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Reflections of an entrepreneur
Julie Devonshire FCCA, director of entrepreneurship at King’s College London, on nurturing new talent

200,000 and counting
ACCA celebrates reaching a membership milestone

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Why professionals will count come the next financial downturn

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Phil Bosher - Strategy Development Officer
Cardiff Metropolitan University

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ACCA Think Ahead
Welcome

As we welcome in 2018, our hopes and dreams for a more positive year get off to a good start with the celebrations around ACCA’s 200,000 member milestone ‘entrepreneurial mindset’ of its 30,000 students. Devonshire describes working with the next generation that is ‘pressing forward with ideas, some of which will eventually employ swathes of people’.

Our big interview this month is with Tim Waggott FCCA, CEO of Dover Harbour Board, at one of the busiest ports in the world. He knows better than many the challenges of managing major infrastructure projects and working to a 25-year time horizon. The uncertainty of Brexit doesn’t make this any easier, but the self-described optimist is hoping Brexit will be a ‘gradual slope rather than a cliff’, and that ‘intelligence will prevail’.

Also looking for some Brexit certainty is lord mayor of London Charles Bowman. The PwC partner, who has long pioneered the need to build public trust in business, should have the skills to deal with the ‘unknown unknowns’ that Brexit brings, as well as the other causes he is supporting this year in what he calls this ‘broad and intense’ role.

Welcome back! As an editor, it’s satisfying to start off the first month of a new year with stories that highlight the dynamic environment that you, the readers, are part of. In this issue, we celebrate ACCA announcing a milestone as it reaches 200,000 members across the globe.

This is a significant achievement for a professional body that started in 1904 in London with just eight members. You can find out more about ACCA’s journey on page 9 and read about the special installation that is travelling the world in celebration, on page 76.

We also reveal, on page 82, that ACCA will be a ‘gold’ sponsor at this year’s World Congress of Accountants in Sydney. ACCA has been an active participant in the ‘Olympics of the accounting profession’ for many years, and the event will be an opportunity to showcase key research alongside strategic alliance partner CA ANZ.

Our cover story this month focuses on the work of Julie Devonshire FCCA, director of entrepreneurship at King’s College London, which is nurturing the

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition who seek a rewarding career in accountancy, finance and management. ACCA supports its 198,000 members and 486,000 students in 180 countries. accaglobal.com

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Our alliance with CA ANZ
More about ACCA’s alliance with Chartered Accountants ANZ: accaglobal.com/alliance

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‘When I became CEO, we were the Millwall of the port industry: nobody liked us and we didn’t care’
Leonard da Vinci’s *Salvator Mundi* painting has sold at Christie’s in New York for $450.3m (£337m), smashing the world record for any work of art sold at auction. Picasso’s *Women of Algiers* fetched $179.4m (£134.3m) at Christie’s in May 2015.

The startling rise in the value of bitcoin means someone whose investment was worth just £440,000 at the start of 2017 can now afford to buy a multimillion pound plot of land in St Vincent and the Grenadines, on sale for 600 bitcoin.

A rare Rolex watch that was owned by the late movie star Paul Newman has sold in New York for almost $17.8m (£13.5m), making it the most expensive watch ever auctioned. Newman wore the watch every day for 15 years.

The Royal Pavilion Gardens in Brighton are among 328 sites added to Historic England’s ‘at risk’ list in 2017, although fewer were added last year than in 2016. Historic England granted aid of £10.5m to 260 projects in 2017.
News roundup

This edition’s stories and infographics from across the globe, as well as a look at the latest developments and issues affecting the finance profession

Pay on the rise
Four out of five businesses awarded their accountants a pay rise last year, according to the latest salary survey from Hays. However, their average pay rose by 1.4%, with only 6% of employers increasing pay for accountants by 5% or more. Hays said that higher salary increases were due to changes in the marketplace such as to legislation, and to short supply in particular specialist areas.

FRC to trim code
The Financial Reporting Council (FRC) has proposed revisions to the UK Corporate Governance Code to make it shorter and sharper. Among the changes proposed are more specific guidance on how companies should respond to significant shareholder opposition to remuneration policy, with the amended code to give committees broader responsibility and discretion. The revised code seeks to ensure appointments to boards and succession plans are based on merit and objective criteria, to avoid groupthink and promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths. The FRC consultation, which ends in February, also proposes that the code is no longer restricted to FTSE 350 companies and should apply to private companies.

FRC reports on HBOS
The Financial Reporting Council (FRC) has published its report on KPMG’s unqualified audit of HBOS for the year ending December 2007, just seven months before the bank failed. The report explains why the FRC concluded that KPMG was not guilty of misconduct in relation to the audit. KPMG responded: ‘The FRC’s report clearly shows we considered the risks facing the bank, including liquidity and loan loss provisions, and reported our concerns to those charged with governance at HBOS.’

Verdict on RBS
The Financial Conduct Authority (FCA) has published its final summary on how RBS’s Global Restructuring Group (GRG) treated SME debtors transferred to it. Initially the FCA published only a high-level summary, but it has published a longer one after consultation with the House of Commons Treasury Select Committee. The FCA concluded that RBS was not engaged in a widespread practice of identifying customers for transfer for inappropriate reasons, such as their potential value to GRG, but it did identify ‘significant concerns about SME customer treatment by RBS’. RBS has agreed to consider claims for consequential loss where it has accepted it was at fault.

FRC’s thematic move
The Financial Reporting Council (FRC) is to supplement its routine monitoring programme of audits with thematic reviews that examine areas of particular shareholder interest and where there is scope for improvement and learning from good
The ACCA Story
Last month ACCA announced a significant milestone, reaching 200,000 members around the world. Find out more about ACCA’s 113-year journey to this achievement in the video The ACCA Story

London, 1904. Eight men meet to discuss ACCA’s foundations. What follows imagines some of what might have taken place...

More information
Watch the video and find out more about ACCA’s 200,000th-member celebrations at 200k.accaglobal.com

practice. The topics for the thematic reviews are transparency reporting and the use of audit quality indicators. There will also be a targeted focus on auditing and reporting in financial services, oil and gas, general retailers and business support services. The FRC has published ‘better practice’ examples from thematic reviews covering judgments and estimates, pension disclosures and alternative performance measures.

FRC gets tough
The Financial Reporting Council (FRC) has expanded its audit enforcement team threefold in the last five years, as it toughens its approach to audit inspection. The Audit Enforcement Unit now employs 30 people, compared with just 10 in 2012. New staff were taken on after the FRC decided to establish an internal forensic accounting unit, in place of engaging external firms to undertake the work.

Mitie impairments
The Financial Reporting Council (FRC) has opened an investigation into the preparation and approval of Mitie Group’s financial statements for the year ending March 2016, in addition to its previously announced investigation into Deloitte’s audit of the company. The FRC has raised issues with Mitie’s financial report in relation to impairment testing of goodwill. Mitie responded with a statement that stressed the investigation is not into Mitie, but into professional accountants who previously worked for the company and that no current Mitie directors, former non-executives or former CFO Sandip Mahajan are being investigated.

100 Group £83bn tax
The UK’s 100 largest companies – the 100 Group – paid £83bn in tax last year, according to PwC’s 2017 Total Tax Contribution survey for the 100 Group.

Their contribution from taxes directly paid by the companies increased by 6.3% last year to £25.3bn. Payments made by others and collected by the companies fell by 1.4% to £57.6bn. The 100 Group companies directly employed 2.1 million people in the UK in 2017, representing 6.5% of the UK workforce.

Profit shift warning
The tax gap – the difference between the tax that should be and is actually collected – fell to £34bn in the 2015/16 year, says HMRC. However, the figure does not include profit shifting by multinationals, which can only be addressed
through internationally coordinated action, HMRC argues. The largest element of the tax gap is from direct taxes – income tax, national insurance contributions and capital gains tax – at £13.7bn. The next largest element is VAT, at £12.6bn, which is at the lowest level since 2010/11. In its most recent annual report, HMRC warned UK banks not to engage in aggressive tax avoidance strategies, saying that it had collected £85m in one year from banks engaged in aggressive avoidance.

**Trusted traders call**

HMRC must urgently increase the number of ‘trusted traders’, says the House of Commons Public Accounts Committee. A report points out that there are 141,000 traders using the Customs Handling of Import and Export Freight system, but only 604 of these are trusted traders. The committee warns that HMRC must accelerate its planning for the impact of Brexit on the customs system.

‘It is vital that HMRC has a flexible service which can handle the increased volume of customs declarations and a well-developed contingency option,’ concluded the MPs.

**MTD costs lowered**

HMRC has cut its predictions of the costs to businesses of compliance with Making Tax Digital. The Finance Bill contains an HMRC estimate of £131m of costs for 1.2 million businesses: £109 per business. This is much less than the original figure put forward by HMRC of £280 per business. HMRC expects ongoing costs to business to be £37m, or £30 per year per VAT-registered business.

**HMRC fines FDs**

HMRC has issued fines on 115 finance directors in one year for breaches in companies’ tax accounting practices. This represents a 150% increase in the number of fines over five years. Under the Senior Accounting Officer regime, finance directors can be personally fined up to £5,000 for failing to ensure their companies have ‘appropriate tax accounting arrangements’.

**RR execs convicted**

Two former Rolls-Royce executives have pleaded guilty to bribery in breach of the US Foreign Corrupt Practices Act. James Finley was a senior energy executive at the company and Keith Barnett was a regional director in energy. They admitted paying money to win energy contracts, along with Aloysius Zuurhout, a Rolls-Royce energy sales employee, and others.

One intermediary devised a plan to pay bribes to at least one foreign official to obtain orders from Asia Gas Pipeline. Rolls-Royce made a settlement of £671m early in 2017 in relation to the offences, which it described as ‘unacceptable’.

**Audit penalties**

Firms could face tougher penalties for audit failures as a result of an independent review into the Financial Reporting Council’s enforcement sanctions. The review recommended greater use of non-financial penalties; the removal of the need for tribunals to feel bound by precedent regarding the setting of penalties; and the adjustment of discount provisions to encourage timely settlement. The review suggested that a fine of £10m or more could be appropriate in certain cases where a Big Four firm was involved.

**EY grows by 9%**

EY’s UK revenues grew by 9.2% to £2.35bn in the year June 2017. More than half the increased revenue was through organic growth. The firm also recruited nearly 4,000 additional people, including 1,500 students,
Award for diversity champion
Albertha Charles FCCA has been voted financial services leader of the year at the fourth annual Black British Business Awards. The partner in PwC’s deals business and UK leader for the financial services valuations business was recognised for being passionate about helping clients invest better and championing diversity and inclusion. Charles was also recognised in the EMpower/FT 2017 Top 100 Ethnic Minority Leaders list. The BBB Awards celebrate the exceptional performance and outstanding achievements of black entrepreneurs and professionals throughout the UK.

‘I feel honoured to be recognised in the company of such inspirational leaders, and I am very thankful to the BBBA for providing such a fantastic platform to shine a light on our black talent and inspire future generations to come,’ Charles said.

while 63 equity partners joined the firm. Transaction advisory grew by 15.1% to £396m; assurance revenues increased by 11.3% to £689m; tax grew by 9.1% to £634m; and advisory by 3.8% to £629m. EY’s global revenues in the year grew by 7.8% to US$31.4bn.

BDO revenues up
BDO’s global revenues grew by 8% in the year ending September to US$8.1bn. Its global staffing level rose to 73,000, assisted by new firms in Antigua and Barbuda, Aruba, Dominica, Grenada and Samoa, as well as mergers in Armenia, Finland, France, Ireland, Italy, Luxembourg, South Africa, Spain, Australia, India, Indonesia, Brazil, Canada and the US. BDO now has 1,500 offices in 162 countries.

Big four bosses
Some 64% of CFOs at FTSE 100 companies have worked for Big Four firms, analysis by Accountancy magazine has found. In addition, 61% of audit committee chairman have a background in the Big Four. Controversially, in 14 of the FTSE 100 companies, the audit committee chair has worked at the firm currently conducting the audit. The same is true for 13 CFOs and three board chairs, including Michael Rake at Worldpay (KPMG) and Philip Hampton at GlaxoSmithKline (PwC).

EY fined £1.8m
EY has been fined £2.75m by the Financial Reporting Council and remandeded over its audit of Tech Data – formerly known as Computer 2000 – for the year ending January 2012. The fine was reduced to £1.8m after mitigation and settlement discount. Julian Gray, EY’s senior statutory auditor and audit engagement partner, was also remanded and fined £90,000, reduced to £59,000 after mitigation and discount. EY is to pay an additional £225,000 towards costs. EY and Gray admitted misconduct by failing to obtain reasonable assurance about whether the financial statements were free from material misstatement, failures to obtain sufficient appropriate audit evidence and failures to exercise sufficient professional scepticism.

Merger scrutiny
The government is to reform mergers legislation to protect national security. At present, government may only intervene in mergers where companies have a UK turnover over £70m or where the share of UK supply increased to 25% or over. Under proposals the threshold would fall to a UK turnover of £1m. There would also be a ‘call in’ power to scrutinise a range of transactions where there are national security concerns and/or the use of a mandatory notification regime for foreign investment in sensitive areas of the economy.

IFAC faces reform
The International Federation of Accountants (IFAC) could be up for reform. Under proposals, the three IFAC standards setting boards – International Auditing and Assurance Standards Board, International Ethics Standards Board for Accountants and International Accounting Education Standard Board – could be brought together. One concern about current arrangements is whether audit firms and professional bodies have too much influence over the standards-setting process. IFAC welcomes the review but questions the premise.

Paul Gosling, journalist
When the boat comes in

Tim Waggott FCCA, CEO of one of the busiest ports in the world, talks border controls, ferry operators and managing the biggest development Dover has ever seen

Port developments move at the stately pace of cruise ships docking.

Tim Waggott FCCA, CEO of Dover Harbour Board, joined the enterprise in 2007 as finance director to oversee a development in the Western Docks. A decade on – and for Waggott, two promotions later – the project has only really started, with construction work getting under way in early 2017.

‘We’ve been through the gamut of how to fund the expansion and changing what is to be built,’ he says. ‘Circumstances flex the development and business opportunities we can create.’

For Waggott the key to developing successful project infrastructure is delivering on time and then going on to deliver what customers (shipping and ferry companies, stevedoring and logistics services) really need. ‘Ports have got to be looking ahead 25 or 30 years,’ he says. ‘We try to predict the new trends and where the major changes in capacity will come from. I’m a realist; I recognise that a 25-year plan is a framework in which you make shorter-term decisions.’

At the heart of Waggott’s role is the need to keep ships and traffic moving. ‘The consequences if the traffic stops are pretty dire.’ Strikes by ferry operator staff take capacity out of the system, as do security issues such as a shortage of French border staff to check passports, which happened in July 2016, just as the great summer holiday getaway was gearing up. ‘Most of the time it works perfectly well, but if there is not enough resource, then tempers can fray.’

Waggott’s day-to-day business challenges focus around profit, cash, project delivery, and health and safety. Customers have previously challenged the board’s pricing through appeal to the Department of Transport, with the organisation responding by adopting a system of self-regulation to aim for pricing transparency with major customers. Waggott is pleased that the business is currently charging below the maximum cap it could. ‘We are not a monopoly – Eurotunnel exists, as do the western Channel ports – but we do want to be open and equitable over pricing.’

Charm offensive

Having worked at Dover Harbour Board for 10 years, Waggott has seen pretty well everything. He says the biggest challenge has been rebuilding relationships. Dover flirted with privatisation a few years ago, looking to equity to deliver the funding for the step-change required in the Western Docks development. Opposition sprang up from many quarters including key customers, such as the now defunct Sea France, and the local community. He says: ‘When I became CEO, we were the Millwall of the port industry: nobody liked us and we didn’t care. We had a strategic end we were trying to deliver.’ With the privatisation route ultimately blocked by the government, Waggott led a change in attitude and a charm offensive, spending time going out into the wider world and winning friends.

It seems to have paid off. During the photoshoot on the sunny seafront, Waggott appeared to know everyone who passed and had to be dragged away from conversation and back to the camera. ‘To develop port infrastructure, you need consensus and government support to deliver the legislative framework,’ he says. A recently established Port of Dover Community Fund now gives 1% of the organisation’s profit to local projects administered by independent trustees.

‘We engaged with customers, the local community and staff around our vision of and commitment to making something happen in Dover.’ Despite – or perhaps because of – the busyness of the port, the town itself can feel like the poor, forgotten relation of the rich port it hosts: millions pass through each year but few stop. Waggott clearly takes the community and stakeholder responsibility seriously and claims plenty of development potential for port and town.

As CEO he also keeps a close eye on counterparty risk, with a large part of the client list being made up of a handful of...
of ferry companies. 'I have seen two ferry companies go into administration in my time here in Dover. If they are struggling they chase revenue, which creates a price war, meaning sometimes the weakest fail to cover their costs. They can push more volume through us as port operators but not pay us ultimately for handling that extra volume. It is a widespread problem for ports. You can see it coming but you are still on 30-60 days payment terms, and it is a big hit if they go pop at 45 days.'

As well as ferry operators and cargo handling charges, profitable activity for the port includes property services such as tenanted accommodation and value-added services such as stevedoring, unloading cargo, repackaging and arranging transportation. The profit is used to ensure the port remains fit for purpose in the years ahead.

Dover Harbour Board is a statutory corporation under current legislation, but the port’s history stretches back centuries into the past, including a royal charter in 1606. The Department of Transport appoints three non-executive directors; the board itself draws two further NEDs from the local community, and another two with wider business experience – all through open process. ‘The governance is akin to a listed company,’ says Waggott. ‘The quality board are the right fit for the job, but there is also the stakeholder dynamic of the influence of the local community.’

The organisation is firmly in SME territory. Turnover is set to reach £64m in 2017, with EBITDA/free cashflow around £24m. ‘It is a healthy margin,’ says Waggott, ‘but that is important because of the nature of the infrastructure project we are running in the Western Docks.’

Transformation
The Western Docks development is key to the future capacity of Dover, and at £250m it is a chunky commitment compared with turnover. Securing the project – the organisation’s single biggest development ever – was not easy, and it worked hard to secure European grant funding, bonds, and long-term loans from the European Investment Bank as well as revolving credit facilities to cope with cashflow troughs and ensure that covenants aren’t breached. ‘It is not like we get a grant from the government and we spend it,’ says Waggott. ‘We operate in a cut-throat commercial environment, competing, for
Basics

12 million
Number of people passing through Dover port, in five million vehicles (by comparison, Edinburgh, the UK’s sixth busiest airport, handled 12.3 million passengers in 2016)

£122bn a year
Value of goods coming through the port each year, representing 17% of the UK’s trade in physical goods

400
Number of staff employed by Dover. Rises to over 7,500 when ferry companies, freight operators, harbour contractors and those working with cruise ships are included

5-6 times a day
Frequency with which Dover turns over its space

34km
Distance from France

One-third
Growth in freight traffic through Dover in the last four years

‘When I became CEO, we were the Millwall of the port industry: nobody liked us and we didn’t care’

instance, with major infrastructure in the shape of Eurotunnel.’
The result for the Western Docks will be two new berths, a cargo terminal, a marina, logistics park and regeneration opportunities involving the splendid Victorian seafront. ‘It is a transformation project,’ says Waggott. ‘Getting people and project control to deliver on such a scale has to be right.’ As the build continues, the organisation must keep port traffic moving, managing the development in a way that doesn’t interfere with its core activity. Even without the Western Docks, Dover is possibly the busiest port in the world.

Lifeboats manned
Posters line the walls of the Old Harbour Station featuring real employees (including Waggott) to bring home the safety message. ‘The accountancy profession talks about tone at the top,’ says Waggott, ‘and we have safety as a standing agenda item at every board meeting. We need to explain that health and safety is the responsibility of everyone in the port community – as is security. That can be a cultural challenge.’ As well as land-based health and safety, the organisation has to comply with various maritime regulations and guidance.

He ensures security concerns are taken seriously, talking to border agencies, Kent Police, and national security agencies onsite and offsite. As well as having an outsourced security contract the Harbour Board has its own police force.

