



..... Strength in Numbers

SEVEN YEARS OF INDEPENDENT PROGRESS

SURVEY AND REPORT

DECEMBER 2002

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SEVEN YEARS OF INDEPENDENT PROGRESS

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Whilst the views expressed in the report do not purport to be representative of all small practitioners, they are the views of a large and significant number of practitioners and, in the absence of any measurable negative attitudes to SPA, it may be reasonable to accept that they are representative of the majority.

1. EXECUTIVE SUMMARY

SUBSTANTIAL PROGRESS OVER SEVEN YEARS - PAGE 3

- Membership approaches 1500 individual practices and 1700 members
- Good two-way communication established
- Regulatory and disciplinary support provided
- A harmonious, supportive and trusting community is emerging
- Institute disciplinary process reviewed
- Technical contributions widen:
 - Companies Act simplification supported
 - Accounting Standards simplification (FRSSE) supported
 - Financial Market & Services Act 2000 challenged
 - Direct involvement in Practice Assurance development

PRACTICE PROFILE - PAGE 4

- Sharp reduction in audit and investment registrations
- Small practitioners thrive with few reporting lower incomes
- Number of client claims remains very low
- Utilisation of E:technology increasing steadily
- Most have appointed an alternate but few a Power of Attorney

PRACTICE ASSURANCE - PAGE 5

- Little or no benefit to practice or clients perceived
- Huge concern voiced through over 200 commentaries
- Early proposals authoritarian and lack sensitivity
- Timescale to complete proposals appears inadequate

INTERFACE WITH OUR INSTITUTE - PAGE 6

- Very disappointing progress
- Institute structures lack Council presence

SPA SUPPORT SERVICES - PAGE 7

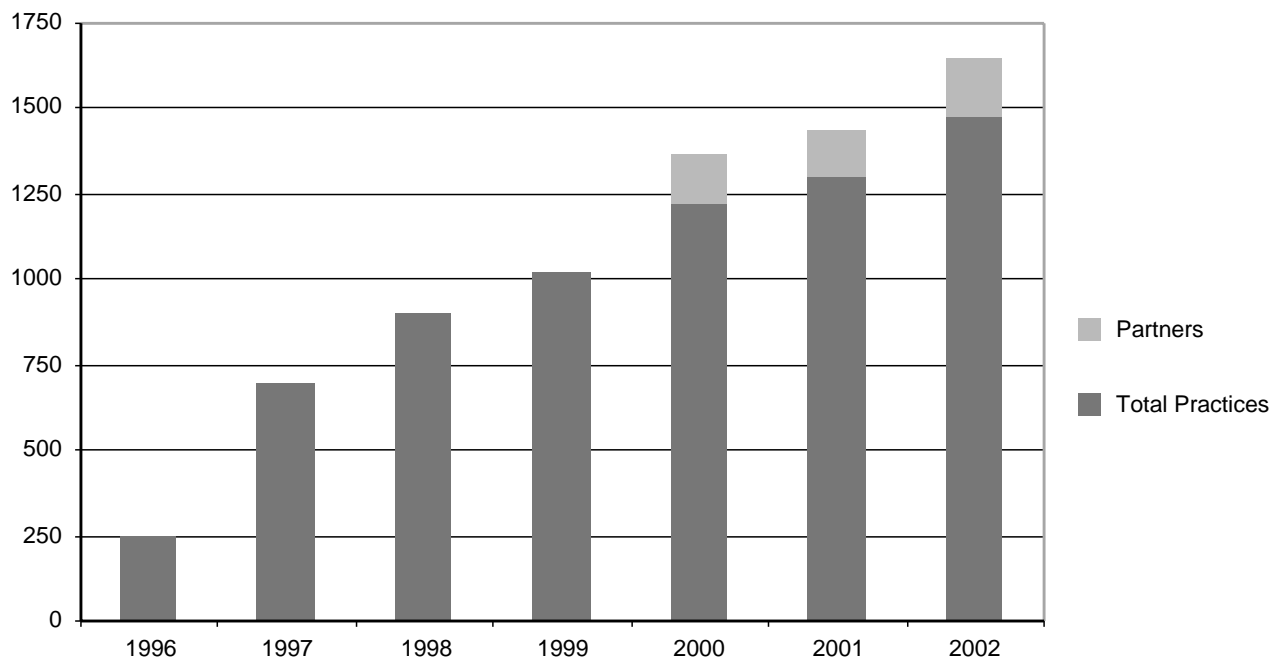
- Wide range of economic services and support provided
- Consistent level of member appreciation noted
- Ongoing programme of development

2. INTRODUCTION - ACHIEVING OUR OBJECTIVES

2.1 SPA is a wholly independent association of professionally qualified accountants in smaller practices, and this report follows up the circumstances prevailing within small ICAEW practices as noted in SPA's earlier report of September 1996.

