Future of audit
The audit sector must evolve or die – and the destination it has to take is clear.

Wages weigh-in
How to redress the imbalance between the incomes of CEOs and the low-paid.

Top trump
Playing the MBA card delivers gender equality trick

CPD technical Business combinations
Back to basics To blog or not to blog

Premium position
Interview: Anthony Bradley, CFO of AXA Assistance UK
Capital markets union EU seeks to deepen investment pool
Appraisals New process for a new generation
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Bigger carrots and more of them

The exploitation of the poorly paid, particularly in manufacturing-heavy economies, makes headlines from time to time, but even in countries that have some form of minimum wage, low-paid workers still struggle to make ends meet. As Living Wage Week kicks off in the UK, we look not only at the moral/ethical case for tackling in-work poverty, but also the business case and how companies can actually benefit from paying their employees more.

Sticking with the employer-employee theme, we also consider the onerous and often unpopular appraisal process. This is going through something of an overhaul in some larger entities, which are making these changes in response to pressure from Generation Y, who ‘want the love’ and the flexibility of a more agile system. It seems hard to argue with the logic of one of the contributors that ‘you don’t wait till the end of the season to give a football player feedback, you tell them when they come off the field’, but how can this be made to work in practical terms? See our feature on page 32.

Other ways in which companies go out of their way to design motivational workplaces that are not only attractive to spend time in, but also encourage new ideas to flourish are explored in our feature ‘Learning from giants’. To see if Silicon Valley’s finest can offer some tips that might translate into your business, turn to page 60.

We also look at the European Commission’s action plan for building a capital markets union to underpin financial stability and boost business. The challenge for companies seeking to raise equity has been persuading the banks to part with the cash. But it seems that the banks have yet to be convinced by the CMU proposals and that the commission will have to decide whether to use persuasion or force to achieve its goals.

Finally, we are looking at a number of hot topics outside of these pages – at Accounting for the Future, ACCA’s annual virtual global conference. Ethics, fighting fraud and becoming a successful financial professional are all themes that will be explored in depth – you’ll find more information on page 9, and via www.accaglobal.com/accountingforthefuture.

Jo Malvern, editor, joanna.malvern@accaglobal.com
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Announcing this year’s winner of the Robin Cosgrove Prize for Ethics in Finance

11/2015 Accounting and Business
On the skids
Volkswagen has admitted cheating emissions tests in the US, with in-car devices affecting results. Eleven million cars worldwide are known to be affected.

Digging deep
Embattled conglomerate Glencore is attempting to reduce its £17.5bn of debt, created by the 2013 takeover of Xstrata, by selling copper mines in Australia and Chile.

Conference call
At the Conservative party conference chancellor George Osborne, pictured at ACCA’s stand, unveiled plans to devolve power over business rates.

Sun sets on steel
Iron and steelmaking at SSI’s Redcar plant is to close, with the loss of 1,700 jobs, after the Thai parent company’s UK arm went into liquidation.
New role
Labour peer Lord Adonis is to head the newly created National Infrastructure Commission, a statutory body that will advise the government.

All aboard
The British superyacht industry’s revenue grew to £542m in 2014/15, up by 10.2% from last year, with employment up by 6.9%, according to trade body Superyacht UK.

Once in a red moon
In a rare event a lunar eclipse coincided with a ‘supermoon’. The effect was observed across the world and will not happen again until 2033.
News roundup

This issue’s stories and infographics from across the UK, as well as a look at the latest developments affecting the future of the finance profession around the world

Future of accountancy
The first of a series of reports on the future of accountancy has been published by ACCA and the IMA (Institute of Management Accountants) on The Future Today website (at futuretoday.com). The SoMoClo technologies report predicts the impact on the profession of social, mobile and cloud technologies and includes commentaries from senior finance leaders in global businesses. ACCA chief executive Helen Brand said: ‘While these converging technologies can unleash new business possibilities, people – not technology – will be central to the process. As a result, finance professionals will change and evolve.’

AI to eat audit
The audit function will either disappear or suffer large-scale job losses as the latest generation of artificial intelligence (AI) is embedded, warns accounting software provider MYOB. Its report Surviving the singularity predicts that many professional services functions will become automated. Telemarketeers, bank tellers, travel agents, retail salespeople, technical writers and estate agents are vulnerable, as well as auditors, according to the report.

Global audits on way
Corporations operating globally can expect tax authorities to co-ordinate activities and operate joint tax audits, warns a PwC report, Global tax transparency and risk management. It predicts much greater levels of financial disclosure and transparency as governments seek to improve their tax collection systems. Accountants will increasingly need to be proficient at data analysis to provide value to clients, PwC said, and corporations will need to do more to explain to communities the value of their activities.

EU audit consultation
The Financial Reporting Council (FRC) has launched a consultation on implementing the EU’s statutory audit directive. FRC chief executive Stephen Hadad said: ‘We are working closely with professional bodies to make sure the new regulatory regime works as effectively as possible.’ The changes will include bringing the 50 largest accountancy firms under the FRC’s supervision – at present just the largest 10 are. The consultation focuses on building a framework for regulatory accountability, market confidence, regulatory proportionality and the public interest.

‘Flood’ of audit tenders
A ‘flood’ of audit tenders A ‘flood’ of FTSE 100 audits will go out to tender this year, predicts EY. Hywel Ball, EY’s UK head of audit, said: ‘We expect at least 24 FTSE 100 audit tenders in 2015 alone, virtually all of which will result in a change of auditor.’ In recent audit changes, KPMG won the Experian audit, held since 2006 by PwC. However, PwC has won the audit for pharma company Hikma from Deloitte. EY is the new auditor of accounting software provider Xero in place of PwC.

Natural promoters
Accountants have an important role in promoting the concept of natural capital accounting, argues a joint report from ACCA, KPMG and Flora & Fauna International. The report, Natural capital and the accountancy profession, explains that growing interest in natural capital is driving the development of tools and frameworks for entities and advisers. These approaches will help businesses and investors to manage their impacts, risks and opportunities in relation to natural capital, says the report. See also the feature on page 38.

New board at IIRC
The International Integrated Reporting Council (IIRC) has appointed a new board of directors. Mervyn King is replaced as chairman by Barry Melancon, president and chief executive of the AICPA. Paul Druckman remains chief executive. New directors include: David Nussbaum, CEO of WWF UK; Upendra Sinha, chairman of India’s Securities and Exchange Board; Timothy Flynn, director of JPMorgan Chase and Wal-Mart; Peter Bakker, president and CEO of the World Business Council for Sustainable Development; and Helen Brand, ACCA chief executive.

Natural capital and opportunities in relation to natural capital
Accountants have an important role in promoting the concept of natural capital accounting. The report, Natural capital and the accountancy profession, explains that growing interest in natural capital is driving the development of tools and frameworks for entities and advisers. These approaches will help businesses and investors to manage their impacts, risks and opportunities in relation to natural capital, says the report. See also the feature on page 38.
Diverse boards are best
Companies with gender-
diverse executive boards
perform better than all-
male boards, according to
research by Grant Thornton
International. The research
examined performance in
India, the US and the UK, and
found that companies with all-
male boards lost $655bn last
year through a lower return
on assets. In the US, S&P 500
companies with diverse boards
outperformed rivals by 1.91%;
in the UK FTSE 350 the gap
was 0.53%; and for the Indian
CNX 200, 0.85%. See also
‘Gender agenda’ on page 74.

WCD expands
The pressure group promoting
women as board members,
WomenCorporateDirectors
(WCD), has been restructured
as a foundation to enable it to
expand. KPMG acquired the
assets of WCD and donated
them to the foundation. ‘KPMG
is making this investment
because we embrace the
WCD Foundation’s focus
on increasing boardroom
diversity and advancing
leading practices in corporate
governance – areas our
organisation is committed to as
well,’ said KPMG US chairman
and CEO Lynne Doughtie.

GT settles charges
Grant Thornton member firms
in India and Australia have
settled US Securities and
Exchange Commission (SEC)
charges that they breached
audit independence rules. A
spokesman for Grant Thornton
International said: ‘Both firms
cooperated fully throughout
the investigation, and both
have implemented additional
processes and procedures
to mitigate the risk of future
incidences.’ The SEC alleged
that ‘audit clients paid fees
to a consulting firm owned
by two Grant Thornton
Mauritius partners who served
as board members for these
audit clients’. The firms made
payments to the SEC totalling
$365,085 without admitting or
denying the charges.

FIFA audits under review
KPMG is reviewing the quality
of its audits of world football
governing body FIFA. The US
Department of Justice and the
Swiss Attorney General’s Office
are investigating allegations
of corruption. FIFA president
Sepp Blatter is the subject
of criminal proceedings by
Swiss authorities; Blatter
denies any wrongdoing.
A spokesman for KPMG
International said: ‘While the
allegations predominantly
concern activities which do
not directly impact the FIFA
financial statements, a review
of the audit work performed
by KPMG Switzerland is being
conducted in consultation with
KPMG International.’

PwC and Sage alliance
PwC has formed a global
alliance with Sage with an
eye to the SME market.
The partnership initially launches in the UK but will be extended globally. Clients will be given Sage Live social accounting software and PwC’s My Financepartner. The PwC cloud-based accounting service will combine data from a variety of systems to offer real-time insight into business performance.

S&W profits grow
Accountancy firm and tax adviser Smith & Williamson grew its operating income by 8% to £215m in the year ending April. Adjusted operating profits rose by 14.2% to £41m, reflecting a 19% margin. The firm is also an investment manager and increased its funds under management and advice by 8.7% to £16.3bn.

Excel hits 30
The Excel spreadsheet program is 30 years old. Released in September 1985, it is now part of Microsoft’s Windows 10. Its role as the workhorse of many finance departments means that its unchecked use over those three decades has been blamed for enabling, for example, the misrecording of an extra $1.3bn of income at Fannie Mae and the cover-up of massive trading losses at JPMorgan.

OECD’s final BEPS
The Organisation for Economic Cooperation and Development (OECD) has finalised its package of tax measures under the Base Erosion and Profit Shifting (BEPS) project. The measures include minimum standards on country-by-country reporting, treaty shopping, curbing harmful tax practices through the automatic exchange of tax rulings, and effective mutual agreement procedures. There is also a focus on collecting VAT revenues on digital transactions. Chas Roy-Chowdhury, ACCA’s head of taxation, expressed concern in a letter published in the Financial Times over ‘the insufficient language around dispute resolution’, saying that the new rules were likely to result in disputes.

SFO probes Barclays
The Serious Fraud Office is stepping up its investigation of Barclays Bank’s recapitalisation in 2008, seeking court approval to obtain internal bank paperwork. Barclays disclosed in its most recent annual report: ‘The Financial Conduct Authority has alleged that [Barclays] breached their disclosure obligations in connection with two advisory services agreements... The FCA has imposed a £50m fine. [Barclays] are contesting the findings. The SFO is also investigating these agreements. The US Department of Justice and US Securities and Exchange Commission are investigating whether the Group’s relationships with third parties who help it to win or retain business are compliant with the US Foreign Corrupt Practices Act.’

IFRS 9 adoption by 2018
UK banks will have to apply IFRS 9 by 2018. Paul Ebling, chief accountant at the Bank of England’s Prudential Regulation Authority, said the rules will be adopted in the UK by then, even if there is a delay in EU implementation. IFRS 9 introduces more cautious assumptions about the likelihood of losses on loans, requiring some provisioning from day one of any loan. Ebling warned the change will require higher capital buffers.

Healthcare ‘unaffordable’
Advanced nations’ healthcare systems are unsustainable without major reform, the OECD has warned. Costs are rising so fast in advanced economies that they will become unaffordable by mid-century without reforms, the OECD says in its report Fiscal sustainability of health systems: bridging health and finance perspectives. It projects that public spending on health and long-term care in OECD countries will rise from around 6% of GDP today to almost 9% in 2030 and 14% by 2060, unless governments can find ways to contain costs.

Accounts non-standard
UK local authorities’ accounts are not comparable with similar bodies internationally, according to a report from ratings agency Fitch. It claims that councils’ accounts presentation varies and some omit details in cashflow statements. ‘This may become more relevant to investors as the UK pursues plans for greater devolution and as local authority debt rises,’ said Fitch. At the end of April 2015, local government’s external debt had risen to over £100bn.

£80bn devo promise
Comprehensive devolution of powers to city regions would unlock investment of at least £80bn, according to the Local Government Association (LGA). A total of 34 cities, towns and counties in England have submitted devolution proposals. The LGA said handing over responsibility for £60bn of central spending to local authorities would enable efficiencies and other productivity improvements, such as wider broadband coverage, better congestion management and locally relevant skills training.

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<thead>
<tr>
<th></th>
<th>Deloitte</th>
<th>EY</th>
<th>PwC</th>
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<td>Global revenues</td>
<td>US$35.2bn</td>
<td>US$28.7bn</td>
<td>US$35.4bn</td>
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<td>Change in the year</td>
<td>+7.6%</td>
<td>+11.6%</td>
<td>+10%</td>
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<td>Global head count</td>
<td>225,000</td>
<td>212,000</td>
<td>208,000</td>
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<tr>
<td>Change in the year</td>
<td>+62,000</td>
<td>+23,000</td>
<td>+53,000</td>
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Bank resists NAO scrutiny
The Bank of England is unhappy with government proposals for the National Audit Office (NAO) to subject it to a value-for-money review. Anthony Habgood, chairman of the Bank’s court of directors, said he was ‘uneasy’ about the proposal, with the Bank fearing that the move could undermine its independence from government.

Hodge heads tax group
Former chair of the House of Commons Public Accounts Committee (PAC) Margaret Hodge is heading a new all-party parliamentary group on responsible tax. The group will consider how parliament can create a fair, sustainable and transparent tax system. Another former PAC chair, Conservative MP David Davis, is a vice chair, along with Labour peer John McFall, who was chair of the Treasury Select Committee. The third vice chair is Conservative MP Richard Bacon, a sitting member of the PAC. The group is backed by the CBI, Oxfam and Action Aid.

Embrace ‘trust economy’
PwC UK’s chairman and senior partner Ian Powell has urged businesses to learn from the ‘sharing economy.’ ‘An important development on trust is the advent of the sharing economy, where individuals can create a fair, sustainable and transparent tax system. The new sharing economy, where individuals can experience with an entire world allows individuals to learn from the ‘sharing economy.’

SME dividends rocket
SMEs paid out 63% of profits as dividends last year, up from 46% the year before, according to research by Moore Stephens. It attributed the rise to business owners’ concerns that taxes might rise after the general election: ‘SME owners expected a future government to raise taxes on business. With this in mind, many owner-managed businesses chose to extract money from their business rather than retain or reinvest.’ Total dividend payments made by UK SMEs rose 61% to £17.5bn last year, up from £10.9bn the year before.

Recording rules breach
The financial services sector is breaching social media compliance rules, according to archives manager Smarsh. Its How do UK and US financial services compare on e-communications compliance? report says 58% of UK finance companies (34% in the US) don’t meet their obligations to keep records of social media communications.

Bain tops consultant pay
McKinsey and Boston Consulting pay the highest average salaries to consultants, but Bain is the highest payer once bonuses are included. Average salaries at Bain are £75,000, but a consultant can expect to earn £28,000 in bonuses. At Boston Consulting, average salaries are higher at £82,000, but bonuses are much lower at £15,500. McKinsey also pays an average salary of £75,000, with bonuses typically of £9,000. The pay figures were compiled by Emolument.com.

‘Soft skills’ key
Strong leadership skills are the most important factor in achieving success as an accountant, a survey by Robert Half reveals. Some 60% of finance professionals surveyed cited leadership as the most important attribute, followed by strong technical skills (47%) and effective communication (33%). The greatest challenge, according to 42% of those surveyed, is managing stress.

SME rate-relief ignorance
Some 45% of owner-managed businesses are unaware of small business rate relief, a study by Bank of Cyprus UK has discovered. The bank has called on the government to work to raise the awareness of rate relief. Until next March in England, non-domestic properties with a rateable value of £6,000 to £12,000 are eligible for tapered relief up to 100%, while properties with a rateable value of £6,000 or less are exempt.

UK falls in league table
The UK has fallen to 19th, from 16th last year, in the league table of international competitiveness. The US remains top, with Hong Kong rising from fourth to second. Singapore remains in third place, while Switzerland drops from second to fourth. The ratings were put together by the IMD World Competitiveness Center.

Compiled by Paul Gosling, journalist
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Premium position

Anthony Bradley FCCA, CFO of AXA Assistance UK, attributes the company’s rising revenues to building lasting relationships with its partners.

There seems to be a rather pleasing element of irony in the career of Anthony Bradley. He has risen through the ranks of the finance team of a company built on helping people in times of crisis. And yet his progression appears to have been the very essence of serenity, the very opposite of drama. From temporary accounts assistant to CFO in 13 years at AXA Assistance UK is an impressive career trajectory – helped no doubt by passing all the ACCA exams first time, as well as getting involved in the business from the start.

From early on in his career, Bradley would attend client meetings with underwriters who managed claims for AXA Assistance; the purpose of the meetings was to discuss the performance of the book. He had responsibility from an early stage for local pricing of underwriting: ‘Most of our revenue comes from underwriting premiums,’ says Bradley. ‘I would be the first point of contact in the UK for pricing the underwriting.’ And that is one of the big challenges: the profit margins are quite tight because AXA Assistance sits behind brokers rather than selling direct to consumers.

AXA Assistance must have recognised it had a bright talent, and indeed Bradley has been part of its fast-track leadership group, which included having a mentor. ‘I was very diligent when I started all the course work and the exams, and I worked out what I actually had to do to pass them.’ Instead of scores in the 80s, he settled for scores in the 50s. ‘It was about getting through. Clearly in real life you don’t have to do everything from memory and without the books.’

As deputy CFO, Bradley became more involved in commercial and operational types of finance, working with the operations team to ensure adequate resource levels and appropriate cost structures. That included considering how to structure deals to make them as attractive as possible to customers.

Partnering up

It seems to be working. Bradley is expecting significant growth in the top line from £130m in 2014 to £160m in 2015. ‘In the past 10 years that I have been here, it is fairly unprecedented.’ He reckons the business has doubled since 2007 – when he first became close to the overall accounts – which suggests a healthy increase over the last seven or eight years. Bradley attributes the increase to building long-term relationships with AXA Assistance’s partners, who are typically on two- to three-year deals. For instance, Swinton Insurance has worked with AXA Assistance for as long as Bradley has been with the company. And that tenure is outshone by the Co-operative Insurance’s 25 years. ‘This year we retained every single client that was up for renewal, and that makes a big difference.’

Whatever the year-on-year figure, home and motor accounts are the bread and butter, accounting for over 80% of that turnover. And it is a mature market. As Bradley notes, the...
Basics

AXA Assistance UK is owned by the AXA Group, the second largest insurer in the world. Its insurance top products are motor breakdown and home emergency. Other segments include legal insurance and excess, typically attached to motor policies. They insure on a business-to-business basis, providing wholesale rates to brokers who sell AXA policies.

35
Number of years in business

£130M
2014 revenues

430,000
Number of cases managed each year by its 400 staff (UK and Ireland)

Tips

‘Know your numbers (including what clients are driving which business lines and generating which profits) and know your cost structure so you can price correctly.’

‘Make sure you know what is going on in the business outside finance. Don’t just have a finance mindset; know what interests the sales and commercial teams. In our world, finance sits between client demands, operational demands and profit demands. Finance should accept it has to manage the natural tension between those three elements.’

‘Keep calm when things don’t go to plan; keep working through focusing on what has to be done. Unexpected events can work out in your favour if you don’t panic.’

‘Brand and quality still count. If it was just about price, the market leader would be the cheapest, and the AA and RAC are not the cheapest.’

