

## closer money monitoring

Solicitors are being reminded by their UK200Group accountants of the Law Society principles for the handling of clients' money now that several amendments have been applied.

The principles themselves, ten in all, are fairly obvious – such as acting with integrity and in the client's interests, holding a client's money separate from other clients' accounts, and keeping accurate records. However, from time to time issues arise from implementing the principles.

For example, the Law Society guidelines state that delegating total financial responsibility to a cashier or bookkeeper is "not acceptable".

The advice given by David Ingall, a member of the UK200 Legal Group committee, is that partners do not have to inspect every transaction but should know what the staff are doing in their name. Mr Ingall says: "The partner with the

*responsibility for this department must expect to devote a regular amount of time to the task, perhaps every day, but certainly not less than weekly."*

He adds that he is interested to see how many old balances are held by solicitors without any transactions for months or even years. These, he says, should be reviewed as part of the financial control regime. "It is surprising what you find," says Mr Ingall.

Solicitors are being asked to be particularly watchful to ensure that clients do not use their accounts for banking facilities. The fear is that if this practice is allowed clients could use their accounts for money laundering.

Copies of the Law Society principles are available from UK200Group accountants. Some of the firms supply them free to their clients.

## less taxing

Solicitors will soon be able to stagger the tax they pay on income that is billable but not billed or received. This was a concession handed out by the Chancellor Gordon Brown in his pre-Budget statement in November.

In March 2005 the Urgent Issues Task Force, or UITF, of the Accounting Standards Board

decided that income should be recognised while a contract for services progresses. The ruling was known as UITF 40.

Many businesses, particularly those of lawyers and accountants, have to regard bills as having been paid before payment has been received. Most of those affected regard this rule as unfair – the providers of services in general are paid by

their customers and clients at the end of a task and do not pay tax on uncompleted work.

The next Budget, however, will soften the ruling. Mr Brown will permit businesses to spread the tax charge on the amounts over three years. Even better news is that those most severely affected will be able to spread it over six years.

More on UITF 40: page 3

# regulation overload

Lawyers' organisations want the European Commission to assess the effect of its second directive on money laundering before it considers imposing a third order.

The Law Society, the Bar Council and the Law Society of Scotland, along with other European lawyers' groups, have put their demand to the Commission. The Law Society has followed up by lobbying the UK Home Office to insist that the third directive is not brought in without more thought.

The legislation after the second directive obliges solicitors to report the slightest suspicion about a client, and this, says the society, can damage the relationship with clients.

Edward Nally, the society's president, explains: *"In the last year the Law Society's ethics department received 7,700 calls from solicitors*

*unsure about their new obligations. We feel existing legislation is too heavy-handed. For example, solicitors must report clients for even the smallest matter including cash payments to builders. Unless they get permission from the authorities to proceed, they must then stop acting for clients in such cases. This can create delay and confusion for clients.*

*"The erosion of client confidentiality means the unique bond of trust between solicitors and clients is vulnerable."*

The requested assessment, he says, should determine how the obligations have altered the solicitor-client relationship, and whether they have actually uncovered any money laundering.

The Commission has just gone some way to meeting the lawyers' demands. It has brought in an online



questionnaire to discover how law firms and legal professionals are applying their anti-laundering obligations. The questionnaire asks lawyers how effective the obligations are, what compliance is costing, and what impact they are having on the take up of legal services. There is, however, no mention of what action may be taken or of the third directive.

## lawyers and UK200Group

The value of attending meetings of UK200 trade groups, regional groups and specialist panels will be emphasised in February at a special gathering of the UK200 Lawyers' Group. The message to the lawyers will be that more of them could benefit from the contact and through becoming involved in the groups because accountants are their main source of business.

The February gathering will also be a forum in which members can suggest and discuss other activities that will promote recruitment of lawyers and accountants to UK200Group and attract more business. Peter Duff, president of the group, says: *"Recruitment is important but it is even more important that we have an active membership."*

## accounting rules

Solicitors in England and Wales are being warned to be suspicious if their accountants file clean accounts with the Law Society. About 6,000 of the 9,500 accountant's reports sent to the Law Society every year carry no qualification – and this is unrealistic, says Mark Sharpley, chairman of the UK200 Legal Group.

Because the rules are so stringent most reports are likely to require comment on some discrepancy. They are usually minor breaches, such as failing to bank cheques within the required time scale, but they all have to be reported on. Although most breaches are of little significance, ignoring them in a report or failing to give an adequate explanation could lead to a Law Society investigation, which is costly and time-consuming.

The UK200 Legal Group's advice to solicitors, in consultation with the Law Society compliance section, is to make certain their accountants understand the rules. Mr Sharpley points out that UK200Group accountancy practices are properly trained to work with solicitors and provide a service normally at a level previously available only from the large national firms. However, he says, the UK200Group firms' service is far more cost-effective.

For the rules applying in Scotland solicitors are advised to consult the Law Society of Scotland website [www.lawscot.org.uk](http://www.lawscot.org.uk)

# profit from technology

The most fundamental justification given for investing in information technology is to make more money.

Professional services firms are notoriously bad at billing and collection but modern practice management systems are the fee

earner's conscience in this regard. Time recording is not only fast, but it also produces the attendance note simultaneously. A few clicks print out a bill from the time and disbursements on the ledger, ensuring that every-thing done is billed.

