

# Financial Accountant

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November/December 2016

# SKILLS-BASED VOLUNTEERING

## CHARITIES CAN BENEFIT FROM PROFESSIONAL KNOWLEDGE

## **TAX ADMINISTRATION**

HMRC's Connect software program will incorporate data from many sources. p8 NEGLIGENCE CLAIMS A guide to avoiding and dealing with professional negligence claims. p12 DISPUTE RESOLUTION An overview of differing solutions to the settlement of small business disputes. p14

## **BEST PRACTICE**

Advice from the IFA on client engagement and professional requirements. p28





## **INSIGHTS INTO IFRS**

KPMG's practical guide to International Financial Reporting Standards

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SWEET & MAXWELL

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Financial Accountant is the bimonthly publication for members and students of the Institute of Financial Accountants

for loss occasioned to any person acting or refraining from acting as a result of material contained in this publication.

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## COMMENT



## A very good year

he 2016 calendar year was filled with activity which saw significant growth for IPA Group membership. The 12 months to 30 June 2016 saw an 18% increase in our Australian market compared with the previous year; a 22% increase in new member admissions in our traditional international markets; and a 100% increase in new member admissions in China.

In relation to China, we successfully delivered executive accounting, tax, auditing and management training programmes for Chinese delegations from the Shanghai Institute of Certified Public Accountants, Beijing Certificate Tax Agents Association, He Nan Institute of Certified Public Accountants and Shanghai Certified Tax Agents Association in the head office. We also signed a membership recognition agreement with the Institute of Commercial and Industrial Accountants in Malaysia.

Throughout 2016, we conducted an extensive work programme to integrate functions and systems with back office support activities centralised in Melbourne to support our UK operations. This work has enabled us to leverage our extensive investment in information and technology platforms and provide a significant global pathway for members and potential members. This work has improved the Group's information and communication technology (ICT) capability while enhancing the member management system and delivering a revitalised website.

As part of our advocacy efforts, many of our submissions to government and standard and policy setters stemmed from policies developed as part of the IPA Deakin University SME Research Partnership which has now been expanded with the creation of the dedicated IPA Deakin SME Research Centre. An element of this development is that we have engaged three academics in the UK to work on research that will deliver policy positions for the enhancement of productivity of the UK small business sector.

As well as our advocacy work, the IPA Group is well represented in key global forums including the International Federation of Accountants (IFAC). Throughout the year I attended IFAC meetings as well as chairing the Professional Accountancy Organisation Development Committee (PAODC) of the Confederation of Asian and Pacific Accountants (CAPA) in India. The PAODC, a committee under the auspices of CAPA has a mandate to promote and facilitate the establishment and strengthening of professional accountancy organisations in our region in support of the public interest. I also represented the IPA in presenting to forums with the World Bank.

A considerable amount of preparatory work has been completed in relation to the Royal Charter over the past 12 months. In undertaking this work, it has become apparent that the process of applying for a Royal Charter is lengthy and resource heavy. It does however, remain an aspiration of the IPA Group to explore the viability and pursue a Charter.

There is no doubt that 2016 was a busy year for the IPA Group and I am looking forward to 2017 where we will grow with our members globally.

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Professor Andrew Conway FIPA FFA IPA Group CEO.

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## COMMENT

I am always interested in the opinions and experiences of members, so if you have something to share, please don't hesitate to email: johne@ifa.org.uk

## **Building for the future**

he year drawing to a close always provides a good opportunity to reflect on the progress and challenges the IFA has faced over the past 12 months. Joining with the IPA has given us access to new resources, enabling us to update many of our systems. This will have been most apparent to you with the ability to renew your membership online for the first time. We want this process to be as quick and simple as possible at what is a busy time in the tax year.

You will also have seen improvements with the launch of our new website. The fresh clean layout enhances a new structure making it easy to navigate and locate content. And we are adding new material all the time to help you provide a first class service to your clients, not only as their accountant but also as their trusted business adviser. Visit ifa.org.uk and follow us on social media for news and updates.

This year we've brought on board eight new business partners to complement our existing range of membership benefits. They cover fee protection insurance, loans, Excel training, support around tax and compliance, and ethics. Student numbers are up 10% on last year and we've recognised their needs by making some benefits available to them.

Your participation has been much appreciated as well. In October we asked for your help with two questionnaires: one on HMRC's Making Tax Digital (MTD) consultations and the other to feed into research by the University of Worcester on FRS102 and FRS105. Many of you shared your views and we'll be sharing the results from the research questionnaire in the new year. Your views helped inform our consultation response and we will continue to liaise closely with HMRC on the important subject of MTD and will arrange for HMRC to attend future branch meetings where possible.

Our annual conferences go from strength to strength with more than 200 members attending the conferences held in the Midlands and London which sold out a week early. I've been delighted with the positive feedback from both. Coupled with the anti-money laundering workshops, these events have helped keep members up to date with the important issues which affect us all in our wider role as trusted advisers.

Branch meetings also provide valuable opportunities to keep your knowledge up to date and to network with other professionals. Our branch chairs do a fantastic job. However, they need your support so please make the effort to go along to your next branch meeting. The dates, times and topic matters can be found easily at ifa.org.uk/events. There is also a short video showing how straightforward it is to register.

The Royal Charter remains an aspiration. As Andrew mentions in his piece there has been considerable preparatory work and this has laid good foundations for us to build on. However, before we proceed we are keen to consult with you in 2017 to seek views on the appetite for a Charter and to help us shape where our Group focus lies.

I wish you all an early happy Christmas and a prosperous New Year.

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John Edwards FFA FIPA IFA CEO.



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## **QUICK VIEW**

## SOING DIGITAL

The consultation on Making Tax Digital has recently closed, but advisers should start to think of the implications for clients.

page 10

#### **HOME SWEET HOME**

Working from home has lifestyle advantages but also requires discipline.

page 20

#### **MAN ALTERNATIVE APPROACH**

How would a practice or business cope in the event of serious illness or death? Is there a back-up plan? page 27

#### REGULATORY

## **Autumn Statement**

The Autumn Statement will be on Wednesday, 23 November 2016. The British Chambers of Commerce have called on the government to pursue measures that incentivise business investment, improve infrastructure, and demonstrate the government's continued support for business.

tinyurl.com/ifa-2050

#### REGULATORY

## **Mothers in work**

In a report on pregnancy and maternity discrimination, the parliamentary Women and Equalities Select Committee has recommended that the Health and Safety Executive should carry out individual risk assessments. It is believed that this would lead to safer working environments as a survey suggests that one in 25 mothers leave their employment each year because their jobs are unsafe.

tinyurl.com/ifa-2049

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## REGULATORY Construction risks

The Health and Safety Executive is planning a review of its enforcement strategy in the construction industry. It aims to reduce activity in some areas while focusing on others.

This follows a review of nonreportable accidents, "near misses" etc, which indicated, for example, that musculoskeletal disorders (www.hse.gov. uk/msd/manualhandling.htm) caused by materials handling is a significant risk that deserves closer attention.

tinyurl.com/ifa-2099

## REGULATORY

## Waste

Several government departments have issued updated joint guidance on the legal definition of waste and how this will be applied in England, Wales and Northern Ireland. The guidance will help businesses to decide which material is waste and thus subject to the waste handling legislation. Defra guidance on whether material is waste is at: tinyurl. com/ifa-2096

tinyurl.com/ifa-2088

## AGENT AUTHORISATION PROCESS CHANGES

HMRC is undertaking a review of the Online Agent Authorisation Process and the use of form 64-8 and has produced a webinar called "Designing the new Agent Authorisation process".

As part of the initial process HMRC says it has looked at previous research; reviewed comments made by agents in on line communities; interviewed agents, bookkeepers and accountants from small firms to large companies and partnerships; interviewed taxpayers directly and analysed the results.

From this it says that it has recognised that the current process is too slow, the weakest link is often the client responding to HMRC confirmation requests and that many agents circumnavigate the HMRC process to make the system work for them. They are seeking to design a new system that will work for agents, clients and HMRC.

- The webinar asked a number of questions including:
- "Thinking of the 64-8 paper based authorisation journey what would you say is your greatest frustration?"
- "The same for Online Agent Authorisation?"
- "What should be the design team's most important focus when redesigning the Online Agent Authorisation?"

The replies submitted included ease of use, speed of HMRC response, dealing with multiple taxes for one agent, having multiple agents and allowing approved agents to have enhanced rights.

If you want to be part of the Agent Authorisation debate you can sign up to an HMRC website for "agent voices". If you do so, please let the IFA know and let us have feedback from your involvement.

Likewise, if you are contacted by HMRC as part of their Agent Survey please let the IFA know what happens by emailing us at: mail@ifa.org.uk.

This is still a consultation process and there is no date for its implementation. *Visit: tinyurl.com/HMRCvolunteer* 

## REGULATORY Enterprise Act

The Enterprise Act 2016 includes measures that should benefit smaller firms. A Small Business Commissioner will address poor payment practices and insurance claims will have to be paid within a specified time. An Institute for Apprenticeships will help to ensure that these target business needs.

tinyurl.com/ifa-2056

## REGULATORY Lifetime ISA

The Savings (Government Contributions) Bill includes more detail on the Lifetime ISA. This will be available to individuals under 40 saving for a house deposit or retirement.

tinyurl.com/ifa-2061

## IPA AGM

IPA Group AGM takes place on 23 November. View the annual report and accounts at: www. publicaccountants.org.au/resources/ news-and-media/ipa-publications

## REGULATORY

## **Judicial review**

The Administrative Court has published a guide to its work and practice. This combines information on statute, procedure, practice directions and case law in one place.

tinyurl.com/ifa-2098

## REGULATORY

## More on waste

Farmers and businesses that handle small amounts of waste can apply to be exempted from having to obtain and pay for an environmental permit.

tinyurl.com/ifa-2051

## REGULATORY

## **GOV.UK Verify**

GOV.UK Verify is a new way to prove identity online. It should provide safer, simpler and faster access to government services such as filing self-assessment tax returns or checking the information on driving licences.

tinyurl.com/ifa-2092



## SUSPICIOUS ACTIVITY REPORTS

As an IFA member it's your obligation to make suspicious activity reports.

The government's plan is to reform the suspicious activity reporting system see pp12–15 and Appendix B of Action Plan for anti-money laundering and counter-terrorist finance

tinyurl.com/hdkus5a

REGULATORY HGV regulations

A stringent new "direct vision standard" for heavy goods vehicles (HGVs) has been proposed by Transport for London. The standard for HGVs assesses and rates how much a HGV driver can see directly from their cab in relation to other road users. Based on this assessment, the standard will categorise HGVs using a star rating system, ranging from zero stars for vehicles with the lowest direct vision to five stars for the highest.

tinyurl.com/ifa-2076

## REGULATORY Striking off guidance

The guidance by Companies House on "Company strike off, dissolution and restoration" has been subject to various recent changes. The guidance is relevant to company officers or company advisers who want to dissolve or restore a company, and includes information on various aspects of the process whereby a company may be struck off.

tinyurl.com/ifa-2199

## BUSINESS

## **Fewer overdrafts**

Banks are providing fewer overdraft facilities to small businesses. Online business finance supermarket Funding Options says that over the past five years, the value of bank overdrafts to small businesses has fallen 42%, down from £20.9bn in April 2011. This is because unsecured lending requires banks to retain higher levels of regulatory capital under rules introduced in the wake of the credit crunch.

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tinyurl.com/ifa-2074

## BUSINESS Unfair contracts

The Competition and Markets Authority has published guidance in the form of animated films to help businesses understand the law on consumer contract terms. According to research more than half of businesses (54%) surveyed were unsure of the law on unfair contract terms. Having fair contract terms can save time and money and be good for the reputation of a business.

tinyurl.com/ifa-2087

## BUSINESS Single market

The European Commission has proposed measures to counter "geoblocking" – the discrimination against consumers because of geographical location. This makes the cross-border purchase and sale of goods and services more difficult. New regulations will clarify what can and cannot be done in this regard.

tinyurl.com/ifa-2992

## BUSINESS Wage rises

Figures from the Office for National Statistics indicate that wages rose by an average 2.4% between April and June 2016 compared with the same period in 2015. This is despite uncertainty following the EU referendum result.