AA and RAC have been doing their stuff since people have been driving. What has changed is how customers source the product. ‘We are at the stage where the digital world is starting to become much more relevant, and that will have an effect on how this business is sold and managed.’ Customers are now buying through the laptop, tablet or smartphone, and could soon be making claims in the same way. ‘Today the claims process looks similar to how it did 15 years ago. A customer calls in and the claim is logged on the system. But now there are many more ways to interact with a customer, and we are keen to stay ahead of the game.’

The company does support some activity on price comparison websites, but it is not a major route for premium generation for AXA Assistance. ‘It is not just about price: brand and quality still count. If it was just about price, the market leader would be the cheapest, and the AA and the RAC are not the cheapest.’

In the rhythm
While the business is removed from the cycle of mainstream insurance, it does have its own seasonal rhythm. Summer is different from winter, with most claim activity happening between October and March, particularly in home assistance where broken-down boilers feature. Bradley recalls November-December 2010 when there was ‘a solid month of snow, and that has an impact. A milder, damp winter means we would have a better [financial] year.’

Profit is partly driven by scale, which enables the cost structure to become more efficient and allows the organisation to deal with the natural peaks and troughs of activity. ‘Our margins stay roughly the same, so more revenue means more profit.’

Ask Bradley about the key performance indicators (KPIs) he uses as CFO to manage the business, and you receive an unhesitating response. ‘The first thing we look for is how many claims we have and how much they have been costing. The claims come through quickly, so we can see variances emerging rapidly.’ A rolling forecast keeps the business on track. Starting at a high level, he will drill down if the figures are not as expected. Accounts are on Sage, although a group-wide review is under way, and yes, a lot of analysis happens via spreadsheets. The industry had experienced higher-than-expected motor breakdowns in July, and Bradley was figuring out whether it was ‘just one of those things’ or something specific driving the unexpected numbers.

The company is keen to ensure that when a customer buys a policy it meets their expectation. This means relaxing rules – for instance around age restrictions on insuring old boilers – and that in turn could lead to higher costs and complexity, as finding spare parts for older models is harder.

Other KPIs centre around the cost of meeting agreed standards of service with clients over how AXA Assistance services the claims from customers. Bradley also takes an interest in »
Advisers, don’t ignore the Workplace Pension

Whether you’re a bookkeeper, a financial adviser, or an accountant, a change in the law means that your clients may ask you about workplace pensions. Get ready to help your clients prepare for automatic enrolment and meet their duties.

Find the information you need to answer their questions at www.workplacepensions.gov.uk
There are people who have been here longer than me but not many have been here throughout their career.

Within the management accounting team, AXA Assistance has five people who are qualified or training, either ACCA or CIMA. The company likes a balance, says Bradley, so that exams don’t all fall at the same time. His exams fell at the same time as year-end reporting, so it was personally a busy period – one day to celebrate the end of the exams, then back to the day job. He considered training in a firm – he was looking around the time of Enron and the collapse of Arthur Andersen – as well as positions in business. However, through a family contact he heard of an opening at AXA Assistance. ‘At that stage I wanted to train as an accountant and see where that led.’

Reflecting on his one-company career, he acknowledges it is unusual these days. No doubt the headhunters have been on the phone; Bradley doesn’t directly answer that one rather saying:

‘There are people who have been here longer than me but not many have been here throughout their career.’

ACCA leg-up

Bradley acknowledges that the ACCA Qualification has been core to his progression. As well as the accounting background and the technical skills he has gained – although he had to make some adjustments for his world of insurance – he says it is wider than that, with a perspective on commercial, management and risk that has helped him in his job as he has become more senior in the organisation and adopted a wider role. He recalls when he first became financial controller in 2007 and three employees – half the team – resigned in quick succession, all for different reasons. ‘I did not take it personally, but it was “Oh no, not another one”. But we did build a stronger team in the end.’

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Within the management accounting team, AXA Assistance has five people who are qualified or training, either ACCA or CIMA. The company likes a balance, says Bradley, so that exams don’t all fall at the same time. His exams fell at the same time as year-end reporting, so it was personally a busy period – one day to celebrate the end of the exams, then back to the day job. He considered training in a firm – he was looking around the time of Enron and the collapse of Arthur Andersen – as well as positions in business. However, through a family contact he heard of an opening at AXA Assistance. ‘At that stage I wanted to train as an accountant and see where that led.’

Reflecting on his one-company career, he acknowledges it is unusual these days. No doubt the headhunters have been on the phone; Bradley doesn’t directly answer that one rather saying:

‘There are people who have been here longer than me but not many have been here throughout their career.’

ACCA leg-up

Bradley acknowledges that the ACCA Qualification has been core to his progression. As well as the accounting background and the technical skills he has gained – although he had to make some adjustments for his world of insurance – he says it is wider than that, with a perspective on commercial, management and risk that has helped him in his job as he has become more senior in the organisation and adopted a wider role. He recalls when he first became financial controller in 2007 and three employees – half the team – resigned in quick succession, all for different reasons. ‘I did not take it personally, but it was “Oh no, not another one”. But we did build a stronger team in the end.’

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Growing the funding flow

Europe needs stronger capital markets to attract investment, for SMEs in particular, and to stabilise the financial system. But will the banks play ball?

Much needed economic growth in the European Union is most likely to come from unlocking the potential of its medium-sized companies. But these businesses are often stymied by a lack of access to capital. According to the CBI, 35% of UK medium-sized companies view access to long-term capital as their main barrier to growth. It is a similar picture across Europe. The European Commission last month published its action plan on building a capital markets union to help overcome the difficulties in accessing finance and the way the market functions. It was welcomed by ACCA as ‘going in the right direction’.

While comparisons are odious, it is clear why that action is needed. According to the commission’s research, if the venture capital markets in the EU were as deep as they are in the US, up to €90bn of funds would have been available to companies between 2008 and 2013. And the thinness of the EU capital markets is illustrated by the fact that only 3% of small and medium-sized enterprises (SMEs) across the EU raised equity finance between April and September 2014. What’s more, if SME securitisation could make a safe and modest return – the market fell off a cliff when the credit freeze and financial crisis took hold – the commission thinks that could add another €20bn in funding.

Stabilising the financial system
To address these weaknesses the commission is proposing to construct a capital markets union by 2019. Stronger capital markets, the commission says, would complement banks as a source of financing. Not only would capital markets union unlock greater investment for corporates and attract more investment into the EU from the rest of the world, it would also make the financial system more stable by opening up a wider range of
funding sources. The commission says it wants to make the investment chain – the link between investors and borrowers – as efficient as possible, both nationally and across borders. See the box on this page for the action points.

ACCA has identified four types of company that would particularly benefit from capital markets union:
* young and informationally opaque businesses
* fast-growing, innovative SMEs relying heavily on intangible assets
* internationalised SMEs
* SMEs experiencing sudden credit-rationing from suppliers.

With a decades-long trend for advanced economies to build intangible rather than tangible capital, the providers of debt finance, and banks in particular, would find it hard to fund such assets under their current business models.

Richard Martin, ACCA's head of corporate reporting, says: ‘The changing nature of public and private capital means that it is extremely difficult now for businesses to finance growth by debt. Other types of finance, including quasi-equity and mezzanine finance, need to fill this gap. Financing today's technology-based businesses is typically only possible through equity. This channel of funding should assume a greater role in the European Commission's financing strategy.’

Evolution, not revolution
Martin warns against pinning high hopes on capital markets union bringing about radical change. He sees evolutionary change, some of which looks set to affect accountants. Part of the push to improve information could see a common accounting framework. The EU may have introduced International Financial Reporting Standards (IFRS) for large quoted companies on so-called regulated markets, but not for companies quoted on secondary markets. Although some smaller markets such as AIM in the UK do require accounts to be prepared under IFRS, it is not an EU-wide regulation.

Martin says there is a case for such a move. In terms of improved information, he says there could be ‘a package of credit information for SMEs’, which could act as a passport to access finance across the EU. The prospectus regime could be improved by streamlining the approval process and simplifying the financial and other information included. Other changes – such as harmonising tax regimes on, for example, dividends and withholding tax – could politically prove to be a crossborder step too far.

According to Jonathan Hill, the European commissioner for financial services, the aim of the capital markets union is to complement Europe’s tradition of bank financing, not replace it. He believes that bank lending will remain vital for the EU economies, especially for small businesses and local infrastructure projects. In a speech in September, he said: 'I am excited about the contribution that a bigger role for capital markets in the European economy could make to growth, increasing funding options, giving retail investors more opportunities, and making the economy more resilient. Capital markets union is vital for growth.'

Capital markets union
Five short-term action points:
1. Encourage high-quality (safe) securitisation in a bid to free up bank balance sheets so that banks can lend.
2. Revise the prospectus directive to make it easier for businesses (particularly smaller ones) to fund-raise and reach crossborder investors.
3. Consult on a pan-European framework for covered bonds using national market knowledge and based on high-quality standards and best market practices.
4. Consult on venture capital to see if regulations can be changed to make it easier and more attractive for private savers to invest in unlisted SMEs.
5. Encourage take-up in European long-term investment funds to channel finance into infrastructure and other long-term projects.

Attitude problem
The role and attitude of banks are crucial here – and perhaps the biggest barrier. The commission has to decide whether to cajole them into taking part or to force them. Banks have their fears. In September, Georg Fahrenschon, head of the German Savings Banks Association, said that while the project made sense it should not come ‘at the cost of traditional bank financing’. He added that most capital market instruments, such as corporate bonds, are ‘too expensive for the important Mittelstand players’ – those SMEs that are the backbone of the German economy.

Martin says that accessing credit from banks is still a largely national business with good reason – common language, culture and business practices, with banks happy they understand the country-specific risks. That could be hard to overturn quickly, as could dealing with the hotchpotch of national legislation in areas such as insolvency proceedings.

On the other hand, pressure is growing to get on with it. François Villeroy de Galhau, formerly number two at France's biggest bank BNP Paribas and now a top French government adviser, said in September that measures on securitisation should happen in 2016 or 2017, not 2019.

Plenty is heard about the free movement of labour around the EU, much less about the free movement of capital. However, the latter was enshrined in the Treaty of Rome, which created the six-member European Economic Community in 1958 that has evolved into today's 28-member EU. The challenge is to overcome 50 years of fragmentation, moving away from capital markets that are still mostly national and basic.

Peter Williams, journalist

For more information:
See the European Commission's action plan for capital markets union at bit.ly/EUCapMark
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Garbage in, garbage out

Using data analytics in audits offers many benefits and solutions, but we must not become overwhelmed by the constant flow of real-time information, warns Jane Fuller.

It is hard to go anywhere in the auditing world these days without having the virtues of data analytics impressed upon us. Presenters purr over the potential of data analytics to crunch huge quantities of real-time information, spot trends and anomalies and turn them into visual displays. All this will free up auditors from tedious tasks and make the profession more attractive to the ‘digital natives’ that everyone wants to recruit.

A white paper by the American Institute of Certified Public Accountants (AICPA), Reimagining Auditing in a Wired World, holds out the prospect of continuous monitoring of data and an ‘evergreen’ audit opinion: always available and catering for green stakeholders and any other lobby group seeking assurance. Audit teams will have fewer accountants (apparently this is to be celebrated) and more ‘specialists’ in statistics and data analysis. Perhaps analysis in the general sense, which takes in external pressures and human motivation, will be old hat.

Before joining other generalists in jumping off the nearest bridge, my professional scepticism kicked in. This was partly prompted by the AICPA hype itself: if some of the mundane tasks are outsourced to ‘solution providers’ utilising cloud computing, there are ‘clearly confidentiality, privacy, and independence challenges’. As a pre-digital wag observed, every silver lining has a cloud.

My doubts were strengthened by another report: Uses and Abuses of Discount Rates – a Primer for the Unwary. Published by Long Finance and written by Nick Goddard, a scientist and engineer with experience in industry and government, it is a timely reminder of the limitations of whizzy computer modelling.

Goddard points out that in mathematical models, the sums are likely to be accurate; it is the input assumptions that may be dodgy. Writing about discounted cashflow (DCF) valuation techniques, he spins the old adage about garbage in, garbage out into a new acronym: GIMAGO. The MA stands for massively amplified. So, while data analytics may work wonders with inputs that are certain, it cannot substitute for human judgment where the inputs are uncertain.

Accountants have to grapple increasingly with such judgments. This is not to say that a mega-ability to count and to analyse statistics is not extremely useful – just that it tells only part of the story and it does so in an indiscriminating way. That last point might sound like a virtue but, at their core, both management and auditing are about judgment.

Another concern is that the excitement about data analytics chimes with the modern habit of spending too much time staring at screens of all sizes, updating work and social information and re-running computer programs. In auditing, some things – property, stores of expensive inventory – have to be seen to be believed. And some humans need to be looked in the eye to be believed.

But there’s another thing. It is easier to keep busy – and appear diligent – by constantly reacting to real-time information. The demands of the ‘wired’ age make it even more difficult to stop and think. But think we must, in particular about what exactly is being fed into the analytics, by whom and why; and what the analytics do not cover.

Jane Fuller is a fellow of CFA UK and serves on the Audit and Assurance Council of the Financial Reporting Council.

For more information:

To read Reimagining Auditing in a Wired World visit bit.ly/aicpa-wired

Uses and Abuses of Discount Rates – a Primer for the Unwary is available at bit.ly/aicpa-wired
Under the rulebook cosh

Let’s not be railroaded by the Volkswagen scandal and the upcoming EU audit directive – a reliance on principles, not rules, is key to a healthy corporate culture, says Robert Bruce

It is a delicate line, not to say a bit of a tightrope walk, to ensure that regulatory forces do not crush efforts to maintain a useful and pragmatic culture in the field of corporate governance.

We are seeing examples of this in the run-up to the implementation of the EU’s audit regulation and directive in July next year. And the recent Volkswagen scandal has overturned one of the world’s most secure and admired corporate reputations simply because regulations and rules were gamed for potentially huge commercial gain.

In a complex world these tensions will always exist. But it is clear that holding the line between creating a corporate culture built on principles and one that is made up of rules that are capable of producing, at best, unintended consequences and, at worst, potentially criminal behaviour is becoming harder.

Recent pronouncements from the Financial Reporting Council as it revises ethical and auditing standards, the UK corporate governance code and its guidance on audit committees – in part to take the forthcoming EU directive into account (see also ‘Technical update’ on page 52) – have repeated the mantra of it being a principles-based regulator over and over again. It sees the principles route, rightly, as the way to build a corporate culture that, in short, does the right thing. But it is hard work when even a Volkswagen, previously the gold standard for corporate reputation, is currently stretched out in the diesel-polluted mud.

As Stephen Haddrill, the FRC’s chief executive, underlined when it published the latest, and final, consultation ahead of EU implementation: ‘The audit regulation and directive is large and complex. We are working closely with professional bodies to make sure the new regulatory regime works as effectively as possible. We must ensure that it builds on the progress made in the UK in recent years in terms of the quality of audit, that competition in the audit market is strengthened in a way that supports innovation, and that the regulatory regime that emerges provides confidence to investors and to firms by being fair, understandable and independent.’

Standing firm

Ensuring that the quality of audit and the confidence of investors remain standing after the introduction of a complex directive is a difficult task. This is where the efforts at standing firm have to be made to work as best they can. But they also have to work in an environment where other cultures and regulatory regimes jostle together across global borders and can also produce results that are problematic or unwelcome.

At the recent annual open meeting of the FRC, Haddrill was asked about this and about how successful the FRC was at outreach work in Brussels and, in particular, in the US. He was asked to explain the UK regime, emphasise how it worked, and why it was so useful. And also how it might create a bit of a catalyst for change elsewhere.

He said: ‘The US does sometimes have a tendency to have a rather inward-looking view and to think it will do what it wants to do and the rest of the world can follow, so it is incumbent on the rest...’

Robert Bruce is an accountancy commentator and journalist

Podcast

Hear Robert Bruce’s podcast on the regulatory environment at www.accaglobal.com/ab/podcasts

Accounting and Business 11/2015
of us to explain the value in what we do. I think it is true and that, recently, some of the measures we have adopted such as audit retendering and rotation in Europe are going to have quite an impact on the US market as well. I certainly do not apologise for that. I think it perhaps will help open some doors.’

Culture failure
Meanwhile, the Volkswagen debacle is likely to have longer-term effects. It is not just the motor industry that is coming under scrutiny. It will also be the corporate governance structures that seem, in this case, to have fallen apart. The culture was seen as strong, but the political and commercial aspects were stronger. And the problem, at least in the German corporate world, is that no one wants to rock the boat. So structures build up to accommodate this, a veneer of partnership covers it all, and any hope of openness evaporates.

In a recent speech the FRC chairman, Win Bischoff, summed it up: ‘We saw what appears to be a major governance failing at VW.’ And his conclusion? ‘It seems that the pursuit of revenue was championed in part of the organisation in setting a culture where honesty and customer satisfaction were prioritised.’

The problems are deep-seated. Richard Sheath, a partner with corporate governance specialist Independent Audit, says: ‘In UK companies, a more informal board culture with a well-recognised responsibility to challenge management and hold them accountable might stand a chance of surfacing control and culture flaws – though that’s still a tall order.

‘In Germany, the tight control of the executive board has to be counterbalanced by a supervisory board, which often will be more formal than in the UK, and complicated by vested interests of controlling shareholders and representatives of other interest groups that might undermine the independence needed to actively question norms and management.’

So the rigidity of the governance systems and corporate structure will have contributed to the company’s downfall. A formal process of reform may follow. But the way that social change may lead informally to reform should not be underestimated.

Speaking at the 13th Building Public Trust awards, the chairman of PwC in the UK, Ian Powell, suggested the way that change is heading: ‘An important development on trust is the advent of the sharing economy, where individuals may trust strangers more than they trust institutions. The new sharing world allows individuals to corroborate information and experience with an entire community of straight-talking providers of feedback, people like themselves, in order to check authenticity.’

And this is one way to take the problematic middle ground between regulators and a better corporate culture out of the equation.

As Powell went on to say: ‘There is no intermediary or corporate filter. Organisations that are able to embrace and engage authentically with the sharing economy will grow trust.’ There may be many ways of getting there but in the end this is all about ensuring that the setting of rules does not overwhelm all the efforts to build a better and more effective corporate culture.
Asset-rich, portfolio-inept

The government’s amateurish management of its massive financial sector assets inspires little optimism that it can make anything like a success of its rush to divest.

At the Conservative Party conference in October, George Osborne, the chancellor, announced the government sale of Lloyds Banking Group shares in what he described as ‘the biggest privatisation for more than 20 years’. But the anticipated £2bn sell-off of the state-rescued bank is a drop in the ocean compared to the vast haul of assets and liabilities that the British government has on its books.

The National Audit Office has done a great piece of national stock-taking by collating information on the various financial institutions owned by the government and casting a critical look at the way it manages these assets, which are worth billions. The NAO has also drawn some critical conclusions on the government’s portfolio management skills.

Excluding the tiddlers and those managed by local government, social housing and those based in Scotland, Wales and Northern Ireland, the number of government-controlled financial institutions has doubled to 54 since 2007. In addition to its stakes in banks, the government has created a range of financial institutions to address specific market failures in sectors such as housing, student loans, green energy and small business lending.

The accounting for these billions is inconsistent. For instance, some institutions are seen as purely administrative vehicles and so don’t report fully the assets and liabilities in their own financial statements; instead, the accounting happens in the sponsoring department’s financial statements.

In the institutions, the NAO calculated the total asset value as £222bn, although it is also worth pointing out that the government’s exposure to the financial sector, measured by public sector net debt, was over £2 trillion as at February 2014.

The government plans to sell off assets, which the Office for Budget Responsibility estimates will bring in £62.6bn. These assets are: a portion of the student loans portfolio; the remaining shares in Lloyds; a portion of the mortgage portfolio in UKAR (what’s left of Bradford & Bingley and Northern Rock) and a proportion of its RBS shares.