Waggott, who sits on the CBI’s south-east regional council, says Brexit is a challenge although he is encouraged by talk of a gradual slope rather than a cliff edge. ‘We’re not going to stop trading with the European Union overnight,’ he points out. ‘The voice of business – of which I’m a part – is loud; we need to keep the economy moving. We have complicated European supply chains and we’re not going to unpick those in a hurry. We have to find the right relationship. I’m an optimist and think intelligence will prevail. If we get the right solution for Dover it will be right all over, including the Irish border.’

Whatever form Brexit takes, the port is working hard to adapt to support a generation of ferries that can handle more traffic on each sailing. That makes Dover a key player in an industry offering customer choice. ⬛

Peter Williams, journalist
Corporate tax strategies
Deloitte says that 59% of FTSE 100 companies have published their tax strategies as part of their annual reports in advance of legislation introduced at the beginning of January. Of the published strategies, 64% were standalone statements, while 36% were included in the annual report. A report from the Fair Tax Mark and the Local Authority Pension Fund Forum expressed disappointment that faster progress had not been made, with only a third of FTSE 50 companies publishing a legally compliant tax strategy by 30 June last year.

Purpose drives growth
Companies that prioritise purpose, vision and culture experience faster growth, says a Grant Thornton report. More than a third of UK mid-market companies include these areas as a top-five investment priority – rising to 40% among high-growth businesses. Sacha Romanovitch, CEO of Grant Thornton UK, said: ‘To inspire the next generation we need to do more to showcase and celebrate leaders from UK organisations that role-model how people and organisations can contribute to the growth of our economy and society in a positive way.’

‘Global competitiveness will be more and more defined by the innovative capacity of a country. Talents will become increasingly more important than capital and therefore the world is moving from the age of capitalism into the age of talentism.’
Source: Klaus Schwab, founder and executive chairman, World Economic Forum

The view from
Ben Bushell ACCA, group commercial finance manager, Carluccio’s, who is keen develop a portfolio of skills

Aged 17 you often don’t really know what you want to do in life. At school I was strong in maths and business, and with my best friend’s father running his own practice, a career in accountancy seemed an obvious path to follow.

After completing a degree in accountancy and marketing, I knew I didn’t want to go into practice. I had an interest in the commercial elements of accountancy so joined Carluccio as a purchase ledger clerk.

I self-studied for my ACCA Qualification while I was working full time. This involved a lot of hard work over evenings and weekends. The only paper for which I registered for a tuition course was P6, while P3 (business analysis) gave me a real interest in what I do now. The qualification is so broad – it really opened my eyes to the wider aspects of accountancy.

I have achieved six promotions during my nine years at Carluccio’s. I’ve grown alongside the business, which has expanded to 105 restaurants in the UK, Ireland, Turkey, UAE and the US.

Pricing is a major challenge. Global food inflation is currently around 4%. The industry as a whole is struggling. Most food is valued in dollars globally, while we also buy from Italy in euros. We need to manage our currency transactions carefully.

Brexit is also a concern for us. We’re a people-led business and there’s a lot of uncertainty, which is affecting the labour market across the restaurant sector.

Despite a £137.8m turnover last year, we are seeing flat ‘like-for-like’ sales. Authenticity is important in our business (30% of restaurant staff are Italian), especially our ingredients. I do a lot of business partnering with logistics and our supply chain to create cost savings. We’re also using big data and breaking it down with business intelligence tools.

It is important to look beyond the finance function at times. I am studying to be a chartered marketer with the Chartered Institute of Marketing. I want to combine my finance expertise with strong commercial skills. Marketing is key in our sector and a more rounded portfolio of skills will give me the best opportunity to progress.
Generate an iXBRL accounts file from any Excel workbook

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Hitting the reset button

There can be no doubt about it, GDPR compliance is onerous, but it is fundamentally about ensuring that organisations are fit for purpose in the digital age.

The introduction of the General Data Protection Regulation (GDPR), which comes into force in May this year, represents the most sweeping overhaul of data protection regulations in the UK in two decades.

For privacy campaigners, GDPR, with its focus on transparency, security and accountability, is a long overdue recognition of the responsibilities businesses have in utilising their customers’ personal data.

Companies of all sizes and types will need to comply with the wide-ranging obligations imposed by GDPR, although the actual workload will vary according to the nature and complexity of the individual organisation.

The bad news for those operating in financial services is that they can expect the burden to be more onerous than most. The good news, relatively speaking, is that GDPR builds to a large extent on current legislation – namely, the Data Protection Act 1998 – albeit with many significant enhancements and some entirely new measures.

So while it won’t be business as usual from 25 May onwards, companies with robust data protection policies already in place certainly find themselves in a much better starting position.

At its heart, GDPR can be seen as raising the data protection bar in the social media age. The way this is put into practice is varied and sometimes complex, and includes requirements for:

* consent for data use, particularly with regard to under-18s
* greater transparency and accuracy in privacy notices
* updated security rules and more stringent reporting obligations for data breaches
* an upgraded regime for enforcement, remedies and liability
* the introduction of the principle of privacy by design and default.

Given the scope of these changes, and their imminent arrival, the relatively low-key response from many businesses is a concern. In October last year, a survey by law firm Collyer Bristow found that 55% of UK small businesses were still unfamiliar with GDPR. Equally alarming was that 30% of executives in larger companies were not yet familiar with the regulations.

An international study by PwC published in November and focused on larger companies and multinationals confirmed that meeting the requirements of GDPR won’t come without a cost. Among companies that had completed GDPR preparations,
How prepared are you?

1. Are the relevant people aware of GDPR and the impact it will have?
2. Have you documented and audited the personal data you hold?
3. Are your privacy notices reviewed and updated?
4. Are procedures in place to cover all the rights individuals have, including deleting personal data or providing requested data electronically?
5. Do you know how you will handle requests within the timeframes allowed, as well as additional information that may be required?
6. Have you identified, documented and prepared your privacy notice to explain the lawful basis for your processing of personal data?
7. Do the methods you use to seek, record and manage consent meet the GDPR standard?
8. Are systems in place to verify individuals’ ages and to obtain parental or guardian consent where needed?
9. Are the right procedures in place to detect, report and investigate personal data breaches?
10. Do you understand the requirements for privacy impact assessments and how to implement them?
11. Has an individual been designated and provisioned to take responsibility for data protection compliance?
12. Have you identified the lead data protection supervisory authority if your organisation operates in more than one EU member state?

Source: ICO

GDPR look like a burden, ‘companies that treat it as an opportunity have much to gain by showing consumers their data is respected, protected and used wisely in order to provide a more tailored experience’, he stresses.

Accenture Strategy recommends a risk-based approach to engaging with GDPR. ‘This means that you look at where you store and process personal data – customer, employee or citizen journeys/processes are a good start,’ Taylor says. ‘Also, look at the risks associated with third-party interaction, programmes of work, systems/applications, etc, which will enable you to focus on the most risky areas first.’

As an opportune upgrade of data protection legislation, it would be hard to argue against the value of GDPR. However, given that it has implications for virtually every branch and division of an organisation, the new regime represents, for some at least, a potential reset in terms of how data is valued and managed.

To view this as a burden is to miss the obvious point that clients and customers have legitimate concerns and expectations around how their information is managed. As an opportunity to revise and re-energise the approach to digital privacy, GDPR is fundamentally about ensuring organisations are fit for data protection purpose in the digital age.

Donal Nugent, journalist

88% had spent more than US$1m, with 40% spending more than US$10m.

For those that have not made serious headway in their preparations, PwC partner Rav Hayer did not mince his words: ‘These organisations risk regulator fines, litigation costs and lost contract opportunities.’ He also identified particular areas of challenge for financial services providers: data discovery, subject access requests, data retention, data breaches and processing by third parties.

The cost of inaction

Whatever the financial challenge of implementing GDPR, the cost of doing nothing could be far more severe. Data protection authorities will hold a range of new powers to tackle non-compliance, and may fine organisations up to £18m (or 4% of total annual global turnover – whichever is greater) for the most serious breaches. Audits and investigations are not even the biggest concern for companies. Individuals will also have the right to take legal action where they feel their data privacy has been infringed.

‘Customer data allows companies to personalise and tailor the customer experience,’ says Nick Taylor, managing director for the UK and Ireland within Accenture Strategy. ‘Continued access to that data is no longer a given and only companies that show proper stewardship will retain access to it.’

Taylor stresses the importance of seeing GDPR not as a compliance issue but in terms of managing risk and reputation. ‘Companies that fail to comply with the regulation, or fail to report instances of data breaches within 72 hours, face the prospect of being banned from processing personal data,’ he points out. ‘The implications for loss of consumer trust can be severe.’

While such prospects can make GDPR look like a burden, ‘companies that treat it as an opportunity have much to gain by showing consumers their data is respected, protected and used wisely in order to provide a more tailored experience’, he stresses.

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Donal Nugent, journalist
Tomorrow’s jam, today

A games company has promoted a ‘non-non-GAAP’ measure to present earnings and sidestep SEC guidance. Could this lead to a change in the rules?

For those who already thought non-GAAP measures were being stretched to the limit of their underlying economics, brace yourselves, because this year, one company might be having its own ‘alternative facts’ moment – one that might have serious implications for regulators, not to mention the profession.

In 2016, the Securities and Exchange Commission (SEC) in the US wrote a letter to gaming company Activision Blizzard, home of Candy Crush and Medal of Honor, among others. The SEC instructed Activision Blizzard, per its May 2016 guidance, to stop using what it deemed an inappropriate non-GAAP measure to book as earned revenue what had only been received. The company eventually agreed, and released a new figure it called ‘non-GAAP redefined EPS’. So far, so compliant.

But then, Activision Blizzard proceeded to do something unusual. With its Q2 results in May 2017, came an email to journalists saying that if they wanted to report the number that was (in Activision Blizzard’s own estimation) closer to analysts’ consensus, then they could take the number it described as ‘reflecting the impact of GAAP deferrals’ and subtract it from the now-compliant non-GAAP number. This advice could also be seen on its website and on the earnings call, where company representatives repeatedly tutored those present on how to reach ‘the old’ number.

Putting aside the unusual tactic itself, is the metric they so badly want to share really that useful? That depends: Activision Blizzard seems to think the market thinks so. Which is subtly different from the market actually thinking so.

According to games-makers themselves, they prefer to book the full value of game sales upfront because it more directly tallies with the large sums they have to spend on designing and developing games. So, for Activision Blizzard, it’s both true and fair. But the SEC sees it as more of a ‘tomorrow’s jam, today’ approach to accounting.

And there’s been so much of tomorrow’s jam lately, they might be right to be wary. Also, in the SEC’s defence, it may be better to play safe; after all, it’s hard to imagine analysts scrabbling for the panic button because a company has reported a compliant number 11-cents-per-share lower than the old one. In any event, when Activision Blizzard did report the redefined earnings per share, its share price dropped US$1.86 but soon rebounded. Much ado. It is a US$44bn company; to flog that Shakespeare metaphor, it can suffer a few slings and arrows – the fortune is outrageous enough already.

But what if other companies start doing the same thing? Even if companies en masse begin to brief journalists on how to hit the numbers, does it matter, if the Measure that Must Not be Named is kept out of the official filings?

‘It’s the SEC’s job to prevent companies from giving more prominence to tailor-made measures – and they’re doing that,’ says Richard Martin, ACCA head of corporate reporting. ‘As long as everyone has access to the GAAP numbers, and the non-GAAP, whatever else the company deems important should also be allowed.’

So, failing to arm yourself with either a calculator or sufficient scepticism is not really the problem of either Activision Blizzard or the SEC. Despite the cris de coeur, it’s hardly as if Activision Blizzard has said that regulators and accountants don’t matter.

Too broad-brush

In fact, whisper it quietly: Activision Blizzard may be on to something – albeit clumsily so. Accounting rules can be too broad-brush to appropriately reflect the underlying economics of every company’s activities. The key will be striking the balance between comparability and reliable specificity – must there always be a trade-off?

Perhaps not. Activision Blizzard could have requested assurance over the ‘non-non-GAAP measure’. It should follow that those companies that are happy to promote a left-field number should also be happy to bear that number being scrutinised using recognisably mainstream techniques, wielded by reputable providers.

Standard-setters are well aware that they need to continue modernising the rules to fit the character of today’s businesses

Accounting and Business January 2018
And with that in mind, the provision of assurance over those non-non-GAAP numbers could have positive effects for the profession too. Standard-setters are well aware that they need to continue their modernisation of the rules to fit the character and direction of today’s businesses. Industry-driven innovation in this regard can only be a good thing.

But Hilary Eastman, head of global investor engagement at PwC, says: ‘Non-GAAP reporting isn’t going away, but the notion of an assurance framework is tricky. Without a framework for reporting non-GAAP information, any level of assurance on it would be subjective – which could just mean more cherry-picking.’

In the end, it’s the investors’ needs that companies, accountants and the SEC are supposed to meet. If growing companies with ‘unusual’ business models require moderately different accounting treatments to make their value properly understood, then that’s momentum enough for market-driven change. Rightly, the result should be kept out of official filings.

But high-quality assurance over measures outside that means that regulators don’t need to begin the tedious and expensive task of equipping themselves to censure ‘back-door’ tactics. Required assurance over ‘non-non-GAAP’ measures might level the playing field and let investors decide whether the company has a storied past of unrestrained optimism or whether they typically share what (honestly) moves the market.

Felicity Hawksley, journalist
A voice for business

The new lord mayor of London, Charles Bowman, is bringing his experience from a career at PwC to promote London's business interests and help smooth the path to Brexit.

It’s sad to say that only 5% of the role of the lord mayor of London is that Dick Whittington stuff: wearing tricorn hats, frills and a gold chain and waving from a state coach.

The other 95% is serious stuff, heading up the City of London Corporation (COLC), with the day-job of promoting and defending the UK’s financial sector. Given the intray that awaits Charles Bowman, the 690th lord mayor, he could be forgiven for viewing the ceremonial as welcome relief.

After the lord mayor’s show in November, an 800-year-old pageant, comes the hard work, as his year’s term of office coincides with an extremely unsettled period for the City.

In his first interview as lord mayor, Bowman, a longstanding PwC partner, laid out his priorities for the year ahead. He has three objectives: business and Brexit, his trust programme, and charities (see box), which he says all tie together.

So it is not all Brexit, although that inevitably will be a leitmotif. Bowman notes wryly: ‘I hadn’t realised this role would be interesting with a capital I.’

But he goes onto to say the excitement matches the challenge. ‘We’re seeing movement in all directions, and we’ll have to be agile.’

UK professional and financial services (PFS) account for 12.5% of GDP, so it is of national importance that they emerge intact post-Brexit. He sees part of his role as being an advocate for this ‘phenomenal asset’ if the country is to remain relevant. And that means ‘securing the best possible outcome from these complex negotiations. We have to make a virtue of circumstance, maximising and leveraging opportunities and minimising risk. Opportunities for instance derived from London stealing a march in fintech development.’

Bowman says the City has clearly articulated to the government three asks of Brexit: the continuing ability to attract highly skilled workers; mutually beneficial access to the single market resembling passporting; and early clarity on transition. ‘Government is listening and engaging,’ says Bowman. Not just empty words, as the first day in the job in November saw the lord mayor’s banquet, with lord mayor and prime minister at table for a couple of hours.

Also close to Bowman’s heart is the government’s apprenticeship initiative, which he describes as ‘offering sustainable ways of building skills’. The lord mayor’s office has a free Apprenticeships in the City programme of support for apprenticeships, which is targeted at small and medium-sized banking and asset management firms that are new to apprenticeships.

Trust agenda

Bowman says sometimes the profession and the role of audit is taken for granted. For the last few years he has led PwC’s ‘Building public trust’ programme, which celebrates excellence in corporate reporting.

“We are working with ACCA and the CWEIC to build the trade bridges vital for the future of UK business post-Brexit”

‘I’m deeply proud of the profession and the way it developed auditing when this was needed. Putting that sense of trust and probity into the capital markets is critical, and audit has played that part well.’ Although he says there are ‘low points’ where occasionally something will come out of the woodwork that doesn’t do the profession good. ‘The media concentrates on where we haven’t performed well and not on the 99.9% of occasions when audit keeps capital markets secure. It is a shame we can’t tell that story more widely.’

Bowman believes the reputation of professional services has been tarnished by the global financial crisis, part of a
trend that has affected all sectors. ‘Trust arrives on foot and leaves on a galloping horse. It is a misunderstood asset, and it is the lifeblood of any organisation, critical for survival and success.’

The lord mayor’s ‘Business of Trust Programme’ is part of a long-term agenda. In advance of the official launch, Bowman describes how we need better business, trusted by society. The programme has included research carried out across the country with ‘citizens juries’ in Edinburgh, Nottingham and London (not the City) to listen to different communities talking of professional and financial services and trust. ‘We had a rich insight, which has helped develop a defined agenda.’

Bowman will visit 27 countries during his term. ‘In view of UK, Europe and geopolitics, we have invested in the international programme.’ There are five priority trade markets: China/Hong Kong, India, Australasia, Japan, the US and Canada. He is already well versed in some respects – for instance, the Belt and Road initiative – ‘the vision of which we’ve never seen in our lifetime’ and which he sees as a great opportunity.

Another key moment in the mayoral year is the Commonwealth heads of government meeting in April in London, preceded by the Commonwealth Business Forum, with COLC chosen as a partner. ‘Opportunities within the network can be leveraged and enhanced,’ says Bowman. ‘We are also working with ACCA and the Commonwealth Enterprise and Investment Council [CWEIC] to build the trade bridges vital for the future of UK business post-Brexit.’

Reflecting on his year ahead, Bowman says it is an opportunity to give back to the City, which has given him a ‘wonderful and varied career’. Describing the role as ‘broad and intense’, he says he is conscious of the possibility of emerging unknown unknowns that will have to be dealt with. Such is his professional experience, it’s hard to imagine anything Bowman couldn’t cope with.

Peter Williams, journalist
Sea-change in behaviour

The release of the Paradise Papers has unleashed popular outrage, but criminal tax evasion should be a much greater story than tax avoidance, says Robert Bruce

There is an enduring myth that comes down from childhood. In an early form it was Robert Louis Stevenson and his tale of Treasure Island. Beneath the palm trees of far-off islands lies buried treasure. But the location is a secret and you need to do battle with pirates and buccaneers to gain your rightful reward.

For our times the story is retold in the form of the Paradise Papers, sheaves of secret papers that could lead the righteous to the contemporary version of the treasure chest: millions of pounds and dollars of potentially unpaid taxes. It was revealed in early November that upwards of 13 million financial and legal documents detailing tax-related transactions had somehow found their way from a blue-chip Bermuda-based law firm to a global consortium of journalists.

And the buried treasure was being spread wide. The New York Times had fun at the expense of Apple’s CEO, Tim Cook. Back in 2013 a Senate investigative committee had found that the company had, legally, avoided billions of dollars in US taxes by moving profits to Ireland. Cook defended the company to the committee. ‘We don’t depend on tax gimmicks,’ he said. ‘We don’t stash money on some Caribbean island.’ On the basis of what the Paradise Papers revealed, The New York Times could now respond: ‘True enough. The island Apple would soon rely on was in the English Channel.’

And at the other end of the spectrum the revelation that some of the actors in the British television comedy Mrs Brown’s Boys had put £2m into an offshore scheme prompted The Times newspaper’s political blog to say: ‘This must mean they actually get paid to make that show. Amazing.’ It is a flippant and funny aside. But even if unwittingly, it gets to heart of the importance of the Paradise Papers. The financial disclosures may undergo forensic examination and produce extraordinary detail. But the real value of having them out in the open is that it unleashes a tidal wave of popular outrage onto those palm-fringed beaches.

Denial is a great deterrent. The loss of reputation and the feeling of guilt by association are achieving a sea-change in tax behaviour. This is one of the main lessons that the publication of the papers underlines and it reflects a trend little understood by the public. The furore around the Paradise Papers, and the Panama Papers before them, obscures the fact that misbehaviour in this arena of tax is on the wane, certainly in the UK.

The latest UK estimates of uncollected but due tax, popularly known as the tax gap, suggests that, in the words of George Bull, senior tax partner at accountants RSM, ‘the solid downward trend of tax avoidance is quite remarkable’. The UK tax authority, HMRC, pulled in a record extra £29bn last year from its efforts in that field.