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tinyurl.com/ifa-2090

## BUSINESS

## **Free fleet advice**

The Energy Saving Trust believes that small businesses think that driver efficiency training will make little difference to their costs. The organisation is offering free fleet reviews.

tinyurl.com/ifa-2999

## BUSINESS Late payments

According to a survey, almost half of freelance workers have thought about giving up work because of late payment problems. This means many have to borrow to cover income shortfalls.

tinyurl.com/ifa-2072

## BUSINESS

## **New fivers**

Guidance on the new five pound note has been published by the Bank of England. The paper five pound notes will be fully withdrawn by May 2017. £10 notes will be introduced from summer 2017 and £20 notes by 2020.

tinyurl.com/ifa-2054

## BUSINESS

## **Court costs**

The Bar Council believes that businesses are being priced out of court due to increased court fees. Figures from the Registry Trust show that there has been a 19% fall in county court judgments against businesses.

tinyurl.com/ifa-2991

## BUSINESS Insolvency complaints

An Insolvency Service report includes recommendations for recognised professional bodies (RPBs) to improve their procedures for complaints handling. The report highlighted areas for improvement to better ensure fair, consistent and transparent outcomes.

tinyurl.com/ifa-3000

## PENSIONS

## Auto-enrolment

The Pensions Regulator reports that 6.5m employees have been enrolled into more than 200,000 pension schemes.

tinyurl.com/ifa-2097

## PENSIONS

## **AE warning**

The Pensions Regulator has warned employers that they must comply with their obligations under the autoenrolment provisions or face escalating penalty notices. If these notices are not complied with, employers face increasing daily penalties. For employers with one to four employees the penalties increase by £50 a day, but the daily rate is £500 for employers with 5 to 49 employees.

tinyurl.com/ifa-2981

## PENSIONS

## Lost pensions

The Pensions Advisory Service has developed a "trace a lost pension" tool to help customers understand whether they are entitled to a pension and trace them.

tinyurl.com/ifa-2083

## EMPLOYMENT Apprentices

The government has announced that employers who take part in higher level Trailblazer Apprenticeships may be eligible for funding through the Construction Industry Training Board's Trailblazer Apprenticeship Fund.

tinyurl.com/ifa-2094

## EMPLOYMENT Normal remuneration

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In British Gas Trading v Lock, the Court of Appeal has ruled that results-based commission should be included in "normal remuneration" when calculating holiday pay.

tinyurl.com/ifa-2301

## EMPLOYMENT Minimum wage

New rates of the national minimum wage came into force from 1 October 2016

These rates are for the national living wage for those 25 and over and the national minimum wage below that age.

• 25 and over	£7.20 (was £7.20)
<ul> <li>21 to 24</li> </ul>	£6.95 (was £6.70)
<ul> <li>18 to 20</li> </ul>	£5.55 (was £5.30)
<ul> <li>Under 18</li> </ul>	£4.00 (was £3.87)
<ul> <li>Apprentice</li> </ul>	£3.40 (was £3.30)

tinyurl.com/ifa-2063

## EMPLOYMENT Apprenticeships

The Skills Funding Agency (SFA) has launched a new tool to help employers across England find apprenticeship training. The easy-to-use tool includes information on more than 16,000 apprenticeships, as well as details about the training providers that can deliver the qualifications.

tinyurl.com/ifa-2065

## **BE A TRUSTED ADVISER**

Tracie Lee is the first practising member to complete the business ethics e-learning course through the Institute of Business Ethics.

Understanding business ethics will help identify ethical dilemmas, giving advisers practical tools to solve them, and sensitising them to issues and "integrity risks" that may arise in business life.

Completing the e-learning course demonstrates an understanding of business ethics and a commitment to high professional standards, both for the adviser's personal brand as well as to customers, colleagues and employers.

Financial accountants – like any business – need trust to operate. For IFA members, though, it is all the more important. They are trusted to give independent advice and to conduct themselves with professional ethics, especially as they are often dealing with small and micro businesses in which the owners' very livelihood is invested.

In these times of austerity, trust is a precious commodity. Having a reputation for honesty and ethics can differentiate a business and make it more successful in the long term – by enhancing its reputation and increasing customer loyalty.

Customers and employers are looking for accountants they can trust. Developing ethical acumen is not only an essential personal skill, it is also a vital business skill. Customers are attracted to companies whose accountants offer the very best, both professionally and ethically.

Even when there is a commitment to uphold the ethical values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour as set out in the IFAC Code of Ethics, situations can arise sometimes where professional ethics may be in conflict with either personal or business values. *Visit: tinyurl.com/zffk429* 

## EMPLOYMENT Long-term illness

Acas has published a new guide for employers that manage staff with a potentially life threatening or long-term illness such as cancer.

tinyurl.com/ifa-2993

## EMPLOYMENT

## Tattoo stigma

Research by Acas shows that employees with visible tattoos continue to face discrimination in the workplace.

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tinyurl.com/ifa-2067

## **NEW IFA MEMBER LOGO**

Members in business can now download and use the IFA member logo on their business cards, website and stationery. See the website for guidelines on usage. *Visit: www.ifa.org.uk/9259.aspx* 

## Institute of Financial Accountants

## EMPLOYMENT

## Apprenticeships

A survey by the British Chambers of Commerce shows that businesses are unclear about the government's apprenticeship funding reforms, including the Apprenticeship Levy.

tinyurl.com/ifa-2069

## EMPLOYMENT Discrimination

A new initiative aiming to end pregnancy discrimination in the workplace. "Working Forward — supporting pregnancy and maternity rights" has been launched by the Equality and Human Rights Commission. It seeks to encourage firms to make workplaces better for pregnant women and new mothers.

tinyurl.com/ifa-2995

## EMPLOYMENT Largest NMW claim

Seventeen home care workers have commenced legal action over what they allege to be non-payment of the national minimum wage (NMW).

tinyurl.com/ifa-2085



## **EMPLOYMENT**

## Zero hours contracts

A report by the Office of National Statistics for April to June 2016 indicates that about 903,000 workers are on zerohours contracts. This represents 2.9% of all people in employment and is 156,000 higher than the same period that in 2015.

tinyurl.com/ifa-2041

## TAXATION Online marketplaces

New powers in FA 2016 require overseas businesses trading through online marketplaces to register for VAT in the UK, appoint a UK representative, or provide security. HMRC has published an overview of the legislation which will enable it to hold the marketplace jointly and severally liable for any VAT if a trader fails to meet its obligations.

tinyurl.com/ifa-2982

## TAXATION GAAP guidance

HMRC has published guidance on changes to the "generally accepted accounting practice" (GAAP) used to prepare financial statements. This follows recent updates to FRS 101 and FRS 102.

tinyurl.com/ifa-2979

## TAXATION Advisory fuel rates

New advisory fuel rates for employers with company car schemes, which apply to all journeys made on or after 1 September 2016, have been released by HMRC. The rates only apply where employers reimburse employees for business travel in their company cars, or require employees to repay the cost of fuel used for private travel.

tinyurl.com/ifa-2984

## TAXATION Tax gap falls

Official statistics show that the UK tax gap fell to 6.5% in 2015. HMRC notes that the introduction of Real Time Information resulted in more accurate recording of payroll information.

tinyurl.com/ifa-2319

## TAXATION Digital disclosures

HMRC has launched a new digital disclosure service for individuals and businesses to make voluntary disclosures relating to income tax, capital gains tax, National Insurance contributions and corporation tax. However, there are eligibility requirements.

tinyurl.com/ifa-2043

## TAXATION Agent Update 56

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HMRC guidance for tax agents and advisers. This month's top articles are on alcohol duty, the Business Tax Account – changes to corporation tax paper forms – and the Scottish rate of income tax.

tinyurl.com/ifa-2001

## TAXATION Worldwide disclosure

HMRC has launched the Worldwide Disclosure Facility, the final chance to disclose a UK tax liability relating to an offshore issue before HMRC uses data under the common reporting standard.

tinyurl.com/ifa-2222

## TAXATION Employer Bulletin 62

HMRC has published *Employer Bulletin 62*, which includes information on Making Tax Digital and PAYE late filing penalties.

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tinyurl.com/ifa-2302

## TAXATION Illegal workers

The government is consulting on a proposal that a year's Employment Allowance will be removed from those receiving civil penalties for employing illegal workers.

tinyurl.com/ifa-2315

## TAXATION Tax-free childcare

Childcare providers are urged to sign up online for tax-free childcare, which will launch in early 2017

tinyurl.com/ifa-2311

## TAXATION

## HMRC toolkits update

The Directors Loan Accounts and Capital versus Revenue toolkits have been updated again following feedback from agents. Every year each one of the toolkits is reviewed and recently the Inheritance Tax toolkit was refreshed, so please make sure you are using the latest version.

tinyurl.com/ifa-2000

## TAXATION Offshore evaders

HMRC has announced tough new sanctions for those who do not declare and pay outstanding taxes from offshore investments and accounts. Penalties are proposed of up to three times the undeclared tax as well as the risk of potential criminal charges.

HMRC will start to receive offshore account data from Crown Dependencies and Overseas Territories. A year later data will come from other countries under the Common Reporting Standard.

tinyurl.com/ifa-2313

## TAXATION Uber drivers

The employment tribunal has ruled that two Uber drivers were "workers" and entitled to the national minimum wage and paid holiday leave. This was because drivers worked for Uber and had little control over how the work should be carried out and charges.

tinyurl.com/ifa-2307

## TAXATION Making Tax Digital

The article 'Making Tax Digital' in Financial Accountant, September/October 2016, stated that, from April 2018, non-VAT registered businesses would have to update HMRC quarterly via a digital tax account, with VAT registered businesses following on a year later. Under current proposals, all unincorporated businesses with annual income over £10,000 a year (whether VAT registered or not), will be required to file quarterly for income tax and National Insurance purposes from April 2018, unless specifically exempted. Synchronising quarterly VAT reporting with income tax reporting is planned to start from April 2019.

## The all seeing eye – an HMRC success story?

Paul Rigney looks at HMRC's success with its Connect computer system

#### **TEN SECOND SUMMARY**

- 1 HMRC received an award for the Connect data warehousing and analysis project.
- 2 Connect combines a range of data from various sources and automatically collates information from more than 30 databases.
- 3 The planned quarterly returns should enable information cross checking at an earlier stage.

hen discussing HMRC and new computer software programs most professionals groan with dread. For example, real time information (RTI) did not cover itself in glory and digital quarterly returns now loom on the horizon. But an innovation that seems to be terrifyingly efficient is the one professionals may well have been happy to see fail – Connect.

When HMRC's IT team collected their award for the Best Big Data project at the UK IT Industry Awards recently, it was for its Connect data warehousing and analysis project. This was the culmination of an initiative conceived as far back as 2005, when the Inland Revenue was merged with Customs & Excise.

The merger had been the long-overdue catalyst for a rethink of the way in which both organisations handled fraud detection. The merger of the two revenue-collecting departments offered the opportunity to put together a business case for a more sophisticated approach, using the latest data warehousing technology and analysis tools; hence Connect was born.

## Three into one

Connect's success is due to the three distinct functions brought together in one operating system: streamlined data collection, analysis and storage.

The front-end comprises what HMRC has called the integrated compliance environment (ICE), a graphical tool from Detica that enables investigators to put together information around entities. This is combined with the analytical compliance environment (ACE) that analysts and statisticians use to put together risk profiles and interrogate large volumes of data. At the rear-end, SAS Institute provides the data warehousing, while DAN – the data acquisition and networking system – provides the extraction, transformation and loading capabilities for taking the data items in different formats and transforming them into a structure that the data warehouse can store and make available for analysis.

Connect enables HMRC not only to have a single view of a taxpayer, but it is also able to incorporate a wide range of data from other sources, using not just departmental data but commercial data – bought-in information. Connect now automatically collates information from more than 30 databases.

## The real world view

The aim of Connect is to identify the real-world "views" that enable HMRC to make most sense of the data from a fraud and evasion point of view. Entities are put together so that the data can be analysed in different ways. So an individual would be one entity, a family would be another entity, and a company another.

Connect, therefore, identifies real-world entities in which data clusters around and looks at the commonality in those areas that link the entities together. From that, it becomes easier to extrapolate someone who was the director of a number of companies, his family connections and, say, the companies that his wife is a director of, as well as any family trusts. The data, in other words, could be clustered around these entities.