Student loans are an example of a financial institution created by government. And what a monster. The NAO notes politely that ‘the student loan book is an increasingly important and material feature of the government balance sheet’. The total value of student loans is expected to reach £100bn by 2018; of the £64.1bn lent to date, the government expects to recover £42.2bn. You just have to know a few students rather than be a complete doom-monger to suspect that the recovery rate won’t improve. Sell-offs may give some windfalls but they could be matched by some big black holes.

The numbers suggest this area can’t be left to sort itself out. Financial institutions are becoming significant elements on the government balance sheet, creating opportunities and risks. The problem is that no one part of government is getting an overall grip. A portfolio management approach is needed alongside the traditional departmental oversight model.

Some of these institutions seem to have outlived the market conditions they were created to address, and the rationale for their existence in the public sector is dubious. The government’s plan to accelerate its asset sale programme is unprecedented in scale and aims to reduce its exposure to the financial sector. To do it well will require clear thinking and good management. But the record to date suggests at best a piecemeal approach, at worst a muddle.
Adapt to survive

Small and medium-sized practitioners face many challenges, but if they are to have the best chance of success they need to be versatile, says ACCA president Alexandra Chin.

When I became president I outlined my priorities for the year ahead. As someone who has worked in practice since 1986 and having had my own accounting practice in Sabah since 2006, one of the issues I want to focus on is our members who work in small and medium-sized practices (SMPs). It’s a critical area in which many thousands of ACCA members are engaged on a daily basis.

The sector faces a number of issues, not least the ongoing problem of unqualified accountants. It still mystifies me that people are quite happy to hand over their business affairs to someone who is not a professional accountant.

We are continuing to raise concerns and issues over the blight of ‘unqualifieds’, as long as the term ‘accountant’ remains unprotected by law in most jurisdictions. It is important that SMEs understand the importance of using finance professionals, not simply to ensure that they produce reliable accounts, but also to understand how they can reach their full potential and create wealth and employment opportunities, and ACCA will continue to work to raise that awareness.

But it is also vital that practitioners understand what they need to do to successfully compete for new clients. Recent research by ACCA, the Institute of Singapore Chartered Accountants, Corpul Expertilor Contabili si Contabililor Autorizati din Romania, the Malaysian Institute of Accountants, the Chinese Institute of Certified Public Accountants and the Vietnam Association of Certified Public Accountants resulted in the report The global SMP business model survey: understanding a changing profession. The responses showed that deregulation, rising audit thresholds and the rise of social, mobile and cloud technologies have had a great impact on the sector.

The conclusion was that SMPs with a core technical skillset who were prepared to be versatile had a better chance of survival, particularly as deregulation has led to a shift away from a reliance on assurance to compliance. The survey showed that SMPs in more competitive markets offered five more types of service than those with fewer rivals.

The research also highlighted another issue – and one that I found concerning – that almost a third of SMPs have no succession plan in place. The risk that this entails is something that everyone in small practice needs to consider as a priority to ensure that we can continue providing services and support to our clients.

Alexandra Chin runs her own practice in Sabah, Malaysia.

For more information:
To download The global SMP business model survey: understanding a changing profession, visit www.accaglobal.com/uk/smp
The way SMEs handle the accounting treatment of foreign currency transactions is about to change in a significant way. There could be trouble ahead as FRS 102 comes into effect for small and medium-sized entities in the UK for accounting periods beginning from 1 January 2016. ‘When listed companies moved over to International Financial Reporting Standards (IFRS), there was absolute carnage,’ says Steve Collings FCCA, who has been writing books about accounting standards for years. ‘People didn’t see what was involved in that transition.’

Collings is worried that the shift to FRS 102 could produce similar chaos, especially when it comes to foreign currency translation. The problem starts with the fact that smaller companies will need to operate under one of three somewhat different regimes: medium-sized businesses (up to £36m turnover, £18m balance sheet total, 250 employees) using standard FRS 102; smaller companies (turnover £10.2m, balance sheet total £5.1m, 50 employees) using FRS 102 with reduced disclosures; and micro-entities (turnover £632,000, balance sheet total £316,000, 10 employees) following FRS 105.

‘This is going to be a bit of a nightmare for some smaller companies,’ says Collings. ‘If you’ve got a small company without a structured finance team, it’s going to be a particular challenge.’ The fundamental problem, Collings explains, is that if smaller companies want to continue accounting for foreign currency transactions in much the same way as they have been under the Financial Reporting Standard for Smaller Entities (FRSSE) – which tends to reduce volatility in the profit-and-loss account – they will need to use hedge accounting.

‘There are complexities in the documentation required, and this needs to be in place before placing the hedge, which is challenging, unless you have a partner who provides this service,’ says Greg Smith, head of corporate dealing at WorldFirst.

Earthquake in accounting standards

This earthquake in accounting standards is all part of the Financial Reporting Council’s desire to move UK GAAP closer to IFRS. The greater emphasis on hedge accounting is one of the consequences of that. But that, in any event, just recognises reality. In a forward foreign exchange (FX) contract, there is a derivative financial instrument that acquires its value from changes in its underlying FX rates. ‘Under FRS 102 for smaller companies, you have to recognise the derivative on the balance sheet,’ says Collings. ‘That didn’t happen under FRSSE because everything was accounted for on settlement.’ But FRS 102 requires derivatives to be recognised on the balance sheet.

It is this thinking that is behind the change that could end up causing the most problems. When a foreign exchange transaction takes place, it must be accounted for using the closing rate of exchange on the day of the transaction. That principle applies irrespective of whether there is a forward foreign currency contract in place for the transaction. As Collings points out, this is different from the procedures offered in SSAP 20, where an entity can record the transaction at the rate of exchange on the date of the transaction or the rate listed in the contract. Under the new regime, if there is a movement in the exchange rate between the date the transaction was agreed and the date it was settled, any difference on exchange is recognised in profit and loss.

In any event, most companies have traditionally used an average rate and recognised exchange gain or loss on the payment or settlement of relevant...
invoices, points out Andrew Moss, head of corporate finance at accountancy firm DSG. ‘Entities with relatively few currency transactions will see little impact and may choose to use the spot rate, as the administrative effort will be low,’ he says.

‘Companies that transact a significant proportion of business in foreign currency may need to consider changing processes or even upgrading systems to adapt to the new FRS. That said, if currency fluctuation is low, an average rate may still be acceptable and the chance of material misstatement will be low.’

But micro-entities don’t need to worry too much about these changes. They can still keep it simple by using the contracted rate. Besides, it would be impossible for them to recognise a derivative on their balance sheet as they cannot use fair value accounting.

Despite the changes, the message for companies remains the same: keep it simple. ‘Unwinding foreign exchange currency amounts on the balance sheet can be time-consuming and lead to unwanted write-offs,’ says Robert Gothan, chief executive of Accountagility, a business process management specialist. ‘So taking a straightforward and strategic approach to FX from the outset will save both time and resources.’

Meticulous approach
A company that encounters foreign exchange for the first time will save itself a lot of trouble later on by observing some accounting basics – irrespective of the accounting standards ruling at the time. ‘The first step is to decide which currencies a firm will be trading in – and how the currency of each transaction will be determined – without any uncertainty,’ advises Gothan. ‘You need to set up a clear FX policy and then adhere to it consistently. Changing policies midway through the year can be difficult and lead to residual balances, so, if a conversion is necessary, you should introduce it at the beginning of the financial year.

‘From the start, SMEs must also take a meticulous approach to FX recording – which is largely non-discretionary – so processes must be thorough and systematic, particularly in larger transaction environments. General ledgers also need to be chosen carefully to ensure they support full currency capability, including settlement and revaluation process.

‘Finally, receivables and payables ledgers need to be constantly tested to make sure that FX is being correctly dealt with. This is especially important for cross-border settlements and write-offs. You must avoid manual FX interventions’

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Those goalposts aren’t only moving in accounting standards, either. In the past year to 18 months, currency markets have become more volatile following a quieter period immediately after the Lehman Brothers crash in 2008. The increasing divergence in economic performance of major countries around the world, coupled with higher volumes of speculative currency trading, is likely to make that volatility a permanent part of the picture – at least for the foreseeable future.

And sudden shocks – such as the Swiss franc’s decoupling from the euro earlier this year – cannot be ruled out in the future, either. Although the worst of the Greek crisis seems to be over, there are still question marks over the future of the euro. All of these trends are likely to mean that more companies that use foreign currencies as buyers or sellers will want to hedge their risks.

Those goalposts may have moved, but the game remains the same.

Peter Bartram, journalist
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An end to ‘rank and yank’

Could the cumbersome appraisal process be on the way out, saving millions in lost productivity, in favour of a lighter-touch review system – or is that just wishful thinking?

Performance appraisal in the workplace has utilitarian roots. It began as a way to determine salary – a pay cut or pay rise resting on the assessment of the supervisor. By the 1990s, it was a rare company that didn’t have an annual or bi-annual review process in its HR toolkit. No one ever looked forward to appraisal season, but it took millennials (those born between 1982 and 2004, also known as Generation Y) to bring about change and force employers to move away from the annual rhythm. And, argues Anne Donovan, human capital leader at PwC in the US, pleasing this cohort is critical, as millennials make up the bulk of the workforce and will leave if their needs aren’t met.

Various studies have picked fault with the annual or bi-annual review processes, which are painted as administration-heavy and of little value anyway. New research by CEB, a US-based best practice insight and technology company, puts PwC and Deloitte among the 6% of US Fortune 500 companies to have already re-engineered how they review individual performance. Microsoft, Adobe, Cargill, Accenture and GE are cited as others to have ditched the old way, which CEB describes as an ‘irrelevant’ process costing millions in lost productivity each year. Far better, CEB says, for organisations to focus on conversations, not scores, to improve productivity and motivate employees.

Old-style ‘up or out’

Brian Kropp, HR practice leader at CEB, says: ‘Rankings and scores were popular in the 1990s because they supported a tougher, more pervasive “up or out” corporate mentality. Today, businesses are embracing cultures that foster greater collaboration and communication. In this new work environment, companies need to think about the implications that scores and rankings have on their workforce, as many view them as disruptive and creating a barrier between employees and managers.’

Companies that want to realise value from their performance appraisal investments, he adds, should make a more concerted effort to create a climate ‘where performance feedback isn’t given once a year, it’s constant’.

PwC came to that conclusion several years ago, as Donovan explains. ‘We began to wonder why our younger people didn’t seem to be motivated by the same things that motivated the generations before them. Why didn’t they want to work in the same way? In the accounting and professional services industry, it has long been assumed that fair pay, a stable upward career path, a chance of financial security and the prestige of partnership would be enough to attract and retain bright young talent. However, we started to find that this was no longer the case.’

PwC’s research was collated into a white paper that argues that, when done correctly, effective performance management programmes can deliver significant, tangible benefits, including better productivity and project completion rates, and – equally importantly – a 13% fall in staff turnover. So the firm started to make changes. A constant feedback pilot programme was launched in the US in September 2014 and will be rolled out to PwC networks globally.

Immediate feedback

Donovan likens the new approach to the way a coach would engage with a football team. ‘You don’t wait till the end of the season to give a player feedback: you tell them when they come off the field.’ This approach resonates with millennials, who make up almost 80% of PwC’s workforce. ‘They want the love, they want flexibility, and they want to know they are on good teams,’ she says. ‘Now it’s more a case of “you come off the field, we tell you how you did”.

Frequent pats on the back build up a trust, which makes it easier for a staff member to accept constructive criticism, when necessary, Donovan says. And even though the feedback is constant – given every day, on every project, for every meeting – it’s less time-consuming in total, she argues. ‘Once everyone becomes comfortable, instant feedback is quicker and more relevant. There’s not the preparation required because it’s fresh. We compared that to the dread of the semi-annual process, where the working up of what you’re going to write, the reading of it and the discussions about it are much more time-consuming.’

An annual review remains, though. Donovan explains: ‘We are in business. We have to decide who moves forward, and what raises to give.’ However,
the number and length of forms have been reduced, and the stress factor is removed from encounters because there are no more surprises. ‘It makes the annual conversation much better,’ she says.

Millennials may love it, but Donovan concedes she has to keep reminding Generation X employees (those born between the early 1960s to the early 1980s) why it is happening. ‘It’s not in Gen X’s nature to need this kind of feedback necessarily, or to understand why they have to give it. With culture change, you have to keep driving it.’

Millennials move on
Accenture CEO Pierre Nanterme agrees that you can’t put millennials – a generation who ‘want to perform’ – in the box of a 30-year-old performance management process. ‘You’ll lose them, and rightfully,’ he says, explaining the company’s move away from an annual ratings system to ‘something much more ongoing’. Accenture will put its new performance management process in place starting at the end of 2015. Changing the performance management process for 330,000 staff is a ‘huge’ task, he says. From its own research and experience, Deloitte has concluded that performance management is ‘broken’. In a study published last year it recommended that a culture of ‘rank and yank’ should be replaced with coaching and development. The research found that only 8% of companies thought the performance management process drives high levels of value, while 58% said it is not an effective use of time. It predicts that a new model of performance management will sweep through HR.

Alec Bashinsky, chief HR officer at Deloitte, is running and ‘reinventing’ the firm’s performance management project globally; currently he is piloting it in seven countries. He says the old way is no longer appropriate; millennials want more regular feedback, and social media enables it.

Bashinsky says: ‘Our new framework is based around having regular check-ins – not a performance review, which is employer-generated – with no forms, but a five to 15-minute conversation between the employee and their people leaders (who have been trained in coaching skills). Our data shows the more regular check-ins, the higher the employee engagement.’

KPMG is reportedly still evaluating its approach to performance management globally, while piloting a more collaborative style in India. Individual businesses in the firm will now ‘own’ and implement their rating distribution, to provide more flexibility in the way they recognise and drive performance within their teams, says Vidya Mohan, associate director – brand, marketing and communications at KPMG India.

Even global giant GE – whose one-time CEO Jack Welch is credited with implementing a widely copied system of annual performance reviews known as the ‘vitality curve’, which locked managers into a prescribed distribution of scores – is moving with the times. By the end of 2016, it says, the company will have replaced its legacy employee management system with a new approach based on continuous dialogue and shared accountability. A pilot conducted in one division helped drive a five-fold increase in productivity in 12 months, the company says.

How to go about it
To improve performance review outcomes, productivity and collaboration, CEB says companies should:

* **Change the nature of performance conversations.** Stop reserving performance assessments for scheduled times or checkpoints. Instead, teach managers how to give continuous feedback to improve employee productivity and reinforce goals and expectations.

* **Make review conversations about the future.** Use examples of past performance to help employees understand how to improve their productivity moving forward, rather than looking backwards to highlight successes or failures over the past year.

* **Construct a holistic account of employee performance.** Gather feedback from a variety of sources (peers, co-workers, customers) to get a true picture of an employee’s contributions. This is especially important now that employees collaborate more often with more people, and the depth of their contributions may not be as readily apparent.

With the new system, regular, informal ‘touchpoints’ – supported by a smartphone app – facilitate frequent, meaningful conversations between managers and employees, and among teams. A summary conversation between the employee and their manager still takes place at the end of the year, and, as before, drives decisions on compensation, promotion and development.

**How, not what**

However, Alistair Woods, director in PwC UK’s reward team, says there is no one-size-fits-all approach. While getting rid of year-end performance ratings might be the right answer for some, it is how performance management is carried out that really counts. He says: ‘Organisations should be focusing greater attention on equipping managers with the appropriate skills to deliver effective and motivational performance conversations on an ongoing basis, and creating a culture where employees can grow and develop.

‘Companies need to be careful not to throw the baby out with the bathwater. Without the year-end rating, the danger is that the distribution of pay and bonuses can become even more of a dark art, as shadow systems evolve without proper governance and infrastructure behind them.’

After surveying 100 UK-headquartered organisations and 1,000 employees this year, PwC UK’s research shows that, when done well, with a balance between rewarding past performance and considering future development needs, performance conversations ‘can really motivate employees’, according to Woods. ‘And many employees appreciate the clarity that an effective formal assessment provides.’

Peta Tomlinson, journalist
Trust at an all-time low

Building trust is essential for nurturing innovation and for businesses to succeed. But a recent study found the level of trust in decline across the world.

Evaporation of trust

Building trust is essential to successfully bringing new products and services to market, and requires companies to demonstrate clear personal and societal benefits as well as their own integrity. The 2015 Edelman Trust Barometer study found that countries with higher trust levels overall also show a greater willingness to trust business innovations. Overall, the number of ‘truster’ countries in the Edelman trust index is at an all-time low.

While trust in government has risen, it has fallen for NGOs, business and the media; the figures show 2014 versus 2015.

Trust in business on the ebb

Levels of trust in business rose in 11 of the 27 countries surveyed but fell in the other 16. Canada, Argentina, Germany, Australia and Singapore registered the biggest falls, and the Netherlands, Italy and India the biggest rises. The global average fell from 59% to 57%.

Trust deficit

The 2015 index contains fewer trusters and more distrusters – 22% and 48% of total index respectively compared with 30% and 33% respectively in 2014.

For more information:

Edelman’s 15th annual Trust Barometer can be viewed at: bit.ly/edel-trust

Sector by sector

Technology remains the most trusted of all sectors at 78%, although it too has lost ground since last year’s 80%. Declines across all tech-based industries were evident in 2015, with recent privacy and security breaches having weakened trust in both tech products and the sector. Financial services and entertainment were the only sectors where trust rose (up 1% in each case).
Balancing the pay scale

As the idea of a living wage gains support around the world, Faye Chua considers the business case and challenges for employers in addressing pay imbalance

Many countries now have some form of national minimum wage, but many workers on low income still struggle to make ends meet. The desire to tackle such in-work poverty has led to the concept of the ‘living wage’, intended to help family units achieve a decent standard of living and play a full part in society.

The movement is strong in the UK, having been launched by a community group in 2001, then drawing in unions and academics, and is now led by the Living Wage Foundation (LWF). The living wage and the successes of living wage employers are celebrated annually in the first week of November during Living Wage Week.

A common approach?
Separate living wage movements have sprung up to help low-paid workers across the world, but as the first of two research papers soon to be issued jointly by ACCA and the LWF highlights, they are often driven by different stakeholder groups. In Asia, for example, the Asia Floor Wage Alliance is a sector-based initiative that campaigns for a decent wage for garment factory workers. In the US, the dominant form of action has been isolated initiatives by individual cities, resulting in around 120 different versions of a living wage across the country.

For international businesses managing global operations and supply chains, the more that living wage movements can align their thinking, the better. To encourage debate, ACCA and the LWF has held seven roundtables in Europe, North America, Asia and Africa this year. A key goal was to see whether some general principles could be developed to encourage common approaches to a living wage around the world.

‘The living wage should extend to outsourced employees. Big companies set the example of a good employer’

Accounting and Business 11/2015
In a variety of ways. One option is to work with suppliers to help bear down the chain the business goes, the less pressure it can bring employees. But what about its suppliers’ suppliers? The further stipulate in contracts that its suppliers pay a living wage to their chain. It may be able to influence its direct suppliers, or even faces particular challenges in spreading the idea down its supply chain. When a business does embrace the living wage concept, it will support brands that adopt an ethical stance, even if that might recover the extra cost in some way that negatively affects their staff – by cutting staff benefits, for example, or eliminating financial savings from lower staff turnover and higher productivity.

Living wage supporters also believe that businesses should gain reputational and risk management advantages from paying a living wage. In developed economies at least, some consumers will support brands that adopt an ethical stance, even if that results in higher prices for a product or service. Encouraging the payment of a living wage throughout the business – and down the supply chain – could also mitigate the risk of a human rights scandal damaging the brand.