2.2 In 1996 an objective was set to encourage our Institute to provide economic support services to small practitioners. Little Institute progress has been noted, however support obtained from SPA members for an increasing range of services ensures that SPA will continue in this role for the foreseeable future.

2.3 A second informal objective was to achieve a membership of 1500 practices – SPA is on the brink of reaching this milestone, with total membership including partners nearing 1700 individuals.



2.4 Of equal significance is SPA's independence, enabling it to challenge Institute policy and also submit views to others influencing small practitioners' working environment; commentaries are provided to the accountancy press and a professional relationship has been established with both the DTI and Company Law Reform Group. Accounting concerns have been discussed with both the Accounting Standards Board and the Financial Services Authority, and disciplinary issues debated with Hon M Beloff QC.

2.5 Input was specifically sought to the most significant development in 2002 - the proposed introduction of compulsory supervision of all unregulated work carried out by ICAEW practitioners. Results obtained from this section of the survey have already been published given the speed of development of this issue by our Institute.

2.6 The first years of SPA's existence under the banner name of 'Small Practitioners Association', have created a robust structure within the community of small practitioners. Certain SPA services benefit clients, staff and families - it is possible a brand may be emerging. In the months ahead, SPA will explore whether its influence and market can be extended under this banner.

2.7 In this connection the AGM held in November 2002 approved a broader Constitution together with a change of name and, to the future SPA will be able to accept practitioners from other accountancy

Institutes. From January 2003 SPA will call itself ‘The Society of Professional Accountants’ speaking to its core purpose and providing a more meaningful name to the general public.

3. PRACTICE PROFILE - A THRIVING COMMUNITY

3.1 SPA’s membership has attracted smaller practices of up to 5 partners but predominantly comprises sole practitioners. Members may now be found throughout the British Isles.

Total Member Practices	1477
Of which	
Sole Practitioners	1358
2 Partners	85
3 Partners	25
4 Partners	7
5 Partners	2

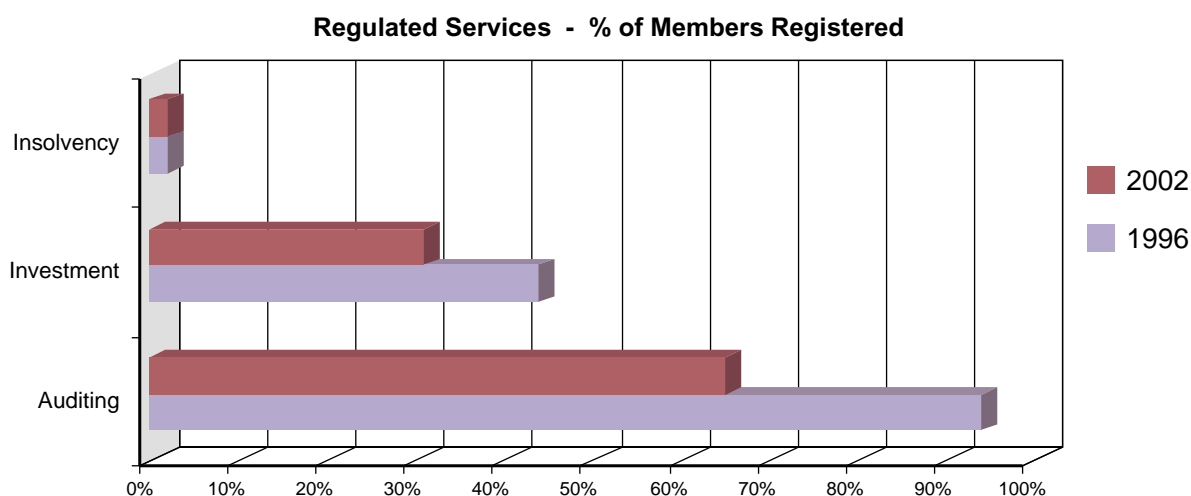
3.2 Regulated Activities – Audit

In the last seven years the most significant activity change has been a huge reduction in small company audits following the raising of the turnover threshold from £350K to £1m. Amongst SPA members a reduction of 30% in audit registrations has followed, which is likely to continue as a trend - particularly if the anticipated higher threshold of £4.8m is introduced in coming months.

