



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

# GOING FOR GROWTH

**A MANIFESTO FOR GOOD GOVERNMENT  
AND SUSTAINABLE ECONOMIC RECOVERY**



# THE ICAEW

As a world-class professional accountancy body, The Institute of Chartered Accountants in England and Wales (ICAEW) provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry to maintain the highest standards.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

**Because of us, people can do business with confidence.**



# WELCOME

The last two years have been extraordinary by any standards. Established financial institutions have been swept away, amalgamated or nationalised. Property bubbles have burst. Governments have been forced to underwrite entire industry sectors at a vast cost to the public. Orthodoxies that governed economic behaviour have been thrown into question.

The next UK general election will take place in the aftermath of a financial crisis and parliamentary crisis of confidence. Although there are promising signals of economic recovery, business confidence remains fragile. Compounding these challenges, parliamentarians face a fiscal crisis – caused in part by the government’s intervention to avert the collapse of financial markets.

While views may differ on precisely what must be done, there is wide consensus that there is an opportunity to address structural shortcomings that hinder good government and sustainable markets, business and behaviour.

This manifesto is our contribution to the debate. We make practical recommendations to help government provide value for taxpayers and an environment conducive to enterprise. We set out how the UK government can support a more sustainable economy, characterised by a renewed focus on integrity and reform of the financial services sector.

Our starting point is a conviction that transparent high quality information, on which those making decisions can rely, builds trust and confidence.

Our manifesto is intended not just to encourage debate around practical policy solutions, but to contribute solutions by offering the expertise of the ICAEW and our 132,000-strong membership, which includes leaders and advisers of organisations of all sizes across every economic sector. While political leadership will be critical, the scale of the challenges requires a spirit of partnership. We are prepared to play our part.

The financial crisis has shown the interdependence and mutual interests of global markets, national economies and regulatory systems. While this is a manifesto for the UK, we believe that its principles of good governance and sustainable economic behaviour can apply across the developed and developing world. Within the UK, we call on devolved administrations and the UK parliament to work together to achieve shared objectives of delivering value for taxpayers, encouraging enterprise and supporting a sustainable economy. We extend our offer of support to any administration that works to build confidence in government and in markets.

The impending UK general election provides an opportunity for debate and leadership. In this spirit, we set out proposals for sustainable economic recovery that all political parties can support as sensible and proportionate.



**Michael D M Izza**  
Chief Executive  
The Institute of Chartered Accountants in England and Wales



# GOOD GOVERNMENT

**In this first section of the manifesto, we set out how the government can deliver the best value for taxpayers and build a tax and regulatory environment which is conducive to enterprise, confidence and growth.**

Reforms to the structure of government are often costly and can undermine both institutional expertise and established working relationships. However, given the scale of the fiscal crisis and the pressing need to improve the environment for UK enterprise, it is critical that the government considers specific institutional reforms.

Our proposals include several changes to the machinery of government. We call for a greater role for UK Public Audit Forum bodies and suggest the Canadian Parliamentary Budget Office and the US Congressional Budget Office as possible models to support better parliamentary scrutiny.<sup>1</sup> To build confidence in the UK tax system, we call for the creation of an independent public commission charged with tax simplification. To support enterprise, we endorse a strengthened role for the Better Regulation Executive and stress the need to reduce duplication between public providers of enterprise support.

While our manifesto sets out a case for reform, we urge the government to avoid repeated changes in Whitehall structures, organisations and responsibilities. Institutional reform, if it is necessary, should be carried out with a clear sense of the objectives and an appreciation of the cost.

## MANAGING PUBLIC SPENDING BETTER

- Set the tone in government for good financial management and value for taxpayers
- Make spending decisions based on clear, transparent objectives and costs, then review performance
- Provide resources for effective oversight and parliamentary scrutiny
- Clarify HM Treasury's role in leading effective financial management across government
- Lead structural and cultural change across Whitehall

## IMPROVING THE TAX SYSTEM

- Allow for debate on tax policy proposals before decisions are made
- Introduce a clear timetable for the Finance Bill in line with the needs of taxpayers
- Bring clarity to assumptions in the 'Red Book'
- Establish an independent commission to reduce complexity in the existing tax code

## ENCOURAGING ENTERPRISE

- Improve the way regulation is developed and the way regulatory cost to the economy is assessed
- Support entrepreneurs with the commercial and financial management skills they need
- Promote financial capability at all levels
- Streamline public provision of business support to avoid duplication and waste

<sup>1</sup> The UK Public Audit Forum bodies comprise the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland

# SUSTAINABLE MARKETS, BUSINESS AND BEHAVIOUR

**In the second section of our manifesto, we look at the role of the UK government in rebalancing markets and general economic activity towards sustainable outcomes. Developing a sustainable economy, as the Brundtland Commission first set out, requires us to 'meet the needs of the present without compromising the ability of future generations to meet their own'.<sup>2</sup> It is an enormous challenge.**

Having the relevant information and accounting for the full cost of our decisions will be critical. By linking investment and business decisions to climate change emissions and making a sustained commitment to business integrity and effective reform of the financial services sector, we can take important steps towards achieving sustainable markets, business and behaviour.