As a more radical solution, the software can automatically bill clients for the work done that month. Cash flow is improved, clients appreciate the transparency, their own cash flow is eased, and the fee earner does not have to worry about billing!

A credit controller can fire chaser letters from the ledger card, or let the software print out bill chasers, up to the point of issuing proceedings if necessary.

One of our clients reported a 15%

increase in time capture after implementing a real-time reporting dashboard showing fee earners' key performance indicators – such as unbilled work in progress and bills outstanding – as bright, simple graphs in Outlook.

On another client's intranet a "Today's new client wins" report has had a similar galvanising effect on gaining new business. In addition, Lexcel accreditation has been shown in 69% of firms to reduce professional indemnity insurance premiums, and mandatory workflows in software can ensure that all staff follow anti-money laundering procedures – giving the money laundering officer a good night's sleep!

Paul Heritage-Redpath, Solicitor, Videss



## WIP, a taxing issue

The way in which solicitors recognise their income in accounts is to change for accounting years ending after June 22, 2005, as uncompleted work is to be included at selling price.

The present system uses work in progress (WIP) for unbilled work, valued at cost or net realisable value. Here, cost can mean many things. There was never an obligation to include partners' time, as that time "costs" a firm nothing, and partners are remunerated from profit. Partners' and others' time will be included at selling value under UITF 40.

However, this system does not differ in the area of "unbilled work". This refers to a bill that could and should have been rendered before an accounting date. Under the rules no professional firm can just cease billing, carrying over bills to the next

year and including them in WIP at cost.

Imagine a practice with precise WIP records. The WIP system used billing price and the firm always exactly recovered the full charge rate on bills rendered. Under the old rules the practice had valued that WIP in the accounts as being 60% of selling price, representing the salaries and overheads but no profit share. With a year end of June 30, 2004, the WIP would be valued in the accounts at 60% of, say, £100,000 – that is, £60,000.

If the unbilled work selling price is exactly the same at June 30, 2005, the gross figure of £100,000 would be included. This would produce an additional £40,000 profit, subjected to tax. The adjustment figure is calculated on the opening WIP/unbilled work. This is a single profit, identified separately, and

should not affect the next tax year's interim payments.

In his autumn statement the Chancellor has indicated that the uplift in profits arising from the application of the new rules may be spread over a minimum of three years.

The different types of work present different problems. For example, conveyancing and legal aid work are fairly straightforward, but complicated matrimonial work, criminal legal aid cases and commercial matters need careful monitoring.

Law firms must keep records up to date and can use the new rules as an opportunity to review working practices and improve cash flow. Above all, consult your accountant!

David Ingall, member of  
UK200 Legal Group committee

# where there's a Will...

The spread of Will-writing by lay practitioners has emphasised the importance of employing a qualified solicitor for the task.

Two cases involving elderly people in Hull have brought the issue to the fore. A couple responded to a local newspaper advertisement offering an inexpensive service and the Will-writer came to their home. After a discussion lasting several hours they were persuaded to have Wills costing a total of £1,000 prepared – and the practitioner left, having pocketed the £1,000 cheque but not having

drafted the Wills. The couple then felt they had been put under pressure, thought better of the transaction and stopped the cheque. Even though the man may have intended to write the Wills the couple believed they had been treated unfairly.

Within three days another couple in Hull complained they had had a similar experience and had parted with several hundred pounds.

Advertisements offering this kind of service are published quite widely, and most of the practitioners are operating within the law. Many are also competent, but the clients cannot distinguish between a capable

one and a cowboy type. The importance of having the job done professionally was highlighted by the case of Wills that were drafted by an amateur so badly that they did not reflect the clients' intentions. The problem here is that the non-lawyer practitioners are not subject to the regulatory conditions applying to lawyers and the clients have little redress when Wills are drafted in a flawed way.



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This newsletter has been prepared for general interest and it is important to obtain professional advice on specific issues. We believe the information contained in it to be correct. While all possible care is taken in the preparation of this newsletter, no responsibility for loss occasioned by any person acting or refraining from acting as a result of the material contained herein can be accepted by the UK200Group, or its member firms or the author.

## diary dates

### March 2006

31 End of corporation tax financial year

### April 2006

5 Last day of 2005/06 tax year

14 Due date for income tax for the CT61 period to March 31 2006

20 Interest will begin to accrue on unpaid PAYE/NIC for 2005/06

30 Normal annual adjustment for VAT partial exemption calculation (monthly return)

### May 2006

19 Last day for filing forms P14, P35, P38, and P38A – 2003/04 PAYE returns, without incurring penalties.

31 Last day to issue 2005/06 P60s to employees

### July 2006

31 Second self assessment payment on account for 2005/06  
Liability to 2nd £100 penalty arises for 2005 Tax Returns still not filed.

## profit by improvement

An updated version of the UK200Group profit improvement workshop for solicitors has just become available.

The three-hour workshop, which is accredited by the Law Society, includes sessions on fees and profits per partner, debtors and work in progress, staffing ratios, benchmarking and the cash cycle.

Benchmarking, one of the subjects that have been brought up to date in the new version, is particularly important in profit improvement as solicitors need to know how they rank against other firms.

Brian Scott, a UK200 Legal Group committee member, who developed the workshop, says: "Solicitors often think they are doing well, but they are often mistaken. They need benchmarking to measure their performance."