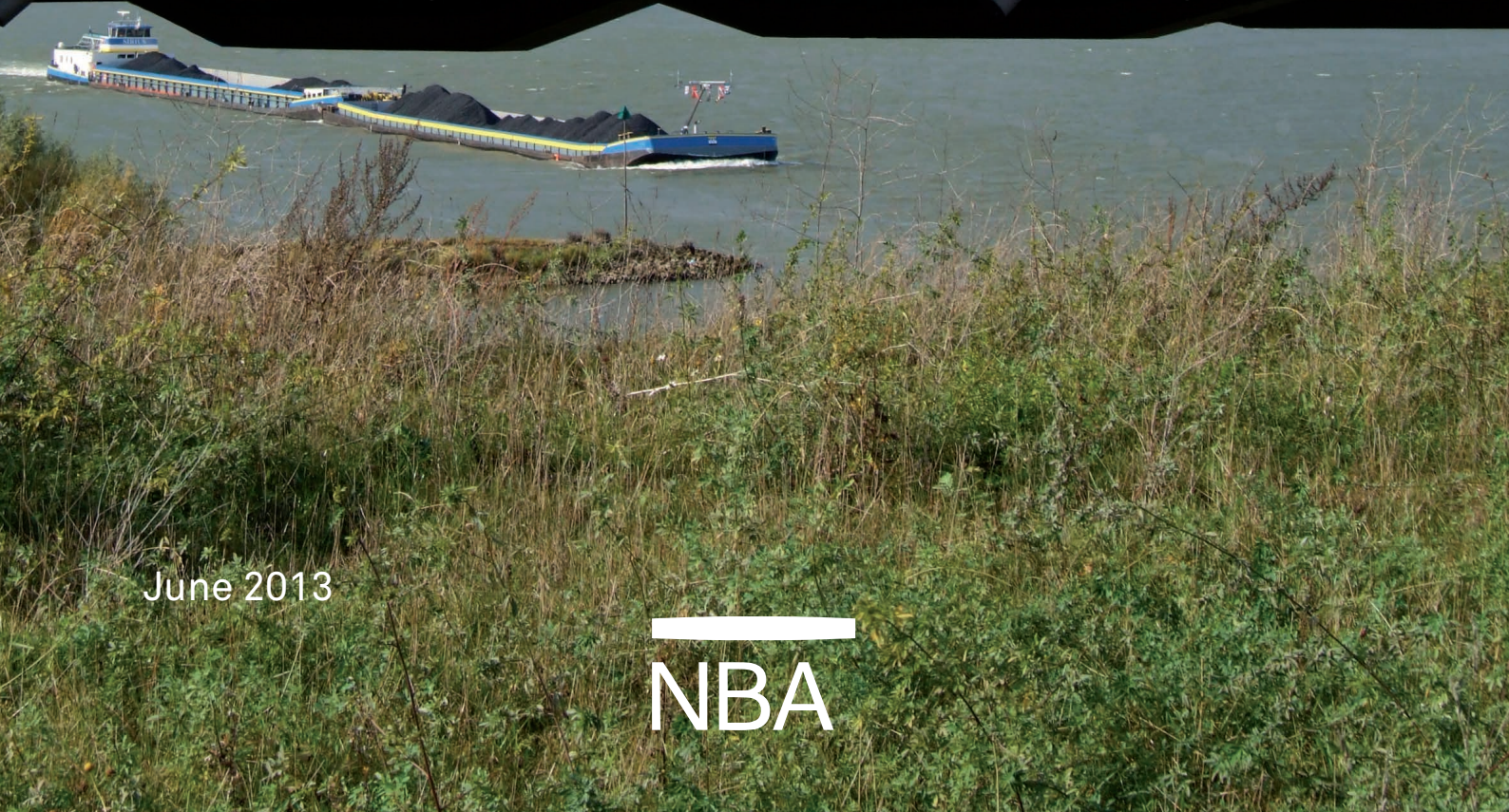




Cease trading or carry on

Public management letter for Transport and Logistics



June 2013

NBA

Nederlandse
Beroepsorganisatie
van Accountants



The NBA's membership comprises a broad, varied occupational group of over 20,000 professionals working in public accountancy practice, at government agencies, as internal auditors or in organisational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are fundamental principles for every accountant. The NBA assists accountants in fulfilling their crucial role in society, both today and in the future.

To operators in the transport and logistics sector and other interested parties

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Dear Sir, Madam,

The transport and logistics sector delivers an important contribution to the Dutch economy. The sector consists of various sub-sectors which display a wide diversity of activities, scope and difficulties. The general trend however is that more and more businesses are being threatened due to price pressure and low yield. There has been a shocking increase in the number of bankruptcies. As a trading and distribution nation, the Netherlands is experiencing more than most the detrimental effects of the global economic crisis.