It is this sort of success that tends to be overshadowed by all the razzamatazz and assumptions behind the publication of the Paradise Papers. ‘After years of
HMRC and the tax gap

This is what the UK tax authority, HMRC, said a couple of weeks before the Paradise Papers revelations: ‘The UK’s tax gap, the difference between the amount of tax due and the amount collected, is one of the lowest in the world. But if we are to ensure a fairer and more effective tax system, and more money for public services, we must keep up the pressure on the tax gap by relentlessly pursuing the small minority who seek to cheat their taxes through evasion, aggressive avoidance and organised crime.’

many outside parliament choose to concentrate on tax avoidance almost to the exclusion of all else.’

The blizzard of information also muddies the tropical waters in that much of the investment activity the Paradise Papers show is perfectly normal and legal, as investment funds put their money where lower costs provide higher returns, which is why all manner of respectable organisations like the UK parliamentary pension fund found themselves in the limelight.

Robert Bruce is an accountancy commentator and journalist.
Living by numbers

Professional accountancy is not for wimps. Drawing on her many years of experience, Alison Thomas offers some light-hearted advice.

When it comes to a long-term viability statement, what constitutes ‘long term’?

From all the reports I have read, the answer is three years. No matter how long a company’s business cycle, no matter if it invests over a 20-year time horizon, it is still three years. I do understand management’s reluctance to stick its neck out. In this litigious world, there are clear advantages to following the herd. But does this groupthink mean that the viability statement is a waste of paper?

I recently received the Financial Reporting Lab’s report Risk and viability reporting (see bit.ly/FRC-risk). I was relieved to learn that the boards of non-financial services companies are now spending more time thinking about risk. For that reason alone, the requirement to report on viability has earned its stripes.

But what do investors think? It’s a mixed picture. They welcome the improvement seen in risk reporting over the past decade, but say there is still too much boilerplate. No one wants management to divulge commercially sensitive secrets, but they argue that there is plenty more company-specific insight that management could offer without giving away the crown jewels.

And how about the three-year issue? Here the Lab offers pragmatic advice. Even if management believes it can only provide a meaningful assessment of viability over a three-year time frame, don’t shy away from discussing longer-term operational issues. It can only add to the credibility of the report.

Q

We are entering the Chinese year of the dog. If the accounting profession were a Chinese zodiac animal, which would it be?

A

How easy it would be to talk of monkey business or a particular snake-in-the-grass who was a swine to his or her juniors, but it’s unprofessional. The answer is a tiger. The first chap to codify the accounting system is thought to be Luca Pacioli. His book, Summa de arithmetica, geometria – proportioni et proportionalita, published in 1494, accelerated the widespread adoption of double-entry bookkeeping. A profession was born. And 1494 was the Chinese year of the tiger.

Alison Thomas, consultant

Q

I’ve been asked to add a section on cybersecurity to our next annual report. What can I say that won’t sound like a simple statement of the obvious.

A

This is one of those areas where some discretion is required. Telling the world about the failings of your security arrangements, for example, might be a little too transparent. But that doesn’t mean it is time to revert to boilerplate – far from it. Done properly, cybersecurity has the potential to be one of the most riveting sections of the annual report – the relentless struggle of company against state-sponsored evil or, even worse, maladjusted teenager.

In my experience, the most compelling cybersecurity disclosures go beyond simple statements to offer insight into how the strategy is being implemented. They introduce the poor soul who is charged with keeping you safe, offering the investor some reassurance that it is a full-time specialist with plenty of resources.

They also help the reader understand how the company tests that its cyber strategy is working. Does it, for example, pit its system against the wits of a former hacker who successfully broke into the Pentagon (see also page 42)? Basically, they should give enough detail to let the reader know the company is serious.

And don’t be shy; don’t hide your cyber report in some obscure section of the annual report. Reinforce your key messages throughout, including in the risk report, the report on board activities, the viability statement, even the chairman’s letter. This is an important topic. Give it the air it deserves.

Q

Does the cyber strategy show that the company pits its system against the wits of a former hacker who broke into the Pentagon?

A

Does the cyber strategy show that the company pits its system against the wits of a former hacker who broke into the Pentagon?
Forging ahead together

In his first column as ACCA president, Leo Lee celebrates the success of ACCA’s global network and its 200,000-member milestone, and anticipates the work to come.

I have been an avid reader of AB magazine throughout my almost 40 years as an ACCA member. As I have grown and learned throughout my career, I have also seen ACCA evolve and change: from our achievement of 25,000 members back in 1982 to the milestone of 200,000 today.

Our global network of members represents a powerful community of finance professionals whose collective expertise helps provide leadership to organisations of all sizes. We are immensely proud of what our members are achieving and want to use this milestone to salute their successes.

To celebrate 200,000 members, we will be running a series of events over the coming months to enable members to engage with the ACCA community. There will be exciting things happening both online and at member events, so I do encourage you all to get involved.

It is our vast and impressive membership that enables ACCA to shape and lead the profession. We have achieved much so far – from our capacity-building and partnerships around the world to our commitment to ensuring that the profession maintains the highest ethical standards – but there is always more to do.

If I could achieve one thing, it would be to build a better world through education. I have seen ACCA maintain its core values of opportunity, diversity and integrity throughout my membership, and now it is my chance to champion these values: to further our mission; to develop the profession in emerging economies; and to open doors for aspiring finance professionals.

In my year as president, I pledge to assist ACCA in achieving its mission of developing the accountancy profession the world needs. But I can’t do this alone. I hope you are with me. In the words of Japanese poet Ryūnosuke Akutagawa: ‘Individually, we are one drop. But together, we are an ocean.’

Leo Lee FCCA is retired, but formerly held various roles at the Securities and Futures Commission of Hong Kong and is past president of ACCA Hong Kong.

If I could achieve one thing, it would be to build a better world through education.
Debt dependency

With unsecured consumer credit topping £200bn for first time since 2008, increasing numbers of people are being left vulnerable to spiralling debt, says Peter Williams

As the post-Christmas credit card bills hit the doormat – or more likely the inbox – around half of us will perhaps ruefully review their contents, reminding ourselves of the good times purchased, and then pay off the total owed in full.

And the other half? According to debt charity StepChange, it is younger people who are likely to leave at least part of the bill unpaid; almost two-thirds of those who ask for help are under 40 – an increase of 10% in the last 10 years.

Half of those seeking advice are in work, but StepChange blames the steady rise of the gig economy and insecure, low-paid work, which means less stable incomes that struggle to cover basic living expenses. And as 60% of StepChange’s clients are women, debt appears to be opening up an unwelcome gender gap.

The Financial Conduct Authority (FCA) suggests we see the overall £200bn of UK consumers’ debts – owed on credit cards, personal loans and car finance – as a series of markets rather than a monolith.

For instance, Andrew Bailey, chief executive of the FCA – the body now responsible for consumer protection – has said he is not too bothered by the £58bn owed on motor cars. While he worries whether consumers fully understand the nature of personal contract purchases (PCP), he says the financing reflects the nature of the car today – an asset you may as well rent for a while rather than own.

What is less easy to dismiss is the cost of credit from cards and personal loans, some of which encourage over-indebtedness and keep borrowers locked in as permanent and profitable debtors.

Around five million people in the UK fall into that painful category, forced to use their cards as long-term debt with consumers paying around £2.50 in interest and charges for every pound of actual balance they manage to repay.

Those caught in the revolving door of credit card debt need early help to exit into cheaper loans and cancelled debt. This can be done: FCA figures on caps on payday loans – in operation for two years – suggest three-quarters of a million people have saved £150m a year in charges and escaped from loans they could not afford to repay.

The Bank of England, looking at the problem from the banks’ and credit firms’ perspective rather than consumers’, agrees with the FCA’s analysis and maths. It describes the debt pile as a ‘pocket of risk’ and suggested in 2017 that banks set aside £10bn to cover the cost of consumers never repaying (see also Take precautions on page 32).

In the third quarter of 2017, personal insolvencies throughout England and Wales hit a five-year high, with 27,800 people affected, up from 22,400 in the previous quarter.

For many of us, consumer credit is a little-regarded convenience helping our comfortable world go round. For others, 150 years after Britain closed debtor prisons, credit is still a master with the power to hold captive.

Peter Williams is an accountant and journalist
Public dilemma

The focus of corporate governance has shifted away from wealth creation to pursuing the public interest, but has the pendulum swung too far, asks Jane Fuller

Much of the recent news on financial reporting has dwelt on why auditors did not spot this, that or the other problem ahead of a corporate crisis (see the feature on page 32), such as the failure of the UK bank HBOS in October 2008.

So it was refreshing to read the report Directors Responsibilities for Financial Reporting, by ACCA and its strategic partner Chartered Accountants Australia and New Zealand (see the feature on page 36). It is a timely reminder that a company’s management prepares the financial statements and that questioning of its judgments starts with the directors. Indeed, they need to exhibit professional scepticism just as much as the auditors do.

Directors’ duties include overseeing and questioning both internal and external audit. Tendering requirements for the latter mean that audit committees have been honing their skills in setting criteria for high-quality audit and in evaluating the hired firm’s performance.

Another important reminder, however, is that directors do not need to be accounting experts (although the audit committee may be required to have one of these). This may help them avoid getting bogged down in technical detail when the essential task is to focus on the substance of the company’s transactions and financial state. Their key audience is an external one: those who provide the company with funding and who make economic decisions on the assumption that the numbers are reliable.

This ‘back to basics’ approach, which, as the report points out, is adopted in many parts of the world, is welcome amid the clamour for directors to pay attention to a wide range of other factors. Over the past decade, the emphasis of corporate governance regulation has shifted away from promoting wealth creation in efficient capital markets and towards pursuing the ‘public interest’.

The practical impact of this is that one rarely hears the concern these days that regulation might stifle entrepreneurship, or distract the board from creating wealth for shareholders. It is assumed that a company can always do well by doing good.

Often it can, but take just one recent example of the potential contradiction in this view: Royal Bank of Scotland’s decision to close a quarter of its branches. This will help RBS return to profitability after a decade of losses and enable the government to sell the taxpayers’ 71% stake at less of a loss than we currently face. But it will also deprive some communities and non-internet users of important – effectively public – facilities.

Where does the public interest lie? Directors’ duties are now more orientated towards policing on behalf of the public. But they should quietly remind themselves that a sine qua non for corporate success is true and fair financial information.

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

In the second of two articles by HiFX in association with ACCA, we look at the importance of a clear and robust policy when managing foreign exchange risk.

Worries over exchange rate risks still figure very strongly in the minds of many businesses, reflecting in part continuing economic and political uncertainty around the world. These concerns are particularly strong in the UK and Western Europe, which are grappling with the potential impact of the UK’s withdrawal from the European Union, as well as wider economic concerns.

This is reflected in the latest survey of global economic conditions, released by ACCA in October 2017. It revealed that while the biggest concern for respondents in Western Europe was rising costs, the second biggest worry was the exchange rate. This was no surprise considering the strength of the euro, which reached multi-year highs during the year.

However, while the pound fell sharply after the general election, it recovered ground alongside speculation that the Bank of England would raise interest rates. But when the Old Lady did indeed increase rates to 0.5% from 0.25%, although it was the first increase in 10 years, the foreign exchange (FX) markets reacted by marking down the pound. This unexpected response highlighted the volatile and unpredictable nature of FX, and the risks that it can pose to businesses that have any crossborder dealings.

‘In this instance, it appears market expectations of the rate hike were already factored in, and, if anything, there seems to be some disappointment that they didn’t go far enough in terms of clarifying timelines for further hikes,’ says Narayanan Vaidyanathan, head of business insights at ACCA. ‘The market reaction to the rise in UK rates shows the need for a robust FX policy that is easy to implement, but nuanced enough to avoid broad generalisations. Finance professionals have the skills to ensure that such a policy is in place to protect the future of their businesses.’

During a recent webinar, global FX payments provider HiFX found that less than half (43.5%) of participants had an FX policy, suggesting perhaps that there was not enough attention being paid to exchange rate risks or that it was an area considered too complicated for many to be able to formulate a policy.

Keep it simple

However, such a policy need not be complicated. As Chris Towner, corporate director at HiFX, says: ‘A foreign exchange policy will be a simple, succinct document that will give you a roadmap of the approach a company should take to managing FX risk. It will be a bespoke policy, but one where someone outside the business can come in and within 20 minutes gain a full understanding of the business’ approach.’

The policy needs to be bespoke because every business will have a different currency exposure, approach and objective – the volumes, timelines and currencies can all have an impact on the policy.

But who should be responsible for formulating the policy? ‘The finance function should be responsible for pulling together the policy, and the CFO will be comfortable with it and put it to the board for sign-off,’ explains Towner. ‘And once

‘Finance professionals have the skills to ensure that a robust foreign exchange policy is in place to protect the future of their businesses’

Accounting and Business January 2018
Foreign exchange market jargon buster

Ask rate or ask price  The exchange rate at which a foreign exchange (FX) provider will sell a currency to you. Also known as the offer rate. A lower ask rate is preferable for a customer, since it means you will pay less to purchase a currency.

Base currency The first currency in a currency pair. The value of the base currency is set at 1 in a quote, and the price at which the two currencies can be exchanged is reflected in the quote currency. If the EUR/USD rate is 1.10, for example, then €1 costs US$1.10.

Bid rate The exchange rate at which an FX provider will buy a currency from you. Also known as the buy rate. A higher bid rate is preferable for a customer, since it means you will receive more for the currency you are selling.

Bid/ask spread The difference between the bid rate and the ask rate. Often referred to simply as the spread.

Counter currency The second currency in a currency pair, it is the price for purchasing one unit of the base currency. Also known as the quote currency.

Cross rate An exchange rate between two currencies that is calculated based on a third currency. It often refers to an exchange rate that does not include a country’s domestic currency.

Forward contract A contract for which the buyer and seller agree to an exchange rate today, but the settlement date is more than two business days in the future. If the price of the currency pair changes between when the contract is formalised and when it settles, the parties are still committed to the rate specified in the contract.

Hedge A hedge is an investment that is used to offset potential gains or losses associated with the risk of another investment. Companies often use a forward contract to hedge against currency rate fluctuations in the future.

Limit order A transaction where the customer sets the price and the order is open until the market reaches that price. At that point the order is filled as a spot transaction.

Margin A deposit required on forward contracts as collateral to cover the risk associated with potential exchange rate movements. Also used to refer to the mark-up on a transaction.

Speculative trading or spec trading Entering into an FX contract with the intent of profiting from the movement of a currency value.

Spot price or spot rate Current market price for a currency pair.

Source: xe.com

signed off, it should be adhered to. There is nothing worse than putting in the effort to create an FX policy and then not implementing it. It should be completely market agnostic.’

By this, Towner means that once agreed, there is no point in waiting to see how the market moves in certain currencies before implementing hedges against market movements. ‘The policy should create enough cover to protect the business and also allow for favourable moves in exchange rates,’ he says.

Having identified and quantified risks, a number of points should be covered in the policy. Set out the background to the business and how the FX exposure arises and the type of risks; is it a transactional risk or translational risk (see ‘The forex factor’, AB, page 30, November/December 2017 for more details). Then the policy should set out the purpose of managing FX risk, looking at individual currencies, volumes and how the exposure arises.

Thirdly, the policy should describe what the business is trying to achieve through managing its FX risk. Is it to have protection or flexibility or a combination of the two? The fourth section sets out the roadmap, or strategy, which lays out the time periods for hedging the minimum and maximum requirements.

Then there is the rationale. This sets out the reasoning behind the framework. Following this, there would be a section on which hedging tools can be used and in which circumstances; and finally, who has authority to trade in FX, by title and position in the business.

Towner stresses that the policy is not a document that is agreed and then left in a drawer to gather dust. As he says: ‘The policy must be reviewed on a regular basis to make sure the business is protected.’

Content sponsored by HiFX, which provides international payments and FX hedging solutions for businesses

hifx.co.uk/business
Taking precautions

While accountants generally were not caught in the thick of the last financial crisis, corporate treasurers could prove a key defence when the next one comes.

Last year was a dark anniversary for the financial services sector. A decade ago investors started to detect the first signs of what would turn into the most damaging crisis since the 1930s. The shockwaves that emanated from the US sub-prime meltdown caused considerable damage to the reputations and profit margins of many businesses in the financial industry – from banks to rating agencies.

There was one notable exception. Relative to other branches of the sector, accountancy escaped relatively unharmed. But while accountancy emerged largely unscathed, the profession was affected, according to industry experts.

‘Accountancy was not at the heart of this crisis,’ says James Peterson, a former partner at Arthur Andersen and author of Count Down: The Past, Present and Uncertain Future of the Big Four Accounting Firms. ‘For a start, this is an evergreen sector that can do okay even when the rest of the economy is in deep freeze. Companies can’t simply opt out of audits or tax compliance just because times get tough.’

The professional services sector, of which accountancy is a major part, even benefited from the growing complexity of regulation – which was spurred in part by the crisis. For example, since 2008 the sector has grown on average by 4.5% a year in the UK, compared to nominal GDP growth of 2.6% for the economy as a whole, according to data from PwC.

‘Regulation and processes are becoming more elaborate in a knowledge economy,’ says John Hawksworth, chief UK economist at PwC. ‘The financial crisis accelerated this process.’

Corporate treasurers, meanwhile, were also relatively insulated in terms of employment. ‘When companies are in distress, corporate treasury departments are busier than ever since they have to deal with the banks and credit-rating agencies,’ says Sarah Boyce, associate director at the UK’s Association of Corporate Treasurers. And the profile of
corporate treasurers was actually enhanced by the crisis. ‘They have been given a lot more air time with boards since top executives have become more eager to learn about how to avoid problems that arose during the crisis – from reduced access to capital to counterparty risk,’ says Boyce. In terms of blame for the crisis, governments and the public had bigger fish to fry. The bulk of the public anger was directed at the investment banks that had produced a range of toxic products, along with the credit-rating agencies that had given them a guarantee of safety. Economists were castigated for failing to spot the looming problems.

Could do better
Still, the accounting profession was not completely unaffected. The way accountants evaluated the balance sheet of banks came in for some criticism. ‘The industry as a whole could have done more to raise concerns about the soundness of the banks,’ argues Stella Fearnley, a professor in accounting at Bournemouth University. ‘Banks ended up looking stronger than they actually were due to the way we were accounting for certain financial assets on bank balance sheets and the way potential loan losses were calculated. The financial statements of the banks didn’t always show a full and fair view of their situation.’ Since the crisis, the International Accounting Standards Board has devised new rules that aim to address some such criticisms, moving from a model in which losses are recognised only when incurred to one in which companies must provision for potential losses over the next 12 months. A survey by Deloitte estimated that half of the banks interviewed by the firm expected the new rule would increase loan loss provisions by up to 50%.

The crisis also led to important changes in the way corporate treasurers operate. During the meltdown several standard sources of credit for companies dried up, including the market for commercial paper – short-term debt that businesses use to fund operations. Some banks also curtailed access to loans. ‘The crisis served as a reminder that corporate treasurers need to be versatile and consider multiple options to get the capital needed to run businesses,’ says Boyce. Treasurers have also been impacted by updated regulations forcing banks to hold more capital for riskier debt. One result is that instead of requesting a seven-year credit facility, for example, which would force banks to hold more capital, they ask for a five-year facility with the option to roll over for two more years, explains Boyce. And even corporate treasurers at smaller firms now often enact trades directly via a trading platform rather than through brokers, deploying technology that makes it easier to comply with post-crisis rules on reporting trades. ‘Corporate treasurers have got caught by a lot of rules intended for banks,’ says Boyce. And corporate treasurers in particular will be on the front line when the next crisis hits, attempting to keep the capital flowing to fund the operations and investments of their companies.

Since economists agree that downturns are a fact of life, the question is not whether another crisis will occur, but rather when and why. ‘The causes of the next crisis are unlikely to be the same as the last one,’ says Ian Stewart, chief UK...
Technology: positive or negative?
Technology could play a much larger role in the next meltdown. But experts are divided over whether this will be a positive or negative role. John Hawksworth, chief UK economist at PwC, believes that a more sophisticated generation of cyber-terrorists could move beyond attacking individual companies to targeting the system as a whole. On the other hand, according to Lawrence Rufrano, an official at the US Federal Reserve during the crisis, artificial intelligence (AI) is increasingly being used to provide early warning signs. AI has the potential to address a host of systemic vulnerabilities, from fraud to illegal trading activity, he says.

