

## Financial Accountant

www.ifa.org.uk November/December 2015



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Financial Accountant is a bimonthly publication for members and students of the Institute of Financial Accountants. Printed by The Manson Group, St Albans, Herts AL3 6PZ. This product comes from sustainable forest sources. © Reed Elsevier (UK) limited 2015

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ISSN NO: 1357-5449















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If you or your business are looking to develop a member of the finance team, we would like to offer a **FREE consultation** with the IFA's education team. They will be able to guide the relevant parties through the IFA's qualifications, helping to find which qualifications would be applicable to the employee and their role within the practice or business.

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

### **Looking forward**

hen I was appointed chief executive officer earlier this year, I set out four primary areas for the IFA team to focus on to optimise the appeal of the IFA as the genuine "Voice of the SME". As 2015 draws to a close, I felt it was an appropriate time to consider how we have progressed in these areas.

First, we are continuing work on the integration of our IT systems and back-office support processes and functions. This will improve the quality of service as well as effective and timely communication with members.

Second, the student and membership base of the IFA is growing and builds on our success in attracting younger members and more women to balance the gender profile. Refining and simplifying the membership entry criteria and reviewing the IFA routes to membership options as well as a programme of membership growth campaigns have all contributed towards growing numbers and income in 2015/16.

Third, step changes have been introduced to educate and improve quality and standards in the areas of professional conduct and regulation. This is reported in more detail on page 20 and we will continue this theme in a special edition of *Financial Accountant* in January/February 2016.

Finally, we have improved our engagement with members and non-members through our expanding local branch network, conferences, our website and Financial Accountant.

Looking at these specific points, the branch network is thriving with most branches reporting increased

attendances. I and members of my team have and will continue to attend as many branch meetings as possible to update members on progress and hear views.

The joint IFA/IAB conference and the IFA conferences in London and Birmingham this autumn attracted more than 230 IFA and FTA members and excellent feedback has been received. The IFA's *Voice of the SME* monthly newsletter is a vital tool in increasing awareness of the institute and *Financial Accountant* continues to attract positive feedback from members. However, we would like to include more articles that are written by members. Those who are interested in contributing are encouraged to contact Russell Clemence or the editor, Richard Curtis.

This time last year, we were dealing with questions arising from the proposal to amalgamate with the Institute of Public Accountants (IPA) of Australia. Twelve months later, I believe we have made tremendous strides in the transition work that has taken place to integrate our systems and processes and to achieve the aim of delivering greater efficiency, greater effectiveness and greater member value.

Looking forward, we want to know directly from you whether the IFA meets the needs and wants of accountants. The article on page 22 explains how you can go online to answer this important question. The feedback we receive from members will help us to deliver important initiatives, enabling the IFA to differentiate itself from other professional accountancy bodies.

As we end 2015 and move towards 2016, the IFA's centenary year, we look forward to developing and delivering some exciting new initiatives to benefit members.

The branch network is thriving with most branches reporting increased attendances. I and members of my team have and will continue to attend as many branch meetings as possible to update members on progress and hear views.

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#### **QUICK VIEW**

#### BEST FOOT FORWARD

Every new business must take some first steps if it is to make a successful start.

page 10

#### **▲ ACCEPTED STANDARDS**

The UK's generally accepted accounting standards are changing so it's time to get up to speed with these.

page 14

#### **№** STAYING ONSIDE

Staying on the right side of professional standards of behaviour is essential.

page 25

John.

John Edwards, IFA Chief Executive Officer.



#### **BUSINESS**

#### **Apprentice protection**

Under the Enterprise Bill, unauthorised use of the term "apprenticeship" will become illegal. Action will be taken if the term is used to promote substandard courses.

.....

tinyurl.com/ifa-1099

#### **EMPLOYMENT**

#### Minimum wage

The national minimum wage was increased on 1 October 2015. The new rates are:

tinyurl.com/ifa-1097

#### **TAXATION**

#### **NIC allowance**

Employers should note that the employment allowance, which can be deducted from their Class 1 National Insurance contributions, will increase from £2,000 to £3,000. Note that the allowance will not be available to companies where the only employee is the sole director.

tinyurl.com/ifa-1096

#### **PENSIONS**

### Auto-enrolment confusion

The Pensions Regulator has warned hundreds of thousands of small and micro employers to check when they must meet new workplace pension duties. Almost two-thirds of such employers do not know the exact date they need to start complying with automatic enrolment laws.

tinyurl.com/ifa-1095

#### **TAXATION**

#### Foreign income/gains

Revenue and Customs Brief 16 (2015) revises the department's practice relating to the remittance basis treatment of foreign income and gains that are used as collateral for a loan brought into or used in the UK.

tinyurl.com/ifa-1140

#### ANNUAL GENERAL MEETING

The 99th annual general meeting of IFA (2014) Limited will be held at 11am on Wednesday, 16 December 2015 at The Wesley, 81–103 Euston Street, London NW1 2EZ to consider the following resolutions which will be proposed as ordinary resolutions.

- 1. To receive the report of council and the audited accounts for the year ended 31 December 2014.
- 2. To elect David Hunt, Rona O'Brien, Jeanette Purcell, John Sorby and David Woodgate as members of Council.
- 3. To reappoint Streets Audit LLP as auditors of IFA (2014) Limited and to authorise the council to determine their remuneration.

#### **TAXATION**

#### R & D tax relief

Making R&D Easier: HMRC's plan for small business R&D tax relief sets out the department's plan to make research and development claims easier for SMEs.

- From November, small companies with a turnover under £2m and fewer than 50 employees – will be able to seek advance assurance on R&D tax relief.
- HMRC will explore ways to improve its communication around R&D tax relief, including looking at ways to use data and work with other government agencies to identify companies that have carried out R&D but have not claimed relief.
- Interactive guidance will be developed with stakeholder involvement.

tinyurl.com/ifa-1131

#### **BUSINESS**

#### **Broadband**

Ofcom has published its *Broadband* services for SMEs: assessment and action plan. It was found that only 56% of smaller firms can access superfast broadband at their business premises. Businesses in some cities can claim up to £3,000 to improve broadband connectivity.

tinyurl.com/ifa-1088

#### **PENSIONS**

#### **Pension window**

From 12 October, men aged 65 and over and women aged 63 and over have an 18-month window of opportunity to increase their state pension entitlement. This can be done by payment of additional National Insurance contributions. As an example, for a 65-year old. £8,900 will buy an extra £10 a week. For a 75-year old, a payment of £6,740 would be needed.

tinyurl.com/ifa-1086

#### REGULATORY

#### Bankruptcy

The minimum debt that must be owed before creditors can ask the court to declare a person bankrupt rose to £5,000 from £750 on 1 October 2015.

•••••

tinyurl.com/ifa-1101

#### **PENSIONS**

#### Lifetime allowance

Employers are warned that flexible benefit packages may exacerbate the problem of employees' pension exceeding the pensions lifetime allowance, especially as this will reduce to £1m in April 12016.

tinyurl.com/ifa-1079

#### **ACCOUNTANCY**

#### **Accounting standards**

The Financial Reporting Council has issued a suite of changes that update and simplify accounting standards. The changes are largely in response to the implementation of the new EU Accounting Directive, and include:

- a new standard, FRS 105: The Financial Reporting Standard applicable to the Micro-entities Regime;
- new section 1A Small Entities of FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- other changes necessary for continued compliance with company law.

tinyurl.com/ifa-1115

#### TAXATION

#### **VAT returns**

HMRC have updated *VAT Notice 700/12:* how to fill in and submit your *VAT Return*. This replaces Notice 700/12 (August 2014).

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tinyurl.com/ifa-1124

#### **BUSINESS**

#### **ESOS** compliance

The Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment scheme for qualifying UK organisations which must carry out ESOS assessments every four years. The assessments are audits of energy use. The deadline for registration is 5 December 2015 but fewer than 500 of about 10,000 companies have complied.

tinyurl.com/ifa-1109

#### **TAXATION**

#### **Capital allowances**

Advisers should remember that the annual investment allowance will be reduced from £500,000 to £200,000 on 1 January 2016. Businesses considering purchases of expensive equipment in the near future should take this reduction into account.

tinyurl.com/ifa-1093

#### **BUSINESS**

#### **Unpaid bills**

A YouGov survey of 500 micro-businesses reveals that about one-third wait four weeks or more for payment. The survey suggests that overdue invoices should be chased sooner rather than later to avoid giving the impression that payment is not urgent.

tinyurl.com/ifa-1092

#### **TAXATION**

#### **Complicated IR35**

The Office of Tax Simplification is carrying out a project on the closer alignment of income tax and National Insurance. The aim is to build on earlier work and understand the different stages of improving the alignment of the taxes. The consultation closes on 31 December 2015. Contributions should be emailed to ots-tax-nics@ots.gsi.gov.uk.

tinyurl.com/ifa-1091

#### **PENSIONS**

#### **Pensions freedom**

In the first three months from April 2015, more than 200,000 customers accessed their pension savings. Only 12,418 annuities were sold in that period.

tinyurl.com/ifa-1105

#### **EMPLOYMENT**

#### **Holidays**

Of 22 countries worldwide, British people are most likely to say that they will take all of their holiday leave. The median number of leave days given to British workers is 27, which is above the 21-day average for the countries surveyed.

tinyurl.com/ifa-1090

#### **TAXATION**

#### **Scottish taxpayers**

HMRC have published technical guidance on who, from 6 April 2016, will be a Scottish taxpayer. This includes information on an individual's "place of residence", "main place of residence", tests for Scottish taxpayer status, and evidence used to establish such status.

tinyurl.com/ifa-1132

#### **EMPLOYMENT**

#### **Communication**

A report from Personal Group indicates that while mobile technology will be important in communications between firms and their employees, staff do still crave personal interaction.

tinyurl.com/ifa-1107

#### **BUSINESS**

#### **IT** security

The Department for Culture, Media and Sport is funding innovation vouchers to help UK businesses obtain expert advice to protect themselves from cyber crime. This can help achieve certification under the Cyber Essentials scheme. Vouchers worth up to £5,000 can be used to pay for advice from an external expert.

tinyurl.com/ifa-1087

#### **BUSINESS**

#### **Tenancy protection**

Various provisions in the Deregulation Act 2015 came into force on 1 October 2015, which protect tenants from unfair eviction where they have raised a legitimate complaint about the condition of their home. Landlords musty also provide all new tenants with information about their rights and responsibilities as tenants.

tinyurl.com/ifa-1136

#### **REGULATORY**

#### **Poisons licence**

A local authority licence is no longer required by retailers to sell "reportable poisons", such as some cleaning, gardening and fishkeeping chemicals. In their place, there is a new duty to report suspicious transactions, thefts and disappearances of these products. Further information can be found in Guidance for Pharmacies selling non-medicinal poisons to the general public.

tinyurl.com/ifa-1112

#### **BUSINESS**

#### **Consumer Rights**

Consumer law changed on 1 October 2015, as the Consumer Rights Act came into force. The changes cover:

- what should happen when goods are faulty;
- unfair terms in a contract;
- what happens when a business is acting in a way which isn't competitive;
- written notice for routine inspections to be given by public enforcers, such as trading standards; and
- greater flexibility for public enforcers to respond to breaches of consumer law, such as seeking redress for consumers who have suffered harm.

tinyurl.com/ifa-1114

#### **IFA/FTA MEMBERSHIP RENEWALS 2016**

Please remember to renew your IFA/FTA membership for 2016.

How to renew: Fill in and sign the relevant paper work that has been sent to you and send back to the IFA by 31st December 2015 by:

- Post to: The Podium, 1 Eversholt Street, Euston, London NW1 2DN; or
- Email: membership@ifa.org.uk

Payment can be made: through the IFA website (www.ifa.org.uk); by direct debit (UK members only); by debit or credit card; by BACS; or by instalments.

If more information is required, please contact the membership team by email at: membership@ifa.org.uk or telephone: +44 (0)20 7554 0730.



#### **CHARITIES: IFA RECOGNITION IN NORTHERN IRELAND**

The IFA made a submission to the Department for Social Development in Northern Ireland to request that full members of the IFA (associates (ACA) and fellows (FFA)) should be eligible to undertake independent examinations in the province for charities with income above £100,000 under the Charities Act (Northern Ireland) 2008, s 65(5).

