

# Members' Handbook

THE INSTITUTE OF FINANCIAL ACCOUNTANTS

**MEMBERS' HANDBOOK**

Updated to 29 February 2012

**The Institute of Financial Accountants**

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## INTRODUCTION FROM THE PRESIDENT, ROBIN LIDDELL

I am delighted to introduce this document which aims concisely to provide guidance to new and existing members of the Institute of Financial Accountants. As your President, and as a qualified accountant of many years' standing, I have much appreciated the quality of the guidance provided by my professional bodies. I am therefore pleased that the Institute of Financial Accountants has produced this comprehensive assistance which aims to cover most eventualities. However, this is a living document which may be added to and amended at any time, particularly in response to your questions and experience.

I am also pleased to note that the advantages of our Associate Membership of the International Federation of Accountants are beginning to come through for our own members. First among these are availability of the Professional Accountants in Business Resource Center and the IFAC Code of Ethics for Professional Accountants, on which our own Code of Ethics is strongly based.

I am proud to say that our Institute is taking rapid, but well-considered, strides towards establishing a new professionalism for Financial Accountants. This is in no small way due to the efforts of you, the members, including the Council. However, the IFA's professional and experienced staff has also played, and continues to play, an important and vital part in moving us forwards towards ever-challenging goals.

Lastly, during 2009, the Federation of Tax Advisers joined the IFA group, and I would like to welcome FTA members. Formed in 1997, the FTA's main objective is to provide professional support for tax advisers in practice through a code of conduct and disciplinary processes and to provide the public with confidence when dealing with a member of the organisation. For the IFA, the takeover will broaden knowledge and support by adding tax expertise, enabling it to compete with other organisations for membership, as well as extending the range of qualifications on offer. Joining the IFA will provide many benefits to both organisations, including an immediate increase in the combined membership that will enhance our overall representation in the accountancy sector.

Robin Liddell FCA FFA FFTA

## HISTORY, ACHIEVEMENT AND OBJECTIVES OF THE INSTITUTE

The Institute of Financial Accountants was established in 1916. It is a professional accountancy body predominantly for those specialising in small and medium enterprises, and represents members and students in more than eighty countries around the world. The IFA provides a qualification and continuous professional development. Its members uphold the accepted ethical and professional standards of the profession.

Qualified Financial Accountants may be found in positions at many levels within industry, commerce and public practice. They are professionals who take an active role in the financial management of companies, notably Small and Medium-Sized Enterprises (SMEs). As a result, the profession demands ever-increasing standards of competence from those involved. As professionals, members will want to meet, if not exceed, these standards and demonstrate this to potential employers, clients and your peers. This will involve not just achieving an appropriate qualification, but also ensuring that they have the relevant training, experience and professional competence both to do the job and maintain their qualification.

Members' Branches have been established, initially in the United Kingdom, and more recently in China, Hong Kong, Malaysia, Singapore, Greece, the Baltic States and Sri Lanka. Close relationships have been established in Russia and South Africa to promote the Institute's qualifications in these territories, and development overseas has become an important part of Council's policy.

In November 2011, the IFA was elected a full Member Body of IFAC, the International Federation of Accountants (<http://www.ifac.org/>). IFAC has nearly 170 member bodies worldwide, and in the United Kingdom and Ireland; these include the six chartered bodies of accountants. It maintains its status by satisfying the seven IFAC Statements of Membership Obligation and by demonstrating its fitness to take its place through its submitted action plans. IFAC is particularly important to the profession as it sets standards for the world's recognised accountancy bodies, notably in technical standards and ethics.

The IFA's Mission Statement is "training and supporting financial professionals for the SME sector". This does not limit the expertise of members to that sector, but strongly positions the IFA to specialise in serving its members working in and for the SME sector.

### The Institute's Objective

The Institute has the following objective:

"To provide a professional membership organisation for Financial Accountants involved in the analysis and interpretation of financial statements and management information, enabling individuals and their enterprises to make meaningful and informed decisions."

As part of that objective, the IFA is continually striving to ensure the quality and relevance of its qualifications, and for this reason has aligned its qualifications to the International Financial Reporting Standards for Small and Medium-sized Enterprises. Its core programmes are the Diploma and Professional levels. The Institute also offers specialist programmes such as the Dip IFRS qualification, details of which may be found on the IFA website.

To ensure the ongoing competence of its members the Institute encourages life-long learning and the development of relevant skills, knowledge, values and attitudes. Continuing Professional Development is expected of IFA members.

In order to achieve these objectives the Council of the Institute seeks to encourage the highest standards of propriety amongst its members in the conduct of their work, to provide support where needed and continuously endeavours to raise the profile of the Institute.

## WHAT YOUR INSTITUTE DOES FOR YOU

Some of the benefits which may accrue from membership of the Institute are listed here (please be aware that the Institute reserves the right to change the suppliers or withdraw certain benefits – please check the website for up-to-date information):

- The status conferred by the designatory letters DipFA, AFA or FFA
- The possibility of the use of the title 'Incorporated Financial Accountant' by Associates and Fellows as a professional job title
- Access to useful information on the IFA website including the restricted membership area
- News bulletins by email to keep members abreast of legislative developments in the accountancy profession and in contact with their Institute
- Access to books and manuals on accountancy, taxation, law and other relevant subjects often at special rates
- Provision of a District Society Network which supports members in the UK and overseas to provide CPD and Networking Opportunities
- Income Tax Relief on IFA full Annual Subscription for working UK members
- Continuing Professional Development opportunities
- Access to the Institute of Chartered Accountants in England and Wales Library and Information
- Service (see below) and entry to the ICAEW's many Faculties
- Access for joint FTA members to the Federation of Tax Agents' tax guidance (effectively the FTA is the IFA's tax faculty). There is also the possibility of IFA members joining the ICAEW Tax Faculty
- The knowledge that accounts prepared by you as an IFA member will be accepted by major banks and lending sources
- A Practising Certificate which enables practising members to be listed on the IFA website, and acts as a guarantee of competence to your clients
- A choice of Professional Indemnity Insurance Schemes available for practising members' benefit
- Anti-Money Laundering Supervision by your own Institute under the UK Money Laundering Regulations 2007 rather than by Her Majesty's Revenue & Customs as default regulator
- Guidance through advice lines, covering Tax, VAT, PAYE, Payroll, Employment and Personnel, Health & Safety and corporate law
- An IFA Benevolent Fund which can assist a member or his/her dependents in case of distress

- Direct access to the Bar, without the need to engage a Solicitor
- Discounts on various commercial products and services.

### The Institute of Chartered Accountants in England and Wales Library and Information Service (LIS)

The ICAEW Library and Information Service provides a range of services and resources for IFA members and students. Most help is free, though there are very reasonable charges made for providing you with copies via a document delivery service, or for research time for more complex enquiries and the provision of mailing lists and company reports. To use the enquiry service, just say you are an IFA member/student and quote your IFA membership number. If you identify yourself in this way you ensure that you will be quoted “member rate” charges. The telephone number is +44(0)20 7920 8620 and the library’s address is Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ, email [library@icaew.com](mailto:library@icaew.com).

Within the UK, you may borrow books from the Library and they will send them to your work or home address free of charge. The initial lending period is three weeks and books can be renewed up to three times unless another member has asked for the book. When you first borrow, you will need to register and give them your IFA membership or student number. Extracts from books, model documents and journal articles are delivered by the Library by email (where available), fax or post. There is a charge for this service.

LIS can provide a range of company information services including dividends, company reports, capital histories and mailing lists. See [www.icaew.com/companyinfo](http://www.icaew.com/companyinfo) for details of these services and charges.

You can visit the IFA Library website [www.icaew.com/ifalibrary](http://www.icaew.com/ifalibrary) for access to the online catalogue of over 40,000 books and 250 current journals and a selection of links and online resources on accounting and auditing, law, corporate finance, financial analysis, management and taxation.

You may also, by arrangement, be able to take advantage of meeting and “hot desk” facilities in the City of London.

### Advice Lines available to members

The wk5.com helpline for IFA members on **08456 180 211** provides information and advice regarding business liquidity and cash flow management, business status monitoring, credit information, debt collection and credit control, stock protection, banking relations and cash flow difficulties.

NB IFA members are not permitted to be auditors, independent financial advisors or Insolvency Practitioners unless licensed by another appropriate body (eg ICAEW, FSA etc).

You can also access the special website at [www.ifa.wk5.com](http://www.ifa.wk5.com).

### IFAC PAIB Resources Centre

IFAC's Professional Accountants in Business Committee (PAIB) has established an online international resources centre for use by business members of its member and associate bodies, including IFA. This can be accessed directly from the IFAC website at [www.ifac.org/PAIB](http://www.ifac.org/PAIB).

### Financial Reporting Standards

The IFA does not develop and publish its own Financial Reporting, or Accounting, Standards; these are developed for the whole UK profession by the Accounting Standards Board (part of the Financial Reporting Council). The UK Accounting Standards are based on International Financial Reporting Standards produced by the International Auditing and Accounting Standards Board (IAASB), part of IFAC.

UK FRS may be ordered via the FRC/ASB website, on <http://www.frc.org.uk/asb/publications/>.



### IFA Privileges

IFA Privileges is a member benefits scheme for members (AFA or FFA) of the Institute only. This provides discounted offers ranging from hotel stays to home insurance, from fun days out to summer holidays, from stationery to marketing. Details may be accessed from the Members' part of the IFA website.

### The Benevolent Fund

A Benevolent Fund exists to assist members past and present and their dependents with support in the event of personal financial difficulty. Every application for assistance is given careful consideration and grants made at the discretion of the Trustees. An application form may be obtained by contacting the Honorary Secretary of the Benevolent Fund through the IFA Head Office at Sevenoaks ([mail@ifa.org.uk](mailto:mail@ifa.org.uk)).

The amount of assistance the Trustees are able to give is entirely dependent on the generosity of members. An opportunity for members to contribute is available on the Annual Subscription Form.

### Direct access to a Barrister

Members of the Institute of Financial Accountants have been granted Direct Professional Access to the Bar. This entitles competent members to instruct counsel for themselves and their clients as part of their professional services, to advise on relevant issues of law and to draft contracts and some other legal documents. Direct professional access does not allow members of the Institute to instruct counsel for clients for hearings before the courts although it can be used to instruct counsel for clients before arbitrations, mediations and before tribunals.

As this is a professional right, members of the Institute of Financial Accountants are entitled to charge clients professional fees (just as a solicitor does) for preparing instructions to counsel (known as "the brief"), for attending meetings with the barrister to obtain legal advice (known as "conferences with counsel") and for reading and considering that advice. A model format for a brief is appended at the end of this Handbook; however, most counsel will be happy to accept instructions on a less formal basis.

You are responsible for the fees of the barrister you instruct and you should charge those fees on to your client as a disbursement. It is therefore strongly recommended that you try to agree the

barrister's charges in advance and to ensure your client prepays you those fees. Due to the way the barrister's profession is organised, all fee negotiations are traditionally undertaken with the barrister's clerk rather than the barrister himself.

## MEMBERS' RESPONSIBILITIES

Membership of the Institute involves responsibilities:

- The Institute requires each member to be committed to maintaining the highest professional and technical standards, and to keeping that professional knowledge up to date through appropriate Continuing Professional Development (CPD)
- The Institute's future success and standing in the profession depends upon members upholding its reputation and interests in their professional life.

## MEMBERSHIP GRADES AND RECOGNITION

Financial Accounting Executive/ Diploma in Financial Accounting	DipFA
Affiliate (mostly members of the FTA – AFTA or FFTA)	No IFA designatory letters; can usually use FFTA or AFTA as appropriate
Associate Member	AFA
Fellow Member	FFA

The designatory letters for all these grades may be placed after the person's name to which they relate. Only AFA and FFA indicate full membership of the Institute, and only these members have voting rights (at the AGM). Members in practice who have opted to operate through a limited company may also describe themselves as "Incorporated Financial Accountants". The procedures for achieving each of these grades are detailed in the Bye-laws.

Members of the FTA, as Affiliates of the IFA, are able to take advantage of many of the benefits open to the IFA's members; however they do not qualify for the benefits of full membership.

### CRIMINAL CONVICTIONS AND MEMBERSHIP (NEW 2011)

Although it may not have appeared on some past versions of the membership application form, currently, intending members are warned that they are required to sign a declaration that they have no criminal convictions. This does not mean that spent convictions<sup>1</sup> can necessarily be ignored, nor is the declaration confined to accountancy-related crimes such as fraud or theft. Any criminal conviction for whatever crime must be declared (civil convictions – eg driving convictions - need not be disclosed).