The profession was not completely unaffected. The way accountants evaluated the balance sheet of banks came in for some criticism

Economist at Deloitte. ‘Central banks are carefully monitoring the banks and have developed more macro-prudential tools to help prevent debt from getting out of control – especially in mortgages where the last crisis originated.’

In November 2017, the Bank of England confirmed that all of the UK’s biggest banks were now in a position to withstand another financial crisis or a disorderly Brexit (although not necessarily both at the same time).

Still, additional sources of danger are likely to arise. ‘As bank regulation has tightened there is always a risk that this will push higher risk activities outside the regulated sector,’ says PwC’s Hawksworth. ‘In addition, new technologies may be less well understood by regulators, so this is also a risk that we should be aware of.’

And some of the measures taken by central banks to avert a depression following the 2008 crisis could also come back to haunt governments. Easy monetary policy has encouraged companies, consumers and governments to take on more debt, which may become harder to service as interest rates rise.

Economists at Deloitte and PwC believe risks of a renewed crisis at present remain low, with improving economic growth and improved financial surveillance by regulators. But hopefully the lessons learnt from the last crisis will stand accountants in good stead when the next downturn does finally come.

‘Treasurers learnt to be even more cynical about the ability of banks to guarantee credit in troubled times and to be as flexible as possible,’ adds Boyce. In advance of the next meltdown, the best treasurers have realised the need for strong internal relations – so that boards understand the need for swift actions – as well as strong external relations with the likes of banks and rating agencies.’

Christopher Fitzgerald and Fernando Florez, journalists
Smarter finance functions

Leading finance functions invest more time in commercial insight than in transactional work, pay their staff more and run at lower costs, according to research by PwC.

Finance team composition is changing
PwC’s benchmark study of finance effectiveness, which takes in the finance functions of 600 organisations around the world, has found that adopting new technologies requires investment in people with digital analytics skills but delivers operational savings as well as data insights.

Top performers reward value-adding skills
Business-insight staff costs (i.e. budgeting and forecasting) are typically 40% above median for all finance processes.

Savings vs insights
The typical finance function spends just 24% of its time on insight generation and 51% on identifying and removing inefficiencies.

Distribution of finance time

Best automation opportunities in the finance function

Bring on the bots
Automating finance’s top four process areas (billing, management reporting, general accounting, and budgeting and forecasting) could reduce the time spent on them by 35–46%.
Directors’ responsibilities have increased steadily in recent years in almost every jurisdiction. Their duty of care to the organisation they govern includes the provision of useful and meaningful information for investors and other users of the financial statements.

The buck stops with directors when it comes to how well an entity fulfils its financial reporting obligations, yet directors are not expected to be accounting experts. They need to be able to understand enough to challenge accounting decisions applied in the financial statements, and to assess the independence and effectiveness of the audit.

A new guide from ACCA and its strategic alliance partner Chartered Accountants Australia and New Zealand (CA ANZ) addresses the gap between what directors need to know about financial reporting and the knowledge that those with no or limited accounting experience may have amassed.

Directors Responsibilities for Financial Reporting: what you need to know sets out clearly what directors without a financial background need to know. Written in plain English, with clear explanations of some issues that often cause confusion (such as the distinction between solvency and going concern), the report is designed to be user-friendly and accessible.

The guide is structured around five questions:

* **Who is responsible for financial reporting?** The report explains that all directors are collectively responsible for meeting their obligations in relation to annual financial reporting. It adds that there is a distinction between the management, which is responsible for the operational process of the organisation, and directors, who are responsible for strategic oversight and for making sure that these operational processes are effective – although there may be overlap in some organisations.
Why are directors responsible for financial reporting?
The report explains that directors’ responsibilities arise from their duty of care to the organisation. Directors are accountable, on behalf of the organisation, to those who provide it with capital to operate. The financial statements are the primary vehicle to demonstrate this accountability.

What are directors responsible for in financial reporting?
The report sets out that while directors do not need to be accounting experts, they do need a level of financial literacy. They are expected to be able to read and understand financial statements, and to form a view on their accuracy, credibility and understandability. They are also expected to understand the processes for preparing and reviewing the statements. But they are not expected to prepare the statements, review transactions or reconciliations, or have detailed knowledge of internal controls.

How do directors discharge their financial reporting responsibilities?
‘A good director will challenge the information and ideas presented by management and other parties and approach their role with an open mind,’ says the report.

When do directors discharge their financial reporting responsibilities?
The report says that while financial statements are generally prepared annually, directors should provide continuous oversight over the financial position of the organisation. ‘It is good practice for directors to review the financial reporting prepared by management at each board meeting,’ it points out.

The report outlines how directors, particularly those with a financial background, may be able to influence audit quality by:

- giving their views on financial reporting risk and the areas of the business that need specific audit attention
- considering whether audit resources are sufficient and allocated properly
- questioning auditors on their approach to the most subjective areas, such as the choice of accounting policies and the validity of management estimates
- encouraging an environment of open and candid communication between directors, management and the external auditors. ‘It is also good practice for the chair of the board, or audit committee, to meet with the external auditor without management present,’ the report adds.

Suggested questions
The report’s appendix includes a list of questions that directors could consider asking management and the external auditors in order to meet their corporate oversight responsibilities. These include asking management about the key assumptions that were made in preparing the financial statements, the areas that required the application of most judgment, and the steps that were taken to mitigate any bias that may have affected those judgments.

Similarly, the directors may consider asking the external auditors which areas of management’s judgment they challenged during the audit and the responses to those challenges, and to identify the key areas of the financial statements that might be susceptible to error or misstatement.

The report details the legislative responsibilities of directors in Australia, New Zealand, the UK, Hong Kong, Malaysia and Singapore. Liz Stamford, CA ANZ’s general manager, policy, believes the guide will be an extremely important tool for directors working across Asia Pacific and Europe. ‘Directors have their own responsibilities and their own member bodies, but as this paper shows, we are playing a leading role in working with them so they better understand their requirements,’ she says.

Maggie McGhee, director of professional insights at ACCA, adds: ‘As well as important details on practice and process, this paper provides the questions directors need to be asking to make sure that the financial reporting process is sound and that the output of that process provides meaningful information to investors and other users. It’s a helpful reminder to our members across the world, particularly entrepreneurs and those working in and for small and medium-sized businesses, of this crucial aspect of corporate governance.’

Liz Fisher, journalist

Read latest updates on ACCA’s strategic alliance with Chartered Accountants ANZ, including news about events and joint publications, on our alliance web pages – accaglobal.com/alliance. The pages also include information about CPD opportunities available from CA ANZ.
Goal-getters

Measuring and reporting on complex targets is what accountants do – which makes them the perfect go-to professionals for the UN’s sustainable development programme.

The world’s population has never been more prosperous – the number of people living in extreme poverty fell by 1.1 billion between 1990 and 2013, according to the World Bank. Emerging economies are involved in more than half of global trade flows, and incomes have risen dramatically as a result, particularly in China. But the world’s poorest still remain locked out of growth, and incomes for the middle classes in advanced economies have declined steeply.

Megatrends such as changing demographics and urbanisation are fuelling inequality in many countries, and the prospect of climate change threatens consequences on those who can least afford it. The human race certainly has the potential to become even more prosperous – but how can that be achieved in a way that includes everyone, and wreaks no more havoc on the planet?

This is the essence of the United Nations’ ambition to create a framework to build prosperous countries that are not only economically productive but socially inclusive and environmentally conscious. On 15 September 2015, the UN countries agreed a set of 17 Sustainable Development Goals (SDGs), with specific targets set for each to be achieved over the following 15 years, with the intention of ending poverty, protecting the planet and ensuring prosperity for all. The project was born partly of frustration – that despite advances in technology, the building-blocks of prosperity creation in many parts of the world are in a critical state.

The 17 SDGs (see illustration) cover a wide range of interconnected social, economic and environmental issues. Together, they provide a roadmap for governments, business and society to tackle the most
urgent challenges, engage with emerging risks and discover new opportunities for creating value. Critically, the SDGs recognise the essential role that business and finance will play in mobilising collective action – it has been estimated that US$2.5 trillion will be needed every year by developing countries alone to meet the goals set out by 2030.

Accountants on the front line
The scale of the challenge the UN has set itself to meet the SDGs by 2030 is immense. The 17 goals encompass 169 targets and 230 indicators – meeting them will take education and action, but also close assessment, monitoring and reporting of the progress of complex, interconnected targets. And this, argues, a new report from ACCA, is why professional accountants can and should be on the frontline.

The comprehensive report, The Sustainable Development Goals: redefining context, risk and opportunity, sets out the challenges that the SDGs are intended to remedy, the ways in which professional accountants can help, the business case for the SDGs, and the role of reporting frameworks in delivering the goals. The report draws from a series of roundtable discussions held with ACCA members and other experts from Vietnam, Pakistan and Singapore.

It sets out clearly why professional accountants are so well-placed to make a significant contribution to the SDGs:

* Future business growth opportunities and new market preferences that are more socially and environmentally aware are strongly aligned to the SDGs, and are more likely to arise in emerging and developing economies. Professional accountants have an understanding of operating in complex markets where sustainable development issues lie at the heart of value creation.

* Environmental and social risks that are linked to many of the SDGs are growing for businesses at an exponential rate. These demand precision when it comes to analysis and reporting, and are rising up the boardroom agenda. Professional accountants are well placed to meet the growing demand for better, more inclusive risk assessment, and for making explicit the connections between social, environmental and financial value creation and destruction (through tools such as the integrated reporting framework).
* The increasing use of digital technology, data analytics and artificial intelligence within the profession will be invaluable for engaging with SDG issues, particularly when combined with the core professional competencies of ethics, judgment, reporting and audit.

* As investor preferences become more aligned to the SDGs, this will create demand for better SDG-related disclosures from companies. Investors and businesses will look to professional accountants for reliable, high-quality information.

* The need for governments to report their progress on the SDGs to the UN will mean a stronger emphasis on data collection and measurement, and on collaboration between the private and public sector. ‘The profession can take a leadership role in connecting the private sector, government and finance with the 2030 agenda,’ says the report.

The report stresses that collaboration will be essential if the SDGs are to be delivered successfully. This means that at a company level, professional accountants must engage their non-financial colleagues. They must become more involved in wider understanding of the external environment, and they must participate in much broader networks than the purely financial.

Professional accountants also have work to do to help business reappraise the metrics that, until now, have been used to define success. ‘Using financial reporting skills to better understand and communicate on risks that are non-financial will become increasingly important,’ says the report. Better data, too, will be a critical driver of the SDGs, and professional accountants will be its custodians.

As ACCA chief executive Helen Brand says in her introduction to the report, implementing strategies to deliver the SDGs will engage the accountancy profession at many levels: ‘Driving investment to build the physical and institutional infrastructure that will recalibrate business, finance and government activity around the SDGs will require both the robust technical skills and sound ethical judgment that the accountancy profession around the world is well-placed to deliver.’

Liz Fisher, journalist

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Mastering the M&A

In this third article in a series by ACCA and PwC on the digital CFO, we look at how the CFO can achieve mergers and acquisitions that meet stakeholder expectations.

Against the backdrop of technology-led disruption, businesses are increasingly looking to acquire, merge or partner with others to attain new capabilities, gain access to untapped markets and improve customer experience.

Research has shown that many mergers and acquisitions (M&As) fail to meet expectations. While the vision is often clear, the way in which the CFO seeks to achieve it makes the critical difference between realising the value or not.

The CFO is fundamental to defining the approach to the deal and to ensuring that value is achieved across the organisation. According to PwC’s survey Orchestrating the deal, only 25% of CFOs and directors felt they could deliver good value in deals.

While the challenges of getting the deal right are not new, the risks of not addressing them are far greater for the modern-day CFO. There are a number of key actions that CFOs need to take to deliver deal value in the digitally enabled world.

The primary reason behind acquisitions is typically to achieve synergies. CFOs should focus the deal and business unit teams on identifying, qualifying, executing and tracking these synergies, creating consensus and accountability across the organisation.

By ensuring the organisation seeks to achieve these synergies, CFOs will have created a blueprint for action that summarises where the value of the transaction lies, where and when it will be realised, and the key assumptions that underpin it.

Accessing data to a sufficient level of detail during the due diligence phase will always be a limiting factor in the M&A process. Adopting a mixed top-down and bottom-up approach will help with a comprehensive post-completion validation, execution and monitoring regime. ‘Day 1’ can be a springboard for delivering value, and clarify communications and the employee retention strategy.

The measurement of value drivers is particularly challenging. Being able to use structured and unstructured data will help, including with insights into operational effectiveness and cost-base, as well learning more about the customers, products and security of revenues.

The demands on the finance function can be significant. Often the volume of tactical activity that is needed to control an acquisition can be significant.

The lack of robust and timely financial and non-financial information in suitable formats can be one of the most destabilising issues in the 100-day post-deal integration plan. It is vital to systemise reporting in the new environment, build on the work undertaken in the diligence phase, ensure alignment in definitions, and prioritise reporting needs and timelines. CFOs should consider how analytics technology and data can be used effectively to address system issues before longer term solutions can be developed.

The CFO needs to ensure operating procedures that are established from the outset can be replicated and sustained throughout the integration process. This should help with efficiency around processes and provide clarity over the impact of any headcount reductions. It’s also important to coordinate the integration of support functions, ensuring key IT, HR, legal and tax dependencies are fully understood.

The CFO is among those responsible for ensuring the value commitments made pre-deal are achieved. So they need to take the lead in transforming the finance function. This should be the final step in the M&A process.

There is huge value to be gained from establishing a clear end-to-end action plan. CFOs should establish an operating model for finance to inform decisions and activities from ‘Day 1’. The deal is also an opportunity to re-think the use of technology and review legacy systems.

A centralised process and tools for monitoring, tracking and reporting the deal synergies is essential. It will enable the digitally agile CFO to make declarations with confidence. The most sophisticated processes not only track high-level metrics but also tie the integration milestones into the value creation targets identified at the start. This helps management identify where in future synergies are likely to be on/off track.

Jamie Lyon, head of corporate sector for ACCA, in collaboration with Brian Furness and Ben Cox of PwC, and Jens Madrian, CFO/COO of Reactive Technologies.

More information

This is an extract from The role of the modern day finance function in integrating an acquisition, the third in a series of articles by PwC and ACCA. See bit.ly/ACCA-digi3.
The growing use of cloud technology means companies should consider employing an ethical hacker to test the systems in their drive to protect financial data.

Hacking is an ever-present and growing threat to the security of commercially confidential – and especially financial – information. As a result, there is a growing case for companies to hold their noses and invest in ethical hacking to secure their financial systems.

No one wants to announce to customers, clients and the public that their data has been compromised – the recent attack on Uber could cause significant brand damage. And the risk of attack is rising as more businesses embrace cloud-based systems.

‘Penetration testing’ or ‘pen testing’ by expert hackers is one way companies can assess their IT vulnerabilities. By invitation only, these experts can identify weaknesses in accounting systems, web pages, databases, servers and operating systems and attempt to exploit them. They will then report back, showing company chiefs where their vulnerabilities lie and the potential consequences of a malicious hack.

Pen testing begins with an automated system scan. Testers then dive deeper manually to identify weaknesses, trying to make the system fail or reveal information that an outsider should not know. Based on the results, businesses can intelligently manage their vulnerabilities and implement fixes, complying with regulatory requirements, and maintaining their corporate reputation and customer loyalty.

IT security should never be assumed to be watertight. It’s recommended that companies storing customer banking and credit card details should undergo pen testing regularly – up to every three months; after all, no large company would dream of submitting its accounts without an audit.

Indeed, pen testers urge companies of all sizes to invest up to 10% of their IT infrastructure budget in regular pen testing. Hackers will attempt to breach firewalls to see how far a cybercriminal could get into a system, spot coding errors that could bring a system down or test the damage a disgruntled employee could cause with internal access to a password-protected area of business.
Even the US Department of Defense last year invited ethical hackers to test the Pentagon’s external websites for bugs, offering up to US$7m in rewards for hackers identifying vulnerabilities. More than 1,400 hackers signed up, with US$75,000 paid out for uncovering more than 130 ‘legitimate, unique’ vulnerabilities, saving the department millions of dollars, estimates former defense secretary Ash Carter.

Global companies such as Google, Facebook and Microsoft also sponsor so-called ‘bug bounty’ programmes to encourage ethical hackers to continually test their systems. Two major international conferences for the global hacking community held last year in the US – DEF CON and Black Hat USA – underlined the need for such action.

DEF CON presenter Dan Cvrcek, founder of Cambridge-based encryption and security experts Enigma Bridge in the UK, says: ‘Fear of the unknown is often considered the worst situation – but if you don’t test, it will be worse.’

The former banking security analyst highlighted the importance of testing new systems before they go live, configuring them as closely as possible to the one with live data. And when allowing pen testers to attack a live system, access to sensitive data, especially financial data, must be restricted.

‘Pen testing is authorised activity – the customer has to say, “I want you to attack the system” and specify the scope for testing,’ he says.

Cvrcek warns that with the growing uptake of cost-effective cloud-based systems, many internal processes with limited inhouse access are now available remotely, bringing new risks. ‘It’s very dangerous,’ he says.

Size doesn’t matter
Many companies believe they are too insignificant to be targeted by hackers, but Cvrcek says malicious hackers often scan the internet for systems affected by a particular vulnerability and attack them randomly, regardless of size.

Dan Haagman, CEO of the NotSoSecure Group, which delivers pen testing from its bases in the UK, US, Australia and India, describes pen testing as business insurance. ‘No organisation or government is so powerful that it does not need outside help identifying security issues,’ he says. ‘Security should be considered a function of capex and opex finance,’ he says. ‘The internet is a wonderful opportunity but it’s not free and it’s not safe.’

Pen tester ‘Anch’, who presented at last July’s DEF CON conference in Las Vegas, says different threat levels can be identified through such hacks. ‘I often find my greatest successes exploring the high and medium-rated vulnerabilities instead of the criticals,’ he says. ‘Most places will concentrate on eliminating the obvious exploitable vulnerabilities and ignore the ones lower on the list. A good pen tester can give you that information, prioritise the fixes and attempt to give a company the best bang for their buck.’

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Anything is hackable
DEF CON participants regularly demonstrate their hacking skills in real time. ‘DEF CON showed us anything can be hacked – software, computers, apps, chips or anything in the supply chain. Always assume you can be hacked and your data can be compromised.’

Julie Missimore, ACCA’s head of policy – Americas, describes pen testing as ‘an invaluable tool to financial institutions and organisations everywhere’.

She says: ‘Given the large amounts of data that accountants and financial professionals are tasked with keeping safe, the security of online systems is essential to maintaining trust and confidence in the online financial services industry, as well as other organisations that are entrusted with consumer information.’

‘No organisation or government is so powerful that it does not need outside help identifying security issues,’ says Marten Mickos, CEO of HackerOne, a bug bounty coordination team created by executives at Facebook, Google and Microsoft, which has established open channels of communication with the global hacker community.

Former hacker turned co-founder of HackerOne, Jobert Abma, says issues can be found very quickly once testers or hackers start interrogating a system.

‘Breaches are happening every day. We’re all human, so there will inevitably be errors in code and bugs in all software. If those bugs are known, wouldn’t you want to know so you can fix them before someone exploits them?’

Sarah Gibbons, journalist
Ringing in the changes

If you’re planning to change or improve yourself this year, our talent doctor Rob Yeung has been studying the science. He discusses which approach works and why.

What would you like to change or improve about yourself this year?
I frequently work with people who aspire to be more assertive and make a stronger impact at work, for instance, or with people who want the opposite: to talk less and become more consultative. But maybe you have a different need entirely.

When it comes to changing your personal behaviour and habits, some alleged experts and self-help gurus suggest you should envision the future you want to achieve. They sometimes recommend that you create a vivid mental movie of what it would look like to have succeeded at changing yourself. But does this approach work?

New York University scientist Gabriele Oettingen has investigated the link between future-focused thinking and people’s ability to achieve their goals. In one study, Oettingen and colleagues found that the more people engaged in fantasising about positive future scenarios, the more positive they reported feeling at that point in time.