In this public management letter (PML) '*Cease trading or carry on*' we present five signals and recommendations. Three sub-sectors are central to this: goods transport, inland shipping and logistical services provision. The signals are intended for operators, sector organisations, financiers, accountants and other interested parties:

1. Accountants call for change of course
2. Valuation of fixed assets under pressure
3. Sustainability and innovation pay the price
4. Complexity of laws and regulations underestimated
5. Specific sector knowledge essential for accountants

Continuity is a point requiring ongoing attention. Due to continuing poor results company reserves are becoming exhausted and accountants are advising their clients to begin thinking about the future of their business. Low yield may also mean that assets must be devaluated, which affects finance options. Investment in sustainability and innovation is important, but as a result of the crisis they are receiving lower priority. Finally, adequate knowledge of law and regulations is essential, not only for the operator, but also for his or her accountant.

Therefore the last signal is intended for our own members: ensure sufficient knowledge of the sector. This is not only important for the activities related to the annual accounts, but is also necessary to be able to properly fulfil the role of advisor in difficult times.

This PML is based on the knowledge of our members who work in the sector. Various interested parties, including Transport & Logistics Netherlands (TLN), FENEX, ABN AMRO and Organisation for National and International Road Transport (NIWO) have issued their comments to us. We are grateful to all of them for their contributions.

Yours faithfully,



Dirk ter Harmsel AA FB
Deputy Chairman NBA



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Member NBA Identification Board

Nederlandse
Beroepsorganisatie
van Accountants



Contents

Chapter	Page
Sector in turbulent times	7
Signal 1: Accountants call for change of course	10
Signal 2: Valuation of fixed assets under pressure	12
Signal 3: Sustainability and innovation pay the price	14
Signal 4: Complexity of laws and regulations underestimated	16
Signal 5: Specific sector knowledge essential for accountants	18
Summary of stakeholders' responses	21
Credits	23



Sector in turbulent times

With a production value of 59 billion euros the transport and logistics sector delivers a significant contribution to the Dutch economy. The sector forms part of the top sector policy of the National Government. It consists of 24,000 companies with a total of 335,000 employees and provides a share of Dutch production of around 5 percent¹. If all logistical activities which occur in Dutch business are added together (the functional approach), then the figures double: to around a production value of 126 billion euros, 813,000 employees and a share in production of 11 percent. Without transport the Dutch economy is at a standstill.

A closer examination of the playing field

The sector is very diverse in nature and consists of various sub-sectors. Sector organisation TLN alone has fifteen sub-associations, from waste substances transport to sea container shipment. The difficulties encountered by rail companies or airlines are completely different to inland waterways or the provision of storage and distribution. The companies vary enormously in size for each sub-sector, varying from small one-man operators to large multinationals. Three sub-sectors are central to this public management letter. They have been chosen because they constitute a good reflection of the overall sector and are the most recognisable sub-sectors to the wider public. The final consideration is that it is precisely these sub-sectors which have undergone turbulent times in recent years:

- Goods transport by road for third parties.
- Inland shipping. There are a relatively large number of small businesses operating in this sector.
- Logistical services. This involves companies engaged in forwarding, storage and transfer (warehousing) and associated services, for example in the areas of customs processing and VAT.

Although the business size in these sub-sectors may vary from owner-drivers or inland skippers who live on their vessel to large subsidiaries of multinationals which are subject to audit, the NBA considers these signals to be relevant to all businesses. Because the average business size is limited, within the three sub-sectors a great deal of use is made of the services of an SME accountant.

Continuity is the first item on the agenda

The Netherlands is predominantly a trading and distributing nation. The effects of the global economic crisis are therefore being widely felt. This applies in particular to the transport and logistics sector. Due to its international nature the sector is dependent on the development of world trade flows. In recent years these have experienced a great decline. A resurgence did occur in 2011, however in 2012 there was shrinkage once more. For 2013 and beyond the forecasts are uncertain.

In general, the sector is characterised by low profit margins, high investment and large fluctuations in rates. This places high demands on entrepreneurship. Making costs flexible, the preservation of reserves in the credit area, the improvement of operational management and capitalising on sales opportunities are important means of survival in a cyclical sector. Because the recession is lasting longer than expected however, companies' reserves are shrinking and the capacity for resistance is declining. One warning signal is that in almost 20 percent of cases in the extension of permits by NIWO deferred loans are applied for instead of accrued net equity.

Although that capital can be included within other corporations in a group, less net equity also means less scope to enter into new loans. This is reinforced by the stricter

¹ Source: CBS Monitor topsectors 2010 (first meeting), 2012



position adopted by the banks. Typical is the increase in the number of bankruptcies in the sector, a trend which is expected to continue this year. Carrying on or taking another route has become a prominent agenda point for every operator. Accountants fulfil a signalling and advisory role in this process.

