the more you demand the more you will

have to pay to secure their services.

## GENERAL GUIDELINES

It is vital to understand the types of discovery likely to come out of data science work, to anticipate them and to act on them to turn insights into benefits.

First, discoveries made are very unlikely to be statistical links that can be turned into more sales. More likely, they will be problems with data in your systems, especially non-financial systems that do not have the benefit of traditional accounting controls. The analyst might just see these as an irritation and try to work around them, but they might be more useful than that. Correcting those errors might translate into reduced workload in your organisation, fewer issues for customers and more reliable information. Imagine a pipeline of discoveries being turned into benefits and think about how you can log the items and make sure everything gets appropriate action.

Second, is to combine information graphics with statistical modelling. Very often the graphics come first and are part of checking for errors in the data. They are also vital for explaining findings and convincing people they make sense. Just running the numbers is a big but common mistake.

Third, cycle between data analysis and inquiries with people. Number crunching alone typically produces disappointing results. Human intelligence still has a crucial role. Imagine you have downloaded some operational data from a company system and found a correlation between two variables, A and B. It's probably a rather weak correlation, as they usually are in real data science work. What does it mean? Does A drive B? Does B drive A? Is there something else going on that drives both A and B? Why is there any connection at all? Why isn't it a stronger link? To find out more, select some specific items (for example, invoices, orders, or whatever is relevant to the data set) that are typical of items where the link appears. Then go to see people who worked on those items directly ask them what happened exactly, and then ask them if they can see any reason why there might have been that statistical link.



This method accesses information that may not even be on your computer systems. Human intelligence can also help identify the direction of causal links detected as correlations. For example, if a customer buys a 'happy birthday' banner and a birthday cake then we know what that means, but to learning algorithms it is just a correlation.

Finally, human understanding of the world, including events people remember but which were not recorded on a computer system in an easily identifiable way, can help us do 'feature engineering'. This is where the analyst constructs a new variable, or feature, by combining some others. For example, suppose you want to predict if someone will pay their next bill. You have a history of their past bill payments. It is human intelligence, typically, that allows you to construct a new variable showing the number of consecutive unpaid bills leading up to the new one. In practice, this will be a powerful predictor, but most machine learning algorithms today will not find themselves.

It is often the case that getting data is harder and more time consuming than analysing it, so another useful guideline is to try hard to analyse the data you have in many ways to explore possible explanations and raise more interesting questions. That is a lot easier when you have detailed suggestions from your inquiries with people.

### THE NATURAL SEQUENCE

Data science work is complex, and sometimes progress depends on what you find, what co-operation is given, and other factors that are unpredictable. However, there is a natural sequence that should guide your planning.

The first wave of insights is likely to come from carefully scrutinising individual data sequences and pairs of them before trying to combine them in multivariable statistical modelling. This scrutiny will usually find errors in data, or at least anomalies that look like they probably are errors. Also, simply looking at distributions with charts can reveal unexpected things happening in the organisation.