While it might be argued that a member convicted of murder, manslaughter or a sexual crime (for instance) has not by that fact prejudiced his ability or credentials to act as an accountant or tax adviser, conviction lessens the authority of a professional and of course in this age of the internet it would not be easy to conceal the facts from existing or potential clients. This sort of conviction might be considered under the general heading of “bringing the Institute into disrepute”.

The reasoning behind the need to declare is, then, that any conviction might reflect badly not only on the member concerned, but on the status of the Institute and therefore on other members. A professional accountant should be above reproach. Those very few members who fail to advise us of convictions either through deliberate concealment or through ignorance of the requirement are arguably potentially making it difficult for other members to maintain their good name.

Existing members were all asked on their membership application forms to abide by the Articles, Byelaws and Regulations of the Institute, which include reference to convictions. This requirement to declare applies not only retrospectively on application, but to any conviction suffered while a member. Unfortunately a conviction might well mean that your membership will be cancelled, just as an application would normally be rejected. However, each case will be judged on its merits.

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<sup>1</sup> Spent convictions are those which, under the terms of Rehabilitation of Offenders Act 1974, can be effectively ignored after a specified amount of time. The amount of time for rehabilitation depends on the sentence imposed, not on the offence. Convictions which resulted in a term of imprisonment of over two and a half years can never be spent.

## A widely recognised professional qualification

Membership of the Institute may be recognised:

- By employers
- By educational providers including UK universities for degree entry
- By other professional bodies (including ICAEW ) for exemptions
- By Her Majesty's Revenue and Customs (HMRC)
- By HM Treasury and the Manx Government
- By banks, building societies and many other statutory bodies and national organisations.

### RECOGNITION IN EMPLOYMENT

Membership of the Institute is recognised as a professional accountancy qualification by many employers and financial institutions, including other professional accountancy institutes. A list of banks and building societies which accept accounts prepared by IFA practising members is shown on the Institute website, and is updated from time to time.

### RECOGNITION IN EDUCATION

The IFA course is taught by an increasing number of educational institutions, by direct teaching or by distance learning. For those already pre-qualified in some way, the IFA may give exemptions from parts of the IFA examinations. Those who have passed other professional or academic examinations with similar subject matter may be able to take advantage of this arrangement. Reciprocal arrangements exist for IFA members seeking other professional qualifications.

### RECOGNITION BY HER MAJESTY'S REVENUE AND CUSTOMS

Practising members may register as Tax Agents with HMRC, and prepare and submit tax returns on behalf of clients. The FTA's Tax Practising Certificate is also recognised by HMRC. Tax relief is allowed on the entire IFA or FTA annual subscription for all members living within the UK and paying UK income tax.

### RECOGNITION BY HM TREASURY AND THE MANX GOVERNMENT

HM Treasury in 2007 invited the IFA to become one of the Supervisory Authorities under the Money Laundering Regulations for its own members in practice; the IFA is represented by a staff member at quarterly Supervisors' meetings, and he liaises regularly with both the Treasury and SOCA (the

Serious Organised Crime Agency). The Manx Government has also invited the IFA to be a Supervisory Body in the Isle of Man for its members who require supervision. More details on this aspect of regulation are given below.

## SUPPORTING YOUR INSTITUTE

There are many ways of supporting the Institute but also enhancing your own professional development:

- . / Promote the name of the Institute whenever you have the opportunity.
- . / Support your District Society.
- . / Participate in the management of the Institute as a Council, Committee or Working Group member.
- . / Attend the Institute's Annual General Meetings and other conferences, seminars, or events organised for members.
- . / Use your FFA, AFA or DipFA designatory letters whenever possible (business cards, etc).

## THE REGULATION OF MEMBERS

The Institute is a self-regulating professional body. It expects a high standard of professional behaviour from its members, and has a procedure for regulation that is both pro-active and re-active. The IFA is committed to working in the public interest.

Members in practice (ie those performing work for third parties as external accountants, tax advisors, bookkeepers etc) are subject to direct regulation by the Institute, but all members are expected to adhere to a framework of ethics and technical and professional behaviour. Failure to abide by the professional standards of the Institute may result in a complaint against a member, which could in turn lead to a Disciplinary Procedure. Members who are found wanting by these procedures may be subject to penalties; a range of such penalties appropriate to the offence is available to the Disciplinary Committee. However there is also an Appeals procedure for the member concerned where he or she believes unnecessarily harsh treatment has been meted out.

Pro-active regulation by the IFA may involve selective investigation of the work of a percentage of members in public practice annually. Application for a Practising Certificate requires a member to affirm that he has put into place a number of procedures and safeguards; failure to abide by these safeguards is in itself a disciplinary matter.

The Bye-laws contain full details of the following Framework for Regulation, Code of Best Practice and a Code of Ethics (this information is also posted on the Institute website). Additional guidance with interpretation may be sought from Head Office at any time.

Details of the Institute's Disciplinary processes may be read in the Bye-laws and Regulations and on the website.

## THE IFA'S FRAMEWORK FOR REGULATION

1. A member or a person entering into membership of the Institute must comply with the law within his or her country of residence and governing the contract by which he provides his services. This applies to any actions made in the course of work completed either for an employer or a client, or any third party that looks to his or her professional standing.
2. A member must not do anything which compromises or impairs, or is likely to compromise or impair, his integrity, or in the case of client relationships, his or her professional independence.
3. A member must always show a proper standard in all professional work completed in accordance with generally accepted practices and accounting standards.
4. A member must not bring himself or herself, the Institute, or the accountancy profession into disrepute.
5. A member must comply with and uphold, so long as they remain a member, those regulations applicable to them under the Institute's Articles of Association, Bye-laws and other material published by the Institute, and agrees to be bound by any action taken by Council relating to his or her membership.
6. Any member who personally offers services, seen by their client as accountancy work, is required to hold a Practising Certificate.

## IFA CODE OF BEST PRACTICE

1. All members must exercise due care in carrying out their work.
2. No work must be undertaken which is clearly beyond the competence of the member.
3. All members should plan their work.
4. All members should have an adequate system of administration for the work they undertake.
5. The terms of reference for any work should be agreed before the work commences, and members should adhere to those terms.

6. The level of remuneration for any work undertaken should be agreed between the parties before the work is undertaken. The Institute is not involved in the setting of fees. The fees are normally agreed between the member and his client as part of an engagement letter.
7. Any member who holds funds or property belonging to a third party must keep such funds or property clearly distinct from their own property and handle it with the same care as if it were their own.
8. No member should accept work where there is a conflict of interest unless all parties are aware of that conflict and have agreed that the work can be undertaken.
9. Provision should be made as appropriate for continuity of service in the event of the member being incapacitated by illness, or in the event of death of the member.
10. Where a member becomes aware that a third party with whom he has a contractual relationship is acting in breach of the law, they must ensure that they comply with item 1 in the Framework for Regulation.
11. Any member advertising services should comply with the standards laid down by the Advertising Standards Authority (in the UK), or any similar regulations applicable in their country of residence, or in the country where the advertisement is placed.
12. In order to comply with item 2 (above) members should ensure that they remain competent by undertaking the necessary Continuing Professional Development (CPD) and Education (CPE) each year.
13. Practising members must issue terms of engagement (usually an Engagement Letter) to clients at the commencement of their engagement.
14. Members in practice must note and act on their need for Professional Indemnity Insurance (PII); this is compulsory for those holding a Practising Certificate or Certificate of Compliance.

A review of the Framework for Regulation and the Code of Best Practice will clearly show that the Institute expects members to demonstrate best practice in dealing with clients, employees, management or customers. This applies equally to all members of the Institute, not just to those in practice.



The need for registration for a Practising Certificate applies to any member who offers accountancy services (including taxation advice and bookkeeping), whether full time or part-time or even on an occasional basis. The IFA regards members who offer such services for payment without registering for a Practising Certificate very seriously. Failure to register for Anti-Money Laundering supervision in such circumstances can also be a criminal offence.

Although the majority of practising members are sole practitioners, others may have incorporated as either a Limited Company or a Limited Liability Partnership (as appropriate). There are potential tax advantages to this.

The Institute's concern is to ensure that the general public is given the maximum protection possible, by requiring members to be properly insured and that they maintain their competence in the services they offer by attending appropriate training to cover the work they are selling to the public. This is vital to the public reputation of the Institute and the way in which we are perceived by other professional bodies. Failure to maintain competence will also potentially tarnish the reputation of other members.

### ANTI-MONEY LAUNDERING (AML)

The Money Laundering Regulations 2007 (MLR 2007), which came into force in the United Kingdom on 15 December 2007, apply to all "external accountants" (ie accountants in practice who are not employees responsible to a senior manager), taxation advisers, bookkeepers and "Trust or Company Service Providers" (TCSPs)). There are a large number of other professions also covered, which include casinos, estate agents, high-value dealers and so on; a full list may be found at section 3 of MLR 2007 (accessible from the "Anti-Money Laundering" part of the IFA website).

All members and students who fall into the categories defined (even if providing services on a part-time or occasional basis) are required by law to register with a Supervisory Authority. There

are nearly 30 such Authorities, of which the IFA is one (the full list, including the Office of Fair Trading must now be added, is given in Schedule 3 of MLR 2007 as amended); the IFA will normally be the Supervisor for registered members in practice (Practising Certificate holders) and affiliates in practice, but it is necessary for everyone designated by the Regulations to register with the IFA or else to inform the IFA in writing of his or her alternative Supervisor without delay.

Members who hold a Consumer Credit Licence from the Office of Fair Trading are required to be supervised by the OFT.

IFA Students who are working in practice will not be supervised by the IFA, but must instead register with HMRC, the “default” Supervisor (ie the Supervisor for those not supervised by a professional body). Students are warned that although the IFA does not require them officially to undertake CPD, it is their duty to ensure their ongoing competence to undertake work, and they would do well to observe the principles of best practice if offering services to the general public

The CCAB Guidance on Anti-Money Laundering is the accepted over-arching document for the entire accountancy, taxation and bookkeeping profession, and has been approved by the IFA’s Council; it may be downloaded from the open section of the IFA website; under the tab marked “AML Guidance” in the Members’ area. “Additional AML Guidance” provides a large number of “bite-sized” topic sheets and explains the subject of each in a clearly-written way.

## LIFE-LONG LEARNING (CPD)

The chief differentiator between an academic qualification and a professional one is that those who hold the latter must take responsibility for ensuring their ongoing competence and currency. They must also abide by a professional Code of Ethics.

CPD (Continuing Professional Development) is defined as “the systematic maintenance, improvement and extension of Professional, Technical and Managerial knowledge and skill, and the development of personal qualities necessary for the execution of Professional, Technical and Managerial duties throughout a member’s working life”.

Members are expected to undertake both structured CPD (courses, seminars etc) and less-structured CPD (professional reading, etc) where geographically possible. It is recognised that many of those members living outside the United Kingdom or living in geographically remote areas within the UK might have some legitimate difficulty in pursuing courses and seminars, and allowance will be made for this.

Life-long learning is essential to career progression, and particularly to practising members who have a duty to maintain their knowledge and understanding of relevant legislation, accounting standards and so on. The Institute supports this by developing and providing Continuing Professional Development (CPD) seminars, workshops and branch meetings, but members should note that CPD can take many forms, including the reading of appropriate technical articles, updating from HMRC and other websites and participation in strategic meetings and conferences or seminars. To be counted as CPD it is not necessary for the opportunity to be provided by the IFA.

Most employed members (rather than practising) will achieve their CPD requirements through their appraisals and personal development plans.

All members are strongly recommended to maintain and update their levels of competence by regularly undertaking CPD.

## THE IFA'S MANAGEMENT AND COMMITTEE STRUCTURE

The Institute is incorporated as a Company Limited by Guarantee (not having a share capital) under the provisions of Companies Act. Council Members are therefore legally “Directors” of the Institute but are usually referred to as “Council Members”.

Council members, currently limited to fifteen, are elected at the Annual General Meeting. Each year one third, or the number nearest to one third, retire from office and are eligible for re-election. Details of how a member may be elected or co-opted to Council are contained in the Articles of Association, available on the IFA website.

The Council is responsible for the overall strategic direction of the Institute. It appoints a Chief Executive to implement the policies it formulates, and to undertake the day-to-day management of the Institute.

The Chief Executive and the paid staff are responsible for the day-to-day running of the Institute. Most of them are based at Burford House, while others are home-based but in daily communication with headquarters.