From a macro-economic perspective, if employers raise low pay rates up to a living wage level, the extra spending power generated could flow out into the broader economy, boosting growth – although this depends in part on any counter-effect caused by higher prices as a result of businesses incurring increased costs.

When measuring the impact of paying a living wage, a holistic perspective should be taken. For example, there are concerns that employers forced to pay a living wage to secure a contract might recover the extra cost in some way that negatively affects their staff – by cutting staff benefits, for example, or eliminating jobs in supporting or monitoring roles.

Supply chain challenges
When a business does embrace the living wage concept, it faces particular challenges in spreading the idea down its supply chain. It may be able to influence its direct suppliers, or even stipulate in contracts that its suppliers pay a living wage to their employees. But what about its suppliers’ suppliers? The further down the chain the business goes, the less pressure it can bring to bear.

Global businesses are addressing their supply chain challenge in a variety of ways. One option is to work with suppliers to help them identify ways to improve productivity. Another solution is to internalise the supply chain and go for vertical integration. For example, food manufacturers or retailers could take ownership of farms themselves, gaining control over operations and wage rates. However, such a strategy clearly requires a radical change of business model.

Outsourced staff pose a particular challenge for businesses. These people may be working in your office but are not employed by you. Again, contracts requiring the outsourced service provider to pay the living wage could be introduced. Otherwise there is a risk that an organisation may brand itself as a living wage employer, but still be dependent on the efforts of lower-paid human resources.

The recent work by ACCA and the LWF confirms the strong interest in the living wage around the world. Sharing ideas on how to tackle some of the challenges it poses for employers will be important in encouraging its wider adoption.

Views from the global roundtables

‘In-work poverty is not an issue that can be tackled piecemeal by companies. It is a systemic problem that needs a systemic collaborative solution in industries, sectors and countries in order to avoid more inequalities or disadvantages.’
London

‘The living wage is to do with enough food, shelter, clothing, basic needs, dignity; and if an individual manages their budget they can break free from the cycle of poverty.’
Johannesburg

‘In Canada we have a universal methodology for the living wage, which is about meeting basic needs such as rent, food and utilities, but also transport and childcare. And it goes beyond that to enabling community participation, allowing children to take part in sports, for example, or a modest once-a-month family night out.’
New York

‘All the workers in a business should benefit, not just direct employees – the living wage should extend to outsourced employees. Big companies set the example of a good employer.’
Hong Kong

Faye Chua, ACCA’s head of futures research

For more information:
The ACCA and Living Wage Foundation research papers will be made available at www.accaglobal.com/ri
The next few months could see historic progress—or failure—in sustainable development and climate change action. In September, national leaders gathered in New York for the United Nations summit organised to adopt a new set of sustainable development goals (SDGs) – ‘a blueprint for a better future’, as secretary-general Ban Ki-moon described it. The SDGs will replace the expiring Millennium Development Goals (MDGs) and run from 2016 up to 2030.

From 30 November to 11 December, the centre of sustainability action moves to Paris for the 21st session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP21). The goal here is to set a universal and legally binding protocol (to replace the Kyoto Protocol) supporting the goal of reducing greenhouse gas (GHG) emissions to levels capable of limiting global warming to less than 2°C.

Each event affects the other. Success in achieving the SDGs will depend in part on firm commitments being made to reduce emissions at COP21. Similarly, COP21 commitments and subsequent action by governments to reduce emissions will be encouraged by the agreement of strong environmental and climate change SDGs.

Building on the past

The 17 SDGs aim to build on the work of the MDGs and address three dimensions of sustainable development: economic, social and environmental. While the MDGs were focused on issues around people (such as eradicating extreme poverty and reducing child mortality), the SDGs also pay substantial attention to environmental sustainability and economic factors (for example, access to affordable and sustainable energy, promoting sustained and sustainable economic growth, and building resilient infrastructure).

The SDGs are intended to be action-oriented and so are supported by 169 associated targets that define the ‘means of implementation’. Some of these are specific and numeric, such as sustaining at least 7% GDP growth per annum in the least developed countries, but many are more general—for example, to increase the access of small-scale industrial and other enterprises to financial services. Whether they will have real impact therefore remains to be seen.

Nevertheless, the goals and targets are the result of over two years of intensive public international consultation, including the establishment of an open working group, with 30

Mike Kelly

‘SDG 8 prioritises employment, decent work for all and social protection. To end poverty requires a full range of policy interventions, including voluntary instruments. One such, the Living Wage, is a well-established concept that enables people to provide for themselves and their families, and promotes sustainable economic growth, leading to healthier communities, businesses and societies. Accounting practices and other large businesses can lead by example.’

Chair of ACCA’s Global Sustainability Forum, head of living wage, KPMG, and chair of the Living Wage Foundation

Teresa Fogelberg

‘Goal-setting for the SDGs is a critical part of understanding where we are today, and what we hope to achieve in 15 years. In order to achieve the SDGs, a real commitment to global partnership has to be made. This means that businesses must play an active role in bringing the SDGs to fruition. This is where GRI is working to help. Together with UN Global Compact and the World Business Council for Sustainable Development, GRI launched the SDG Compass, a tool that will help the global community monitor business contributions to the goals, at the UN Summit.’

Deputy chief executive, Global Reporting Initiative (GRI)

Jane Stevensen

‘Climate change has a direct impact on poverty around the world, with significant implications for economic activity, and therefore corporate performance. Poor and developing countries will be among those most affected and least able to cope with the shocks to their socio-economic and natural systems. We represent organisations sharing the concern that financial markets do not take sufficient account of climate-related corporate performance, and consequently the risks and opportunities relevant to future value.’

Managing director, Climate Disclosure Standards Board

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ACCA is looking into how accountants can help businesses assess and report on their impacts and dependencies on natural capital.
members representing 70 countries and two elected co-chairs, one each from a developing and a developed country. Throughout July 2015 negotiations took place on the final wording of the SDGs adopted by heads of state and government in September.

‘Unfinished business’
The draft outcome document acknowledges that there is ‘unfinished business’ in relation to the MDGs. It notes that ‘progress has been uneven, particularly in Africa, least developed countries, landlocked developing countries, and small island developing states, and some of the MDGs remain off-track, in particular those related to maternal, newborn and child health and reproductive health’. It is also clear that extreme poverty and hunger have not been eradicated, for example.

Successful implementation of the SDGs, as the draft outcome document notes, will require ‘a revitalised global partnership for sustainable development’ and the actions of governments. UN member states are encouraged to set ‘ambitious national responses’ to support implementation of the SDGs, and to conduct regular progress reviews. Successful implementation is also seen as depending on ‘the resources, knowledge and ingenuity of business, civil society, the scientific community, academia, research institutions, philanthropists and foundations, parliaments, local authorities, volunteers and other stakeholders’.

Role of accountancy
Some of the SDG targets have specific relevance to the accountancy profession, such as improving the regulation and monitoring of global financial markets and institutions and strengthening the implementation of such regulations, or substantially reducing corruption and bribery. Developing and running sustainable businesses is also increasingly part of the accountant’s role. So as both individuals and through the representation of their professional bodies, accountants have an important part to play in the successful implementation of the SDGs.

The accountancy profession is already helping to stimulate thinking around sustainability issues. ACCA, for example, through its Global Sustainability Forum, is looking into how accountants can help businesses assess and report on their impacts and dependencies on natural capital – the stock of natural resources (such as ecosystems, air and water) from which people can derive benefits.

ACCA has also been holding roundtables to consider the factors that could boost the introduction of a living wage – relevant to the SDGs of ending poverty and promoting decent work for all. Research is also being conducted into how fossil fuel companies report on their risk of stranded assets (reserves that can’t ultimately be developed due to emissions controls or other factors) – an issue likely to rise up the agenda of investors if governments do introduce tight emissions targets backed up by regulation.

Terence Jeyaretnam
‘When businesses work to create societal value, they do not just make a positive impact on society – they also perform better. In a survey EY conducted with the Harvard Business Review, 87% of business leaders believe a company performs best when its purpose goes beyond profit. The SDGs offer a powerful way for this to make a greater impact on both business and society. The accountancy profession has an important role in measuring and accounting for the value created and helping governments and business meet their SDG goals.’

Partner, climate change and sustainability services, EY Australia

Rodney Ndamba
‘Implementing SDGs in Africa should be high on the agenda. The goals provide the opportunity for the continent to work with specific and measurable targets, which will require continuous monitoring and evaluation of progress and impacts. The accounting profession has a critical role to play in allocating appropriate and adequate resources, measuring performance and reporting progress from both government and private sector. Achieving the goals and targets in Africa will be a defining factor and legacy for any leader in accounting, business and politics.’

Chief executive, Institute for Sustainability Africa

Adrian Henriques
‘Few can disagree with the aspiration represented by the SDGs. But there are questions over how it will be monitored (the coherence, precision and role of the targets will be crucial) and how it will galvanise corporate activity. There are also questions as to how far the SDGs really embody human rights. These are mentioned several times in the introduction, but the MDGs were equally admirable and their realisation was sadly lacking. To avoid this fate, we need vigorous action by nations as well as the unequivocal backing of companies.’

Vice chair of ACCA’s Global Sustainability Forum, and a sustainability, governance and CSR adviser and researcher

Now is the time for accountants to take a leading role in developing sustainable business models and incorporating sustainability into decision-making.

Rachel Jackson is former head of sustainability at ACCA
Imagine you had the audit profession in your office as a client. What course of action would you advise? Evolve or die, suggests Grant Thornton’s Nick Jeffrey

Once upon a time I was asked at a party what I did for a job. It was a polite enquiry from someone I had just met – there was no hidden agenda. I am ashamed to say I ‘confessed’ to being a fighter pilot. The response to that – ‘You’re an auditor, aren’t you?’ – not only ruined my evening, it also provided my friends with plenty of ammunition in the weeks and months to come.

This memory came back to haunt me when I was speaking at a series of ACCA/Grant Thornton roundtables on the future of audit. I find my job interesting and challenging, and I know it performs a public benefit, so why was I afraid that others would find it dull? Why didn’t I have pride in what I did? Or at least insufficient pride to explain that to new acquaintances?

Would my project with ACCA help auditors of the future avoid similar embarrassment and help them speak with pride and passion instead?

In recent months, ACCA and Grant Thornton have jointly hosted a number of roundtables about the future of audit. We chose locations to cover a range of business environments with differing characteristics, in China, the EU, Singapore, South Africa, the UAE, the UK and Ukraine. We invited representatives from a range of stakeholder groups such as companies, providers of finance, and policymakers to a series of private open-ended discussions (under the Chatham House rule) to share their views and experiences. In November we will publish a deeper analysis of what we heard, together with more detailed implications and recommendations for policymakers and the accounting profession.

Yet with a couple of roundtables still to go, some themes have already emerged from the debates.

Audit as a facilitator for growth

* Facilitate innovation through flexible, proportionate regulation and an avoidance of regulatory straitjackets.
* Providers should listen carefully to users, and understand who the users are, what information they use, and what they use it for.
A consistent message was the need to get as much as possible from the audit. Equally important was the need to build user confidence and scale in the auditing profession before moving on to anything else – the market is not ready.

For others, audit has been mandatory for a long period. There may have been moves to exempt businesses of certain types or sizes from the audit requirement. Companies may have more skilled finance teams, producing more trustworthy financial information. Finance providers may receive regular financial updates as a matter of course, so that the annual audit report is old news and only confirmatory. And they may receive a regular, rich and varied range of information about the business, which is critical for investment decisions but is not financial and not part of the audit.

In these countries, audit is seen as a critical bedrock for larger companies, but with no value other than confirmation of what is already understood about a business. For companies that are not large or publicly traded, there are significant questions being asked about whether the audit report is useful. And if not, whether it should be scrapped and replaced.

This has important implications for standard-setters and regulators. Whatever your operating environment, a stable body of standards is essential. For the first group, a stable body of standards fosters understanding and improvement in audit quality. For the second group, there is a feeling that only marginal gains in the usefulness of an audit are available, which may be out of proportion to the effort required to capture those gains. While consistency of standards is important for international business, the implication is that standard-setters need to articulate the business benefit of changes.

Who, what, why
Where doubt in the roundtables was cast on the continuing usefulness of an audit report, the common misgivings were about:

* who: the report is addressed only to shareholders
* what: the report is issued months after the period end and covers only historical financial information
* why: the report is a standardised product with limited reference to particular user needs.

In other words, the audit report misses a significant group of potential users, and would not give them what they wanted when they wanted it anyway. And for ongoing users, the audit report is not as useful as it used to be because it only confirms the basis for other more timely and impactful information previously published by the company. That is never a great combination if you are seeking steady and sustainable revenue growth.

There was some speculation from roundtable participants about which other users could benefit from a form of report on a business. There were some ideas about what business
The rest. A future where assurance skills are instead valued and leaves behind the concerns about the expectation gap and given me renewed hope. They show a future for assurance that we advise our client to do? Clearly, it would be: evolve or die.

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As a public policy professional, these roundtables have given me renewed hope. They show a future for assurance that leaves behind the concerns about the expectation gap and the rest. A future where assurance skills are instead valued and

Robert Stenhouse

‘Whilst “reports of the death of audit are greatly exaggerated”, to misquote Mark Twain, the audit profession cannot afford to be complacent. The real question is “What is the future of auditors?” By auditors, I mean finance professionals who can analyse business information, interpret it, use industry expertise and professional scepticism to challenge it, and communicate their findings. The ACCA vision is to be number 1 in developing professional accountants the world needs. The world will always need accountants with auditing skills; even if it decides it no longer needs audits.’

Chair of ACCA’s Global Forum for Audit and Assurance, and director, national accounting and audit, Deloitte UK

Sue Almond

‘For many years, the focus of standard-setters and regulators alike has been on audit, and especially setting the basis for consistent, high quality audit. This stems from the profession’s long-standing public value role in building trust and confidence in financial information. That role is just as important today, but perhaps in a broader context. With so much information available, and not just in a financial sense, users are working out what they need, and how reliable they need each element to be. Assurance may well be the way to differentiate quality, trustworthy information.’

Head of assurance at Grant Thornton UK and former ACCA external affairs director

Doctors make the worst patients

The key to success is knowing what your customers want. There has been a lot of talk in Europe about the impact that increasing the audit exemption limits will have on the profession. These roundtables have given me – someone with an audit background – a degree of comfort that there will always be a need for some form of assurance on historical financial information. Even in a future of virtual currency, a business will fail if it runs out of virtual cash.

Throughout my career, the audit profession has been dogged by an expectation gap, independence scandals and being perceived as an increasingly unattractive line of work. In some countries the historical financial statement audit is thought to be a dying product because it is expensive but unvalued.

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Boost your impact

A simple technique can help you to maximise your performance in interviews and presentations, says Rob Yeung, plus the perfect social media presence

Dr Rob Yeung is an organisational psychologist and coach at consultancy Talentspace

Talent doctor: standing out

Are there any situations in which you would like to come across as more charismatic, more impactful, more persuasive? Think about your experience of speaking in a high-stakes situation, perhaps at a big presentation, a critical job interview, or even a social occasion such as a wedding where you need to deliver a speech. Undoubtedly, these are times when you really want to make a great impression.

In my training and consulting work, I aim to equip clients with research-backed techniques. An example is a five-minute technique you can use to boost your impact, taken from my latest book, How To Stand Out, which was tested in an international study conducted by Joris Lammers, assistant professor at the University of Cologne, in collaboration with French and American business school academics.

Lammers and his team identified a group of undergraduates who were preparing for business school interviews. The investigators invited the students to participate in a round of practice interviews. Just prior to the mock interviews, the participants were randomly assigned to one of two groups. One group was asked to spend a few minutes writing about an occasion when they had felt powerful. The second acted as a control and sat quietly for the same length of time.

They were simply asked to probe the candidates hard and then to answer a single question: ‘Would you admit the applicant to business school?’

The results showed a clear difference: of the control group who sat quietly, 47.1% passed the interview. In contrast, 68.4% of the participants who wrote about a power situation passed.

The implication is clear. If you want to maximise your chances in a high-stakes situation, write about a previous situation when you felt powerful. Don’t just think about the situation, though – write about it.

I call this the ‘power paragraphs’ technique. Strangely, the method also works for written applications. A second experiment established that participants who first wrote about a time they felt powerful created more persuasive written applications too.

The study has been replicated several times, so the technique is robust. Whether you are looking to boost your impact in a professional or personal situation, writing about a time you felt powerful – in control or having influence over another person or group of people – may help you to perform better.

There is a wider point to learn too. Obviously, to become a more proficient professional, you want to learn only tools and techniques that are likely to work for you. So the next time a trainer or coach suggests you use a technique, ask: ‘What is the published evidence that this will actually work for me?’

To buy How To Stand Out with a 30% discount, visit www.wiley.com and enter the code VBM16 at checkout.

For more information:

www.talentspace.co.uk

@robyeung
Overseas attraction
A recent survey by the website careersinaudit.com found that a lack of opportunities in their home country would entice eight out of 10 accountants to look overseas for career development. This is more marked among those who have just missed out on a promotion or who are not able to find the types of role they are looking for in the open market. Top destinations include Qatar/UAE, Singapore, Shanghai, Hong Kong and New York.

Big Four go back to basics
The Big Four accountancy firms are turning to advisory and management consulting work to supplement traditional accountancy and audit. Deloitte, KPMG and PwC all recently recruited executives from BNP Paribas, Deutsche Bank and Rothschild respectively to lead the growth of their investment banking advisory practices. In September Deloitte acquired UK-based Kaisen Consulting, a boutique of business psychologists and leadership consultants, and said it planned to expand the business by recruiting 700 people – including consultants and project managers – globally by 2020.

China needs boost
According to the Chinese Institute of Certified Public Accountants there are around 300,000 accountants in China, which has a population of 1.3 billion. This compares with around 327,000 accountants in the UK, with its population of around 64 million, according to the UK’s Financial Reporting Council. Former ACCA president Anthony Harbinson said at the Reuters Financial Regulation Summit in Hong Kong that China needed accountants for roles in government and regulatory organisations, as well as for private companies. ‘Mainland China wants to develop accountants in the millions for both indigenous development and growth but also because Chinese companies are expanding out beyond the borders of Asia and they want people who understand what it’s like in an international market.’

New career paths needed
The digital age and a growing global economy have created a need for new types of accounting career path than most people realise. According to survey results from US university DeVry, nearly half of respondents do not believe accounting is an in-demand field, though the US Bureau of Labor Statistics projects it will grow 13% between 2012 and 2022, with select specialisations projected to grow even faster. Forensic accounting, IT consulting and global business management have emerged as growing opportunities for accounting graduates in almost every industry. Global companies now employ forensic accountants, and nearly 40% of the top 100 accounting firms in the US now have forensic accounting departments.

Multitasking ‘mare
As the demands of technology and social media in the workplace multiply, multitasking is becoming a bigger part of accountants’ jobs, according recruitment agency Randstad Financial & Professional. In a poll of UK accountancy and financial services professionals, 63% of respondents said they have to deal with more multitasking in their working lives than they did two or three years ago (juggling admin, calls and emails with client work). Asked if they ever change their environment to reduce multitasking, only two-fifths of respondents said yes.

Compiled by Adam Akbar, MD, Bronzegate – finance leadership search adamakbar@bronzegate.co.uk

For more information
www.accacareers.com

11/2015 Accounting and Business
Checking out
A seismic shift is taking place in the UK supermarket sector, with former giants reduced to scrabbling underdogs. Tony Grundy looks at their rise and fall

UK supermarket CEOs have a lot on their minds these days. Top of the list is increased price competition, particularly from the discounters. But they have also had to worry about overcapacity (particularly in non-food), internet competition, scrutiny over supplier relationships and accounting for ‘deals’, and how to reduce costs.