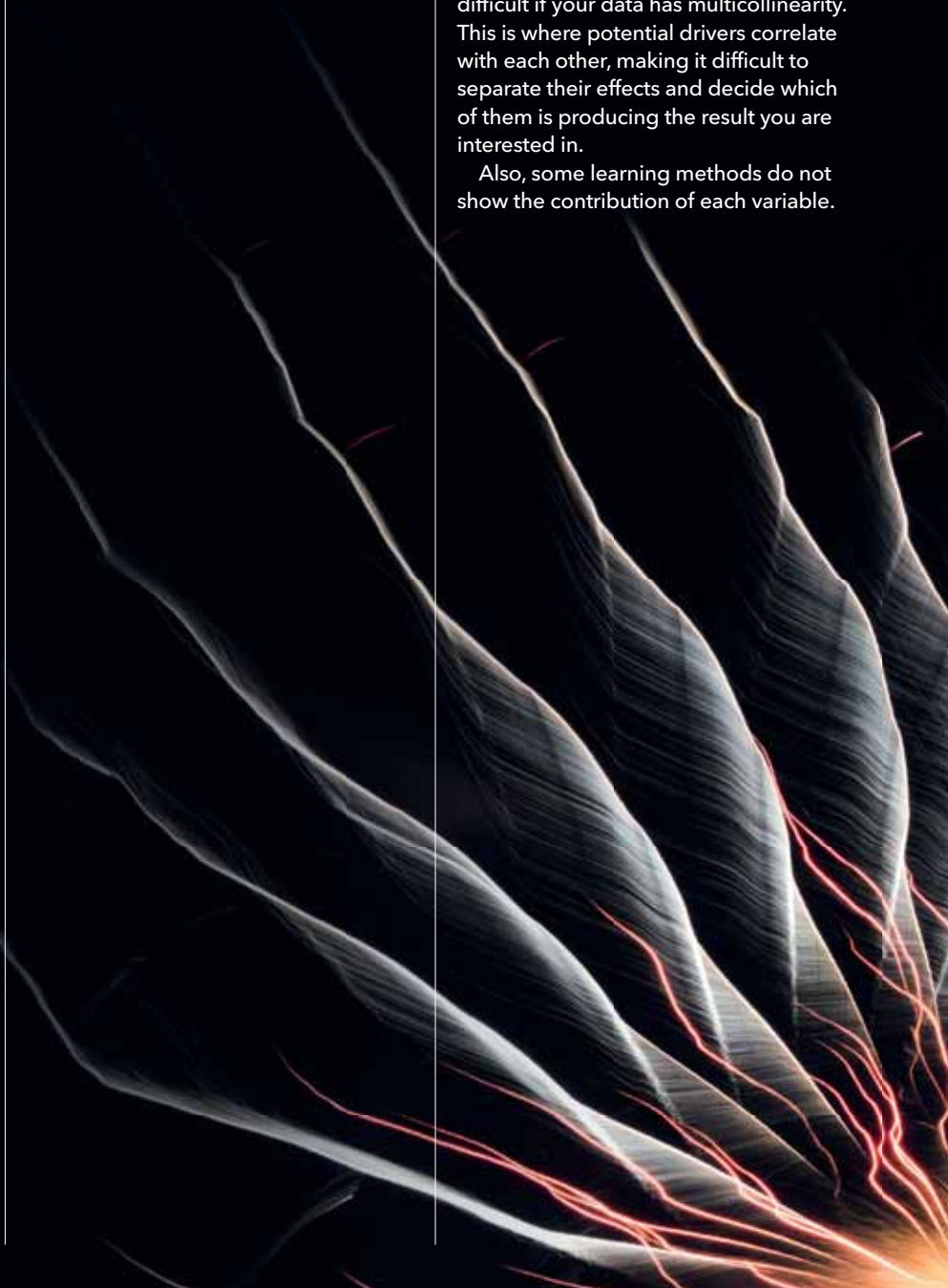
The second wave of insights comes from using regression to make

## Sometimes progress depends on what you find, what co-operation is given, and other factors that are unpredictable

predictions. This enables you to focus effort efficiently on particular cases. For example, you might be able to predict when customers are likely to leave you and so target efforts to retain them. Such predictions are usually easy because they typically use data you already collect and require no changes to procedures or special arrangements with other teams.

However, this form of analysis does not reveal which factors are the most important drivers of results. That requires much more data than just making predictions and can be very difficult if your data has multicollinearity. This is where potential drivers correlate with each other, making it difficult to separate their effects and decide which of them is producing the result you are interested in.

Also, some learning methods do not show the contribution of each variable.





Neural networks and SVMs are examples of machine learning tools that are good at prediction, but terrible at finding drivers. You cannot examine the models created for meaningful clues to the key drivers, so the best you can do is look at what difference it makes to add variables to a model. In contrast, linear regression provides coefficients and significance levels that nicely summarise the importance of each variable used.

The third wave of insights happens when you can identify which factors are the most important drivers. This might require more data, more inquiries, the right algorithms and a bit of luck. There is no guarantee that the data you capture on your systems contains any powerful individual drivers of the results you are interested in. This is a major reason why, in practice, regressions tend to perform far below their

theoretical capability.

The fourth wave of insights comes when you organise colleagues to conduct experiments rather than relying on mere statistical links, as in regression analysis. An experiment is a very specific research technique that involves randomised assignment to groups, each treated differently. This can compare the effect of the treatment with other treatments or with doing nothing special. No amount of regression can reliably quantify the value of an intervention, but an experiment can.