## SUPPORTING ENVIRONMENTAL SUSTAINABILITY

- Assess the root causes of environmentally unsustainable behaviour and address them strategically
- Enable investment decisions to be based on credible carbon emissions information
- Lead by example with sustainability reporting in the public sector
- Help improve public understanding of climate change and emissions information

## PUTTING INTEGRITY AT THE HEART OF BUSINESS

- Promote dialogue with business about integrity
- Encourage business leaders to strengthen the culture of integrity within their organisations
- Extend the use of principles throughout the legal, tax and regulatory systems

## RESTORING TRUST IN FINANCIAL SERVICES

- Commit to properly evidenced, globally coordinated and principles-based financial services regulation
- Maintain support for transparent and global financial reporting
- Improve management of systemic risk across the financial services industry

<sup>2</sup> *Our Common Future* published by Oxford University Press in 1987

# SECTION ONE

# GOOD GOVERNMENT

**DELIVERING MORE FOR TAXPAYERS'  
MONEY AND SUPPORTING A TAX,  
REGULATORY AND SKILLS ENVIRONMENT  
THAT IS CONDUCTIVE TO ENTERPRISE**





# MANAGING PUBLIC SPENDING BETTER

## THE CHALLENGE

The unprecedented bailout of the UK banking sector has led to a significant hole in the public finances, equivalent to over 12% of gross domestic product. A restrained fiscal environment will be the critical context against which wider public policy priorities are framed for the foreseeable future. Public money needs to be spent efficiently and effectively. To achieve this, we need to move beyond short term thinking and simple 'salami slicing' of public expenditure. We must take the opportunity to reform the cultures, structures and processes underpinning public spending, allowing government to deliver more for taxpayers' money.

While significant spending cuts may be necessary as a result of the fiscal crisis, there are deeper structural problems with the flow of information and financial management practices in government. Ministers, parliament and decision makers across the public sector currently lack comparable information about what exactly was spent and how well it was spent.

Within public sector organisations, costs and operational outcomes are not well connected and performance measuring frameworks, both for financial and non-financial performance, are not well developed. Across the public sector, financial information is not collected in a standardised or comparable manner. Although the devolution of delivery and powers has, in places, delivered tangible gains in service delivery,

unchecked local budgetary autonomy and a lack of standard requirements for information leads to a silo mentality towards financial management across the public sector. A lack of integrated, comparable information undermines effective decision making within public organisations and limits comprehensive benchmarking and accountability of public spending.

In recent years, important progress has been made to respond to these shortcomings. The majority of government departments now have professionally trained finance teams and there has been considerable success in standardising financial information at local authority level and throughout the NHS. The Treasury has taken forward many of the Operational Efficiency Review conclusions. More ambition is now needed.

The necessary changes are difficult and demand sustained commitment and energy. Achieving better financial management across government requires an administration to strengthen transparency and introduce checks and balances that, if they are to be effective, act as a restraint on a government's ability to spend. Many of the issues we raise have been highlighted by Cabinet Office reviews, HM Treasury reviews and Select Committee reports. The fiscal crisis provides an opportunity to secure the political commitment necessary to meet the challenge.

## THE ROLE OF GOVERNMENT

### SET THE TONE IN GOVERNMENT FOR GOOD FINANCIAL MANAGEMENT AND VALUE FOR TAXPAYERS

Strengthening a culture of good financial management throughout the public sector is difficult and requires political energy and a clear sense of purpose. The current fiscal environment provides an opportunity to reform the underlying structures and cultures, across government and in parliament, which hamper the efficient use of public funds and value for the taxpayer.

### MAKE SPENDING DECISIONS BASED ON CLEAR, TRANSPARENT OBJECTIVES AND COSTS, THEN REVIEW PERFORMANCE

Ministers, the civil service and parliament should be empowered with the information they need for leaner, fitter and more efficient government. All legislation and major spending programmes should be accompanied by clear cost/benefit business cases, including projected costs and expected financial and non-financial outcomes, and then be subject to performance review. Sustainability considerations should constitute a major element of the assessment of non-financial outcomes and performance. Guidance produced by the International Federation of Accountants for measuring performance in public sector entities should be the starting point for wider reform.<sup>3</sup> As far as possible, integrated financial management information within public sector organisations should be standardised and comparable across the public sector, enabling effective scrutiny and benchmarking.

### PROVIDE RESOURCES FOR EFFECTIVE OVERSIGHT AND PARLIAMENTARY SCRUTINY

Scrutiny can drive efficiency. Public spending business cases should be subject to scrutiny. Major projects should be reviewed at development stages and after implementation, and assurance frameworks for performance information should be developed. This is a role that could be provided by UK Public Audit Forum bodies. Early in the process, major departmental programmes should be referred to their respective select committee for comment. Ministers should be required to justify the relevant expenditure on the basis of the business case. Parliamentarians should have access to the financial expertise and resources they need to provide effective scrutiny. This could include having access to independent non-partisan financial and economic advice, with the Canadian and US Budget Offices providing possible models. This may also include, for example, basic training and support on how to analyse a balance sheet.

### CLARIFY HM TREASURY'S ROLE IN LEADING EFFECTIVE FINANCIAL MANAGEMENT ACROSS GOVERNMENT

There should be clarity about the role of the Treasury and the Cabinet Office in leading better financial management across the public sector. Sustained political commitment should be put behind the Whole of Government Accounts project and the transparent alignment of government accounts, estimates and budgets. The Treasury must re-establish clear fiscal rules to guide budget control throughout the public sector. Supporting the Chief Secretary to the Treasury, a single Minister in every department should be responsible for championing value for money within their departments. They should be given the finance and management training they need to drive change in organisations they lead.