We are delighted to inform members that our application to the Department of Social Development has been successful. The order to add the IFA to the list of bodies listed at s 65(5) will come into operation on 7 December 2015.

tinyurl.com/p3xglyn

#### **EMPLOYMENT**

#### Illegal working

The government is consulting on proposals to prevent unscrupulous employers subjecting migrant workers to illegal working conditions. It will be a criminal offence to recruit solely from abroad without advertising in the UK and in English.

tinyurl.com/ifa-1083

#### **BUSINESS**

#### **Online reviews**

The Competition and Markets Authority has published two 60-second summaries for businesses on how to comply with consumer protection law on online reviews and endorsements. Online reviews: giving consumers the full picture and Online endorsements: being open and honest with your audience are on the GOV.UK website.

tinyurl.com/ifa-1110

#### **CHARITIES**

#### **Accounts consultation**

The Financial Reporting Council and the Charity Commission are consulting on conventions for the electronic tagging of charity accounts to enhance the quality and accessibility of financial reporting. The consultation closes on 8 December 2015.

tinyurl.com/ifa-1118

#### **EMPLOYMENT**

#### Share scheme

A survey by Equiniti indicates that half of employees would change their attitude to their employers if they were part of an employee share scheme. 46% of that half share would have an increased interest in their employer.

tinyurl.com/ifa-1077

#### **TAXATION**

#### **Phishing**

HRMC have updated their guidance on phishing emails aimed at tax agents. This includes examples of scams and what action to take.

tinyurl.com/ifa-1120

#### **REGULATORY**

#### **Picketing**

The Department for Business, Innovation and Skills has updated its code of practice on picketing, particularly around social media, and is working with the police to make sure they use laws already in place to tackle intimidation.

tinyurl.com/ifa-1150

#### **TAXATION**

#### **George Anson v HMRC**

Revenue and Customs Brief 15 (2015) gives HMRC's response to the Supreme Court decision in George Anson v HMRC (2015) UKSC 44. The case held that a US limited liability company (LLC) was "transparent" for the purposes of income received from it for double taxation relief. However, HMRC consider that the decision was specific to the facts and need not be applied more generally.

tinyurl.com/ifa-1143

#### **REGULATORY**

#### **October changes**

Legislative changes often come into effect from 1 October and the Department for Business, Innovation and Skills have listed those measures coming into force from 1 October 2015. The list consists of 26 measures of which 11 are deregulatory and nine regulatory.

tinyurl.com/ifa-1103

#### **TAXATION**

#### **Restricted reliefs**

Guidance on the restrictions applying to certain income tax reliefs has been updated. The reliefs include:

- Trade loss relief.
- Property loss relief.
- Post cessation trade and property reliefs.
- Employment loss relief.
- Losses on deeply discounted securities.
- Share loss relief.
- Qualifying loan interest.

tinyurl.com/ifa-1133

#### **CHARITIES**

#### Consultation

OSCR, the charity regulator in Scotland, has issued for public consultation its revised guidance for charity trustees. The law and charity trustees' duties have not changed. However, the guidance tries to set out in a more user friendly manner what charity trustees must consider, so that they meet legal requirements, ensure that their charities are well-run, and avoid some of the common problems that can arise. The guidance also includes more examples. The deadline for comments is 18 December 2015.

tinyurl.com/ifa-1122

#### **TAXATION**

#### Webinars

HMRC provide help and support with free webinars, emails and videos.

tinyurl.com/ifa-1126

#### **EMPLOYMENT**

#### **Wage levels**

The Office of National Statistics reports that average earnings were 3% higher in real terms in the three months to August 2015 as compared to the same period last year.

tinyurl.com/ifa-1084

#### **TAXATION**

#### **Charities**

HMRC have updated their guidance notes on how the tax system operates for charities.

tinyurl.com/ifa-1127

#### **EMPLOYMENT**

#### **Employee eyecare**

Specsavers Corporate Eyecare reports that many businesses are not complying with their obligations under the display screen equipment regulations. 7% of employers do not communicate their policy and 15% do not have a policy.

tinyurl.com/ifa-1078

#### **TAXATION**

#### The tax gap

An HMRC briefing explains how HMRC calculate the tax gap and its influence on the collection of tax. The tax gap is the difference between the tax that should be collected and the amount actually collected.

tinyurl.com/ifa-1123

#### **TAXATION**

#### Inheritance tax toolkit

HMRC have updated their inheritance tax toolkit, which includes advice on completing form IHT400.

tinyurl.com/ifa-1147

#### **TAXATION**

#### **Property mistakes**

HMRC have published guidance and examples to help landlords avoid common mistakes when calculating and reporting income and profit from property rentals.

tinyurl.com/ifa-1137

#### **TAXATION**

#### **Intermediaries**

Employment intermediaries are responsible for paying the correct tax and National Insurance for a worker who is working for a third person. HMRC have published guidance on this subject.

tinyurl.com/ifa-1149

#### **TAXATION**

#### **Subscriptions list**

HMRC have updated List 3, the list of professional bodies and learned societies with tax-deductible fees.

tinyurl.com/ifa-1125

#### PRACTICEPA - PRACTICE MANAGEMENT SOFTWARE

The IFA is pleased to announce that it has endorsed the cloud-based practice management software PracticePA, developed by PracticePA Limited.

PracticePA is a cloud-based practice management software created exclusively for UK-based SMP accountants. It is a simple and powerful web application that allows an accountant to manage a client's due dates and deadlines in line with Companies House and HMRC's requirements. Its mobile responsive site enables accountants to manage its clients, team and work on the move using any mobile device. Some existing IFA members are already using PracticePA.

The IFA looks forward to working with PracticePA moving forward and developing a long term, mutually beneficial relationship that delivers real value to all our members. Further details will appear on the members-only pages of the IFA website soon.

www.practicepa.com

#### **TAXATION**

#### **Avoidance schemes**

HMRC have published *Ten things about disclosing a tax avoidance scheme*. Promoters, intermediaries (and tax agents), independent financial advisers, or users, need to be aware of their responsibilities to disclose tax avoidance schemes.

tinyurl.com/ifa-1130

#### **CHARITIES**

#### Gift aid

HMRC have published new model wording for gift aid declarations for one-off donations, multiple donations and sponsored events. It can be used from now on, but *must* be used from 5 April 2016.

tinyurl.com/ifa-1119

#### **TAXATION**

#### **Patent box**

HMRC are consulting on the patent box regime to ensure that it complies with international standards. Views are sought from businesses, representative bodies, and other interested parties on how to protect the availability of the relief to promote growth and investment in the UK.

tinyurl.com/ifa-1134

#### **REGULATORY**

#### **Customs code**

The UCC is being introduced across the European Union (EU) on 1 May 2016. There'll be a number of changes to how goods cross EU borders and some transitional arrangements will operate until 2020.

tinyurl.com/ifa-1141

#### **TAXATION**

#### **HMRC future plans**

HMRC have announced the next step in their ten-year modernisation programme. The present 170 offices will be consolidated into 13 regional centres, which will vary in size and contain a mix of operational, tax professional and corporate services.

tinyurl.com/ifa-1121

#### **TAXATION**

#### **Agent online**

HMRC continue to test their agent online service. Volunteer agents (with up to 200 clients in each of the PAYE, corporation tax, VAT and self-assessment tax regimes) are currently being sought to participate in testing of a private beta live service.

tinyurl.com/ifa-1129

#### **ISLE OF MAN - ANTI-MONEY LAUNDERING**

On 29 October 2015 the Board of the Isle of Man Financial Services Authority agreed to delegate its powers of oversight under the Designated Businesses (Registration & Oversight) Act 2015, s 6 to the Institute of Financial Accountants. IFA members may elect to be overseen by the institute by making an election at registration.

Enquires can be made to the AML Unit at: aml@iomfsa.im

tinyurl.com/ifa-1156



**Getting started** 

**Richard Curtis** considers the tax and National Insurance implications of starting a new business

#### **TEN SECOND SUMMARY**

- 1 Tax and choosing the business entity.
- 2 Differentiating trading and investment.
- 3 Profits, losses and overlap relief.

There is probably one thing that we can guarantee for anyone who is thinking of starting their own business: it is going to involve a considerable amount of "hassle". This is particularly the case in the early days when, as well as finding work, the resources to carry it out and obtain payment for it, there are also such problems as finding premises, obtaining insurance, purchasing the equipment required and perhaps employing staff. With all that on their plates, it is hardly surprising that many budding entrepreneurs are likely to kick that tin can marked "tax and National Insurance" as far down the road as they can. After all, tax won't be payable until the first year's accounts have been prepared, so what's the hurry?

#### The type of entity

The first issue is that the contents of that tin are inextricably linked to the type of entity that is chosen to carry on the business. The consequences of being self-employed or a partner are much different from being an employee of a limited company. There is a saying "do not let that tax tail wag the business dog" so if there are, say, good business reasons for becoming a limited company - perhaps the business comes with considerable financial risk then the fact that the tax and National Insurance liabilities might be higher than as a self-employed person should probably not sway the decision. Entrepreneurs and their advisers should therefore give careful consideration to the various advantages and disadvantages of business entities before deciding which should be used. Some of those factors will be tax ones.

For example, if initial losses are anticipated, the sole trader or partnership may be preferred so that these can be set against other personal income. This might be income of the same year if the business is being carried on in parallel to an existing employment. Alternatively, losses in the first four years of self-employment can be carried back and set against income of the previous three years. See *Further Information*.

By comparison, a corporate loss can only be set against other – probably future – corporate profits.



Another consideration at this stage is whether there is a trading or investment business. Most ownermanaged businesses are likely to be the former, but some, while being described as a business may yield investment income or capital gains; for example, the operation of a property portfolio. While income types other than dividends are taxed at the same rate in the hands of an individual, whether investment or trading, there will be National Insurance implications and perhaps the possibilities of capital gains tax rather than a higher income tax charge.

The use of losses and entitlement to capital gains tax deductions such as entrepreneurs' relief and rollover relief will also be affected. If there is doubt as to whether a trade is being carried on, a review of the "badges of trade" and Marson v Morton [1986] STC 463 is recommended. See Further Information.

#### **Business compliance**

Regardless of the choice of business vehicle, starting in business imposes a number of obligations, both one-off and ongoing. These can include notifying HMRC of commencement, setting up a PAYE scheme for employees, registering for the construction industry scheme and applying for VAT registration. Non-compliance can cause problems.

#### Personal service companies

The trend for individuals to provide what were essentially employment services through the medium of an intermediary company has been growing for many years and the chief advantages of a personal service company are reductions in PAYE income tax and National Insurance liabilities. Advisers will be familiar with the "IR35" rules

#### > FURTHER INFORMATION

tinyurl.com/on7zom3 Marson v Morton: tinyurl.com/q8lu8p3 Starting self-employment: tinyurl.com/qj26ojy HMRC IR35 consultation: tinyurl.com/qj7pwjy National Insurance maximum: tinyurl.com/p9zpf7m National Insurance deferment: tinyurl.com/nur9zfv Calculating profits and overlap relief: tinyurl.com/pe4x65k Partnership losses: tinyurl.com/pprdqy4 Capping of tax reliefs: tinyurl.com/p7alonr Annual investment allowance: tinyurl.com/of9erze Capital allowances: tinyurl.com/oe3cfnu



which seek to combat advantages such as drawing dividends rather than salaries and deductions from corporate income. Note that this is now the subject of an HMRC consultation. See *Further Information*.

#### **National Insurance**

When an individual starts in business they may be employed and self-employed in the same tax year, which may have National Insurance implications. There is a maximum amount of contributions that are payable by an individual for a tax year. The limit applies where an earner has two or more employments, so that Class 1 contributions may be due from multiple sources or they are employed and self-employed in the same year. Employees pay Class 1 contributions while the self-employed pay Classes 2 and 4. See *Further Information*.

Deferment of National Insurance contributions is possible if an individual can show that a refund is likely. This will usually be because they are liable to pay the maximum Class 1 primary contributions. See *Further Information*.

#### **Profits and losses**

The usual basis for taxation of sole trader profits is known as the "current year basis" and for a year in which the trade is continuing (not the year of commencement or cessation) the taxable profits are those relating to the accounting period ending in that year. There are special rules for determining the basis period for the opening years of an unincorporated business. Where a trader chooses a year end other than 5 April (or 31 March) an "overlap profit" may arise and this element will be taxed twice, in the first and second tax years. This is carried forward and deducted from profits (or added to losses) on cessation or a future change of accounting date. Consequently, it is important that a permanent

note of this potentially valuable relief is carried forward from year to year. See *Further Information*.

Losses and the special form of loss relief available in the opening years of a business were mentioned briefly above. Losses incurred in the course of carrying on a trade, profession or vocation in the first four years of trading can be relieved against the trader's other income of the three tax years preceding the year of loss. Note that this relief is only available if the business is being run on a commercial basis and in the expectation that profits could reasonably be expected in the period, or within a reasonable time afterwards. Matters become more complicated if partnerships are involved, where loss relief may be capped under anti-avoidance provisions. It is also limited to £50,000 or 25% of adjusted total income, whichever is higher. See Further Information.