3.3 Regulated Activities - Investment

Given practitioners’ detailed background knowledge, they remain best placed to provide independent investment advice to clients, however in the same period there has been a similar reduction in investment registrations as smaller practices continue to shun what has been a hazardous area of activity.

In retrospect this appears to have been a wise decision given the turmoil in quoted investment markets and appalling record of mis-selling of insurance companies’ ‘products’.



3.4 The introduction of the Financial Services & Markets Act 2000 seemed uncertain in respect of requirements when dealing with shares of unquoted private limited companies; some members – but evidently not many – took out ‘preventative’ registration.

- 3.5 Analysis of practice income statistics received showed only 10% of members reporting declining fees – including those running down their practices - and appears to bear out SPA’s earlier statement that, for small practitioners, audit was time consuming and less profitable, and that time released would be taken up by extending other more valuable services to clients.
- 3.6 On average each practice:
- employs 2.5 staff
 - manages just over 100 business clients
 - 1% experienced a claim paid through professional indemnity insurance
 - 4% participated in ICAEW research
 - 80% are using e:mail
 - 30% have a website
 - 40% are interested in practice management software
- 3.7 For practitioners:
- 65% have appointed an alternate
 - 20% have put a Power of Attorney in place
 - 85% have made a will
- 3.8 The small practitioner remains a most trusted confidant of small business clients and the individual, drawing on long experience to guide or advise on a wide range of commercial or personal circumstances, and demands for their services are tending to increase.
- 3.9 The health and resilience of small professional practices has held steady or improved during the last 7 years, up to date information technology is being embraced, and the future may be faced with confidence - irrespective of economic or fiscal change or adverse publicity at national levels.

4. PRACTICE ASSURANCE - WHOLE PRACTICE REGULATION PROPOSALS

- 4.1 Whilst insufficient time was available last December – even for the few Council members remaining in the Chamber - to discuss fully the proposal to consult on Practice Assurance, the somewhat zealous subsequent approach by our Institute - following its peremptory announcement of a compulsory scheme - suggested a ‘come what may’ determination to force the issue through in an authoritarian and insensitive manner; effecting modification to Institute proposals has proved an uphill battle.
- 4.2 Our Institute’s initial consultation process was conducted wholly through a web-based survey, (which at a stroke disenfranchised several thousand small practitioners most affected - those who did not use email) and engendered a very strong negative response with over 200 unsolicited commentaries sent to SPA:
- no obvious benefit to clients or practice perceived
 - it would not enhance our reputation in the High Street
 - it would not provide us with a competitive edge
 - it was perceived as intrusive, expensive, time-consuming bureaucracy
- 4.3 The disparity between SPA’s findings and our Institute’s published results underlined concerns with our Institute’s approach. Following an initial working party meeting in January 2002 involvement with the development process has been tenuous, with the Professional Standards Directorate seeming to

exclude or deflect attempts by individuals or representative bodies – SPA and GPP - to participate, however Council agreed in October 2002 this would happen and tri-party meetings are now scheduled.

SURVEY RESPONSES - WILL PRACTICE ASSURANCE BENEFIT OUR PROFESSION?

	SPA %	ICAEW %	As Published in <i>Accountancy</i> %
Definitely won't	62	22	
Maybe won't	19	57 (‘may possibly’)	77 (‘will definitely/ may possibly’)
Don't know	11		
Maybe will	5		
Definitely will	3	20	

4.4 The timescale set requires Council to approve the scheme in February 2003, but this appears to leave insufficient time to develop, test and pilot study currently part-formed proposals

4.5 SPA has provided frequent updates and briefings to its members and Council from the practitioners’ point of view, and will continue its dialogue with its members and our Institute in its efforts to ensure a viable, economic scheme emerges.

