

Fraud danger signs

In times of economic hardship, the susceptibility to fraud within any business inevitably increases. This is particularly important in the legal sector where client deposits can represent a huge temptation.

The danger signs to look out for include:

- Lavish lifestyles not commensurate with income
- Personal financial difficulties
- Low morale/disaffected staff
- Staff working long hours with reluctance to take annual leave
- Unwillingness to delegate
- Over familiarity in office relationships leading to overrides in procedures
- Lack of segregation of duties between staff members
- Staff responsible for payments bringing cheques to signatories at the last minute and requiring signatures urgently without supporting documentation
- An unusual number of transfer adjustments
- Variations in expenses between offices and staff members
- Poorly reconciled cash expenses and un-reconciled petty cash books

It is vital that firms are on heightened alert for the potential of fraudulent activity. Some firms have implemented increased controls by requiring two signatures on cheques that exceed a certain amount.

Please contact your normal relationship Partner at Menzies to discuss other measures that you may wish to implement to protect your business.

Professional Indemnity Insurance Renewals 2010

The 2010 PII renewal deadline will shortly be upon us. Many firms experienced higher premiums and increased difficulties in obtaining cover in 2009, due to a hardening market caused by the recession and the perceived increase in risk in certain work types.

The 2010 renewal season is not expected to improve and with the recent difficulties of Quinn Insurance in particular, it may be extremely difficult for smaller firms in particular to obtain cover.

Menzies LLP do have contact with brokers should you need an introduction which would then put you in a position to obtain the most suitable cover at appropriate premiums.

Please contact your usual Partner at Menzies should you require an introduction which should not be taken as a specific recommendation.

...Continued from page 1

In a merger the accountant can therefore help, not just on the numbers but on the practical business and partner issues, for example:

- why merge at all
- evaluating potential merger firms
- why potential firms could fit together well or which to spend no further time on
- assist in steering early stage meetings away from detail to focus on the key benefits and compatibility issues
- help with the merged firms' business plan, path to merger itself, and who takes the senior, managing, finance, ethics and other key partner roles

The accountant should be able to provide a technical and a practical sounding board for partner as well as business issues, based on personal experience.

That advice and help will continue well past the merger date. There will be ongoing issues ranging from agreement of the individual firm's balance sheets at the date of merger to the more strenuous matters of client retention, departments and people working together, to meet both the business and profits plan.

A combination of the accountant's skills and those of the legal practice partners should ensure a successful merger, efficiently and effectively achieved, not only on the appointed day but for a long time after that.



If you have any queries or would like to discuss any of the issues raised in this newsletter, please contact your Menzies partner or one of the LegalPlus representatives listed below.

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HELP FOR MERGERS TO RESULT IN A WINNING TEAM



Legal firms look at mergers for many reasons. Some seek commercial advantage by sharing expertise and niche services over a wider client base, to take out a competitor or to enhance geographical coverage. Others seek to solve succession issues and financial strains to enable partners to retire with maximum value and avoid the costs of a close down.

Whatever the reasons, the decision to enter into discussions with another firm will inevitably have gone through several partners' meetings, perhaps a working group, followed by the compilation of a list of potential firms, contact with agencies, and the long haul of talking to managing partners.

There will be false hope, stuttered starts, perhaps a series of deferred or long meetings without key conclusions and feelings of much time and effort being wasted, until that golden opportunity appears which makes sense, gains momentum quickly, and just feels right.

If only that firm had been identified first!!!

How very helpful it would be to have someone

to talk to who understands the dilemmas, the uncertainties, the pluses and minuses that are apparent in discussions, and could see a clear way forward based on training and personal experience.

Here's where an independent view and outside help can bring rapid benefits and value. Initially an accountant could be seen as someone to check the numbers, and rightly so, but the real value builds from that premise.

Of course good accountants would check the obvious such as:

- historic profits are accurately reported
- balance sheets are fairly stated
- one off anomalies have been identified and properly adjusted for in comparing firms' finances
- accounting policies are consistent between firms so as to compare like with like
- time recording and billing procedures are effective
- SAR controls and procedures are sound and effective

CONTENTS

- 1&4 Help for Mergers to result in a winning team
- 2 Motor Expenses – are you receiving the most advantageous tax relief?
- 3 Instructing the winning Forensic or Business Valuation team
- 4 Fraud danger signs
- 4 Professional Indemnity Insurance Renewals 2010

- administration and IT systems can cope with a merged firm
- partners' benefits and profit sharing arrangements can be made compatible
- emotive issues like cars and office locations are soluble
- the merged firms' bank finances and partners' capital are adequate
- tax issues and the consequences of a merger are fully understood

All of these are important.

However the real value of a good practical accountant is in helping steer the path from imagination, theory and concept through to serious discussions, evaluations, the reality of a merger, and then beyond.

Accountants run and operate their own businesses in much the same way as legal firms do. There are different disciplines and regulatory frameworks but in essence each encounters very similar business and practical issues.

Continued on back page...



Motor Expenses – are you receiving the most advantageous tax relief?