Indeed, the new system means that not only can HMRC analyse tax data, but also information from credit reference agencies and online socialnetworking information to pinpoint individuals and behaviours that may indicate tax fraud or evasion. Beyond financial transactions, the department is also taking a keen interest in lifestyles. HMRC would find out about someone who owned a couple of expensive cars, but reported a low income, because Connect receives ownership data supplied by the Driver and Vehicle Licensing Agency (DVLA). The taxman would then be likely to take an interest in their affairs.

## Third-party sources

Automated tools are also used to keep an eye on online traders using sites such as eBay or



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## HMRC ADMINISTRATION

AutoTrader, to evaluate whether or not sales activity qualifies as "business trading" or not.

HMRC also has powers to request one-off bulk data from third parties where there may be particular cause for concern. For example, insurance companies, hospitals, estate agents and dentists supplied information to assist with the Tax Health Plan disclosure opportunity.

The system also allows HMRC to "zoom in" and keep a close eye on taxpayers' day-to-day activities. For example, officials can now track ticket sales and passenger information supplied by airline companies. Frequent flights are likely to raise questions about how an individual is funding a jetset lifestyle, while regular trips to Panama are also likely to raise concerns.

Today, investigations that once might have taken weeks or even months to conduct can be carried out in a day – sometimes in just minutes. Indeed, many investigations would probably not have been launched because of the cost and complexity of putting together the data for analysis. HMRC employs more than 150 specially trained analysts to help glean insights from the information processed through Connect.

The cost of developing the system – some £80m since 2008 – was seen to be a high-risk investment. However, the £3bn of additional tax that the system has yielded to date, combined with the cost savings for investigations and the ability to intervene at an earlier stage, has made Connect a key tool for HMRC. More than 80% of all investigations undertaken by the department now follow potential leads generated by the system and it has been claimed that it holds more data than the British Library.

## A targeted approach

Use of the Connect database is an example of the highly aggressive approach now being taken by HMRC to identify the underpayment of tax as the department is driven to meet government targets on tax avoidance and evasion.

While some of those targeted may be guilty of tax evasion, many more are likely to be innocent. Individuals and businesses may find themselves on the receiving end of a mass mailshot from HMRC asking them to review their taxes simply because they fit a particular profile. More unwelcome still, they may even find themselves singled out for a full investigation on the basis of the smallest piece of information for which there is likely to be a straightforward explanation.

Connect has also assisted the department in preventing the loss of £4.1bn in revenue as a result of criminal investigations into taxes and duties owed since April 2010. Further, the number of criminal prosecutions has risen from 165 to 1,165 a year in just four years.

Connect's importance to HMRC will continue to grow with the planned introduction of quarterly returns under the proposed Making Tax Digital system when the cross checking of information will be carried out even sooner than at present.

#### Increasing work and costs

With Connect growing in strength, accountants in practice will see an increasing risk of additional work from information requests or formal enquiries into submitted returns and compliance visits.

All forward-thinking practitioners are now ensuring they have a tax fee protection scheme in place to protect themselves as well as clients from the additional time costs that arise from increasing HMRC activity. Much current HMRC enquiry activity can involve the additional time spent being written off. This may not seem to amount to a lot at first, with the occasional hour here and there; but over the course of 12 months the costs can start to mount up.

#### **SURTHER INFORMATION**

Qdos Vantage is the IFA's approved partner for tax fee protection. For more information, please call 0116 274 9123 or visit www.qdosvantage.com.



# **Going digital**

Making Tax Digital appears to be inevitable and *Karen Lowen* suggests that advisers should engage with the process sooner rather than later.

#### **TEN SECOND SUMMARY**

- 1 The initial Making Tax Digital consultation period has closed and further information is awaited.
- 2 Accountants are used to adapting to new legislation and processes.
- 3 Small practices should start to think about how they will bring an online approach to their work for clients.

n the 2015 Autumn Statement, the government set out a clear mandate to transform the tax system – to reduce the burden on taxpayers and build a more transparent and accessible system fit for the digital age. By December last year, ministers had unveiled their Making Tax Digital (MTD) roadmap – a series of six consultation documents setting out just how this dramatic change could be achieved.

This is, no doubt, an even bigger change to the tax system than the introduction of self assessment back in 1997, when many voices foretold the death of the small business accountant and drastically reduced client numbers for everyone else. This has proven not to be the case, with the number of members of accountancy bodies growing year on year. So, should we listen to those who declare that MTD will herald the end for those who deal with small and micro businesses?

For better or worse, MTD is here to stay and agents and businesses must be ready for what the government is calling "ambitious and radical reforms". However, although the shape of MTD is forming, the finer detail has yet to be decided. As we go to print, the final date for submitting comments on the consultation documents has passed and, once analysed by HMRC, it is likely that more detail will be made available.

## Assessing the impact of MTD

So, what do we know about how MTD will impact agents? Digital tax accounts have been introduced for individuals already, with the view being that, in time, these will give taxpayers an overall personalised view of their tax position. However, agents do not currently have access to these and it is the Revenue's view that this will not be provided in the future.

In the Bringing business tax into the digital age consultation document, HMRC says that it "is exploring, with specialists, the role of spreadsheets in business record keeping and their ability to meet the requirements and benefits of MTD". However, if these cannot be integrated, access to client information will be through specialised software from third-party providers. Most of the options available are likely to be subscription based. However, the Government has promised that a free version will be provided, but availability and functionality will be unknown until the software houses bring their creations to market. The Revenue has stated that it will not be providing software itself and is already starting to withdraw its current products, with online filing for companies with accounting periods ending after 31 December 2015 already having been removed.

Many practices already use software, to some extent, if only for payroll where the move to Real Time Information (RTI) was introduced in April 2013. While there was initial resistance to this, and it has certainly not been free from error, most practices have adapted. Our involvement with software is growing, in line with the general growth of information technology everywhere. HMRC argues that most agents already file selfassessment tax returns online, with only 1% still using paper and, with VAT and payroll already online, it is not a big stretch to take accounting online. However, this does not recognise the fundamental changes needed to the way that practices have traditionally operated.

Accountants tend to be flexible by nature, our very role requiring us to adapt to new legislation on a constant basis and to review our practices and approach at least annually. MTD is yet another adaptation we need to assess.

## Accessing information

HMRC is currently working with 18 software companies with private testing now taking place and a sample public test beginning in March 2017. How agents engage with MTD is critical to the project's success, particularly as 70% of small businesses, the target market for the first wave of MTD, currently use an agent. How MTD will work for agents is summarised by Julian Hatt, HMRC's Head of Stakeholder Engagement:

"Accountants and tax practitioners will be able to see and do everything their clients have authorised them to. Little bits of computer code, called APIs (application programming interfaces), will securely access information from clients' digital tax accounts and deliver it safely to the practices' software packages, so it will be presented in a style and format that's already familiar to them. Agents will also have the ability to update the information and send it back to their clients' tax accounts in the same way."



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## TAX DIGITALISATION

It is envisioned that the software will feed quarterly information into the tax account, while other third-party details, such as state pension and interest information, can be retrieved for the agent to check and correct, if necessary, the tax calculation given. The client will then have the option to make a payment on his account if he wishes to do so. At the end of the tax year an annual update will summarise the quarterly information, calculate any allowances not already claimed and adjust the information presented. However, how this will work and the exact information that will need to be provided is still up for debate.

## **Quarterly deadlines**

A big concern for some agents is that a quarterly filing deadline for bookkeeping will mean, in effect, living through the rush usually associated with the 31 January self-assessment filing deadline every three months. This may be minimised, perhaps, if each business can select a quarter end date, as is currently the case when registering for VAT. However, because the fiscal year is not set to change, it is certain that most businesses will select the same quarter dates to end their accounting year in March.

Others are concerned that increased accountancy costs of quarterly filing may mean that clients are forced to carry out this task when they are ill equipped to do so. The role of the accountant could change to that of reviewer rather than compiler.

## **Opportunities and threats**

To my mind there are likely to be three groups of client post-MTD: those who are content to complete their own online records and annual update; those who may, to some extent, compile their online records but need these to be reviewed; and those who require everything doing for them.

So, MTD will bring opportunities in the form of quarterly reviews and increased bookkeeping work, but with the threat of the possible loss of some clients who find that they are able to complete their own annual update. The question is: what will be the net effect on accountancy practices?

To take advantage of the opportunities that MTD will bring, it is crucial that small practices start to think about how they will incorporate an online approach into their work. Out will go the last minute compiling of accounts from scraps of paper saved up all year, and in will come accounting in the modern age.

For practices that still depend largely on manual accounting, the move to digital may be a big learning curve. However, our profession is based on learning; we have to assimilate new tax legislation on an on-going basis and adapt our practices accordingly. But where to start?

## **Client readiness**

Preparing our clients may be key to our success in leading the way with MTD; they often look to us for guidance and advice on upcoming changes. Therefore, it makes sense to start to talk to the smallest clients who are not currently using a bookkeeping programme about the introduction of MTD in April 2018. In having this initial conversation it may be possible to gauge the numbers of clients that will need all their bookkeeping carried out and those that will attempt to do it themselves.

The next step should surely be to see what is available. Although most of the MTD software is still under test and not commercially ready, it is worth looking at what is currently available to see whether it will be useful for those clients who wish to at least attempt having a go themselves. The benefits to the client should obviously be paramount here, rather than any incentive to the practice of promoting one particular software program over another.

Ultimately, whether MTD has a positive impact on our practices will depend on how we present it to clients as well as how we plan and adapt to it ourselves. Nothing in life remains standing still for long and we must prepare ourselves for the biggest adaptation the profession has ever faced.

#### FURTHER INFORMATION

Thank you to all members who responded to our Making Tax Digital questionnaire. Your views have been vital in informing our responses to the following HMRC consultations: Bringing business tax into the digital age, Simplified cash basis for unincorporated property business and Voluntary pay as you go. View our responses at www.ifa.org. uk/representations.

## Avoiding a fall

*Melissa Maharaj* provides a quick guide for small businesses on dealing with professional negligence claims.

#### **TEN SECOND SUMMARY**

- 1 Professional negligence claims have become more popular among a wide range of industries.
- 2 If the mistake was one that another professional would not have made, the advice is likely to fall below professional standards.
- 3 The courts encourage dispute settlement by mediation where possible.

n its most distilled form, the term "professional negligence" is used to refer to professionals who have failed to act in accordance with the prescribed industry standards. For instance, an accountant may give tax advice which does not fully take into account the client's business model or objectives. As a result, the client is required to make larger than necessary tax payments to HMRC as a direct consequence of the accountant's advice.

In the past, professional negligence claims were commonly associated with the legal or medical profession. However, in recent years, such claims have become more popular among a wide range of industries, where businesses are becoming more savvy and cutting edge. They are evolving to adapt to the ever-changing economic and financial landscapes, thus requiring more specialist advice to operate successfully.

For businesses ranging from start-ups to smalland medium-sized enterprises that have suffered from poor professional advice, a decision to incur the cost and expense of pursuing a claim for redress can have a disproportionate impact on the business and those involved. Therefore, this article considers what small businesses need to be aware of and examines some of the tactics which can be adopted to limit the risks of pursuing costly claims.

## Who can be held negligent?

For the purpose of this article the term "professional" is used to refer to any expert who has been trained to a high level – and usually for a number of years – in accordance with industry standards within a specific area. For the avoidance of doubt, this includes accountants.

Professionals owe their clients a duty of care, which means that they are legally obliged to exercise reasonable care and skill when dealing with them. Members of the public, whether individuals or businesses, will often defer to experts to fulfil their personal or professional business needs. They will have the underlying assumption that the advice relied upon will satisfy the issue requiring assistance.

Irrespective of their years of experience, there will be circumstances in which professionals make mistakes. However, the general rule is that, if the mistake was one that another professional working in the same industry would not have made, the advice is likely to fall below professional standards. In such a case, the professional may be held liable as a result of giving that advice. If the receiving party is not fully satisfied and has lost money as a direct result of the advice given, then they can seek recourse by way of a professional negligence claim.

#### Taking precautionary measures

If a small business is faced with a piece of work that requires specialised advice, it is always best to research professionals working within that field to service the issue requiring assistance. For instance, if it is legal advice that the business requires, one could either undertake a general Google search using key terms to find a solicitor who is a leading expert. Otherwise, you may want to consider more isolated searches by using the Law Society's website, which has a specific search function called "Find a solicitor". This lists different practice areas and the contact details of solicitors that practice within each given field.