That seems like a positive result. Fantasising, envisioning or daydreaming about a desired future can remove us from our momentary hassles and worries, so helping us to feel better instantly.

However, when tracked over time, the participants in the study actually ended up feeling worse as the weeks turned into months. The reason: wishing, hoping and thinking about a desired future seemed to reduce their motivation to achieve actual change. They put less time and effort into changing their circumstances, which led to them becoming unhappier over time.

‘If your objective is to bring about real change, avoid spending too much time dreaming and envisioning’

Such research offers us a clear warning. If your goal is simply to feel good, then by all means fantasise, wish and hope – but accept that you may achieve less long-term. However, if your objective is to bring about real change, then you should avoid spending too much time dreaming and envisioning.

So how can we change successfully?
For guidance, we can turn to research conducted some years ago by Peter Gollwitzer, then a professor at the University of Konstanz in Germany.

Gollwitzer and his colleagues have conducted literally hundreds of studies worldwide looking at people’s efforts to change themselves, in groups ranging from schoolchildren to entrepreneurs and business managers. The conclusion from this vast body of research is that a very particular type of goal format can significantly increase the chances that people follow through with their goals.

Dubbed implementation intentions, these goals are phrased in a very specific fashion: if situation X occurs, then I will do Y. For example, imagine that someone lacks confidence and wants to make stronger eye contact during meetings or even at job interviews. He might write out the implementation intention: ‘If I am meeting with someone one-on-one, I will remind myself to look at their eyes whenever they talk.’

Suppose a manager wants to stop a colleague from interrupting her so often. She might decide on a more
says that I have been overly confrontational or even intimidating on several occasions. From a legal perspective, can I refuse?

A

I can’t speak of the legal perspective as I’m not a lawyer. However, I take it as a positive sign that your manager is suggesting that you see someone. A coach or psychologist is an investment.

Your manager would not pay for outside support if he did not believe that you had considerable value to add to the business.

World-class tennis players such as Roger Federer and Serena Williams, as well as modern-day Olympic champions, all rely on coaches as well as a bevy of physiotherapists, nutritionists, sports psychologists and other advisers. As a manager in business, think of yourself as a corporate athlete. Why try to succeed on your own when you can draw upon the support of knowledgeable individuals who are experts in their fields?

To get the most out of being coached, accept that there is likely to be at least some truth in the views that others may find you overly challenging. That may not have been your intention; however you should bear in mind that people judge you not on your intentions but on how they perceive your behaviour.

Also, consider that it may take more than a few months for your colleagues to change their minds about you. In working with your coach, you may find that you are able to change your behaviour within only weeks. However, the reality is that your colleagues have by now made up their minds about you. They are likely inclined to see the bad and not the good. So accept that you may have to demonstrate new, more collaborative behaviour for several months before your colleagues start to notice.

Tips for the top

If you are a manager looking to hire someone, I strongly recommend that you avoid asking the questions: ‘What are your strengths?’ and ‘What are your weaknesses?’ Hiring managers often say these questions allow them to gauge whether candidates have any self-awareness about their true strengths and weak spots. However, the reality is that you cannot know whether candidates are revealing real strong points and weaknesses or not. In all likelihood, they are merely telling you what they think you want to hear.

Instead, probe their skills by asking them to tell you about problems and opportunities they have tackled at work. Ask them what specific actions they took to tackle such issues? Why did they make the decisions they made? What other options did they consider? Getting into the detail of how candidates responded in past situations will reveal far more about their actual strengths and weaknesses.
Repackaging the punch

How we consume data has changed so much over the years that we need to rethink how we communicate important messages. The answer is ‘sauce’, says Harry Mills.

Our messages need reinvention. Messaging that worked in the past won’t work today. Two decades of destabilising and accelerating change have profoundly changed the psychology of how, when and why we respond to persuasive messages.

In her book Decoding the New Consumer Mind, Kit Yarrow says that the pervasiveness of digital technology has transformed our lives. She says that, in the new digital world:

* we skim and scan rather than read
* we’re bombarded and interrupted by a relentless barrage of information
* we’re conditioned to want everything faster
* we are increasingly addicted to stimulation and speed
* we’re becoming less and less tolerant of anything that requires patience.

In iBrain: Surviving the Technological Alteration of the Modern Mind, Gary Small describes the new mental state we live in as ‘continuous partial attention’. For a message, proposal or presentation to pack a persuasive punch it has to pass the ‘sauce test’.

Messages with persuasive punch are:

* simple: one central truth, easy to grasp and picture
* appealing: different, valuable and personalised
* unexpected: surprising, intriguing and seductive
* credible: trusted, transparent and verifiable
* emotional: warm, arousing and plot-driven.

Let’s take each in turn. Simple: success in messaging starts with determining the central truth of the one idea you most want to get across. Ideas that pack a persuasive punch work much like proverbs. Proverbs, write Chip and Dan Heath, authors of Made to Stick, represent the ideal of what is possible when you strip an idea down to a central truth ‘that is both simple and profound’. The proverb ‘A bird in the hand is worth two in the bush’, for example, has endured for centuries. The core idea warns us not to gamble a sure thing on something that’s highly risky.

For a central truth to stick and gain traction it must be distinctive and memorable; we remember words that jolt and sparkle. And it must ring true; words that exaggerate, over-promise or sound like typical corporate-speak do not attract but repel. Customers switch off when companies use ‘fifty-cent words to make a five-cent point’.

Sales or marketing?

What about ‘appealing’? In the early 1990s, thirty-something Alex Bogusky, then the creative director of a small ad agency, wrote what is today called ‘the hitchhiker ad’. It was designed as a press advert and displayed two images side-by-side. The first showed a man hitchhiking by the side of the road holding a cardboard sign with the name of a US city written on it. Above it was one bold-type word: ‘Sales’. The second image was similar, a man was hitchhiking by the side of the road holding a cardboard sign. But written on it was the line ‘Mom’s for Thanksgiving’. And above that, one bold-type word: ‘Marketing’.

Bogusky, who today is referred to as the Elvis of advertising, wanted to show that the difference between sales and marketing was the persuasive message and to show that the agency that wrote the ad knew how to create messages that were compelling and appealing.

Next, ‘unexpected’. Customers’ ‘attention hotspots’ have adapted to our message-saturated environments by developing mental radars and machine guns to detect and shoot down unwanted messages.

Customers have adapted to our message-saturated environments by developing mental radars and machine guns to detect and shoot down unwanted messages

To get under the radar, advertisers have responded by doing the unexpected. In one ingenious campaign, Folgers Coffee turned manhole covers in New York City into giant mugs of hot coffee. Painted images were fitted over the covers and holes placed in them that emitted steam. When pedestrians walked past in the morning they were greeted by the illusion that there were enormous cups of coffee embedded below street level.
We ignore the expected; once our brains get used to seeing something familiar, we no longer give it attention. Surprise cuts through. We remember surprising occurrences. Our brains crave novelty. Shoppers are attracted by stores that constantly update, rotate and refresh their stock displays.

A question of credibility
As for ‘credible’, we live in a world where distrust of products and companies is endemic. So it is critical for your message to be believable. If customers distrust your company or message, then they discount everything you say. If you exaggerate or claim that you’re the leader or finest in quality when a customer has a different view, you have a credibility problem.

Take Avis rental cars. For years Avis promoted its high quality but claims in US ads of the ‘finest in rent-a-cars’ simply didn’t ring true when Hertz was already the market leader. Then Avis admitted it was the number two. So its advertisement declared, ‘Avis is No. 2. We try harder’. Its claims were now credible. Avis, which had lost money for 13 straight years, suddenly began to make money.

‘Candour is very disarming’, say Al Ries and Jack Trout, authors of Positioning: The Battle for Your Mind. ‘Every negative statement you make about yourself is instantly accepted as a truth. Positive statements, on the other hand, are looked at as dubious at best. Especially in an advertisement.’

We pay attention to and act on messages we trust. Nielsen’s 2013 survey of global trust in advertising and brand messages reports that ‘believability is key in advertising effectiveness’ and ‘trust and action often go hand in hand’. Finally, ‘emotional’. Whether you want someone to buy an ocean liner or a brand of tissues, you need to appeal to their emotions. According to Canadian neurologist Donald Calne, ‘The essential difference between emotion and reason is that emotion leads to action, while reason leads to conclusions.’

Emotional messages have a highly affective warmth. We describe friendly people as warm and unfriendly people as cold. Warm and cold are primal sensations that we first experience in the womb and over time begin to associate with emotional states. To measure the impact of its marketing campaigns, marketing consultancy Conquest asks consumers to use online avatars. Instead of asking consumers what they think of brand X, participants are instructed to move their avatar to show how they feel about it. The closer they move the avatar, the ‘warmer’ their feelings for the brand. According to Conquest, the affective warmth generated by an ad is predictive of its success.

Most persuasive messages fail the ‘sauce’ test. If you judge the success of a message, presentation or proposal by its ability to generate a persuasive punch, only a small percentage succeed. Over 80% of the messages we have analysed for large companies fail the test. Those that fail often get the same two things wrong: unconvincing messages are rarely simple; the core message hardly ever boils down to one central truth. And unconvincing messages rarely tug the heart strings.

In practice, message makers find it extremely hard to identify which emotions to pull if the message lacks a central truth. Multiple competing truths cause confusion and lead to message failure.

Harry Mills is the author of Secret sauce: how to pack your messages with persuasive punch and the expert on persuasion for the Harvard ManageMentor programme
Making the right call

When trying to make effective decisions we should learn the lessons of the greats and acknowledge the benefits of a good night’s sleep, says David Parmenter

We can’t always make the right decision, all the time. In fact, sometimes making the wrong decision is better than being paralysed by the options and not making a decision at all. If you realise it was wrong quickly, you can always abandon the decision and proceed down a different route.

The ability to make decisions and take calculated risks is a trait within our DNA. Jack Welch, former CEO of General Electric, makes it clear in his book Winning that leaders need to be able to make the unpopular decisions and the hard calls where not all the information is at hand, by relying on their gut instinct. They should realise that they have been appointed to the position because of their experience and their previous history of making more right decisions than wrong ones.

When looking at a decision, it is useful to learn from the great decision-makers of the past. Welch suggests that the decision-maker needs to have ‘curiosity that borders on scepticism’.

Leaders need to be constantly aware of risks and discuss the likely consequences with their management team. Lord Nelson, the great British naval chief of the Battle of Trafalgar, is an excellent example of a leader who would consider possible outcomes with his naval comrades, discussing tactics endlessly over evening meals. His aim was that, during the heat of the battle, all the captains would know what would be the best course of action for the fleet. They would act as one, a ‘band of brothers’. In fact, during his last famous battle, he issued just one order: ‘England expects that every man will do his duty.’

Jim Collins, author of Good to Great, says that you need to know if the decision, if it goes against you, will affect you ‘above or below the waterline’. The below-the-waterline risk will obviously sink the organisation unless quick action is taken to mitigate the carnage.

Peter Drucker, the father of management theory, observed that weak leaders make plenty of easy decisions while strong leaders make fewer – but bigger – ones. He went on to say that outstanding performers have no fear of failure.

For any difficult decisions, it is a good idea to ‘FRAME’ them:

* Financial: ensure that you can afford any potential downside.

* Research: look back on your own experiences or learn from people you know who have made the same decision in the past. History has a habit of repeating itself.

* Evaluate: bring out that old favourite, the two-column pros and cons schedule, and study the decision with your mentor.

* Mentor: always discuss major decisions with your mentor. Only the foolish venture forth without having a mentor supporting them from behind the scenes (see ‘Mind the mentor’, June 2017, page 48.)

A 2015 Washington State University study demonstrated that when participants were deprived of sleep their brains were simply unable to process feedback from their actions and the changing circumstances. A good night’s sleep of eight hours could make all the difference to your judgment.

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

The IASB is making changes to statements of financial performance, designed to make them more useful. Adam Deller explains what they will mean in practice

As part of its primary financial statements project, the International Accounting Standards Board (IASB) has tentatively decided on some improvements to the statements of financial performance, which are likely to result in significant changes to the way these are presented. This project began in December 2016 and is running alongside related projects such as those on principles of disclosure and materiality implementation.

The statements of financial performance work is primarily focused on the presentation of items linked to investments, the inclusion of subtotals to aid comparability, and an examination of better ways to communicate other comprehensive income (OCI).

The first of these is the inclusion of a new investing category in the statement of financial performance, called ‘income/expenses from investments’. This is to be shown separately from another new section, which is to be called ‘finance income/expenses’. See page 51 for a possible layout for a statement of profit or loss included in the proposals.

Currently most financial statements show all investment income and finance costs in the same section, often under some form of operating profit subtotal.

The IASB found that many investors believe that more helpful information would be provided from setting out a separate section relating to an investing category. The IASB says this section will include ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’.

The income and expenses in this section arise from investments generating returns separately from the capital structure of the business (considered as an entity’s equity and debt financing, plus any excess cash held). Users often measure an entity’s investments separately from its operations when valuing its business, and it is hoped that providing this additional disaggregation will result in the presentation of more useful information.

So what is the distinction between the new categories of ‘income/expenses...

What more do they want?

Find out about what investors really want from financial reports at bit.ly/AB-Kattar1
from investments’ and ‘finance income/expenses’? The IASB has not produced a prescriptive list, but the most recent staff paper does identify items that would typically be included in each.

Investment income/expenses
This category would typically include:

* interest income on long-term debt instruments (excluding finance income from cash and cash equivalents)
* dividends from equity investments
* fair value changes on equity investments
* fair value changes on investment property (if the entity does not treat such properties as a significant part of its operations)
* rental income on investment property (if the entity does not treat such properties as a significant part of its operations)
* disposal gains and losses associated with the sale of an investment.

Rather than these being classed as one line called ‘income/expenses from investments’, it is expected that this category will contain separate lines for each item type, as identified above.

The share of the profit or loss of associates and joint ventures could go in this section. However, there is currently some discussion within the IASB regarding situations where the activities of the associate or joint venture are similar to or are integrated within the entity’s main line of business. In this case, there could be an argument for showing the share of the profit or loss above this category, reflecting its status as integral to the overall business.

Finance income/expenses
The IASB has tentatively decided that this section should consist of:

1. Interest income from cash and cash equivalents using the effective interest method
2. Other income from cash, cash equivalents and financing activities
3. Expenses from financing activities
4. Other finance income
5. Other finance expenses.

These headings have been introduced to identify the different elements of interest arising from different types of liability. Again, the aim is to disaggregate the information produced in the statement of financial performance to enhance its usefulness.

While interest income from cash and cash equivalents is self-explanatory and consistent with current practice and terminology, the introduction of the term ‘financing activities’ will be a key distinction within this category. The term ‘financing activities’ as used in IAS 7, Statement of Cash Flows, is currently very broad, and the IASB will be clarifying this. This will now state that a financing activity will involve:

* the receipt or use of a resource from a provider of finance (or provision of credit)
* the expectation that the resource will be returned to the provider
* the expectation that the provider will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration.

Using this definition, interest arising from items such as debentures, loans, bonds, leases and payables would fall under financing activities and are likely to come under 2 or 3 in the list above within the finance income/expenses section, as ‘income from financing activities’ or ‘expenses from financing activities’.

Other liabilities – such as net defined benefit liabilities, decommissioning liabilities and other long-term provisions – are much less likely to fit the criteria as a financing activity. Therefore, any income or expenses (such as the unwinding of discounts) relating to these are likely to fall under line items 4 or 5 above, being ‘other finance income’ or ‘other finance expenses’.
Communicating OCI

As part of this project, the IASB has also looked at the concept of other comprehensive income (OCI), which it acknowledges is one of the least-understood concepts within statements of financial performance.

The change proposed is more to do with terminology than with where items should be reflected within the statements of financial performance. Since June 2011, IAS 1, Presentation of Financial Statements, has required items of OCI to be grouped into:

* items that will not be reclassified subsequently to profit or loss (not recycled)

* those that will be reclassified subsequently to profit or loss (recycled) when specific conditions are met.

The IASB has decided that these two categories are to be renamed as ‘remeasurements reported outside profit or loss’ and ‘income and expenses to be included in profit or loss in the future’. Whilst there will be no change to the classification of items, this will result in the removal of the term ‘other comprehensive income’, meaning that OCI will no longer be a heading in the statement of financial performance.

So what’s next? The IASB has acknowledged that the current proposals around this new category do not address whether this is relevant for financial institutions and other entities providing financial services. It aims to determine a suitable approach for a straightforward non-financial entity first, before considering more complex scenarios.

The IASB will continue to discuss the presentation of the share of profit or loss from associates and joint ventures, in addition to making a decision on whether earnings before interest and tax (EBIT) will become a subtotal within the statement of financial performance.

These changes are not likely to be applicable for some time yet, as the IASB continues its suite of projects. When they do come into effect, they are likely to mean that many statements of financial performance increase in length, as the currently used categories of ‘investment income’ and ‘finance costs’ will be significantly disaggregated.

The aim is to increase the usefulness of information produced within the statement of financial performance, rather than relying on detailed analyses of the information within the notes to the financial statements.

Adam Deller is a financial reporting specialist and lecturer.

Proposed statement of profit or loss

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>X</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(X)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>X</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(X)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit before investments, financing and income tax</td>
<td>X</td>
</tr>
<tr>
<td>Income/expenses from investments (new section):</td>
<td></td>
</tr>
<tr>
<td>Dividends from equity investments</td>
<td>X</td>
</tr>
<tr>
<td>Rental income from investment property</td>
<td>X</td>
</tr>
<tr>
<td>Share of profit of associate</td>
<td></td>
</tr>
<tr>
<td>Earnings before interest and tax</td>
<td></td>
</tr>
<tr>
<td>Interest income from cash and cash equivalents calculated using the effective interest method</td>
<td>X</td>
</tr>
<tr>
<td>Other income from cash and cash equivalents and financing activities</td>
<td>(X)</td>
</tr>
<tr>
<td>Expenses from financing activities</td>
<td>X</td>
</tr>
<tr>
<td>Other finance income</td>
<td></td>
</tr>
<tr>
<td>Other finance expense</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>X</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>X</td>
</tr>
</tbody>
</table>
Technical update

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

Audit

Reporting to regulators
Following on from the guidance for auditors (and independent examiners) issued by the charity regulators highlighting UK-wide charity matters that must be reported to them, we have also seen the regulators state, in Reporting relevant matters of interest to UK charity regulators, that charity law provides auditors and independent examiners with a legal protection when they exercise their discretion to report significant matters that they believe relevant to the work of the charity regulator.

The examples include scenarios where:

* a donation from an unknown source with conditions has been received and the trustees have not notified the regulator
* uncertainty over the renewal of a contract that is a material source of income to the charity exists
* there is over-reliance on a key individual.

The above is in addition to the guidance highlighted last month regarding auditors’ and independent examiners’ legal responsibilities to report significant matters in accordance with the applicable law. See bit.ly/gov-repchar.

Charity audit

The long-awaited revision to Practice Note 11: The audit of charities in the UK has been issued. It applies to audits of financial statements for periods starting on or after 17 June 2016 and is based on the legislation and regulations that have been published as at 31 October 2017. It includes sections on other reporting duties, as referred to above. The section highlights the provisions in the relevant Charities Acts that set out obligations of auditors. Clearly, this is being singled out as a high-risk area, which both auditors and independent examiners will need to ensure they consider and document.

Investment businesses

The Financial Reporting Council (FRC) has withdrawn Practice Note 21: The Audit of Investment Businesses in the United Kingdom, stating that the material was out of date and/or superseded by the FRC’s Client Asset Assurance Standard. See bit.ly/FRC-assur.

Reporting

Intellectual property

Given the announcements in the Budget and the strategic report developments, the importance of the value of intellectual property is increasingly recognised. In a blog for ACCA, Martin Brassell FRSA, CEO of Inngot, explores this hidden asset. You can read more at http://bit.ly/ACCA-ip1117.

Independent examination

As highlighted last month (bit.ly/update-nov-dec17), new CC32, and an accompanying checklist CC32a, applies to all Independent Examinations signed after 1 December 2017.