The consequences of the economic decline are worsened by over capacity. In good years there is a great deal of investment in capacity expansion, which is delivered in poorer years. Investments in capacity have a long payback time and cannot be withdrawn from the market in the short term unless at a loss. Overcapacity has a detrimental effect on price-setting and the yield in the sector. It can also mean that companies have to devalue their existing investments, which has a further detrimental effect on their net equity position. These difficulties are not only being experienced in the Netherlands. This spring the strike by Belgian inland waterway skippers threatened to spread to their Dutch colleagues. Due to an excess of new vessels in a shrinking market skippers are being forced to transport cargo at below cost price.

Other important themes

The sector is also strongly internationally orientated. Almost every company is involved in international contacts. In recent years particularly there has been increasing competition from abroad, especially from countries which have only recently joined the European Union and often operate under less strict and harmonised laws and regulations. Most of all the wage costs in such countries are considerably lower than those in the Netherlands. As a result this competition can also work from a cheaper position. Furthermore it can provide loopholes for non-bona fide companies. As a result an unlevel playing field has been created for Dutch companies which do wish to observe the rules.

The theme of sustainability is increasing in significance. Customers, end users and the government are imposing more demands in this area. In order to respond to this automation and innovation are becoming increasingly important. This is reflected in the demands imposed on employees: practical experience is no longer a deciding factor, rather a knowledge of automated systems.

Together with the increasing ageing of the workforce this constitutes a significant challenge: recruiting significantly well-qualified employees to address the challenge of good

transport solutions in the future. In the next eight years one in four employees in the sector will retire, whereas there is hardly any new influx. This is most urgent in domestic road transport. The sector clearly still has an image problem in this area.

Signal 1 |

Accountants call for change of course

The consequences of the economic decline have already been felt within the sector for some time now. Because this situation does not appear likely to change in the near future, companies' reserves are being drained. The accountant is increasingly asking the operator if continuing on the existing course is worthwhile.

In further detail

The transport and logistics sector is suffering greatly from the economic recession. Particularly in road transport and recently also inland shipping the number of bankruptcies is increasing. Significant causes are:

- Overall decline in world trade and distribution
- Overcapacity resulting in excess supply in the market
- Entry to the international market of new, large European companies
- Rise of countries with lower cost structures and less strict laws and regulations
- Stricter financial terms & conditions of the banks
- Worsening payment practices by shippers

Pricing and yield are under pressure. The situation is becoming increasingly acute as the economic perspective remains sombre. As a result companies' reserves are becoming increasingly drained and continuity is being compromised.

In such circumstances it is important to keep an eye on the small things, such as ensuring the charging of all assignment-related costs. This is not always well-rooted, along with the speed of invoicing. As a result turnover can be lost. Nor is the extension of payment terms by shippers helping. In more than 75 percent of cases the usual term of one month is exceeded; some large companies are even stretching this to three months.

Until recently banks were reasonably flexible toward financial problems and offered scope for problems to be resolved. Due to the stricter banking regulations (including Basel III) this has changed radically. Banks are extending finance less swiftly and are more quickly inclined to include losses in uncollectible loans. This unavoidably leads to an increase in the number of compulsory sales and bankruptcies. This is no solution for the sector. The old owner is left with an outstanding debt, whilst the new owner can work for a lower cost price. Thus the overcapacity remains. The increase in the number of new owners once more enhances the likelihood of bankruptcy of existing enterprises, because new market entrants are more resistant to lower prices. For inland shipping a focused rehabilitation could be a possible solution. For the remainder market forces will take their effect. Especially for SME companies it is becoming more difficult to continue to operate in the market. Larger parties generally have more financial options to continue to invest and to keep going for longer.

Cease trading or carry on is a significant agenda point. Continuing on the same route, expanding, downsizing or even ceasing trade? Definitive questions which the accountant will put to his clients. He knows the sector and can help his client to closely examine alternative routes. It can be difficult for an SME-entrepreneur to acknowledge that it is better to drastically reorganise or to cease trade, then to continue to build losses for years. Certainly if it costs workplaces or individual pension provisions. From his independent position the accountant can confront his client and urge him to critically review the existing course of the business once more. He can ask questions which the client himself may not dare to ask, at a time when there are still sufficient alternatives available.

Negative example

Too optimistic expansion investment

Logistics service provider A specialises in storage, processing and distribution of chemical substances. During the years of growth it was decided to build new premises using bank financing. A lost a large customer and got into difficulties with the tax authority over import duties. Due to high costs and lagging sales A almost went bankrupt. A is not in a position to carry out its reorganisation alone. Thanks to the leniency of the bank time was allowed to find a new business partner which could provide expertise and financial resources, so that there are positive forecasts once more. If the situation had occurred now, the bank would have had much less room for manoeuvre to work with them and A would have gone bankrupt immediately.