Once the professional has been selected, it is important to record a written contract with the professional, no matter how small or trivial the piece of work may appear. By creating a written contractual obligation between the parties, all expectations regarding the work required and the advice given can be made clear to those involved from the very onset. In the event of a professional negligence claim, a written contract makes it easier to determine whether there has been a breach committed on the part of the professional simply by referring to the terms of the contract.

If the client has any concerns with the advice given, it is usually advisable to take up these directly with the professional responsible for administering it. If the client's concerns are not taken seriously or the resolution is not wholly satisfactory, the client usually has recourse to an internal complaints procedure, usually handled by a third party within the firm. If this option is unavailable or fails for whatever reason, there are non-legal routes readily available for redress.



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## SMEs & SMPs

## PROFESSIONAL NEGLIGENCE

For example, this might be the Ombudsman service, which considers both sides of the story before making an impartial decision on the matter and, if appropriate, a direction for compensation. It is worth exploring these options before immediately opting for the legal route, given the costs and time involved in resolving the case through the courts, and the fact that an unsuccessful complaint to an Ombudsman will not result in an adverse costs order.

## Beware of costs ahead

Unlike well-established larger and often listed companies with their own infrastructure, including in-house legal teams to advise on professional negligence claims, small businesses lack such resources. They often find it difficult to cope with the financial strain brought upon by legal costs in an attempt to rectify the issue. First, therefore, it is imperative to assess the damage caused by receiving the "bad advice" by calculating the financial loss.

A loss can include anything from losing a highnet worth client and future business by way of contracts to the direct loss of the price paid (at an over-value) for, say, equipment and machinery as a result of the advice given. If there is no tangible loss, then there are no grounds for making a claim, because it is only possible to claim for losses that are reasonably foreseeable.

Generally speaking, the cost of going to court can be an expensive and laborious exercise, leaving aside the lack of guarantee for a positive result in favour of the party bringing the claim. Thus, businesses that have suffered relatively small losses, such as those amounting to less than £40,000 or £50,000, may want to consider what they are hoping to achieve – and willing to pay – by petitioning the court.

The costs of pursuing the claim may not be justified, when balanced against the amount sought and the inevitable risks of any litigation, bearing in mind in particular the fact that the costs will not be limited to legal fees. Valuable management time will be lost preparing the case and dealing with the response from the professional. Many managers may decide that their time is better spent elsewhere on new opportunities and other aspects of their business.

## Strategic thinking

Tactics and strategy can, however, play an important part in any claim. The court rules impose an expectation on every claimant to send the professional a pre-action protocol letter before issuing court proceedings for professional negligence.

There is no obligation to take the claim beyond this stage and there is always a possibility that a well drafted letter, coupled with a sensible without prejudice settlement offer, can lead to a financial settlement without the need to embark on timeconsuming and expensive court proceedings. A strategic decision could be made to incur the costs of that first letter, to see what happens, in circumstances where the claim will not be taken any further if a settlement cannot be achieved.

The cost considerations should not just be limited to the claimant's own legal fees. In court proceedings there is a general rule that the loser will be ordered to pay a large proportion of the winner's costs. Any small business contemplating a claim against a professional should take account at the outset the risk of losing the case, and being ordered to pay the opponent's costs.

## **Exceptions to the rule**

There are two main exceptions to the general rule that the loser pays the winner's costs.

First, the court will not normally make an order for costs against the losing party if the claim is for less that £10,000 and has been pursued in the small claims court. A small business could try to use that rule to its advantage by ensuring the claim is limited to £10,000. A defendant faced with the prospect of a complex and costly defence, but no possibility of recovery of costs, may be prepared to make a relatively good settlement offer on a low value claim for commercial reasons to avoid court proceedings.

Second, the risk of an adverse order for costs in professional negligence proceedings normally only arises if court proceedings are issued. That is why a pre-action protocol letter can be sent to the professional in an attempt to achieve a settlement without incurring the risk of an adverse costs order. But the tactic of pre-action correspondence and negotiations can be taken further. The courts encourage parties to try to settle disputes by mediation and a defendant who refuses to mediate can face costs penalties and judicial criticism at the end of a trial.

There is nothing to stop a small business from asking a professional to hold a mediation before proceedings are issued and it would take a resolute defendant to refuse to mediate because costs penalties can be severe. If the mediation is successful there will be a financial settlement. If it is unsuccessful, the claimant will be under no obligation to issue court proceedings and risk an adverse costs order.

## Summary

Any client who relies on advice from a professional is owed a duty of care by them. If that duty is breached and the client suffers loss because of that poor advice or conduct, the client may have recourse to bring a professional negligence claim against the adviser in question.

If small businesses end up in this position where they have suffered loss, they should consult a litigation solicitor. They can advise not only on the merits of a claim, but also on the tactical steps to try to achieve a reasonable settlement while controlling the risks that the business faces in terms of legal costs and valuable management time.

## Skills-based volunteering

*Angela Schlenkhoff-Hus* explains that business talent matters to charities.

#### **TEN SECOND SUMMARY**

- 1 Charities have skills gaps to be filled.
- 2 Volunteers can help to improve performance.
- **3** Opportunities to develop new skills.

cross the different sectors in the UK, employee volunteering - where employees volunteer during their worktime, supported by their employer has become increasingly important over the past decade. The private sector has long recognised the business and staff development benefits of such schemes, as well as the community benefits. The charity sector is also seeing the benefits of interacting more closely with the private sector - even more so in the current financial and political climate. The sector realised that, to remain sustainable and successful in a fiercely competitive funding environment, it must become more innovative and efficient. Yet many charities currently have significant skill gaps that prevent them from making good progress in these areas.

In all of this, the public sector is lagging behind. At a management level, the benefits of employee volunteering for public sector staff and the community are understood. However, in the context of severe funding cuts within the sector, it can prove difficult to find a budget for employee volunteering projects. In this political and economic context, skills-based employee volunteering is seen as the winner. It is here that many employers will focus their attention when it comes to designing and reviewing employee volunteering programmes.

#### **Skills-based volunteering**

At Volunteering Matters, we generally define skills-based volunteering as "volunteers using their professional and/or people skills to benefit individuals and organisations". Charities are looking for specific professional skills that volunteers can offer – such as accountancy, IT, HR – as well as "soft" skills, such as in presentation and communication. These skills can be applied either for the benefit of the organisation itself or for its service users directly. For businesses, defining skills-based volunteering can be a complex exercise because it needs to cater for a diverse workforce with different skills sets and grades, while also fitting within often globally defined business and corporate social responsibility (CSR) strategies. However, with the right business and contractual framework in place, employers are usually quick to recognise the benefits of lending their staff's skills to charitable organisations.

Our role as a national brokerage service is to figure out what solutions employee volunteering can offer to address the challenges that the charity sector is facing, and how charities can best harness the skills of employee volunteers.

## **Case study: Talent Matters**

On 5 September 2016, Volunteering Matters launched its "Talent Matters" programme in response to an increasing number of requests from community organisations for capacitybuilding opportunities bespoke to their organisation. It's a skills-based volunteering programme that helps talented individual volunteers share their professional skills with charities and community organisations through a structured and supported process.

Talent Matters has been trialled and tested over the past few years with very positive results for both the charities and the volunteers.

One example is the "Measuring the Good" programme. Volunteering Matters and the Coalition for Efficiency developed this volunteer programme which is designed to help charities improve their impact measurement and reporting. The programme offers a step-by-step, structured framework for a skilled volunteer to support a charity in its impact measurement. They do this by acting as an independent facilitator and applying their management expertise.

Most of the time, what the charity needs is a critical friend, somebody who is neutral rather than a funder or consultant, with whom they can be open and honest. They also need somebody who can help them explore solutions to challenges that are very specific to their organisation. Some charity professionals have used their limited resources to attend conferences and workshops in different capacity building areas. Although these may feel beneficial at the time, it is often difficult for charity leaders to translate their new found knowledge and find the time to adapt it to their particular context. By successfully completing a Talent Matters match, the charity is able to build confidence and at the end of the process the expertise and ownership rests within the charity. Understanding common business tools and approaches can be helpful for charity professionals but, importantly, they are the experts in their fields and have clearly identified the challenges to overcome.

The Talent Matters approach takes this into account and matches them with a suitably skilled volunteer (also an expert in their field) to help them reach the next stages in their organisation's development.



Dr Angela Schlenkhoff-Hus is deputy head of Employee Volunteering at Volunteering Matters. She has a keen interest in skills-based employee volunteering and heads up the skillsbased volunteering working group within the department. This continuously develops new ways of using the skills of employees for the benefit of communities. Angela has been working in partnership with Coalition for Efficiency on the Measuring the Good programme since 2013. One of her other special interests is impact measurement of volunteering and social action projects. Angela can be contacted by email at: Angela. Schlenkhoff-Hus@ volunteeringmatters. org.uk.

## SMES & SMPS CHARITABLE SECTOR



#### Over to you

Readers might wonder what all of this has to do with them and how they could possibly help a charity tackle its challenges. Or maybe they already have first-hand experience of how skills and knowledge can benefit a charitable organisation. The specific analytical and management skills that an individual can offer are hugely valuable to charities and community organisations.

Since 2013, 100% of our volunteers have felt that their objectives were met. These included benefiting a charity through their professional skills, applying their knowledge in a new environment, and enhancing or developing their abilities. 89% of volunteers felt that the skills they had developed through Measuring the Good would help them in their professional life.

Those joining a skills-based volunteering programme might expect to be matched to an organisation that runs most of its services on a shoe string. However, it is also amazing how much can be achieved with so little. Participants will soon find that their skills and experience are like gold dust for the organisation, that they are transferrable to a completely different sector, and that they will feel stretched and challenged in their thinking and approach. This will result in an increased knowledge of the vibrant charity sector, the honing of existing skills in a new environment, and the potential to develop new skills and understanding, for example of charity governance. The agency will take care of facilitating the relationship with the charity so that participants can get on with the important work.

Whatever professional skills are available, there will be several charities in need of that knowledge and expertise. Ideally, participants will have facilitation skills and a few years of management experience under their belt. Further, they should be able to commit to working with a charity leadership team over the course of two to four months and to spend about 20 hours during that time either in or preparing for meetings with them.

Throughout the process participants will be supported by a volunteer manager, the cost of which is covered by the employer. We also find that it is particularly suitable for employees of small- and medium-sized enterprises who want to give something back to the community, but do not have the capacity to allow for 10 to 15 of their employees to be out on a team volunteering day at the same time. There is also the option of buddying up with a colleague to support the same charity.

## Conclusion

If this has whet appetites and readers would like to find out more, please get in touch. We'd be more than happy to answer any questions and to start the volunteer journey. I will close with the words of one of the volunteers on the Measuring the Good programme:

"The most important thing the project has given me is the confidence to use my skills in different situations. I'm very proud to have been part of this project, thank you for selecting me."

# A helping hand

Different countries have differing solutions to the settlement of small business disputes, as *Vicki Stylianou* explains.

#### **TEN SECOND SUMMARY**

- 1 Although the countries may differ, the problems of small businesses are similar throughout the world.
- 2 A comparison of government-sponsored dispute resolution services in three countries.
- 3 Small business disputes may involve the government or a government agency as well as other commercial businesses.

mall businesses around the world face similar problems and these include dealing with cash flow issues caused by customers who do not pay on time, or at all, and disputes with suppliers. In many countries, governments have set up agencies to help small businesses deal with these issues. Australia, the UK and the US offer three examples where small businesses have received a helping hand through a range of services and programmes. These help them to deal not only with recalcitrant customers and suppliers through dispute resolution services, but also to gain access to information, loans, expert advice and to act as an advocate for small business.

## The Australian context

In the Australian context there are various statebased Small Business Commissioners as well as the newly revised federal Australian Small Business and Family Enterprise Ombudsman (SBFEO). When the government was considering an overhaul of the predecessor to the SBFEO, it called for stakeholder views on the most appropriate functions for the office, seeking an expansion of the existing powers including a dispute resolution function.

Overall, stakeholders generally welcomed the dispute resolution function as a valuable measure for smaller businesses. A range of views were provided on the specific disputes that the SBFEO could address through its own alternative dispute resolution service. Small business disputes with Commonwealth government agencies, business-to-business, international and interstate, as well as the national mandatory industry codes, were among the suggestions for coverage. However, major concerns were also raised about jurisdictional overlap with the plethora of existing services.