## THE BYE-LAWS

Bye-laws are agreed and amended by the AGM of members from time to time and posted on to the Institute website. The Bye-laws regulate the day-to-day management of the Institute and cover the following:-

- ./ Registered Students
- ./ Acceptance to membership and the grades of membership
- ./ Fees and subscriptions
- ./ Disciplinary arrangements
- ./ Members' Services

- ./ Election to Council and payments to Council Members
- ./ Regulations for practising members
- ./ The organisation and management of Branches.

## THE ACCOUNTANT IN PRACTICE

This information has been prepared for the practising members of the Institute of Financial Accountants and the Federation of Tax Agents. Whilst care has been taken in preparing this, the Institute cannot be held responsible for any errors or omissions. It is, therefore, essential to take advice or guidance on specific issues.

## GENERAL GUIDANCE

The following pages have been produced in response to routine enquiries to Head Office by members intending to set up in Practice for the first time. The information is intended only as general guidance. Further advice may be obtained in many instances from the Customer Services, but some matters will require consultation with your personal legal adviser; their guidance should always be sought with regard to staff and client contracts.

It is not possible to offer general guidance for every eventuality. There is no substitute for formal training, and the success or otherwise of your business will depend on your experience or abilities as an accountant and business manager. It is therefore important to consider this in the context of CPD.

If you are to be self-employed, you will need to register as such with HMRC (<http://www.hmrc.gov.uk/selfemployed/>).

## Planning to offer services to the public

In accordance with the Framework of Regulation (6) and the Articles of Association and Bye-laws, the Institute requires members offering 'services perceived to be those of an accountant to the public', to register for a Practising Certificate. In accordance with UK legislation, a register of those in public practice is available for inspection, by prior appointment at the Registered Office.

The Council determines the fee levels for membership, anti-money laundering supervision and certificate costs from time to time. Further details are available from the web site or by telephoning Customer Services.

Further guidance for the member in practice may be found in Appendices I and II.

### Working part time or occasionally

Members with a part-time practice, or with a low annual turnover, are offered a Practising Certificate at a reduced fee. This includes those otherwise in full-time employment who have taken on one or more clients for payment, and otherwise “retired” members who may retain a few clients. They are still required to bring the fact that they are working in practice to the attention of the Institute. They are also all required to be supervised under the Money Laundering Regulations 2007.

### Members who are practising members of other accountancy institutes

Members who hold a Practising Certificate from one of the CCAB bodies<sup>2</sup> and CIMA are exempt from holding an IFA Practising Certificate (FTA members are exempt if they hold one with IFA, CCAB, CIOT & ATT).

Associates or Fellows who are also practising members of one of the Chartered or Certified bodies, but who wish to be registered as an Incorporated Financial Accountant, must also apply for a Practising Certificate, but this may be available at a reduced rate. Other Institutes may differ in their rules for practising members, and as a member of more than one institute you must satisfy the rules of both institutes. Indeed, if the rules of your other professional institute or association prevent you from taking on practice work, you must consider your position.

### Use of the Institute’s logo

Current Practising Certificate holders are encouraged to make use of a special version of the Institute’s current logo on their headed paper, business cards etc. This special logo is available on application to the Membership department at Burford House, and is subject to a (small) number of conditions.

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<sup>2</sup> ICAEW, ACCA, ICAS, Chartered Accountants Ireland and CIPFA

## APPENDIX 1

### DEALING WITH CLIENTS

#### Taking on a new client

The Accountant/Client relationship is no different from a business relationship in any other discipline. Good communication should be maintained at all times, both verbally and in writing. It is essential to keep the client clearly informed with regard to what is needed and expected of them.

The client should also be made aware that an accountant is unable to act for him, unless he fully discloses all of the relevant information concerning his affairs. Otherwise it will make it almost impossible (and inadvisable) for an accountant to represent the client.

It is advisable to seek as much information as you can about the client's circumstances at the outset of the business relationship. Much of this will be discovered as a result of your Customer Due Diligence; you are reminded of the guidance in relation to new clients and money laundering. Customer Due Diligence must be satisfactorily completed before any work is undertaken for a new client.

#### Contracting with a new client

Members should record in writing and send to the client a letter of engagement which sets out the terms under which they are agreeing to be engaged by their client before any work is undertaken or, if this is not possible, as soon as practicable after the engagement commences. This will be an important document in the event of a dispute arising between yourself and your client both in terms of the recovery of fees and in relation to any claim for negligence as it will set out the extent of your retainer and the terms upon which you agreed to act.

The letter needs to clearly set out the scope of your responsibilities and the terms of your contract with your client. The letter of engagement should set out:

- the services to be performed,
- the fees to be charged or the basis upon which fees are calculated



- the terms of the engagement

One possible format for a letter of engagement appears in the annex to this Handbook.

### Dealing with a client who is ill or under significant stress

A professional accountant should always be aware of the moral as well as professional approach to his clients, and perhaps treat them in times of adversity with the same consideration as that with which he would wish to be treated in similar circumstances.

When a client is unable to deal with normal obligations, such as providing full details of income or disbursements, through illness or stressful circumstances (whether personal, such as divorce or bankruptcy, or commercial, such as bank pressure), a member in practice should exercise greater discretion and make allowances for the situation. A client in such a situation may inadvertently make errors or fail to meet deadlines and the accountant should exercise the fullest possible patience. This might typically involve, for instance, occasional extra-long meetings and the incurring of extra fees/costs which you might not feel it morally appropriate necessarily to pass on, at least in their entirety.

### Exclusion of liability in respect of a client

You may be able to include in your letter of engagement terms limiting or restricting your liability for negligence or breach of contract to a client, but care should be taken when drafting exclusion clauses. Section 2 of the Unfair Contract Terms Act 1977 renders void any contractual exclusion or restriction of liability for negligence, even in a case where the client has agreed to it and where legal consideration exists, unless the person seeking to rely on that exclusion or restriction can show that it was reasonable. The Unfair Terms in Consumer Contracts Regulations 1994 make unenforceable any “unfair term” in a contract between a supplier and a “consumer”.

### What if the client’s instructions change?

Where new work is to be undertaken or any terms have changed, the member should always send a new, replacement, letter of engagement. It may also be helpful for the avoidance of misunderstandings

to indicate any significant matters which are not included in the scope of responsibilities undertaken, although it will rarely be possible to provide a comprehensive list of matters excluded.

### Contacting the previous accountant

When approached to act for a new client you must establish if they have previously been represented by an accountant. It is best practice to ask if the previous accountant has any professional objection to this transfer of business. On accepting an appointment the member should without delay contact the previous accountant and request sufficient information to enable work to commence on behalf of the client. You should first obtain the new client's written consent to contact the previous accountant.

A letter should be sent (known as a "Professional Clearance Letter") which states that the client has asked you to take over as his accountant and politely requests the paperwork relating to that client from the previous accountant. As part of the initial exercise, the member should ensure that he is able (and prepared) to accept the new client, especially if there has been a dispute on taxation issues. It may be that there is a fee outstanding, in which case the previous accountant may exercise a lien over some of the papers relating to the client.

It is particularly relevant to consider, in the light of the Proceeds of Crime Act, whether the client is disputing payment of the correct taxes as computed by his former accountant. However, you may not ask them whether the client is under suspicion of a money laundering offence; that could result in a "tipping off" prosecution for the previous accountant if he answers it.

### End of the engagement

In the event of relinquishing an appointment, members should respond to the client's new accountant promptly and professionally, ideally within seven days (failure to respond within a reasonable time to professional correspondence may lead to a complaint against you). However, before passing on information or paperwork you should seek the consent of your client for this transfer (the new accountant will normally provide a copy of the client's written instructions to him).

There may be circumstances where a member feels that he is no longer able to act on behalf of a client. If this should be the case it is wise to advise the client in writing. There is no obligation on a member to continue to act until the client has found another accountant, even if this could render the client liable for late filing penalties. However, you have a duty to alert the client to this possibility.

### Planning work with a client

A work plan begins with an interview with the client to conduct CDD and to mutually note vital dates such as the client's year-end. It is also essential to remind the client of his responsibilities with regard to the dates for statutory returns and maintain contact on a regular basis to ensure that timelines are being adhered to. If you miss statutory deadlines (eg HMRC, Companies House), fines will normally accrue; unless your client is directly responsible and you have warned him, you will yourself be responsible for paying these fines.

You should also notify the client that you will retain his details on your own database (this applies even if you only maintain a hand-written list) and that you are registered with the Information Commissioner as a data user for the purposes of the Data Protection Act 1998 (you must so register at the outset of your practice work). The Data Protection Act 1998 contains eight important provisions as to the retention of personal data, i.e. data from which a living person can be identified. Guidance issued by the Information Commissioner can be found at <http://www.ico.gov.uk>.

Good planning of work also maintains a consistent approach to accounts preparation, and ensures there is documented evidence that all areas of accountancy have been covered in preparing a final statement of income and expenses, and the assets and liabilities of any business. It may also be important within this to confirm the nature and reliability of the statements of assets and liabilities.

Within the work plan adequate discussion should take place with the client to indicate that they are aware of the content and implications of their accounts.

### The duties you owe to the client

It is an implied term of an accountant's contract to provide professional services, that he will provide those services properly, promptly to agreed timetable and with reasonable care and skill. If an accountant breaches that duty he may be sued in negligence and for breach of contract, and at the very least may have a complaint made against him to IFA.

The standard of care expected is that of a reasonably careful qualified professional accountant.

Precisely how that duty of care is to be fulfilled depends very much on the nature of the contract that the accountant has with his client (the engagement letter). Third parties, who, although not clients, were reasonably within the accountant's "contemplation" when performing his professional services, may also be owed a duty of care; such third parties might reasonably include the client's suppliers and customers.

### Other duties owed to clients

As an accountant you owe a number of fiduciary duties to your clients.

The fiduciary duties of an accountant are:

- a duty of utmost good faith to his client
- to obey his client's instructions with reasonable care and skill
- not to permit his own interests and that of his client to conflict
- not to make secret profits
- to keep his property/funds separate from that of his client
- to keep ready and make available to the client, accounts of his dealings with his client's money
- a duty not to disclose the confidence of his client (unless required by law to do so).

### The duty “not to make secret profits”

An accountant breaches his fiduciary duty to his client if he uses his relationship with his client to make secret profits. This need not necessarily involve dishonesty as such.

A member acting as his client’s accountant must be liable to account to his client for any undisclosed commission, bribe, profit or fee that he made out of his position as accountant or using his client’s property or any confidential information disclosed to him in his capacity as accountant by his client. These circumstances might typically arise from commission on recommending a client to a third party such as a Financial Adviser or an insurance company. It is advisable, to avoid misunderstanding, to advise the client ahead of the recommendation of any commission to be paid as a result of referral to a third party for a particular service.

### Duty of confidentiality

You owe a duty of confidentiality relating to the affairs of your clients. The duty of confidentiality is not affected by whether you own the document relating to your client or not.

(The House of Lords in the case of HRH Prince Jefri Bolkiah v. KPMG said that the duty on the accountant was to keep information confidential not merely to take reasonable steps to do so. A former client was entitled to prevent an accountant from exposing him to an avoidable risk of using confidential information to his prejudice - such as by accepting instructions to act for another client to which the confidential information might be relevant.)

You should not disclose information about a client’s affairs to a third party unless the client consents to disclosure or unless required by law or by a provision of the rules. Occasions where “third party rights of access” might arise include:

- You are compelled by a witness summons in litigation
- When required to do so by a court of law
- To prevent a crime

- Where required by the Institute when performing its function under the Money Laundering Regulations 2007
- Where required by the Serious Organised Crime Agency or the Police in relation to possible money laundering
- Where the member is required by a liquidator, administrator or administrative receivers to make delivery to them of any documents belonging to the company.
- Where access is being sought by HM Inspectors of Taxes or the Commissioners of HM Customs under the Taxes Management Act 1970 and the Value Added Tax Act 1994
- Where required by an Inspector appointed by the Department for Business Innovation and Skills to report on the affairs of a company under the provisions of the Companies Act
- Where required by the Secretary of State (and any officer or other competent person authorised by him/her) under the Companies Act
- Where required to do so under the Financial Services and Markets Act 2000 or the Banking Act 1987
- Where required by an authorised officer of the European Commission under Article 11 of European Council Regulation 17.