Persuading colleagues to be rigorous in carrying out a proper experiment may be easier if you can offer them efficient samples to work with. If you have an intervention that many people are already quite enthusiastic about and think will be effective then it is difficult to persuade people not to use it on every possible case. Conducting an experiment will require that at least some cases are left untreated so that a fair comparison can be made.

For example, suppose an organisation wants to get more customers to pay electronically. Based on just anecdotal evidence and gut feeling, most senior people are now enthusiastic about engaging a call centre to call customers and try to get them to change their payment methods. However, as this is an expensive option with highly uncertain results it might be worth doing an experiment to test exactly how much difference it makes. For that you need a call centre to call some customers, but not all of them. Some executives argue for just going ahead with all customers and not testing; others suggest only calling the customers most likely to be persuaded. Neither of these

approaches will give you an unbiased experiment, so if you use them you will not know how much difference the calls have made.

One way to compromise is to devise a method of predicting which cases are most likely to benefit from the intervention and then divide the population into groups with varying priorities. With each group, divide cases between treatment and control groups, but not equally. Do treatment more often in the high priority groups, but make sure you still have enough to provide a comparison in all groups. When you present the final results, you should see that the intervention works better than doing nothing special, and the difference is greater with higher priority groups. This is more informative as well as biasing selection towards the commercially valuable cases in a way that usually makes the overall value of the exercise greater.

Another potential problem is that the people doing the intervention in your experiment may fail to process all the items in your treatment group. If they fall short, then your sampling is invalidated. To get around this, consider randomly dividing the population into several equally sized tranches and then divide each tranche by priority as described above. This way, every completed tranche gives you valid comparisons, and the more tranches get completed the better. If a tranche is not completed then all the data from it has to be left out.

The final comparison of treated and untreated cases does not require the complex machine learning tools that are common with regression, but regression models (and good charts) can be used to squeeze more learning from your sample.

## CONCLUSION

Data science need not be a huge investment for many organisations, but some intelligence and knowledge of the technical basics is needed. Practices like combining good information graphics with algorithms, can make a big difference to productivity. By working through a natural sequence that starts with checking your data and moves on from there, you can create a pipeline of discoveries and turn them into benefits. ●

**Persuading colleagues to be rigorous in carrying out a proper experiment may be easier if you can offer them efficient samples to work with**



# GET INTO THE HEAD OF A NED

What does the world look like from the other side of the board table?

**Catherine Stalker** looks at how executives can help non-executive directors do their jobs better

Whether you are an executive or non-executive director (NED), the chances are that at one time or another you'll have found yourself in a board meeting, gazing wistfully out of the window, wishing you were elsewhere, asking yourself: who on earth decided this was a good way of leading a company? If you stop to think about it, boards are improbable constructions made up for the large part of part-time outsiders - the NEDs - who know considerably less about the business than the people they are supposed to be overseeing.

## WHAT NEDs BRING TO THE PARTY

When they work well, however, boards can be weird and wonderful. The combination of the executives engrossed in the day-to-day running of the business and the NEDs who are one step removed can be a powerful one. NEDs are often





## TURNING THE TABLES: PREPARING FOR NED-LAND

Many boards find it helpful to have a current FD or chief executive officer as a non-executive director (NED). But if you're a CFO thinking of taking the plunge, how do you go about it?

**Choose the organisation with care:** if it's too close to your own sector, there may be conflicts of interest. As a finance expert with skills that are transferable across sectors, you can explore something different.

**Consider the time commitment:** you've still got the day job but you have to commit to attending all the board meetings, not to mention the strategy days and the site visits...and the emergency meetings if there's a crisis.

**Think carefully about committees:** you're likely to be asked to chair the Audit Committee. It's a lot of extra work and you might be better to spend some time as a committee member first.

**Spend time with them before deciding:** ask to meet several board members, including executives, as part of the recruitment process. Can you work with them and is the chemistry right?

**Take the induction seriously:** you need to understand the company well in order to contribute sensibly to discussions, so don't put induction meetings off, but don't rush them either. Spread the induction out and look on the first six months as learning time.

**Prepare for the new role:** you're used to being in charge but, as a NED, you need to have an impact through influencing and gaining respect, not by being the boss. A specialist coach can help you think through the NED role and how you'll approach it.