The decision was made that the Ombudsman would act as a concierge to refer and direct people rather than provide its own dispute resolution service. There is an extensive online tool which provides links and information to state and national services. This ensures that there is no duplication of dispute resolution services. For instance, the Victorian Small Business Commissioner provides dispute resolution and mediation services across a range of types of disputes such as fair trading, retail tenancy, payments and contracts, franchising, disputes with government and so on.

## Naming and shaming

More specific rules relate to the so-called "naming and shaming" provisions, which allow the SBFEO to name any party who refuses to submit to, or who withdraws from the dispute resolution process. Some stakeholders considered that the exceptions – such as those relating to confidential information and the definitions of "undue distress", "embarrassment", and "unreasonably affect the person or a business or action related to the person adversely" - would allow the provisions to be avoided by being too broad. In essence, it would mean that almost any person or business could invoke the exceptions to avoid being named for refusing to engage in dispute resolution recommended by the SBFEO. The additional powers given to the Ombudsman to compel information from parties to a dispute; and to require attendance to give evidence in inquiries, are widely supported.

## **Duplication and referrals**

In a multi-jurisdictional environment, it is important to have more detail contained in administrative instruments and processes. This includes memorandums of understanding to ensure clarity and certainty across jurisdictions and agencies regarding respective roles, information-sharing mechanisms and responsibilities and. It is important to prevent duplication of government and industry services across jurisdictions and agencies, with mechanisms put in place to streamline appropriate referrals. And it is just as critical to ensure that there are no gaps.

In Australia, this is addressed by prescribing that the Ombudsman's powers are not duplicating the advocacy and dispute resolution activities performed by the state-based commissioners. (Not all states and territories have small business commissioners.)

Some of the state-based commissioners expressed the need for further clarification with respect to areas of state responsibility, especially regarding areas of high demand such as retail lease enquiries and disputes. These types of issues make up about 60% of disputes in some states, so the



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## SMES & SMPS DISPUTE RESOLUTION

need for further clarification is justified. In these types of disputes the matter is automatically referred to the relevant state-based office.

Further clarity is also required in relation to the appropriate jurisdiction for other types of dispute, particularly those involving interstate and international businesses. The state-based commissioners provide dispute resolution services for, among other things, incorporated businesses operating in their state. Some have contended that a locally-based service is more likely to provide a higher quality of tailored advice, in a shorter timeframe, at more convenience and at a lower cost for small business operators than a federal service.

## Commonwealth-wide advocate

There was widespread support for the SBFEO to act as an advocate of small business interests and concerns, particularly to the government. However, as could be expected, there was a diverse range of views as to how the office's advocacy function should operate. The legislation sets out broad powers around an advocacy function, which includes being a major contributor to Commonwealth laws and regulations and recommending practical solutions; for example, to red tape reduction.

## Inquiries and independence

The Ombudsman can conduct an inquiry on their own initiative into matters that affect small businesses and family enterprises. The minister can also refer matters to the Ombudsman for inquiry. Currently, there is an inquiry into small business loans which has resulted from the recent attention placed on the banking system.

Questions of independence from the government of the day have been raised in the Australian context. To provide the maximum benefit, the Ombudsman needs to be able to make inquiries into the concerns of small businesses arising out of legislation, policies and practices, without any impediments, real or perceived, from the minister or any other agency of government. It is essential that the Ombudsman can operate in a fully nonpartisan manner.

## **UK context**

In 2015, the Enterprise Bill introduced a UK Small Business Commissioner to consider complaints by small business suppliers about payment issues with larger businesses that they supply. It has been reported that British small businesses are owed, on average, £12,000 each in late payments – £55bn overall. Up to 23% of SMEs have had to consider insolvency because of payment issues. It was felt that there was no market failure in the provision of dispute resolution services and that the Small Business Commissioner should have more of a "signposting" role to ensure that small businesses have access to the information they need on how to resolve a dispute. These include sector ombudsmen or regulators, existing independent advice services, approved alternative dispute resolution providers or the Commissioner's own complaints handling function. In this regard, it is similar to the Australian system.

The UK Small Business Commissioner will also try to help small businesses avoid future disputes through an educative role in providing advice and information, including different ways to resolve disputes and negotiate contracts.

## **US context**

Another perspective to small business disputes is what happens when the dispute is against the government or a government agency. In the US, the Small Business Administration (SBA) contains an Office of the National Ombudsman (ONO) which is authorised by the Small Business Regulatory Enforcement Fairness Act 1996. This provides a resource for small businesses to voice their complaints about federal regulatory enforcement and compliance actions.

However, no authority is given to assist in state and local matters; though state and local governments are encouraged to follow the national framework. The ONO produces an annual report to Congress rating each federal agency's responsiveness to small business and provides

affected agencies with the opportunity to comment on draft notes. The framework is quite extensive and well tested, allowing state and local governments to apply a consistent framework at their own level.

> Unfair regulatory enforcement actions can be repetitive audits or inspections, burdensome compliance requirements, unreasonable fines or penalties, threats by a federal agency and/or acts of retaliation by the agency.

#### **Section** State St

Australian Small Business and Family Enterprise Ombudsman: www.asbfeo.gov.au/

Small Business Commissioner: process for handling complaints. Consultation at: tinyurl.com/hb8d3ta



## Challenges ahead

*Rob Weaver* considers the current state of play for pensions auto-enrolment and the challenges ahead.

## **TEN SECOND SUMMARY**

- 1 More than 230,000 employers have completed the staging process and six million employees are now within auto-enrolment.
- 2 Auto-enrolment does not cover all workers and a significant number of people have no private pension provision.
- 3 A summary of the pension challenges facing employers and employees over coming years including the dependency ratio.

n its automatic enrolment declaration of compliance report (tinyurl.com/z7j4263) the Pensions Regulator has stated that, by the end of August 2016, more than 230,000 employers have staged and completed the initial workplace duties. This has resulted in 6.6m employees being enrolled into a workplace pension.

On average, the level of employees opting out of auto-enrolment has remained at about 9%. The Department for Work and Pensions estimates that the projected opt-out rate could be closer to 15% once all staging has taken place. Slightly concerning is the fact that, according to the Pension Policy Institute, businesses with between one and 19 employees have opt out rates of 17%. Further, automatic re-enrolment has been occurring since September 2015 and, up to August 2016, 229,000 employees have been automatically re-enrolled about three years after opting out.

It is interesting to note that although more than 22m workers have been assessed for automatic enrolment purposes, including more than ten million who were in a qualifying pension scheme already, almost six million employees were deemed to be ineligible; for example, low earners earning less than £10,000 a year. There remain, therefore, a significant number of people who are unlikely to have a pension apart from that provided by the state.

## Pension staging for SMEs

From now on, the companies that are staging have 30 employees or fewer and a significant number of companies will be doing this in the next 18 months.

The Pensions Regulator's upper estimate suggests that there could be more than 650,000 employers staging who have eligible staff. Although this will be a challenge to accountants, payroll bureaux and pension providers, the advent of improved technology – such as sending data to the pension provider and an increasing number of new providers in the market – means that there is a growing confidence that the pension and payroll industry will cope. However, after both autoenrolment and pensions freedom measures, both industries would like some stability and a period of no significant change.

Arguably, the new Chancellor would benefit all stakeholders by confirming that he has no plans to change tax relief on pension contributions in this Parliament.

Some interesting *Key Facts* can be gleaned from the Scottish Widows *Retirement Report 2016* and the Pension Policy Institute's *The Future Book: Unravelling workplace pensions* (2016 edition).



Rob Weaver BA (Hons) Dip PFS is a former senior pensions consultant at a leading pensions provider. He has successfully guided and assisted SME employers with their automatic enrolment obligations including project managing and implementing work place pensions schemes. He currently works on a number of consultancy and training projects including working with Aston Business School. Rob can be contacted by email at: robaweaver@ outlook.com or r.weaver@ aston.ac.uk.

## Some challenges ahead

Though most would argue that auto-enrolment has been a success so far, in reality we are only at the beginning of the UK's saving journey for many people. A number of issues face employers, employees, savers and the pensions and payroll industries over the coming years.

#### Increasing opt outs

Currently, opt outs are significantly lower than expected. However, when employee contribution increases (up to 5% minimum employee contribution based on qualifying earnings) are introduced, it is anticipated that a proportion of people will stop paying into their pension or opt out when they are assessed.

## Potential deferment of pension increases

There are rumours that the automatic increase of pension contribution in April of 2018 and 2019 may be deferred until 2020 or after the general election. This may benefit employers who will not have to increase their minimum employer contributions. Further, it can save the Treasury millions of pounds by not having to pay tax relief on employee and employer contributions. However, the losers will be the individuals missing out on further pension contributions for another two years. This will affect their pension fund on retirement.

## The forgotten people

These are the self-employed, part-time workers, multi-employer employees and low earners. This is because an issue with automatic enrolment is that the increasing number of people working for themselves are not enrolled. There are now more than four and a half million self-employed people, yet the Scottish Widows *Pension report 2016* indicates that 57% of them are not saving enough for an adequate retirement. This, coupled with the almost six million workers not being enrolled after being assessed, means that a significant part of the working population is not enrolled in a pension.

## The old-age dependency ratio

This represents the number of people over state pension age divided by those of working age. This illustrates the number of people who have to work and pay taxes to support each pensioner through the National Insurance system.

Increases in longevity and a decrease in birth rates have led to an increase in the old-age dependency ratio. This increase affects the ability of taxpayers to fund state pensions and pensioner benefits. In 2016, the Pension Policy Institute states that there are 308 people of state pension age or over for every 1,000 people of working age. If this continues to increase, the state pension age will have to increase and there may be further changes to the state pension, particularly for younger workers.

## Minimum contributions

Growing evidence suggests many newer employers are setting up workplace pension schemes on the minimum contribution basis. A 2% contribution is not meaningful. Even 8% of qualifying earnings is unlikely to produce a decent pension in retirement.

Further, the Pension and Policy Institute states that median employer contribution rates have decreased from 8% and 5.3% – defined contribution (DC) trust and group personal pension plans (GPPs) – in 2012 to 3% and 4% in 2014. DC trust schemes have seen the biggest drop due to auto-enrolment because master trusts are more likely to be used by employers enrolling employees for the first time and paying minimum contribution levels than GPPs.

## Increasing employee engagement

Employees need to be fully aware that in times of very low interest rates contributing to a workplace pension scheme is a very effective way of funding for retirement. On the current minimum contribution basis employees should be getting tax relief on their personal contributions which is then matched by the employer – effectively a 150% return.

## Increasing power for the Regulator

The Pensions Regulator has shown that it has teeth and there have been an increasing number of fines for employers. This includes fines for late or nonpayment of contributions and not completing the compliance declaration in time. Moving forward, we are not fully aware of how an employer's compliance obligations will be checked. Could there be on-the-spot employer visits to check that duties and records are being complied with?

## Consolidation of master trust providers?

Further, the Pensions Regulator will have increased powers over master trusts. This is imperative because there are a growing number of new entrants into this market.

In all reality, over the coming years it will be no surprise if some of those new entrants have merged, been taken over or stopped trading. This has already happened when Gen Life merged with Smart Pensions. FTadviser.com indicates that both Now: Pensions and The People's Pension have indicated they may be willing to assist and/or acquire smaller master trusts.

## Choosing a pension provider

Some employers are concerned about the potential of litigation from employees or former employees on their choice of workplace pension provider and this has been highlighted by a number of MPs. Employers should consider maintaining evidence and audit trail of why a particular pension provider was chosen and what research and advice took place.

#### **Section** State St

Further information Scottish Widows – Retirement Report 2016: tinyurl.com/zhmhw3e Pension Policy Institute – The Future Book: Unravelling workplace pensions: tinyurl.com/zo5wxnl

## **KEY FACTS**

Information from the Scottish Widows Retirement Report 2016 and the Pension Policy Institute's The Future Book: Unravelling workplace pensions (2016 edition).

- 12% is the minimum percentage of income which people consider adequate to set aside in preparation for retirement.
- 56% of people are saving adequately for retirement – compared to 46% in 2012
- 19% of those in their forties are not saving at all.
- 24% of selfemployed people are not saving at all.
- 40% of people started saving for retirement because they were auto-enrolled.
- 47% of those in their thirties and forties are saving inadequately or not at all.
- A 65-year-old man can expect to live on average to age 86.5 and a 65-year-old women to age 88.7.
- 49% of those auto-enrolled are in master trust schemes.