### LEAD STRUCTURAL AND CULTURAL CHANGE ACROSS WHITEHALL

Disparity between public and private sector working practices, including organisational structures and remuneration schemes, should be reduced. This must include addressing public sector pensions schemes that are held to be demographically, and therefore financially, unsustainable. The Chief Financial Officer should be a key member of the leadership team in all public sector organisations, actively involved in decision making and not, as is common practice, positioned below other board members. Existing HM Treasury programmes to improve the financial literacy of the 'top 200' cadre of civil servants and 'faststreamers' should be strengthened.

### The ICAEW and managing public spending better

The ICAEW and our public and private sector members have a wealth of relevant expertise – from practical experience and thought leadership in financial management, financial reporting, tax, audit, corporate governance and IT systems, to our track-record in delivering finance qualifications, learning and professional development. Our expertise complements the work of the Chartered Institute of Public Finance & Accountancy (CIPFA), our strategic partner.

### An offer of support from the ICAEW

We are willing to put our expertise and resources at the disposal of the UK government and parliament in order to help drive change across the public sector, both in assisting financial reporting and information management reform and at a training and advisory level.

<sup>3</sup> *Developments in Performance Measurement Structures in Public Sector Entities*, The International Federation of Accountants, November 2008 – [www.ifac.org](http://www.ifac.org)



# IMPROVING THE TAX SYSTEM

## THE CHALLENGE

In recent years, UK competitiveness has been eroded. The UK has fallen for the third consecutive year in the *World Economic Forum Global Competitiveness Index*, from 9th in 2008/7 to 13th in the 2009/10. The *ICAEW Enterprise Survey*, now in its thirteenth year, highlights consistent business concern that the UK tax and regulatory environment is not business friendly. As global growth resumes, competitive pressures are likely to intensify. Businesses will consider their investment strategies and the location of their business activity.

The UK tax system currently undermines confidence in the UK as a place in which to invest and is in need of a fundamental overhaul. It is increasingly and overly complex, often difficult to comply with and expensive to administer. The UK tax code is now one of the longest and most complex in the world, stretching to over 11,000 pages.<sup>4</sup> It lacks the stability and certainty that businesses and taxpayers need.

The root of the problem is how tax law is formulated. The current haphazard approach to the consultation, timing and development of tax proposals in the annual

Finance Bill cycle provides little opportunity for parliamentary scrutiny. In turn, this leads to hasty and poorly thought through tax law that needs to be amended at a later stage and supplemented by additional guidance. Policy decisions too often fail to take account of the true implementation and compliance costs, both those incurred by taxpayers and by HM Revenue & Customs (HMRC). Poorly crafted, low quality tax law leads to complex schemes and strategies designed to reduce tax liabilities.

In the next parliament, the UK needs to develop a much more straightforward and stable tax system. Overhaul needs to start with reform to the way tax law is formulated in order to encourage clarity, fairness, effectiveness and certainty.<sup>5</sup> The Finance Bill process must allow meaningful consultation and scrutiny to take place. The UK also needs to pursue a more radical tax simplification programme. If the UK is to improve the environment within which UK businesses can grow, create wealth and thereby generate tax revenues, we must address structural problems with the tax system.

<sup>4</sup> Referring to Tolley's Yellow Tax Handbook of the British Tax Code, *Yellow and Orange Tax Handbooks*, LexisNexis Butterworths.

<sup>5</sup> For further details, please see the ICAEW Tax Faculty *Ten Tenets for a Better Tax System* – [www.icaew.com](http://www.icaew.com)

## THE ROLE OF GOVERNMENT

### ALLOW FOR DEBATE ON TAX POLICY PROPOSALS BEFORE DECISIONS ARE MADE

The development of tax policy should ensure that policy goals are achieved while keeping costs and burdens, on both taxpayers and HMRC, to a minimum. In order to effectively analyse practical considerations and the costs of implementation, prospective changes to the tax system should be announced, and policy options debated in full consultation, before policy decisions are made. This should happen during the Pre-Budget Report consultation stage, or earlier if necessary. Once principles are agreed, detailed consultation on the workability of specific proposals then needs to be undertaken as part of the cyclical scrutiny of the Finance Bill.

### INTRODUCE A CLEAR TIMETABLE FOR THE FINANCE BILL IN LINE WITH THE NEEDS OF TAXPAYERS

Except in extenuating circumstances, such as the need to tackle identified tax avoidance schemes, tax changes should be introduced in line with a timetable that corresponds to the tax year against which individuals and businesses manage their affairs. The focus should be on providing certainty to taxpayers, and increasingly their tax-related software providers, before the tax year starts. We suggest that the Pre-Budget Report should be held no later than the second week of November, the Budget should be delivered no later than the end of February and the Finance Bill should be published before 31 March, the start of the tax year for companies.

### BRING CLARITY TO ASSUMPTIONS IN THE 'RED BOOK'

As a matter of course, the 'Red Book', published with each Budget, should provide a full analysis of the assumptions upon which forecasts for tax revenues and compliance costs are being made. This analysis should contain accounting and economic information rather than policy detail and ambition.