**Don't try to take over:** resist the temptation to roll up your sleeves and get stuck into the detail - offer advice but don't be surprised if it's not always taken.

**Don't dive in too fast:** avoid talking too much, especially in your first meetings. Take the time to soak up the atmosphere and get used to the unique culture of the new board.

**Measure success:** seek feedback from the chair, if they have not offered it within three to six months.

able to see the bigger picture more clearly than the managers who live and breathe the operational detail - they can be a valuable sounding board for management to test their ideas. Additionally, they can increase clarity of thinking by requiring managers to explain coherently what direction they're travelling in and why, setting targets and regularly discussing progress.

Using their past experience and varied perspectives NEDs can also point out possible consequences down the road, steering executives away from the potholes and the cliff-edges. "I come out of every board meeting with a list of points," the finance director of an FTSE-listed company explains. "They see things through a different lens, give me new options and, by debating with them, we're able to be more certain about our strategic choices."

At the best boards, the executives value the counsel and input of their NEDs - both

in and out of the boardroom. They also appreciate the discipline that comes with demonstrating that sound safeguards and controls are in place, recognising that it helps limit the potential risks for investors, staff and other stakeholders - and the discipline of having to argue their case in front of critical friends.

## WHEN IT ALL GOES WRONG

But not all boards work well. Some executives consider their boards to be a minor irritation, a real pain or even a complete waste of time, getting in the way of the serious business of running things. It's not infrequent for them to pin problems firmly onto the NEDs. "They don't understand our business," is a common refrain, or "they have nothing to add."

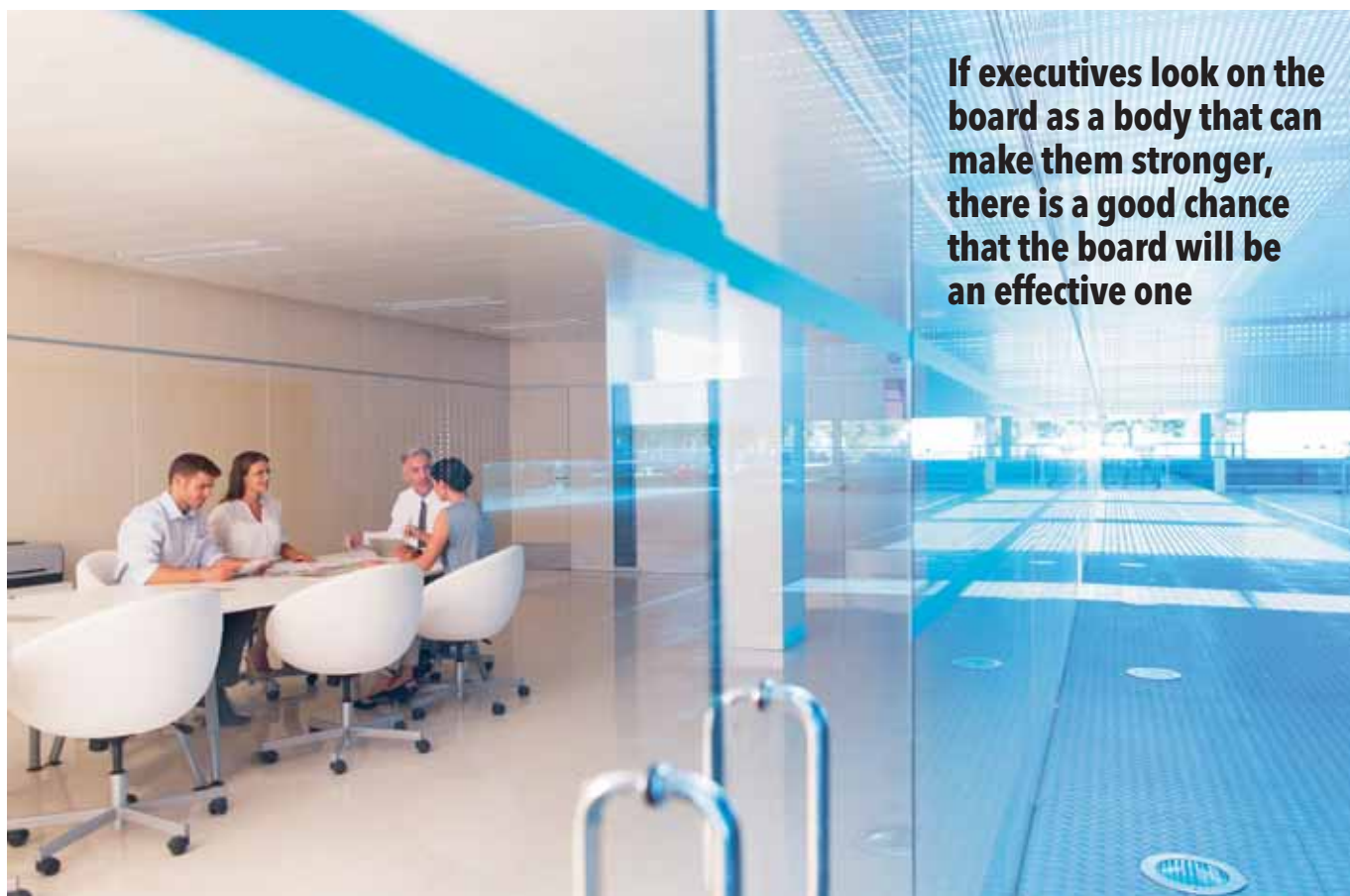
Selecting the right NEDs is the first element to get right. The board will never become a well-functioning machine if the cogs do not fit in the first place. NEDs

