



NEWS

The Newsletter of The Society of Professional Accountants

..... *Strength in Numbers*

July 2003

Issue 35

HIGHLIGHTS

Audit Threshold Consultation

Golf Day Results

Wills

Money Laundering - Time for Action

DTI Launches Audit Threshold Consultation

SPA's report 'The Beneficial Impact of Raising Audit Thresholds' was widely quoted in the DTI's consultation document published this July. Chairman Peter Mitchell says 'It is very encouraging for the Society's members to see our messages reaching Government; our relationship with the DTI has been building steadily in recent years and we welcome their recognition of the professional manner in which the Society conducts its business'.

SPA's Executive Summary follows – a full copy of our Report can be found on our website at www.spa.org.uk or on request from the Office.

EXECUTIVE SUMMARY

- **SPA's 2002 and 2003 Surveys Provide Positive Feedback**

The findings of recent surveys have reinforced SPA's earlier opinion that there was little to be feared from raising audit thresholds for private owner/managed limited companies where no public interest existed, conversely that real savings have been obtained:

- **Benefits to the Accountancy Practitioner**

Introduction of the higher audit threshold of £1M has generally been warmly received by smaller practices, the large majority of whose fee income has risen despite fewer audits being undertaken.

- **Benefits to the Corporate Client**

The transition has been unremarkable in terms of encountered difficulties, with corporate clients benefiting from lower annual professional charges and better use of managerial time.

- **Little Evidence of Detriment to Third Parties**

Extremely few instances were noted of problems experienced by third party users of accounts of companies not now audited.

- **Opportunity to Increase Threshold to EU Level of £4.8m**

There appear to be few persuasive commercial, professional or statutory arguments why the European threshold of £4.8m should not be introduced, together with the evident economic benefits that would then be provided to small companies affected of perhaps £100m

p.a. in reduced professional charges; the opportunity remains for statutory audit to be performed voluntarily or on demand for third party interests.

- **Benefit of Appointing a Professionally Qualified Accountant (PQA)**

- SPA would prefer that, to ensure continuity of compliance with Accounting Standards, Company and Taxation Law relating to small limited company accounts, a PQA should be appointed to every limited company before it commences trade and that this appointment should form part of Companies House Annual Return information.

- Given the ethical and technical standards PQA's must maintain, together with adequate professional indemnity insurance and annual regulation, such an appointment should provide consistency and reliability of all corporate accounts whether audited or not.

- **Uneven Playing Field Remains**

It appears to SPA that the general public remains largely unaware that unqualified or unregulated 'accountants' may be providing their accountancy or taxation services, which cannot be in their best interests, and SPA would prefer that all such 'practices' be licensed and subject to regulation to ensure acceptable minimum standards are maintained, namely:

- Liability insurance is maintained

- Continuous technical training is undertaken

- **Small Charities and Non-Profit Making Organisations**

It appears that savings in avoidable audit fees may be more widely available should such organisations change their written rules or constitutions.

Golf, Prizes - and Surprises!

A somewhat (!) rainy morning failed to dampen the spirit of those attending this year's Golf Day including SPA's 2000th member Nigel Reynolds and Jayne Stubbs (IRPC) amongst new and old acquaintances plus representatives of our generous sponsors. The afternoon was warm and dry and the usual crop of incredulous scores saw Michael Howard win the Chairman's Cup (sponsored by SBJ Stephenson), with Robin Chaventre and Neil Kingon excelling to collect the 'Odd Couple' trophy (sponsored by Roy Pink & Co), and guest Adrian Wood picking up the Challenge Cup (sponsored by FT Interactive Data). Our sincere thanks to other sponsors on the day namely, Financial Management, IRPC, MSL Graphics, Gerald Hill and Mercia Group Limited.



To the huge amusement of all - except for your embarrassed Chairman - an early (60th!!!) birthday cake or two were wheeled out and suitably 'sung in' (Revenge is a dish best served cold, said Daphne, remembering a similar humbling occasion (her 50th) at SPA's November 2002 AGM!)

See the back page for more photos of the winners collecting their prizes

'Adviser' Article Submitted to Accountancy Age

Your Chairman's latest monthly epistle submitted for 17 July publication follows.