#### Expenditure

Few entrepreneurs will be able to start their business without incurring expenditure. In fact, many will incur costs before their business starts and the possibility of "pre-trading expenditure" should be reviewed for any new business. Expenses incurred in the seven years before the commencement of a trade are treated as incurred on the first day of trading and will be deducted from profits in the first accounting period. This is, of course, subject to their satisfying the normal "wholly and exclusively" rules in ITTOIA 2005, s 57 and CTA 2009, s 61.

Clients will also benefit from a brief conversation about the differences between revenue and capital expenditure, although the annual investment allowance (reducing from £500,000 to £200,000 from 1 January 2016) will reduce the tax effect in many circumstances. Capital allowances for the latter type of costs are given at specific rates as laid down in the Capital Allowances Act 2001. The rates of relief depend broadly on the type of capital expenditure incurred and the date the costs are incurred. A more detailed explanation may be required on the subject of vehicles, private use, and short and long-life assets.

#### Conclusion

Of necessity, this has been the briefest of overviews of just some of the issues to be taken into account when starting a new business and, as mentioned, tax is only one of the factors to be considered. Some crystal ball gazing may be required and advice may need to be qualified accordingly. For example, is the business likely to be one of rapid growth and future sale? Will capital be contributed by others who will not be actively involved in the business? Will the business potentially be eligible to tax reliefs, such as research and development reliefs, that are only available to limited companies?

There will be plenty of other matters that are likely to be getting our budding entrepreneur "wound up" when starting a business, so an accountant who can offer clear and concise advice should be in a position to become a long-term and valued business adviser.



**Best foot forward** 

Starting a business can be fraught with problems. *Franck Sidon* suggests ten steps to start a business off on the right foot.

#### **TEN SECOND SUMMARY**

- Starting a business in the UK is relatively easy, but make sure that the best structure is used.
- 2 Do not overlook the importance of insurance to protect clients, employees and the business itself
- 3 Bookkeeping is essential to maintaining cashflow as well as complying with HMRC requirements.

am sure that we have all been in the position of advising a client who has decided to start a new business. It's a lot easier to do in the UK than in some other European countries. However, while it's easy to start a new business, it is also easy to make mistakes and this is why more than half of new businesses fail within five years. So if clients do not want to be on the wrong side of those statistics, what are the key steps that advisers should be recommending to help them beat the odds?

#### The business name

If there is an intention to build a brand it should be trademarked. The business or trading name does not have to be the same as the company's. If it is the same, there is a level of protection because precedence can be argued if someone else creates a product with the same name. However, sole traders have no such protection, so if the name is important, it is essential that a trademark is sought.

#### The legal structure

Sole trader, partnerships or limited companies have their own benefits and drawbacks. Make sure that all of the implications (and costs) are understood before a decision is made on a given structure. Typically, a limited company is more tax efficient, even with the upcoming changes in dividend taxation. However, the administration of a limited company is more complex than that of a sole trader business. Most small business accountants will be happy to provide a free consultation to help a client to decide, so this may be a service that IFA and FTA members should embrace.

#### Register with HMRC

Even if a business starts as a sole trader with few attendant administrative constraints, the trader should register as self-employed within the first three months of the start of the trade. Registration is as simple as going to the HMRC website and registering online or even calling the department. There is no point in paying penalties for failing to do this.



#### Insurance

Traders should not wait until it's too late to take out relevant insurance. Depending on the business and how it is set up, professional indemnity, general liability, employer's liability and/or property insurance should be considered. Looking forward, the trader might want to add business interruption and keyman insurance as well. And if they will be working from home, entrepreneurs need to ensure that their homeowner's insurance covers damage to or theft of business assets as well as liability for business-related injuries. Members probably know an independent financial adviser or insurance broker who can provide such advice and services. Alternatively, many insurers have off-the shelf packages for small businesses.

#### **VAT and payroll requirements**

We all probably think that a low turnover means that it is unnecessary to register for VAT. And if the business is carried on through a limited company we know that it is not necessary to pay a salary because dividends can be taken, although care will need to be taken to determine which is more tax efficient. However, there are cases where registering for VAT or taking a small salary will save some tax money.

#### BUSINESS DEVELOPMENT





For example, with VAT a business can save money if its clients are also VAT registered businesses. Adding VAT to sales will have no financial impact on VAT-registered business customers and it will allow the trader to recover VAT on their expenses. Even if the trader has few expenses, money can still be saved by registering for the VAT flat rate scheme.

Similarly, when trading through a limited company, although taking dividends might be more tax efficient, taking a small annual salary of, say, £10,000 will save £2,000 in corporation tax a year for each director.

#### Bookkeeping

Whether it is Excel, Sage or an online bookkeeping package such as Xero or Kashflow, a trader needs a system to keep track of expenses, revenue and to reconcile their bank account every month. Traders should not wait until they have run out of cash or realise that their customers have not paid them for months. Some of those tools have mobile phone apps that allow costs to be captured as they are incurred so there is no excuse for neglecting this aspect of record-keeping. HMRC require that businesses keep copies of their receipts, but actual receipts are not required.

#### Address, phone and email

For the office there are many brokers who will be happy to find the right business premises. Some businesses start from home, perhaps moving to serviced offices as and when required. There are numerous providers of serviced offices that allow their premises to be used when needed for business meetings. Alternatively, an office may be shared with an existing business. This can be convenient if a larger space is not required and can be more cost-effective, particularly in the early days of a business. Gumtree can be a good place to start if this is required.

As for the phone, having a mobile number only on your business card does not appear very professional. The same applies to hotmail or gmail for as professional email address. Fortunately, most VOIP (voice over internet protocol) vendors can provide local numbers that are easy to use and can even forward calls to a mobile phone. Similarly with emails, Google Apps or Microsoft Office 365 allow the use of a business's own domain name and all their productivity apps for a very low monthly rate.

#### Backup plan

Unless all programs are web based – which can be an ideal situation – personal computers need to be backed up. This can be done for free using facilities such as Dropbox with monthly payment being made as storage needs increase. If Dropbox is preferred, an invite from a friend can mean that more free storage is obtained.

#### Build a business network

Networking is critical to growing a business and referral is the number one way to acquire new business. Networking allows a business to increase the chance of obtaining referrals and the local chamber of commerce is a good place to start. It's also a good idea to look at business networking groups such as BNI, most will allow free attendance to a few meetings. Do not forget other professionals who will often know people that can help to find potential customers.

Building an online presence by blogging and using tools such as LinkedIn or Twitter can also be beneficial for those who have the time.

#### Mentors

Every business can benefit from a sounding board. Ideally someone who understands the business, has done it before, has a track record of success and is willing to help. A client, a supplier or partner is rarely the best choice. But it could be an accountant, solicitor or, even better, a business coach.

#### Conclusion

While these tips on their own will not be enough to guarantee success, they should help to prevent a business from failing for the wrong reasons. The business will still need a good product to sell to succeed, but it is important to maximize opportunities and minimise avoidable mistakes.



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# Dealing with the paperwork

Every new practitioner will require certain documents to set up their practice. *Thomas Taylor* provides an overview of the basic requirements.

#### **TEN SECOND SUMMARY**

- 1 The IFA provides a model letter of engagement.
- 2 A partnership agreement will regulate terms of business between partners including the division of profits and what happens on dissolution.
- 3 The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 apply from June 2014 to any contract with a consumer.

ust as in any business, when a new practice starts, the proprietor should put in place those documents that record their contractual arrangements with the people and businesses that they work with. In this article I will cover the most important.

#### The engagement letter

This is an essential document and, in recognition of its importance, the Institute of Financial Accountants provides a model version to members for free.

An engagement letter should contain both contractual terms of business, such as the services being provided and their cost, as well as practical matters such as deadlines for the client if the work is to be completed to schedule.

Despite being in a letter format, the document – once signed and dated by the client – forms a contract. It is therefore important to be certain that an acceptance copy has been received back from the client and that it is safely kept.

The law now provides that an e-mail contract is valid and binding. To speed up the receipt of an engagement letter a practitioner should comply with the following points.

- Send a short message attaching the contract without mentioning any other matters.
- Ask the client to accept the contract either by signing, dating and returning a hard copy of the letter, or by replying to the email message. If the latter is done, the practitioner and client will

- be bound by the terms from the date that the confirmation of acceptance is received.
- Keep the confirmation message carefully. Print a copy for good measure.

#### **Regulatory documents**

The other documents required by a new practice will depend on the business structure and the way in which it will operate.

For those who start business as sole practitioners, there is no special legal requirement to record this. But if working with others, the practitioners will need to agree (and record that agreement) as to how they will work together.

#### Working in a partnership

The law of partnership remains regulated by the Partnership Act 1890. In those days, the government did not employ hordes of parliamentary draftsmen to keep busy, so this act is blissfully short.

A partnership is formed automatically when two or more people work together in business. Whether or not the partners call their arrangement a partnership, and whether or not the partners create a partnership agreement, the relationship is governed by the Act.

The one place the Act still bites hard is in relation to dissolution. Unless otherwise agreed, when a partner leaves the business, all assets are sold and the net proceeds are split equally.

Of course, partners are unlikely to contribute to the business equally. Those bringing higher value skills, more time or particular assets will want to make sure that they take a share that reflects that additional value. A modern agreement now covers the structure of the firm, asset and profit shares, those authorised to act and in what circumstances, and more. For example, the exit provisions alone are likely to be more detailed than the whole of a comparable agreement from 50 years ago. The agreement should deal with today's requirements such as intellectual property and information technology. This is an area where a surprising number of out-of-date precedents can be found. These should be avoided.



#### A limited company

Before the Companies Act 2006, the default position was that Table A in Companies Act 1985 prescribed a form of articles of association for a company limited by shares. Its use allowed shareholders, accountants and solicitors to remove the risk of making serious mistakes when drawing up what was a complicated document. The Companies Act 2006 set us free. The new model articles give a far simpler blueprint for an organisation and one which, with a strong coffee and an hour to spare, we can all understand.

Bear in mind that the model articles are just that: a model. Most lawyers and accountants regard them as written in concrete – just as we regarded the old Table A. But the model articles are not only easier to understand, they are also easier to edit and they can be changed to suit how a practice will work. The only safeguard is to be sure that these changes are lawful. This means not just compliant with the general law, but lawful in the context of the Companies Act 2006.

Companies may have more than one shareholder. If so, a shareholders' agreement will be necessary to set out ownership and record how decisions are to be made. A good agreement is a detailed set of simple arrangements about what the directors can and cannot do. However, it also controls and redistributes power among the shareholders. This means that, regardless of equity held, a single shareholder can call the shots, or a small shareholder with little power can have his voice heard on specified issues.

The most important issue in a shareholders' agreement is exit. There are several basic alternative arrangements, each with very different effect. Shareholders really must sit down and discuss what happens if one wishes to leave the business and this should be done before shares are issued.

#### Limited liability partnerships

The limited liability partnership (LLP) structure appeared in 2000 and has been revamped since. This is a hybrid structure, formed primarily to enable giant partnerships to function without each partner having personal liability for the errors of their colleagues.

An LLP can be used by a new accountant, but a new practice is unlikely to prefer this over a partnership or company. If an LLP is required, its management is not very different from a partnership under the Partnership Act 1890, so a similar document will provide the management control needed.

#### Documents for the website

Businesses that operate a website – and few will not do so nowadays – need two documents: one for terms and conditions of use and a privacy notice.

Unless payment is taken and an online service is provided, the accountant will not require online terms of business as well as their client engagement letter for the provision of offline services. There is, however, an argument to publish terms of use of the website. These can provide a marker of professionalism and can dissuade poor visitor behaviour (such as copying website text or images).

Conversely, a privacy notice is required. The Data Protection Act 2013 obliges a business to provide a whole raft of information about itself and how it carries on business. This applies regardless of the business structure. The privacy notice should be prominently displayed and easily available.

#### **Consumer contracts**

Just when we thought we had come to grips with the Distance Selling Regulations, the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 came into force. These regulations apply from June 2014 to any contract a business has with a consumer; for accountants, this is likely to be the provision of personal tax services or financial advice. They have no application to business clients. If work is carried out for private clients, additional terms within the client engagement letter will be needed.

#### After starting

There are many other documents that could have been discussed here. The "rule of thumb" is that wherever there is a business relationship that carries some degree of risk to one of the parties, it is best to record the agreement in writing.

#### > FURTHER INFORMATION

Net Lawman can advise on the types of document that a business might need and what these should cover. Email: ifamembersupport@ netlawman.co.uk.



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## Accepted standards

Jonathan Holmes explains the new UK generally accepted accounting standards. They are here now, so what action needs to be taken?