Members may from time to time receive requests from the authorities, such as Her Majesty's Revenue and Customs, for information about client affairs. Outside specific statutory powers, Government Departments have no specific right to such information and the accountant owes a duty of confidentiality to his client. In such cases you should always seek your client's authority to pass on the requested information to the authorities. However, you should acquaint yourself with how to avoid the "tipping off" offence under the Proceeds of Crime Act 2002 before doing so (the Proceeds of Crime Act may be accessed from the "Anti-Money Laundering" page on the IFA website).

Confidential information should not generally be released to the Police unless you are served with a "Production Order"; unless this is in force, you run the risk of contravening the Data Protection Act.

## Conflicts of interest

The Institute's Code of Ethics requires an accountant to ensure that there is no material conflict of interest between himself and his client; if such a conflict is unavoidable, you must decline to act for the client. All reasonable steps should be taken to ascertain whether conflicts of interest exist or are likely to arise in the future between your practice and your clients, both in regard to new engagements and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information. Relationships with clients and former clients need to be reviewed before accepting new appointments, and regularly thereafter.

If you consider that these conflicts of interest are not material and unlikely to prejudice seriously the interests of any of those clients, you may accept or continue engagements provided you have first informed the clients concerned of the existence of the potential conflict. It is often wise to seek independent advice. You should also make a note of your decision and the reasoning behind it, on the client file.

## Giving professional advice

When giving professional advice you should make clear to the person being advised the extent of the responsibility they agree to undertake and to whom that advice is intended for and restricted to, making particular reference to the information supplied to them as a basis for their work and to those areas (if any) to be excluded from their examination. You may consider that the use of a disclaimer may be appropriate. You should never give advice which is beyond your competence; failure to observe this rule might result in a complaint against you.

Identifying the ultimate beneficiary (who may not in fact be your client) of the advice and disclaimers are particularly important as measures designed to limit the risk of effective claims by third parties who have been shown your advice by your client and relied upon it.

Where a document is prepared for discussion with the client or others and may be altered before it appears in its final form, you should clearly mark the document as a "draft". Whilst it is desirable to give

properly considered advice to every client question, sometimes this is simply not practicable. If your client requires off the cuff answers to complicated problems, you should record or confirm your advice in writing, recording that the problems are complicated, that you have been given a very limited time in which to study them, that further time is required in order to consider them in depth and that the advice tendered might well be revised if further time were available to you. You may wish to stress that you are relying on the client for the accuracy of the information supplied to you when giving the advice.

It may well be appropriate on occasions to advise your client that you consider it desirable for the client to take specialist advice.

### Legal Professional Privilege and advice to clients

There is provision for professional accountants, under the Proceeds of Crime Act 2002, to provide confidential guidance to clients who may have undeclared tax liabilities. Normally in the past the accountant or tax adviser would have been expected to report non-compliance to HMRC without delay, but under LPP you can advise the client that you are aware of possible under-declaration of his tax liability (typically a contractor who has taken payment in cash, unvoiced), and you should require him to declare this shortfall to HMRC within a short time (a matter of days). You must document this advice and date it for your own protection in case of possible prosecution. If the client fails to act as advised, you must report him to HMRC and make a SAR to SOCA without further delay. There are limited further occasions in which the use of LPP might be appropriate, but it would be safest to consult your legal adviser (without revealing details of the client or exact details of the situation) first.

### Avoiding claims in relation to documents

Any document, whether for private or public use, should be prepared in accordance with normally expected professional standards of integrity and objectivity and with proper degree of care. Any statements or observations you make in a document prepared for clients must be justifiable (when read both individually and as a whole) on an objective examination of the available facts.



If the accountant feels that he has had insufficient information to complete accounts in as full a fashion as he professionally requires, he has a duty to indicate this in any reports that he may make. This could include a note to that effect on the Accountancy Certificate that will be part of the clients' accounts.

Where a document is prepared solely for clients and their professional advisers, it is sensible to impose as a condition of the engagement that the document should not be disclosed to any third party without your express permission. Where the document is to be published, to prevent misleading or out-of-context quotations, it should be a condition of the engagement that, if anything less than the full document is to be published, the form of the text and its content would have to be agreed with the firm.

### Client monies

You are strictly accountable for any monies which you receive. Clients' monies should be paid without delay into a bank account, which must be totally separate from other accounts of the firm. Most members do not have involvement with client monies.

### Opening a client account

It is important to ring-fence client monies from your own so that there can be no issue if you are ever declared bankrupt, or you should die, as to whether client monies are held for the general benefit of your creditors. Thus whenever you or your practice opens a client account, you should give written notice in clear terms to the bank concerned as to the nature of the account. The notice must require the bank to acknowledge in writing that it accepts the terms of the notice. All such accounts should include in their title the word "client".

Only client money should be paid into the client account.

### Mixed funds

There is one exception to the above rule; where you receive cheques or drafts that include both clients' monies and other monies (including payments to you), you should still pay the "mixed" funds into your

client account. Once the monies have been received into the client account, you can withdraw from that account such part of the sum received as can properly be transferred to an office account. However, you must carefully document every transfer you make and the reason for it.

Monies that can properly be drawn include fees or commissions disbursements due to you or monies the client asks to be drawn. The sums withdrawn do not exceed the total of the monies held for the time being in the account of the clients concerned. Before drawing monies for fees, commissions or disbursements, you should notify the client in advance that you intend to apply the monies held on clients' behalf against those fees, disbursements or commissions and seek his agreement.

### **Bank interest on the client account**

Any interest the client account earns belongs to the client from whose money that interest is earned. You should keep client money in an interest earning account and account to the client for any interest earned on this.

This obligation may be over-ridden by your agreement with your clients and it is sensible to make provision for this in the letter of engagement. For instance, clients could agree to forgo sums of interest if they are so small that the cost of payment might exceed the sums concerned.

### **Ownership of papers**

The capacity in which you act for a client may affect who owns and who has the right to possess records, documents and papers. Thus, by way of illustration, under English law an accountant may find himself acting for clients either as a principal or as an agent, depending on the nature of the work covered by the engagement.

Documents belonging to clients (such as tax accounts and records) must be given to clients, or their agents, on request, except for those cases where members are able to exercise a right of lien.

If you own the documents (for example working papers), the decision whether to allow clients (or their agents) to inspect them rests with you, the member. Clients have no rights to demand access. However, the Institute expects members to consider very carefully whether to exercise a lien, as this is a complicated area.

Where a client asks you to disclose documents to a third party (including a new accountant) and those documents belong to the client, and not to you, you must disclose or pass on the documents unless you are exercising your rights of lien. Where documents belong to you, you are not obliged to comply with the request, but it often saves money and anguish (and possibly a complaint against you) to comply, but explain your reluctance to do so.

### Asserting a lien over client papers

Members should always take legal advice before seeking to exercise a lien in any but the most straightforward of cases. The Institute expects members to consider very carefully whether to exercise a lien, as this is a complicated area.

Where documents and records are not owned by you as a member in practice, they generally belong to the client.

To determine whether documents and records belong to you, you will need to consider:

- the capacity in which you act in relation to your client
- the contract between you and your client
- the purpose for which the documents and records exist or are brought into being.

Members should be aware that the term 'documents' is not confined merely to documents stored on paper, but extends to any information which can be understood by the senses or is capable of being made intelligible by the use of equipment.

That means the term covers information that is stored on microfilm or electronically, for example on hard or floppy disks, including messages sent by email, as well as in hard copy form or indeed recorded in handwriting.

### What is a lien?

A lien is a right of a person to retain possession of the owner's property until the owner pays what he owes to the person in possession.

A particular lien is a lien over property which can be retained only until payment of a particular debt due in respect of it is paid.

The courts favour particular liens as being equitable between debtor and creditor. An accountant has a particular lien over documents belonging to his client in respect of which the accountant has performed work for which he has not been paid the fee due.

In the absence of any special contractual provision, accountants do not have a right of general lien in law and members are advised that it would not be worthwhile to assert a general lien against a client unless they are expressly given that right by their contract with the client.

### Conditions for the exercise of a 'particular' lien

A right of particular lien will exist only where all of the following circumstances apply:

- (i) the documents retained must be the property of the client who owes the money and not of a third party, no matter how closely connected with the client
- (ii) the documents must have come into the possession of the member by proper means
- (iii) work must have been done by the member upon the documents and a fee note rendered
- (iv) the fees for which the lien is exercised must be outstanding in respect of such work and not in respect of other unrelated work.

[An example illustrating (iv) above might be where a member in practice does work for a company and also for the directors of that company in their private capacities. If the fees for work done for a director in his private capacity are unpaid, no right of lien exists over the company's documents.]

Where a member in practice presents a bill to a client which the client considers to be excessive, the client may be prepared to pay a smaller sum and may tender that amount. There is no legal disadvantage in accepting the amount offered provided it is made clear by the member, preferably in writing, at the time of acceptance, that the sum is accepted as a part payment only and not in full discharge of the debt.

When a client behaves in this way, it is possible that he has genuine doubts as to the propriety of the fee,

and is not actuated by malice or lack of means. The exercise of a lien in fee disputes is perfectly legal, but members should remember that its nuisance value is likely to promote ill-will not only between the parties, but also towards his firm and the profession as a whole.

Given the legal complexity of the law in this area, the Institute does not encourage the assertion of liens as a means of recovering unpaid fees. By way of illustration, members are reminded that under English law no lien can exist:

- over books or documents of a registered company that, either by statute or by the articles of association of the company, have to be available for public inspection or to be kept at the registered office or some other specified place or be dealt with in any special way
- for incomplete work
- for unbilled work
- over VAT returns

An accountant may exercise a right to a particular lien for unpaid fees over a client's papers that come into his possession in the course of their ordinary professional work. For the lien to arise, the work must be done lawfully and with the owner's authority. The work must be completed unless completion is prevented by the owner when the lien arises for the work actually done. No lien pending payment can arise if there was no invoice delivered or no particulars available which would enable calculation of the sum due. This is the root cause of many complaints to the Institute, and can be avoided.

The right to a lien will not be exercisable when a client company is in administrative receivership or in liquidation or where a provisional liquidator has been appointed to the extent that its enforcement would deny possession of any books.

Nor will this serve as a defence to an order for inspection of documents in court proceedings where the documents' production is necessary for fairly disposing the case.

### Obtaining authorization to act as the agent for a taxation client.

The HMRC sets out clear guidelines for accountants and others who wish to act as agents (intermediaries) for their clients with HMRC, whether personal or commercial clients.

To act for a client, you must be formally authorised by your client to deal with their tax affairs; HMRC will not be able to discuss your client's tax affairs with you if you have not obtained their formal authorisation.

Getting formal authorisation is probably easiest if you use the HMRC's online agent authorisation service. This enables you to manage authorisations for all your clients.

Alternatively, you should ask your client to complete a paper form 64-8. You can also use a paper form FBI 2 for authorisation to use the PAYE online or Construction Industry Scheme (CIS) online services.

The online agent authorisation service and the form 64-8 and FBI 2 will not transfer any of your client's legal obligations to you. However, HMRC's guidance is that you should only use paper forms if there is a reason not to use online services; paper forms are not as secure as online. The HMRC's relevant page is <http://www.hmrc.gov.uk/ebu/onlineagent.htm>.

If you feel that you must use paper forms, the client must complete them and send them to:

HM Revenue & Customs  
Central Agent Authorisation Team  
Longbenton Newcastle  
upon Tyne NE98 1ZZ

Once your client has authorised you to act for them, HMRC can:

- discuss their tax affairs with you
- exchange information with you
- send you letters and forms related to their tax affairs.

Authorisation remains in effect until HMRC is informed that it has been withdrawn.

However, you will need to be authorised by your client separately for each tax or process they want you to manage (VAT, Corporation Tax or PAYE, for instance).

### Your Client's VAT

Details of the VAT registration threshold and other VAT matters should be obtained from <http://www.hmrc.gov.uk/vat>. When a client's turnover reaches that threshold, registration is compulsory and Her Majesty's Revenue and Customs (HMRC) should be notified.

Once HMRC have been notified, the client will be issued with a VAT registration application form (VAT 1 Form), which should be completed and sent back to the VAT registration office. The office will then issue a certificate of registration (VAT 4 Form), which will show the following instructions:

- The effective date of registration
- The registration number
- The date on which the first VAT period ends and
- The length of subsequent VAT periods.

Once registered, VAT records must be kept and VAT charged to Customers in respect of supplies/services provided on or after the effective date of registration. The first VAT return will be for a period beginning with the effective date of registration and may be more or less than three months. If a client fails to notify Customs of liability to register for VAT, penalties may be charged.