Gift Aid

As highlighted last month (bit.ly/update-nov-dec17), the Financial Reporting Council has issued FRED 68, which considers the differences in treatments in accounting for Gift Aid payments made by a subsidiary to its charitable parent. The changes will apply to periods beginning on or after 1 January 2019, with early application permitted provided all of the amendments are applied at the same time (ie including those arising from FRED 67).

Risk and viability reporting

The Financial Reporting Council’s Financial Reporting Lab has issued, ahead of the reporting season, a report on risk and viability reporting. Investors, unsurprisingly, want specific company risks highlighted, explained and referenced to the business model. They also wish to know how the risks have changed and the likelihood of a risk occurring. The Lab report shows the different types of reporting being used by entities and also highlights the views of investors. You can see the report at bit.ly/FRC-risk.

Tax

Tribunal decisions

In The Commissioners for HM Revenue and Customs v Tottenham Hotspur Limited: [2017] UKUT 0453 (TCC), HMRC’s appeal against an earlier decision regarding the distinction between payments made from employment and termination payments was rejected. The conclusion pointedly stated that ‘In our view, the authorities show that the relevant distinction is between cases where the entire
contract of employment is abrogated in exchange for the termination payment (as in Henley), and cases where the payment is made in pursuance of a pre-existing obligation to make such a payment arising under a contract of employment (as in Dale and EMI). This case fell squarely into the first category.

The decision concerned two football players, Wilson Palacios and Peter Crouch, who received termination payments from Tottenham Hotspur Limited and, as pointed out in the decision, the ‘potentially important question of whether the FTT was right to regard the authorities as establishing that the distinction is between “receipt of remuneration or profits in respect of office” on the one hand (which are “from an employment” and therefore taxable under section 9(2) of ITEPA), and “sums paid in consideration of the surrender by the recipient of rights in respect of the office” on the other hand (which are not “from an employment” and therefore not taxable under section 9(2) of ITEPA).’

Wilson Palacios and Peter Crouch received termination payments from Tottenham Hotspur Limited

The conclusion showed the importance of the wording of the employment contract, the actions taken by all parties and also that the contract needs to be considered in full. The summary highlights that ‘if HMRC were right that any contractual provision allowing early consensual agreement for a termination is sufficient to make the termination payment made under the resulting agreement “from an employment”, that would cover almost every termination payment agreed in respect of a fixed-term contract, because there is nearly always going to be an express or implied right to agree an early termination. In any event, it is somewhat counter-intuitive to say that a payment agreed to terminate an employment contract absolutely is an emolument “from an employment”. Although the background to the payment may be the employment contract, the payment itself is not from the employment, but rather in consideration of the termination of the employment. If the payment is an agreed payment in lieu of notice paid in pursuance of an express term, that is a different matter, as was held in Dale and EMI.’

The case can be found at bit.ly/hmrc-spurs. You can find other decisions at bit.ly/gov-trib-dec.

VAT and pension funds
It has been announced that the policy of allowing insurers to treat their supplies of non-special investment/unit trust management services as VAT-exempt insurance is to be discontinued, with the change applying from 1 April 2019.

Law

Export
The Department for International Trade (DIT) is preparing the UK trade remedies framework in readiness for the UK leaving the EU. UK businesses are

Tax returns
Each year we issue a tax return update. For this self-assessment reporting year we issued one in December and another is being issued this month. We have included updates on the latest on exclusion and the option to file a paper return; farmers averaging; directors’ loans; who to blame if the return is wrong; and information on various tax cases.

There are also example calculations illustrating, for example, the tax-free dividend allowance reduction from £5,000 to £2,000 from April 2018 and the landlords’ interest restriction. As a reminder, landlords will be able to obtain relief as follows:

<table>
<thead>
<tr>
<th>Year to 5 April</th>
<th>Finance cost allowed in full</th>
<th>Finance cost allowed at basic rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2018</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>2019</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2020</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>2021</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Also included are the usual annual reminders, such as that tax relief can be claimed on fees or subscriptions paid to approved professional organisations where an individual must have membership to do their job or where it’s helpful for their work.

There is also an update on outcomes from the Scottish Budget in December.

If you did not receive the update, please email advisory@accaglobal.com with the subject line ‘SA update’. 
Probate

Last August, ACCA invited members in practice, participants in the legal services market and other interested parties to comment on its draft application to gain approval of new regulatory arrangements for probate activities. Respondents to the consultation, which ended on 9 October, strongly supported the application, and ACCA submitted it to the Legal Services Board on 23 October.

ACCA will keep members informed of developments concerning the application. For further updates and free factsheets, go to bit.ly/ACCA-lsb-app.

The DIT is preparing the UK trade remedies framework in readiness for the UK leaving the EU

You can find more at bit.ly/dit-call. Comments must be sent by 30 March. ACCA will comment on behalf of member businesses; you can send comments to advisory@accaglobal.com with the subject line ‘trade remedies’.

IPO reform

The Financial Conduct Authority, in Policy Statement 17/23: Reforming the availability of the information in the UK equity IPO process (PS17/23), highlights proposed new provisions for the Conduct of Business Sourcebook (COBS), including that information is made available to market participants during an initial public offering process. The proposal also includes that connected research should be released and unconnected analysts should have access to the issuer’s management. The new COBS rules and guidance will take effect on 1 July 2018.

Cybersecurity

It has been more than two-and-a-half years since Microsoft ended mainstream support for Windows 7, and security updates will cease in January 2020. Microsoft also offers the Enhanced Mitigation Experience Toolkit, which can protect Windows 7 with some of the advanced security features found in Windows 10.

The National Cyber Security Centre offers a range of guidance on staying secure online, which can be found at ncsc.gov.uk/guidance.

Pension trustees

The Pensions Regulator’s ‘21st-century trusteeship’ campaign focuses on good governance in running a pension scheme. It aims to ‘raise standards and improve the way that pension schemes are managed. The regulator asks advisers to:

* help your trustee clients save time and ensure compliance by helping them to put a business plan in place for their pension scheme
* support your trustee clients by helping them to set a clear purpose and strategy for their scheme
* make sure your trustee clients are aware of the consequences of not having a proper business plan in place for their scheme.

Clearly both trustees and advisers may wish to make sure that they have reviewed the latest guidance and have made any necessary changes to the way they work. See thepensionsregulator.gov.uk.

Article 50

UK government papers published in advance of formal negotiating rounds with the EU to inform discussion can be found at bit.ly/gov-art50. You can follow the European Commission commentary at bit.ly/ec-art50.

You must be logged in to post a comment.
Budget update

Glenn Collins gives a roundup of the government’s key announcements in November, including the proposed extension to IR35 and the freezing of the VAT threshold.
Consulting room

The Treasury’s consultative approach on framing tax and other finance legislation is to be welcomed, but worries persist over its use of secondary legislation to make changes.

While many might have been expecting some bold announcements in the autumn Budget (see page 55), it appears that chancellor of the exchequer Philip Hammond has settled on a more consultative approach.

Perhaps having learnt the lesson of his earlier Budget when he was forced into a humiliating climbdown over self-employed national insurance contributions, he has now opted for a series of consultations over areas such as VAT thresholds, off-payroll working reform and employment status, as well as detail on how legislation such as the royalties withholding tax will work.

In total, the Overview of Tax Legislation and Rates report produced jointly between HM Treasury and HMRC listed 22 consultations that arose directly out of announcements made in the autumn Budget. This compares favourably with the number of consultations, calls for evidence and other consultative documents to fall out of previous Budgets. But perhaps it is the nature of some of these consultations, or the fact that there were few headline-grabbing announcements, or even climbdowns, that has left observers feeling that there are a large number of important issues that will need to be addressed this year.

There is also the question about how often the government will resort to secondary legislation to enact changes to the tax code, a technique that might work for previously agreed rate changes, but does not allow for full legislative scrutiny in the same way as the Finance Bill is picked over.

‘All the consultations are welcome,’ says Glenn Collins, head of technical advisory at ACCA. “Where there are significant changes to the laws, you would want a detailed consultation.”

ACCA welcomes chancellor of the exchequer Philip Hammond’s more consultative approach.
But what is concerning is the ability to use statutory instruments. There is a big difference between open consultations and the bills that have a 90-day response time so that they are framed in a good manner, but statutory instruments are being used for a level of detail that you wouldn’t expect.

Collins points to changes that are being made around Making Tax Digital, saying that it is incredibly difficult to review all of the changes that are coming through, and how they interact with each other and impact on other areas. ‘These measures are either accepted or rejected; there is little scope for amendment,’ he says.

However, regarding the level of consultations, David Barton, head of the tax technical team at RSM, believes there are a couple of factors at play that help create the impression there are more than in previous Budgets. ‘First of all, this was the first Budget in the autumn since the chancellor decided to move it, and it came seven months after the last Budget,’ he explains. However, Barton points out that 39 HMRC consultations are listed for 2017, 41 in 2016 and 46 in 2015. ‘This suggests that there was a lot going on that has been consulted on over the last few years. Some of it looks at the tax system in a very wide context, some is just to tweak legislation to resolve particular issues that have been identified. Sometimes we see some major changes where there hasn’t been any consultation, and other times there are some niche issues that are consulted on.’

Barton adds that there is an element of HMRC and the Treasury wanting to pull together facts and opinion to support their decision-making. ‘It isn’t just about wanting to be seen to be doing the right thing; it is about gathering information to make the right decisions,’ he says. ‘But there can be a variety of motivations in the consultation process.’

### Consultation battlegrounds

Among the many consultations that were announced in the autumn Budget, a number stand out as potentially having wide-ranging impacts on businesses and individuals.

- **Modern working practices** in response to Matthew Taylor’s Employment Practices in the Modern Economy review, this will consider options for reform to make the employment status for both employment rights and tax clearer. The government recognises ‘this is an important and complex issue, and so will work with stakeholders to ensure that any potential changes are considered carefully’.
- **IR35** The government will consult on how to tackle non-compliance with the intermediaries’ legislation (commonly known as IR35) in the private sector, following similar implementation in the public sector. The consultation will draw on the experience of the public sector reforms, and on external research already commissioned by the government due to be published in early 2018.
- **VAT threshold** Amid speculation that there would be an attempt to lower the threshold, the government will consult on its design, while committing to maintain the current threshold of £85,000 for the next two years.
- **VAT compliance** The government will be calling for evidence in the spring on what more digital platforms can do to prevent VAT non-compliance among their users.
- **Royalties** On the international front, the government has published a consultation on the design of rules that will govern the taxation of royalties paid overseas, a move that will hit a number of the multinational digital groups.

Barton says his firm is likely to respond to a select number of the current raft of consultations, such as on lease payments, intangibles, digital and VAT. ‘We have a voice and want to make our voice heard,’ he says. ‘The debates will cover important issues for our clients, so we will want to look at what the issues are, what the intended policy changes are and how the proposed legislation makes those changes.’

**Meaningful consultation**

Member organisations will also be wanting to ensure they represent the views of their members to government as well, though Stephen Herring, head of taxation at the Institute of Directors, warns: ‘You need to be careful what you wish for. Most people involved in tax say that the government should consult more actively before policies are changed to avoid additional complexities, but it needs to be meaningful consultation.’

Herring notes that a new budget timetable will be published in the near future that will detail the tax policymaking process. It will look at the timing of different consultations and procedural matters rather than substantive policy issues. ‘We respond to most of the consultations, and I would err on the side of being consulted too much rather than too little,’ Herring adds.

However, Herring concedes that the volume of consultation has increased, though not necessarily from the Budget alone, and is creating a significant workload for those who are tasked with responding to the consultations. ‘We prioritise according to what we believe will be important to our membership,’ he explains, recommending that those who respond should keep their views short and focused on what is important to them.

Philip Smith, journalist
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The view from
Andrew Moyser FCCA, partner, MHA MacIntyre Hudson, and Round Table volunteer

I was hooked on a career in accountancy after seeing a presentation at school. I got a head start on my peers who went to university by joining a small practice straight from school.

I learned the manual way, doing homework study with BPP, backed up by VHS videos! Working for a small firm, I was fortunate to be mentored by two senior partners, who helped me develop quickly, before I joined MacIntyre Hudson in 2005.

Hard work saw me rise through the ranks, becoming a partner in 2013. I excelled because I had good audit experience and a broad understanding of tax. Working with the subject specialists at MacIntyre Hudson really accelerated my knowledge and career.

Today I have a portfolio of clients with £1.3m fees. These are a mixture of owner-managed businesses, with 50% in the construction/property sector. Their turnover is typically between £1m and £50m. Several clients have international subsidiaries, reporting to group auditors around the world, which can be quite technical.

I wear several hats as a partner. I am the firm’s designated partner for audit compliance, data compliance, regional ethics, office profitability and office staff.

I’ve always been ambitious and knew I wanted to be a partner. My goal now is to be one of the best partners the firm has seen. I want to help shape the future of the firm and build our reputation across our entire international network.

We have a team of 15 people preparing for the Global Data Protection Regulation. We are busy updating engagement letters and other service lines.

I volunteer for my local Round Table. We do a lot of community work. I joined to expand my own horizon and have become firm friends with a diverse group of people.

More information
ACCA has a number of useful resources – guides, event updates and information on regional-specific networks – for members in practice. Visit bit.ly/ACCA-in-practice to see what’s on offer.

I’ve always been ambitious. My goal is to be one of the best partners the firm has seen.
The people factor

Andy Minifie FCCA, national managing partner at Haines Watts in the UK, discusses the business of people and redefining roles in an age of increasing automation.

For Andy Minifie the business of accountancy is all about people and not so much about numbers. The national managing partner of top 20 UK firm Haines Watts says: ‘Dealing with people is the interesting bit – not looking at the balance sheets.’

This is a useful mentality given that the mid-tier firm’s clients are predominantly owner-managed businesses (OMB). Minifie, who celebrated 30 years with the firm in October 2017, points out that the OMB’s approach is different from that of other companies. ‘Many businesses don’t have clearly defined aims and objectives. They need help in clarifying their destination. And working
with advisers should bring speed and certainty to the journey towards that goal.’ Minifie calls it holistic support, not just accountancy.

He recognises that this requires a people-heavy, and therefore expensive, model. ‘Often one person heads the business and they’re lonely. What they need is a new perspective.’

Haines Watts’ approach is partly driven by commercial reality. ‘We have recognised for some time that compliance-based services are being increasingly automated,’ says Minifie. ‘Traditional accountancy is a reducing proportion of the firm’s workload.’

Compliance work is a need rather than a want for clients. ‘Because of automation, accountancy is becoming commoditised, but that gives us the opportunity to employ differently skilled people to have different types of conversations with clients – conversations that are more valuable.’

And ultimately – but not yet – the firm may be business advisers first and accountants second.

And that aligns with ACCA’s vision of developing accountants the world needs. For this to happen, says Minifie, accountants need a wider range of skills. ‘For years the profession has produced people who are good with numbers. It now needs to develop people who are good with vision, emotions and communication. We need to resonate with clients on different levels.’

Minifie sees a close match between Haines Watts and ACCA in terms of both organisations’ philosophy on team working, and thoughts on the future changes to the profession.

Robert Stenhouse, ACCA deputy president

2016
Became ACCA member

2004
National managing partner, Haines Watts

1996
Joined Haines Watts’ board

1987
Joined Haines Watts; made partner 1989

1980
Worked for KPMG in Birmingham and then Hong Kong

Minifie sees a close match between Haines Watts and ACCA in terms of both organisations’ philosophy on team working, and thoughts on the future changes to the profession. ‘A lot of our board’s thoughts were driven by the ACCA report Drivers of change and future skills, which led the way in the thinking of the profession. ‘A lot of our board’s thoughts were driven by the ACCA report Drivers of change and future skills, which led the way in the thinking of the profession. It certainly helped codify our thinking and provided us with the information and encouragement to see that we were going down the right path.’

Robert Stenhouse, ACCA deputy president
Are you ready to lead?

Leadership requires a mindset shift, says Alastair Beddow, with strategic vision accompanied by powerful implementation skills and plenty of resilience.

Recent political shocks aside, the business world continues on a trajectory towards greater global interdependence and complexity. At the centre of the great interconnected network of trade and investment effort are professional services firms, advising their clients on a range of growth opportunities and regulatory and compliance issues.

Although many opportunities lie on the horizon for professional firms, there are many challenges ahead too. Technology such as process automation and self-service accounting software has disrupted the traditional role and value of finance professionals. It has also resulted in the emergence of new technology-enabled competitors, who are challenging the dominance of established firms.

The talent model of professional firms is also changing. The generation of accountants entering the profession today have radically different career expectations from their predecessors, and are less likely to be loyal to one employer throughout their career.

For professional firms to seize opportunities in this competitive and disruptive market requires strong, visionary leadership. However, many professional firms have historically undervalued the importance of leadership capabilities, preferring instead to choose their leaders on the basis of who bills the most or who has the most years of service. While these attributes are important, they don’t automatically produce effective leaders.

A professional firm needs to choose its leaders on the basis of who has the most compelling answers to the strategic questions facing the firm. Which clients and markets offer the strongest opportunities for growth? What is the best way to boost the skills of professionals and create a culture of high performance? What is the right response to the threat of technology cannibalising existing revenue streams?

Although the answers to these questions will be different for each firm depending on its specific mix of clients, geographic markets and size, there are many shared lessons that expert advisers can take on board.

Many firms have undervalued the importance of leadership capabilities, choosing their leaders according to who bills the most

Expect the unexpected

For our book Professional Services Leadership Handbook: How to Lead a Professional Services Firm in a New Age of Competitive Disruption, my co-authors and I interviewed a wide range of leaders of firms. What they all agreed on is that the transition from expert adviser to leader throws up unexpected challenges. The magnitude of the transition shouldn’t be underestimated.

As George Bull, a senior tax partner at RSM, acknowledges, taking on a leadership role requires accountants to adopt a new way of thinking: ‘As a professional moves up through their firm, they realise that being a good accountant is actually no more than a prerequisite to get onto the leadership starting block.’

The most obvious change that occurs when finance professionals become leaders is that the demands on their time change. They are likely to spend a greater proportion on activities such as devising strategy, reviewing the performance of other senior partners, and overseeing the implementation of important firm-wide projects.

Experience shows that the most effective leaders combine capabilities in strategic vision (to anticipate and respond to the trends impacting their firm) and change management (to tackle difficult issues directly to avoid stasis).

Leaders also take on an equally important, if less tangible, role in shaping their firm’s culture and values by acting as a figurehead or champion for firm-wide change. Leading by example is a critical function for anybody occupying a senior position because they set the tone for the kind of behaviour the firm tolerates and how it expects its people to interact with each other and with clients.

Given these diverse responsibilities, is it possible to be a leader in a professional firm and still undertake significant amounts of client work? For some the answer may be yes, but many professionals discover that leadership is a full-time responsibility.

There are several key behaviours for achieving effective leadership:
1. Segment your time. It is easy to get distracted with activities that take up your time but do little to forward the firm’s strategic vision.

2. Don’t avoid the tough choices. Leaders often fall down because they avoid making difficult decisions such as exiting unprofitable markets or work types. Saying no to colleagues is tough, especially in a professional partnership where everybody feels a strong sense of personal investment in the business. Yet successful leaders know they need to do what is right for the firm.

3. It is not sufficient for leaders to articulate a vision; they also need to secure buy-in to that change in order to deliver real results. Communication is one of the most powerful but underutilised leadership tools. Effective leaders simplify messages into digestible elements and repeat them frequently to build consensus and support for their vision.

4. Delegate where possible. Leaders, particularly when they are highly qualified professionals, tend to be perfectionists who like to maintain control, and get sucked into the minutiae of execution, taking their eye off the bigger picture. Successful leaders are aware of their own personal strengths and weaknesses, and build their top team to provide complementary skills and capabilities.

5. It can feel lonely as a leader, with few trusted people to share concerns. It is important therefore to build time for personal reflection. Many find an external coach can help facilitate this process of self-reflection. In addition to their strategy and implementation strengths, the most effective leaders tend to be very resilient. They have confidence in their vision and the emotional intelligence not to let personal politics derail that vision. Philip George, a former managing partner, warns: ‘Don’t expect to be the most popular person in the office – you certainly won’t be!’ The best leaders command respect because they are seen to make fair decisions in the best interests of the firm.