- 1 Fundamental changes to the UK's generally accepted accounting principles apply to accounting periods commencing on or after 1 January 2015.
- 2 Summaries of the main changes to aspects of business accounts.
- 3 The effect of the new standards on small companies.

ome fundamental changes have been made to the UK's generally accepted accounting principles (GAAP), which may affect companies, their covenants and their ability to pay dividends. The new UK GAAP includes financial reporting standard (FRS) 102, the key element for most companies, as well as FRS 100, FRS 101, FRS 103 and FRS 105.

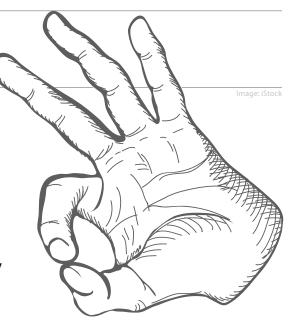
FRS 102 applies to accounting periods starting on or after 1 January 2015 (ie 31 December 2015 year ends). While small companies have an extra year before mandatory adoption, the impact on distributable earnings should be considered sooner rather than later to ensure that no unlawful dividends are made this year.

Financial statements prepared under FRS 102 will still use the Companies Act formats, but there may be some significant changes to the recognition, measurement and presentation of items in the financial statements. FRS 102 provides many accounting policy choices, some of which are similar (but with subtle differences) to the old UK GAAP.

The main changes are set out under the following subheadings.

#### **Derivative financial instruments**

Under FRS 102, all derivative financial instruments, including interest rate swap arrangements, options, forward exchange contracts and collars, must be recognised in the financial statements. This means the fair value must be recognised in the balance sheet and movements in fair value must be reflected in the profit and loss account. A derivative can have either a favourable or unfavourable fair value, and this will cause volatility to be reflected in the results for the period.



#### **Deferred tax**

Deferred tax is accounted for using a timing difference plus approach. This means that assets and liabilities will be recognised on timing differences including those arising on amounts recognised in other comprehensive income such as revaluations of property, plant and equipment. Deferred tax will also be recognised on fair value adjustments that are made in accounting for business combinations using the purchase method of accounting.

#### Property, plant and equipment

When transitioning to FRS 102, a company may be able to add considerable value to their balance sheet by revaluing property, plant and equipment (PPE) on a one-off basis to give a new "deemed cost" without the cost of regular valuations thereafter. Under the new accounting standards there will be a need to recognise the related deferred tax liability.

Investment properties will still need to be adjusted to fair value at each year end, but movements in fair value are reflected in the profit and loss account. FRS 102 also requires deferred tax to be recognised on all valuation uplifts on investment properties.

#### **Employee benefits and lease incentives**

An accrual is required in respect of employee benefits, including unused holiday or sickness pay, at each period end.

A lessee will recognise the benefit of lease incentives as a reduction to the lease expense over the entire lease term, compared to the shorter of the lease term and a period ending on the date from which a market rental will apply under old UK GAAP.

#### **Business combinations**

In an acquiring entity's financial statements, intangible assets whose fair value can be measured reliably will need to be recognised separately from goodwill on acquisition. This includes: intellectual property, customer contracts and relationships, in-process research and development. FRS 102 also requires deferred tax to be recognised on intangible assets.

#### **Small companies**

The small company size thresholds included within the Companies Act will rise substantially

#### ACCOUNTING STANDARDS



for accounting periods commencing on or after 1 January 2016. For several years the size thresholds defining a small company for accounting purposes have been held at the same level. However, there have been two major developments.

- The new EU Accounting Directive has been transposed into company law (with effect from 6 April 2015) and is applicable for accounting periods commencing on or after 1 January 2016. Early adoption for accounting periods commencing on or after 1 January 2015 is available, but only when FRS 102 applicable to small companies is also applied.
- The financial reporting standards for smaller entities (FRSSE) has been withdrawn and replaced with FRS 102 or FRS 105 (for micro-entities) for years commencing on or after 1 January 2016.

The small company qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

	Existing	New
Annual turnover:	£6.5m	£10.2m
Gross assets:	£3.26m	£5.1m
Average number of employees:	50	50

The qualifying conditions must be met for two consecutive years, assuming that the company is not newly-incorporated. The new limits can be applied to prior year numbers to determine the current period qualification.

#### What does this mean?

If a company qualifies as "small' this will have several effects. First, the company will be obliged to have only 13 disclosure notes in the accounts. These are as follows.

- Accounting policies.
- Fixed asset note.
- Fixed assets revaluation table.
- Fair valuation note.
- Financial commitments, guarantees or contingencies not included in the balance sheet.
- The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies (with supporting information).
- Exceptional items.
- Amounts due or payable after more than five years and entire debts covered by valuable security.
- Average number of employees during the financial year.
- Name and registered office of the parent of the smallest group drawing up consolidated financial statements of which the undertaking is included.
- Nature and business purpose of arrangements not included in the balance sheet.
- Nature and effect of post balance sheet events.
- Related party transactions.

Second, the company will no longer have the option to prepare separate abbreviated accounts, but will retain the ability to omit the profit and loss account and directors' report when filing accounts at Companies House.

Third, the company will not be required to produce consolidated accounts.

Note, however, that the directors must still comply with the Companies Act and show a true and fair view of the company's performance. Directors may, therefore, need to include more than the minimum 13 disclosure notes.

#### Eligible companies

Some companies that were not eligible to be treated as small entities previously may now be.

Banking and insurance entities, public companies traded on a regulated market and any of their group members will continue to be ineligible to qualify as small entities. However, changes have been made to the law to enable certain members of a group to qualify as small entities and also to extend the availability of the exemption from preparing group accounts. As a result, the following points should be noted.

- Members of a group containing a public company which is not traded on a regulated market will now be able to qualify as small if they qualify in their own right. Note that the alternative investment market (AIM) is not a regulated market.
- While a public company still cannot be a small company, a parent public company that is not traded on a regulated market will now be exempt from preparing group accounts if the group it heads up qualifies as small.

#### Micro companies

To qualify as a micro company a company will need to meet two out of three following thresholds:

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Annual turnover:	£632,000
Gross assets:	£316,000
Average number of employees:	10

The qualifying conditions must be met for two consecutive years, assuming that the company is not a newly incorporated company. Further, the entity must not be excluded from the small companies regime either by virtue of its own status or the status of other members of the group which might cause the entity to be ineligible to qualify as a small entity.

If the company qualifies it will be able to report under FRS 105: the financial reporting standard applicable to the micro-entities regime. This regime may become a more attractive option as micro companies can continue to:

- prepare much reduced accounts;
- apply historical cost accounting, with no fair value options available; and
- omit the profit and loss account and directors report when lodging with the Company Registrar.

#### And finally...

FRS 105 requires use of the recognition and measurement provisions set out in the new accounting standards except that departure from historical cost accounting is not allowed. This means there will be no fair value accounting for items such as listed investments, investment properties or derivative financial instruments.



Jonathan Holmes leads the complex accounting advisory offering in RSM's Nottingham office and is the local expert in the new UK financial reporting regime. He has more than 15 years' experience of providing technical advice and financial reporting services to companies. RSM is a global leading professional services firm providing a range of accounting and advisory services.

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#### **TEN SECOND SUMMARY**

- 1 Cyber security is not only a "big business" problem; more than 70% of small businesses have suffered some form of data breach over the past year.
- 2 The cost of the worst date breaches by SMEs was between £65,000 and £115,000.
- 3 Consider the government's ten steps to cyber security and put the "cyber essentials" strategy into practice.

here are probably few IFA and FTA members who would expect to appear on national media and have admit to their company's failings and many will perhaps have some sympathy for those who do. Episodes such as Volkswagen executives having to agree that the company had pulled the wool over the eyes of national authorities as well as its customers with regards to emissions testing is probably something that few of us would wish to experience. Our businesses might be unlikely to find themselves enmeshed in such a scenario, but other examples might be more probable.

This brings us to Talk Talk's chief executive Dido Harding who recently had to admit that the company's website had been targeted. If personal customer information may have been accessed, a business may experience toxic headlines, recurring mentions on consumer and personal financial programmes, a falling share price, and the logistical problems of ascertaining just how many of its customer records are now in other hands. And we haven't even mentioned the expense of repairing the breach and ensuring that websites are functioning properly. There may also be the possibility of investigations by regulators and legal action from customers.

It couldn't happen to us could it? Well perhaps not on the same scale, but it probably could. And while it might be unlikely to result in an unwelcome appearance on national radio or television, who is to say that the commercial embarrassment accompanied by those losses and possible legal action would be any less damaging?

#### The reality

Perhaps part of the danger of neglecting cyber security and suffering the theft of commercially sensitive data is that the sight of chief executives being grilled on national television lulls us into the false sense of security that it is only a big business problem. The reality is that more than 70% of small businesses have suffered a data breach over the past year. And while national coverage may be unlikely for Joe Bloggs, the power of social media means that adverse publicity can spread damaging news. However fast a small business may move to plug the breach, that bad news is likely to linger on the internet in the forms of blogs and tweets for a long time.

#### > FURTHER INFORMATION

The Information
Commissioner's Office:
ico.org.uk/
Office of Cyber Security and
Information Assurance:
tinyurl.com/nlrfbdb
Cyber essentials scheme:
overview:
tinyurl.com/o8jrgbj
Cyber Essentials:
tinyurl.com/ochys5f

It is hardly surprising, therefore, that national government is warning SMEs to take cyber security seriously. In June, the Department for Business Information and Skills reminded small businesses that the cost of the most severe breaches to their computer systems was now more than £300,000 – more than double the 2014 estimate.

On the plus side, word is spreading and a third of organisations now use the government's "ten steps to cyber security" guidance, up from one-quarter over the previous year. In brief, the steps are:

- Assess the risks to your organisation's information assets.
- 2. Introduce corporate policies and processes to develop secure baseline builds.
- 3. Connecting to untrusted networks can be risky.
- 4. System user privileges should be restricted.
- 5. Produce user security policies that describe acceptable and secure use .
- 6. Establish an incident response and disaster plan.
- Produce policies that directly address vulnerable business processes.
- 8. Establish a monitoring strategy and supporting policies taking into account previous incidents.
- 9. Produce removable media policies.
- 10. Assess the risks to all types of mobile working and develop appropriate security policies.

#### Get the basics right

While the government continues to emphasise the steps that it has taken to protect state information, it also stresses that small business should protect itself and points out that breaches can cost between £65,000 and £115,000. The government's small business cyber guide stresses the need to "get the basics right". Simple actions and safe behaviours reduce the risk of online threats to any business.

- Download software and app updates as soon as they appear. They contain vital security upgrades that keep your devices and business information safe.
- Use strong passwords made up of at least three random words. Using lower and upper case letters, numbers and symbols will make your passwords even stronger.
- Delete suspicious emails as they may contain fraudulent requests for information or links to viruses.
- Use anti-virus software. Computers, tablets and smartphones can easily become infected by small pieces of software known as viruses or malware. Install internet security software like anti-virus on all devices to help prevent infection.
- Make staff aware of cyber security threats and how to deal with them. The government offers free online training courses tailored for small businesses and their staff which take around 60 minutes to complete.

#### Fines and interruptions

Some businesses may remain unconvinced and the threat of financial loss or reputational damage can seem remote. In that case they may also want

to ensure that they are up to speed with their legal obligations, bearing in mind that "ignorance of the law is no excuse". The Information Commissioners Office has published *The Guide to Data Protection*. This makes it clear that personal data means data that relates to a living individual who can be identified and that this is protected by the Data Protection Act 1998. Schedule 1 of the act lists the data protection principles and seventh on the list is: "Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data."

The guidance (at page 75) notes that "in practice, it means you must have appropriate security to prevent the personal data you hold being accidentally or deliberately compromised. In particular, you will need to:

- design and organise your security to fit the nature of the personal data you hold and the harm that may result from a security breach;
- be clear about who in your organisation is responsible for ensuring information security;
- make sure you have the right physical and technical security, backed up by robust policies and procedures and reliable, well-trained staff;
- be ready to respond to any breach of security swiftly and effectively."

The Information Commissioner's Office regularly fines big business for information security breaches, but small businesses should also be concerned because they are increasingly also being fined for information security failures. A sole trader was fined £5,000 for not encrypting a hard drive that contained details of 250 customers.

Once a hacked website has been taken down, normal business is interrupted and so is revenue generation. This may be simply because the number of views is reduced or, worse, it is no longer possible for purchases to be made through the website. Additional costs will be incurred because management and others may be diverted from their normal work to take part in the fire-fighting.

Further, SMEs may need to engage costly experts to isolate the attack, analyse the problem, confirm which records have been compromised, put matters right and perhaps manage the reputation of the business.