Clearly, these issues reflect the sector’s maturity. Accounting for supplier deals has been a particular problem for the UK’s largest supermarket, Tesco, which is being investigated by the Serious Fraud Office and the Financial Reporting Council after overstating half-year profits by £263m in 2014. The press has suggested that there is a wide practice in the sector of asking for very high levels of supplier support in return for the privilege of prominent product displays and other incentives.

So how does the supermarket CEO come up with novel, strategic ideas? In the late 1990s I worked with one of the major players on projects relating to non-food, to small-format stores and to their online business. Around that time there was very much a ‘prospector’ strategy, as gurus Raymond Miles and Charles Snow call it, with a pervasive mindset of giving things a try. Now the general mood tends to the ‘defender’ strategy – attempting to repel intruders like Aldi, Lidl and Netto from the competitive space.

The diagram below maps the industries we have looked at in this column in the past against Porter’s five competitive forces. Supermarkets come bottom of the overall ranking.

Structurally, the supermarket industry has become more difficult – the score for buyer power is down from two to one – especially with budget-conscious shoppers and niche low-cost entrants addressing their needs. Rivalry also scores low, as it is severe – the industry is protected mainly through low supplier power and continuing barriers to entry, although these are being tested. Worryingly for supermarkets, after the bad publicity over how suppliers are treated, this score of three could be reduced.

Years ago the scores would have been much higher – say, 11 for the food business and higher for non-food. Porter’s five-forces framework matters because it influences operating profit margin and thus return on net assets – a key driver of shareholder value.

The market
There are three groups of players in competition:
* the premium, niche players – M&S and Waitrose (see the March edition of this column on John Lewis)
* the supermarket majors – Tesco, Sainsbury, Asda and Morrisons
* the cost-leadership niche players – Aldi, Lidl and Netto.

Over recent years, the supermarkets at the top and bottom of the price spectrum have fared best – that is, Waitrose, Aldi and Lidl. Tesco and Sainsbury have been particularly exposed to the attack of the discounters, as they operate with higher prices. Asda has fared better, with its longstanding focus on ‘everyday low costs’ – a mentality that pervades the corporate mindset – but such has

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**Porter’s competitive forces**

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been the ferocity of the discount retailers that even Asda, which is owned by Walmart, the world’s biggest supermarket chain, faces challenges.

The discounters have much simpler business models, which allow them to drive costs down to levels extremely difficult for the bigger, diversified chains to emulate. They can therefore set prices at levels that allow them to naturally gather relative market share. With more integrated buying across their European operations, they also gain economies of scale.

In the 1990s when the discounters first came onto the UK scene, Tesco started its sub-brand ‘Value’ range, to keep customers from switching to Lidl and Aldi. Two decades on, the discounters are much bigger and stronger. They have improved their reputation for quality – for example, the media scores Lidl’s wine the best value for money – and are now advertising too. If they improved their queues at the cash tills, that would further reduce barriers to switching.

The wrong aisle
Few would have thought 10 years ago that Tesco – then trumpeting breaking the £2bn profit barrier and with Terry Leahy at the helm – would end up with many of its top team on gardening leave.

Tesco’s slide may have come as a surprise, but I began to sense a drop in its strategic health a few years ago, particularly in light of the decline in its previous customer service advantage between 2009 and 2012. When it issued £5 vouchers for every £40 spent in late 2011, I knew it was in serious trouble. Why give away 12.5% of your sales when you have margins at best around 5-6%?

Tesco’s fall will no doubt be a turnaround case study for MBA students for years to come. Its new CEO, David Lewis, who joined from Unilever, faces a massive challenge, not only in reviewing the strategy but also in finding a new leadership team and addressing the management culture. Tesco won brownie points by freezing, and in some cases mothballing, its new store openings, but that is only a small part of the jigsaw. It also has a big overcapacity problem, especially in non-food, which is being eroded through the rise of online.

The latest strategy from Tesco is to sell brands at knock-down prices. The only Porter’s force that scores positively for Tesco is supplier power. Lewis’s team seems to have turned to that to squeeze out more sales. But have the issues of how they deal with suppliers been addressed? Is this a short-term tactic or a sustainable strategy?

Tony Grundy is an independent consultant and trainer, and lectures at Henley Business School
Welch’s winning ways

In the first of a two-part series, David Parmenter looks at what finance teams can learn from the wisdom of leadership expert Jack Welch, who set sparks flying at General Electric.

He was crowned ‘manager of the 20th century’ by Fortune magazine, but Jack Welch – the man who as CEO took General Electric (GE) from a market value of $10bn to $500bn in 20 years – is that and more. I view him as a ‘paradigm shifter’.

Anybody lucky enough to have attended a Welch presentation will have witnessed at work one of the best management communicators in the world, and hundreds of his ‘one-liners’ will outlive him.

Welch had many mentors along his journey, including the renowned management thinker, Peter Drucker. He counsels against the belief that there is a single, ‘right’ mentor for any individual, saying there may be several over a lifetime; he also views mentoring holistically, pointing out that a mentor can be a staff member lower down the hierarchy who passes on their knowledge.

All great leaders are great in a crisis, and Welch is no exception. He would take the necessary action, face the criticism and move on, based on his belief in the five stages of a crisis:
1. The crisis will be worse than it first appears.
2. The bad news will come out sometime so you may as well face the music now.
3. The press will portray the situation in the worst possible light.
4. There will be carnage.
5. The organisation will survive.

Welch was aware that many of GE’s investments did not make sense but was prepared to cut the losses, admit when he had made an error of judgment and move on. If a business did not meet the strict criteria of being either number one or two in its sector, his ruthless view was ‘fix it, sell it or close it’.

Welch was one of the first CEOs to talk about ‘candour’, by which he meant being honest and upfront with underperforming staff. One has to realise that underperforming staff members may be in the wrong place at the wrong time; encouraging them to follow their passion, to find the job in which they will excel, is the kindest thing you can do for them.

Welch adopted a 20/70/10 ‘differentiation’ rule. The top 20% of performers should be promoted into jobs that fit their strengths; the next 70% should be assisted to meet their potential better; and the bottom 10% should be persuaded that their future lies elsewhere.

He saw recruiting and promoting people more skilled than himself as a positive thing, calling it laying the ‘golden egg’, and took great care choosing his own successor from the great wealth of talent who had thrown their hats into the ring.

David Parmenter is a writer and presenter on measuring, monitoring and managing performance.

From the library of Welch one-liners
* ‘If you are big enough you can go to bat often, take a swing and miss a few and still be in the game.’
* ‘Never buy a company with a culture that does not match yours.’
* ‘Use every brain in the game.’
* ‘Ponder less and do more.’

Next steps
2. Get into the habit of reading at least three chapters a week from the great business writers.
3. Email me at parmenter@waymark.co.nz for a recommended-reading list of the business writers who are paradigm shifters.

For more information:
www.davidparmenter.com
The International Accounting Standards Board (IASB) recently completed its post-implementation review (PIR) of IFRS 3, Business Combinations. It concluded that there is general support for IFRS 3 and its related standards but that there are several areas where further research is required. This article examines the main issues raised in the feedback received by the IASB.

By definition, IFRS 3 only applies to ‘business’ combinations. The standard defines a business as an ‘integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants’.

It further states that a business consists of inputs and processes applied to those inputs that have the ability to create outputs. The PIR found that most participants believed there were benefits in having separate accounting treatments for business combinations and asset acquisitions. Many users believed that it was sometimes difficult to assess whether an asset acquisition was related to a business because the definition of a business was too broad and more guidance is needed on when an asset acquisition is not a business. For example, the wording ‘capable of being conducted as a business’ was unhelpful in deciding whether a transaction includes a business. Some sets of assets may be considered as a business in one industry but not in another.

It can be argued that a separate accounting treatment for business combinations and asset acquisitions is conceptually justified only with respect to whether or not goodwill is recognised. The main differences in the accounting treatment of an asset acquisition and a business combination relate to deferred tax, contingent payments and acquisition values. Given the difficulties in determining whether the transaction is a business combination, it was felt that the IASB should revisit whether the differences in accounting treatment are really justified. Applying the definition of a business is problematical in certain industries – such as real estate, extractive activities, and pharmaceuticals. IFRS 3 requires the separate identification and measurement of intangible assets and goodwill, irrespective of whether the entity had recognised the asset prior to the business combination occurring. However, due to the lack of sufficiently reliable data and the unique nature of many intangibles, intangible assets are particularly difficult to measure, especially customer relationships, intangible assets with no active market, and development intangible assets.

There are varying views on the separate recognition of intangible assets from goodwill because of the subjectivity involved. One view is that these intangible assets should be recognised only if there is a market for them whereas an alternate view is that the identification of the intangibles provides insights into the purchase and an understanding of the components of the goodwill.
Many intangible assets are unique, not easy to value and valuation methods are often complex. In addition, the measurement of contingent consideration is highly subjective. Contingent consideration must be measured at fair value at the time of the business combination and is taken into account in the determination of goodwill. Contingent consideration classified as an asset or liability is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss.

An example given by the IASB was the pharmaceutical industry. Here, the research and development stage of a drug can constitute a significant period before it comes to market. Therefore, contingent consideration payments linked to the success of the drug can be difficult to fair value at the acquisition date or within 12 months of that date. Furthermore, many participants felt that the IASB should reconsider the subsequent accounting for contingent consideration.

Where contingent consideration is directly linked to an acquired intangible asset such as the research and development stage of a drug, the values of the liability and the intangible asset change in relation to the development of the project. The argument is therefore that in order to avoid an accounting mismatch, changes in the fair value of the liability should be adjusted against the value of the related intangible asset, instead of in profit or loss.

Contingent liabilities that are a present obligation and can be measured reliably are recognised in a business combination. However, the fair value of contingent liabilities is difficult to measure as fair value relies on a number of assumptions and the fair valuation exercise is not helped by the current lack of guidance in IFRS 3.

There was interesting feedback on the treatment of goodwill and bargain purchases on acquisition. IFRS 3 states that where the acquirer has made a gain from a bargain purchase that gain is recognised in profit or loss. If the gain from a bargain purchase is properly disclosed, then investors have the choice of stripping out or leaving in gains from bargain purchases in their assessment of the entity’s performance.

Many investors have no strong views on accounting for bargain purchases although some think that such gains should be shown in OCI (other comprehensive income). IAS 36, Impairment of Assets, states that goodwill should be tested for impairment annually and thus is not amortised. However, investors have mixed views on the impairment-only approach to goodwill.

Investors who support the impairment approach feel that the current practice is useful, as it relates the price paid to what was acquired and helps in the calculation of the return on the investment. The impairment approach further reflects whether an acquisition is working as expected and confirms the current ‘value’ of goodwill. However, there are alternative views.

Purchased goodwill is gradually replaced by internally generated goodwill over time (which is the
principle behind not allowing any impairment reversal), hence goodwill should be amortised. The useful life of goodwill can just as easily be calculated as that of other intangibles, and amortisation would reduce the volatility in profit or loss as compared to annual impairment charges.

As mentioned above, the identification of intangibles on acquisition is difficult, therefore the amortisation of goodwill would reduce this pressure as both goodwill and intangible assets would be amortised.

The Accounting Standards Board of Japan (ASBJ) has published a research paper, which reviews public disclosures regarding goodwill amortisation under the Japanese accounting standards. The ASBJ staff found that it is difficult to conclude that the impairment-only approach is superior to the amortisation approach. The majority of Japanese financial statement users expressed support for the amortisation approach. It is inevitable that managerial discretion will be used in recognising impairment of goodwill as it involves significant judgment.

There is an opinion that the impairment test is complex, time-consuming and expensive. The value in use calculation has its limitations, due to the difficulty in determining the pre-tax discount rate, the subjective assumptions used in the calculation and the requirement to use the most recent approved budgets, which over time can be substantially different from the business plans at acquisition. In addition, the allocation of goodwill to cash-generating units is subjective, as is the re-allocation of goodwill when a restructuring occurs.

Many investors do not support a measurement choice for non-controlling interest (NCI). IFRS 3 allows an accounting policy choice, available on a transaction by transaction basis, to measure NCI either at fair value or the NCI’s proportionate share of net assets of the acquiree. However, investors were divided on which policy was preferable. The measurement of NCI at fair value creates practical difficulties where, for example, the shares of the acquiree are not traded in an active market. As part of accounting for the business combination, the acquirer remeasures any previously held interest at fair value and this amount is taken account in the determination of goodwill. Investors do not consider these gains (or losses) in their valuation models and thus they feel that it would be useful to have these gains (or losses) clearly identified in the financial statements.

Many investors feel that it is often difficult to assess the subsequent performance of the acquired business and think that better disclosure is required. In particular, they find it hard to determine how much the business has grown organically as opposed to through acquisitions. More information on the operating performance of the acquired business after the business combination is, in their opinion, required, specifically, information on its revenues and operating profit.

IFRS 3 requires the disclosure of the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. Entities find it very difficult to disclose this information because information prior to the acquisition is not always readily available. Because of the practical limitations and the significant effort required to determine the disclosures, they think the IASB should consider providing some relief from this disclosure requirement. The IASB has expressed its opinions on the significance of the above points.

Graham Holt is director of professional studies at the accounting, finance and economics department at Manchester Metropolitan Business School.

For more information:
www.ifrs.org
Technical update

Glenn Collins, ACCA UK’s head of technical advisory, provides a monthly roundup of the latest developments in financial reporting, audit, tax and law

Audit

Charities SORP 2015

As previously highlighted, the 2015 Charity (Account and Reports) Regulations, authorising use of the SORP 2015, have not been issued. The current regulations are those issued in 2008, which stipulate that accounts must be prepared in accordance with the SORP 2005.

The Charity Commission’s recommended solution to this problem can be found within its guide CC15c. In section 8 it highlights why the new SORP can be used despite the regulations not having yet been issued. It is important to note that, if the regulations are not issued, then reports will need to be amended or reporting delayed until the regulations are available.

Section 8.4.2, ‘Advice for auditors’, states that ‘Auditors should contact their professional body for advice as to how to modify their audit reports until such time as the 2008 Regulations are updated.’

You can find further information on the changes and report wording at www.accaglobal.com/advisory

ACCA at the party conferences

ACCA co-hosted events at the Labour Party conference in Brighton and the Conservative Party conference in Manchester. Business receptions were co-hosted with the British Chambers of Commerce, the Federation of Small Businesses, the Institute of Directors, EEF, ICAEW and The Association of Independent Professionals and the Self Employed. Guests were from the worlds of business, politics and the media, and also included shadow and government ministers who talked about engaging with businesses on policy issues in the months ahead. See ‘News in pictures’ on page 6 and bit.ly/acca-conf.

Ethical and auditing standards

The Financial Reporting Council (FRC) consultation, Enhancing Confidence in Audit, includes revisions to Ethical and Auditing Standards, the UK Corporate Governance Code and related Guidance on Audit Committees. These include:

* a revised ethical standard for audit and other public interest assurance engagements incorporating changes required by the new European Union Regulation and Directive on statutory audit (ARD)

* revised quality control and auditing standards incorporating, where necessary, specific requirements of the ARD, guidance to address UK and Irish legislation, and cultural and business issues. The FRC is of the view that auditor reporting related to going concern is in the public interest and is valuable to investors. The FRC therefore proposes, in addition to the enhancements made by the International Auditing and Assurance Standards Board, to include additional UK requirements on the reporting of the going concern basis of accounting and related uncertainties changes to the UK Corporate Governance Code, which are being kept to the minimum required to align with the ARD and to limit the regulatory burden

* rewritten ‘Guidance on Audit Committees’ to take account of amendments to the code and regulatory framework, and recommendations put forward by the Competition and Markets Authority, many of which coincide with amendments made by the ARD.

The proposed changes to the code and the revised Ethical Standards and Auditing Standards will apply to financial periods beginning on or after 17 June 2016, the implementation date of the ARD. The consultation closes on 11 December. More at www.accaglobal.com/advisory.

Reporting

CAA/ATOL reporting

Discussions between professional bodies and the Civil Aviation Authority (CAA) are still ongoing. As previously highlighted, the CAA has established an email,caa.arascheme@caa.co.uk, for training/registration for the ATOL Reporting Accountants scheme. This may be used in order to apply to undertake training. For each accountant the CAA requires their name, professional accountability body, member registration number and email address.

ACCA will be producing engagement letters to update those that we already provide for members at bit.ly/1L1GBUp. We will be considering whether guidance is required in addition to that in CAA Guidance Note 10 and will assess whether additional member CPD is required.

We are retaining a list of members who have indicated that they are involved in this area, and we will send them further information outside of our normal member communications. Email supportingpractitioners@accaglobal.com.

SRA

The Solicitors Regulation Authority (SRA) accountants’ report changes previously highlighted will be part of Version 15 of the SRA Handbook that goes live on 1 November. Revised accountants’ report forms...
New GAAP

Updates to FRS 100, FRS 101 and FRS 102 have been made. In addition to minor typographical and presentational corrections, each has been updated as follows:

* Updates from FRS 100 issued in November 2012 include:
  a) the withdrawal of FRS 27, Life Assurance (as set out in FRS 103, Insurance Contracts, issued in March 2014)
  b) consequential amendments to FRS 102 included in FRS 104, Interim Financial Reporting, issued in March 2015
  c) amendments to FRS 100 issued in July 2015, and
  d) an editorial amendment to paragraph A2.19 to include a reference to the strategic report.


* Updates from FRS 102 issued in August 2014 include:
  a) an editorial amendment to Section 12, Other Financial Instruments Issues, in relation to the examples of hedge accounting issued on 17 September 2014
  b) amendments to FRS 102, Pension obligations, issued in February 2015
  c) consequential amendments to FRS 102 included in FRS 104, Interim Financial Reporting, issued in March 2015
  d) amendments to FRS 102, Small entities and other minor amendments, issued in July 2015.

Finance using IP

The Intellectual Property Office has developed an IP finance toolkit. This includes:
* templates and guidance to help businesses accurately identify and describe their IP assets in a way that prepares them for finance applications and assist the decision-making of a potential lender
* guidance on developing an effective IP strategy and effective due diligence processes
* improved guidance on finance options for IP-rich businesses, and
* a glossary of accepted definitions to be used when describing and valuing IP.

Section 5, Funding Available for IP-Rich Businesses, describes the types of funding, including funds and grants, that are available for these assets.

You can find the toolkit at [bit.ly/1KVLAbn](http://bit.ly/1KVLAbn).

FRS 102 – FRC guidance

The Financial Reporting Council has prepared 15 Staff Education Notes for the users of FRS 102, which aim to illustrate certain requirements. More details, along with other FRS 102 guidance, are at [www.accaglobal.com/advisory](http://www.accaglobal.com/advisory).

Tax

Consultations and discussion documents

A number of consultations and discussion documents have been issued, closing in November. They include:

* Consultation: reforming the business energy efficiency tax landscape.

This has a very short deadline, closing on 9 November, and is a review of the business energy efficiency tax landscape. The broad concern is that overlapping reliefs are causing confusion and resulting in administrative burdens, while not achieving the aim of cutting carbon emissions.

The consultation starts by asking if you agree with the principle of moving away from the current system of overlapping policies towards a system where a single business/
State pension top-up

State pension top-up is now available and offers an opportunity to boost retirement income. A few facts:

* It is available from October 2015 to April 2017.
* Those who have already reached state pension age, or are reaching state pension age before 6 April 2016, can secure an index-linked top-up, increasing the weekly state pension for life by paying a lump sum contribution.
* Unlike class 3 ‘additional voluntary contributions’, which are designed to ‘fill the gaps’ in a claimant’s national insurance record, state pension top-up (also known as class 3A contributions) provides the opportunity for people to add more pension on top of any existing entitlement.
* Contribution rates are set on an actuarially fair basis, with the size of the lump sum required determined by the person’s age and the amount by which they wish to increase their state pension.
* In line with rules on inheriting state pension under SERPS, a spouse or civil partner may be able to inherit at least 50% of their deceased partner’s state pension top-up.