require relevant experience and knowledge, but interpersonal skills are important too, as is chemistry with the executives as well as the other NEDs.

A word of caution: not all NEDs need to be industry experts. Executives have a tendency to hold in highest regard NEDs who are as steeped in their sector as they are, and as a result they can be inclined to prefer those who have run a very similar business in the past.

While it is extremely useful to have a couple of NEDs who fit that description, the trouble with a preponderance of specialists on a board is that they all share the same assumptions. The danger is that groupthink will emerge as a result. Therefore many boards seek a mix, diluting the specialists with generalists who know enough to understand the essentials but are distant enough to ask the proverbial naïve questions.





**If executives look on the board as a body that can make them stronger, there is a good chance that the board will be an effective one**

### **EQUIPPING NEDs TO ADD VALUE**

Although the composition of the board is not in their gift, executives still have a major role - at least as important as the role of NEDs - in helping make the board work. The machine needs to be well oiled, and it's the executives who are the maintenance engineers. Rather than moaning that "the NEDs don't get us", executives can help them to understand with clear, structured materials tailored to their needs.

NEDs aren't involved in the day-to-day, so they need a brief reminder of the story so far, a crisp summary and a clear indication of what management wants: a decision, a steer or just a thorough early-stage debate. They don't need as much detail as management, but they do need a high-level view of the important issues.

Executives should also ensure new NEDs are provided with a thorough introduction to the business. Besides giving them a big pack of reading, find time to meet them one-to-one and make them feel welcome. Encouraging them to come in and "walk the floors" can go a long way towards building confidence and establishing positive working relationships from the outset.

If NEDs have nothing to add, it could be that they are not being given the chance to contribute. Some executive teams polish proposals to a gleaming shine before letting the board have a look, presenting them with body language that clearly shows they are firmly wedded to one outcome and will resent any attempt to prove otherwise. In these cases, even the best NEDs will struggle to contribute.

### **EVERY ACTION HAS A REACTION**

NEDs have to tread a careful line. They need to be supportive, but also challenging. They need to encourage the executives, but also hold them to account. They need to be insistent when they feel strongly, but ready to support the consensus when their arguments have been refuted. However, it is often the behaviour of the executives in the boardroom that has the biggest impact.

It's true that some NEDs can be aggressive and picky, but by the same token there are more than a few executives who quickly become defensive and dismissive, or who try too hard to control the information going to the board. If NEDs find it hard to get at the real issues, they will be forced to dig harder and challenge ever more

insistently. The behaviours feed off one another. Rather than just blaming NEDs, executives can help reset the tone. It can help for executives to become NEDs themselves elsewhere, so they understand what it's like (see the box on page 29).