### ESTABLISH AN INDEPENDENT COMMISSION TO REDUCE COMPLEXITY IN THE EXISTING TAX CODE

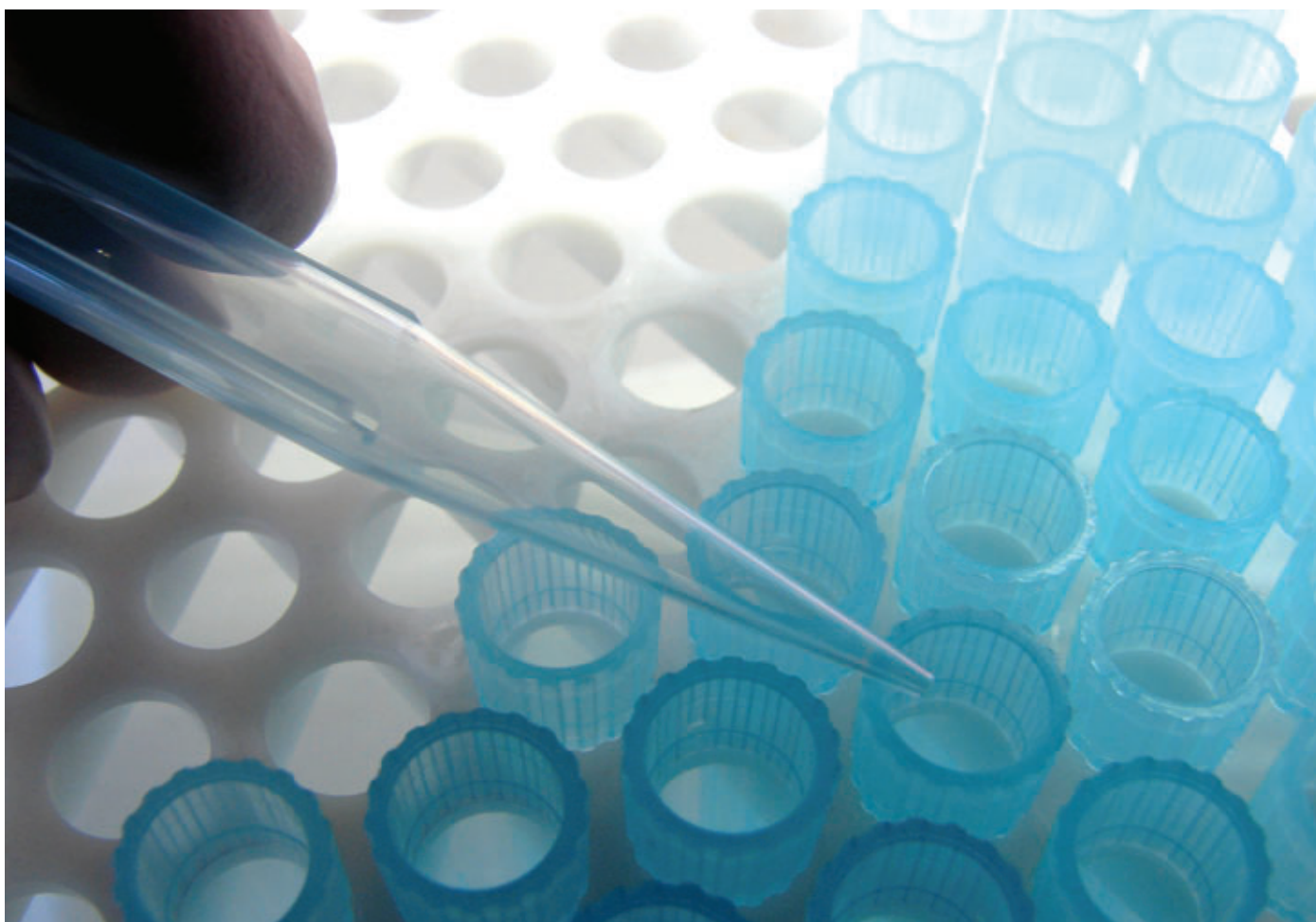
Alongside efforts to improve confidence in the process of developing tax law, the government should address the complexity of the existing tax code. Using the law commission as a model, an independent public commission should be created to lead tax simplification on a continual basis and to present recommendations for simplification to parliament. The ICAEW would urge that small business taxation be taken forward as a priority for simplification efforts. However, tax simplification is important across the tax system, from charity to personal taxation. Accordingly, a wide range of stakeholders and experts should be represented on the commission to help achieve the shared objective of a less confusing and less costly tax code.

#### The ICAEW and UK tax

The ICAEW Tax Faculty is the largest body of practitioners involved in tax in the UK and is committed to supporting the development of high quality tax law. In 2009, the Tax Faculty submitted twelve major briefings on the Budget and Finance Bill to the government and to opposition parties, all available to the public. These included submissions to the Treasury Select Committee, the House of Lords Economic Committee and detailed representations on specific clauses in the Finance Bill.

#### An offer of support from the ICAEW

We are happy to put the expertise of the ICAEW Tax Faculty at the disposal of parliamentarians in order to help them gain a greater understanding of the intricacies of tax law and the practical implications of announcements made in the Budget. We are also willing to provide administrative support to the proposed standing commission tasked to simplify the tax code.



# ENCOURAGING ENTERPRISE

## THE CHALLENGE

The annual *ICAEW Enterprise Survey* consistently highlights business concerns around the burden of regulation and its effect as a barrier to growth. A large body of ICAEW research spells out shortcomings in the UK's skills base. Going for sustainable growth will require that UK reform of public spending practices and tax policy is complemented with measures to improve the regulatory environment and the skills of young people, entrepreneurs and innovators.

The financial crisis identified the need for a wide-ranging review of the regulatory environment for specific, systemically important and globally interlinked areas of the financial services sector. However, all new regulation should be proportionate, based on available evidence and developed in consultation with relevant stakeholders. This manifesto puts forward specific recommendations on regulatory change in financial services.