#### Conclusion

The Minister for the Cabinet Office, Matt Hancock, recently spoke about how the government is working with other sectors to improve cyber security. "This is no longer an issue for the IT department. It's a boardroom issue, a cabinet table issue. And here's why it matters. We have one of the most digitally advanced economies in the world, and the digital economy depends on trust. If people don't trust that their data is safe they won't do business online."

And if that data isn't safe, it could be your or your clients' businesses that are losing out and suffering financially as a result of a hack.



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## Useful functions

Where would accountants be without spreadsheets? *Adam Lacey* provides some top tricks for checking data in Excel.

#### > FURTHER INFORMATION

For further information on good spreadsheet practice, look at the ICAEW's 20 Principles for Good spreadsheet practice (tinyurl. com/pt6woeg).

This provides 20 simple to use principles that everyone should think about when using Excel. They are intended as a guide to fit around existing business practice and should help avoid Excel blunders.

#### **TEN SECOND SUMMARY**

- The Microsoft Excel spreadsheet has various useful functions to test the veracity of business spreadsheets.
- 2 The trace precedents and dependents functions allow the components of spreadsheet formulas to be mapped.
- 3 Keyboard shortcuts can speed up the operator's processing speed.

sends a spreadsheet that doesn't quite look right. Perhaps a formula is wrong, perhaps a data point is incorrect, perhaps it is just summarised in the wrong way. This is surprisingly common and I am sure that this is something we can all relate to. Spreadsheet error itself has made the news quite often over the past couple of years. An issue with a spreadsheet in the West Coast Mainline franchise bid reportedly cost the taxpayer around £60m. Research on the collapse of Enron by Delft University of Technology found 755 spreadsheet files with more than 100 errors and one file with almost 83,000 problems.

The "Trace Precedents" and "Trace Dependents" tabs enable us to see all the different cells that a specific cell is linked to.

Fortunately, Excel has some brilliant features that can assist in dissecting a spreadsheet, identifying exactly how it was constructed and finding potential problems. Most of these functions are very simple to use, but are commonly overlooked. They are not the sexiest functions in Excel, but using some of them could save time, money and, crucially, reduce the number of errors in the work of the practice or by others.

#### **Show formulas**

Let's start with one of the basics. The "show formulas" tab does exactly what you would expect – it displays all the formulas in a workbook instead



of the results. In the 2013 version of Excel it can be found in the "Formulas" section on the ribbon under "Formula Auditing". This button will display the formulas in the cells of an Excel file as well as the cells that contain fixed values.

For example if cell C1 in **Show Formulas** was displaying the number 4, clicking "show formulas" will enable us to see that it was in fact a calculation adding together the fixed values in cells A1 and B1. This is useful for quickly displaying all the formulas of a worksheet, helping to determine which areas are formulas and which are fixed values.

## SHOW FORMULAS ✓ A B C 1 2 2 =A1+B1

#### Trace precedents and dependents

The "Trace Precedents" and "Trace Dependents" tabs enable us to see all the different cells that a specific cell is linked to. The benefit of these functions is that they allow us to follow the thread of a workbook through all the calculations performed. The trace precedents and trace dependents functions are also both found in Formulas/Formula Auditing on the ribbon.

To use the first of these, select an output cell and click on Trace Precedents. Excel will helpfully draw an arrow showing the origins of the data that the formula in the cell is using. Press "Trace Precedents" again and it will point out where that





data came from. Keep pressing it and the program will eventually return to the original input data.

The "Trace Dependents" function is similar, but works in the opposite way to trace precedents. Selecting a cell and clicking "Trace Dependents" will enable us to see the cells and formulas which are dependent on that input.

TR	TRACE PRECEDENTS IN ACTION								
4	Α		В	С	D	Е	F	G	Н
1	Tax rate	1	20%						
2									
3	Value		Tax						
4	<del>• 100</del>		20						
5	<del>• 200</del>	-	40						
6	<del>- 300</del>	-	60						
7	<del>• 400</del>	-	80						
8	<u>∙500</u>	-	100						
9									300

The trace precedents and trace dependents functions become slightly more complicated when the dependents are in different worksheets or in entirely different workbooks. Instead of just displaying an arrow, an arrow points to a small picture of a worksheet. Double click on the arrow (not the image) and this will bring up a "Go To" dialog with the related cells listed. A worksheet or workbook can then be selected and navigated to.

EVALUATE FORMULA						
В	С	D				
sales	Evaluate Formula ?					
month	Evaluation:					
10000	"Total "&" sales"&" for the					
Method 1	"&B2&" were "&B3					
="Total" &B1& "for the" &B2& "were"&B3	To show the result of the underlined expression, click Evaluate. The most recent result					
Method 2						
=CONCATENATE("Total", B1, "for the", B2, "were", B3	appears italicised  Evaluate Close					
Total sales for the month were £10,000						

Note that there is an important difference in how precedents and dependents are listed. Precedents will include cells on other workbooks, even if they are closed. However, dependents will not list cells in closed workbooks.

#### Short cuts

If speed on the keys is important, the following shortcuts allow the user to toggle the trace precedents and trace dependents functions on and off:

- Ctrl+[ select precedents.
- Ctrl+] select direct dependents (repeat to keep going to further levels of link).
- Ctrl+{ select all precedents.
- Ctrl+} select all dependents.

#### The evaluate formula function

The final function we will look at is "Evaluate Formula". Again, this is simple to use, but can save much time and effort when searching for the underlying cause of an issue.

This function evaluates the construction of individual formulas to help ascertain whether it does what it is supposed to do. "Evaluate Formulas" is found in the "Formula" tab on the ribbon, again under "Formula Auditing".

To use it, select the cell to be evaluated and press "Evaluate Formula". A dialog box will appear. Pressing "Evaluate" will cycle through the various elements of the cell displaying the data from the cell. In the **Evaluate Formula** example above, we can see that instead of displaying "B1" the word "Sales" is displayed:

The evaluate formula function is a great tool to use when looking at a long and complex formula. Using this function enables the user to cycle through each section and make sure that they understand how the formula is constructed and to spot possible inconsistencies. So, if there is uncertainty with regards to a particular formula – make sure that it is evaluated.

#### **Summary**

These three functions represent a few quick ways that the tools built into Excel can be used to check for problems. Whether checking the practice's own work or auditing someone else's, make sure that these basic tools are used to ensure that spreadsheets are as robust as possible.



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## New heights

Anne Davis explains the work that being undertaken to raise the IFA's profile and improve standards.



#### **TEN SECOND SUMMARY**

- 1 The IFA's chief executive officer highlights efforts to improve quality and standards.
- 2 It is hoped to extend the eligibility to conduct independent examinations for charities to Northern Ireland.
- 3 The institute has been conducting anti-money laundering desktop reviews and visits.

arlier this year, John Edwards, chief executive officer, identified the four key areas of focus for the IFA team in 2015 (see page 3). One of these is the continuity of the step changes that the institute has been introducing to educate and improve quality and standards in the areas of professional conduct and regulation.

Let's reflect on the continued progress that has been achieved in raising the profile and standards of the IFA in 2015 and how we intend to move forward.

#### Raising the profile of the IFA

To increase the profile of the IFA and its members, the most significant work has been undertaken in two key areas: independent examinations for charities and recognition by banks and building societies.

IFA members are now eligible to conduct independent examinations in England and Wales

for charities below the charity audit exemption threshold of £1m as referred to in the Charities Act 2011.

Further, the IFA has made a submission to the Department for Social Development in Northern Ireland for our members to be eligible to conduct independent examinations in Northern Ireland.

The IFA has been advised that its "application appears to be in order and that we intend to make the necessary legislation, to add the Institute of Financial Accountants to the list of bodies at section 65(5) of the Charities Act (Northern Ireland) 2008, within the next few months." The department will keep us informed when the legislation has been made.

The IFA has also been actively communicating with the Scottish government to fully recognise IFA Scottish members, relating to independent examinations, under the Charities Accounts (Scotland) Regulations 2006 and more recently, the Charities Accounts (Scotland) Amendment Regulations 2010.

However, according to the Scottish government, there are "no plans at present to amend the regulations relating to independent examinations in Scotland or to increase the existing threshold. This will continue to be reviewed as part of the Scottish government's formal and informal engagement with OSCR [the Scottish Charity Regulator] and the wider charity sector."

Consequently, the IFA will continue to liaise with the Scottish government to enhance the recognition of IFA members in Scotland and will act accordingly when opportunities arise. We will keep members up to date on future progress.

Further engagement has taken place with banks and building societies and a list of those that accept accounts signed by IFA members in support of self-employed mortgage applications was published in September 2015. As well as publicising this list, additional information on how to deal with potential issues in this area was also provided. The information can be found at: tinyurl.com/o9u3yg6.

To further raise the institute's profile, we have secured visa tier 1 recognition; HMRC are further acknowledging IFA's position alongside other UK major accountancy bodies.

As a member of the International Federation of Accountants (IFAC), the IFA is obligated to fulfil that organisation's requirements set out in their statement of membership obligations (SMOs). Every two years, the IFA must submit its SMO action plan to IFAC and this was done in July 2015 and feedback has been received. We are in the process of finalising our submission to IFAC to take account of their comments.

Consequently, to further support our IFAC SMO obligations and raise standards, the IFA will be developing content on ethics to be published on the IFA website. The assessment of ethics will be further enhanced by developing a larger bank of case studies for members in business and practice. Again, we will keep members informed of developments in this area.

#### Regulation

With the changes in governance, the IFA will be looking to review the committees that support the regulatory process. This will ensure that we are able to raise members' standards by being able to impose regulatory penalties for matters which do not amount to misconduct and therefore should



November/December 2015

#### INSTITUTE DEVELOPMENT



not be dealt with by the IFA's Conduct Committees. For example, this could be failure to co-operate with monitoring visits or to respond to IFA letters requesting action or refusing to take such action.

#### Disciplinary

As defined in the IFA's bye-laws 12.1 and 12.3, members who may have breached the institute's regulations and guidance or who have conducted themselves in a manner that brings discredit to themselves, the institute or the accountancy profession are subject to disciplinary proceedings under the IFA's disciplinary regulations. The starting point for this process is a completed notification of complaint.

The IFA's independent conduct committees have dealt with a number of such notifications since January 2015. There will have been six investigations committee hearings and four disciplinary committee hearings by the end of 2015.

The outcomes of the hearings are publicised (tinyurl.com/qyz8eou) following the appeal period.

As the disciplinary process has evolved, there have been enhancements to policies and procedures to streamline the process and make it more effective and these have now been fully implemented.

The conduct committee has also been dealing with queries and investigations into the use of IFA logos and credentials. We are investigating different legal avenues to take for individuals who continue to use IFA logos and credentials after they have ceased to be members.

#### **Anti-money laundering**

Following a successful pilot, since January 2015 the IFA has been conducting a mixture of desktop reviews and anti-money laundering (AML) visits to members. This will ensure that the IFA's AML supervision processes are robust, educational and help to raise standards among members. The IFA is on course to complete 150 desktop reviews and visits by the end of 2015.

The latest series of AML compliance visits are starting to meet our obligations as an AML supervisory body and to upskill members in practice on their legal obligations. To date, most members have been compliant or generally compliant with the Money Laundering Regulations 2007.

Members who are found to be non-compliant are provided with an action plan and a follow up desk-top review or a further visit is undertaken. After guidance by the IFA, these practices have now been found to be complaint. We have also been in communication with other accountancy bodies regarding the AML supervision of dual members.

The Board of the Financial Supervision Commission in the Isle of Man has approved the delegation of powers to the IFA to conduct AML supervision and monitoring visits there. This provides a further opportunity to engage with our members in the IoM and promote the IFA brand to increase membership and student numbers.

The IFA attends quarterly meetings of the Accountancy Affinity Group (AAG), the Anti-Money Laundering Supervisors Forum (AMLSF) and the UK Money Laundering Advisory Committee (MLAC) to discuss AML matters affecting the accountancy sector, other affinity groups and the UK government.

The IFA expects to complete its supervisory report on AML compliance of its members to HM Treasury by the end of the year. The IFA's report, together with reports from other accountancy AML supervisory bodies listed in the Money Laundering Regulations 2007, Sch 3 will be consolidated into the HM Treasury antimoney laundering and counter terrorist finance supervision report for 2013-14. The last report by HM Treasury was issued in March 2015 covering the period 2012-13.

Looking to the future, the IFA will have to commence planning for the implementation of the Fourth European Union Anti-Money Laundering Directive and for the Financial Action Task Force (FATF) mutual evaluation of the UK. This will require the IFA to review its supervisory role and the support and advice it provides its members.