### Advice on VAT

A helpline service on 0845 010 9000, dealing with all general telephone enquiries for business and public use, is available from Monday to Friday, 8.00am to 8.00pm. Useful information and updates are available from <http://www.hmrc.gov.uk/vat>.

Contact your local VAT office for information on:

- Personal consultations for advice, either at your premises or a local centre
- Details of VAT seminars.

### What do I do if my client has submitted an inaccurate tax return?

On occasion, clients may undertake measures that are intended to avoid the payment of tax, or the creation of a tax liability. This is tax evasion, a criminal act, as opposed to tax avoidance (a legal loophole).

Where a member discovers that a tax return is inaccurate after submission, the member should point this out to the client, and should advise him that a full amendment to the return should be made (see the paragraph above, “Legal Professional Privilege”). If the client refuses to allow this to be done, the member should record his advice in a letter to the client and cease acting for the person. He should also (without telling the client) file a report to HMRC and a SAR report to SOCA.

If the member becomes aware that a client is deliberately withholding information in order to avoid the payment of tax, it is advisable to make a SAR without delay. You must also report it to HMRC – the SARs regime is confidential and it would be incorrect to assume that SOCA would automatically pass on reports to HMRC. Do not tell HMRC that you have made a SAR – that would be “tipping off”.

An accountant has no duty to carry out instructions from a client which are unlawful and there is no justification for preparing false tax accounts or returns on behalf of your client. Moreover falsifying accounts or accounting records or furnishing information which renders those accounts or records misleading or false is serious criminal offence carrying a maximum term of 7 years imprisonment. You would also find yourself, if compliant in wrongdoing, before the IFA Disciplinary Committee.

### Filing Annual Financial Statements for a Small Company (at Companies House)

As an IFA member you are not authorised to audit a company’s accounts. However, Section 477 of the Companies Act 2006 sets conditions under which a Small Company (not including PLCs) may be exempted from an audit:



“(1) A company that meets the following conditions in respect of a financial year is exempt from the requirements of this Act relating to the audit of accounts for that year.

(2) The conditions are:

- (a) that the company qualifies as a small company in relation to that year,
- (b) that its turnover in that year is not more than £5.6 million (this total may be revised upwards from time to time), and
- (c) that its balance sheet total for that year is not more than £2.8 million. (3)

For a period which is a company's financial year but not in fact a year the maximum figure for turnover shall be proportionately adjusted. (4)

For the purposes of this section—

- (a) whether a company qualifies as a small company shall be determined in accordance with ( )Companies Act 2006) section 382(1) to (6), and
- (b) “balance sheet total” has the same meaning as in that section. (5)

This section has effect subject to—

- section 475(2) and (3) (requirements as to statements to be contained in the balance sheet),
- section 476 (right of members to require audit),
- section 478 (companies excluded from small companies exemption), and
- section 479 (availability of small companies exemption in case of group company).”

As an IFA member you have a duty to ensure that your competence is up to date and that you liaise closely with your client to ensure that information is full and correct and that Companies House and HMRC deadlines are met. Failure to meet the deadlines will result in penalty fines, for which you, rather than your client may be responsible.

The text of the UK Companies Act 2006 may be downloaded from

[http://www.opsi.gov.uk/acts/acts2006/pdf/ukpga\\_20060046\\_en.pdf](http://www.opsi.gov.uk/acts/acts2006/pdf/ukpga_20060046_en.pdf), and general procedures for submitting accounts can be obtained from [Companies House](#)

## Investment advice

No person may carry on a regulated activity such as the giving of investment advice, or purport to do so, unless he is either an authorized person or an exempt person under the Financial Services and Markets Act 2000 (FSMA 2000). A person who contravenes the general prohibition is guilty of an offence. An agreement made by a person in the course of carrying on a regulated activity in contravention of the general prohibition is unenforceable against the other party and the other party is entitled to recover (a) any money or other property paid or transferred by him under the agreement; and (b) compensation for any loss sustained by him as a result of having parted with it.

Professionals who conduct investment work must therefore apply to be registered with the Financial Services Authority. The FSA regulates Independent Financial Advisers, or “IFAs”; despite the apparent similarity of the designation, these “IFAs” are unrelated to the Institute of Financial Accountants.

Regulated activities are specified in Section 22(1) Financial Services and Markets Act 2000. They include selling investments for himself or as agent for another, agreeing or offering to sell investments, offering or agreeing to make arrangements for another person to sell investments or for him, giving or agreeing or offering to give advice in relation to selling investments or any rights relating to the investment: Section 22(2) and Schedule 2 Part I, Financial Services and Markets Act 2000. They also include the direct selling of, or giving advice on, insurance products.

What amounts to an investment covers a wide range, and includes shares and stock in the share capital of a company, debentures, debenture stock, loan stock, bonds, any instruments acknowledging present or future indebtedness, options and any other asset, property right or interest in respect of which business activity of a specified kind is being conducted.

Some professional chartered accountancy bodies pay for an annual licence from the FSA to become Designated Professional Bodies to, and then sub-license member firms for a substantial fee; the IFA is not a DPB, and unless you are registered with one of the bodies mentioned or direct with the FSA, you cannot legally give investment or other advice as detailed by FSMA 2000.

## Charity work

The bodies responsible for the regulation and supervision of charities in the United Kingdom are:

- the Charity Commission for England and Wales (<http://www.charitycommission.gov.uk/>)
- the Office of the Scottish Charity Regulator (OSCR) (<http://www.oscr.org.uk/>) and
- the Northern Ireland Charity Commission (<http://www.dsdni.gov.uk/ccni.htm>).

The Charity Commission's guides [CC31 and CC32](#) give information on signing off charity accounts in England and Wales. A member of the IFA may not sign off the accounts of a charitable company with an annual turnover in excess of £250,000. OSCR's Charity Accounting Guide may be found at <http://www.oscr.org.uk/ScottishCharityAccounting.stm>, and a Workpack may also be downloaded; however, IFA members are currently not authorised by legislation to act as charity examiners for charities in Scotland; if this is crucial to you, you might investigate membership of the Association of Charity Independent Examiners (<http://www.acie.org.uk/>). As the Charities Act (Northern Ireland) 2008 currently stands, no IFA member may examine the accounts of a charity with annual turnover exceeding £100,000 unless also a member of one of the listed bodies under section 66, or, for charities under £250,000, a Fellow of the Association of Charities Independent Examiners.

## 'Independent examinations' of small charities, in lieu of audits (England and Wales)

Members, including those who are not registered in practice, may be asked to examine the accounts of local organisations, such as sport clubs or churches, on a voluntary basis. Not all such organisations are registered charities. This sort of voluntary work of examination of accounts is acceptable without a holding a Practising Certificate, but members should be aware that they could be personally liable for any mistakes made (practising members must have Professional Indemnity Insurance as a condition of their holding a Practising Certificate).

You may not describe yourself as an 'auditor', nor may you sign any statement stating that you have 'audited' the accounts. If the rules of a charity need to be changed (e.g. to alter a requirement for an 'auditor' to 'examiner') the Charity Commissioners must agree to the proposed alterations. In

the case of the accounts of clubs and similar groups, the following words should be used:

“I have examined these accounts and believe them to be a true and fair record, based on the information provided.” You should also sign them listing your professional qualification(s).

SORP (Statement of Recommended Practice) 2005 'Accounting and Reporting by Charities' (operative from 1 April 2005) is available from the Charity Commission, or may be downloaded from the Commission's or OSCR's websites. According to the timetable there was expected to be another SORP issued during 2010 (this may be published at any time); International Financial Reporting Standards (IFRS) are expected to form the basis for UK General Accepted Accounting Principles (UK GAAP) and the SORP should align with this. The Charity Commission's publication CC15B (published April 2009) is a good place to start (<http://www.charity-commission.gov.uk/Library/guidance/cc15btext.pdf>).

## Churches

In the case of churches, the Diocesan Secretary (Church of England) or equivalent for other churches should be able to supply rules or the previous examiner should pass them on. You should check for yourself that you satisfy all the requirements laid down. You may find the following link to “Parish Resources” helpful - <http://www.parishresources.org.uk/treasurers/appointingie.htm>. The Church Accounting Regulations 2006 may usually be obtained from Church House bookshop at <http://www.chbookshop.co.uk/product.asp?id=2391772>. Litchfield Diocese produces a useful summary sheet at [http://www.lichfield.anglican.org/chadnet/DynamicContent/Documents/sorp\\_tar.pdf](http://www.lichfield.anglican.org/chadnet/DynamicContent/Documents/sorp_tar.pdf).

The website address for information on accounts relating to churches in the Church of England is <http://www.cofe.anglican.org/info/finance/>, and that for the Church in Wales is <http://www.churchinwales.org.uk/resources/finance/>. The United Reform Church publishes useful guidance on-line at [http://www.urc.org.uk/what\\_we\\_do/finance/church\\_accounts/church\\_accounts](http://www.urc.org.uk/what_we_do/finance/church_accounts/church_accounts). Similarly the Methodist Church provides guidance and forms which can be downloaded from the website. ([http://www.methodist.org.uk/static/rm/mtmm/preparing\\_the\\_year\\_end\\_accounts.pdf](http://www.methodist.org.uk/static/rm/mtmm/preparing_the_year_end_accounts.pdf)), as do the Baptist Union at ([http://www.baptist.org.uk/resources/admin\\_finance\\_leadership\\_resources.asp?section=3](http://www.baptist.org.uk/resources/admin_finance_leadership_resources.asp?section=3)).

Most other churches have central websites with details of how to compile the annual accounts according to their rules (and the Charities SORP), though some do not appear to do so, and you may be reliant on the previous accountant for information. Separate rules may apply for temples, mosques or synagogues.

## PRACTICE MANAGEMENT

### Internal complaints procedures

Adopting an internal complaints procedure allows an opportunity for disputes to be resolved internally by member's practices rather than by way of litigation or complaint to the Institute. It is sensible therefore to implement procedures to handle client complaints in respect of fee, service and contractual disputes. Of course, if a member is a sole practitioner, he or she should manage this him or herself, and consider putting some details in the "small print" of his engagement letter.

### Duties under the Data Protection Act 1998

Given a recent decision of the courts, it can be assumed that any accountant practising in the UK will be a data user for the purposes of the Data Protection Act 1998. This means you must register with the Information Commissioner's Office.

The Data Protection Act 1998 contains eight important provisions as to the retention of personal data, i.e. data from which a living person can be identified. Guidance issued by the Information Commissioner can be found at <http://www.ico.gov.uk>.

### Possession of documents

Where a member retains possession over documents that belong to a client whether to undertake work or to assert any lien or security over them, it is duty of the member to make effective and appropriate arrangements to ensure that such records, documents and papers are at all times preserved safely, orderly and securely.

If you cease to be entitled to retain possession of a client's documents and their return has been demanded by the client, you must deliver up all such documents to your client promptly and safely, and obtain a receipt. This does not prevent you however from making and keeping a copy of a client's file.

### How long should I keep papers for?

The decision of how long documents are to be retained may be influenced by questions of law. Those issues include but are not limited to, for the client, duties on the client to retain and make available records (for example to the tax authorities) and, for you, considerations like preserving their records for at least the limitation period so that they are available to meet any allegation of breach of contract or professional negligence or breach of fiduciary duty. The law may differ from country to country.

Under English law, the Limitation Act 1980, by way of illustration, fixes time limits as follows:

- 12 years for actions upon a speciality (a contract under seal)
- 6 years for action based on simple contracts from the date the cause of action accrued
- For claims in tort the later of:
  - 6 years from the date the cause of action accrued; or
  - 3 years from the earliest date on which the plaintiff (or any person in whom the cause of action was vested before him/her) first had both the knowledge required for bringing an action for damages in respect of the relevant damage, and a right to bring such an action, subject to a maximum period of 15 years.
- No period of limitation applies to an action by a beneficiary under a trust, being an action—in respect of any fraud or fraudulent breach of trust to which the trustee was a party or privy; or to recover from the trustee trust property or the proceeds of trust property in the possession of the trustee, or previously received by the trustee and converted to his use.

Limitation periods may be extended, for example, where there has been fraud, concealment or mistake or in respect of where there has been acknowledgement or part payment.

From a tax standpoint, under English law, Her Majesty's Revenue & Customs can examine historic accounts and records to verify the correct amount of tax has been paid. Section 34 of the Taxes Management Act 1970 provides that subject to any other provisions of the Taxes Acts allowing a longer period in any particular case, an assessment to tax may be made at any time not later than six years after the end of the chargeable period to which the assessment relates. Where there has been any fraudulent or negligent conduct by or on behalf of any person in connection with or in relation to tax, assessments on that person to tax may, for the purpose of making good to the Crown any loss of tax attributable to the fraud or wilful default, be made at any time. Paragraph 6(3) of Schedule 11 to the Value Added Tax Act 1994 requires value added tax records to

be preserved for a period of six years.