In the broader economy, where there is no evidence of regulatory failure on the same scale or nature as in the financial services sector, the focus must remain on

minimising the regulatory burden and supporting growth in the economy. In an era of fiscal austerity, when the government will be tempted to rely on regulation rather than on interventions that appear more costly, improving the regulatory environment must remain a priority. In 'managing public spending better' we set out how better information on the delivery costs and outcomes of public programmes should be presented to decision makers. Better identification of the cost that government interventions impose on the economy is equally important.

Skills policy must enable innovators and entrepreneurs to improve their chances of turning their ideas into commercial success. Entrepreneurs often struggle because they lack understanding of financial management, marketing and sales. Addressing low levels of financial expertise and commercial awareness in the wider economy, particularly for young people who have been hit hard by the downturn, will also be an essential element of the effort to strengthen enterprise in the economy.

## THE ROLE OF GOVERNMENT

### IMPROVE THE WAY REGULATION IS DEVELOPED AND THE WAY REGULATORY COST TO THE ECONOMY IS ASSESSED

New regulation is a major concern for business because of its volume and cost. To avoid imposing unnecessary regulatory cost on the economy, Ministers need high quality information that sets any costs imposed on the economy against an assessment of outcomes. The Better Regulation Executive should have formal oversight of the Regulatory Impact Assessment process and provide proper scrutiny of departments' cost/benefit assessments. Parliament and the Better Regulation Executive, working with EU institutions, must also look to strengthen the scrutiny of impact assessments accompanying EU legislative initiatives and undertake full post-implementation reviews. Improving the way UK and EU regulation is developed will raise the quality of regulatory interventions, encourage business confidence in the regulatory process and help government 'think small first' when regulating business.

### SUPPORT ENTREPRENEURS WITH THE COMMERCIAL AND FINANCIAL MANAGEMENT SKILLS THEY NEED

Entrepreneurs and innovators often fail to achieve commercial success because they lack the necessary financial management skills and broad commercial awareness. To help support entrepreneurial thinking, ambition and capacity – particularly for young people – there should be greater integration of financial and commercial skills in vocational and specialist training. Improved financial and commercial skills will help make entrepreneurs more attractive to lenders, strengthen the durability of their start-ups and support long term business growth.

### PROMOTE FINANCIAL CAPABILITY AT ALL LEVELS

At a more fundamental level, greater financial capability can raise individuals' financial confidence and helps to underpin an enterprising economy. In partnership with the accountancy profession and others, the government should work to improve support for financial capability in schools and communities by benchmarking existing schemes and promoting best practice.

### STREAMLINE PUBLIC PROVISION OF BUSINESS SUPPORT TO AVOID DUPLICATION AND WASTE

Public support for enterprise should be streamlined and directed at helping the UK to benefit from the global recovery. Wasteful duplication between relevant public bodies should be reduced. Better use should be made of existing private and third sector capacity and established channels to market. Where businesses find public programmes valuable, policy makers should ensure that any reform of enterprise support preserves established relationships, brands and institutional memory within the public sector bodies that lead those programmes.

### The ICAEW and enterprise

Chartered accountants play a key role in advising businesses and supporting enterprise and business growth throughout the country.

To help improve the financial environment for SMEs, the ICAEW jointly established the SME Funding Adviser Scheme to provide a free directory of sources of advice and information. In collaboration with BusinessLink, the ICAEW Corporate Finance Faculty developed a 'Best Practice Guideline' on SME Finance. We have also published independent research into the lending climate for SMEs, commissioned by the Business Secretary.

To help support financial capability, we work with the Personal Finance Education Group and Grant Thornton UK LLP to marshal the expertise of our members to help improve the financial capability of school students and members of vulnerable communities.

### An offer of support from the ICAEW

The ICAEW will continue to work with the government to improve the environment for enterprise in the UK through better regulation, improved financial and commercial awareness and capability and reform of enterprise support structures.

# SECTION TWO

# SUSTAINABLE MARKETS, BUSINESS AND BEHAVIOUR

MEETING THE NEEDS OF THE PRESENT  
WITHOUT COMPROMISING THE ABILITY OF  
FUTURE GENERATIONS TO MEET THEIR OWN





# SUPPORTING ENVIRONMENTAL SUSTAINABILITY

## THE CHALLENGE

To be sustainable, economic activity and business models must operate within environmental limits. Achieving this will require leadership, a thorough understanding of the behaviour driving environmental damage, a commitment on the part of all market participants and – crucially – the right information with which to make informed decisions.

A globalised economy requires globally-coordinated action to address climate change. Action taken in isolation, which may be detrimental to a single country's economic competitiveness, could undermine support for concerted action against climate change.

We need a better understanding of the behaviour that leads to unsustainable environmental outcomes and how to change that behaviour most effectively. This is a

huge undertaking, which must include strategic analysis of infrastructure planning, energy sources, the development and use of technology and patterns of production and consumption.

The right information and accounting for the true cost of our behaviour will be critical. We must allow global markets to incorporate the environmental cost of economic behaviour into financial decision making, rebalancing the economy towards sustainable outcomes. Business decisions, consumption choices and effective government action, whether through tax, regulation or prohibition, will rely on this information.

We must provide the opportunity for markets to work within environmental limits.