## Home sweet home

*Duncan Walker* provides some ideas on making home working more enjoyable and efficient for employees and the self-employed.

#### **TEN SECOND SUMMARY**

- 1 Lower costs and greater flexibility are just two of the advantages on the home office.
- 2 Take steps to overcome isolation.
- **3** For employees there may be career worries.

fter employment with a large corporate organisation for 20 years, I started my own accountancy practice in 1998. I operated from various offices before finally purchasing a house in Edinburgh and converting one of the rooms into an office from where I continue to trade. I have therefore had many years' experience working in various places and have distilled the following advantages and disadvantages on 'working from home'.

Let's look at the advantages first.

## Costs and flexibility

By working at home, an accountant can save on the many hidden costs associated with going to work. These include commuting, car costs, and indirect costs such as professional wardrobes and their drycleaning. The cost of care for older children can also be saved.

That said, and in my experience, for younger children it is highly unadvisable to forgo childcare and try to balance close care and supervision with the demands of the job. Finally, some home costs can become tax deductible.

The flexibility to determine your own work hours is an important aspect of this. Further, environment, lighting, temperature, setting and mood can be tailored to the individual's need to create a happy and productive workplace. This also includes the flexibility to watch TV, play sport or attend important family events.

#### Fewer distractions, closer proximity

Co-workers' banter and distractions, unnecessary interruptions and unimportant meetings can all be avoided when safely at home and sealed off in an environment that forms a barricade from any possible interruptions. If necessary, meetings can be arranged nearby to ensure some occasional time out of the office.

The physical proximity to family and the convenience of being at home are tremendously comforting. For parents, it can be especially comforting to know that they are near their children and available should they be needed for any reason. This also applies in the case of elderly care.

#### Less stress, more productivity

The stress of commuting in bumper-to-bumper traffic at rush hour in many countries is extremely counterproductive and can lead to you becoming exhausted and worn before you have even begun the day. This is especially true where the workplace is far from the office. Other stresses can include unfriendly co-workers, a suboptimal work environment and constant distractions.

Removed from the stresses and distractions of the workplace and working independently in a preferred environment at your own pace also makes for a happier and more productive work regime.

#### Better health and work/life balance

With long commutes of anywhere from one to three hours a day or more, physical and mental health may be adversely impacted. The former because gym hours are usually the first to go and the latter because of the stresses associated with the commute and the workplace itself. By working at home, the commuting time saved enables more time to be spent on physical exercise; for example, to go for a long walk before and after work or to join a local gym.

The beneficial work/life balance – the aspiration of the modern professional – is often achieved and tuned to satisfaction through a working at home arrangement. But that is not to say that there are no disadvantages.

#### Isolation and distractions

The social aspects of work are often overlooked. Professionals working from home may often complain of isolation and loneliness, given their removal from their bosses and co-workers, and this can be very depressing to some. Because the workplace provides a location to meet people and make friends for many, professionals working from home have to be more creative and resourceful in getting to know people and in staying in touch with their colleagues. However, this can be overcome be ensuring that you leave the home at least once each day to meet clients, network or simply to take some exercise.

Although office distractions are avoided by working at home, different distractions may arise. Interruptions from children, neighbours, friends, family may be very disruptive and special efforts must be made to make hours of work clear and that one is unavailable for interruption despite being physically at home. At extremes, this is best achieved by putting an inside lock on the door within the home office to prevent disturbances.



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## PRACTICE DEVELOPMENT



#### Separating home from work

The temptation to engage in household matters when at home is often very strong. There may be a sudden urge to clean the home, do the shopping, childcare, cooking, home finances and socialising all while meeting the full requirements of the job. It is essential to draw the line between home and work to avoid both areas suffering. One suggestion might be to wear a suit during working hours.

With no-one looking over your shoulder to enforce strict hours there may be a temptation to work endlessly. The pressure to do this may be compounded by feelings of greater expectations and self-imposed pressures to prove yourself and your abilities in this arrangement. Moreover, the lack of physical separation between home and work may add to this pressure.

Much can change from day to day in a company and employees may feel remote from important developments such as staff changes, new business, changes in company direction, new competitive intelligence etc.

When working from home for an employer, the danger of being overlooked for promotions and career development opportunities is quite real. There may be the sense that other more visible employees are actively and aggressively vying for such chances. An open line of communication with management and regular visits to the office are critical to prove dedication and commitment and to prevent the "outof-sight-out-of-mind" syndrome.

## Conclusion

Forgoing the office environment is not for everyone. It takes dedication, self-control, discipline and motivation to persevere without succumbing to distractions and losing drive and momentum.

Working from home is a dream for many but it has its pitfalls. As more and more professionals seek a better work/life balance, and more companies adopt flexible policies to accommodate shifting workplace priorities and realities the working from home option is becoming increasingly viable. Employees see this as an ideal means to remain in the workforce and continue to be employed thereby maintaining all the tangible benefits of being part of an established company, while enjoying all the advantages of being based at home.

Over the years I have experienced many different working environments and my best advice is always to try to fit the working environment to family and life circumstances. In that way the best benefits can be achieved. At the present point in time working from home fits best for me from both a business and personal perspective.

## **ANOTHER VIEW**

## Dawn Brindle of Happy Accounting offers her thoughts on efficient home-office working.

"The art of writing is the art of applying the seat of the pants to the seat of the chair."

I know that novelist Mary Heaton Vorse was speaking about writing, but for me this quote accurately captures the most fundamental thing about efficient home-office working. Have set "office hours" and make sure you are at your desk during those hours. The washing will wait (though unfortunately has yet to magically do itself) and the doorbell has been broken for three years so it's not imperative that you fix it this morning.

Once the many distractions have been overcome and you are sitting at your desk, what next? Have a work plan and stick to it. I compile a weekly plan on a Friday afternoon or Monday morning and schedule the trickier jobs for mornings and the more repetitive ones for afternoons. I set aside time each week for my own company's bookkeeping and marketing. Avoid web surfing and try to avoid getting drawn into discussion forums on accounting community websites. Therein lies madness.

And finally? Enjoy it. An estimated 1.5m people now work from home in the UK, with the South West (where I live) having the highest proportion: one in 12. It allows time to attend more of the children's school plays, matches and parent's evenings (although sometimes this is not always an advantage). It also provides the flexibility to cope with the more mundane things involved with running a house and I now exchange Christmas cards with delivery drivers rather than terse notes.

On bad days, reminding myself of these advantages helps to focus on the task at hand. If all else fails, I dial up the local traffic and travel reports.

# Happy hundred

The Institute of Financial Accountants celebrated its 100th anniversary in September. IPA Group CEO, *Andrew Conway* gave a celebratory address at a special event held at the House of Commons.

#### **Section** FURTHER INFORMATION

Further information Deakin University SME Research Centre: tinyurl. com/jf3c3lz IPA Small Business White Paper: tinyurl.com/hbaywxk

#### **TEN SECOND SUMMARY**

- 1 Challenging times in the past have led to a brighter future.
- 2 The public engages an accountant because they trust the professional to have knowledge that they do not.
- 3 To attract younger people to accountancy, stronger connections must be made to the social impact of the work.

would like to start by acknowledging the most important people here – our members who have supported the Institute for many years. The centenary celebration is not our celebration; it

is yours. I want to congratulate you all on the many decades of effort you have put in to achieve this milestone. No doubt there were some challenging times, but the future has never looked brighter as today we celebrate the centenary of the Institute of Financial Accountants. Obviously, we had a significant change take place when we brought the two organisations together in 2015. This was about the future, built on the past; about the members of tomorrow while securing a stronger future for the members of today. We now boast the fact that we are the world's largest SME and SMP-focused accountancy organisation.

I would also like to acknowledge the Board of the IPA, notably the President Wendy Leegel who also chairs the IFA Board, Damien Moore and Michael Colin the IFA Member Advisory Council Chair. I would like to thank John Edwards and the UK team for organising this event which is a fitting celebration for this occasion. Thank you also Paul Druckman for giving up your time to speak to us today.

## **Professions and people**

Professional bodies are not organisms in their own right, they comprise natural people. From the IFA perspective, it has been and continues to be blessed with individuals who have contributed a great deal. I would like to acknowledge former members of council here today and pay my respects to the late Robin Lidell who recently passed away and who was a former Chairman of Council. To former Chief Executive Malcolm Dean and importantly David Woodgate who worked closely with us to bring about the amalgamation, and is a good friend, it is wonderful you could all be here today.



So, here we are in 2016, a world far removed from 1916 when the IFA began. A world digitally connected with capital flows zipping from London to Sydney at the click of a button. Where does that position professional accountancy organisations? Our roles as professional bodies are to facilitate the transfer of knowledge and create a forum for interaction. This must be digital. We need to evolve our thinking. We face the bold reality that if you are not willing to embrace change and digitisation, the profession will not hold a place for you. The public engages an accountant because they trust us. They trust you because you have knowledge that they don't. So your commodity is knowledge. The value of your commodity is determined by how current it is. That is where we as professional bodies come in.

## Focus on engagement

We will need to focus on the way we engage with you - how we transfer knowledge. To rely on printed technical papers will leave you behind. The way the media world has changed is remarkable. We are all journalists. We are capturing more content more often than any other time since the dawn of civilisation. The capacity of our hand-held devices is set to exceed the computational power of the human brain in the next few years. Our use of robotics and 3D printing has transformed the medical and engineering professions. In the law, the use of IBM Watson is profound - the ability to accurately predict the likely success of a legal matter by simply entering the base facts of the case into Watson has resulted in the legal fraternity shifting towards the role of dispute avoidance rather than dispute resolution.

Our challenge is remaining at the forefront of this change. We have a direct obligation to our members to ensure they are equipped to become the trusted adviser, particularly in the space that brought the



Andrew Conway FIPA FFA is Chief Executive Officer of the Institute of Public Accountants (IPA) Group. He has been chief of staff in the Australian Government Treasury Ministry and was awarded the Centenary of Federation Medal through the Order of Australia. In 2009, he became the youngest CEO of a public entity and in 2011 was presented with the Young Professional of the Year award.

award. Andrew is co-author of the Australian *Small Business White Paper* and chair of the IPA Deakin University SME Research Partnership In 2014 he received an award as the Australian Financial Review, Boss Magazine Young Executive of the Year. Andrew's academic background and qualifications are in commerce, education and commercial law.

## MEMBERS **IFA CENTENARY**

IPA and IFA together – the small business segment. We knew this amalgamation would work because we have the direct cultural alignment with small business. This is why, through the Deakin University SME Research Centre, I am pleased to announce that we have appointed UK academics to the research team to develop a UK version of the Small Business White Paper. We have seen significant success through this initiative in Australia - rather than talking about small business as the "engine room of the economy" we are providing an evidence base as the foundation of our policy. This goes back to one of the original pledges we made to members at the time of the amalgamation - we wanted to provide a worldleading credible voice for small business and the professionals who support them.

## Looking forward

Finally, as we cast our eyes to the horizon and attempt to forecast the next hundred years, we would all be well-served to reflect on a constant in our profession. That is the impact we have on the world around us. Imagine for a moment a world without accountants. Nothing would happen, commerce stops, government services become irreconcilable, aid funds unaccounted for. Our work provides stability to economies, transparency to transactions and confidence in the movement of capital. From local produce markets to global capital markets. The work that we do does change peoples' lives through building stronger communities. If we are to continue to attract younger people to our profession, we must draw stronger connections to the social impact of our work. Part of my own research passion is understanding the correlation between the early engagement of an accountant and the impact on the mental health of small business owners. There is evidence that this points to significantly lower rates of stress and clinical depression and the tragic consequences we know can result.

So today we celebrate with you, not for you. We join together to embrace the future with a keen eye on the past and an acknowledgement of what and who has brought us to this point. Congratulations and happy one-hundredth birthday.



Paul Druckman addresses the guests





L-R: Yuiry Pespyskiy, Yuriy Kostyukhin, Olga Grigoreva and Igor Zhuravlev with John **Edwards and Andrew Conway** 





## **Professional skills**

*Lucia das Neves* suggests that IFA members could volunteer their knowledge and expertise to help a cause that they care about.