The Department for Work and Pensions has highlighted that ‘like any conversion of capital to income, using capital to make a state pension top-up contribution can have the impact of reducing a person’s taxable estate. Couples may wish to consider their tax status when deciding whether one or both partners make the contribution, and also their relative ages on application, as these will impact payments resulting from state pension top-up.”

* For guidance developed specifically for pensions advisers, visit bit.ly/1VvQfbk.
* For detailed information, an online ‘calculator’ tool and to register for regular scheme updates, visit bit.ly/1A0vRHi.
* More guidance is at bit.ly/1jg6VVJ.

organisation faces one tax and one reporting scheme.

* Travel and subsistence: discussion paper. The paper is open for comment until 16 December and highlights the need for modernising the guidance. It is an important consultation to consider, given recent case law. It highlights that the government has identified a number of principles that any new set of rules should try to uphold:

  a) Tax relief should continue to be available for business travel but not for ordinary commuting.
  b) Any tests should be objective and based on measurable facts as far as possible; they should not rely on the intentions of the employee.
  c) New rules should not be based on the concepts of ‘permanent’ and ‘temporary’ workplaces except and unless these terms carry their everyday meaning.
  d) Employees should not have their journeys to multiple locations or areas that are a significant distance apart all treated as being ‘ordinary commuting’.
  e) Relief should not be available for subsistence where this is essentially akin to a private expense.
  f) Any changes should not come at an additional cost to the Exchequer.

* Public consultation on modernising VAT for cross-border e-commerce. The European Union consultation runs until 18 December and is part of the ongoing assessment of the new rules for VAT payments on cross-border telecommunications, broadcasting and electronic services (VATMOSS), which came into force earlier in the year. The consultation highlights that the ‘Commission will propose simplification measures for small business including an appropriate threshold’. Proposals include:

  a) extending the current single electronic registration and payment mechanism to cover the sale of tangible goods
  b) introducing a VAT threshold to help online start-ups and small businesses
  c) allowing cross-border businesses to be audited only by their home country for VAT purposes
  d) removing the VAT exemption for the import of small consignments from suppliers in third countries.

Other consultations and discussion papers include Reforms to the taxation of non-domiciles, open until 11 November, and Tips; gratuities, cover and service charges: employer practice, open until 10 November. More at www.accaglobal.com/advisory.

HMRC guidance
You can find the list of HMRC webinars at bit.ly/1Cbon2A

Benefits in kind
Over the past few months members have raised concerns
over the Volkswagen emissions issue and HMRC’s position regarding historic P11D returns, and what will happen going forward. For P11Ds, the obligation is to use the carbon emissions on the vehicle registration document or, if not available, the Society of Motor Manufacturers and Traders’ data.

If carbon data has been misreported by manufacturers then it would need to be revised for the vehicle types impacted. ACCA contacted HMRC in September and requested that it publish an update and guidance.

Law

Consumer Rights Act 2015

The main parts of the Consumer Rights Act 2015 came into force on 1 October. They affect a number of laws with regard to business-to-consumer transactions, including the Sale of Goods Act 1979 and the Supply of Goods and Services Act 1982.

The new law makes it clear what should happen when goods or digital content are faulty, or when services are not provided with reasonable care and skill. The changes are relevant to every business that sells directly to consumers.

The act states that goods must be as described, fit for purpose and of satisfactory quality. During the expected lifespan of your product you are entitled to the following:

* up to 30 days – if your goods are faulty, you can get a refund
* up to six months – if it can’t be repaired or replaced, you are entitled to a full refund in most cases
* up to six years – if the goods do not last a reasonable length of time, you may be entitled to some money back.

Businesses will therefore need to consider the impact on revenue recognition as a result of the changes from the previous 14-day return period. Summaries can be found at www.accaglobal.com/advisory.

Auto-enrolment

As previously highlighted, the Financial Conduct Authority and the Pensions Regulator, in their Guide to the regulation of workplace defined contribution pensions, set out in the graphic on page 9 that ‘Advice to employers on scheme selection is not regulated’.

Professional indemnity insurance providers have differing views on this area. You can find out the latest position of Lockton, including answers to a number of questions such as:

* What is the insurer’s view on accountants who operate payroll for auto-enrolment contributions?
* What is the insurer’s view on accountants who provide advice to their clients on available pension options?
* What is the insurer’s view on general advice regarding auto-enrolment legislation?
* What is the insurer’s view on assessing eligibility within the workforce?

Engagement letters are also important when considering regulated and non-regulated activity. As the Pensions Regulator has highlighted in publications, there are instances that could make it difficult to tell whether an employer is seeking advice as an employer or as an individual (for example, where the client is themselves a potential member of the pension scheme). To mitigate the risk of inadvertently providing investment advice to an individual, the adviser may like to specify in their letter of engagement that any advice to an employer is provided in their capacity as an employer and not as an individual.

You can see more at www.accaglobal.com/advisory.

See also a short video with guidance from expert Kate Upcraft at bit.ly/1VAahwX.

CMA guidance

The Competition and Markets Authority (CMA) has published information that will help accountants inform their clients of the importance of complying with competition law. The CMA recognises that professionally qualified accountants are trusted advisers for businesses of all sizes, working across all sectors, and that they are well placed to guide clients as to where to look for legal guidance.

After working closely with ACCA, the CMA has created a 60-second summary, bit.ly/Accountants60SS, which provides an introduction to competition law.
Taking the register

Unlisted companies registered under the UK Companies Acts have until April 2016 to implement a PSC Register, but the time to prepare is now, says Michael Cantwell

UK companies will soon be subject to significant new rules on transparency designed to combat tax evasion, money laundering and terrorist financing, as well as boosting trust in the country and promoting it as a sound business and investment destination.

The People with Significant Control (PSC) Register clause of the Small Business, Enterprise and Employment Act 2015, which comes into effect in April next year, will create a full picture of both the legal and beneficial ownership of nearly all British businesses.

From then, companies must start keeping a register of all people and legal entities (such as other companies) that have a ‘significant control’ over them. These are defined as those who:

* directly or indirectly hold more than 25% of the shares in the company
* directly or indirectly hold more than 25% of the voting rights in the company
* directly or indirectly hold the right to appoint or remove a majority of the board of directors
* exercise, or have the right to exercise, significant influence or control over the company
* exercise, or have the right to exercise, ‘significant influence or control’ over the activities of a trust (of which the individual is a trustee) or firm (of which they are a member) and the trust or firm meets one or more of these conditions.

Crucially, companies must not only collate the relevant information required to compile a register, but also ensure that the records are properly maintained and updated as changes occur.

Statutory guidance on the meaning of ‘significant influence or control’ and general non-statutory guidance required by companies to implement the PSC Register were published last month.

Where things fall down

The legislation will create increased clarity by making information that identifies individuals holding significant influence or control in a company publicly available.

This will be especially useful for the purposes of openness in businesses that have complex structures.

Overall, the aim of the act is to increase transparency and business trust; however, individuals/entities that wish to remain anonymous will attempt to remain so and will continue to use structures designed to do this. This may add to the administrative challenges that the act will bring – resulting in players on both sides of the argument investing more in professional advice.

Tech talk

Visit accaglobal.com/technical to see guidance on technical issues, including factsheets and policy submissions.
the public or invisible to tax authorities or not want family, spouses and former spouses to know their investment profiles.

In addition, the legislation could have a detrimental effect on some companies – for example, organisations whose PSCs are involved with other, controversial companies or are publicly known for negative reasons. As a result, consumers and other businesses may refuse to do business with them.

However, company officers must take all reasonable steps to pursue them or risk criminal prosecution, imprisonment and heavy fines – and the act allows officers to impose sanctions against PSCs who fail to provide the requested information. This would be on top of a possible custodial penalty.

Of course, the true impact of the PSC Register remains to be seen and many companies will be affected in different ways – but there is time to prepare.

What do to next
‘Required particulars’ must be included for each registrable person and/or each registrable, relevant legal entity with significant control. This personal information will include: name, service address, nationality, date of birth and usual residential address. However, certain safeguards are designed to protect those who may be at risk of violence or intimidation. Safeguards include:
* removing the day from the date of birth of the individual from the central register at Companies House. This is applicable where the company is also maintaining its own PSC Register (which will show the full date) and not where the PSC information is solely kept at Companies House
* the company not using or disclosing the residential address of the individual, although the registrar can give it to identified public authorities and credit reference agencies
* making a PSC application to prevent the registrar from disclosing any information recorded on the Register
* the company not using or disclosing the residential address of the individual, although the registrar can give it to identified public authorities and credit reference agencies

Although implementation of a PSC Register has been postponed to April 2016, companies should not hesitate in preparing and putting in place the processes they need to comply. They must also keep all records thoroughly up to date moving forward.

From June 2016, when applying to register a new company, a ‘statement of initial significant control’ must be filed. A company already registered at Companies House should have a PSC Register from April 2016 and, from June 2016, must send its PSC Register information annually to Companies House with its ‘confirmation statement’ (which replaces its annual return). Companies House will hold PSC information on all UK companies by April 2017.

A company that is subject to the PSC Register must:
* take reasonable steps to find out any registrable person or registrable relevant legal entity in relation to it
* notify any of these people or entities to supply or confirm information
* notify others it believes have relevant information to supply or confirm
* notify registrable persons or entities if it believes they have ceased to be such or their registrable particulars have changed.

Failure to comply
Company officers failing to administer PSC rules – and non-complying individual PSCs and those who control legal entities that are PSCs – can expect fines and imprisonment. Levels and lengths have yet to be determined.

In addition, failure by an individual or legal entity to respond to a company’s enquiries hands the company the right (without court order) to disenfranchise all their shares and impose other restrictions on them. This penalty is extremely likely to make them take notice.

Significantly, all registrable individuals and relevant legal entities must proactively inform the company of their interest (or any changes to it) regardless of requests received from the company.

The new rules apply to all UK companies formed and registered under the UK Companies Acts, except those subject to the disclosure requirements of the DTR 5 (that is, companies whose securities are admitted to trading – for example, London Stock Exchange and AIM companies). These will be subject to Chapter 5 of the Financial Services Authorities Disclosure and Transparency Rules, and must already disclose significant shareholders.

Michael Cantwell is a partner in the corporate department of law firm Hlw Keeble Hawson
The view from

Stephen Bowen FCCA, lease accountant, BBC’s Centre of Excellence for Accounting and Reporting

I wanted to work in a finance environment since the age of 13. I have always been fascinated with money as a concept. Accountancy was not my first choice (economics was, being my degree subject), but I was convinced by my father that accountancy would be an excellent career choice. I began in internal audit working for the then recently privatised Welsh Water.

I stick by the motto ‘Don’t give up, as nothing worth achieving comes easy’. I say to ACCA students today, passing the exams isn’t easy – they are not designed to be. Juggling work, life and studying is a challenge. But having the right frame of mind, the passion for the subject matter and the drive to obtain a world-recognised qualification is what gets you through the long hours.

I am not afraid to take risks. After 11 years at Welsh Water (which by then had become Hyder), I left a job in which I had been performing well and moved to a smaller organisation (and a completely different sector) – Chepstow Racecourse. I joined as a financial controller in what was a challenging move, and from which I learnt a lot about the workings of small businesses. It also gave me a good grounding for my later move from Corus (now Tata Steel) to an owner-run container leasing firm.

It’s important to recognise that the job is more than just numbers. Today’s accountants also need to provide a strategic and risk-focused approach and always be open to continuous improvement. In my current role, we have implemented a lean/Six Sigma approach to our way of working, which has helped deliver a respected and high-quality service for our internal needs.

Giving something back is a rewarding bonus to the role I perform as a mentor to ACCA students. It is a pleasure to see younger employees growing in their roles, gaining in confidence and maturity as they progress through their studies and eventually becoming qualified accountants.

It is a constant challenge to keep up to date. Over the past three years I have been the BBC’s finance lease accounting specialist, overseeing the BBC’s finance lease accounting and offering guidance in readiness for the forthcoming accounting standard. This standard is set to radically change the way the business world accounts for all leases over one year, and I’m ready for the challenge.

Outside of work I am a student of the Martial Art of Shaolin Qi Shi Kung Fu. I am also a qualified BSAC scuba diver and an F1 enthusiast. Away from sport, I enjoy art collecting and solving Sudoku and other such puzzles.

Did you know...?

You can discuss common issues and network with other ACCA members across the corporate sector in our dedicated LinkedIn group http://bit.ly/1Ltkk7r

See Stephen Bowen’s article on implementing the leasing standard in the January 2016 edition of Accounting and Business
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Learning from giants

Companies in Silicon Valley may offer some unusual employee perks, but their reasoning is sound and could be a good example to the rest of us, says Catherine Flannery

Ball pools, slides, workers scooting their way across the office – is this your view of a typical day’s work in Silicon Valley? Some of the more traditionalist among us might baulk at the idea that we can learn from the tech giants that have risen to prominence over the last decade. But can companies like Google and Facebook, who are succeeding in motivating the brightest talent, show us the way forward when it comes to attracting and retaining our own staff?

Companies in California’s technology hub are moving away from the traditional ‘carrot-and-stick’ model of motivation to what author Daniel Pink calls Motivation 2.0. In his book, Drive: the Surprising Truth about What Motivates Us, Pink uses a range of scientific experiments to illustrate that traditional ‘if then’ incentives (for example, bonuses on meeting targets) don’t work and can actually have a detrimental impact. Motivation 2.0 focuses instead on intrinsic motivators: autonomy – the desire for self-directed work; mastery – wanting to become good at what we do; and purpose – the feeling that we are working towards something bigger than ourselves.

So what do these companies do to transfer these ideas to the workplace? How can companies motivate their staff the Silicon Valley way?

Time off

One incentive that repeatedly hits the headlines is Google’s ‘20% time’, whereby staff can use 20% of their time to pursue projects that aren’t part of their day job. It has paid off, providing Google with new services such as Gmail and AdSense. Taken at face value, encouraging staff to use 20% of their time for their own projects would seem like a nonstarter to any finance director. However, when you consider benefits such as the ability to engender staff with a purpose and feeling of ownership, while teaching them the practical skills they need, not to mention the potential innovative projects themselves and the value that they
could add to the company, it is certainly worth considering.

Google has a highly skilled and technical workforce brimming with energy and ideas. It has put its trust in this workforce not only to motivate staff but also to grow the business. I can’t imagine many companies implementing 20% time, but perhaps the more traditionally risk averse could start with 5% time – just one day a month to give their staff autonomy to focus on their own projects, master skills and feel that they are contributing towards something bigger than their day-to-day responsibilities. As Laszlo Bock, senior vice president of people operations at Google, says, ‘Give staff freedom and they will amaze you’.

Ditch meetings
Another widely publicised move is Facebook’s ‘No meeting Wednesday’, implemented with the goal of giving staff time to dig in without being interrupted. When was the last time you had a whole uninterrupted day to get things done? Perhaps you work from home, book yourself a meeting room, or go into the office early or stay late, but imagine if you could guarantee one day a week of uninterrupted work time. Jason Fried, co-author (with David Heinemeier Hansson) of Rework, goes even further to suggest ‘No talk Thursdays’, describing giving someone uninterrupted time as ‘the best gift you can give anybody at work’.

Maybe we don’t think we need to go as far as a silent Thursday, but trialling a no-meeting day once a month could make a difference to productivity and morale – a gift to all staff of one day of uninterrupted work time to feel the sense of achievement at getting things done.

Going dark
Like many other companies, those in Silicon Valley have their fair share of perks designed to keep staff at the office longer: free food, dry-cleaning services and so on. But a key factor for many in choosing their employer is work-life balance.

While the culture of being the last person at your desk still pervades in many workplaces, Google’s Dublin office instigated ‘Dublin goes dark’, encouraging staff to switch off at the end of the day by not only telling them not to check emails after 6pm but asking them to leave their laptops in order to remove the temptation.

How often have you found yourself or your staff checking emails at evenings or weekends? Generally, the volume of emails after 6pm is small and there are few that can’t wait until the morning. Encouraging your staff to ‘go dark’, even on an ad hoc basis, could send the message that management cares about its people – an active demonstration of commitment to staff.

Keeping highly trained skilled technicians motivated in the long term can be a tricky business and traditional monetary benefits don’t cut it anymore. If we want to attract and retain the best staff, perhaps we should take on board some of these more bold moves. Google receives more than two million job applications a year and came out on top for employee satisfaction in Glassdoor’s Employees’ Choice Awards 2015.

Trialling these ideas and offering incentives that focus on autonomy, mastery and purpose may be a bold move and require a key shift in the tone from the top but could be one that pays dividends. Putting trust in the staff in this way will not only ensure that you can attract the best and brightest but that you can also get the best out of them in the long term, by giving them a stake in the enterprise and a feeling of purpose and ownership that can otherwise be difficult to come by.

Catherine Flannery is a director at CMF Training

For more information:
Find Drive: the Surprising Truth about What Motivates Us by Daniel Pink at bit.ly/drive-pink
Integrated reporting (IR) provides an opportunity for companies to tell the story of how they create sustainable value in a new way. Largely voluntary at this stage, it is an international movement that is gaining momentum. IR is based on South Africa’s corporate governance codes, the third of which – recommending that companies tell an integrated story of their performance and prospects – has been adopted as a reporting requirement of the Johannesburg Stock Exchange.

The skills required and demands placed on the practitioner by IR are mostly around the provision of board-level advice to companies on how to embed ‘integrated thinking’ into organisations. Senior directors and finance professionals may be tasked with assessing the benefits of this new model and establishing a roadmap to IR. This would include how the six ‘capitals’ – financial, human, natural, social, intellectual and manufactured – interact with one another in creating value.

The UK Strategic Report places companies well on the road to IR, with requirements around the business model, corporate strategy and value creation. The EU Directive on non-financial reporting, expected to be adopted by member states over the next two years, will reinforce UK measures.

Jeremy Osborn, integrated reporting leader, EY

Did you know…?
ACCA has 200 ‘Guides to…’ which cut through technical issues and are designed to be shared by practitioners www.accaglobal.com/factsheets.html

The view from
Elaine Shortridge FCCA, owner/director of Shortridge & Co, charity runner and karate instructor

My career was shaped by an unfortunate turn of events as a teenager. At 15 I was diagnosed with a brain tumour. While surgery was successful, the impact on my education at such a crucial stage was significant.

A careers adviser helped shape my future by arranging a work placement with a local sole practitioner. After only two weeks, the practitioner confided that I had all the attributes to be a good accountant. This restored my confidence in my abilities and I went on to study for the AAT and then my ACCA Qualification, completing it in 1996 and going on to be a partner in the firm. As its first employee, I was able to play an important part in its growth and expansion.

I moved on to another firm, but this was sold and I was forced to re-evaluate my future. I moved into general practice and today, while working with a small portfolio of clients, I have a nice mix of work – bookkeeping, tax returns, payroll and general business advice – and I prefer to focus on delivering a quality service to a smaller number of clients.

As a sole practitioner, the buck stops with me. You’ve got to be dynamic in this day and age to keep on top of everything required to run a small practice. You need to manage your time effectively, while also keeping clients happy. I’m not actively seeking new clients, but I always welcome referrals from existing clients.

The future for sole practitioners is hard to predict. Technology is changing our world. You have to consider how beneficial the cloud can be and use it to ensure clients receive the service they demand.

The ACCA Qualification has been a supporting pillar throughout my career. The basic principles of the Qualification have enabled me to consistently deliver work of a high standard, while also giving me the confidence, strategic planning and communication skills to run my business, and to help others run theirs.

I make full use of ACCA’s resources to complete my CPD. I regularly attend local seminars and network events. I also really like ACCA’s digital publications; one click and you get straight to the technical information you need.