## THE ROLE OF GOVERNMENT

### ASSESS THE ROOT CAUSES OF ENVIRONMENTALLY UNSUSTAINABLE BEHAVIOUR AND ADDRESS THEM STRATEGICALLY

We need to understand unsustainable behaviour – whether in the supply chain, transport, housing, energy production or product consumption – in order to change it. Taxes and subsidies, tradable permits, regulatory requirements and prohibitions, rating and benchmarking, labelling and promoting voluntary codes will all play a part in addressing environmental unsustainability. We need greater strategic consideration about the use of these different public policy levers to promote specific types of behaviour, founded on an understanding of the costs and desired outputs. Greater clarity of the government's intent would help individuals and organisations to plan and adapt their activities accordingly. Strategic assessments should be coordinated, as far as possible, across the EU as well as with the actions of governments around the world.

### ENABLE INVESTMENT DECISIONS TO BE BASED ON CREDIBLE CARBON EMISSIONS INFORMATION

The government should support a globally accepted standard for measuring and reporting on company greenhouse gas emissions. Information must be made available to enable sustainable economic decision making. A single standard for reliable and comparable information on greenhouse gas emissions should replace the existing plethora of schemes. This will help business leaders and investors to take climate change issues into account when making investment decisions. For the standards to be effective, they will need to:

- be developed through collaboration with all stakeholders, not just the accounting community;
- be led by a body with the global authority to promulgate the standards, such as the International Accounting Standards Board;
- avoid placing an excessive burden on businesses; and
- have political support from governments around the world.

### LEAD BY EXAMPLE WITH SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR

The government has recognised that it must lead by example in supporting a sustainable economy. This is a difficult undertaking and will require political leadership. As part of the overall effort, the Treasury should continue its work to develop the Accounting for Sustainability Connected Reporting Framework to report performance on key aspects of sustainability across the public sector and connect that reporting to the transparent business cases we propose in 'managing public spending better'.

### HELP IMPROVE PUBLIC UNDERSTANDING OF CLIMATE CHANGE AND EMISSIONS INFORMATION

Information must be understood for it to affect decision making and behaviour. Just as financial education is necessary to underpin an effective financial services sector, so education about sustainability is necessary to underpin a sustainable economy. The government has a public role to improve awareness of unsustainable behaviour and understanding about climate change-related information, including at primary and secondary education levels.