Alastair Beddow, director at consultancy Meridian West and co-author of Professional Services Leadership Handbook
The view from

Emma Tucker FCCA, head of financial operations and financial reporting for Hull UK City of Culture 2017

Last year was incredibly busy, delivering a programme of cultural activity. It was a 24/7 role, but on the upside I got to see all the hard work unfold by seeing how many wonderful cultural events have been taking place across the city.

As head of financial operations and financial reporting, it was my responsibility to set up all the finance processes, systems and controls for Hull UK City of Culture 2017. It is a not-for-profit company limited by guarantee. Then I managed these systems to ensure accurate cash and supplier management and income planning.

I like a challenge, and when I reflect on 2017 I would say this was the most challenging role I have undertaken. The main reason is there is no dress rehearsal; there is only one shot. I was surrounded by fantastic people, who all shared the goal of making the year a success. There is nothing about the year I would change. Hull is a great place and I am extremely proud to work in such a vibrant city.

My advice to others would be don’t be afraid to ask questions; you will be surprised that others had the same thought as you. When doing financial presentations, make sure you are well prepared and can explain every number. When preparing for exams you can never do enough ACCA practice papers.

I have a positive outlook and a hands-on approach to my work. I listen. As an organisation evolves it is important to pay attention to the needs of the organisation and adapt the finance operations accordingly. Being open to change has certainly benefited me in my career.

Once I qualified the ACCA Qualification opened doors for me to more and more opportunities. It was hard work, but it is something I am extremely proud of achieving.

Spare time is family time and meeting up with friends, which usually involves a significant amount of laughter. I enjoy theatre, concerts, museums and art galleries, so to have so much on my doorstep in Hull is a real luxury. I also like a good book.

I was surrounded by fantastic people who all shared the goal of making the year a success. There is nothing about it I would change.

£8.04bn

The level of public sector borrowing (excluding public sector banks) in November 2017, up by £0.5bn compared with October 2016

Source: The Office for National Statistics

Housing cap lifted

The Local Government Association has welcomed the Budget’s lifting of housing revenue account borrowing limits for councils dealing with high housing affordability challenges. ‘The LGA has long called for councils to be given greater freedom to borrow to build new homes and the Budget has taken a step towards that by lifting the housing borrowing cap for some councils,’ it said. ‘This is an important recognition of our argument about the vital role that councils must play to boost homes for local families in need and solve our housing crisis, but does not go far enough.’

NHS trust deficits soar

The latest statistics from NHS Improvement show that provider trust deficits are significantly greater than the levels permitted. A survey of finance directors at NHS trusts, conducted by The King’s Fund before the Budget, found that less than half expect to meet their financial targets this year. Richard Murray, the fund’s director of policy, said that while additional money allocated in the Budget was welcome, ‘it is still significantly less than the £4bn we estimate the NHS needs next year’.

Going public

For coverage of ACCA’s public sector summit, see page 78

January 2018 Accounting and Business
Cardiff-based Companies House is moving with the times but the finance function has to work hard to compete for talent, as head of finance Mike Nash FCCA explains.

This is an exciting time to be head of finance at Companies House, where change is happening apace, particularly in the area of digital and organisational transformation. The vast majority of company registrations and filings of annual reports today are conducted online.

‘Paper filings for our main revenue streams are so marginal now, with less than 1% of companies filing by that means,’ says Mike Nash FCCA. In total there were around 650,000 incorporations last year – twice as many as a decade ago – and around 450,000 dissolutions. The comprehensive digitisation of filings also means that online searches are free and simple.

But more needs to be done to reach the 100% online filing target, especially in annual accounts filed, where 20% are still submitted by post. ‘We are still taking in up to 160 tonnes of paper a year through our doors,’ explains Nash. ‘For the accountancy profession there is some inertia out there. One of the big challenges for us is to understand behaviour; why accountants are still loath to file digitally with us. I suppose the tradition is to sign the accounts, pass them over to the client, then the client signs them and passes back to you and then you post them. So part of the
answer is about ease of process, but that is not the whole answer.’

Making Companies House as near to 100% digital as possible is part of the agency’s efficiency drive. ‘My responsibility is to ensure everyone across the organisation recognises the efficiency challenge: to keep our prices low for our customers,’ says Nash. ‘Our pricing has been kept constant, or reduced, for all our services for the past 15 years; I believe the only fee we have increased is for mortgage registrations.’

Companies House has a policy of full cost recovery for each service, setting fees accordingly. ‘We have brought down the annual return fee from £15 when I first started here in 2000, to £13.’

The agency generates around £70m income from fees, while penalties raised annually from accounts filed late are over £90m, with around £60m being collected and transferred to the government’s consolidated fund each year.

Companies House is an executive agency of the Department for Business, Energy and Industrial Strategy (BEIS). However, it sees itself in commercial terms, with a mission to serve its customers. ‘We do call them customers; we do call it a business,’ says Nash.

Attracting talent

The downside of being part of the public sector is the pay cap, which has created difficulties for Companies House to recruit and retain professional accountants at its Cardiff-based headquarters. Cardiff has experienced a big influx of financial services employers and is booming. As a result, Nash has experienced a 35% staff churn rate over the past 12 months in the finance team. ‘I am hoping we will be able to compete a bit more,’ says Nash. ‘I have a really good guy who is paid significantly less here than others elsewhere, so he is looking to leave, which means I will have to replace him at a much higher rate.

That seems silly to me. There is a definite differential between what we are paying and what our staff could get elsewhere.’

Nash reports to the finance director who is also FD of Companies House’s sister organisation, the Intellectual Property Office (formerly known as the Patent Office). He has a range of responsibilities, including management accounts and the finance systems. Payroll for the 950 staff was brought back in-house over 10 years ago, and the finance systems around four years ago (which they now share with the Intellectual Property Office), saving £1.5m annually. The payroll bill is about £30m a year, with overheads costing another £30m.

Nash is also part of the corporate leadership team. ‘I have to be a role model, demonstrate leadership, demonstrate values and provide peer support,’ Nash explains. ‘There are 15 of us. We do things to try and raise our visibility as leaders – for example, half yearly business plan review sessions, where we all take part and distribute information. The agency has a town hall style format, with each of us taking turns to sit at tables to talk with people from across the organisation to explain strategy and how they fit in. Without our staff we wouldn’t get our information out to customers.’

‘Delegation is the art of great management. My role is to act as a conduit for the board down to the finance team and across the organisation. We have a responsibility towards governance that business cases are properly produced and people are doing their jobs so that information is properly recorded. My role is also ensuring that we meet any technical requirements, including changes to IFRS Standards that could impact us over the next couple of years, such as those on revenue recognition and leasing.’

A broader view

Nash’s technical expertise is now being deployed as a member of the Financial Reporting Council’s XBRL governance committee. ‘My ACCA Qualification has opened doors for me,’ he says. ‘It has helped me get where I am today. I like to incorporate ACCA values into our work here. Over the years we have trained about 20 accountants to qualification; all but one have been with ACCA.’

Away from work Nash is also busy – he is a non-executive director of Ffotogallery, the Welsh national development agency for photography. He also does a lot of walking. ‘I can be in the mountains from my house in half an hour, or on the coast in 20 minutes.’

Working and living in Cardiff certainly has its advantages, and as the city grows as a business hub, so does the buzz around finance.

Paul Gosling, journalist

January 2018 Accounting and Business
Back to basics

In this latest article in the series ‘all you needed to know but were too afraid to ask’, we explain what bitcoin is and what its potential might be preferring to invest in blockchain and other financial technology (‘fintech’).

Jamie Dimon, chief executive of JPMorgan Chase & Co, a financial services company with assets of US$2.6 trillion, made headlines when he was reported as saying that bitcoin was ‘a fraud’ and would eventually ‘blow up’.

‘The currency isn’t going to work,’ Dimon was reported as saying. ‘You can’t have a business where people can invent a currency out of thin air and think that people who are buying it are really smart.’

Others in financial services are open minded about bitcoin’s potential. In 2016, Mark Carney, governor of the Bank of England, said in a speech that a distributed ledger/blockchain for everyone could open the possibility of creating a central bank digital currency. Doing so could give people direct access to ‘the ultimate risk-free asset’ and perhaps ‘abruptly re-shape banking,’ Carney said. But he cautioned that before the Bank of England would use blockchain or bitcoin, it would need assurance that blockchain distributed ledger systems were secure, fast and reliable.

‘The payments system we oversee processes half a trillion pounds of bank transactions, equivalent to around a third of annual GDP, each day,’ he said. ‘Bitcoin and related technologies may create business opportunities for financial firms. Accounting firms are keen to advise businesses on blockchain and bitcoin technology. Some are even using bitcoin. At the start of 2017, EY Switzerland allowed its clients to pay invoices for auditing PwC and EY have both recently announced that they have accepted client payments in bitcoin. Amazon has indicated it may soon do the same. According to reports in the media, Amazon recently registered three new website domain names related to ‘crypto-currency’ (amazonetherium.com, amazoncryptocurrency.com and amazoncryptocurrencies.com), a clear sign of intent.

Virtual currencies are now reaching the mainstream. They have already changed the payment industry and how individuals and businesses transact. But with so many conflicting opinions about bitcoin, it can be hard to work out its benefits and potential. Will it replace money and how is it affecting business?

What is it?

Bitcoin is a digital or ‘crypto-currency’. Individuals and businesses can use it to buy things and transfer value without intermediaries such as banks. Transactions are encrypted and time-stamped. The currency was created in 2009 by Satoshi Nakamoto – a pseudonym. The individual’s identity is still being debated.

In the last few years, the interest in bitcoin has burgeoned. Bitcoin’s global market is worth billions of pounds. At time of going to press, one bitcoin was worth more than US$11,000, with many investment experts believing that it is a bubble waiting to burst.

Coin owners can transfer its value to anyone else in a ‘chain’ of transactions, which form a block. These blocks form a ‘blockchain’ – a digital ledger that can record and verify transactions, such as bitcoin, legal contracts, financial statements or even medical records (see AB, May 2016, page 64). Records in a blockchain can only be changed with the permission of everyone involved in the transaction. You can convert bitcoins into cash at an exchange, just as you can for a traditional currency.

You’ll usually need a mobile app or computer program to use bitcoin. Bitcoins are kept and exchanged using a digital wallet.

You can invest in bitcoin funds, such as the Bitcoin Investment Trust offered by British stockbroker Hargreaves Lansdown.

The dark side

Bitcoin is unlikely to replace real money, according to some experts, who say that because bitcoin isn’t regulated and, because it’s widely used by criminals and on the ‘dark web’, it’s unlikely to become an everyday thing used by billions of people.

Banks have generally not offered bitcoin services since it began, preferring to invest in blockchain and other financial technology (‘fintech’).

Regulating the bitcoin industry would be tricky, as digital currencies have thrived on the ability to be bought and sold anonymously

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Accounting and Business January 2018
Ethereum and ripple. Ethereum, the second biggest digital currency, is like bitcoin. A Swiss not-for-profit organisation that was created in 2014, ethereum runs on a large network of computers run by volunteers. In November, one ethereum digital coin was worth about US$400. It’s used for payments and verifying transactions (property, shares, legal agreements or anything of value), using its own version of blockchain technology. If these smart contracts take off, it could have major implications for financial services firms, accountants, lawyers and other intermediaries who people have relied on to verify transactions.

Ripple, trading as XRP, is a cross-border payment system and digital currency, sending payments using its blockchain network. Cross-border payments can be made in four seconds, compared with about three days for inter-bank transactions using the Swift network, according to ripple. Its corporate customers include American Express, France’s Credit Agricole bank and TransferGo, a UK payment transfer company. In November 2017, one unit of XRP was worth about US$0.23.

What next for bitcoin and other digital currencies? It may (when combined with blockchain) change financial services, business and consumerism. It may also be an over-hyped asset bubble that’s overtaken by a newer and better technology. Everything should be clearer in about five years.

Nick Huber, journalist

More information
Get CPD units by answering questions on this article at accaglobal.com/abcpd
Creative force

Economies need entrepreneurs to be successful, but entrepreneurs need support. Enter Julie Devonshire FCCA, director of entrepreneurship at King’s College London.

Entrepreneurship is a shining hope for economies. And King’s College London is determined to turn that hope into reality through its Entrepreneurship Institute. That is the vision of Julie Devonshire FCCA, director of entrepreneurship at King’s and successful serial entrepreneur.

The institute was founded four years ago, and Devonshire has been in role for two. ‘We’re here to support the entrepreneurial mindset across all the university’s 30,000 students, 7,000 staff and all alumni who graduated in the last seven years,’ she says. ‘Some are born natural entrepreneurs, but some skills and attributes – such as sales and marketing – can be taught.’

From that population, the institute first wants to seek out and equip careerist entrepreneurs. In 2017 it received 193 applications, from which it selected the 20 best ventures to host over a 12-month period. Among the support
it offers are six experts in residence, including coaches, an entrepreneur and an investor.

The institute’s second objective is to support anyone from King’s who recognises that in their career they may make use of entrepreneurs’ tools. ‘For instance, medics need to be innovative, agile and problem-solving, relishing overcoming the challenges that exist in healthcare,’ Devonshire explains. ‘We want to give our hundreds of medical students those skills.’ While some identify as entrepreneurs, Devonshire says that many don’t realise they will need the attributes and skills associated with entrepreneurs.

Patriotic entrepreneurship
Devonshire describes the work as patriotic. ‘The entrepreneurship world is a shining light; it is the next generation pressing forward with ideas, some of which will eventually employ swathes of people,’ she says.

At the end of their time in the institute, Devonshire wants those 20 ventures – which include groups – to be better entrepreneurial leaders. ‘As well as a better skillset, we want to create new, sustainable, scalable businesses that will trade, take investment, and provide employment and internships.’

That’s because, Devonshire says, governments across the world are defining economic success through the filter of entrepreneurship. That will be realised only if entrepreneurs receive support. It is a belief that is central to Devonshire’s approach.

She describes the institute’s students as ‘fanatical’ about entrepreneurship – a trait she has never known before and a source of huge optimism. This is perhaps, she says, because of the role models they identify with – such as Facebook’s Mark Zuckerberg – and the media attention on startups and those who run their own business.

This path involves failing, trying and hardship, as well as success: ‘It’s quite a rollercoaster,’ Devonshire says. ‘You need such resilience to take the knocks when introducing something that’s never been seen before.’ It is a view that is informed by her own experience.

Building business
ACCA-qualified Devonshire says she was following a ‘classic path’ as a financial director but was always more interested in the making of the money, rather than the financial reporting of it. She joined a friend in a venture called One Water, where the idea was to use the profits from the mineral water brand One to build water pumps on behalf of

Moving on to UnLtd (a foundation supporting social entrepreneurs), she worked on investing an £8m lottery grant across different social enterprises. She was awarded an OBE for this and the effort she has put into communicating about entrepreneurship, especially mentoring female entrepreneurs.

Back at King’s, she brings real-life experience and knowledge of entrepreneurship ecosystems including, crucially, strong connections with early-stage investors. ‘It’s about bringing the outside in, helping students prepare to become more skilled,’ she says.

Even today this is not all about tech, although most propositions are executed through digital technology.

50/50 accelerators
More female entrepreneurs are needed, says Devonshire. ‘Look at any cohort at any accelerator and typically you will find more males than females. I aspire to 50/50 cohorts and we have to work on that.’

Why the imbalance? ‘Sometimes the language, imagery and outreach of accelerators are male-orientated,’ she says. ‘Also, women sometimes have a slightly different attitude to risk-taking and investment.’

How to correct the imbalance? ‘Through the role models we use and the stories we tell. For example, perfumer Jo Malone came to speak to 400 at King’s, and that helps to answer the questions that female entrepreneurs have as they seek role models.’

A King’s example is C the Signs, a tool that lets GPs identify cancer early. Developed by two medics, who combined artificial intelligence with the latest medical research, C the Signs reaches a conclusion in 30 seconds. It also won a Tech4Good award in 2017.

King’s has huge street-facing posters across its central London sites picturing such eminent alumni as the Duke of Wellington, Archbishop Desmond Tutu and Florence Nightingale. Devonshire says she’ll know the institute is a success when one of its entrepreneurs joins this wall of fame. ▶

Peter Williams, journalist

January 2018 Accounting and Business
Rulebook changes

Changes to the 2018 edition of the ACCA Rulebook build on the implementation of the EU Audit Directive and Regulations, and include clarifications of the regulatory process. Changes to ACCA’s bye-laws will take effect from 1 January 2018. They aim to enable a future vision for ACCA’s governance and modernise AGM arrangements. The most significant changes to the other sections of the Rulebook are outlined below.

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Changes to the Membership Regulations and the Global Practising Regulations (GPRs) have been made to reflect the changes to the ACCA Qualification. This includes all four appendices to the Membership Regulations being removed to improve agility concerning the examinations structure and practical experience requirements.

In 2016, EU member states implemented the EU Audit Regulation (537/2014) and Directive (2014/56/EU). In 2018, such changes include:

- simplifying how a Committee considers the possible grounds for a hearing to be held in private
- clarifying the requirements for pre- and post-hearing publicity
- clarifying the matters to be included in notices of hearings, short notice provisions, information to be provided by the relevant person, and provisions for proceeding in absence
- achieving greater consistency in the grounds for appealing committees’ decisions
- aligning appeal periods for the unusual circumstances in which ACCA is the appellant.

Other clarifications include:

- clarifying who may attend a case management meeting
- allowing the Admissions and Licensing Committee to reconstitute itself as an Interim Orders Committee where it has decided to withdraw or suspend a certificate
- clarifying that, where an appellant requests that the Appeal Committee reconsider the chairman’s decision, the respondent may submit grounds of opposition.

Further practical changes include:

- the potential for some flexibility where non-payment of a fine or costs by the due date would otherwise result in an individual being automatically removed from the relevant register
- a provision to allow concessions to be made by the respondent during the permission to appeal process
- closer alignment of the practising certificate eligibility requirements in Zimbabwe with the global requirements
- permitting the chairman of the Interim Orders Committee to review an interim order without a hearing if both parties agree.

All members, students and others bound by the ACCA Rulebook should ensure they are fully aware of its contents. A detailed explanation of all the changes is available at accaglobal.com/rulebook.
ACCA's Council met on the morning of 30 November 2017 at The Adelphi in London prior to the Annual General Meeting. Council discussed and agreed a number of issues, including:

* the president, Brian McEnery, updated Council on recent activities on behalf of ACCA members, including representational events in UK, Ireland, Malaysia, India, Greece, Belgium and Luxembourg. The deputy president and vice president also informed Council of their activities, which included events in China, Hong Kong, Romania, UK and Mauritius.

* ACCA's chief executive, Helen Brand, delivered a report to Council highlighting ACCA's strategic performance to the end September 2017.

* Council received a presentation and considered a paper on strategic pricing.

* Council noted a report from the Qualifications Board, including the ratification of the September 2017 examination results.

* Council received reports from the Market Oversight Committee and Resource Oversight Committee meetings held in September, and the Governance Design Committee and Audit Committee meetings held in October.

Annual Council Meeting

Following ACCA's 112th AGM, the Annual Council Meeting was held on the afternoon of 30 November. At the Annual Council Meeting, Council elected ACCA's officers for the coming year. ACCA's new president is Leo Lee and he will be supported by Robert Stenhouse (deputy president) and Jenny Gu (vice president).

Council welcomed seven new members, whose election was declared at the AGM: Liz Blackburn, Joyce Evans, Siobhan Pandya, Alice Yip, Paula Kensington, Matthew Wong and Hidy Chan.

Council also welcomed the five re-elected members of Council: Ayla Majid, Brendan Sheehan, Ronnie Patton, Melanie Proffitt and Rosanna Choi.

Council took a number of other decisions at its Annual Meeting, including:

* approving Council's standing orders for 2017-18, in accordance with the bye-laws.

* approving changes to Council Regulations following the AGM.

* electing three Council members to serve on the Nominating Committee in 2017-18, along with the officers.

* agreeing the timetable for choosing Council's preferred nominee to become vice president in 2018-19.

* agreeing the Council workplan and a set of objectives for the Council year ahead.

Council's next meeting will be held in Glasgow on 10 March 2018.
112th ACCA AGM

Minutes of the 112th ACCA AGM, held at the Adelphi, London, on Thursday 30 November 2017. ACCA president, Brian McEnery FCCA, took the chair and there were 69 members present.