AN ALTERNATE ROUTE TO SMALL PRACTICE SUPPORT

The Existing Market

Our market place is populated with disparate small professional practices sometimes living cheek by jowl with their neighbour whilst blissfully ignorant of the others existence. If you accept that largely we professionals do not compete against or steal clients from one another, is it possible to envisage a society of professional practices working together in given situations? Could such a society exist?

SPA has previously said that the general public perceive little distinction between the principal accountancy Institutes, and here the public is correct as we all provide much the same services whilst maintaining similar standards – whether ethics, continuous training or indemnity insurance; SPA maintains no amount of corporate advertising, branding or kite-marking is likely to achieve lasting distinction for any one Institute.

Whilst in an idyllic world all principal accountancy Institutes would come together under one umbrella, e.g., 'The Institute of Professional Accountants', this is unlikely to happen in the short term despite the fact that increasing numbers of mixed practices exist.

Alternates Today

The vast majority of professional practices by number remain sole practitioners, and for several years how such individuals might be linked up with an alternate for registered areas of work – audit, financial services and receivership – has taxed many expensive minds. Usually this entails complicated agreements plus other legal documents which fortunately, and infrequently, get put to the test as the circumstances where alternates are called into action are rarely found.

And Tomorrow?

An alternate for regulated work is only one area where assistance might be sought – or provided but is it conceivable to include 'locums' in such arrangements – and what about those shrinking audits – could sole practitioners or small practices link up to provide 'resources' in these areas? How might such a scheme work? How could it be funded?

For 'locums' a parallel may be drawn with the medical profession where, when your doctor is away, an entirely unknown but instantly trusted replacement tends to

your needs. 'Resources' might be practices or practitioners who, because of their specialism or workload, are able to provide paid support to their colleagues.

It is envisaged initial funding might be subscription based to cover emergency alternate needs but, to work effectively, alternates (or locums) should know what to expect the moment they reach your office - and this would place a discipline on all participants in terms of maintaining similar practice management routines.

Proposed Research

This autumn SPA intends to carry out specific research on such support amongst its 1500 practice members and smaller practices elsewhere, with a questionnaire available from SPA's website for those non-ICAEW practices wishing to take part. SPA regards this work as a significant area of development and hopes many practitioners beyond SPA's membership will participate in this attempt to drive our noble profession forward.

It is intended to publish findings in the Spring 2004 when, if demand and resources have been located, a start will be made to set up an Alternate Society later that year.

Ed: Do let us have your comments on Peter's article and, if you aren't already on their list, request your free copy of Accountancy Age from www.vnustubs.co.uk/accountancyage

SPA PII Scheme remains value for money

Comparison with that just launched by ICAEW through AON confirms the quality and breadth of our scheme – particularly now that fewer providers remain in the market. If you haven't yet obtained a quote from SBJ Stephenson, look at page 19 of the Handbook to remind yourself what is on offer – it must be worth a telephone call to find out!

Where there's a Will .. there's less IHT

Proper and timely estate planning is frequently overlooked, says Bruce Boswell of Chancery Law Group, whose article follows and whose firm's leaflet is enclosed. It is vitally important we practitioners remind and cajole our clients to make appropriate arrangements as tax savings can start at £100K for a married couple!

ACCORDING TO AN NOP SURVEY CARRIED OUT IN 1998, ONE IN THREE ADULTS IN THE U.K. DIES WITHOUT LEAVING A WILL. THE FINDINGS WERE LITTLE DIFFERENT FROM A SIMILAR SURVEY CONDUCTED A FEW YEARS EARLIER BY MORI, WHICH DISCOVERED THAT ONE IN FIVE PEOPLE WHO HAD BOTHERED TO MAKE A WILL FAILED TO UPDATE IT AS THEIR CIRCUMSTANCES CHANGED.

People avoid making Wills for a number of reasons. Some find the very idea of their mortality so hard to bear that they cannot face being reminded of it. Others reckon Wills simply aren't worth the effort because they have little or nothing to leave, or because their wishes are too obvious to require a written explanation. They may, for instance, intend to leave all their assets to one person - a spouse, say, or an only child. They tell themselves that their nearest and dearest are already well aware of this, so why bother to pay good money to a lawyer simply to write it down in official language?

One view of Wills is that they are for people with a lot of money who need to find ways of avoiding Inheritance Tax (IHT). But avoiding tax - while extremely important for those likely to be affected - is by no means the only reason to make a Will.

