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Changes ahead: How the accounting industry is evolving and what this could mean for you

Sustainable accounting
How integrated reporting can make a difference



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ACCA

CHALLENGES

In the battle to build a resilient economy, accountants are centre stage, says Penny Shepherd MBE, chief executive of the UK Sustainable Investment and Finance Association (UKSIF).

Accounting for sustainability

The profession has a proud history of developing and using financial measurement and reporting frameworks to help organisations share meaningful information on their assets and performance.

Today's world faces not only the aftermath of the financial crisis but also new challenges to prosperity from environmental limits and their social consequences. Meanwhile, changing societal expectations, near instant online communication and new ways to manage public spending all demand improved tools to account for value. Accountants are responding by expanding their frameworks to help economies and companies to thrive in the future.

2012 trends to watch

1 "Accounting for social value" is one of the 10 most significant emerging environmental, social

and governance (ESG) trends to watch in 2012 according to MSCI, the global provider of investment decision support tools. "For investors, companies that fail to generate consistent social value represent a clear portfolio risk," it claims.

MSCI looked for the top trends in terms of likely impact on government and corporate policy, profits and market sentiment. Two of the ten were developments in accounting.

"Accounting for natural capital" was the other accounting trend highlighted. "The rapid degradation of ecosystems and depletion of natural resources will weigh on the long-term sustainability of major economies around the world," MSCI says. "As investors become more aware of the risks to long-term growth of degraded ecosystem services, the idea of accounting for 'natural capital' has started to take on momentum."

This means that studying accountancy can be a great choice for those wanting careers grappling



Penny Shepherd MBE,
Chief executive, UKSIF

with tomorrow's big issues or providing practical support for prosperous local communities, as well as in more traditional finance roles.

Towards the Earth Summit

2 In June, accountancy will be on the agenda at Rio+20, a major UN conference on sustainable development in Rio de Janeiro on

the 20th anniversary of the 1992 Earth Summit.

"We will join the call for Rio to drive uptake of sustainable business practices — in particular, transparent and coherent sustainability reporting. Not as a burden on business, but as something they are asking for," environment secretary Caroline Spelman told a recent City of London conference. "I want you to help us push the envelope on natural capital and green accounting," she added.

Meeting new challenges

3 The Prince of Wales is another committed champion of this new accountancy. As he has highlighted, tomorrow's accountancy must "ensure that we are not battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems." As this report shows, the accountancy profession is responding with commitment and enthusiasm to his call.



WE RECOMMEND



Rachael Campbell
BrightStart programme, Deloitte

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'Every single job is different — plus I'm always working with different people, so it's never, ever boring'

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Keeping things in order p. 7

The role of bookkeepers and why they could be a good option for your business

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INSPIRATION

Question: How can a company attract more investors?

Answer: By giving them joined-up information about company strategy, governance, risk evaluation and attitudes to sustainability, via a new corporate reporting model.

Joining the corporate dots

CHANGE

Businesses have been under pressure to operate in a more sustainable way for years. But now, some companies are integrating sustainability into their business strategy because it's the right thing to do and it also makes good business sense. Revenue can be enhanced, market share can be increased and more investors can be enticed.

To give investors and other stakeholders a better, more joined-up understanding of a company's strategy, risk evaluation and long-term objectives, attitudes to corporate reporting — traditionally the domain of the accountancy department — will inevitably have to change. Currently, the annual report of a big company contains financial statements, a corporate governance statement and, in all likelihood, a sustainability statement.

"All these standalone statements are addressing different things," says John Davies, head of technical at the Association of Chartered Certified Accountants (ACCA). "But there may be no single statement which joins all the dots and tells a coherent [corporate] story of current performance and explains it in the wider context of the longer term. That's really the basis for the interest in

the concept of integrated reporting."

The International Integrated Reporting Council (IIRC) defines integrated reporting (IR) as "a new approach to corporate reporting that demonstrates the linkages between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates." As a process, it opens up corporate reporting to gain input and insight from all business streams of a company, and create integrated management thinking.

Official framework

Yet the issue remains that an official framework for integrated reporting doesn't currently exist — although the IIRC is running a pilot programme with the help of 62 companies in order to develop one by 2013.