## TEN SECOND SUMMARY

- 1 November 2016 Trustees' Week provides an opportunity to consider applying professional skills in the voluntary sector.
- 2 Charities need specialist help to tackle critical challenges and turn ideas into reality.
- 3 As well as helping the charity, the volunteer can receive significant personal benefits.

s we celebrate Trustees Week this November, now may be the opportune time for IFA members to consider contributing their accountancy skills on the board of a charity that they

care about.

The first question is likely to be "What are trustees?" Trustees are the people guiding and supporting a charity. They help to make the UK the sixth most giving country in the world and play a vital role, volunteering their time and working together to make important decisions about the charity's work. Many charities are looking for a minimum of two to three years' commitment and how much time that you need to give varies greatly from a few hours once a month to a meeting once a quarter.



*Lucia das Neves* leads the marketing and communications function

with Reach Volunteering,

volunteering organisatio with more than 30 years'

experience connecting people with skills to roles that fit their interests and

charities that need these skills to succeed. Last year, it placed 506 volunteers

making a difference in 309 charities. The Reach selfservice platform allows volunteers to search for an

opportunity, interact with charities online and apply

To find the ideal opportunity visit: www reachskills.org.uk.

## A good match

Philip Needham, company accountant and finance director, became a trustee at The Counselling Foundation (TCF) and provides the perfect example of how one person can make a real difference to a charity. TCF offers low-cost, quality counselling and counsellor training for better mental health in the community that it serves. After just six months, Philip had already made a big impact, as Robert Cumming, the charity's chief executive officer reports.

"Philip changed the way we present our financial information, including departmental profit and loss accounts. He has sharpened the focus of our finance committee, given advice and guidance on financial matters and reviewed the charity's governance and objectives. It has been a difficult time financially, so Philip has been a great addition and has made a real impact."

Philip says:

"The opportunity at TCF really appealed to me, both practically as it was close by and because my wife is a trained counsellor and hypnotherapist. I

## members VOLUNTEERING

have always felt that mental health is an area which doesn't get enough attention."

#### What do charities and non-profits need?

Research shows that charities need specialist help to tackle their critical challenges, including funding, growth, managing change and turning their ideas into reality. However, less than half can afford to pay for professional help, and this is a particular problem for small- to medium-size charities and non-profit organisations. For many, it is financial expertise that is critically needed to become sustainable and thrive.

More than ever in the current climate of cuts to funding, strategic planning is needed. Good governance has also become headline news and financial oversight and compliance are vital to the success of a charity. This is where the accountancy skills

of IFA members can come into their own.

#### What's in it for me?

As well as the satisfaction of putting something back into the community, we can list various benefits for the volunteer.

- Make a real difference: Skilled volunteering is also called "high-impact volunteering" because it usually has a great impact on the charity. The volunteer has the benefit of knowing that their skills are making a significant difference.
- A clear sense of purpose: As for Philip Needham, there is the knowledge that the volunteer will be helping a cause that they care about. There is the chance to become part of something important, beyond your everyday life.
- Professional development: Volunteering can help to develop professional skills. These could be leadership, decision making, negotiation and communications skills.
- Develop new interests: The volunteer may discover that they have a passion for issues such as homelessness or the environment.
- Expanding networks: There is the opportunity to meet new people, potential friends and business contacts.
- *Feel good:* According to many studies and recent books on happiness, volunteering is high on the list of activities that make us happy.

## Do I have to be a trustee?

Instead of being a trustee, a short-term project might be a better match between the charity and

volunteer. This provides a chance to try skills-based volunteering before making a greater commitment as a trustee. The story of Jayne Leak and the Parent Support Group (PSG) is an example of many shortterm projects that provide great benefits for both volunteer and charity. "Jayne took us from double ledger books to an electronic system," says Anne Williams, operations director of PSG.

The Greenwich-based charity provides one-to-one support for parents of children engaging in anti-social and often criminal behaviour, including drug and alcohol abuse. As a small charity with the operations director being the only paid staff member, PSG needed someone with financial skills to ensure that the charity could account for and make the best use of its resources in uncertain times.

Jayne developed new accounting procedures, replacing outmoded ledger books, and set up an electronic system that a volunteer or staff member would be able to operate on their own. "We now have accurate financial systems in place for the management of multiple, ring-fenced funding systems," says Anne.

For Jayne, it was a great opportunity to contribute her skills and develop her career in a new direction. Currently self-employed as a contract management accountant, her list of clients has included a range of businesses from sole traders to large conglomerates. "I would like a change," says Jayne, "and in an ideal world would love to secure paid employment in the charity sector."

## Passionate beliefs

Mental health charity, Mind In Camden, was looking for a new trustee who, along with financial acumen, would bring strategic vision and, importantly, shared the organisation's values about mental health.

Susana Gomez works in the banking sector and wanted to use her skills to make a contribution to a cause she believed in, as well as increasing her board exposure in a different sector. Susana was just what Mind In Camden was looking for and has settled in well supporting the charity: "Susana is a great committee member, I cannot speak highly enough of her," says chief executive officer Brian Dawn.

And what does Susana feel she's getting from the experience? "This type of experience is very rewarding," she explains. "It is energising, increases the diversity of people you interact with, uses your transferable skills – you grow with the experience."

#### What next?

There are about 194,000 charities in the UK. And just over one million trustees. That equates to a wealth of opportunities and causes that need support – whether through the longer-term commitment of being a trustee or for a short-term project, or perhaps something in between. There is something for everyone – with causes as diverse as the environment, mental health and poverty relief.

#### FURTHER INFORMATION

Trustees' Week is an annual event to showcase the great work that trustees do and highlight opportunities for people to get involved and make a difference. This year, Trustees' Week was from 7 to 13 November.

Visit: www.trusteesweek.org.

## An alternative approach

*Craig Winston* considers the arrangements that members should make to protect their firm's value for themselves and their family.

#### **TEN SECOND SUMMARY**

- 1 How would an accountancy practice cope in the event of the proprietor's serious illness or death?
- 2 The importance of appointing a professional alternate who can step in at short notice.
- 3 As well as protecting the interests of clients, an alternate can help to protect the value of the business itself.

Il good business people know that, periodically, they should take time out to think about strategy, but so few do. This is because of the pace and demands made upon all of us in this highly technological age when people expect instant responses to emails and phone calls all the time.

A good strategic review is the classic SWOT analysis. What are my strengths, weaknesses, opportunities and threats? Throughout our lives there are various key decision points where we have to take time out to think about the next stages along the road we travel. We have made those decisions in the past: when we opted for a career choice, decided to get married and start a family, and to buy a new house and such like.

These are all serious life defining moments and yet so few of us, because of our heavy commitments such as work and family, really take time out to plan another very important milestone: how to protect the value in the business we have built up. We must consider what would happen to that business in the case of, say, incapacity by serious illness or death before natural retirement.

Planning for retirement is a whole area of discussion and thought and is outside of the scope of this particular article. However, ensuring that it is possible to keep a business practice together is a fundamental that needs consideration so that the owner has something to sell when they do retire.

Over the past few years, I have met and spoken with many practitioners who, while offering great advice to their clients, have buried their heads in the sand about important matters such as protecting the interests of their own practices. The questions they should be asking themselves are as



follows. What happens to my practice if I become incapacitated, perhaps by having an accident such as a broken arm or leg, contracting a serious illness or dying before retirement? What might happen if I become so overworked that I feel I can no longer cope, perhaps as a result of mental stress?

## **Mitigating risk**

There are ways in which these risks can be mitigated. The first is to seek out an alternate – this is someone who, in the event of circumstances such as those outlined above, can stand in and keep the practice running while the owner is incapacitated. If this is not addressed, clients who need their accounts and tax work done will simply walk away to a new accountant to get these issues fixed. These clients will then be lost permanently.



Craig Winston is a commercially orientated FCA who enjoys working with people. He moved into industry and after 22 years in roles such as finance director, set up his own business in 2000 as an interim executive/ consultant. He has good experience in various sizes of organisations in the private and charity/ not for profit sectors. He now works to assist sole practitioners and multipartner firms seeking to sell their practices with th

#### MEMBERS

## PRACTICE MANAGEMENT



All IFA and FTA members in public practice have a duty to ensure that their practices are at all times properly conducted, including arrangements to cover holidays and sickness. The IFA is aware that problems can arise if adequate arrangements are not made when the services of a practitioner (particularly a sole trader) are interrupted due to continuing ill-health or death. This can lead to significant inconvenience to clients, damaging the practice's reputation and result to possible complaints to the IFA.

In the event of the death of a member, without making adequate arrangements, family members may inadvertently become involved in trying to sort matters in an area with which they are not comfortable. This can lead to significant worry and anxiety during upsetting and sad circumstances.

> Therefore, as part of the IFA's annual practice return, members in public practice will be required to provide information to the IFA on details of their alternate in the event of ill-health, long-term incapacity or death. Please make sure that the nominated alternate has adequate skills and knowledge and is available to run your practice if these circumstances arise.

In fact, he took my advice and also there is another very good reason to seek someone younger as an alternate if this is possible.

## Preparing for the future

One day, and it will soon happen to me, Old Father Time will pass by and suggest – even if your wife, partner or children are not already saying the same – that it is time to consider retirement and slowly wind down. This is the best and healthiest way to approach retirement after a long and busy career, so that those golden years that remain can be fully enjoyed.

Further, working with an alternate and getting to know each other and each other's professional practices, can be a very natural and easy path to selling a practice in the future – having protected that valuable asset on the way to eventual retirement.

Professional business owners who do not secure some cover risk losing everything and this would be a tragedy for them and their family if misfortune should strike.

Take time to think about this and then take action.

#### **Cause for concern**

The IFA have recognised that this is a potential area of concern for many of their more senior experienced practitioners and members in practice should take account of the Institute's *Advice on Alternates*. It is sometimes difficult to discuss with colleagues as I am sure that most would want to find an alternate who is also an IFA member.

#### **Section** FURTHER INFORMATION

For more than 25 years, Goldsmiths has a proud history of being accessible, connected and responsive to the needs of sole practitioners and multipartner firms. Support services include practice growth, acquisition, disposal or retirement planning and exit strategy. Additional services such as practice finance, secure plans, and a businesses for sale or wanted service are provided. Goldsmiths can also assist with strategic planning and positioning, helping practices of all shapes and sizes make better decisions with confidence and discretion. Telephone 01628 627637 or email info@goldsmiths group.co.uk.

Members need to find someone with whom they can feel comfortable. Ideally, the alternate will be younger than them on the basis that they are more likely to remain healthy. Initially, a good idea is to meet for an informal chat, perhaps over a cup of coffee, to get to know each other and make sure they are the right person to deal with your clients. The parties should keep in touch with each other on a regular basis.

I spoke earlier this year to a 62-year old sole practitioner and asked him if he had an alternate. This is how the conversation went: He: "Yes of course." Me: "How old is he?" He: "70 I believe" Me: "In good health?" He: "Not really; although I do not think we have spoken for two years or so." Me: "Time for a change then – maybe someone rather younger."

## **Best behaviour**

*Martin Durbidge* reminds members of their IFA membership obligations and the lessons that can be learned from common breaches of rules and regulations.

#### **TEN SECOND SUMMARY**

- 1 Complaints must be taken seriously and cannot be evaded by resignation.
- 2 The importance of a clearly worded letter of engagement.
- **3** IFA practising members must hold professional indemnity insurance.

s the Disciplinary Case Manager for the IFA, it is my job to see all the complaints that come in. I say "all", but there aren't that many. Members are mostly wellbehaved and that saves the IFA some money because I do not need to work full-time.

Most complaints come from clients, but a few come from the police or HMRC by way of notification of conviction or other proceedings. Some are internally generated when we realise a member has not done what they are obliged to do to enable us to fulfil our regulatory functions on behalf of all IFA members. As might be imagined, some common themes can be seen from such complaints and a review of these might help readers make sure they keep on the straight and narrow and avoid mistakes.

## Inevitability of complaints

For anyone who is in practice long enough, it is almost inevitable that they will receive some complaints. It does not necessarily mean that they have done something wrong but, unless they are very lucky, at some point there will be enough of a mix-up, an unpleasant client or a slack member of staff to end up with a complaint.

Part of the price of professional body membership is that the IFA must take every complaint seriously. There may be nothing in it, and frequently that is the finding, but we must go through the process. And members are obliged, under the Disciplinary Regulations, to co-operate. They cannot simply resign – the IFA would be failing in its public duty if it let a member do this rather than investigate a complaint against them. The Institute has to take its role seriously and be seen to be doing so. So the first lesson is that the member should explain their side of things, calmly and professionally, and provide what we ask for. Do not breach the Disciplinary Regulations by trying to resign or not co-operating.