5. INTERFACE WITH OUR INSTITUTE – GETTING CLOSER TO MEMBERS

5.1 An early stage of SPA’s liaison with our Institute was through the then General Practitioner Board, but this proved short-lived given the GPB’s unwillingness to promote SPA’s proposals plus its lack of presence at Council; SPA withdrew in 1998 and this body was discontinued in 2000

5.2 Election to Council in 1997 was secured by SPA Chairman Peter Mitchell, who has been joined since by three other SPA members, enabling direct access to our Institute policy makers and officers

5.3 SPA has been invited to join the GPB’s similar replacement body, the General Practitioner Panel, and attends quarterly meetings to liaise on subjects of mutual interest. Additionally SPA was invited in 2002 to help assemble a proposed Practice Society, but this was declined as to accept would be akin to turkeys voting for Christmas!

5.4 Whilst opportunities have been taken to become involved in debates affecting our practicing environment, encouraging our Institute to participate in the provision of support or services for small practitioners has proved much more difficult.

- Proposal for a General Practice Faculty presented in August 2000 were not supported
- An attempted SPA initiative with the designers of a possible Practice Society in 2001/2002 to adopt or adapt already successful SPA schemes was declined

5.5 As such, whilst considerable progress has been achieved by SPA, there has been little change in Institute services or support, with members responses to the Institute’s strategic intent in the period ‘Getting Closer to Members’ reflecting deep disappointment that their needs and the Institute’s offerings to date remain far apart.

ACCORDING TO YOU OUR INSTITUTE ...

	EXTREMELY OR VERY WELL	NOT AT ALL OR VERY LITTLE
	%	%
Understands our needs	2	81
Includes us in consultations	4	79
Reduces our burden of regulation	1	94
Improves our public image	3	83

6. SPA SUPPORT AND SERVICES

6.1 In its seven years of existence SPA has slowly but steadily increased the range of economic services and support mechanisms for members. SPA can be justifiably proud that its growing presence has attracted some of the best known national names, amongst which are:

- Norwich Union - Professional Indemnity Insurance and Stakeholder Pensions
- BUPA - Private Health Care
- Financial Times - Quoted investment information service
- Northern Rock - Equity Release scheme
- CCH Croner - Courses plus educational material and Fee Indemnity scheme

6.2 A feature of SPA's service providers is that they offer free technical helplines for their area of expertise, and participate in joint promotional exercises. Further services are constantly being appraised for introduction to members once a scheme is agreed. Key to securing such services is the identification and retention of an established broker for that particular activity, and SPA is indebted to the expertise such individuals have made available to its membership in what has proved to be a long and mutually beneficial relationship.

6.3 Other Areas of Support:

- On regulatory matters SPA can offer the services of a retained ex-JMU consultant
- On legal matters SPA's counsel Dr Raymond Ashton may be consulted or provide representation at disciplinary hearings

6.4 Members have confirmed a high and consistent level of satisfaction with support and services provided

ACCORDING TO YOU SPA PERFORMS ...

	VERY BADLY/ NOT VERY WELL	EXTREMELY WELL/ VERY WELL
	%	%
In the consistency of its policies	2	64
In the quality of its communications	2	64
In its approach to our Institute	5	66
In the services it provides	2	67
In its dealings with others affecting our working environment	8	52

6.5 The underlying daily communication with members by post, phone, fax and e:mail increases steadily alongside rising membership, and places increasing demands on the small central team of administrators, Steering Committee and related communication costs. However, in each of the last seven years, funding has more than covered SPA's outgoings with annual subscriptions unchanged throughout at £80, and reserves at a healthy level to meet any rainy day needs.

7. SURVEY AND ANALYSIS METHODOLOGY

- 7.1 The target audience was those ICAEW practices having up to five partners, including those already members of SPA
- 7.2 A paper copy was posted to each practice with a Freepost return address
- 7.3 The questionnaire was designed to follow up progress of ICAEW small practitioners since SPA's first survey in 1996. Additionally to ascertain attitudes towards the proposed introduction of Whole Firm Regulation
- 7.4 The content of the questionnaire was approved by a senior manager from a major market research company
- 7.5 In all there were 1012 respondents to the survey of which
- 386 were non-SPA members
 - 626 were SPA members
- 7.6 Given the need to publish the findings on Whole Firm Regulation early these were independently checked by another market research company
- 7.7 Other analysis was prepared by an undergraduate assistant
- 7.8 Commentary has been provided by SPA Steering Committee members



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