Integrated reporting may be in its infancy in terms of interest, says Paul Druckman, CEO of the IIRC — but it's not new. "It's been around for 10 years or more," he says, "although it's not necessarily been called 'integrated reporting'.

"Integrated reporting isn't just looking at the financial numbers. It's not just looking at sustainability numbers, either. The idea of integrated reporting is to report on the strategy of a company — and assess how it performs against



'The idea of integrated reporting is to report on the strategy of a company — and assess how it performs against that strategy'

Paul Druckman,
CEO, IIRC

that strategy." Druckman has been impressed by the amount of companies that are excited by the concept and are interested in taking it forward. Indeed, he says the momentum around integrated reporting is extraordinary.

Corporate shift

Of course, other companies might not share their enthusiasm. Yet Druckman believes that legislation will ultimately make this kind of reporting compulsory. In South Africa, listed companies already have to produce an integrated report.

"But the key thing here is that we're not trying to create *more* reporting," he says. "What we're talking about is a shift in the corporate reporting model."

So will an integrated report be drawn up by accountants? Druckman thinks this is not necessarily the case, but believes they will be fundamental to the process.

John Davies from ACCA also thinks accountants will be centrally involved, as will the CEO and chairman of the board: "the intention is to get buy-in to the report from all the strategic departments of the organisation which are relevant to the exercise".

TONY GREENWAY

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RE-ASSESSING THE VALUE OF CORPORATE REPORTING

→ Corporate reports are growing ever more complex as they are becoming longer, and richer in content. With the need to address various standards, the resulting reports are not always harmonious and often fail to communicate clearly. Can the needs of both regulators and investors be satisfied by the same document?

→ The Association of Chartered Certified Accountants (ACCA) carried out a survey of 500 report users in the UK, US and Canada to provide a base of data on which to build further research.

→ There were three categories of participants — capital providers (large and small investors); credit providers (banks, credit management) and other stakeholders (such as suppliers, and company employees) to give a wide perspective, given that reports are intended to be general purpose statements.

→ Through the survey, the ACCA found that 47 per cent thought that reports are currently too long, 35 per cent felt that the reports are too backward-facing, and 40 per cent said the reports were too general to meet their needs. Other key findings are illustrated opposite.

SOURCE: RESULTS PROVIDED BY THE ACCA.
WWW.ACCAGLOBAL.COM

QUESTION & ANSWER

■ Does the private sector have a role to play in the area of sustainable development?

Twenty years after the 1992 Earth Summit, the heads of state are meeting in Rio later this year and will reaffirm their commitment to sustainable development while

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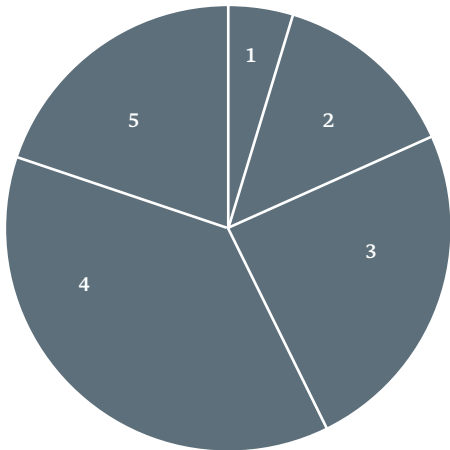
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If non-financial data, including social and environmental data, was integrated with company financial results, how useful would it be?



- 1 — 5% Not at all useful
- 2 — 14%
- 3 — 21%
- 4 — 41%
- 5 — 19% Very useful

What is of the most interest in reporting post financial crisis?

- An integrated reporting framework, which would give an overview of the business model including environmental, social and governance issues
- A reporting model that supports the information needs of long-term investors, such as pensions funds
- Less focus on short-term demands, e.g. quarterly reporting, which helped to drive short-term behaviour
- An international corporate reporting framework, to ensure comparability/ consistency across jurisdictions
- Improvements in financial reporting standards



QUESTION & ANSWER

Ernst Ligteringen,
Chief executive,
Global Reporting
Initiative



■ **Why is sustainability reporting good for a business?**

➔ It's a unique opportunity to tell your company story and get valuable information to the market. It sets out a company's strategy and approach towards, for example, risk management and resource efficiency.

■ **How does it help investors?**

➔ Evidence suggests that investors increasingly have more confidence in companies who follow a due diligence process regarding exposure to environmental and social issues.