The rules for capital allowances on cars underwent the first major change for many years on 6 April 2009 (1 April 2009 for companies). However there has not been much comment on these changes, possibly because they were announced well in advance of the effective date.

THE PREVIOUS REGIME

The previous rule was that expensive cars costing over £12,000 (not necessarily a realistic definition of “expensive”) were placed in their own pool. Up to April 2008 the annual writing-down allowance was at 25%, but the allowance was capped at maximum of £3,000 for each 12 month period.

The rate of writing down allowance for most assets was reduced to 20% from April 2008.

THE NEW REGIME – NON PARTNERS

Now the basis of the tax treatment of cars is CO2 emissions.

Cars with emissions not exceeding 160 g/km (a car like a BMW 520d would qualify for this band) are pooled in the main plant and machinery pool with all fixed assets. This means they attract 20% writing-down allowances. The allowance is no longer capped.

Where the car has emissions exceeding 160 g/km the car is pooled in the “special rate pool”. This pool is ‘special’ because writing-down allowances are available at just 10%.

Although the new rules and the abolition of the £3,000 cap mean that the tax relief in the first year or two of the new car being acquired may be higher than previously, the disadvantage is that because the cars are now pooled no balancing allowance occurs when

the car is disposed of. Consequently the tax relief is spread over a longer period.

For a car in the general pool it will take just over six years to obtain tax relief for 75% of the cost, whereas a car in the special rate pool will take 13 years to reach this level.

THE NEW REGIME - PARTNERS

For partners cars where there is private use of the vehicle, they will continue to be in their own pool albeit with writing-down allowances will be available at the lower 20% or 10% rates depending on emissions. A private-use adjustment arises (as was required under the old rules) annually as do balancing adjustments when the car is sold. The balancing adjustment on sale results in the overall tax relief in this situation being the same under the new rules as it was under the old rules although the timing of the relief may change.

So partners are likely to benefit under this system particularly if they have lower emission cars.

TRANSITIONAL RULES

Where a car was acquired before the new rules came into force then the car will continue to be treated under the old rules. So if it cost more than £12,000 it will be in its own single asset pool and the writing-down allowance is capped at £3,000. If the car is sold before the end of the accounting period ending on or after 6 April 2014 (1 April 2014 for companies) a balancing allowance will arise. If it has not been sold at that point it will then be transferred to the general pool.

For partners cars bought under the old rules and still in the books at 6 April 2014 then allowances would continue under the new emission based computations so at 20% or 10% as appropriate.

FIRST YEAR ALLOWANCES

First-year allowances and the annual investment allowance cannot normally be utilised on expenditure on cars. However the purchase of a new electrically-propelled car or car with CO2 emissions less than 110 g/km before 1 April 2013 continues to attract a 100% first-year allowance. This would of course be subject to a private use adjustment for partners.

LEASED VEHICLES

Previously, where cars are hired by a business, there was a complicated formula to calculate the tax relief due. The new rule is a welcome simplification and in the main puts businesses in a more favourable tax position.

Where a lease commenced on or after 6 April 2009 (1 April 2009 for companies), if the car’s emissions exceed 160 g/km then 15% of the expense is disallowed for tax purposes. Where the emissions do not exceed 160 g/km then there is no tax disallowance.

Private use adjustments will apply here as well.

We have found that it can now be quite cost effective to lease rather than buy cars.

SUMMARY

The new rules do simplify the tax relief on cars for businesses and serious consideration should be given over to leasing following that change last year.

The 160 g/km CO2 emission threshold has a significant impact on the timing of tax relief for cars.

If you would like us to review your situation to ensure that you are obtaining the most advantageous tax relief, particularly if you are considering acquiring a new car, please contact your normal Menzies relationship Partner.

Instructing the winning Forensic or Business Valuation team



Experts are often seen as solitary individuals operating on their own in their own discipline

However, we are seeing an increasing need for experts to interact and work together.

Accountants are often appointed as a quantum expert alongside a property or liability expert. Experience has shown that the consequences of a lack of dialogue can be disastrous.

On one such case the instructing solicitors kept the experts apart – so they never met or corresponded with each other. All the experts were to report their findings and conclusions on the same day, so not unreasonably the accountant drew conclusions based on the liability experts draft assumptions and the property experts initial views as provided by the lawyers.

However in submitting his report the liability expert changed a number of key

assumptions which meant for the accountant that considerable last minute reworking was required.

The relationship between experts is most efficient when it is cohesive and interactive – acting as a quantum expert, accountants rely on assumptions and advice provided by other experts. If the accountant does not have a thorough understanding of how those assumptions have been derived, or the liability expert doesn’t appreciate the use to which they will be put then there is a serious risk of the final report and conclusions not being fit for purpose.

By working together, the experts in their fields will fully appreciate each other’s issues and take them into consideration when planning the work needed and drafting their individual independent reports, for the

benefit of the parties to a dispute, the Court, and cost efficient working.

Please contact your normal Menzies relationship Partner.

These articles have been prepared as a guide to topics of current financial and business interest. We strongly recommend that you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting or refraining from acting as a result of this publication can be accepted by us.

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