Positive example

Specialisation and flexibility enhances profitability

Logistics service provider B grew considerably during the years prior to the economic crisis. During this period B specialised in the organisation of transport with the aid of qualified employees and good contract parties. B also made its costs as flexible as possible via short term lease contracts for the real estate to be used. By this working method and by using automation to assess the profitability of each contract, B also knows how to generate an acceptable yield during difficult times and where necessary to reorganise its organisation within reasonable time.

RECOMMENDATION 1: Adopt the new reality

Operators

- Make choices in business strategy: should activities remain the same or is a change of course necessary. Remain realistic about the future during difficult times. It can be difficult to admit that it is better to change course than to carry on. The accountant will act as critical sounding board in this and help to closely examine alternative scenarios. It requires special advisory skills to create clarity and remain objective in such situations.
- Monitor agreements with bankers and financiers. Inform them in timely fashion of disappointing results, so that there is sufficient scope to arrive at a solution. Always try to incorporate extra credit scope for set-backs.
- Ensure timely invoicing and full charging of contract-related costs. Also invoice the small things, don't let turnover slip by. Make clear agreements regarding payment terms for debtors and hold the debtor to those terms. Possibly consider alternative opportunities such as supply chain financing (financing in cooperation with chain partners).

Sector organisations

- Enter into discussions as a sector regarding a collective solution for overcapacity. For inland shipping a voluntary restructuring by removing aged vessels from the fleet is an option.

Signal 2 |

Valuation of fixed assets under pressure

The sector is capital intensive because transport resources and storage facilities require high levels of investment. At the same time there have been structurally low yields for years. This can indicate that fixed assets are unprofitable in operation and are therefore valued too highly in the accounts. The resulting devaluations put the net equity position under pressure along with the future perspective.

In further detail

Logistics service provision generally requires high levels of investment in fixed assets. An inland vessel, a fleet of commercial vehicles, a warehouse or a distribution point places a great strain on a corporation's capital. Fixed assets usually have a longer payback time and lead to costs which can only be influenced to a limited degree. Examples of this are annual depreciation, maintenance costs and the interest on and repayment of loans. This restricts the flexibility and opportunity to respond to developments in the sector.

Investments also require the necessary time. In good years large investments in expansion are made by logistics providers which are commissioned in economically harsher times. Often fully financed by a bank. The economic crisis has led to a decrease in the total flow of goods, overcapacity and price pressure. Because the costs of investment are for the most part fixed, operators lack the opportunity to compensate for lower prices by lowering costs. Investments in capacity are often also client-specific, whilst the risk of losing clients is increased due to the increasing use of short-term contracts.

These risks force the logistics service provider to look seriously at the current valuation of his assets. He should ask whether valuation at historical cost price less depreciation is still correct. Is the expected yield sufficient to achieve the existing value? If that is not the case, devaluation to a lower

enterprise value is unavoidable. This can have far-reaching consequences for the net equity position and therefore the continued existence of the business. Devaluation can also mean that the bank's finance terms are no longer being complied with. The banks will impose additional demands or even withdraw finance. Delaying devaluation makes no sense however. This leads to an incorrect view of yields and may have the effect that wrong decisions are taken.

It is important in such situations to have a realistic future perspective and a clear business strategy, which takes into account both the strong and weak sides of the business. In doing so it helps to closely examine various future scenarios.

Negative example

Disappointing sale of vessel wipes out pension

Inland skipper C has sailed for almost 50 years and 10 years ago had a new and larger vessel built. In the meantime he has reached the age of 65 and he has no successor. It is no longer possible for him to operate the vessel himself. C therefore has no choice but to sell the vessel in difficult economic times. It was put on the market at the end of 2010. After two years it appears the vessel must be sold at a rock bottom price and without any residual value. This is in complete contrast to what the skipper had always expected: you provide for your old age by capitalising on the residual value of your vessel. After winding up the business there is absolutely nothing left over for his pension.

Positive example

Innovation prevents devaluation

Inland shipping operator D, with the aid of a university, devised an innovative concept, in which container ships can load and unload containers independently with an onboard crane within a port area. In this way D goes into competition with road transport. Where road transport requires a number of trucks to transport dozens of containers, a crane vessel can transport the entire load in one go. In contrast to regular inland shipping D has seen its turnover for crane vessels increase dramatically during the crisis years. The expectation is that it shall achieve a positive operating result this year. As a result of these adaptations there is no need to amend the valuation of the vessels.