■ **Will more businesses take it up?**

➔ I think companies who do not do it will be the odd ones out. I think that, in three or four years, sustainability reporting will be normal practice for all large and listed companies around the world.

■ **What about integrated reporting?**

➔ Any company who wants to move towards integrated reporting — and the Global Reporting Initiative encourages that — does need to be proficient in sustainability reporting to be able to integrate it with financial reporting.

also recognising it as a distant goal. Hinting at political barriers towards progress, the draft negotiating text of Rio+20 emphasises the important role of the private sector in advancing towards that goal.

■ **Why is accounting for sustainability important in**

the corporate sector?

Studies show that markets are harbouring material but largely unrecognised investment risks, estimated as accumulating to \$8trillion by 2030, due to flawed climate policy. Possibly as a way of bringing visibility to those risks, the draft Rio negotiating text calls for

sustainability information to be integrated into the corporate reporting cycle.

■ **What is the role of the Climate Disclosure Standards Board (CDSB)?**

It's a private sector organisation focused on developing resources to advance the

integration of climate change-related information into mainstream corporate reporting. The outcome the CDSB seeks is that governments, investors and regulators will have the information they need to recognise and respond to climate change-related risk

rather than leaving society to bail out.



Lois Guthrie
Executive director,
Climate Disclosure Standards Board

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INSPIRATION



GAINING QUALIFICATIONS
School-leaver programmes often consist of on-the-job training mixed with time spent at college studying for internationally recognised chartered accountant qualifications.

PHOTO: SHUTTERSTOCK

Adding up your career options

Question: Do you need to be a graduate to begin a career in accountancy?

Answer: No. Various companies now offer school-leaver programmes, so it is possible to earn while you learn — as Rachael Campbell discovered.



‘One of the things that put me off going to university was the debt I would have accrued’

Rachael Campbell
BrightStart programme, Deloitte

of Southampton to study management, Campbell took a gap year to look at other options.

“One of the things that put me off going to university was the debt I would have accrued,” she admits. “Even though it would have been managed debt that I would have paid off after a certain salary level, it was still a factor in my decision not to go.”

Discovering that some of the bigger professional services firms were beginning to offer school-leaving schemes, Campbell explored Deloitte’s new BrightStart programme which runs for approximately five years, working in the area of audit.

“I liked the idea of earning while I was learning,” she says. “And I’m a

‘get-on-and-do’ sort of person so, having chosen an area in which to work, I was keen to get started on it. I didn’t want to have to study it for three years — I wanted to learn on the job.”

Business insight

Campbell applied and, after various tests, interviews and an assessment day, became part of the first-ever BrightStart intake in September 2011. She is now placed, as part of a team, on different audit projects on a week-by-week basis. Plus, she is studying (on block release at college) for internationally recognised ACA chartered accountant qualifications.

Campbell is the first to admit that accountancy doesn’t have a sexy reputation. Yet, she says, it can be a high-powered, high-paid career that offers a fascinating insight into the business world.

“I’m constantly working with different clients in all kinds of sectors and I get an inside look at various leading firms to see how they tick,” she says. “Every single job is different — plus I’m always working with different people, so it’s never, ever boring.”

TONY GREENWAY

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QUESTION & ANSWER



Jenny Catlin,
Business development manager,
National Apprenticeship Service

Why choose an accountancy apprenticeship over a graduate programme?

→ If you’re not sure if you want to go to university, it’s another route into the profession. You get your foot on the career ladder much earlier, you’re trained on the job and you earn while you learn. The good thing about accountancy is that you do have the option to take a professional qualification as part of the apprenticeship framework, and that opens up certain opportunities once you complete it. Also, accountants are needed everywhere.

What qualifications are needed to be accepted onto an accountancy apprenticeship?

→ It’s really up to individual employers and the requirements they set as part of their recruitment process. Having said that, if you want to go onto an intermediate apprenticeship, you would have to demonstrate you were good with numbers and had potential. If you were to go onto an advanced or higher apprenticeship I’d recommend you have GCSE maths A–C, or equivalent. Otherwise you might struggle.

Does an accountancy apprenticeship offer the same chances for long-term career development?

→ Yes. If you were to complete a higher apprenticeship, for example, you could go on to take professional qualifications with chartered bodies. You can then specialise or go onto higher education.