For a start, if you die "intestate" (without a Will), your estate will be that much harder to wind up and, if you have not named an Executor, the job goes to your next of kin, who may be completely unsuited to the task. If there is no Will, your assets are shared out as the law dictates, which could be very different from what you had intended. For instance, if you are married, you may assume that without a Will your spouse automatically inherits everything. Think again - if you have children, your surviving spouse gets the first £125,000 and a life interest in half the remainder, your children get the rest. If you are childless, your surviving spouse may indeed inherit everything - but only if they have no in-laws.

If you are unmarried, dying without a Will becomes very complicated indeed. You and your partner have no automatic right to each other's possessions. You can, however, under the 1996 amendment to the Inheritance (Provision for Family and Dependants) Act 1975, claim a share of the assets if you were living together throughout the two years immediately prior to your partner's death, but this concession still gives only limited rights to cohabitants.

continued overleaf

If you cannot fulfill that condition, you may still be able to claim support from your deceased partner's estate, but only if you can show they were partly or wholly supporting you before they died. Unfortunately, your claim will have to be considered by the courts, which is a lengthy and costly exercise.

Wills also allow you to name Guardians for children aged under 18, although for unmarried couples this too can be difficult. Less importantly, but still well worth thinking about, Wills enable you to leave treasured possessions to those who would appreciate them most, or make small bequests for services rendered - or to leave sums to favoured charities. Be careful if you do intend to leave money, as if your only asset is your home, will you want it to be sold simply to pay a legacy?

An amazing number of people are totally unaware of how much their possessions are worth, or fail to take account of their eventual value when they die. Until recently, relatively few estates attracted Inheritance Tax. But, because of soaring house prices, this situation has changed radically over the past few years, particularly in London and the South.

When you die, your heirs pay 40 per cent IHT on everything you leave above the first £255,000 (in the 2003/2004 tax year). Average property values have risen by over 60 per cent in the past five years, but the Nil Rate Band (the amount you are allowed to leave free of Inheritance Tax) has risen by just 16 per cent over the same period.

According to recent estimates, the sharp increase in property values and the much slower rise in the Nil Rate Band has left around 1.4m homeowners vulnerable to IHT. This means that many people who would not consider themselves even remotely well off, are actually in grave danger of inadvertently leaving their heirs with a totally unexpected tax bill, which will have to be paid before Probate can be obtained.

Another area in which a properly drafted Will and thorough Estate Planning can help is to protect your home and other assets from hostile creditors. Providing that you take the right steps well in advance of knowing that you are getting into financial difficulty, or that your health is deteriorating, you can successfully prevent your creditors from selling your home, or a Local Authority from doing the same to pay for your Long Term Care costs.

Whilst Inheritance Tax is payable at 40% of everything you leave above £255,000, Long Term Care charging is levied at 100% on everything you have above £19,000.

On no account, simply give your home or other assets to your children. Without the proper binding legal arrangements, it will leave you unprotected if they get into financial difficulty, get divorced, or simply want to get their hands on your money. It can also expose them to both Capital Gains Tax and Inheritance Tax.

There are countless ways of sheltering possessions from both your creditors and the taxman's grasp. Some are extremely simple, others inordinately complicated. Some are tried and tested and work every time; others have been devised by clever specialists but have never been approved or tested in Court.

Many of these arrangements involve the use of trusts. If properly drafted, these can save you and your beneficiaries a fortune. If not, they can create more problems than they solve. The secret is to make sure you always get the best advice. Money spent on getting it right the first time can save a fortune in the end, but whatever you do, always consult a professional who specialises in Estate Planning.

Finally, while you are making a Will, any professional worth their salt is likely to suggest that you also set up an Enduring Power of Attorney (EPA). In simple terms, an EPA is where you nominate somebody (Usually your spouse, partner or children), to speak and act upon your behalf, if you become physically or mentally incapable of doing so yourself. You should choose someone that you trust implicitly, and who you consider the most likely to take the actions that you yourself would have taken in the same situation.

SUMMARY

1. Always seek the advice of an Estate Planning professional unless your requirements are extremely simple and you have little to leave.
2. Inheritance Tax planning requires specialist help. Be extremely wary of Will-writing services and IHT avoidance techniques that have yet to be approved or tested in the courts.
3. Simply giving your property to children won't protect you from hostile creditors. It can leave you exposed and create unnecessary tax bills.