From an AML supervisory perspective, the IFA will need to consider how it will address the following areas:

- Identification and understanding of money laundering and of the terrorist risks associated with the type of firm, member, products, services, sectors and country of operation.
- Risk-sensitive framework to monitor the extent to which firms are complying with the AML requirements.
- Ensuring that the IFA has adequate powers to perform AML supervisory functions (including powers to monitor and sanction) and adequate financial, human and technical resources.
- Ensuring staff maintain high professional standards and have the appropriate skills.
- Demonstrating that the actions of the IFA have an effect on compliance by members/firms.
- Providing a clear understanding to firms of the AML risks.

#### Membership renewals

The IFA has streamlined the membership renewal process to ensure that this is as smooth as it can be for our members. The revised membership renewal and practising renewal forms for 2016 were issued in October, as part of the 2016 membership renewal pack. The information gathered will help the IFA better understand how it can support, educate and monitor its members.

Clarification has been sought and agreed with the Accountancy Affinity Group regarding AML supervision for dual members and also AML supervision for non-IFA members.

Finally, the theme of quality and standards will be continued in the next issue of *Financial Accountant*.



Anne Davis is head of regulation and policy at the IFA. She is also an independent consultant specialising in financial ethics and the governance of not-for-profit organisations. Previously, she worked at the ICAEW as integrity and ethics manager and as head of charities and the voluntary sector. Anne trained with Coopers & Lybrand and has held financial and management roles with the National Provincial Building Society (now part of Santander), Whitbread and General Motors Asset Management. She is also a treasurer for the charity Carers' Trust Cambridgeshire. Anne can be contacted by email: AnneD@ifa.org.uk



## We want your VIEWS

Does the IFA meet accountants' needs? **Russell Clemence** explains how IFA and FTA members can help answer this question.

#### **TEN SECOND SUMMARY**

- 1 The development of a robust value proposition will help the IFA to retain existing members and attract new ones.
- Customer feedback will be analysed to help develop persuasive marketing concepts.
- The IFA needs to hear the views of its members - please complete the online questionnaire.

The past year has been a time of transition but, going forward, the IFA's objective is to articulate a very clear value proposition that will differentiate us from other professional accountancy bodies and assist in building sustainable business growth.

Over the next 12 months, we will be conducting a series of research activities among current members and new member prospects to obtain their views. The first research initiative commenced in November 2015 and we want members to express their views by completing our questionnaire.

This can be done online by visiting: www.surveymonkey.com/r/IFAresearch1.

The feedback that we receive will help to develop a value proposition that focuses on those aspects of the IFA's business and initiatives that will make the biggest difference to our target audience and will enable us to understand what we need to deliver to be the best option for them. We will also be collecting demographic information to analyse and identify any trends that may emerge between specific demographic

#### What is a value proposition?

A strong value proposition is a believable collection of the most persuasive and appealing reasons for our target audience to want to remain a member or become a new member. It will explain:

- the value that the IFA's product/service will bring to our target audience;
- why the IFA is particularly qualified to offer
- the growth potential and uniqueness of the IFA's products and/or services.

Our aim is build and refine a credible value proposition for the IFA that will provide the confidence to achieve the following.

- Providing the right value proposition. This will assist us to build marketing messages around it that will retain members and attract new ones.
- Enabling members and new member prospects to demonstrate how they view the IFA and our products and services. We can ensure that we speak about our business, products and services in a way that resonates fully with them.
- Avoiding making our new member prospects feel misunderstood. Such people will not buy into what the IFA offers.
- Demonstrating the connections between the IFA's products and services and the goals of our current members and new member prospects.
- Understanding exactly how people believe our product will help them. This is necessary for business success. Otherwise we can only guess what people expect and hope for.

#### > FURTHER INFORMATION

Complete the questionnaire online at:

www.surveymonkey.com/r/ IFAresearch1

#### MEMBER QUESTIONNAIRE



Having a strong, refined value proposition will give the IFA clarity so that we can move forward without second-guessing our every move.

The feedback from our target audience will be analysed to help develop the most persuasive marketing concepts to optimise the IFA's appeal. This approach will help us avoid wasting time, money, and energy.

- We aim to create a simple, clear list of the few things that really make the difference to current members and new member prospects, so we can focus our marketing only on those.
- We do not want to guess whether we are focusing our marketing correctly or not.
- We want to avoid wasting time in the pursuit of those who are not interested in joining the IFA.
- We do not want to waste money offering products or services that do not attract more members or appeal to existing members.
- We do not want to waste energy, time and money on marketing efforts that do not create results.

Developing a value proposition has two separate parts.

- The articulation of the IFA's value to our target customers.
- Support for the IFA's value proposition.

Both parts are necessary for it to work.

#### Articulating the IFA's value

Simply put, we want to articulate the overall perceived value of the IFA's product and service offering.

To explain, buying a car does not only provide the ability to move from point A to point B. There is also the convenience of not having to wait for a bus. A customer will expect some value from the manufacturer of the car that they have just bought and this is true of all car buying customers, irrespective of the manufacturer. All manufacturers need to deliver that value but, on its own, this will not make one manufacturer a better option over its competitors.

In a similar way, the IFA needs a unique offering to both members and new member prospects. Without this, there will be no special reason to choose the IFA and, if other professional accountancy bodies do offer something unique, they are likely to be the first choice. So the IFA's offer needs to be better in at least one way than that of other professional accountancy bodies and we need to establish that uniqueness in the minds of our members and new member prospects.

If our target audience believe that the IFA does something better than other professional accountancy bodies, they will choose us even if the others offer all the same products and services. Having the best option should provide the reason for that favourable choice. However, to get this part of our value proposition right, we need to find its core because that is what makes the biggest difference to our targets. That

is why the research that we are starting among members and new member prospects is so important to help identify and understand what that core is, so we can turn it into a more usable and refined value proposition for the IFA.

#### The core proposition

The core of the IFA's value proposition, on its own, will just be a few sentences that describe the very basic reasons that will most likely cause our prospects to choose the IFA over other professional accountancy bodies. For example:

- "The IFA is better than other professional accountancy bodies because..."
- "I want to become a member of the IFA because it will..."
- "The things that I value most about the IFA's products or services are..."

However, we also need to take this further before we can even start developing the second part of our value proposition.

Following the research feedback we receive, the IFA will need to define the most important benefits: namely, those foremost in the minds of our members and new member prospects that the core ideas deliver.

Most people come up with a list of core ideas that are essentially just features, such as cheap price or best quality. Failing to understand the most valuable benefits of those features, those that make the difference, means losing most of the potential. Accordingly, the research will help us find the words that resonate with our target audience.

Without the research to provide answers to these questions, we are likely to describe the core ideas (and the benefits they deliver) very differently from how our target customers describe them. Consequently, we will need to match their wording – and arouse the emotions that go along with it – to avoid losing most of the ideas' power. We will be successful if we remove the need and urge of members and potential new members to look for alternatives.

#### Support for the IFA's value proposition

The first part of the IFA's value proposition will describe the value of our products and services. The second part will provide a strong reason for our target audience to believe our offerings are as valuable as our basic message makes them out to be. The IFA's value proposition, just like so many others, will largely go to waste if we do not get it right.

It is easy to come up with a great promise, but delivering it can turn out to be difficult. If people do not believe that the IFA can deliver on its value proposition, they will have no reason to pay any attention. The IFA will therefore need to embrace a few basic ways to make promises solid and believable to become even more credible in the marketplace.



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#### **MEMBERS**



#### MEMBER QUESTIONNAIRE

- Be specific. For example, "The largest online sports shoe store" has little meaning. But "Selection of 40,000 pairs of shoes" is specific enough to have an impact.
- Show the proof. First introduce the proof for a claim to create an expectation of truth. For example, rather than saying "This treatment cures cancer. There's a study of 1,000 patients..." say: "According to a study of 1,000 patients, 95% of cancers can be cured with this treatment."
- Guarantee it. If we don't believe we can deliver results strongly enough to guarantee them, why would anyone else believe us?
- Provide an easy way to test it. A free trial, demo, or anything that allows people to experience first-hand that we're telling the truth takes away doubt better than almost anything else.
- Let someone else speak for us. When someone else speaks for us, people have much less cause for doubt.
   Testimonials and endorsements from recognised and respected experts are especially good at building trust, though testimonials from current members and new members work very well too.

There will be no one ideal way of proving our claims. The right approach will differ from situation to situation and we will probably need to use different methods to prove different parts of our value proposition.

However, we will need to get it right. The IFA's value proposition will be the primary reason people will listen to us in the first place. If people don't believe it, we might just as well not have one at all.

Everything the IFA asks people to do, from opting-in to an email newsletter to investing in our highest-priced product or service, should have its own value proposition that makes that action compelling.

#### Make your voice heard

The IFA needs to hear your views. The questions are summarised alongside, but please complete the questionnaire at: www.surveymonkey.com/r/IFAresearch1.

Creating a strong value proposition for the IFA's future business is the most important task we will ever undertake. When it's strong and refined and we know how to use it, it will provide a strong competitive advantage against other professional accountancy membership bodies and enable us to deliver sustainable long-term business growth.

#### Value proposition questionnaire

- What are the three most important qualities that you value about the IFA as a professional accountancy body?
- What makes each of these qualities unique to the IFA compared to other professional accountancy bodies?
- What are the three most important reasons for you to choose the IFA to be your professional accountancy body in preference to other bodies?
- Which three IFA products/services are most valuable in helping you get your job done effectively and in satisfying your basic accountancy needs?
- What makes each of these products/ services unique to the IFA compared to other professional accountancy bodies?
- What do you value most about each these products/services and why?
- Which three products/services would you most like the IFA to develop to help you get your job done effectively and to satisfy your basic accountancy needs?
- How can the IFA help you better serve your business/clients?

- What benefits do you need from the IFA to convince you to renew your annual membership/re-join the IFA?
- What additional benefits do you want from the IFA for you to consider the IFA as your "first choice professional body"?
- What does the IFA currently provide you with that you can't get from other professional bodies?
- What does the IFA currently provide you with that is irrelevant to your needs?
- The IFA says that it is SME focused.

What does the IFA do that you are aware of to support this statement? What more should the IFA be doing to support this statement?

- What do you think the IFA can do to help drive students and professionals to the IFA/FTA?
- Are there any other comments that you wish to make about the IFA?

#### Demographic questionnaire

- 1. What is your gender? Male | Female
- 2. What is your email address?
- **3.** What is your IFA designation? FAE | AFA | FFA
- 4. How did you become a member of the IFA?

  Passed IFA exams | Equivalent qualifications | Experience | Professional recognition
- **5.** What is your age? 18-29 | 30-39 | 40-49 | 50-59 | 60-65 | 0ver 65
- 6. How long have you been a member of the IFA?

  1-4 years | 5-9 years | 10-14 years | 15-19 years | 20-24 years | 25+ years
- Are you currently? A student | Self-employed in practice | Employed in practice | Employed in business | Retired | Out of work
- **8. Number of employees?** 1 | 2-9 | 10-25 | 26-49 | 50-249 | 250+
- 9. Which of the following most closely matches your job title? Student/Intern | Entry level | Analyst | Manager | Director | Owner | Other (please specify)
- 10. What level of decision-making authority do you have? Final decision-making authority (individually or as part of a group) | Significant decision-making or influence (individually or as part of a group) | Minimal decision making or influence | No input
- 11. If you are retired, how long ago did you retire?

  1-5 years | 6-10 years | 11-15 years | 16-20 years | 21-25 years | 26+ years
- **12.** Where are you based? UK | Outside of the UK



## Staying onside

*Martyn Durbidge* provides members with some hints and tips on disciplinary matters.

#### > FURTHER INFORMATION

IFA Regulations www.ifa.org.uk/members/ new-members/regulations/ Public hearings and disciplinary decisions www.ifa.org.uk/about-us/ public-hearings/

#### **TEN SECOND SUMMARY**

- 1 Members should ensure that the IFA is advised of any change of address to ensure that they stay up to date with institute developments.
- 2 Promptly replying to correspondence and providing information will always be of assistance.
- 3 Manage evidence and be aware of sanctions.

ven in the best regulated practices things can go wrong and accountants can find themselves the subject of a complaint. The IFA acts in the public interest and jealously protects its brand and reputation, so every complaint of professional misconduct is taken seriously. This does not mean that every complaint must end in a disciplinary hearing, but it does mean that the IFA will want to understand what has happened. It will then investigate the complaint further to protect the public.

There are some things members can do to ensure the process is as swift and painless as possible.

#### **Contact information**

Many organisations must be notified when a practice changes address nowadays, but a professional body such as the IFA should be close to the top of the list to ensure that members remain up-to-date and receive all institute communications. As a reminder, the IFA's bye-law 5.2 requires that "each member must notify the Institute immediately of any change in their address(es) other than one which is merely temporary."