A range of complex, interconnected factors affect boards, and this article has only touched on a few, albeit important ones. The vital role of chairman, for example, or the importance of informal discussions between meetings has not been mentioned. But if executives look on the board positively as a body that can make them stronger, if they put effort into equipping NEDs to have a good discussion and watch the messages they're sending with their tone and body language, there is a good chance that the board will be an effective one - and a useful and enjoyable experience for all. ●



**Catherine Stalker, partner,**  
Independent Audit  
Limited, which conducts  
external board reviews  
[independentaudit.com](http://independentaudit.com)

# TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

## EMPLOYMENT LAW



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

### MENTAL HEALTH ISSUES AT WORK

A quarter of people feel their mental health is negatively affected by their job.

The figure comes from a survey conducted by the Chartered Institute of Personnel Development (CIPD) with YouGov, which sought to measure 'seven dimensions' of job quality, one of which concerned mental health.

*UK Working Lives* was issued following the government's Taylor Review into employment and work practices, which also sought to examine job quality.

Though 64% of workers were happy with their jobs overall, 10% of survey respondents said they regularly felt miserable, while 18% were not satisfied. Of all groups, middle managers

suffered the most with mental health issues – 28% stated that their work was having a negative impact, and 35% believed their workload was excessive.

The CIPD said that employers could help to improve the situation for workers by encouraging better workplace relationships and making sure they have a "meaningful voice".

See the *UK Working Lives* report at [tinyurl.com/BAM-WorkingLives](https://tinyurl.com/BAM-WorkingLives)

### LOW UNEMPLOYMENT AND HIGHER WAGES: ONS

The Office for National Statistics has released its latest snapshot of the employment market, revealing that wages rose above inflation for the first time in 12 months.

This news was coupled with the announcement that unemployment had fallen to 4.2% over the three months to February – a low seen only twice since records were first collected in 1971.

Although average pay before tax (not including bonuses) had gone up from £469 to £483 (£501 to £513 with bonuses taken into account), some experts suggested there were still challenges around the insecure labour

market. People Management reported there were 4.5 million people working in insecure roles.

Of the 32.5 million people in work, 14.9 million men and 8.9 million women were in full-time occupations, with 2.3 million men and 6.3 million women in part-time roles; 1.45 million people are currently registered unemployed, 127,000 fewer people than a year ago.

### REDUNDANCY: DO YOU KNOW THE SCORE?

What are the rules around redundancy in the workplace? How do you ensure a fair process when job losses are on the cards?

To address this question, XpertHR has released a new podcast: Common pitfalls in managing redundancies.

The session, featuring employment law expert Max Winthrop of Short, Richardson and Forth, goes through how to make your company's employment consultations meaningful.

To access the free recording, visit [tinyurl.com/BAM-RedWork](http://tinyurl.com/BAM-RedWork)

## TAX



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### MAKING TAX DIGITAL: LATEST WEBINAR

The Tax Faculty has been running a series of webinars on demystifying Making Tax Digital (MTD). The latest recording is now available. The session clears up misconceptions on MTD for VAT, discusses start dates, looks at what kind of business is within scope, and identifies the kinds of record that will need to be kept.

A recording of the session, which was hosted by technical managers Sarah Ghaffari and Caroline Miskin, can be found at [tinyurl.com/BAM-MTDWeb](http://tinyurl.com/BAM-MTDWeb)

### TAXBITES - A NEW RESOURCE FOR ICAEW MEMBERS

Need a quick refresher on a technical topic? Then our new TAXbites series is for you.

The Tax Faculty has produced a series of short, bite-size video recordings on various popular topics that are available to all ICAEW members. Each recording lasts around 10 minutes and includes links to further support including more detailed webinars, *TAXguides* and HMRC guidance.

Our TAXbites library includes an introduction to iXBRL, the taxation of interest and dividends, fixed rate deduction rules and an overview of the residential nil rate band.

To view the list of recordings visit our webpage at [icaew.com/taxbites](http://icaew.com/taxbites)

We have more recordings lined up and would like to hear the topics you think we should cover - please contact the faculty with suggestions.

### IR35 - TAX CHANGES CREATE ACCOUNTING HEADACHE

The ICAEW Tax Faculty has written a letter to HMRC in relation to the off-payroll working rules in the public sector, to urge the department to provide clarification of the accounting treatment of fees received in the personal service company (PSC). The letter has been published as ICAEW

Rep 37/18.

