The Dangers of Dabbling

Traditionally, accountancy practices have concentrated on an established area of advice however, recently we have seen more and more accountancy firms diversifying the type of work they undertake.

Some of the reasons for this include a changing economic climate, whereby increased competition means firms need to maintain competitive rates, digitalisation of the industry and a desire not to turn clients away.

Digitalisation

In recent years, accountants have seen the introduction of Making Tax Digital, which allows individuals and businesses to submit their own tax returns.

The increase in the number of sophisticated software products which enable small businesses to produce their own accounts, manage their own payroll and produce budgets and forecasts has thus reduced the necessity of engaging a professional accountant.

Client retention

As an insurance broker, we often see accountants agreeing to take on a piece of work for a longstanding client as they are reluctant to say no or wish to do their client a favour. This is especially so if the accountant acts for all their client's affairs.

Understandably, accountants sometimes fear that if they pass on a piece of work to another firm, that client will then take the rest of their business with them. While saying yes may seem preferable to letting the client down or losing them to competition, it may be in both parties' best interests not to accept the instruction.

Increased opportunities

Similarly to avoid turning a client away, accountants may accept a piece of work in the hope that it will lead to bigger and better opportunities. While this may seem to be the case, and the accountant possesses the initial expertise required, they may not have enough experience to see the work through to its conclusion if this develops beyond the initial appointment.

Such dabbling can be detrimental to a practice, with potential lasting effects including loss of business, damage to reputation and claims for professional negligence.

A couple of examples of where dabbling goes wrong:

Example 1

An accountant carried out a due diligence report for a longstanding client for the purchase of shares in a specialist firm. The accountant had not carried out work of this type before but felt obliged to assist his client and went ahead and completed the review into the proposed purchase. The bank subsequently funded the purchasers based on the accountant's report.

It later came to light that this specialist firm was in serious financial difficulty and the client who purchased the shares was unable to repay the loan instalments to the bank. The bank instructed Baker Tilly (eventually they were appointed as administrators) to undertake a review.

Baker Tilly identified a 'systematic and historic manipulation of vehicle leasing, financing, invoicing and accounting' which the accountant had failed to identify. The bank made a claim against the accountant and the vendors for over £2million while the legal costs to defend the accountant were in excess of £100,000.

Example 2

An accountant gave incorrect advice in that Entrepreneurial Relief would be available on the CGT payable on the sale of the Claimant's share of the family business to other family members. The Entrepreneurs Relief claim failed following an HMRC enquiry and the client made a claim against the accountant for £280,000 in addition to tax, penalties and interest.

The client then appointed a tax specialist who identified that the client could have utilised Rollover relief if the accountant had originally given the correct advice and made a further claim for an additional £120,000. The claim was eventually settled for £420,000 including legal costs.

Insurer's perspective

In a rapidly restricting marketplace, the work split of an accountant is a key consideration for insurers when assessing the risk profile of a firm. Having 1% or 2% of fee income attributed to numerous work disciplines will raise concerns. Whilst insurers appreciate that deviation from the norm will occur for one reason or another, they tend to prefer accountants that stick to their established areas of advice.

If an accountant's work split is diverse, they will seek comfort that the individuals undertaking this work are experienced in the field. If insurers are not comfortable with the information provided then it is likely they will perceive the risk to be greater. This in turn will result in higher insurance premiums or a decline to offer terms altogether.

In summary, if a practice is contemplating expanding its services then it is important that careful consideration is given as to whether there is relevant expertise in the firm, whether appropriate supervisory procedures are in place and whether relevant training has been provided. As the above examples show, it may not be a risk worth taking.

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