Under the Money Laundering Regulations 2007 you must retain CDD details and files relating to the client's business for five years after the end of the business relationship. Failure to do so may result in prosecution for possibly prejudicing an investigation.

### Continuity for your practice

Practising Certificates are granted to members on the condition that they have made arrangements for continuity in the management of their practice, in the event of their death or incapacity. The person nominated must be a qualified professional accountant (not necessarily an IFA member) and be and remain able and competent to undertake the work you do. Thus, for example, if your nominee ceases to hold a current practising certificate of his or her professional institute (for example because he retires) you should seek a new continuity nominee.

Principals in the same practice (whether this is a partnership, LLP or company) may arrange continuity through their fellow partners or directors, providing these persons are suitably professionally qualified to carry out the work which they will be called on to undertake to continue your practice as your nominee. When entering into an agreement with another firm for the provision of continuity, you should try to find a comparable practice which operates in or close to your area, has the same sort of charge-out rate and has the expertise do the same kind of work.

You need to make sure that your staff, executors and family are fully aware, in the event of your death or incapacity, of the arrangements made for the continuity management of your practice. It is unwise to make a member of your close family the professional responsible for the continuity of your practice, as they may have other distractions in the event of your serious incapacity or death.



You will need to maintain full and clear records in relation to your work for your clients and practice affairs. You will also need to explain to the continuity nominee the firm's practices and procedures. This is to enable the continuity nominee to be in a position seamlessly to continue your practice when called upon to act.

Given the context in which it will operate, any continuity agreement really will need to be in writing and you are strongly advised to seek legal advice when drafting it. It will need to set out at the very least:

- The basis upon which you are dealing with the continuity nominee
- When the management arrangement under the continuity agreement will start operating
- A statement of the maximum period your practice will be managed under the continuity agreement
- Any provisions for the review of the arrangements should circumstances warrant an extension of time;
- What the continuity nominee's powers are in relation to the practice. These might include such things as hiring and firing staff, operating bank accounts or even selling the practice
- How the continuity nominee should be described on the practice's letters when dealing with the practice, for example, as manager.
- What the continuity nominee's obligations are
- How the continuity nominee will be remunerated for his work
- What letter should be sent to clients in the event of the principal's death or incapacity
- Termination provisions, for example, to allow for the appointment of a replacement continuity nominee if he ceases to be qualified to act as one

It is worth remembering that, in spite of your incapacity, you will continue to be the owner of your practice and you will be responsible for the actions of your continuity nominee appointed to manage the practice during the period of your incapacity.

Appointing another accountant to act as your continuity partner is essentially a temporary state of affairs; you are not bound to sell him your practice, nor may he, as a fellow professional, "steal" your clients, with whom he must deal honestly.

### Steps to take on taking over as continuity nominee for another practice

You will need to remind yourself of the scope of your authority, your duties and powers under the continuity agreement to administer the practice. Things you will need to pay regard to include what you are instructed to do, your powers to control of staff, operate bank accounts and the basis upon which you are entitled to charge for your services.

You should then notify the practice's (and your own) professional indemnity insurers and other insurers of the new circumstances. You should tell them of your appointment as a continuity nominee to manage the practice in accordance with the continuity agreement and when this started. If your appointment is likely to be over a long period of illness or incapacity, clients should also be informed of the arrangements in place for the continuance of service to them.

You should then try to ascertain from the practice's papers and staff whether or not there are any deadlines that need to be met. It is sensible to interview the practice's staff at the earliest possible opportunity.

If you are called upon to act under the continuity agreement, you must not seek any personal gain from the arrangement apart from any agreed or other reasonable remuneration for the work you undertake. Particularly, you should not accept clients from the practice you are assisting without the express agreement of the owner or his personal representatives.

This does not prevent you from negotiating to acquire the practice from the incapacitated member or from his personal representatives; however it is advisable to ensure you and the vendor are separately legally represented.

### The importance of having a will

It is strongly recommended that you make a will and appoint executors who will be able to administer your estate. In view of the complications likely if you own a business, it is normally best to use a solicitor for the purpose of drawing up a will, rather than a will-writing company.

Under English law, if you die intestate (ie without a will), your administrators will have no authority to act until they have obtained a grant of administration. The resulting delay in obtaining a grant of administration may result in the late practitioner's affairs and those of his/her clients, not being properly controlled and managed.

Executors of a will can act at once to protect your practice. They derive their authority from the will and the deceased's property is in their trust from the date of death. Probate, when obtained, merely gives formal recognition of this and is the final proof of the validity of the will.

However, should your family have to apply for a grant of administration, the administrators derive their authority from the court and the deceased's property only vests in them from the date of grant of letters of administration. When the letters of administration have been granted, they relate back to the date of death, and thereby, ratifying the actions of the administrator in relation to the estate.

### Acting as an administrator or executor for someone else

The main duties of executors and administrators are to:

- obtain probate or letters of administration;
- collect the assets of the estate and pay the liabilities of the deceased;
- deal with the Inland Revenue and settle the tax liabilities, if any;
- distribute the estate in accordance with the terms of the will or the rules on intestacy. The primary responsibility in respect of tax attributable to the deceased's estate rests with the administrators and executors. They may, therefore, be held personally liable for any tax found to be underpaid after the estate has been fully administered. If you are acting as an administrator or executor, you should ensure that they maintain all evidence of enquiries made to discover transactions that may give rise to a tax liability, to avoid becoming personally liable for any tax found to be underpaid after the estate has been fully administered.

You should be aware of the special rules that apply in the United Kingdom where the deceased's estate is insolvent and specialist advice should be sought. An estate is insolvent if the assets are insufficient to pay the entire funeral, testamentary (ie will-related) and administration expenses, debts and liabilities.

### Continuing Professional Development (CPD) for Practising Members

As a member in practice, you are required by the IFA to keep up to date with your training and ensure it is relevant to the areas in which you work. If you are a taxation specialist, much of your CPD in any year may have a taxation emphasis, but clearly if you are a practising member involved in the sale and support of computer services, then computer-relevant courses may well be among those which are undertaken. Other matters such as Health and Safety at Work, Data Protection Issues or Anti-Money Laundering may also form the basis of CPD.

Practising members must ensure that the basic CPD requirement of the Institute is achieved each year as an absolute minimum, and should endeavour to undertake more CPD training, particularly of a structured nature, so that their abilities to enhance their business performance are improved. The result of good, relevant training is that clients obtain the best possible standard of service from members of the Institute.

Members who are in practice but employed by either limited companies, or non-member practices, should still undertake CPD training to ensure that their skills are maintained to the maximum advantage of employer or client. Under no circumstances should you undertake work which you are not fully competent to perform.

### Professional Indemnity Insurance

This is commonly known as PII, and is compulsory for those holding a Certificate of Compliance or Practising Certificate.

Professionals must hold adequate PII cover for their business; the PII supplier will offer guidance. Ensuring that all practising members are properly insured is an important reassurance for the public and speaks for the professionalism and reliability of IFA practices.

The IFA does not prescribe the level of PII to be held; this will depend on your annual turnover and the perceived risk involved in the types of work you undertake. Your provider will advise on what he believes to be an appropriate level. PII should include public liability insurance and provision for “run-off” following your retirement or selling the practice.

PII cover also affords an important protection for members. Even meeting an ill-founded allegation of negligence is a highly time-consuming, disruptive and potentially extremely costly experience. PII normally covers not only the claim but the expense of handling and meeting the claim.

You will be expected to provide evidence that you currently hold an appropriate level of PII each time you renew your Practising Certificate.

Further information regarding the Institute’s PII Schemes may be obtained from the IFA website, or from Customer Services at Head Office. However, you are not compelled to use the Institute Schemes for your PII provided that a reliable provider is used.

### Further guidance

The Institute has made arrangements to enable members to obtain advice from a major firm of consultants in the event of any serious problems relating to tax, VAT, PAYE, payroll, employment and personnel, and Health & Safety etc. This service is detailed earlier in this Handbook; this is a limited

service and subject to a “fair usage” policy. However, before this route is pursued, all members should consider whether or not it is appropriate to contact HMRC to ask for routine (free) advice.

In respect of ethical matters, and also more technical matters as far as accounts preparation is concerned, the Institute will offer support from its Headquarters, on a day to day basis. However, you should initially consult the Institute’s Code of Ethics on the IFA website. A response on a technical or ethical matter would normally be provided within seven days, but on most occasions the Institute will ask for written details of the matter to ensure that a correct response may be given.

Members are asked to bear in mind that the Institute provides access to professional advice services for reference purpose only. These services cannot replace the need for recruiting sufficient staff with specialist knowledge to run a business efficiently, or to fill an information gap that should be bridged by proper training and CPD study.

### Health and safety and personnel issues

Members must ensure that they comply with requirements of current legislation. Advice on these issues may be obtained from:

- The UK Government’s Department for Business, Innovation and Skills (BIS)  
<http://www.berr.gov.uk/whatwedo/employment/index.html>
- ACAS (the Arbitration Conciliation and Advisory Service) [www.acas.org.uk](http://www.acas.org.uk) or by telephoning 0845 7474747.
- The Health and Safety Executive (HSE) – Information is available from [www.hse.gov.uk](http://www.hse.gov.uk).

Although information is available from these sites, many people choose to subscribe to specialist contractors for Health and Safety and Personnel advice, thus ensuring that for an annual payment professional guidance is readily available. These organisations supply their subscribers with manuals and regular updates, in addition to the stationery necessary to maintain staff records and assist with staff appraisals etc.

## Incorporation as a Limited Company

You should refer to the Companies House website for information and the relevant forms (<http://www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml>). The

paragraphs below are based on guidance published on AccountancyWeb.

## Benefits

Changes to tax rates over the last few years had substantially cut the benefits of incorporation for smaller businesses. However, this has changed for the better with effect from April 2011, with the reduction in the small profits rate of corporation tax and the increase in Class 4 National Insurance Contributions (NIC) rate.

As corporation tax rates are significantly lower than income tax rates all businesses should consider incorporation whatever the profit, but detailed incorporation is not easy. So apart from saving money are there any other benefits to incorporation and what are the practical issues that a business needs to consider before taking the plunge?

## Perceived Benefits of Incorporation

- Reduction in tax bill
- Limited liability - before the benefit in tax reduction this was the main reason for incorporation because should a company fail, the liability of the shareholder is supposedly limited to the amount unpaid on the shares (if any). However, banks now demand personal guarantees of directors such that the value of Limited liability has eroded. However, the word 'Limited' may provide enhanced status.
- Different categories of shares can enable different levels of payment to be allocated; advantage being taken of the different personal tax circumstances of individual shareholders.
- Dividend waivers enable transfer of income - possibly from a higher rate tax payer to lower rate. Not possible to transfer income of self-employed unless a partnership is formed.
- IHT Planning - a company enables greater flexibility; on death the company continues to exist as a separate legal entity.

- Depending upon the type of business it might prove easier to sell shares rather than the business and business assets if not a Limited company.
- A director can borrow from the company with no need to attend a bank interview or pay high credit card/loan interest. Shareholder consent is needed under Companies Act 2006 if the loan exceeds £10,000 (s207 - small amounts limit) and there is a corporation tax charge of 25% if the loan remains unpaid nine months after the year end (s455 CTA 2010). If the loan is in excess of £5,000 and is interest-free or less than 4% there will be a taxable benefit in kind charge for the director and an NIC charge for the company.
- Tax free employee benefits and incentives can be provided with the company obtaining tax relief thereon - not possible for the self-employed employer
- Where the business property is held outside of the company in the directors name the director can extract funds from the company in the form of rent - no PAYE or NIC issues. There will usually be a mortgage such that rental income will ensure immediate tax relief for interest paid. No Entrepreneurs Relief is due on the sale of the property as it will be deemed an investment property.
- Overlap relief available on cessation of self-employed trade.
- Transfer of trading loss - relieved against salary then against dividends so long as business exchanged for shares. At least 75% of the shares of company must be retained by the shareholder throughout the tax year in which the loss is relieved. (S86 ITA 2007)

### Practical issues

- Be careful to calculate best date for cessation of self-employment - choosing the wrong date may increase tax liability for the final year.
- Some companies in regulated industries may be required to apply for new licences as the status of the business has changed.
- Consider whether it would be more beneficial for cars to be held in the director's personal name outside of the company - calculation as to benefit in kind and Capital Allowance etc. needed. Company cars are no longer tax efficient now that they must be pooled with other plant so unless



the car is of low emission the figures will probably show that it is best to keep car out of company. Will leasing the car be an alternative?