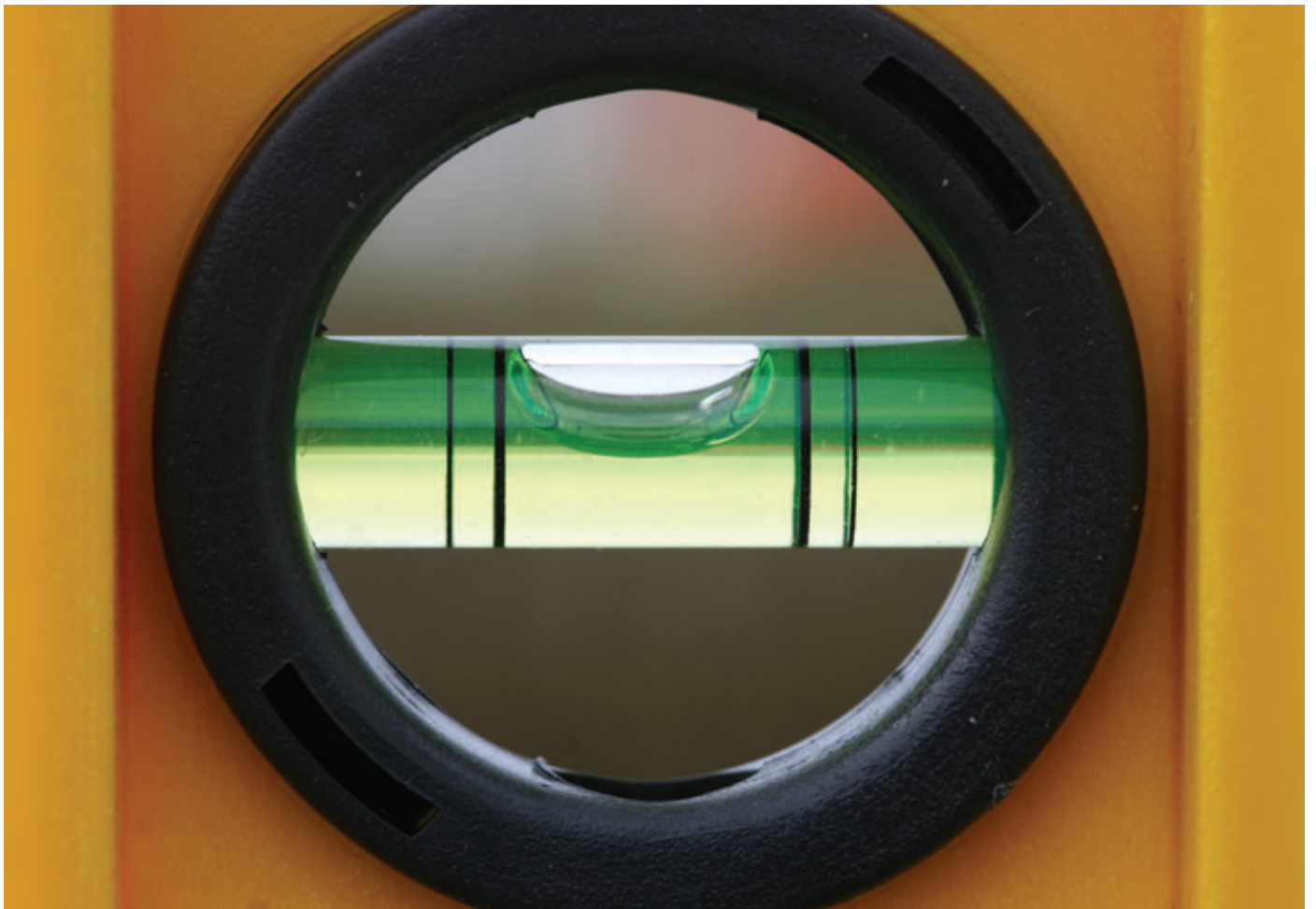
### The ICAEW and sustainability

The ICAEW invests heavily in a 'Sustainable Business' thought leadership programme which seeks to address the challenge of creating a market system and the relevant information to reward economic sustainability. We convene leading industry forums to debate how we can create a sustainable economic future. This includes working with WWF, Reos Partners and Oxford University Business School's James Martin School of Futures.

### An offer of support from the ICAEW

The ICAEW has developed an e-learning package – the Business Sustainability Programme – which is designed to help businesses realise value from sustainable activity. We are prepared to offer this programme to any school or college, without cost, in order to improve wider understanding about the link between sustainability and business issues.

We will also continue to work with governments and stakeholders to advance the theory and practice of sustainable business.



# PUTTING INTEGRITY AT THE HEART OF BUSINESS

## THE CHALLENGE

Trust is essential for maintaining sustainable, effective and efficient markets. The financial crisis has led to a decline of public trust in business. Nearly two-thirds (62%) of respondents to the 2009 *Edelman Trust Barometer* survey reported that they trusted corporations less than they did a year ago. The same survey found that 77% said they refused to buy products or services from a company they distrusted while 72% had criticised a company to a friend or colleague.<sup>6</sup>

The financial crisis has put the spotlight on business behaviour and sparked debate about the boundaries of what is acceptable to society and what is not. Rebuilding trust in the global economy is a shared

undertaking which serves the public interest by promoting trade and economic activity. Leaders across the economy will need to examine corporate governance, training and disciplinary regimes and look to instil and support ethical business behaviour. Only through a credible commitment to integrity in business can our markets support a sustainable and efficient economy.

Government, business and the accountancy profession must all play their part by emphasising that integrity should be at the heart of business.

<sup>6</sup> About the *Edelman Trust Barometer*: The 2009 *Edelman Trust Barometer* is the firm's 10th trust and credibility survey. The survey was produced by research firm StrategyOne and consisted of 30-minute telephone interviews conducted using the fielding services of World One from November 5–December 14, 2008. The 2009 *Edelman Trust Barometer* survey sampled 4,475 informed publics in two age groups (25–34 and 35–64). All informed publics met the following criteria: college-educated; household income in the top quartile for their age in their country; read or watch business/news media at least several times a week; follow public policy issues in the news at least several times a week.

## THE ROLE OF GOVERNMENT

### PROMOTE DIALOGUE WITH BUSINESS ABOUT INTEGRITY

Ethical behaviour underpins a society based on trust and is an essential foundation of sustainable markets. The government should articulate society's expectations of business and set an example through their own ethical accountability. Dialogue on ethical issues should be continuous and dynamic. Government, businesses and wider civic society should continuously examine the boundaries of ethical behaviour to understand what is acceptable and what is not.

### ENCOURAGE BUSINESS LEADERS TO STRENGTHEN THE CULTURE OF INTEGRITY WITHIN THEIR ORGANISATIONS

The government should encourage business leaders to adopt frameworks for instilling integrity within their organisations. Such frameworks should include an assessment of an organisation's commitment to integrity as part of their strategy, oversight and risk management. Leaders should consider asking whether:

- their organisation follows a code of conduct which states the expected values and standards of behaviour of its employees and those they work with;
- the leadership encourages and embodies the values of the code;
- policies and procedures, for example on remuneration, promote those values;
- employees receive effective support and training on the expected standards of behaviour, including through helplines;
- the organisation has monitoring frameworks to evaluate employees' commitment to ethical practice; and
- the organisation enforces its standards of conduct and disciplines individuals who do not adhere to them.

### EXTEND THE USE OF PRINCIPLES THROUGHOUT THE LEGAL, TAX AND REGULATORY SYSTEMS

An economy where integrity plays a more prominent role will not only require changes in business, but also a different approach to regulation. The government should examine the case for greater use of principles throughout the legal, tax and regulatory systems. Principles-based systems, where principles are clearly stated and are supported by rules, encourage individuals and businesses to act with integrity in the spirit of the principle. Not to be confused with light-touch regulation, principles-based systems discourage compliance 'box ticking' cultures and allow regulators to take action where there is compliance with the letter of the rule, but not the principle behind it. The recent financial crisis provides an opportunity to reinforce the importance of principles-based regulation.

### The ICAEW and ethics

Chartered accountants are expected to demonstrate the highest standards of professional conduct and take the public interest into consideration in their actions. The ICAEW's Code of Ethics helps its members meet this obligation by providing ethical guidance, identifying five fundamental principles with which chartered accountants are required to comply: integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. Our approach to ethics is not limited to a code of conduct. It also includes having in place appropriate training, professional development and support, and a robust disciplinary regime to investigate complaints and apply sanctions ranging from fines to disqualification.

The ICAEW pioneered a principles-based threats and safeguards approach to codes of ethics in the accountancy profession, which is now endorsed by the International Federation of Accountants.

More recently, the we have produced thought leadership on the subject of instilling integrity in business.