#### **Prompt replies**

Regulation 8 of the IFA's disciplinary code obliges members to provide their "full and prompt cooperation" in connection with the investigation of a complaint. Even if a complaint is thought to be unjustified, ignoring it or not replying to the IFA's letters will not help nor will the complaint go away. It will simply mean that the complaint may be forwarded to the IFA's investigation committee for its consideration without a defence. It is in a member's best interest to respond to IFA correspondence as soon as possible and to provide the necessary explanations, evidence and supporting documentation.

#### Provide relevant evidence

The IFA's disciplinary process has three conduct committee stages: investigation committee, disciplinary committee and appeals committee. Their respective roles can be found at ifa.org.uk/members/regulations. The investigation committee can itself offer a consent order, but it will refer a case to the disciplinary committee if it believes there is, at first sight, a potentially serious case to answer by the member. We have had members in the disciplinary process misunderstand this and not provide their evidence in defence until the disciplinary committee stage. If the evidence had been provided at the outset it could have saved the stress and expense of a disciplinary hearing.

#### Tell us where to look

Although it helps to have a member's evidence at an early stage, what we do not want is a huge bundle of correspondence with a covering letter saying "this covers everything." Be specific, say what is covered and where. It is the member's evidence and they should not rely on someone else to disentangle it.

#### **Resolved complaints**

Disciplinary Regulation 1(d) allows the IFA to proceed with a disciplinary referral if it is believed to be appropriate. However, if the matter is not serious and the member resolves it with the client, they should advise the institute. They should also ask the complainant to tell us to enable a decision to be made on whether the complaint can be withdrawn.

#### **Regulations and sanctions**

The regulations and sanctions available to the conduct committees can be found at ifa.org.uk/members/regulations. Some members are unaware that the disciplinary committee can impose unlimited fines and costs as well as publicising any disciplinary order made at www.ifa.org.uk/about-us/public-hearings. In certain cases, members may be expelled from the IFA for an indefinite period of time.

Keeping these points in mind will help both the member and the IFA in the (hopefully rare) event that a member should be the subject of a complaint and in receipt of correspondence from the IFA's disciplinary case manager.

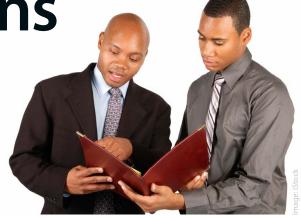
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Martyn Durbidge is the IFA's disciplinary case manager. He previously worked in the ICAEW's professional conduct department for many years as a complaints assessor. Martyn can be contacted by email: martynd@ifa.org.uk

**Institute interns** 

IFA members and their interns explain the benefits of a first taste of a career in tax and accountancy.

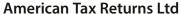


**TEN SECOND SUMMARY** 

- 1 London South Bank University students have the opportunity to pitch for a temporary placement in a tax or accountancy practice.
- 2 Experience obtained of working through the tax return preparation process.
- 3 Combining an internship with studies for an accountancy qualification.

t the end of last year, the IFA's London branch chair, lan Clark, initiated a specially arranged internship session, following discussions with his contacts at London South Bank University (LSBU). The objective was to provide LSBU students with the opportunity to network with IFA and FTA members. Seven students who were seeking internships were allowed five-minute slots to pitch directly to the meeting attendees.

Financial Accountant talked to two companies and the interns that they recruited as a result of the session at the IFA London local branch meeting to discover what happened next.



London-based firm American Tax Returns Ltd is a specialist practice focused solely on US and UK private client tax. It is managed by IFA member, David Treitel.

David explained that "we know that we want to grow and the best way to do that is to have a great team trained in the details of US tax. However, finding people already in the UK who have experience and qualifications in US tax is really tough because there is a significant shortage of possible recruits with American tax skills.

"Working together to solve problems, such as our future staffing needs, is naturally what IFA members and branches are good at doing. The internship session at the London branch meeting put three vital components in one place at the same time to help firms such as American Tax Returns. First, IFA and FTA members who were interested in recruiting interns; second, students from London South Bank University who were soon to graduate in accounting; and, finally, the

environment for students to informally meet with and pitch to prospective employers. It was a fabulous showcase for students to pitch to IFA and FTA members."

#### **Team integration**

David's colleague Rowena, an American Tax Returns Ltd manager, was introduced to LSBU student Victoria Ikudehinbu who showed an interest during the event and – even more importantly – followed this up afterwards.

Once David had identified the best way to use her skills, he invited Victoria to work with his firm as an intern. Victoria met all of the team and spent time with team members. Hearing that she liked the tax modules in her studies, and knowing that the 31 January filing deadline is approaching, it seemed sensible to give Victoria some real clients to work with.

Victoria took to these quickly and dealt with several clients where she saw the entire project through from receiving and organising data and work papers through to filing tax returns with HMRC. Feedback is continuous so Victoria knows straight away when questions arise and indeed when returns have been filed.

David was delighted with the internship experience.

"Victoria is a great asset. Our objectives were to benefit from the skills and techniques she has learned through study and use these with real clients to provide us both with a positive outcome. We hope to recruit Victoria as a permanent employee once she has graduated, and to provide training in US tax from early in the New Year"

#### Victoria Ikudehinbu

Victoria explained her side of the story.

When I started the second year of my degree in accounting and finance, I needed to start networking with the aim of obtaining an internship during the summer to help me in my career. I attended the IFA's networking event which one of my lecturers had told me about.

There, I met Rowena. We emailed the day after the event and I was asked to come in for an



Victoria Ikudehinbu is an accountancy student at London South Bank



MIPA FFTA is managing director of American Tax Returns Ltd. He is an enrolled agent to the US Internal Revenue Service, an accountant and Chartered Tax Adviser. He can be contacted by phone on 020 3542 6330 or email: david.treitel@americantaxreturns.co.uk

#### CAREER DEVELOPMENT



interview. I was thrilled, the interview went well and I got the internship. At first, when I started, I did not have a clear idea of what was expected from me in terms of work and the pace at which I had to complete certain tasks.

I was shown what to do for the time being which was completing the tax returns for the clients who had sent all relevant information. The first tax return was challenging because I did not have previous experience in this field. And naturally, the whole system where I had to compute the tax calculations was rather alien to me. I was told that the main information that I needed to know was the client's P60, dividends, interest, pensions, capital gains and foreign income if relevant.

When I did not understand where certain information should go or how to calculate certain elements, my helpful and friendly co-workers showed me and explained in more detail. After completing two or three tax returns, I was more familiar with where information should be placed and understood about taxation in depth which increased my confidence.

The only difficulties I encountered were in terms of the 'marriage allowance' which I knew little about and needed extra guidance. This internship has given me the chance to put theory into practice because one of the modules I studied before the summer was taxation. This internship nudged me to choose advanced taxation as one of my optional final year modules because I really picked up a great interest in tax.

I have had this internship for a few weeks and it has now grown into a job, although I still have much to learn and excel at upon my graduation in 2016. I want to thank Rowena, David and the IFA for the opportunity given to me; I feel very privileged and hope that my experience will serve as a motivation to those after me.

#### **Kingsley Maybrook**

During the spring of this year, and following a branch meeting update from AMLCC, an IFA partner, we reviewed our money laundering regulations (MLR) compliance and found that the practice was doing "most of the things right". However, our documentation needed improvement and having recently combined two practices an overhaul and some updating would be beneficial.

Following an IFA branch meeting where LSBU students had pitched for internships, the partners mentioned that they had been impressed by the presentations given and we approached Agata Wiak to see whether she would like a temporary job during the summer break to help us to review our money laundering compliance. She agreed, but the job expanded to double-checking not just the MLR, but updating new letters of engagement and ensuring that all the necessary authorities etc were in place and lodged with HMRC. A daunting task with more than 350 active clients in the practice.

Integrating seamlessly with the whole team, Agata quickly picked up not only the mechanics of the task but also the nuances, such as linking connections of companies. The partners quickly recognised that her potential and abilities would be wasted were we to solely concentrate on the MLR exercise. Consequently, within a few weeks, it was decided to show her how to complete straightforward self-employed accounts from paperwork through to final accounts and tax returns, before moving into limited company statutory accounts and corporation tax returns.

Again, Agata proved a quick learner, her intelligent and searching questions gaining the respect of the whole office. She also showed considerable communications skills dealing with customer queries and HMRC on the phone.

During the summer, the partners decided to offer Agata a part-time position with flexible hours to fit her studies and she joined us from early September 2015.

The practice as a whole has benefited from the energy and enthusiasm shown by Agata, reinforcing our decision to take on an accounting student. We intend to repeat this on a regular basis with internships and temporary jobs.

#### **Agata Wiak**

Pitching at the IFA event in February 2015 was unlike anything I have ever done before, I was terrified and overwhelmed. However, it was a great opportunity to meet accountants and business owners because I was keen to find an internship. I chose LSBU rather than another university particularly because they offered a sandwich course.

When Ian Clark approached me explaining the job description I was thrilled. Although it was not what I was initially looking for, I saw this as an excellent opportunity to work in an accounting practice with client contact. This would enable me to gain a great amount of knowledge by simply working in such an environment. On my first day I met all the partners, learnt a great deal about how an accounting practice works and familiarised myself with software. This was followed by MLR training, which taught me about money laundering – something I hadn't studied at university.

After a few weeks, I began to learn about tax returns. At first, this involved the background elements such as analysing cashbooks and information gathering. With help, I moved to working through the accounts to tax return preparation. I quickly learned that theory is different to practice, but the Kingsley Maybrook team were as keen to help me understand as I was to learn. Working from the basics enabled me to understand how the whole firm operated and improved my relationship with clients.

I have grown significantly since starting at Kingsley Maybrook and I am extremely grateful for the opportunity Ian, Anj and Kushal have offered me. This experience has made my passion for accounting greater than before and it is something I will never be able to thank them enough for.

#### > FURTHER INFORMATION

LSBU Accounting FdA Foundation Degree www.lsbu.ac.uk/courses/ course-finder/accountingfoundation-fda



Agata Wiak is an accountancy student at London South Bank University



Ian Clark FFA FFTA is one of the three partners at Kingsley Maybrook, a north London practice with a broad range of clients in the SME sector and growing fast. Ian can be contacted by phone on 020 8371 8233 or email: ian@kingsleymaybrook.com.

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## **Branch meetings**

*Nicola Mumford* provides details of local branch meetings.

#### **TEN SECOND SUMMARY**

- New chair of the Buckinghamshire, Oxford and Berkshire branch.
- New chair of the IFA's Hampshire and Dorset branch.
- Branch volunteers are always welcome.

In this issue we are pleased to welcome two new branch chairs. We are sure that they will have the full support of their local branch members and would encourage those who are not presently attending local meetings to take the next opportunity to do so.

#### **Bucks, Oxon & Berks**

George Nimfour has recently been appointed as chair of the Buckinghamshire, Oxford and Berkshire branch. He started his financial career in 2009 as a trainee while studying for a university degree and professional qualifications. After graduating in 2012, he moved out of practice to work for the UK's leading independent student accommodation management company. George moved back into practice in 2013 and he was recently appointed as the youngest practice director to run the accountancy and tax company that is a subsidiary of Amber Group. He also works part time as finance director for a niche recruitment business and supplier for Jaguar Land Rover helping them to improve their financial processes and growth.

George is keen to develop the Bucks, Oxon &



Berks branch and provide an engaging and positive environment within it. George is looking forward to working with the IFA team to build a strong and active local branch.

#### **Hampshire & Dorset**

Brenda Bonathan has been in the bookkeeping and accountancy profession for more than 40 years and has been a member of the IFA since 1989. As well as being a volunteer for Tax Help for Older People and running a surgery in Portsmouth, she is also a representative for the IFA and FTA on the local Solent Working Together Group.

Brenda has been a committee member of the Hampshire and Dorset branch for the past five years. When the post of branch chair became vacant she

#### THURSDAY, 3 DECEMBER 2015 (7:30PM – 9:30PM)

North & West Yorkshire Branch

Richard Alderson, PricewaterhouseCoopers LLP: Tax Investigations and the Autumn Statement.

Ben McDonald and Paul Spenceley, PricewaterhouseCoopers LLP: Awareness of the UK taxation laws and their applications for SME clients; maximising benefits available to their SME clients and taxation legislation.

Weetwood Hall Conference Centre and Hotel Otley Road, Leeds, West Yorkshire LS16 5PS

thought it was essential that this active branch did not cease, so decided to take over that post with the support of two committee members.