RECOMMENDATION 2: Go for the long term solution

Operators

- Be clear about the valuation of fixed assets in the annual accounts. Ensure that the valuation for the users of the annual accounts produces no surprises. By being transparent the operator retains control and the valuation will not begin a life of its own with financiers and other interested parties. Explain clearly the assumptions and principles used in the annual accounts.
- In making the required forecasts for the evaluation of the valuation take into account the company's strengths and weaknesses. Remain critical of the assumptions used and closely examine alternative scenarios.

Accountants

- Regardless of the nature of the assignment, always pay extra attention to the valuation of assets. Adopt a critical view on the results of the calculations, assumptions and principles used. Establish whether the operator has engaged a respected surveyor, if necessary.

Operators and accountants

- Have significant (fixed) assets valued periodically by an independent and expert surveyor. Allow them to inspect the valuation of the affiliated loans and specific features. In doing so pay attention to the location and environment of the assets concerned.

Signal 3 |

Sustainability and innovation pay the price

The current economic climate and the structurally low yield in the sector have led to logistics service providers paying too little attention to sustainability and innovation. Opportunities to invest in environmentally-friendly and innovative solutions are insufficiently utilised. Customers, end users and the government are demanding this however. Turnover can easily be lost this way. Automation constitutes an important resource.

In further detail

The transport and logistics sector does not historically have a sustainable image. The use of fossil fuels results in the emission of CO₂, nitrogen and particles. However work has been done on becoming more sustainable for many years already. Examples are the use of cleaner engines, noise reduction and agreements for the distribution over the use of different modes of transport. The Lean & Green programme which motivates companies to make their logistics more sustainable is well-known. The initiative however is mainly driven by the government and society and not by the logistics service providers themselves. They are not at the forefront of this initiative. The yields achieved are still too low, whilst adaptations required to become more sustainable are often costly. The purchase of commercial vehicles with Euro 6 engines, biofuels, liquid natural gas (LNG) and electric transport promote sustainability but often cost a lot of money. Companies taking action to promote sustainable can be in the news, whereas it is only an extension of something that has been going on for a long time. Customers, end users and the government however are imposing increasingly higher demands on sustainability. The quantity of CO₂, nitrogen and particles emissions plays a role in investment in and expenditure on logistical services. Large retailers demand that their logistics providers report the CO₂ emitted on their invoice. They impose requirements on this at the time contracts are entered into and include this informa-

tion in their own sustainability report. Another example is the requirement to purchase new containers with bamboo floors instead of pinewood. In this way the pressure on the environment is reduced by the application of innovative materials (less deforestation) and reduction in weight (fewer CO₂ emissions).

All of these developments involve risks. Not complying with the requirements and wishes of customers, end users and the government means that contracts and assignments are lost. Embracing these usually requires substantial investment, for which financial resources are often unavailable. Furthermore, assets which are already in use can decrease in value as a result of stricter environmental conditions. It is a challenge to convert such risks into opportunities. Nevertheless such opportunities to distinguish one's self by sustainability do exist. Sustainability is still business: it can yield real returns by saving cost and increasing turnover. But it only works if it is rooted in the company's primary processes. Automation constitutes an important resource in this respect. It is evident from sector studies (ICT in Transport and Logistics, ING Bank, 2012) however that many operators are still adopting a wait-and-see attitude and are delaying optimum utilisation of the opportunities. The use of automation delivers significant planning and management information. Insight into fuel consumption or transport movements leads to lower fuel costs and therefore CO₂ emissions. Cost reduction and sustainability go hand in hand in this case. In this way it also becomes easier to comply with the specific wishes and requirements of customers. Although investment in ICT is often costly, an increasing number of solutions are coming within reach of small businesses through the use of smartphones, tablets and apps. In addition to innovation and automation strategic partnership with partners in the chain can offer a solution, for example via new concepts such as chain management or multimodality.

Negative example

Payments to shareholder more important than sustainability

Transport operator E has an extensive fleet of commercial vehicles fitted with Euro 3 engines. Due to the marginal results in recent years there is no financial surplus for the purchase of new equipment. Furthermore profits were always paid to the shareholder and were not reserved for investment in sustainability. In recent years an important client has transferred its activities from the Netherlands to Asia and with it E has seen a significant part of its turnover disappear. When bidding for loads it is requested that environmental effects are specified. It appears increasingly that E is not winning contracts because the competition could operate more environmentally friendly. E saw itself being forced into extensive investment, but lacked the resources for this. Banks were not prepared to provide finance. The consequence was that E had to downsize and a number of commercial vehicles had to be sold. The sale price for these was far below the expected residual value.

Positive example

Investing in sustainability does not have to be expensive

Transport operator F has selected one supplier for all of its commercial vehicles. As part of being preferred supplier it was agreed with the vehicle manufacturer that an optimum maintenance programme would be applied to the vehicles. Furthermore driving behaviour was assessed. The results of these analyses were discussed with the drivers in order to improve driving behaviour. Entering into this contract reduced maintenance costs. The effect of driving behaviour produced lower direct consumption costs. Furthermore the emission of harmful substances into the environment reduced which created a competitive advantage when tendering.