- Turnover of a company in excess of £6.5m requires audited accounts; this could affect small businesses with large turnovers but low margins, e.g. second-hand car dealers; no such requirement for self-employed.
- Care is needed where there is the prospect of the shares being transferred or disposed of within two years of incorporation (Business Property Relief)
- IR 35 'personal service' legislation issues for 'knowledge based' businesses.
- Consideration is needed as to the method of transfer of business i.e. via use of 'Incorporation' relief (s162 TCGA 1992) or 'Hold Over' relief (s165 TCGA 1992) or to disapply both reliefs. 'Hold over relief' is automatically applied by HMRC if the relevant criteria are met therefore suggest write to HMRC confirming position. Many traders are choosing to disapply both reliefs and electing instead to be subject to CGT on the disposal of the business to the company, the proceeds being left as a director's loan. If the business was set up post 1 April 2002 the cost for goodwill is allowed to be amortised in accordance with accounting practice against the company's profits; if the goodwill was created pre 1 April 2002 no relief is allowed. The owner can claim Entrepreneurs' relief on the sale of the business and should full relief not be possible tax is charged at the beneficial rate of 10%.
- The most difficult issue to deal with is the valuation of goodwill - best to use a specialist valuer. [The above summary is acknowledged as published in similar form on AccountancyWeb.]

### The Bribery Act 2011

The provisions of the Bribery Act 2010 came into effect from June 2011. Small businesses including many accountancy or bookkeeping firms (including sole practitioners) who deal exclusively with a UK, not to say local, client base might have thought that the Act was of no relevance to them. On closer inspection, however, it becomes clear that the Act covers conduct much closer to home than foreign transactions.

The Bribery Act creates a number of new offences. These include the offences of bribing another person, receiving a bribe and failure to prevent bribery on behalf of a commercial organisation.

Bribery is defined as “promising or giving financial payment or advantage to a person to induce or reward them for improperly performing a function, where that improper performance would result in a breach of good faith, impartiality or their position of trust”.

It thus might typically cover the offering or receiving of inappropriately lavish presents as these might be regarded as incentives. In the past, it might have seemed normal for a major client to offer something like a Christmas hamper, a foreign holiday or a day at the races to their external accountant or tax adviser. Equally the accountant might well, wishing to induce the client to stay with him, have provided substantial hospitality to the client.

As usual, the onus is on both the giver and recipient of gifts, hospitality or any other benefit to keep records and provide justification for any such benefits given or received, but with the legislation in place it is better to avoid any suspicion of bribery; inappropriate gifts should be politely refused.

## APPENDIX II

### Basic Business Documents

1. Headed notepaper
2. New client questionnaire
3. Money Laundering record sheet
4. New client check list
5. New client introduction/engagement letter
6. Client Tax Return checklist
7. Qualification to Accounts
8. The time summary sheet
9. Work plan check list
10. Queries
11. The conclusion statement
12. Direct Access Brief to Counsel

## SOME BASIC BUSINESS DOCUMENTS

### HEADED NOTEPAPER

Headed notepaper should contain all relevant information regarding the practice, the exact design and location of information on the page is a matter of personal choice.

Designatory letters must be recorded after the name of each Partner if applicable.

Members who hold the Practising or Compliance Certificate may use the IFA logo - contact Head Office for further details.

Practice logo & name

Current Institute PC holders' Logo

Your name FFA or AFA Incorporated  
Financial Accountant Practice  
address

SUGGESTION ONLY

Phone:  
Fax  
Email  
Website

Notepaper for a Limited Company or LLP must also show the Registered Office address and Company Registration Number (including Country), plus the website address

NEW CLIENT QUESTIONNAIRE (NB THIS DOES NOT FULFIL THE NEED FOR CDD)

Name .....

Date of birth .....

N.I Number .....

Business name .....

Premises: owned/leased/rented

Business Commencement/Incorporation date (Ltd).....

Year-end date .....

Registered number .....

Correspondence/business address .....

.....

..... Postcode

..... Telephone ..... Mobile..... Fax number

.....

Email ..... Website.....

Private addresses.....

.....

Postcode ..... Telephone .....

Name of bank.....

Branch address.....

.....

.....

Client's previous occupation and dates .....

Rental income details .....

Company Vehicle/Make	CC	Reg No	Purchase/valuation date
.....	.....	.....	.....
Equipment/tools .....			
Cost/Valuation date .....		£.....	
Fixtures & fittings introduced .....			Cost
valuation date .....			How
financed? .....			Previous
accountant .....			
.....			
Reason for change .....			
Source of introduction			
..... Tax			
District & reference number			
.....			
Practice Partner or member of staff responsible.....			
VALUE ADDED TAX			
Registration number .....			
Should client be registered (NB Beware more than one business) Yes/No			
PAYROLL SERVICES			
Does client require payroll services		Yes/No	

Please note that this brief questionnaire, while it may repeat some of the CDD requirements under the Money Laundering Regulations 2007, is not to be used instead of an appropriate client CDD questionnaire; a full set of questions to be answered for CDD may be found on the Institute's website in the "Additional AML Guidance" section.

## NEW CLIENT CHECK LIST (FOR THE ACCOUNTANT'S USE)

### LETTER OF ENGAGEMENT

- Check that a letter of engagement has been sent and a signed copy is returned by the client.

### MONEY LAUNDERING

- Complete record form and obtain copies of the necessary documentation to support it.

### VALUE ADDED TAX

- VAT form – confirm arrangements are in hand for completion of the return if appropriate.

### NATIONAL INSURANCE

- Discuss the overall position regarding client's National Insurance Contributions.

### INCOME TAX

- Complete form 64-8 and obtain client's signature.
- Obtain P45.
- Advise client that he must share information received from the Inland Revenue.
- Draw client's attention to construction and allied industries regulations if appropriate these industries tend to be cash-intensive – it is important that your clients provide proper VAT invoices and receipts).
- Advise on the information that you will require to prepare satisfactory accounts.
- Advise how profits will be assessed and when tax bills will be payable.
- Establish if any immediate assistance is required, and consider whether you will be able to provide this.
- Inform client about the letter of engagement he/she will be receiving from you.
- Obtain the client's written authority to obtain information from the previous accountant.
- Advise client regarding the maintenance of a record of goods used for private consumption and private mileage.

### OFFICE ADMINISTRATION

- Obtain copy of client's last Tax Return.
- Write to previous accountants (enclosing a copy of the above-mentioned authority).
- Obtain copy of last accounts including the trial balance and all lead schedules.
- Allocate reference number.
- Action: Fees Standing Order.
- Write letter of thanks to the introducer of the new client.
- Open a client file for CDD information.

- Open correspondence file.
- Open tax file(s).
- Open Accounts Working Papers File.
- Confirm full money laundering review has taken place, and record whether in your judgement the client is low, medium or high risk.
- Individual self-assessment/incorporated self-assessment.



## LETTER OF ENGAGEMENT

This is a sample only, other wording is acceptable and members should consider consulting their own legal adviser to ensure their personal requirements are fully met.

**THIS EXAMPLE IS AIMED AT SOLE TRADERS. ANY LETTER IN RESPECT OF A LIMITED COMPANY OR LLP NEEDS TO REFLECT THAT STATUS AND WILL THEREFORE BE DIFFERENT. REFERENCE NEEDS TO BE MADE TO END OF YEAR RETURNS, P35 AND P11D FORMS IF THESE ARE PROVIDED.**

For the information and guidance of its Members in Practice, the IFA has devised this illustrative form for a client engagement letter. Members should always take appropriate legal or other advice before using this as a basis for their own documents and should ensure that it is fully adapted to the particular circumstances. Where a Member uses this illustrative form for any purpose, he or she acknowledges that the IFA accepts no responsibility or liability whatsoever in connection with any matter, dispute, or action arising out of such use or as a result of any consequential contractual relationship between the individual Member in Practice and his/her clients.

Dear

We write to welcome you as clients of ..... We hope we will enjoy a long and fruitful business relationship.

The purpose of this engagement letter is to set out the basis upon which you have instructed us in connection with your affairs.

### Accountancy services

We agree to finalize the accounts from your accounting records and draft accounts prepared by you and from the information supplied to us either directly by you or under your authority. As members of the Institute of Financial Accountants, we are able to prepare and sign the final accounts for sole traders, partnerships and companies below the statutory audit limit.

We will examine the records and make such inquiries as we consider necessary to enable us to prepare the accounts for you but will not be performing an audit. If your board of directors (if appropriate) has not already agreed and minuted a decision not to have an audit, it should do so without delay, and copy of the relevant minute should be sent to us for our records.

### Other services

We are able to offer a range of supplementary accountancy services, such as investigating irregularities for suspected fraud and these can be performed upon our receiving specific instructions from you. We understand people's needs vary and are happy to tailor our services to your specific identified requirements.

As to the specific tasks to be performed, you agree that (options shown in italic: delete as applicable):

- You/we will be responsible for keeping the records of receipts and payments;
- You/we will be responsible for reconciling the balances of monthly bank statements;
- You/we will be responsible for keeping posted and balanced the purchase and sales ledgers and the nominal ledger regularly;
- You/we will be responsible for preparing a detailed list of ledger balances regularly and at the end of the year;
- You/we will be responsible for preparing details of the annual year-end stocktaking suitably priced and extended;
- You/we will be responsible for calculating and submitting the PAYE tax liability returns for your employees;
- You/we will be responsible for preparing and filing your VAT returns;
- You/we will be responsible for assistance and advice on your computer business software;
- You/we will be responsible for reviewing your budgets and budgetary controls
- You/we will be responsible for reviewing and advising on costing.

Should you require further or different services we would be happy to supply them on request. These include preparing accounting reports in support of claims, (e.g. for insurance company certificates or for grants) or about your business (or an aspect of your business) or about a business you hope to acquire, management accounting and business advice. In the event that you would like us to undertake such work for you we will send you a further letter setting out the basis of our instructions.

#### Revenue tax returns

You will appreciate that the responsibility for the prevention and detection of irregularities rests with you, and our examination of the accounting records should not be relied upon to disclose irregularities that may exist. We shall discuss the accounts with you prior to their finalization and after any adjustments arising from these discussions are made, we shall ask you to approve the accounts by asking you to sign the following statement that will be incorporated into the accounts:

“I approve these accounts and confirm that I have made available all relevant records and information for their preparation”.

Our accountant’s report, which will be attached to the accounts will take the following form:

“In accordance with the instructions given to us by our client we have prepared, without carrying

out an audit, the attached accounts from the accounting records and from the information and explanations given to us by our client”.

We shall send you a questionnaire each April which we hope you will find helpful in collating the material which you will need to send to us. You may find it helpful to arrange with your bank, building society, and broker for them to send the information directly to us on a regular basis and we shall be pleased to help establish such arrangements. The return will be sent to you to review and sign before it is submitted to the Inland Revenue on your behalf. It is essential that the return is carefully reviewed by you to check that no source of income or gain has been inadvertently omitted, since the accuracy of the return remains your legal responsibility.

We will also advise you of your tax position for the year and the likely payment date of liabilities. The late submission of a tax return, as well as the omission of a source of income or gain, will give rise to a penalty. We therefore recommend that tax returns are submitted ideally by 30 September, and certainly no later than 1<sup>st</sup> January following the tax year. To meet that timetable materials should reach us as soon as possible after 5<sup>th</sup> April each year and preferably no later than the 31<sup>st</sup> August to ensure completion by the deadline. We will be happy to review the interim payments on account shown on the Inland Revenue statement of account, apply for any postponement which may be necessary and advise you in connection with the payment of tax due thereon. We have asked you to sign the appropriate authority which enables the Inland Revenue to send us copies of the statement of account.

#### Responsibilities

We are bound by Code of Ethics of our professional institute, the Institute of Financial Accountants, and accept instructions to act for you on the basis that we will act in accordance therewith. You or your staff will deal with all matters required to be completed by officials of your business; for example, VAT returns, PAYE, forms P11D and CT61, but we should be pleased to advise you and undertake these tasks on your behalf if so requested.