Finance Act 2017 introduced changes to the operation of IR35 within the public sector. From 1 April 2017 it is now the responsibility of the end client, in this case the public sector body (PSB), to determine the tax status of individuals providing services through an intermediary, and if the contract is more akin to one of employment, the PSB must account for and pay the relevant PAYE and national insurance to HMRC.

This raises a number of difficulties when it comes to establishing the appropriate accounting treatment. In particular, it is not clear whether turnover should be recorded gross or net of the PAYE and employee's national insurance in the PSC, both of which are payable by the PSB if the work is caught within the IR35 rules.

### SOFT DRINKS INDUSTRY LEVY NOW IN FORCE

The so-called 'sugar tax' came into effect on 6 April 2018.

The soft drinks industry levy is designed to encourage manufacturers to reduce the sugar content of soft drinks, as part of the government's plans to tackle child obesity. Soft drinks manufacturers who do not reformulate their products will pay the levy, which is expected to raise £240m a year.

The rates businesses must pay are:

- 24p per litre of drink if it contains eight grams of sugar per 100 millilitres; and
- 18p per litre of drink if it contains between five and eight grams of sugar per 100 millilitres.

The legislation is in Finance Act 2017. HMRC has published detailed guidance for businesses at [tinyurl.com/BAM-SugarTax](http://tinyurl.com/BAM-SugarTax)

### TAX ABUSE AND INSOLVENCY - A NEW CONSULTATION

HMRC has published a discussion paper on the subject of tax abuse and insolvency.

In the Autumn Budget 2017 and Spring Statement 2018 the government announced that it would explore ways to tackle those who deliberately abuse the insolvency regime in trying to avoid or evade their tax liabilities, including through the use of phoenixism.

The discussion paper looks at the ways in which the tax and corporate



insolvency regimes are misused – tax avoidance, tax evasion and repeated non-payment of tax – and at potential solutions. These could include legislation, operational measures or other action.

Some powers already exist to tackle abuse of the insolvency rules to avoid paying tax, but the discussion paper says these apply unevenly across the taxes. One option would be to adopt some of these principles more widely:

- **Transfer of liability:** HMRC can already transfer liability of certain tax debts to company directors and officers in particular circumstances. This power could be extended to transfer liability to tax debts to the persons responsible for the avoidance, evasion or repeated non-payment of taxes when there is a risk the funds will be lost in insolvency.
- **Joint and several liability:** this principle would enable HMRC to hold the persons responsible for the avoidance, evasion or repeated non-payment of taxes jointly and severally liable for tax debts in the event that the company could not meet the tax debts.

HMRC makes clear that it is seeking only to target corporate bodies that exploit insolvency, and not those that enter insolvency for genuine commercial reasons.

## FINANCIAL REPORTING



### FRS 102 AMENDMENTS - PODCAST

The Financial Reporting Faculty has produced a short podcast to provide an overview of the key changes to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, resulting from the triennial review amendments issued by the Financial Reporting Council (FRC) in December 2017. It includes:

- an overview of the key changes to FRS 102;
- information on what preparers should be doing now; and
- examples of where more help is available.

You can listen to the podcast at [tinyurl.com/BAM-FRS102Pod](https://tinyurl.com/BAM-FRS102Pod)

### FRS 102 REVISED

The FRC has issued March 2018 editions of all UK and Ireland accounting standards. These editions reflect the triennial review amendments issued in December 2017, and other amendments made since the previous editions were issued.

Access the revised standards at [tinyurl.com/BAM-FRS102Pod2](https://tinyurl.com/BAM-FRS102Pod2)

### CONCEPTUAL FRAMEWORK

The International Accounting Standards Board (IASB) has published a revised version of its *Conceptual Framework for Financial Reporting* that underpins IFRS.

The Conceptual Framework sets out the fundamental concepts of financial reporting that guide the IASB in developing IFRSs. It helps to ensure that the IFRSs are conceptually consistent and that similar transactions are treated the same way.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS applies to a particular transaction.