Notice and the auditors’ report
It was agreed that the notice of meeting and the auditors’ report on the accounts for the period 1 April 2016 to 31 March 2017 should be taken as read.

Minutes of 2016 AGM
The minutes of the AGM held on 15 September 2016 and published in the November 2016 issue of AB were taken as read and signed as correct.

Resolution 1
To receive and adopt the report of Council and the accounts for the period 1 April 2016 to 31 March 2017
The president, Brian McEnery, gave his address and asked Helen Brand, ACCA chief executive, to deliver her address. The president then invited questions and comments on the report and the accounts. The president called for a poll and declared the resolution carried, the votes being cast as follows:

For 9,482 Against 106

Resolution 3
Appointment of auditors
The president reported that Council recommended Grant Thornton UK LLP be re-appointed as ACCAs 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 8,817 Against 771

Council’s special business resolutions
Each bye-law amendment is subject to such minor amendments as the Lords of the Privy Council may authorise or require.

The resolutions in full can be found at bit.ly/ACCA-AGM2017.

Resolution 2
To receive the report of the ballot for the election of members of Council
The scrutineer’s report and the number of votes received by each candidate in the ballot and the election of members to Council were reported as follows:

1. Ayla Majid 5,339
2. Liz Blackburn 5,069
3. Brendan Sheehan 5,036
4. Joyce Evans 5,023
5. Siobhan Pandya 4,735
6. Alice Yip 4,539
7. Ronnie Patton 4,505
8. Paula Kensington 4,387
9. Melanie Proffitt 4,364
10. Rosanna Choi 4,203
11. Matthew Wong 4,033
12. Hidy Chan 3,692
13. Steve Bailey 3,685
14. Cristina Gutu 3,419
15. Dato’ Lock Peng Kuan 3,376
16. Dinusha H Weerawardane 3,271
17. Taiwo Oyedele 3,198
18. Amos Ng 3,110
19. Kayode Yusuf 2,383
20. Edith Yemba 2,202
21. Nur Jazlan Mohamed 2,053
22. Dato’ Seri Raymond Liew 2,050
23. Shepherd Chimutanda 1,927
24. James Lee 1,894
25. Aamer Allauddin 1,833
26. Babajide Ibrione 1,828
27. Peter Lewis 1,719
28. David Adelana 1,472
29. Andrea Yue 1,425
30. Brigitte Muyenga 1,380
31. Ramasamy Jayapal 1,365
32. Mohsin Mahmood 1,341
33. Marcin Sojda 1,327
34. Mubashir Dagiya 1,284
35. Biraj Pradhan 1,280
36. Ibikunle Olatunji 1,213
37. Thomas Mensah Abobi 1,106
38. Ali Mehlooz 1,056
39. Ryan Witter 1,054
40. Rojer Inglis 1,005
41. Den Surfraz 959
42. Oscar Osabinyi 889
43. Ikaneng Malebye 839
44. Frank Olatunji Menuko 751
45. Denis Slabinskiy 655
46. David Sloggett 524

The president therefore declared the following members to be elected or re-elected to Council:

* Ayla Majid
* Liz Blackburn
* Joyce Evans
* Ronnie Patton
* Melanie Proffitt
* Alice Yip
* Siobhan Pandya
* Rosanna Choi

The resolutions in full can be found at bit.ly/ACCA-AGM2017.
Resolution 4
Modernisation of regulatory arrangements – to amend bye-laws 1, 4, 5, 6, 17 and 40
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,342 Against 246

Resolution 5
Modernisation of governance arrangements – to amend bye-laws 1, 13, 14, 16 and 19(j)
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,307 Against 281

Resolution 6
Modernisation of AGM arrangements – to amend bye-laws 44(a), 46 and 47
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,217 Against 371

Resolution 7
Modernisation of miscellaneous provisions – to amend bye-law 2(d)(l)
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,297 Against 291

Resolution 11
Modernisation of miscellaneous provisions – to amend bye-law 65
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,282 Against 306

Resolution 8
Modernisation of miscellaneous provisions – to amend bye-law 7
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,257 Against 331

Resolution 9
Modernisation of miscellaneous provisions – to amend bye-laws 8(v) and 8(vi)
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,316 Against 272

Resolution 10
Modernisation of miscellaneous provisions – to amend byelaw 43(f)
The president called for a poll and declared the resolution carried, the votes being cast as follows:
For 9,297 Against 291

Resolution 12
That option for delegated proxy votes will cease with immediate effect and there will be an option to withhold a vote. This will result in the voting to either for, against or abstain
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,187 Against 7,401

Resolution 13
That all members of the executive team known as directors shall be subject to the same disciplinary rules as members
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,878 Against 6,709

Resolution 14
That proposers of special resolutions shall be given the same facilities to promote resolutions as Council have to oppose
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,353 Against 7,234

Resolution 15
That Council shall be required to put forward proposals at the 2018 AGM for a federal structure for the ACCA similar to that of the Institute of Chartered Secretaries and Administrators (ICSA)
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,026 Against 7,562

Resolution 16
That the deadline for submission of special resolutions and applications for standing for Council shall be three months prior to the AGM date
The president called for a poll and declared the resolution not carried, the votes being cast as follows:
For 2,026 Against 7,562

The president thanked members for their attendance, their commitment to ACCA and the voting process, which saw more than 14,000 members voting in the Council elections, and over 9,000 members on the resolutions put at the AGM.

The president stated that this level of engagement has sent a clear signal that Council has strong support for the strategic direction set to 2020.

The meeting ended at 3.15pm.

January 2018 Accounting and Business
ACCA’s 200,000 milestone

ACCA celebrates hitting 200,000 members worldwide with a global tour to honour each and every one.

**1900-09**
The Wright brothers take off and revolutionise travel

**1904**
The London Association of Accountants is founded, the forerunner of ACCA

**1909**
Ethel Purdie joins ACCA, the first female member of an accountancy body

**1910**
The milestone of 1,000 members is reached

**1910-19**
The first film studios open in Los Angeles and the silver screen lights up our lives

**1920-29**
The first mass-produced car, the Model T Ford, is born

**1926**
Certified Accountants’ Journal circulation reaches 5,000

**1930-39**
László Biro comes up with the ballpoint pen

**1930**
ACCA has 56 female members

**1933**
The body is renamed the London Association of Certified Accountants

**1939**
Merger with Scottish-based Corporation of Accountants creates Association of Certified and Corporate Accountants

**1940-49**
The world becomes brighter as television starts broadcasting in colour

**1940**
Prisoners of war sit exams with the support of the Red Cross

**1949**
3,500 members in Argentina, Australia, Ceylon (Sri Lanka), India, Ireland, Malaya, New Zealand, Northern Rhodesia (Zambia), South Africa, Southern Rhodesia (Zimbabwe), UK and US

**1950-59**
The barcode revolutionises supply chain management

**1950s**
Branches are set up in British Guiana (Guyana), Hong Kong, Nigeria, Nyasaland (Malawi), Southern Rhodesia (Zimbabwe), and Trinidad and Tobago

**1954**
The body celebrates its first 50 years

**1954**
3,500 members in Argentina, Australia, Ceylon (Sri Lanka), India, Ireland, Malaya, New Zealand, Northern Rhodesia (Zambia), South Africa, Southern Rhodesia (Zimbabwe), UK and US

**1960-69**
The space age dawns; man first lands on the Moon

**1960s**
Links are developed with Africa: Ghana, Malawi, Nigeria and Sierra Leone

**1965**
A joint examination scheme is launched in Jamaica

**1965**
The Malaysia branch is formed

**1910-19**
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The Malaysia branch is formed
ACCA last month announced a significant milestone, reaching 200,000 members around the world. To mark this, one of the most momentous occasions in its 113-year history, ACCA has designed a wall featuring the names of each of these 200,000 members globally. It will be touring the world this year. A digital replica of the wall will also be available, where members can find their names and leave a message to describe what their membership has meant to them.

A short film, The ACCA story, has also been released, featuring ACCA founder Arthur Priddle and reflecting the founding values, which remain as relevant today as they were in 1904. ‘We’re immensely proud of our achievements over the last 113 years and recognise these milestones have only been possible because of the courage and imagination of our members past and present,’ says ACCA chief executive Helen Brand. ‘We invite you all to celebrate this important milestone for the profession. ‘ACCA is committed to shaping the future of the accountancy profession, enabling individuals and organisations to unlock their potential. Our global network of members represents a powerful community of finance professionals whose collective expertise helps provide leadership to organisations of all sizes across geographies and economic sectors.’

The announcement, made at ACCA’s African Members Convention in December, kicked off a series of events. More information is available online, where you can also find The ACCA story video and details of how to leave your message on the virtual wall.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-79</td>
<td>Ping pong goes electronic with the arrival of ground-breaking computer games</td>
</tr>
<tr>
<td>1971</td>
<td>Body renamed the Association of Certified Accountants. Initials ‘FCCA’ and ‘ACCA’ introduced</td>
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<tr>
<td>1974</td>
<td>ACCA gains a Royal Charter</td>
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<tr>
<td>1975</td>
<td>A committee is set up in Australia, followed by New Zealand</td>
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<tr>
<td>1980</td>
<td>Vera di Palma becomes the first female ACCA president</td>
</tr>
<tr>
<td>1984</td>
<td>A new name is announced, the Chartered Association of Certified Accountants</td>
</tr>
<tr>
<td>1986</td>
<td>Members’ branch is established in the US</td>
</tr>
<tr>
<td>1988</td>
<td>Market development starts in mainland China</td>
</tr>
<tr>
<td>1990-99</td>
<td>Communication is revolutionised with the arrival of the first mobile phone</td>
</tr>
<tr>
<td>1991</td>
<td>Email becomes the most popular way for businesses and people to communicate</td>
</tr>
<tr>
<td>1994</td>
<td>ACCA has branches and societies in Australia, Canada, Cyprus, Ghana, Greece, Hong Kong, Ireland, Kenya, Malaysia, Malta, Mauritius, Nigeria, Singapore, Sri Lanka, Switzerland, Uganda, UK, US, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>1995</td>
<td>ACCA’s website and e-business services launches</td>
</tr>
<tr>
<td>1999</td>
<td>Communication is revolutionised with the arrival of the first mobile phone</td>
</tr>
<tr>
<td>2001</td>
<td>ACCA opens a branch in Myanmar</td>
</tr>
<tr>
<td>2004</td>
<td>ACCA opens branches and societies in Australia, Canada, Cyprus, Ghana, Greece, Hong Kong, Ireland, Kenya, Malaysia, Malta, Mauritius, Nigeria, Singapore, Sri Lanka, Switzerland, Uganda, UK, US, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>2005</td>
<td>ACCA’s website and e-business services launches</td>
</tr>
<tr>
<td>2009</td>
<td>ACCA opens a branch in Myanmar</td>
</tr>
<tr>
<td>2014</td>
<td>ACCA opens a branch in Myanmar</td>
</tr>
<tr>
<td>2015</td>
<td>Master’s programme with University of London launched</td>
</tr>
<tr>
<td>2017</td>
<td>ACCA reaches its 200,000-member milestone</td>
</tr>
</tbody>
</table>

Find out more about ACCA’s celebrations to mark 200,000 members, including member events, our commemorative video and the wall, at 200k.accaglobal.com
States of change

Demographic and technological changes, cost pressures and collaboration between local authorities – just some of the themes from ACCA’s public services summit

‘The public sector is changing – and changing very fast,’ ACCA president Brian McEnery told attendees at the opening of the public services summit at the Adelphi in London last October.

ACCA’s series of 50 drivers of change in the public sector reports explain the pressures facing public services in the UK and globally, which include demographic trends that create demands for additional infrastructure and expanded healthcare provision, said McEnery. These pressures, he added, mean that public funding must be subject to greater accountability and transparency, with the public sector focusing on outcomes as well as inputs and propriety. It is an initiative that needs to be led by people who motivate, inspire and focus on solutions.

Jamie Lyon, ACCA’s head of corporate sector, laid out the Drivers of change research findings. It was important, he said, to understand that the public sector is diverse in scope, varying from country to country. However, one common factor is the financial pressure exerted by population growth and the need to ensure sustainability nevertheless. The level of economic growth and the stability of national revenue bases are also concerns globally as well as in the UK.

‘Most of the stakeholders we work with have no idea what data they have’

Lyon warned that penalties for failing to protect data could discourage the sharing of data needed to improve public services. Fellow panellist Edd Jones, head of compliance at ProCheckUp, explained that organisations should understand the information they receive and map the data they hold.

‘Talent’

One of the key public sector challenges includes attracting the right people – such as professional accountants – and keeping hold of them. One of the concerns arising from ACCA’s Generation Next survey is that three-quarters of respondents in the public sector want to leave it. Yet opportunities exist for professional accountants to lead the public sector through what is undoubtedly a period of major change.

Data fog

Lyon also participated in a session discussing the public sector’s use of data and its obligations under the EU’s general data protection regulation. ‘Most of the stakeholders we work with have no idea what data they have,’ Lyon explained. ‘They need to know what data they need and how they will use it. Many organisations have too much information. That is a problem for the finance profession – knowing what to do with that.’

Financial pressures

Mark Orchard FCCA, director of finance at Poole Hospital NHS Foundation Trust, told the conference, as part of its health panel debate, that financial pressures were causing real problems for provider trusts.

‘There is no point in chasing extra activity, as there is just no money in the system,’ he said. He warned that the financial pressures on the NHS would substantially increase as a
result of the demographic changes. ‘In the next 20 years, the number of people over 80 years old will double. The number of people living to over a hundred will increase six-fold.’

Bob Alexander, deputy chief executive of NHS Improvement, warned that financial difficulties were compounded by the failure to achieve the higher level of public engagement in improving health and wellbeing that had been predicted back in 2007 by the Wanless review into NHS sustainability.

Combined shift
Steve Wilson, the executive lead for finance and investment with the Greater Manchester Health and Social Care Partnership, told the conference: ‘I work for a combined authority, which is a structure that doesn’t really exist.’

He explained that support for city regions through combined authority arrangements are a result of the move towards place-based decision-making. ‘I don’t think the lack of more formal arrangements matters at this stage.’

Wilson said that joint working in Greater Manchester has been assisted by three specific factors. The local authorities have a strong history of working together. Clinical commissioning groups – and before them primary care trusts – had also worked closely together. While the hospital trusts had been encouraged to compete rather than co-operate, the current financial pressures have encouraged partnership arrangements to achieve efficiency savings.

Budgetary pressures have also led more widely to joint working in the region, including shared services across the local public sector. ‘We are shifting the balance of spending, focusing resources on early intervention and prevention,’ said Wilson. Unresolved issues for the combined authority include pension scheme membership and VAT. ‘Partnership is not for Christmas; partnership is for life,’ he added.

Brexit or breakdown?
James Blitz, Whitehall editor for the Financial Times, gave the conference’s keynote speech, providing an update on the state of the Brexit negotiations. ‘Things are not looking fantastic,’ he said. ‘A complete breakdown in the talks is still not impossible, and I would say there is a 20% chance of that.’ But, he added: ‘I think there will be a deal.’

In all likelihood, a transition period will be agreed, he said, during which sector-by-sector arrangements will be negotiated. Immigration controls associated with Brexit will create recruitment difficulties for the UK public sector – for example, in nursing, Blitz warned. He added that the introduction of border customs controls could lead to chaos at ports.

Closing the conference, Peter Large, ACCA’s executive director for corporate governance, said: ‘Finance professionals need to be aware of the drivers of change – for example, the ageing population.’

He added that they also needed to consider macro-economic issues such as the potential impact of Brexit and the economic analysis and revenue projections from the Office for Budget Responsibility.

He concluded: ‘The decisions finance professionals make today will affect the public sector for many years to come.’

Paul Gosling, journalist
AB magazine: go digital!

Read on an app or online
Choose to give up your print version

Try the app and change your format preferences at accaglobal.com/ab
Meet the ACCA winners

ACCA members and firms were well represented among the winners at the British Accountancy Awards and Practice Excellence Awards at the end of last year.

A number of ACCA firms and members won prizes at the British Accountancy Awards, held at the London Hilton on Park Lane in October. They were:

* New practice of the year: Soaring Falcon
* Independent firm of the year, Greater London: The Accountancy Cloud
* Independent firm of the year, South West England: Inspire
* Independent firm of the year, South East England: DNS Accountants
* Independent firm of the year, East England: Nordens
* International firm of the year: Grant Thornton

The successes continued at the Practice Excellence Awards, also held in October, at The Brewery in London.

The ACCA firms and members who were recognised as the best in their fields were:

* Small practice of the year: Evans & Partners
* Large practice of the year: Bishop Fleming
* Specialist firm of the year: Fitzgerald & Law
* Innovative firm of the year: Crunch
* New firm of the year: The Accountancy Cloud
* Client service firm of the year: Kinder Pocock
* 2017 practice excellence pioneer: inniAccounts

Congratulations to all our firms for setting the standard so high for others to aspire to!

Celebrating membership

ACCA was delighted to welcome 250 members who have recently achieved either ACCA or FCCA status to its 2017 Celebrating Membership event at The Royal Lancaster Hotel in London in November.

The event is one of the highlights of ACCA’s year, as it celebrates the achievements of its newest members, who are joined by family and friends in luxury surroundings.

Council member Susan Allan FCCA said in her opening remarks: ‘Looking at the talent in this room it is clear that ACCA has a very bright future’.

The previous month saw over 150 new members celebrate membership at similar events in Cardiff and Edinburgh.

Search #CelebrateACCA on LinkedIn, Twitter and Instagram for a peek at the many photos and comments shared by those who attended.
Going for gold

As plans progress for the 2018 World Congress of Accountants in Australia, ACCA is revealed as a major sponsor.

ACCA has been confirmed as a gold sponsor of the World Congress of Accountants 2018, the world’s largest gathering of accountants and finance professionals.

The event, hosted by the International Federation of Accountants (IFAC), will take place on 5–8 November at the International Convention Centre in Sydney, Australia.

ACCA has a long history of supporting the congress, which is held every four years and often called ‘the Olympics of the accountancy profession’.

‘The 2014 event was in Rome, and since then the landscape in which the profession operates has changed immensely,’ said ACCA chief executive Helen Brand.

‘We face new challenges and opportunities, from the rise of technology to rapidly changing political and legislative environments.’

The 2018 congress is called ‘Global challenges/global leaders’, with a programme centred around building prosperity and acting in the public interest, ‘broad themes that strike right at the heart of the profession and how it operates on the global stage’, said Brand.

‘I’m thrilled that ACCA

Top marks for report

Communications consultancy Black Sun selected ACCA as one of the 50 leading corporate reporters in its 2017 analysis of good integrated reporting.

In the global study What better reporting looks like, ACCA is the only professional body or professional services organisation in the UK section, sitting alongside leading corporates Aggreko, AstraZeneca, Coca-Cola Hellenic, The Crown Estate, Fresnillo, Go-Ahead, Marks & Spencer and Tullow Oil.

ACCA attributes its appearance on the list to ‘recognising the importance of building trust, of looking at wider capitals – not just financial – and communicating with authenticity’.

Helen Perkins, lead author of ACCA’s integrated report, said: ‘To be ranked alongside these high-calibre companies is thrilling. We welcome the recognition and hope this might be a useful example to others.’

ACCA has a long history of supporting the congress – ‘the Olympics of the accountancy profession’.

will again be taking part. We will be showcasing key research and working alongside our strategic alliance partner, CA ANZ.

I’m sure 2018’s congress will inspire delegates and create discussions to help us all deal with the demands placed on the profession. ‘As the leading global professional accountancy body, we are invested in ensuring that we help develop the accountancy profession the world needs.’

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Symbiant is also proving highly customisable to our needs with staff finding the user interface intuitive and familiar. This has considerably reduced the training and support burden as we roll it out. The extremely comprehensive reporting suite allows our schools and business units far more freedom and scope to identify and record their local risks since the large amounts of data generated can be easily and almost instantly reported upon in many ways including heat maps and colour coding. This is enabling our risk management to become far more comprehensive. Updates and improvements to the software are regular and reliable with Symbiant having introduced some minor requested enhancements within just a few days.”

Phil Bochler – Strategy Development Officer
Cardiff Metropolitan University

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