#### Professional Indemnity Insurance

Under the provisions of the EU Service Directive 2006/123/EC of 12 December 2006 on services in the internal market, the UK has implemented legislation (SI 2999 of 2009) which sets out the duties of service providers, including what information has to be made available to a recipient of a professional service:

‘where the provider is subject to a requirement to hold any professional liability insurance or guarantee, information about the insurance or guarantee and in particular- (i) the contact details of the insurer or guarantor, and (ii) the territorial coverage of the insurance or guarantee.’

Accordingly, we state that we are required to hold Professional Indemnity Insurance and this is currently held with: (fictitious details only given below)

XYZ Insurance Ltd  
123 High Street  
Anytown  
AZ99 0GW

Telephone: 0456 78901  
Email: XYZinsurance@anyprovider.com

The territorial coverage of our PII is worldwide with the exception of the United States.

[NB This format has been approved by several of the PII suppliers used by members. However you and your PII providers may instead prefer to state "full details of our PII providers may be viewed on request/by appointment at our offices". You should ascertain your PII supplier's wishes in this respect.]

#### Special work

We would be pleased, if instructed, to represent you on any tax appeal. Due to a special concession, members of the Institute of Financial Accountants are able to instruct Counsel direct on your behalf and we can do this if you require, for an additional fee (to be agreed).

In the event that you would like us to undertake such work for you we will send you a further letter setting out the basis of our instructions.

#### Investment Advice

This letter does not instruct us to give you investment advice. This firm is not regulated by a "Designated Professional Body" or by the Financial Services Authority directly under the Financial Services and Markets Act 2000. You should consult an Independent Financial Adviser (regulated by the Financial Services Authority).

#### Complaints

If you are dissatisfied with any of the work we undertake, please contact your assignment partner or our senior partner. He or she will try to resolve matters to your satisfaction. It is important that we receive feedback, good or bad, to enable our service to you to continually improve.

This procedure does not affect in any way your right to contact the Institute of Financial Accountants if you remain dissatisfied with the outcome of our complaints procedure. If you wish to make a complaint to the IFA, you should look on the IFA website and download a Complaints Form from <http://www.ifa.org.uk/advice-and-support/conduct-complaints>.

Director, Professional Standards  
The Institute of Financial Accountants  
Burford House  
44 London Road  
SEVENOAKS Kent  
TN13 1AS

[MartinN@ifa.org.uk](mailto:MartinN@ifa.org.uk)  
Tel: 01732 467121

Website: [www.ifa.org.uk](http://www.ifa.org.uk)

NB The IFA does not become involved with arbitration in fees disputes.

#### Client Identification

In common with all other professional accountancy and taxation firms, we are required to establish positive identification of our clients, under the UK anti-money laundering legislation (the Money Laundering Regulations 2007). We will request from you, and retain for a period of five years after the conclusion of our business with you, such information and documentation as we require for these purposes and/or make searches of appropriate electronic databases. We regret that this law applies even if you have already been our client for some years.

As one of the requirements of the Money Laundering Regulations we will require you to produce evidence of identity, such as a passport, and evidence of residence. It may be appropriate under the Regulations to seek renewal of these documents from time to time.

We are supervised under the above Regulations by the Institute of Financial Accountants.

In accordance with the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007 you agree to waive your right to confidentiality to the extent of any report made, document provided or information disclosed to the Serious Organised Crime Agency (SOCA). In signing your copy of this Engagement Letter, you also acknowledge that we are required to report directly to SOCA, without prior or subsequent reference to you or your representatives, if during the course of undertaking any assignment the person undertaking the role of Money Laundering Reporting Officer for this firm becomes suspicious of possible money laundering. Under the provisions of the Proceeds of Crime Act 2002, you will not be informed if or when such a step has been taken.

#### Client accounts

While we do not normally hold clients' monies, should we do so for you in the course of this retainer they will be paid into a separate client account at our bank. We will pay you any interest earned from the money whilst it is held by us in that account.

#### Fees

Our fees are computed on the basis of time spent on your affairs by the partners and our staff and on the level of skill and responsibility involved. Clients are billed at agreed intervals and our settlement terms are as follows:

- All fee notes must be settled within thirty days from the fee note date.
- On the 31<sup>st</sup> day interest is chargeable at one per cent per month from the date on which they became overdue.
- Fees will be subject to the addition of disbursements and VAT and will be due on presentation.

Save where there has been a prior written arrangement with you, the choice of staff for any work we do for you will be at our discretion. We reserve the right to increase our current rates from time to time but will notify you in writing before we do so. Our current rates are:

Partner	£150 per hour
Associate	£100 per hour
Book-keeper	£60 per hour

Sample rates shown: please substitute your own practice's rates

#### Duration

Once it has been agreed, this letter will remain effective from one year to the next until this is replaced. This agreement may be ended by either of us giving notice in writing to the other and we will cease to work from the date we become aware that this retainer has ended. Any variations to this agreement must be agreed in writing and you may be required to sign a new engagement letter to continue our instruction.

This letter of engagement is governed by, and is to be construed in accordance with, the laws of England.

We hope that this letter summarizes the terms under which you have asked us to act on your behalf, in which case we should be grateful if you could kindly acknowledge receipt of this letter and indicate your agreement to it by signing the enclosed copy and returning it to us. If you do not agree with our understanding of the agreement, please let us know as soon as practicable.

Yours sincerely etc.

ABC Smith FFA

[SIGN YOUR NAME WITH YOUR PROFESSIONAL DESIGNATORY LETTERS]

CLIENT TAX RETURN CHECKLIST (this is a guide only)

1. Employment Income/Pension Income
  - (a) Salary/Remuneration/Employment Pension together with P60.
  - (b) Benefits/Expense allowances: expenses claimed/Subscriptions paid. (c) Any other earnings/business profits.
  - (d) Pension, with a note of a weekly amount received/voucher.
2. Investment Income (With Vouchers)
  - (a) Dividends/Interests/Annuities.
  - (b) Building Society interest received (Annual Certificates). (c) Trust/Settlement/Estate income.
  - (d) Bank deposit interest.
  - (e) National Savings Bank interest, distinguishing between Ordinary and Investment accounts.
  - (f) Insurance bond withdrawals.
  - (g) Any other income.
  - (h) Scrip dividend vouchers.
3. Property Income
  - (a) Rents received (furnished/unfurnished).
  - (b) Expenses (with vouchers).
4. Capital Gains/Chargeable Assets (Stocks, Shares, Property, Bonds etc)
  - (a) Date and cost of assets acquired during year, (or value, if a gift).
  - (b) Date and proceeds of assets sold during year, together with details of original cost if available.
  - (c) Brokers bought and sold notes
  - (d) 31.3.82 value where applicable. (Mark - this is OK I have checked!)
5. Others
  - (a) Additions/changes to Life Insurance Policies.
  - (b) Retirement Annuity payments.
6. Capital Transfers/Gifts
  - (a) Transfers made or received (in cash or in kind) totalling more than £3,000. (b) Confirm value of goods taken for own use
  - (c) Confirm private mileage percentage from client's own records

Please complete and return as soon as possible in accordance with our agreed deadline.

**QUALIFICATION OF ACCOUNTS**  
**STANDARD WORDING**

**SOLE TRADER**

I approve these accounts which comprise the Profit and Loss Account, the Balance Sheet and the related notes. I acknowledge my responsibility for the accounts, including the appropriateness of the accounting basis as set out in Note 1, and for providing all the information and explanations necessary for their compilation.

**Note 1**

The accounts have been compiled on a basis that enables profits to be calculated in accordance with UK Generally Accepted Accounting Practice and that provides sufficient and relevant information to enable to completion of a tax return.

**LIMITED COMPANY**

The directors are satisfied that the company is entitled to exemption from audit under the Companies Act 2006, and that no member or members have requested an audit pursuant to the Act. The

directors acknowledge their responsibilities for:

- (i) ensuring that the company keeps proper accounting records which comply with the relevant Section of the Companies Act 2006; and
- (ii) preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for the financial year in accordance with the requirements of the relevant Section of the Companies Act 2006, and which otherwise comply with the requirements of this Act relating to accounts, so far as applicable to the company.

At the end of the Balance Sheet

The accounts have been prepared in accordance with the special provisions relating to small companies within the relevant Part of the Companies Act 2006.

Accountant's Report To:

(Name) \_\_\_\_\_

(Trading style) \_\_\_\_\_

Accounts for the Year Ended: \_\_\_\_\_

We have prepared, without audit, the Accounts set out on pages (complete) \_\_\_\_\_ from the books, vouchers and information supplied to us.



<div style="text-align: right;">_____AFA/FFA</div> <div>(Accountant's signature)</div> <div>_____</div> <div>_____</div> <div>_____</div> <div>_____</div> <div>(Accountant's address)</div> <div>Date:..... 20..</div>
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#### WORDING FOR CHARITY ACCOUNTS

<p>I report, without conducting an audit, that the foregoing Receipts and Payment Account and Bank Balances have been prepared from the books, records and information supplied by the {.....}, and I hereby certify that they are in accordance therewith.</p>  <div style="text-align: right;">_____FFA/AFA</div> <div>(Accountant's signature)</div> <div>_____</div> <div>_____</div> <div>_____</div> <div>_____</div> <div>(Accountant's address)</div> <div>Date:..... 20..</div>
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## TIME SUMMARY SHEET

If you do not offer a fixed fee service to clients, a detailed worksheet must be kept. This will ensure that you have adequate back up of information when formulating your invoices. Your records must be clear enough to ensure that any client enquiry can be met with substantive evidence for your charges

[illegible]

## WORK PLAN CHECKLIST

CLIENT NAME .....

1. Analyse Bank Account and Reconcile
2. Prepare Cash Account
3. Accruals and Prepayments
4. Sales Ledger
5. Purchase Ledger – Reconcile
6. List Drawings - Note All Amounts Over £100
7. Stock
8. Work In Progress - Review After Date Events
9. Fixed Assets - Confirm
10. VAT Account - Compare VAT Returns To Accounts and Agree - Note Any Differences and Report
11. Complete Review Sheet And Discuss
12. Retain Any Tax Documents e.g. Interest Deduction Certificates, Construction Industry Certificates

Completed ..... Date.....

**NB This list is not exhaustive but a guide only**

## QUERIES

CLIENT NAME :

Date:

Name:

Subject:

Question 1:	
Reply:	
Question 2:	
Reply:	
Question 3:	
Reply:	
Question 4:	
Reply:	
Question 5	
Reply:	

Notes:

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## THE CONCLUSION STATEMENT

CONCLUSION STATEMENT			
CLIENT:		YEAR END:	
NB THIS STATEMENT MUST NOT BE SIGNED WITHOUT CAREFUL CONSIDERATION			
		Yes/No N/A	Schedule Ref/ Comment
<p>1 <u>Gross Profit Percentage</u></p> <p>Is there any significant variation?</p> <p>Have you considered possible explanations?</p>			
<p>2 <u>Expenditure Charges</u></p> <p>Are there any material variations compared to the previous period?</p> <p>Have you explained any fluctuations?</p> <p>Are you satisfied that the analysis of income and expenditure is consistent with last year?</p>			
<p>3 <u>Correspondence File</u></p> <p>Have you reviewed the client's correspondence file to ensure that there is nothing therein that would affect the accounts?</p>			
<p>4 <u>Estimates</u></p> <p>Have you prominently noted all estimates and balancing figures?</p>			

5 Drawings

Are you satisfied that the level of drawings is sufficient to maintain the client's apparent standard of living?

Are cash drawings made on a regular basis for the whole period?

Have you prepared a schedule of drawings?

Prepared By: \_\_\_\_\_

Date: \_\_\_\_\_ Date: \_\_\_\_\_

Manager Review: \_\_\_\_\_

Date: \_\_\_\_\_

Partner Review \_\_\_\_\_

SAMPLE OUTLINE OF A DIRECT PROFESSIONAL ACCESS BRIEF TO COUNSEL

IN THE MATTER OF

[YOUR CLIENT'S NAME]

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BRIEF

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Agreed Fee £ [the fee you have  
negotiated with the barrister's clerk]  
[Name of Barrister]  
[Barrister's address]

[Your firm name]  
[Your address]  
[Your contact details]  
[Your reference]

Under the Rules for Direct Professional Access

IN THE MATTER OF

[YOUR CLIENT'S NAME]

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BRIEF

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1. Counsel is instructed on behalf of [Name of Client]
2. Enclosed with these instructions are:- [Numbered List of documents]
3. The brief facts of the matter are [Set out what you think are the important facts of the case]
4. Counsel is asked to advise on the following questions:- [Numbered list of questions to be answered]
5. If Counsel has any questions about these instructions he should contact [Contact name at practice] at [Your contact details]