Commenting on her appointment, Brenda said "We are determined to grow the branch and to book speakers that our local members want. We have also introduced an interactive section during the evening to encourage members to participate in a general discussion. It's no good having a networking branch if members



only network during the coffee and dinner breaks. This has been partly successful over the past few meetings, but will take time to get off the



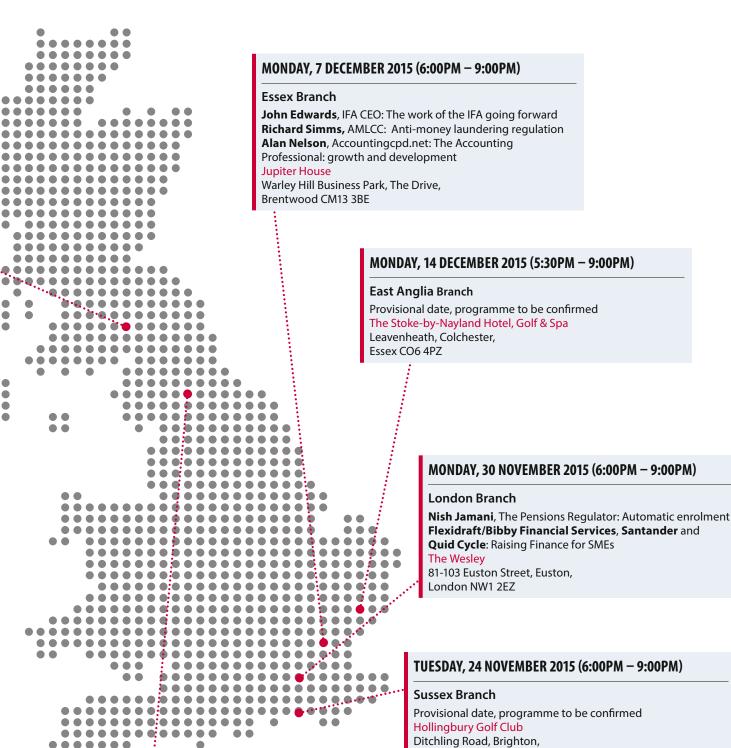
#### Conclusion

Whether members are relatively new to the accountancy profession or not, the IFA prides itself on welcoming practitioners to both its national organisation and its local branches. Brenda and George are looking forward to their latest roles as local branch chairs and we wish them very good luck and send our thanks for their commitment to the development of the institute's local branch



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For more information go to www.ifa.org.uk/events/branch-events/



#### TUESDAY, 24 NOVEMBER 2015 (7:15PM – 9:15PM)

#### **East & South Yorkshire Branch**

Paul Cliffe, Mattioli Woods: Pension update

Raj Harash and Stephen Buzzeo, Sage (UK): Demonstration

of Sage One online accountancy software

. . . . . . .

Moorhead Way, Bramley, Rotherham, South Yorkshire S66 1YY

West Sussex BN1 7HS

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## Sitting on a branch

*Nicola Mumford* provides news of forthcoming local branch meetings and next year's conferences.



CPD requirements: www.ifa.org.uk/cpd/cpd-requirements.

Branch calendar: www.ifa.org.uk/events/ branch-events/

#### **TEN SECOND SUMMARY**

- 1 Thanks to volunteers and a retiring branch chair.
- 2 The 2016 conference schedule.
- 3 Input required for future local branch meetings.

e would like to say "thank you" to all of our branch chairs and committee members for their commitment and dedication in 2015. Without their help and support we would be unable to provide members and others the opportunity to meet like-minded professionals, access CPD opportunities, and receive help and advice from our partners and speakers. The branch network is increasing, we have 18 branches across the UK and hope to increase this number in 2016.

We would also like to say another "thank you" to Robert Newman who has stood down as branch chair of Manchester and Lancashire local branch. We appreciate his efforts in launching the branch and wish him the very best for the future.

#### **Situation vacant**

We would like to place a "job ad" for the Sussex and Kent areas. We have two branch chair vacancies and we wish to identify those who are prepared to support their local organisation. As mentioned, volunteers are a vital part of the branch network. The IFA head office will provide support to the branch chair and committee members when organising meetings during the year.

If you are interested in helping to run these branches, please email me at: nicolam@ifa.org.uk.

#### 2016 membership renewals

All IFA and FTA renewals have been sent out and should have been received, should arrive within the next few working days. Please complete the renewal document provided and send back to our membership department by email (membership@ifa.org.uk) or post to: The Institute of Financial Accountants, The Podium, 1 Eversholt Street, Euston, London NW1 2DN.

Please be aware that this is a very busy time for the IFA so responses to any enquiries may take longer than normal. We thank you for your anticipated cooperation.

#### 2016 conferences

In the next couple of months we will be finalising dates for the 2016 conferences. Venues, topics and other aspects are being completed based on feedback from all the members who have attended the 2015 conferences. Please watch out for future communications confirming next year's locations and dates. We look forward to seeing members at one of the IFA regional conferences in 2016.

#### Continuing professional development

As a reminder, from 1 January 2015 new continuing professional developments (CPD) requirements for all IFA and FTA members were put in place. The changes include the following elements:

- Members who are in practice or employed in business must complete and return an annual CPD declaration to the IFA between now and January 2016.
- The number of annual CPD hours is no longer prescribed, but the institute strongly recommends 30 hours CPD a year, of which 20 hours should be structured CPD.
- Members may be selected for monitoring so they must maintain all records and evidence of CPD activity.

More information about CPD requirements is at www.ifa.org.uk/cpd/cpd-requirements.

#### **Topics for future meetings**

The IFA welcomes views on local branch meetings. We want to know what topics members would like to learn about at future events. This will enable us to develop the meeting and provide attendees with valuable CPD that is relevant and useful to their accountancy role within the SME sector.

With members' input and feedback, will be able to meet their expectations and thereby maximise the benefit they obtain from meetings.

The IFA is always looking for new ways to strengthen and grow the branch network. We believe the IFA branch meetings are of great value to all attendees, and would therefore like to encourage all members to invite a friend or colleague to their next local branch meeting.

Please email suggestions to Nicola Mumford at nicolam@ifa.org.uk.



Nicola Mumford is the events and communications assistant at the IFA.
Nicola can be contacted by email at: nicolam@ifa.org.uk or phone 020 7554 5188.



## Competency circle

**Georgiana Head** explains that establishing the core competencies of a business can help its future development.

#### **TEN SECOND SUMMARY**

- 1 Competencies can help to define a business.
- 2 The IFA's brochure shows ideal competencies.
- 3 Interviews can be built on these values.

ne of the enjoyable things about setting up a business is that the owner can decide how to run it and how to improve on the formula used by their previous employers. A helpful way to distil what is required from a new practice is to draw up a list of competencies. These can then be used as the basis of how workers are recruited and trained and how client service is delivered. We talk about a person being competent to do their job properly and a competency or capability is basically a skill, behaviour or value that we want a person or business to display. Setting out the core competencies of an organisation can help to monitor its progress as a business, develop a team, define the culture of the business, and provide a standard to measure performance. It is a way of helping to differentiate the business from the competition and to recognise particular selling points.

#### Your new business

So let's imagine it is day one of your new business and you are just beginning to jot down what your values are. You've had a vague thought that it would be good to have a list of values and competencies to put on the business website and you are trying to think about what an ideal accountancy business might look like. A good starting point is to come up with the first ten things that make a good accountant for an SME or micro business and the top things you would want your business to be recognised for. Obvious things might be "qualified and keeps knowledge up to date", "focused on client service", "strong communication skills", "commercially aware" and "honest and trustworthy".

There might be things that are particularly pertinent to you such as an area of expertise – perhaps "expert in the taxation of OMBs". Alternatively, it might be something more personal which was one of your reasons for setting up a business that perhaps reflects the culture you want to build such as "freely available, good quality coffee" or "cutting edge technology".



To provide some inspiration and guidance on getting to grips with core competencies, take a look at the IFA's online CPD page at tinyurl.com/q7e5ww5. Together with AccountingCPD.net, the IFA's online CPD partner, the IFA are able to provide members with discounted bundles, worth 20 hours CPD, that align with the core competencies within the IFA's framework.

The framework, which is reproduced above, can also be found on page 5 of *Becoming a Professional Financial Accountant* at tinyurl. com/ifa-bapfa. It illustrates "the technical behavioural and professional competencies expected of competent and trustworthy IFA financial accountants". The framework is probably more detailed than might be needed as a new business and will include some areas that you might not be an expert at. For example, it lists the different types of accountings skills such as management accounting or taxation and

- Core
- Technical
- Behavioural
- Professionalism

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#### PRACTICE DEVELOPMENT

#### FURTHER READING

**LEARNING** 

Becoming a Professional Financial Accountant tinyurl.com/ifa-bapfa

Competing for the Future
Gary Hamel and CK Prahalad

you might be a specialist in one particular area. However, it illustrates the idea that the core value is "competent and trustworthy" and around this are the basic technical, behavioural and professional competencies which reflect this such as the behaviours of being accountable and commercially aware.

#### **Core values**

So now it is time to look at your list of ten things that make a good accountant/business and start dividing them into values and the skills and behaviours that underpin them. The quality coffee might be a behaviour or action which fits in a value of being a great place to work. An easy way is to build a "squid" diagram -with values on the left and tentacles or branches off of these with behaviours. So a value might be "qualified" and the behaviour which promotes this would be "keeps knowledge up to date". How this might be measured would be "ensures CPD is completed in a timely way and properly recorded" and "regularly attends seminars and reads technical articles". These are the behaviours that help measure how one's own standards are being met. This can be used as part of a competency-based interview to ensure the right people are hired as the business expands.

Competency (also sometimes called behavioural, situational or capability) based interviewing has been around since the 1970s, but really came in to its own in the accountancy profession in the UK from the late 1990s onwards.

As an example, an accountancy firm looking for a senior manager might identify the capability "leadership". The interviewer will therefore be looking for the candidate to give concrete examples of leadership skills that have been shown in the past. These questions are aimed at finding proof of previous success as an indicator of future performance. Once the candidate has given their example, the interviewer can funnel down with further follow-up questions such as "what was the outcome of this action?", "if you had to do this again - would you change anything?" and "what did you learn from this?" The psychology behind competency interviews is that it is deemed harder for a candidate to lie when giving examples of things they have actually done than in a hypothetical interview where they give examples of what they would do. The basic idea is to test for experience rather than just testing for intelligence.



Georgiana Head is a former tax accountant and business owner of an SME which focuses on the recruitment of taxation professionals. She has designed competency interviewing frameworks for clients and advises clients and candidates on competency interviewing. She is also a business mentor and has been a Spark Ambassadeur for Entrepreneurship. She can be contacted by email at: georgiana@ghrtax.com.

#### The next step

Once a set of competencies for a business has been established, a series of questions based around these can be developed for use in interviews. These enable the desirable behaviours in staff to be identified. However, remember that competency questioning is a rather interrogative style of interviewing, it is not a conversation and too many questions of

this style can be off-putting to candidates. Most firms and businesses that use competencies will actually mention the behaviours they are looking for in their job specifications. They may even advise candidates of the competencies in advance of an interview and give advance warning if they are going to ask competency questions. By publishing competencies, putting them in job specifications and on websites the business is, in effect, making a mission statement about how it operates and the behaviours that are expected from itself and its team.

While it may seem counterproductive telling people in advance of an interview what is being sought (because it enables answers to be prepared in advance) – in reality the more information given to a candidate, the more likely they are to make an informed decision as to whether a business is the right fit for them.

#### **Future development**

It is not only in interviews that competencies can be used, but also for ongoing appraisals and staff development. If business and team values and behaviours are known, staff can be measured against these, strengths and weaknesses identified and appropriate training provided. Most firms use their competencies as the basis of their appraisal systems, breaking down the behaviours into smaller chunks of key performance indicators. An example of this might be: Value: "Honesty"; Behaviours: "Has an awareness of own limits, of risk management, always strives for the right answer, is trustworthy will always go the extra mile to get something done"; and the key performance indicators for this might be "keeps accurate time sheets", "always ensures clients have been through full engagement and anti-money laundering procedures before advice is given" and "backs up advice with written documentation".

These competencies can be used as the basis of a customer charter and for feedback forms. The latter might, for example, say: "At F Bloggs & Co Accountants we pride ourselves on client service, how did we get on? Did we provide (a) excellent client service (b) good client service (c) adequate client service (d) poor client service. Is there anything we could have done better?"

Or "At F Bloggs & Co we pride ourselves on our plain speaking and easy to read report writing. How did you rate our written interactions with you? Is there anything we could do better?"

#### Conclusion

A business is an organic thing and should change and adapt to fit the times, so values and competencies may be reviewed as part of annual board meetings. This should ensure that nothing has become outdated and new pertinent items can be added as the business develops. Who knows, perhaps that free-flowing coffee will become champagne?



# Is automatic enrolment alien to your clients?



#### We can help.

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