## Importance of engagement

When a complaint reaches my desk the first thing I usually ask the IFA member for is a

copy of the engagement letter. The IFA Code of Best Practice says "practising members must issue terms of engagement (usually an engagement letter) to clients at the commencement of their engagement." What is amazing is how many times there isn't one. This procedural shortfall gives rise to two problems. First, the member is in breach of the code. Second, if the complaint is that they didn't do something and the defence is that they were not appointed to do it, there is no evidence to support this.

On the other hand, I have had recent complaints about members (a) failing to deal with VAT and (b) not reporting sub-contractors' construction industry scheme (CIS) figures to HMRC. In both cases the members said they had not been responsible for those areas and the client had retained that responsibility. In both cases the members produced an engagement letter that supported them. It was irritating and inconvenient for them to have to deal with a complaint, but a least they had taken the trouble to document their retainer at the outset.

Thus, when a complaint arose, whether through a mixup or maliciousness, they were able to rebut it with evidence, straight away. It always seems extraordinary to me that some members enter into contractual arrangements with nothing in writing to protect them. I know the professional conduct committees tend to take a similarly dim view.



Martyn Durbidge is the IFA's disciplinary case manager. He previously worked in the ICAEW's professional conduct department for many years as a complaints assessor. Martyn can be contacted by email: martynd@ifa.org.uk

## members PRACTICE DEVELOPMENT

## **Clarity and confusion**

I see engagement letters frequently. Common problems are that they are unclear as to which financial year the engagement is starting from and whether the engagement is a rolling one from year to year or whether a fresh engagement letter will be issued annually. Recently, I have seen several issues arising from miscommunication between accountant and client – a common problem. When an accountant refers to, say, the 2016 tax return, they should make clear whether they mean the return for the tax year 2015/16 or the return submitted in 2016 – which, of course, will frequently be the one for 2014/15. These are too easy to confuse.

Another easily overlooked point is to specify whose job it is to make sure the paperwork is provided for the accountant's work.

The accountant will often say "I'm going to need your paperwork for the year ended..." as a throwaway line at an initial meeting. But the client frequently expects to be reminded, at the appropriate time, of what is needed and when. Conversely, the accountant all too often relies on the client knowing that they should provide

the right papers at the right time. When problems arise at the last minute – or sometimes after the last minute – the client blames the accountant for not requesting the papers and the accountant blames the client for not providing them. The engagement letter needs to set out who has responsibility for what.

## **Best practice**

The IFA's Code of Best Practice also requires practising members to hold professional indemnity insurance (PII). If notified of a complaint one of the first things that a member should do is notify their insurers. Again, this does not necessarily mean that there is anything substantive in the complaint but, if it should turn out badly, the insurers are unlikely to provide cover if they were not informed about it at the outset. Cover can extend from a client's claim through to disciplinary fines and costs from the

from the IFA.

## Breaching the code

Members who are in practice without PII are in breach of the code of best practice and liable to disciplinary action. This does not arise often, but more common is a member's failure to provide the Institute with their current PII details. Without this, the CPD declaration and the practice annual return, we cannot renew the member's practising certificate – even if they have paid all the relevant fees by direct debit.

Too many members end up unwittingly without a practising certificate because they have not sent in the details we need to renew it. Do not think that just because a direct debit has been set up that everything has been taken care of. Being in practice is a big responsibility and we need to check annually that everything is as it should be to allow members to continue to hold an IFA practising certificate.

Those in practice without a certificate can, under Bye-law 10.2, be removed from membership immediately, without even going through the disciplinary process.

## Anti-money laundering

A relatively new area is anti-money laundering (AML). IFA members in practice are covered by the Money Laundering Regulations 2007, and they must be supervised for compliance with the regulations by a supervisory authority. The IFA is such an authority and there is a lot of information on our website about this. Further, many readers will have attended one of the frequent workshops the IFA has run on the topic. Nevertheless, some members are still not fully compliant.

For example, AML Regulations require proper training of staff and principals. One firm told us "we've never had any involvement in money laundering so we don't need training." Further, members must have a procedures manual. Do not tell the AML reviewer "There are only a few of us so we all know what to do." That is not good enough. Nor is the excuse to the lack of identification documents on file that "I've known the client for 20 years, why do I need to see his passport?"

Just as there is a need to record the client engagement, there is also a need to record client due diligence, policies and procedures and the risk assessment that must be carried out. It's no good a member saying that they only act for low-risk clients so do not need to risk assess them. Nor that they do not take on a client if they don't like the look of them. Without a record of them, AML procedures might as well not exist – and if they do not exist the member is breaking the law.

## Conclusion

I hope members are familiar with all these points but, if not, please learn from the lessons of others. As well as aiding their own practices, they will minimise the disciplinary workload, help to reduce my working hours and thereby continue to save the IFA some money.

#### FURTHER INFORMATION

IFA Member Regulations: www.ifa.org.uk/ memberregulations

AML guidance can be found at: www.ifa.org.uk/ technical-resources/aml.

## **Branch meetings**

*Linda Wallace* provides details of forthcoming branch meetings and IFA autumn conferences.

#### **TEN SECOND SUMMARY**

- 1 Branch meetings, speakers and topics for the coming months.
- 2 Members should remember that they can also find information and reserve places on the IFA website.
- 3 If there is no branch in your area would you be interested in starting one?

hese pages include information on forthcoming branch meetings, but don't forget that up to date information is on the IFA website at www.ifa.org.uk/events. Also, following the links on the website enables places to be booked at your local meeting. So please come along and support your IFA local branch to gain CPD points, keep up to date with IFA news and important issues in the accounting world, and of course meet local members.

Branch events are free and contribute towards your CPD points.

- There are branches in the following regions.
- Bucks, Oxon & Berks
- Devon & Cornwall
- East & South Yorkshire
- East Anglia
- East Midlands
- Essex
- Hampshire & Dorset
- Greater Manchester, Lancashire & Cheshire
- London
- North & West Yorkshire
- North West Midlands
- Northants, Beds & Herts
- Northern Ireland
- Northern Counties
- Scotland
- South West Midlands
- West of England & South Wales

If you do not currently have a branch near you, and are interested in setting one up, we can provide all the necessary assistance and support to make it happen.

Email us on mail@ifa.org.uk with the following information:

- your membership number;
- telephone number; and
- your enquiry.

Bucks, Oxon and Berks Branch

Kevin Hall, Gabelle: VAT update, including MOSS Jurys Inn

Godstow Road, Oxford, Oxfordshire OX2 8AL

## MONDAY, 21 NOVEMBER 2016 (6PM - 9PM)

South West Midlands Branch

**Ian Shirley** of Crowe Clark Whitehill: The A-Z of tax investigations

**Mark Durrant** of Central Finance: Access to finance/ alternative finance

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#### Abbey Hotel

Hither Green Lane, Redditch, Worcestershire B98 9BE

## WEDNESDAY, 23 NOVEMBER 2016 (5PM - 9PM)

#### Devon & Cornwall Branch

Lynn Ross, NatWest: Alternative sources of finance Julie Rawlinson-Smith, Centurion: VAT – where are we

now and where are we going?

#### Plymouth Albion Rugby Club

Brickfields Recreation Ground, 25 Damerel Close, Plymouth, Devon PL1 4NE

## members BRANCHES & EVENTS



## Your branch needs you

Linda Wallace thanks branch chairs for their hard work and seeks a new recruit as chair of the West of England & South Wales branch. Could it be you?

#### **TEN SECOND SUMMARY**

- A big thank you to Justine Riccomini and Ali 1 Redwood for their work chairing local branches.
- 2 The West of England & South Wales branch is looking for a new leader.
- IFA head office gives financial and organisational support for its local branch network.

ustine Riccomini (Greater Manchester & Lancashire branch) and Ali Redwood (West of England & South Wales branch) have both taken the decision to step down from their roles as branch chairs. Both decisions are based on their additional work responsibilities and commitments

We would like to thank both Justine and Ali for the time and effort they have given to their respective roles. The energy they have both shown in running the branches has contributed enormously to their success. We wish them well and hope to see them at future local meetings.

The Greater Manchester & Lancashire branch will now be run by James Smith who has supported Justine in running local operations.

## New branch chair sought

Could you be the new branch chair for the West of England & South Wales branch? To be considered for this rewarding voluntary position you will need to:

- be an IFA or FTA member;
- be the local figurehead for the branch and promote the IFA locally;
- organise six branch meetings a year, find and book appropriate venues for each meeting, and identify (with the help of IFA head office if needed) and contact suitable speakers;
- chair each branch meeting;
- ensure all speakers provide details of their presentation;
- complete necessary budgetary forms each year and submit to IFA head office;
- encourage non-members to pursue IFA membership or to take required IFA qualifications; and
- become part of the Members' Advisory Committee and attend two meetings in London each year.

The new branch chair will receive full support from IFA head office which will help identify speakers and promote local events by email, social media and Financial Accountant. Event registrations are managed centrally and chairs are reimbursed for any expenses incurred.

I would ask any member who is interested to please contact Jonathan Barber in the first instance by email at jonathanb@ifa.org.uk or by telephone on 07711955939.

#### North & West Yorkshire branch

A note of forthcoming meetings can be found on the previous pages, but at the North & West Yorkshire branch meeting on 1 December 2016 the subject of discussion will be the Chancellor's Autumn Statement and the current tax environment. Richard Alderson, Richard Curtis and Paul Spenceley from PwC, will give an update on the financial and taxation legislation which could affect you. Their update will include:

- making tax digital;
- the Chancellor's Autumn Statement;
- the current tax environment; and
- hot topics in HMRC including tax investigation stories.

The meeting is at the Weetwood Hall Conference Centre and Hotel, Otley Road, Leeds, West Yorkshire LS16 5PS from 7.30pm to 9.30pm and is free to members and non-members.

Register at: tinyurl.com/ifa-NWY9.

## London branch

At the London branch meeting on 5 December 2016, Kate Hardy from Qdos Vantage will speak about key IR35 related tests and what actually happens in an IR35 enquiry. Kate will outline:

- existing IR35 legislation;
- changes in tax legislation, namely amended agency legislation and travel; and
- subsistence rules for employment intermediaries.

This session will help to provide clarity on the existing and new legislation affecting contractors.

Paul Clegg, also from Qdos Vantage, will discuss the recent activity undertaken by HMRC regarding enquiries, together with a look at the Connect data system. Enquiries are on the increase and it is vital that members know what to expect and what is being required by the Revenue.

The venue for this meeting is the London South Bank University Keyworth Centre, Keyworth Street, London SE1 6NG. The meeting will run from 6pm to 9pm and is free to members and non-members.

Register at: tinyurl.com/ifa-London.



Linda Wallace is the IFA's Commercial and Business Development Executive. .inda can be contacted by elephone on 020 7554 518





## **Don't miss out** Renew your IFA membership today



There's never been a better time to be a member of the IFA.

We've enhanced our technical helplines and CPD offerings as well as supporting practising members in complying with the Money Laundering Regulations 2007 by offering a series of AML workshops.

Our regional conferences continue to go from strength to strength while lively and engaging branches offer support at a local level.

Renew and pay for your 2017 membership and practising certificate quickly and efficiently online

delivers talent delivers business knowhow delivers accountability

Renew before 31 December 2016 at www.ifa.org.uk/renewals





delivers business knowhow delivers accountability

## Access your IFA membership benefits



We've been working hard searching for business partners to save you time and money on quality products and services. New partners for 2016 are:

- **Qdos Vantage –** tax fee protection insurance
- Merchant Money short-term flexible and affordable loans
- PracticePA cloud-based practice management software
- Filtered online CPD and personalised Excel and Microsoft training
- RD Tax Solutions research and development tax support and advice
- Mercia technical manuals and compliance review services
- AMLCC support on compliance with the Money Laundering Regulations 2007
- The Institute of Business Ethics e-learning tool on why ethical values in the workplace matter

All this along with existing benefits including technical help and support on auto enrolment, online CPD courses, legal, tax and accounting issues and not forgetting great deals from our life style partner Parliament Hill. delivers talent

View all of your membership benefits at ifa.org.uk/membershipbenefits