RECOMMENDATION 3: Sustainability and innovation are essential!

Operators

- Sustainability only works if it is rooted in the basis of the business. Pay attention therefore to sustainability in all business processes. In addition to the layout of the operational process (planning, logistical solutions, driving behaviour), also pay attention to the maintenance process and the investment process.
- Formulate sustainability standards and objectives, set up clear performance indicators and incorporate these in management reports. Use these to manage and ensure periodic feedback. Consider publicising the results achieved by publishing a sustainability report or putting the figures on the website.
- Take into account the requirements of purchasers in terms of sustainability in the restructuring and harmonising of automation systems within the business.
- Due to the extensive investments which automation and innovation may involve it is worthwhile investigating the possibilities of partnership within the chain. Engage the sector organisations in this and involve new ICT developments in the decision. Operators who are at the forefront can profile themselves better in the market.

Signal 4 |

Complexity of laws and regulations underestimated

The international world of transport and logistics is characterised by a multitude of laws and regulations. Compliance with all national and international regulations is time-consuming, costly, complicated and not without risks. The trend that operators are increasingly combining various activities leads to more risks.

In further detail

Due to its international orientation the sector is very dependent on developments in international laws and regulations. The number of regulations has increased dramatically in recent years, especially in a European context, whereas their interpretation differs between countries.

This effect is enhanced by the trend of combining service provision or opening branches abroad. So instead of one mode, several modes are often supplied simultaneously. A transport operator can also begin to offer inland shipping or warehousing. The logistics service provider aims to be of service to the customer from start to finish. But there is another side to the coin. The logistics service provider is confronted with new laws and regulations. Insufficient knowledge of these can bring significant risks.

In order to be able to handle this, compliance with laws and regulations must be rooted in the business's processes. Within risk management this requires attention. In practice this appears to go wrong regularly, especially keeping up with changes requires a great deal of effort. Operators often do not realise that a change or expansion of activities also have an impact on the number of regulations to be observed. A small, but not exhaustive summary of laws and regulations makes it clear that the average logistics service provider often can't see the wood for the trees:

- Cabotage (haulage within a country by a company from another country)
- Incoterms (international delivery conditions)
- Transport licence
- Driving Hours Act Transport Permit
- Traffic safety
- Transport and storage of hazardous substances
- Technical directives for commercial vehicles
- Export controls
- Employment safety and working conditions
- CLA and terms of employment
- Environmental legislation
- Fiscal (including customs) laws and regulations
- Privacy laws and regulations

It is not always visible whether all laws and regulations have been complied with. The risks involved vary from warnings, fines and the withdrawal of permits to loss of image. The extent of the risks involved can be great, with the closure of the business as the most extreme effect. However there are also logistics service providers who consciously fail to comply with laws and regulations due to inadequate enforcement by the authorities, in order to obtain an unfair cost advantage.

The difference in laws and regulations between countries may also have the detrimental effect that operators seek out loopholes in the law, in order to benefit from the disparity in regulations to their own advantage. For example the use of foreign employees who are subject to the employment conditions of another country. Or establishing themselves just over the border. This can deliver a cost advantage for the individual operator. The sector as a whole suffers a great loss of image in this way as society considers such escape routes as unethical.

Negative example

Export policy not established in the company

Transport and logistics company G has a large international network. Its informal policy is not to transport or allow to be transported any goods for which export licences are required. For example strategic goods (such as weapons) and/or transactions to countries to which trade restrictions apply (such as Iran and Syria). However the policy was not rooted in G's processes, procedures and controls. This meant for example that shippers were not asked if they were trading strategic goods, the company's systems did not identify shipments to countries which were subject to sanctions and that trading partners were not screened. The American authorities launched a large scale investigation into G. The result of this was that G received a large fine for its involvement in transactions with countries and parties which were subject to sanctions, was temporarily placed on a blacklist and had to endure compulsory improvement measures and external audits.

Positive example

Design of tax monitoring framework minimises risk

The policy of transport and logistics company H is that all fiscal risks must be captured in a tax monitoring framework. Within the framework of horizontal supervision arrangements were made with the tax authority. All procedures and checks surrounding customs, VAT, income tax and corporation tax are recorded. Gaps in the checks were eradicated. As the next phase of horizontal supervision the accountant was asked to carry out periodic monitoring via detail checks on transactions. The results of this monitoring are shared with the tax authority. As a consequence of this H is no longer exposed to unknown fiscal risks.