The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, in particular the definition of a liability; and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Read the press release at [tinyurl.com/BAM-IASBRev](https://tinyurl.com/BAM-IASBRev)

### PROPOSED AMENDMENTS TO IAS 8

The IASB has published for public consultation proposed narrow-scope amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IAS 8 sets out the criteria for selecting and changing accounting policies. Companies change accounting policy either as a result of new requirements in IFRSs or when the change would provide better information for users of financial statements. When a company changes an accounting policy, it is currently required to apply the new policy as if it had always applied this policy, unless this is not practicable.

Companies may decide to change an accounting policy as a result of an agenda decision published by the IFRS Interpretations Committee. Agenda decisions explain why the Interpretations Committee concludes that there is no need to amend or add to requirements in IFRSs after considering an application question. Agenda decisions are non-authoritative but often contain helpful explanatory information about how to apply IFRS standards.

The board is proposing that in deciding how far back to go in applying a change in accounting policy that results from an agenda decision, a company will consider not only whether it is practicable but also the benefits to users and costs to the company of making the change.

See [tinyurl.com/BAM-IAS8Am](https://tinyurl.com/BAM-IAS8Am)

# ON A LIGHTER NOTE



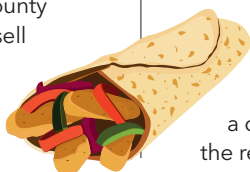
## RED HOT CHILLI PEPPER

A 34-year-old man was admitted to hospital after taking part in an eating competition in New York, where he ate a 'Carolina Reaper' chilli - the world's hottest chilli pepper at 2.2m scoville heat units, 600 times hotter than a jalapeño pepper. According to *BMJ Case Reports*, the man's symptoms started with "dry heaves but no vomiting" and later developed into "intense neck and occipital head pain". He was diagnosed with reversible cerebral vasoconstriction syndrome. Authors of the report, issued last month, said it was the first time the rare condition had been diagnosed after a patient had eaten a chilli.

## IT'S A WRAP FOR FAJITA THIEF

A former juvenile detention centre employee was given a 50-year prison sentence for stealing \$1.2m worth of fajitas. Gilberto Escamilla arranged for daily deliveries of fajita to his place of work - which does not serve fajitas - using county funds, and would then resell them to customers. The scam was uncovered after he took a day off work to attend a

doctor's appointment and failed to intercept an 800-pound fajita delivery. The supplier had carried out similar orders for nearly a decade. Escamilla pleaded guilty to theft by a public servant. After the arrest last year, District Attorney Luis V Saenz said: "If it weren't so serious, you'd think it was a comedy sketch. But this is the real thing."



## CLOSING TIME FOR 'SPOONS SOCIAL MEDIA

Last month, JD Wetherspoon closed down every one of its social media accounts on Twitter, Instagram and Facebook. The move, which affects 900 pubs, was linked to trolling, abuse of personal data, and the addictive nature of social media. Chairman Tim Martin said that they did not believe social media was "a vital component of a successful business" and encouraged customers to visit their website or speak to managers at their local pub.



**2.2m**

TOTAL SCOVILLE HEAT UNITS IN A 'CAROLINA REAPER' CHILLI

## MUSICAL ROAD DRIVES LOCALS ROUND THE BEND

In the Netherlands, a local council has agreed to remove strategically placed "rumble strips" on a road around Jeslum, a village in 2018's European Capital of Culture, Friesland. The decision was made just days after €80,000 was spent installing them. Though the strips are normally placed at the side of major roads to warn drivers when they are straying out of their lane, these ones would play the Friesland regional anthem if hit at the correct speed of 60kph (40mph) by car tyres. Locals have had enough, attributing their lack of sleep to the noise. The local authority admitted that "it wasn't such a good idea".



**\$1.2m**

NUMBER OF FAJITAS STOLEN BY ESCAMILLA

## TRIER CELEBRATES MARX

The city of Trier in Germany, otherwise known as the birthplace of Karl Marx, celebrated the 200th anniversary of his birth by issuing zero euro notes. "The souvenir plays on Marx's criticism of capitalism; the zero euro note fits perfectly with Marx as a motif," said Norbert Kaethler, managing director of Trier's tourism office. The initial round of 5,000 went within days and another 20,000 are now being printed to meet demand. The irony of the issuance for Marxism is not lost however - the bills are being sold for €3 each.



**900**

NUMBER OF PUBS AFFECTED BY JDW'S SOCIAL MEDIA CLEANSE



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