For further information on Wills, Trusts & Inheritance Tax, please contact Bruce Boswell on 08452 300 900.

Business Failures Increasing?

Providing relevant support to clients whose businesses are in difficulty usually means bringing in experts. Enclosed is a leaflet from Begbies Traynor outlining current market conditions and the services they can provide to SPA members..

Money Laundering Regulations – Time for Action!

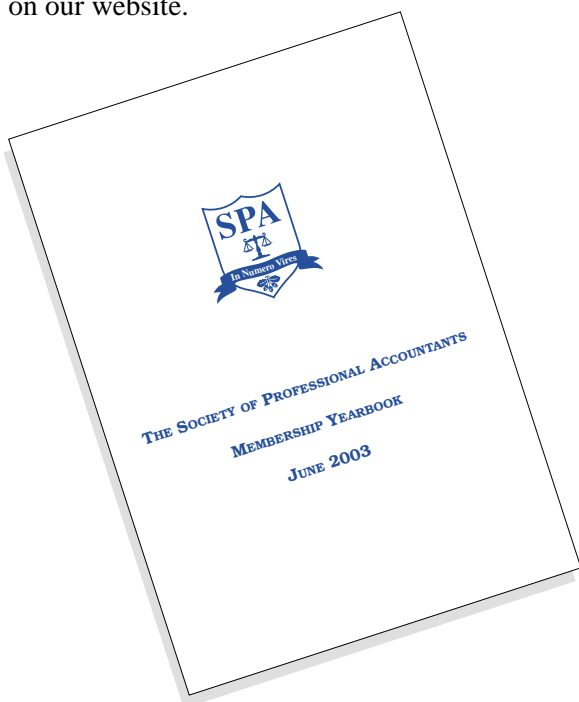
The implementation date of mid September is but a few short weeks away and, with no sign of any softening to the extreme regulations tabled, it seems we might do well to take matters into our own hands – especially when Ireland has announced the minimum reporting level of 2000. Attached is a draft letter you may wish to consider copying onto your letterhead and sending to you local MP today. The more attention we can draw to our plight the sooner the concessions may arrive – it is in all our interests to act now!

8th AGM 28 November – Get Involved

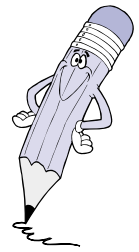
Diary the date now – details of the venue and CPE will follow. Remember, if you wish to join the Steering Committee this is your chance – please give it some thought. (see Handbook pages 174 and 175).

2003 Membership Yearbook

All of you should have received your copy – contact Daphne if yours didn't arrive. Members joining after the cut off date of 31 May will find their details on our website.



Letters (and emails)



'Sage' Support Hard to Find

"We are writing to express concerns regarding your apparent proposals for software support in the future.

Two members of staff in independent contact with your software support have been advised that we should upgrade to Windows XP as you intend ceasing support for software operating under Windows 98 later this year.

Would you please indicate your intentions for the future and confirm that you will continue supporting Windows 98 for years to come? LA

... and the reply from Sage

'I can confirm that we are still supporting Windows 98 SE for the foreseeable future. We can continue to support the functionality of a product on a non recommended operating system (Windows 95) however, if you encounter any specific or repeated operating difficulties whilst using an operating system which is not recommended by us, we will be unable to provide support assistance in terms of fault diagnosis and correction hence the minimum recommendations we provide with all our software. It trust this answers your query sufficiently.'

LA – 'not really!'

Re: Practice Society

"Having just read your April Newsletter, I must say that I share NW's cynicism about the Practice Society. My main objection is quite simple. Why should I pay the Institute an additional £60 to support me, on top of the already exorbitant fees I already pay? Am I being naïve in thinking that my own Professional Organisation should provide me with support as part of my normal membership package". AB

Ed: If you have joined the Practice Society, please let us have your views on its intentions, support and value.

GOLF SHOTS



Nigel Reynolds (2000th Member) receives the Chairman's Cup runner-up prize



Michael Howard collects the Chairman's Cup from Daphne



Adrian Wood - Best Guest



Robin Chaventre (L) & Neil Kingon - Odd Couple winners



Cause for celebration?