As chair of the Sheffield Members’ Network Panel, I help shape our local programme of events. We help determine the programme, provide feedback on ACCA’s website and represent local members. We get involved in our local community; I mentor students at Sheffield Hallam University who are considering a career in accountancy.

Life outside of accountancy certainly isn’t dull! I have recently completed a BSc in psychology and am planning to study for my master’s next. I’m a 2nd Dan karate instructor and recently completed a 3x10k running challenge to raise money for the hospital that treated my cancer.
From the flames

The fall from grace of former ‘Big Five’ firm Arthur Andersen had a resounding impact on the accountancy industry. Can the new firm transcend the negativity, asks Lydia Rochelle

Following the Enron scandal in 2001, where the former energy giant was found guilty of one of largest frauds in history, Arthur Andersen was caught up in the fallout and found guilty of criminal charges relating to its handling of the Enron audit. The verdict was subsequently overturned by the US Supreme Court, but the damage to the firm’s reputation prevented its survival.

Despite this, it was reported in September that a new incarnation of the firm, based in France, is set to relaunch in Europe in 2016 as the ‘new’ Arthur Andersen. However, this iteration of the defunct firm also faces a battle with Andersen Tax of the US (set up by a former Arthur Andersen partner), which said in 2014 that it had bought the ‘iconic brand name’ for its tax advisory group. Discussions are ongoing. The new Arthur Andersen will offer most of the old Andersen services, apart from tax and audit.

The fact that two firms have now tried to reprise the Arthur Andersen name raises several questions. Why would they wish to use a name associated with scandal and failure? What are the prospects for the new Andersen businesses? Is the brand still a poisoned chalice or a phoenix looking to rise?

Perhaps the old adage ‘time heals all wounds’ is true. Until Enron, Arthur Andersen was highly regarded in the market, seen as a stalwart of good practice and fairness. In fact as recently as 2014, research commissioned by Andersen Tax showed the Andersen name ranking more highly than the brands of all but three other big accounting groups. It is also possible that the success of Andersen Consulting, spun off from Arthur Andersen a year before the Enron scandal and renamed Accenture, carries some positive associations. And bear in mind, the old Arthur Andersen was found not guilty.

So how can it rebuild the brand? In a word: transparency. This will have to apply across the firm, from business practices through to communications. It also needs to be clear about its values and proposition. It must define how it wants to be seen in the market and how it differs from the old Arthur Andersen. An effective communications team will be vital to building its reputation and ensuring consistent messaging. It also needs clear benchmarks and key performance indicators, such as an annual perception review.

However the new Arthur Andersen manages its revival, the profession will be watching to see whether the phoenix rises and flies – or just burns.

Lydia Rochelle is an account director at reputation management agency Byfield Consultancy

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Lydia Rochelle is an account director at reputation management agency Byfield Consultancy
In the latest in our series, ‘all you ever wanted to know but were too afraid to ask’, we look at the why, how and what of writing a corporate blog.

The modern blog started life as an online diary – a ‘weblog’ – almost as long ago as the dawn of the internet. The ‘blogosphere’ is now a vast and hugely varied virtual space. Businesses across the board have recognised that a good blog can produce real benefits: it has become a powerful tool for marketing, building relationships, thought leadership and for giving a human voice to a faceless corporation.

But how do you know if blogging is for you? Successful blogs require commitment, but Katy Howell, CEO of digital media consultancy Immediate Future, believes it is worth carving out the time: ‘You can open doors by having an online personality. Someone who follows your blog is much more likely to take your call. It becomes easier to make connections.’

But it also takes some planning. A blog written in isolation will struggle to find readers. ‘You’ll be barking into space,’ as Howell puts it. To ensure you attract the greatest following possible, you will need to consider how to link across to other websites and social media. You should also consider how to link from your company or firm’s website to your blog. It’s all about driving traffic your way, and the more linkages your blog has, the higher up the search engine results it will eventually appear.

Once you’ve done some legwork to drive traffic in your direction, you need to think about how to make people actually click on your link. ‘The headline is absolutely crucial,’ says Sally Percy, founder of financial content website Love Letters Publishing. ‘It can be tricky. You must create a sense of urgency, or why will someone read this blog over all the others? There are techniques the blogger can use. People respond to lists: the ‘Top 10 headaches around auto-enrolment’ or ‘The five most important changes to the Finance Act’. Personalising a topic is effective too, such as ‘Why you aren’t getting promoted’ or ‘Ways to motivate your staff’.

Toning up
Reading other people’s blogs is the quickest way to see what works and to understand the blogger’s tone of voice. Setting the appropriate tone can be tricky. It’s important to strike a balance between over-familiarity and what Howell calls ‘the brand version of you’. Faux chumminess is likely to be inappropriate to an accountant’s subject matter, and a dull blog that appears to be a regurgitated press release will not interest readers.

Thankfully, professional help is available. Many blogs have moved away from the ‘stream of consciousness’ of their heritage and have evolved into a ghost-written strategic, targeted channel of

When choosing a topic, consider the five questions your clients ask most frequently and five questions you wish they would ask.

Accounting and Business 11/2015
corporate communication. Percy, who ghost-writes many corporate blogs, says her input varies. ‘With some we’ll have a long phone conversation, going through what angle they want to take, then I might highlight some key points that need more detail,’ says Percy. But she also gets one-line emails requesting a blog on a certain subject. ‘I’ll do all the research and then write a punchy piece that will grab the reader’s attention.’ Some might see this as cheating, but for many who have the ideas but not the time to execute them, outsourcing is a sensible option.

Blogging can also be a team effort. Even if there is only one name attached, others may have contributed ideas for content and helped with structure. More pairs of eyes are likely to improve quality, but beware that the process doesn’t hold things up. Blogs need to be timely and keep to a consistent schedule. If a blog is weekly, then it must remain weekly. ‘Don’t just dabble in it,’ says Percy.

Know your audience
Deciding what topics to write about can also be difficult. Again, there are some simple techniques to help get the process started, such as the ‘five by five’ method. Here, the blogger considers the five questions his clients or customers ask most frequently and fashions the answers into a blog. He then thinks of the five questions he wishes his clients would ask him, leading to another five blogs. The executive blogger should explore areas where his knowledge recognised.

The blog also represents a great opportunity for a company or firm to display its thought leadership. It can show existing and potential clients what the firm’s values are and what direction it is taking, and reassure them that this coincides with their own outlook. The comments section of the blog gives the chance to respond to clients’ concerns, showing they are valued. This is also where potential PR crises can be managed.

There are always risks, of course. Sloppy writing should be avoided. And, at the extreme, careless drafting and comments intended to be light-hearted can cause offence and damage the brand. It’s always a good idea to imagine how the piece would look if it went viral.

But an executive blog can be a real benefit to a business, and some claim they are absolutely vital. Even if you aren’t joining the blogosphere, your rivals probably are.

Matt Warner, journalist

Key facts
A company that blogs generates on average:
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97% more inbound links
126% more leads
434% more indexed pages

Source: Brightseed

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11/2015 Accounting and Business
The view from
David Bailey FCCA, NHS finance consultant and author of best-seller *The NHS Budget Holder’s Survival Guide*

**Snapshot: housing associations**

Housing associations could be reclassified as public bodies, putting tens of billions of pounds of borrowing on to the government’s balance sheet. The Office for National Statistics is reviewing their status to determine if they can still be regarded as private sector bodies for accounting purposes. This follows the government giving tenants a discounted ‘right to buy’ and cutting housing association rents by 1%.

Comments by David Cameron appear to confirm the move is likely. ‘Housing associations are a part of the public sector that has not been through efficiencies and has not improved its performance, and it is about time that it did,’ he said.

Housing associations are angry at the possible reclassification. Ruth Davison, director of policy and external affairs at the National Housing Federation, said: ‘Housing associations are emphatically not part of the public sector – they are the most successful partnership between state and private enterprise in the UK’s history, having brought £76bn in private investment to the table over the past 30 years.’

Reclassification would mean £59.3bn additional debt included on the public sector balance sheet, equivalent to an additional 4% of public borrowing.

**Sources:** Office for Budget Responsibility; National Housing Federation

**Part of the joy of my work is that I never have an average day.** I work as a management consultant and trainer in the NHS on budgeting, tenders and business cases. There’s always a new challenge, a new tender to win, or a new group waiting expectantly for me to begin their training day.

When working on tenders I’m responsible for challenging the proposed service, staffing structure and activity, and for costing the proposed service. I’ve developed my skills every year in many different fields, including training, facilitation, information design and document editing, not just accountancy. In many of my consultancy engagements I am working with a small NHS team against a huge division of a commercial provider, with legal, financial and marketing experts galore.

**What used to motivate me was learning.** Now I’m mid-career that’s not so important. What motivates me today in working on tenders is winning the work for the NHS, so we get the highest quality of service for patients for the money available. When I run training events I want to make sure people can implement simple practical changes in their everyday working lives to make a difference to their relationship with finance. Your figures have got to be believed, as well as true and fair.

**The lesson I’ve learned from my career is simple:** always make yourself useful.

If you can see that something needs doing, do it. I saw there were tens of thousands of NHS budget holders with no training and little understanding of their budgetary responsibilities. So I wrote *The NHS Budget Holder’s Survival Guide*. Nearly 20 years later it’s still in print; it has been a best-seller in its field and it still helps to make a difference.

My contributions have made a huge difference to child and adolescent mental health services in many counties in England. Services are so much more acceptable to their users, with clear financial and governance arrangements, and staff more suited to the needs of young people. It’s great to feel that I’ve made a difference to people’s lives when I’m an accountant.

My main interests outside work are photography and music. I’m happiest documenting the world with a camera in my hand and a live music soundtrack.

**Going public**

Visit [www.accaglobal.com/uk/publicservices](http://www.accaglobal.com/uk/publicservices) for insights on public services and the not-for-profit sector.

‘The lesson I’ve learned from my career is simple: always make yourself useful’
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An important tool

A study into whole of government accounts looks at how public sector accounts are used and finds they could prove an important tool for public policy decision-makers.

Without the appropriate level of investment in educating politicians, government ministers and other key stakeholders, effort spent creating consolidated accounts for the public sector could be wasted in the future. This is one of the conclusions to be drawn from an in-depth study of the whole of government accounts (WGA) prepared by a number of countries around the world.

But if the accounts can be produced in a timely fashion, and presented in a format so that they are easily understood, then they will become an increasingly important tool for both public policy decision-makers and those that scrutinise how public money is spent.

The study, Consolidated government accounts: how are they used?, investigates how different systems of financial reporting of the public sector are put to use, who looks at the accounts and what impact they are having on public policy. And, most importantly, it aims to show whether the rhetoric matches the reality: for some countries, the move to an accruals-based financial reporting system had been heralded as a brave new world of financial accountability, but there is a strong belief that the accounts, when produced, gather dust on shelves around the political establishment until the next set arrive a year later.

And this might in part explain why there has not been a rush of countries wanting to adopt such a system. There are only a few countries that do produce consolidated accounts, including Australia, Canada, New Zealand, Sweden and the UK, and it is these five countries upon which the study focuses.

‘These countries went forward with such a system for different reasons,’ explains Gillian Fawcett, ACCAs head of public sector. ‘It could have been for economic or political reasons, or both, together with a need to be transparent and accountable. We had heard a good deal of rhetoric about how these accounts were being used, but we hadn’t seen any specific research that explored this further. And when we carried out a literature review, we found that the focus of previous studies had been on expected use rather than actual use.’

So what does this new study show, and how can it help inform the future direction and development of consolidated government accounts?

‘The focus on the use and usefulness of consolidated government accounts couldn’t be timelier, as governments are striving to make best use of tight budgets to maintain quality public services as well as remain accountable and transparent,’ says Dr Danny Chow, a lecturer in accounting at Durham University Business School and lead author of the study. ‘But if government consolidated accounts are to go beyond being viewed by many commentators as mainly an accounting-centric function, more attention needs to be given to the potential users before governments embark on their journey of preparing consolidated accounts.’

The study found that a combination of overly complex financial reporting and a lack of financial literacy among politicians is making it more difficult for policymakers to take advantage of the potential benefits available from the financial reports. However, the study also reveals how the introduction of consolidated accounting systems in these countries could have a number of positive impacts.

For instance, in all five cases, the study finds that the move has been an effective stimulus in transforming the quality standards of accounting practices and systems across governments, which in the past had been heavily cash-based. At the same time, reforms based on consolidated government accounting have highlighted limitations in existing systems of accounting and accountability, such as under-reported liabilities or inconsistent accounting practices.

Different approaches

Also, variations in approach between the countries limit the extent of global comparisons. Each country draws its consolidation boundaries based on local specifics linked to its constitutional form rather than determined by adherence to a universal or accounting notion of consolidation. The UK delivers a single set of accounts that include central government, all local governments and public corporations, but excludes the part-nationalised banks. Australia provides separate accounts for federal, state and local governments, New Zealand produces separate central and local government accounts while Canada has individual accounts for federal government, each of the 10 provincial and three territorial governments, and all local governments. Sweden separates central and local government.

These varying ideas of what constitutes government, and therefore what should be included in the accounts, provide the backdrop for understanding how consolidated government accounts are being used and, more importantly, in defining who are their users.

For instance, as the study says, in the UK we see the political desire to use accounting to illuminate macroeconomic policy issues, such as the build-up of long-term liabilities such as public...
sector pensions, while providing a more cohesive and comprehensive accounting-based information system underpinning all levels of government. But the use of the accounts for such macroeconomic management will remain limited until a time when the accounts are not qualified by the comptroller and auditor general. This situation is not helped by the fact that there are other competing accounting systems.

Age matters
It would also appear that the length of time for which the consolidated approach has been in operation can have an impact on how it is used. The UK system is comparatively young, with the first set of accounts for 2010 being published at the end of 2011, while New Zealand has been producing its version since the early 1990s. It is perhaps not surprising, then, that the study finds a more positive attitude in New Zealand than in the other countries. Interestingly, the study also notes that the investment made by the major accounting firms in supporting the development of government policy, and then making available their resources and knowledge base, has been another factor in the continuing support for such accounts in New Zealand.

Australia and Canada are similar to the UK in that their consolidated accounts are used primarily for compliance reporting and audit.

Sweden is unusual in that the consolidated accounts have become an integral element of public sector financial management. Accounts are released within four months of the year end (the fastest the UK has achieved is one year post year end), while the ability to audit the accounts, make systems improvements and achieve better asset management seem to be the biggest wins in the move to consolidated, accruals-based accounts.

But the budget and EU-mandated statistical accounts continue to be the dominant set of accounts used by politicians. And this perhaps drives at the central issue surrounding the use of consolidated accruals-based accounts. Until the basic financial literacy of politicians and government officials improves dramatically, these sets of accounts will not be thoroughly scrutinised, understood or acted upon.

‘The financial literacy of parliamentarians will need to step up in terms of effective scrutiny,’ says Fawcett. ‘We’ve recommended that new members of parliament receive the appropriate induction and development programmes.’

At the same time, Fawcett suggests the need for appropriate follow-up subsequent to any scrutiny process. ‘And if they are to have credibility, then they will have to be timely, with more forward-looking information,’ she adds.

Organisations such as ACCA will play a key role in the future development of these accounts, both in terms of advising the immediate users such as the parliamentarians to aid their understanding, and on the technical side to ensure consistency in standards and application. But ultimately the accounts need to be useful. As Fawcett says: ‘We want the information to be as clear as possible for the end user.’

Philip Smith, journalist

For more information:

Consolidated government accounts: how are they used? is available at www.accaglobal.com/public-sector

Philip Smith, journalist

11/2015 Accounting and Business
### Data PAGE

#### Bank Base Rates

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### Courts

#### ENGLISH COURTS

**Judgment Debts:** High Court (Civil & Chancery Court) 5% on £1,500 (previously 15% on £1,500).
**Funds in Court:** Special Rate (persons under disability) 0.5% on £1,500 (previously 15% on £1,500).
**Interest in Personal Cases:** Future Earnings - 1% & 4.5% (previously 15% on £1,500).
**Interest in neonatal cases:** 0.5% on £1,500 (previously 15% on £1,500).
**Interest on estates:** 0.5% on £1,500 (previously 15% on £1,500).

**Administrative ESTATES:**

**England & Wales:** Interest on estates £1,500 (previously 15% on £1,500).
**Northern Ireland:**

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### Data specially compiled for AB by eMoneyfacts.co.uk

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Shrink rap

Pembrokeshire County Council’s CFO Jonathan Haswell and senior finance officer Matthew Holder have taken the sting out of budget-cutting with considered and innovative initiatives.

It has been a difficult few years for local government across the country, as funding is squeezed and difficult decisions have to be made. Pembrokeshire County Council – serving a population of 123,000 in the beautiful, remote south-west corner of Wales – is no exception. In the front line of budget-balancing is the finance department.

CFO Jonathan Haswell has risen quickly through the ranks since joining the council in 2012 as head of internal audit. He was thrown in at the deep end in terms of the cuts facing councils, with Pembrokeshire hit harder than some. ‘Finance has a key role in delivering cost reductions and efficiencies,’ he says. ‘It has been challenging.’

The funding of Welsh councils depends heavily on the Welsh Government’s annual budget from the UK Parliament (it received £13.6bn in 2015). The 2010 spending review began a series of cuts in that budget, with the real-term reduction between 2011 and 2016 probably something in the region of 11%.

Budget slashing
The Welsh Government has responded by cutting its grants to the 22 councils in Wales. The cut for Pembrokeshire was 4.2% for the 2015/16 financial year (from £166.7m to £160m) and will be of a similar size for the next four years. The council’s budget report, written by Haswell in March 2015, proposed cost reductions and efficiency savings of £12.3m in 2015/16, with another £24.4m between 2016 and 2018.

‘Over a six-year period, up to 2019/20, we will have to find savings of £75m, averaging over £12m a year,’ says Haswell. ‘But we are in a good financial position: we are lean and have the lowest council tax in Wales. We have been able to deliver the projections so far – we achieved cost reductions and efficiencies worth £12.9m in 2014/15. But it will get harder year on year.’

A majority of the council’s members are independents, who consulted with residents over proposed cuts. Some savings have been very visible – switching refuse collection (black bags) to fortnightly and recycling, for example, has saved £400,000 a year, and council tax went up 4.5%, raising £2.2m. The budget cuts have, so far, gone as well as could be expected.

Jon Haswell
‘We achieved cost reductions and efficiencies worth £12.9m in 2014/15. But it will get harder’

Jonathan Haswell

2014
Appointed CFO, Pembrokeshire Council

2012
Head of internal audit, then head of finance, Pembrokeshire Council

2004
Corporate governance manager, North Somerset Council

2001
Principal auditor, Audit Commission

Matthew Holder

2010
Senior finance officer, Pembrokeshire Council

2000
Accounts assistant, The Prince’s Trust
If Haswell and Matthew Holder – a senior finance officer at the council who is about to complete his ACCA training – are anything to go by, morale in the finance department is pretty good. ‘It has had a minimal impact on staff,’ says Haswell. ‘There haven’t been any blanket job losses. The biggest challenge has been getting everyone on board – council members weren’t elected to cut services, so we’re trying to do this in as effective a way as possible, giving the public what they want at a level that’s affordable, by thinking innovatively.’

The 60-strong finance team includes 17 qualified accountants (including 10 ACCA members) and 13 in training (including six ACCA members). ‘I’m very lucky that we have a well-qualified, committed team to support me,’ says Haswell. ‘There are no other big employers close by, so it is far easier to retain staff than it would be in a city, but we don’t have to coax people to stay – it’s an enthusiastic team.’

Stepping stones

As part of a restructuring of the finance team, Haswell has reduced the number of senior positions and created ‘clear stepping stones’ from entry level to the CFO role. ‘There was a bottleneck before, but now staff can see a lot more opportunities. We try to introduce staff rotations when we can, and I often ask staff to accompany me to committee meetings and public events so they can see what we do and feel involved. It’s very easy for accountants to get tunnel vision, so I encourage them to see the bigger picture.’