RECOMMENDATION 4: Make knowledge of laws and regulations a priority

Operators

- Ensure professional risk management in the area of laws and regulations. Periodically assess amended regulations and evaluate their consequences. Establish the risks and determine how those risks can be reduced. Do not hesitate to engage specialists such as lawyers, tax advisors and accountants.
- Appreciate that any change or expansion of activities has consequences for the number of laws and regulations which must be complied with. Before any decision is taken create an inventory of the potential consequences.
- Take into account the potential loss of image which the sector will suffer if use is made of discrepancies in international laws and regulations which society may consider to be unethical.

Sector organisations

- Lobby with the government for more international harmonisation of laws and regulations and for adequate supervision of compliance with regulations. Insufficient enforcement has created an unlevel playing field as a result of which offenders gain an advantage.

Signal 5 |

Specific sector knowledge essential for accountants

The multitude of laws and regulations in the international world of transport and logistics is not only of importance to the operator, but also to his accountant. Thorough sector knowledge belongs in his basic toolkit, both in his role of auditor or preparer of the annual accounts and as advisor to the operator in difficult times.

In further detail

The margins in logistics service provision often bear no relation to the value of the goods which form part of that service. This can result in large claims if something goes wrong. Depending upon the clauses in the contract the logistics provider can be held liable for breakages, loss or even the theft of the goods. Detailed knowledge of the contract and the relevant laws and regulations is essential, both for the operator and his accountant. It must be established if the risks are insured or can be borne by the company. This is important to the operator to enable him to run his business properly; for the accountant to establish what the consequences are for the annual accounts. For example the accrual of a provision or the reporting of risk information in the executive directors' report.

The aforementioned indicates that the accountant must have at its disposal thorough knowledge of sector-specific laws and regulations and contracts. He must also know who his customer is and what logistical services he is providing. To gain knowledge of the company and its environment is necessary in order to be able to estimate the relevant risks. This may occur for example prior to a contract, by discussing the customer's risks and characteristics with sector and trade specialists, such as a lawyer specialising in transport law, a VAT specialist or a customs expert. It may also be worth considering adding such specialists to the accountant's permanent team.

Because it is difficult for small audit firms to have overall expertise in these areas, specialisation may offer a solution.

The accountant not only fulfils the role of auditor or preparer of the annual accounts but also that of advisor and first point of contact for the operator. This requires not only a professional-critical outlook but also sector-specific knowledge. For operators it is important that the accountant can act as sounding board and discussion partner in the area of laws and regulations. If the accountant himself possesses this knowledge or can engage a good specialist, the operator does not have to seek this knowledge externally. In addition to this the accountant can apply his knowledge to focus not only on the financial side of the company but also on its operational side. For example, are the logistics services provider's plans and automation in order? Does sufficient checking of the completeness of invoicing take place? What is the position concerning the management of debtors and liquidity? The accountant will critically engage the operator if he puts forward an ambitious future plan, raise questions about unachievable investment and even place the future perspective of the company on the agenda. Timely consideration of the course of the company can prevent financial problems in the future. There are usually sufficient alternatives available. The accountant's independent information and position alone yields a great deal of goodwill for the operator. It ensures the deepening of the client relationship if the accountant advises on the course of the company and looks beyond historical figures alone.

Negative example

Wrong emphasis in debtor control

Logistics service provider I is active in forwarding and warehousing. Accounts receivables arising from warehousing represent the majority of the item debtors in the annual accounts. In his audit the accountant therefore spends a great deal of time in ascertaining the completeness of this item. Because I has full security over the goods in the warehouse the risk of uncollectability of debts arising from warehousing is very low. For a forwarding debtor however it appears that relating to a ten month old debt they invoke the time limit as incorporated in the FENEX conditions. Incorrectly, no provision for this was included in the annual accounts so that these contain a material error. If the accountant concerned had had sufficient knowledge of the specific laws and regulations and I's relevant contracts, the accountant could have focused his activities more on the debts arising from the forwarding activities and that material error could have been prevented.

Positive example

Engagement of VAT specialist

Various VAT rules apply to the different types of activities undertaken by logistics services provider J. In view of the complexity and constant changes in laws and regulations the accountant added a VAT specialist to his team. This specialist tested the various activities and established that various issues had not gone well and that there was inconsistent handling of identical activities. J received a recommendations report so that the issues could be correctly addressed. J subsequently instructed the VAT specialist to set up an invoicing schedule which would ensure that no mistakes would be made in the future. For the audit of the annual accounts the risk of non-compliance with VAT laws and regulations has been reduced now and in the future.

RECOMMENDATION 5: Accountant, know your client!