### An offer of support from the ICAEW

As a professional body committed to enhancing the professional ethics and integrity of its membership, the ICAEW will support any government or business that seeks to strengthen its focus on integrity.



# RESTORING TRUST IN FINANCIAL SERVICES

## THE CHALLENGE

Shortcomings in decision making in the financial services sector have been revealed with painful clarity through the financial crisis. Nowhere is the need to focus on long term sustainable goals and ethical behaviour greater than in financial services.

The financial crisis has illustrated the extent to which the world's capital markets are interlinked, reinforcing the need for a globally-coordinated response based on principles of transparency and accountability, sound regulation, integrity and international cooperation. The UK cannot act alone in responding to the financial crisis, but UK decision makers have a key role to play in leading the global and EU response to the financial crisis. The City of London remains the world's number one financial centre in the 2009 *Global Financial Centres Index*. An effective and proportionate regulatory response will demand a rigorous understanding of the issues and available evidence and a spirit of partnership across all market participants.

Taking forward the G20 leaders' April 2009 communiqué, the overall response must include supporting the development of a single high quality

global accounting language to increase investment choice and comparability across countries, across industry sectors and across companies.

The response must also address the shared failure to recognise that the global financial system was increasingly loaded with risk. Managing such risk is difficult, and requires looking at issues like industry transparency and incentives, but also savings cultures and financial literacy. It will require a new regulatory approach.

Reform of the financial services sector must reflect a wider effort to promote sustainable markets, business and behaviour. All those involved must stop looking at issues in isolation and share responsibility, working together to look out for systemic issues which could affect the common good and the sustainability of business activity in the long term.

## THE ROLE OF GOVERNMENT

### COMMIT TO PROPERLY EVIDENCED, GLOBALLY COORDINATED AND PRINCIPLES-BASED FINANCIAL SERVICES REGULATION:

While the financial crisis generated justifiable public outrage, it is important that the regulatory response does not give rise to unintended consequences and further damage to market confidence. Regulation must be based on evidence and, to avoid regulatory arbitrage, it should be developed in partnership with international authorities. Regulators also need staff with the necessary skills and experience. In the UK, delivering proportionate and effective regulation for the financial services sector will require active engagement at an EU level. Not to be confused with light-touch regulation, a principles-based approach, flexible enough to oversee a fast-paced business environment and with an emphasis on ethical codes and practices, should be the bed-rock of regulatory reform.

### MAINTAIN SUPPORT FOR TRANSPARENT AND GLOBAL FINANCIAL REPORTING:

Transparent and reliable financial reporting is essential for market confidence. Financial statements are there to provide reliable information to investors, allowing them to make economic decisions with confidence. Delivering on the G20 leaders' April 2009 Summit communiqué, financial reporting standards should be set at the global level, through due process and within appropriate accountability and governance frameworks. Commercial pressures or narrow sector interests to limit transparent reporting or to withdraw support from global standards must be resisted at a political level. If regulators wish to dampen the effects of the business cycle, they should do this through regulatory requests for information or for holding capital – not through changing financial reporting standards. Transparent reporting during the 2007/08 financial crisis highlighted problems sooner than would otherwise have been the case and enabled faster economic recovery. Despite commercial and political pressures, the UK, alongside its EU and global partners, must maintain a commitment to a single transparent global accounting language.

### IMPROVE MANAGEMENT OF SYSTEMIC RISK ACROSS THE FINANCIAL SERVICES INDUSTRY:

One of the major causes of the 2007/08 financial crisis was a collective failure to identify and address systemic risk. So, regulators need the tools and processes to measure risks that affect the whole market, rather than risks affecting individual institutions. This is a complex and multi-layered undertaking and will require global coordination, a commitment to transparency and partnership with the financial services industry. In practice, this new regulatory approach could include encouraging relevant non-executive directors to attend regulatory risk outlook briefings and strengthening the relationship between regulators and bank auditors. It is important that there are clear lines of regulatory responsibility for collecting and reporting information on systemic risk. At the level of individual financial institutions, political attention on financial services regulation and corporate governance reform should focus on:

- improving the transparency of bank boards' risk appetite and risk management;
- increasing clarity about how risk management information flows to bank boards;
- linking remuneration to long term, risk-adjusted performance and ethical behaviour; and
- working to improve systems of cross border regulatory cooperation, highlighting practical cross border difficulties posed by legal and other constraints.

### The ICAEW and financial services

Through our Financial Services Faculty, Financial Reporting Faculty and Audit and Assurance Faculty, the ICAEW is committed to restoring trust in financial services by helping decision makers to respond effectively to the 2007/08 financial crisis. We invest heavily in thought leadership relevant to the financial services sector, including Information for Better Markets, Dialogue in Corporate Governance, and Inspiring Confidence in Financial Services programmes. In the UK, we have provided testimony to three UK parliamentary hearings related to the financial crisis.

### An offer of support from the ICAEW

Our expertise and resources are available to any authority wishing to restore confidence in financial services through effective regulation and a commitment to transparency. We are keen to work with government and opposition parties in the UK and authorities in Brussels and Washington to achieve effective reform of financial services and deliver the April 2009 G20 Summit conclusions.

## ENCOURAGING PUBLIC DEBATE

This manifesto is our contribution to the debate.

### **What are your ideas for supporting good government and a sustainable economic recovery?**

Your views on this manifesto and the challenges we seek to address are warmly welcomed.

Please submit them to:

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To download a copy of the  
*Going for growth: A manifesto for  
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economic recovery* visit

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