Both Haswell and Holder say they chose to be accountants because they were keen on numbers at school. Both left education relatively early and went straight into finance roles and on-the-job training – Haswell as a YTS trainee at Torridge District Council in Devon, and Holder as accounts assistant at The Prince’s Trust.

Haswell qualified with AAT (Association of Accounting Technicians) and began ACCA training in 1991 as a response to possible outsourcing at Torridge. ‘Local government isn’t a job for life any more – you have to be adaptable,’ he says.

Holder switched to the ACCA Qualification when he realised that most of the finance jobs advertised asked for it: ‘I just felt that the ACCA would make a well-rounded accountant.’

For the past 18 months, as well as studying for his finals, Holder has acted as senior finance officer for Education through Regional Working (ERW), an alliance of six councils across south-west and mid-Wales formulating a regional strategy and business plan to deliver school improvement services. It means Holder is effectively responsible for the day-to-day financial management of a budget of £65m for 2015/16, so when he says that one of the most valuable things about his role at Pembrokeshire is the ability to learn on the job, it is not difficult to believe. ‘I get on-the-spot training in abundance,’ he says. ‘Jon is my mentor and always lets me have a first stab at everything.’

Haswell says: ‘ERW was only established last year and Matthew’s role has been brilliant for him. We knew the role would be challenging, but he’s very capable and was very keen to do it.’

Holder adds that his ERW role fits in nicely with his ACCA training: ‘I get to do the whole range of what I need to know in one job, from writing reports to presenting financial information to someone who doesn’t necessarily understand finance. And I’ve just produced the first set of financial statements for ERW.’

They head back to work. ‘Finance departments can be seen as the fun police, but we have made a concerted effort here for finance and internal audit to be seen as a management tool,’ says Haswell. ‘The cost agenda has forced that to a degree. They need our expertise.’
Bangor University Business School is consistently ranked as one of the leading Universities in Europe and in the world top 20 for its Banking research (Federal Reserve Bank of St Louis/RePEc, 2015). The school is also ranked independently in the top 25% of UK business schools for its Business and Management research (Times Higher Education, 2015).

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Gender agenda

With companies seeking to address the gender balance by encouraging more female representation on boards, women can equip themselves for senior roles with an MBA.

Gender diversity at senior levels is still a challenge for businesses, and even though there is a growing understanding of the contributing factors that negatively impact women in the workplace, there remains controversy and heated debate as to how that can – and should – be tackled.

The issue of the gender pay gap has been under increasing scrutiny, especially over the last 12 months. However, it can’t be truly rectified unless the underlying causes are addressed.

Companies of all shapes and sizes have introduced initiatives that not only aim to increase the number of women they recruit at all levels and create a working environment that is sympathetic to the challenges for women in the workplace; but that also ensure development opportunities are clear. These initiatives include policies for working parents, back-to-work schemes, flexible working and training for employees returning from maternity, paternity and adoption leave.

The reasons companies are doing this are not simply to tick a box and show they’ve adhered to a moral or legal duty. According to consultants McKinsey, companies across all sectors with the highest percentage of women on their boards significantly and consistently outperform those with no female representation – by 41% in terms of return on equity and by 56% in terms of operating results.

Thomson Reuters compared the performance of companies with more than 30% women on their board and with those with less than 10%, and found that companies with greater numbers of women leaders fared better in periods of greater economic volatility.

A Danish study found that companies with good numbers of women on the board outperformed those with no women, with a 17% higher return on sales and a 54% higher return on invested capital.

Leeds University Business School reports that having at least one female director on the board appears to cut a company’s chances of going bust by about 20%. Having two or three female directors lowers the risk even more.

FTSE progress

The UK has made great progress in just over four years under a voluntary, business-led framework. As of March 2015, women’s representation on FTSE 100 boards stands at 23.5%, almost double where it started at 12.5% in 2011. The representation of women on FTSE 250 boards has more than doubled, to 18% – up from 7.8% in 2011.

There are now no all-male boards in the FTSE 100, a milestone achievement. There remain 23 all-male boards in the FTSE 250, down from 48 this time last year.

The accounting profession takes this gender imbalance seriously and is working hard to address it. ACCA’s recent report, Increasing Gender Diversity to Boost Performance, says that many barriers still exist to achieving more equal representation of women, and other social groups, in senior management positions. These hurdles include lack of commitment to diversity initiatives around the business, pressure to focus on short-term financial results and lack of investment in training and mentoring.

Calling for these barriers to be removed, ACCA chief executive Helen Brand says: “Change is long overdue and I am glad that the accountancy profession is playing a part in that transformation.”

‘An MBA is the best choice for personal and professional development, the surest path to becoming an entrepreneur’

An MBA is the best choice for personal and professional development, the surest path to becoming an entrepreneur. Accounting and Business 11/2015
The ramifications of any continuing disparity have not gone unnoticed by employers. ‘Gender diversity is less of an issue in the profession now, but you only have to look at the number of female partners in any professional firm to see the issue still exists,’ says Julie Walsh, managing partner, Kingston Smith. ‘In the top 50 accountancy firms, only four have more than 25% female partners. In the top 100 firms there are only eight female managing partners, which is an incredibly low number in this day and age.’

No quotas please

So what are the answers? ‘Like many women, I am not a fan of quotas and believe women want to achieve promotion and senior roles on merit,’ continues Walsh. ‘However, firms must have an environment that allows women to flourish, which cannot be the case when there are few role models in senior positions. It isn’t just more family-friendly policies that are needed; the firm must have an inclusive approach to all staff and encourage women to put themselves forward to senior positions rather than perpetuating that now very old-fashioned and outdated jobs-for-the-boys approach.’

Something else that women can think about putting themselves forward for, in order to give them the much needed edge in the workplace, is an MBA. ‘To take on a leadership position at the top of an organisation, you need a good grasp of all the key business functions covered by the MBA, plus the ability to present, negotiate and influence successfully and with credibility,’ says Dr Julie Hodges, MBA programme director, Durham Business School. ‘Durham’s MBA gives its students exposure to innovation, diverse experiences, research and people from a wide variety of sectors and job roles, so students learn to approach issues and challenges from different perspectives.’ The programme includes modules such as the Boardroom Exercise, where students develop core practical skills in a boardroom setting.

‘Typically our intake is well balanced between male and female students. For example, in 2013-14, 51% of our MBA students were women,’ says Hodges. ‘The benefits of having an MBA are also demonstrated well by those who have been through the process. Ala Lutz graduated as an IT engineer from the Technical University of Moldova and worked for PwC and Credit Suisse in Switzerland. She was approached to become the official distributor of different make-up brands in Switzerland, and her goal is to open a luxury make-up retail chain in Switzerland, but she wanted to add another string to her bow. She decided to pursue an online MBA with the UK’s Open University in order to gain the necessary knowledge and skills to set up a new business. ‘I think most women still have difficulties in breaking the glass ceiling because of the existing stereotypes in the Swiss market, placing the ladies at home and taking care of the family,’ she says. ‘The degree helped me research the Swiss market, write a business-plan, develop a business model and set up new strategies to win new clients.

‘I have had the opportunity of meeting many talented women in business. There are enough senior positions, but in order to succeed, a woman needs to work 10 times as hard as a man, to build her credibility and improve her persuasive skills. The more actions you take, the more recognition and business you can get.’

Kutz believes an MBA degree provides the instruments to better manage intangibles such as customers, brands, intellectual capital and so on. ‘It helps forge new support disciplines for decision-making, develop entrepreneurial and leadership capabilities and skills for innovative business creation,’ she says. ‘It is the best choice for personal and professional development, the surest path to becoming an entrepreneur with a global mindset and cross-cultural leadership abilities.’

Beth Holmes, journalist

For more information:

Read ACCA’s report: Increasing Gender Diversity to Boost Performance at tinyurl.com/otozy63
MBAs get thumbs-up

According to GMAC’s 2015 Global Management Education Graduate Survey, 63% of full-time MBA graduates were offered a job prior to finishing their course, and the median salary increase after completing an MBA was 90%.

A total of 3,329 students who graduated in 2015 from 112 universities worldwide took part in the survey earlier this year. The results also showed that nine in 10 (89%) respondents rate the value of their degree as good to outstanding, and 88% would recommend their programme to others considering a graduate business degree.

Stanford stays on top

Stanford Graduate School of Business has, for the second year in a row, beaten Harvard to the top slot in the recently published Forbes list of the top US business schools, based on their return on investment, with a five-year gain of $89,100 for graduates.

Forbes’ ninth ranking of business schools is based on the return on investment achieved by the class of 2010. It surveyed 17,400 alumni at 95 schools, comparing graduates’ earnings in their first five years out of business school to their opportunity cost (two years of forgone compensation, tuition and required fees) to arrive at a five-year MBA gain, which determines the final rank.

Oxford lures top talent

The Said Business School at the University of Oxford has launched a programme aimed at attracting some of the world’s brightest students to its MBA degree.

It is set to welcome selected Schwarzman Scholars studying in Beijing to add a second masters’ degree to their CVs by continuing their studies in the UK.

The Schwarzman Scholars-Tsinghua University Master of Global Affairs was set up in April 2013 with a $100m donation from Steve Schwarzman, founder and chief executive of investment company Blackstone. Its first students start their studies in July 2016.

Graduate premium

Research by the Institute for Fiscal Studies, Harvard University and the University of Cambridge found that median earnings of English women around 10 years after graduation were just over three times those of non-graduates. Median earnings of male graduates were around twice those of men without a degree. This advantage for graduates was maintained in the recession, although the downturn had a large impact on the earnings of people in their twenties and early thirties, particularly women, who experienced much lower earnings than previous cohorts.

Other findings include: 10 years after graduation, 10% of male graduates were earning more than £55,000 per annum, 5% were earning more than £73,000 and 1% were earning more than £148,000. Ten years after graduation, 10% of female graduates were earning more than £43,000 per annum, 5% were earning more than £54,000 and 1% were earning more than £89,000.
What do I need to do about my annual CPD declaration?

All ACCA members must submit a CPD declaration before 1 January 2016 no matter what CPD route you follow.

The easiest way to do so is through myACCA. Alternatively you can complete the CPD declaration form you received with your annual subscription notice.

Still need to complete CPD?
Visit www.accaglobal.com/my-cpd for a wealth of CPD learning opportunities, guidance and resources.
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Upcoming events

ACCA UK runs an exciting programme of talks, lectures and workshops organised for members across the country. Here are highlights of upcoming events.

November

Flying high – tales from a low-cost airline
11 November, Milton Keynes
25 November, Leeds

David Bryon is the former managing director of low-cost airline bmibaby. He oversaw rapid growth to a £200m turnover inside four years. During this presentation he will show how the low-cost airlines challenged and changed the way aviation operated commercially, and explain the lessons that can be drawn by businesses in other sectors. Taking place over a two-course dinner, the evening will present plenty of time for relaxed networking with other business professionals.

Business turnaround
17 November, Conwy

At this joint half-day event with Bangor Business School and Chamber of Commerce, you will learn all the nitty-gritty details about how accountancy firms and businesses use habits and KPIs to improve their results, so you can grow your firm and be more confident about helping your clients grow too.

Residential conference for practitioners
20-21 November, Derby

You can earn 14 units of CPD in a relaxed and sociable environment, which provides the perfect opportunity to update your knowledge on the current developments in the profession. Taking place over a Friday and Saturday, this two-day residential conference minimises the time you need to be away from the office.

Saturday CPD conference three
21 November, Aberdeen

This year’s third and final conference will cover areas including UK GAAP reporting, insolvency, the summer Budget, the second Finance Act and employment taxes.

Energy: the challenges facing the North West
24 November, Preston

This informed and engaging debate will focus on two themes. The first is the economic and jobs dimension of Lancashire’s shale gas resources. The second is the energy security challenge associated with sub-surface energy engineering for the North West and the related pros and cons.

Seven reasons why being an NED can enhance your career
26 November, London
This Women’s South East Members’ Network annual dinner is open to all members and will be held in the stunning Crypt, Ely Place, Holborn.

December

Guide to practical audit compliance for partners and managers
2-3 December, London
8-9 December, Manchester

This two-day workshop has been designed to help prepare practices for ACCA audit monitoring visits. The most common causes of unsatisfactory monitoring-visit outcomes will be identified and discussed. Participants will learn how to undertake audits and to record audit work in a manner consistent with the requirements of auditing standards and which will consequently meet monitoring visit requirements.

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110th ACCA AGM

Minutes of the 110th annual general meeting of ACCA held at 29 Lincoln's Inn Fields, London, on Thursday 17 September 2015. Anthony Harbinson, the president of ACCA, took the chair and there were 57 members of the association present.

1 Notice and auditor’s report
With 42 votes in favour and two against, the notice of meeting and the auditor’s report on the accounts for the period 1 April 2014 to 31 March 2015 were taken as read.

2 Minutes
With 47 votes in favour and one against, the minutes of the annual general meeting held on 18 September 2014 and published in the November 2014 issue of Accounting and Business were taken as read and signed as correct.

3 Resolution 1
Adoption of the report of the Council and the accounts for the period 1 April 2014 to 31 March 2015
Anthony Harbinson gave his presidential address and asked Helen Brand, chief executive, to give a presentation. He then invited questions and comments on the report and accounts.

The president called for a poll and declared the resolution carried, the votes being as follows:
For 5,229 Against 77

4 Result of the ballot for the election of Council members
The scrutineer’s report and the number of votes received by each candidate in the ballot for the election of members of Council were reported as follows:
1 Anthony Harbinson 2,520
2 Orla Collins 2,397
3 Robert Stenhouse 2,280
4 Susan Allan 2,225
5 Belinda Young 1,970
6 Jenny Gu 1,895
7 Japheth Katto 1,865
8 Marta Rejman 1,840
9 Joseph Opeyemi Owolabi 1,756
10 Gustaw Duda 1,629
11 Peter Lewis 1,575
12 James Lee 1,489
13 Thong Siew Quen 1,218
14 Arthur Lee 1,086
15 Leo Mucherwa 1,026
16 Frankie Ho 988
17 Abiodun Bamgbala 804
18 Umar Saeed 785
19 Billy Kang 777
20 Aamer Allaoudin 766
21 Ibikunle Olatunji 749
22 Usman Karim 726
23 Muhammad Junaid Younas 673
24 Oscar Osabinyi 629
25 Peter Rummey 540
26 Thomas Mensah Abobi 538
27 Theodosis Ignatidias 522
28 Emmanuel Kapizionis 389

The president therefore declared the following members elected or re-elected to Council:
Susan Allan
Orla Collins
Jenny Gu
Anthony Harbinson
Japheth Katto
Joseph Opeyemi Owolabi
Marta Rejman
Robert Stenhouse
Belinda Young

5 Resolution 3
Appointment of auditors
The president reported that Council recommended that BDO, chartered accountants and registered auditors, be re-appointed as the association’s auditors. He then invited questions on Resolution 3.

The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 5,128 Against 179

6 Resolution 4
District societies to be introduced where 10 or more members request it
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 1,559 Against 3,748

7 Resolution 5
The chief executive and a minimum of two members of the senior management team to be ACCA-qualified by examination, and the secretary to hold a relevant professional qualification
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,280 Against 3,027

8 Resolution 6
Payment of senior management bonuses to be approved by members in general meeting
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,322 Against 2,985

9 Resolution 7
The senior management team to be subject to the same disciplinary rules as ACCA members
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,653 Against 2,654

10 Resolution 8
The minimum number of member signatures required to submit a resolution to a general meeting to be not less than 10
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 1,827 Against 3,480

11 Resolution 9
Changes to subscriptions to be passed by members in general meeting
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,274 Against 3,032

12 Resolution 10
The practice of delegated proxy votes to cease at all meetings
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 1,575 Against 3,732

13 Resolution 11
All senior officers to be appointed by members in general meeting, and Council members to be given the right of free speech
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,031 Against 3,276

The president thanked members for their attendance and confirmed that the issues raised by the Special Business resolutions before the meeting would feature in future debates at Council. He declared the meeting closed at 2.50pm.
The annual Council meeting’s election of new officers sees further diversity at ACCA, with Council members hailing from around the world and nearly half being female.

At the annual Council meeting, ACCA elected new officers for the coming year. ACCA’s new president is Alexandra Chin, and she will be supported by Brian McEnery (deputy president) and Leo Lee (vice president). Alexandra Chin is only the fourth female president of ACCA and the first to hail from Malaysia.

Council also welcomed three new members, whose election was declared at the AGM: Susan Allan (UK), Joseph Opeyemi Owolabi (Nigeria) and Marta Rejman (Poland). As a result of the elections, Council has members based in 17 different countries, and nearly half of Council members are female, reflecting the increasing diversity of ACCA as a whole.

Council took a number of other decisions at its annual meeting:

* It approved Council’s standing orders for 2015-2016, in accordance with the bye-laws
* It agreed to appoint a number of lay members to serve on ACCA’s Regulatory Board and its Qualifications Board
* It chose three Council members to serve on the Nominating Committee in 2015-2016 along with the officers
* It agreed a Council work plan and a set of objectives for the Council year 2015-2016.

The next meeting of Council is on 21 November, immediately after the 2015 meeting of the International Assembly.
Trust in business comes from good ethical values, Christine Lagarde, managing director of the International Monetary Fund, told the audience of the fifth edition of the Ethics in Finance Robin Cosgrove Prize, of which ACCA is a partner.

In her welcome address, Lagarde asked: ‘How can trust be built? Predominantly on the basis of ethics. Ethical behaviour is key to building trust in the system and entering financial stability.’

Justin Welby, Archbishop of Canterbury and head of the Church of England, addressing the audience by video message, echoed Lagarde’s views, stressing that with the power that large institutions have goes responsibility; he also underlined the dangers of a temptation of a ‘box-ticking culture’ of compliance.

But the focus of the prestigious ceremony, held in Washington, DC, was to announce the winner of the 2015 prize. Ross Murdoch, a lawyer for the UK’s Financial Conduct Authority, wowed the judges with his project idea. He was awarded the prize by Carol Cosgrove-Sacks – mother of Robin Cosgrove and professor at the College of Europe in Bruges, Belgium.

Robin Cosgrove was a bright investment banker who died aged 31. He believed passionately that the lack of integrity and ethical practice in banking and finance could be a major barrier to sustainable economic development.

This year saw more than 100 applicants. In the final phase, the jury of 22 world-class personalities worked on a shortlist of 11 papers, from which it awarded five prizes.

Applicants were asked to submit a paper of up to 5,000 words, which demonstrated intellectual rigour, innovative ideas and clear conclusions. The runners-up were Christian Buckson and Anne Godbold from Accenture; Mehta Anshuman, founder of IT startup Casteller; and Josh Glendinning of Hill+Knowlton Strategies.

Murdoch’s paper, ‘Behavioural Ethics and the Next Generation in Finance’, explores how behavioural ethics can be applied to a variety of corporate scandals, ‘from LIBOR to Madoff to Enron, in order to understand the pressures faced by young professionals in finance and consider how we can use this knowledge to enable more young people to become ambassadors for ethical decision-making.’

In relation to ACCA’s role in supporting the prize, chief executive Helen Brand said: ‘Finance professionals bring greatest value when they are supporting and embedding an ethical approach across business and society. As a global organisation, ACCA recognises our role in educating and supporting our members across the world in taking an approach to their work that prizes integrity and accountability.

‘The prizewinner and the runners-up have shown that they understand how vital a role ethics plays in the financial world; and it is those who champion it who will ensure in years to come that it becomes the norm in organisations.’

For more information:
Watch the event at bit.ly/cosgrove-2015

► Top priority
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