SHOWCASE

Whilst studying for her A-levels, Rachael Campbell — like most ambitious 18-year-olds — applied to various universities, but she did so rather half-heartedly. “I’d never been 100 per cent sure about going to university,” she says. “I applied because it was seen as ‘the thing to do.’”

Naturally creative, Campbell had initially mooted the idea of a career in textiles — but, during her A-levels, found her focus shifting. “I’ve always been good at maths and I was studying economics,” she says. “I have a logical brain and, as I progressed, I realised that what I liked about textiles wasn’t the creative side — it was the business side. Management and finance appealed to me.”

Learning and earning

After her A-levels, and despite being offered a place at the University

THE PROGRAMME

■ **Deloitte’s BrightStart** programme was established in September 2011.

■ **There are** currently 39 students on the BrightStart programme nationwide with 50 to 60 student places available this year.

■ **The programme** offers training in the business areas of audit, tax and corporate finance.

■ **Campbell is** working in audit,

carrying out financial analysis of clients’ operations, from small businesses to corporations. Her college study is on a block release basis.

■ **After the** BrightStart programme — which lasts five years — Campbell will become an accountant and auditor at Deloitte, with professional qualifications that are recognised across the business world.



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NEWS



KEEPING THINGS IN ORDER
Bookkeepers play a vital behind the scenes role making sure a business is fully on top of their finances.
PHOTO: SHUTTERSTOCK

On the books

■ **Question:** Do businesses always need to employ the services of an accountant?
■ **Answer:** It depends on the size and needs of a business. Many SMEs employ the services of a bookkeeper instead.

SHOWCASE

“It’s a fallacy that all companies in this country are big,” says Garry Carter, chief executive of the Institute of Certified Bookkeepers. “The majority are SMEs or microbusinesses — and, for many of those, a large firm of accountants may be out of reach.” Which is why many small firms employ a bookkeeper instead.

Whereas an accountant will delve into complex areas of a business such as taxation, investment, strategy and planning, a bookkeeper’s role is more clear-cut. The bookkeeper records the day-to-day financial transactions



‘The bookkeeper gets a real insight into the workings of a business’

Garry Carter, chief executive, Institute of Certified Bookkeepers

of a business, balances the books and ensures everything is itemised so that a business knows how well it is doing. Although it varies across the country, the average rate for a bookkeeper is £22–£25 per hour.

Financial aid

As your business expands or your financial needs become more complex, employing the services of an accountant may become necessary. “For example, you’ll need an accountant to talk to you

about exit routes if you want to sell up,” says Carter.

Yet where straightforward book balancing is required, bookkeepers will be in demand. “Many businesses don’t have the time or inclination to look after their own books,” says Carter. “But they do want to ensure that everything is done right, that their VAT is paid on time and that they have good cash-flow.”

Methodical but not geniuses

Bookkeepers need to be methodical and good with figures —

although they don’t need to be mathematical geniuses, says Carter, because it’s more important to understand bookkeeping principles.

“Some businesses have come to our members with receipts in a carrier bag,” he says. “The bookkeeper has to be able to pull those apart, then go back and say, for example: ‘Did you realise you’re spending this much on postage? And your taxi bills are costing you X amount.’ The bookkeeper gets a real insight into the workings of a business.”

A bookkeeper’s life can be flexible. “You might have left accountancy to have a child,” says Carter. “Someone with that financial understanding might take a bookkeeping qualification and run their own business without re-joining the 9 to 5.”

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QUESTION & ANSWER



Jane Bleach
Head of audit at Baker Tilly

■ **How can an audit protect and/or enhance a business?**

➔ An audit shouldn’t be viewed as a regulatory chore. It provides comfort to stakeholders, including shareholders and funders, but should also add value. It does this through promoting good business practice and by encouraging improvement in the quality of financial information, controls and governance. This not only improves the quality of decision making and reduces the risk of business failure but improves access to funding for growth.

■ **What are the key tools and procedures used during the auditing process?**

➔ An auditor has to adopt certain procedures in planning and performing an audit, but essentially an auditor will apply their experience and knowledge of the business to assess risk. They will look at what controls are in place to mitigate risk and will perform some detailed testing to obtain comfort over key balances. Their findings and suggestions for improvements will be shared with management.

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