Accountants

- Ensure adequate knowledge of the business and its environment, relevant laws and regulations and specific contracts and agreements. On that basis create an extensive risk analysis before starting the assignment. Consult not only the executive directors, but also specific employees in the company. Examples are company lawyers and employees responsible for customs processing and VAT declarations
- Use knowledge of the sector to advise about the operational side of the business. Examine critically issues which do not directly affect the annual accounts but which are important for continuity. Place the future path of the business on the agenda annually and assist the client in calculating alternative future scenarios.
- In the audit of the annual accounts make use of information from external sources, such as a lawyer's letter (statement from the in-house lawyer) or a statement from customs concerning outstanding UTB's (Request for Payment).
- Consider at what time specialist expertise needs to be utilised. This may be the case at the start of the assignment, during the audit when on-site observations are made or during discussion of the draft annual accounts. In addition to the reduction of risks this also delivers value to the client. Specialists can be utilised on a temporary basis or can be part of the accountant's permanent team.



Summary of stakeholders' responses

Four stakeholders in the Transport and Logistics sector, two jointly, have responded to the public management letter at the request of the NBA and their responses have been incorporated in their entirety in the Dutch PML. What follows is a brief summary:

NIWO (Organisation for National and International Road Transport)

The NIWO is pleased to respond to the PML, as road transport is one of the sub-sectors which is central to the PML. The NIWO's statutory task is to issue community permits for this sub-sector. The response must be viewed in the light of this key task. The sector is experiencing difficult times. The trend of the increasing number of bankruptcies is not yet being seen amongst permit holders, however what can be seen is that the creditworthiness requirement when extending the permit is becoming a stumbling block. The NIWO understands the signal that it is sometimes better to change course or even to cease. The role of the accountant is more crucial than ever in this. The role must not only reflect the financial situation but must also be advisory. The other signals are also underlined. The developments in the sector are happening at breakneck speed, but it is nevertheless advisable to stand still for a moment and think about the future. The signals and recommendations in the PML are a step in the right direction. The NIWO can play an important role in this, alongside TLN, FENEX and ABN AMRO.



TLN (Transport and Logistics Netherlands) and FENEX

TLN and FENEX support the initiative to gather relevant information about the Transport and Logistics sector and to distribute it amongst NBA members. This will lead to potentially improved service provision. TLN and FENEX recognise the general picture outlined, but emphasise that, despite the economic circumstances, there are operators who are succeeding in gaining market share and maintaining turnover and profits through innovative concepts, new services and the application of ICT. The sector's image has also been considerably improved by various campaigns. TLN and FENEX are in broad agreement with signal 1, but do not envisage a role for itself in arriving



at a collective solution to overcapacity. The market must be allowed to do its job. Signal 3 is less acknowledged. Operators are involved in innovation and sustainability, not only as a result of the authorities and society in general. An example of this is the Dutch vehicle fleet which is one of the cleanest in Europe. The recommendations of signal 3 are indeed acknowledged. In the remaining signals and recommendations TLN and FENEX are of the opinion that, where reference is made to the accumulation of specific sector knowledge by accountants (signal 5), this must not be a charter for accountants to acquire that knowledge at the expense of operators. TLN and FENEX are very willing to enter into further discussions in order to contribute to the development of accountants' knowledge via the NBA.

ABN AMRO

ABN AMRO expresses its thanks to be able to provide a contribution to the PML and to associate itself with the signals and recommendations as described. Not only is knowledge of the market essential, but also the ability to adapt swiftly to changing circumstances and the need to realign strategy are at the top of the agenda. The continuing period of economic downturn is severely testing operators' qualities. The financial resistance of many businesses has declined sharply. The new reality requires a change in behaviour by many operators in the Transport and Logistics sector. The olden days have definitely gone!



Credits

Knowledge Sharing in Transport and Logistics

In the NBA Knowledge Sharing policy programme the expertise of accountants is collectively applied to signal risks early in social sectors. In doing so the accent is on management risks to do with the control of financial and administrative affairs. In this public management letter (PML) the NBA is presenting five signals and recommendations to stakeholders and interested parties in Transport and Logistics. The transport and logistics sector is the tenth theme selected by the Signalling Board of the NBA. A working group of public accountants in the sector gathered anonymised findings and discussed them. This was then discussed at a meeting with stakeholders. The Identification Board then applied a social assessment to the signals. Sector organisations and other stakeholders in the sector were willing to respond in writing to the PML. Coordination and final editing was provided by the Knowledge Sharing programme team.

More information

A public management letter is one of the publications from the Knowledge Sharing programme. The NBA previously published public management letters about Insurance (June 2010), Long-term Care (November 2010), Commercial Property (June 2011), Greenhouse Horticulture (November 2011), Local Authorities (June 2012), Charities (December 2012) and VET colleges (April 2013). An open letter about Pensions (February 2011) and a discussion report about Tone at the Top (September 2012) have also been published. All publications are public and are intended for a broad audience.

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