What you should know before appointing an accountant

How to protect your financial interests

Start here

Contents

What you should know about accountants

Accountants are expected to be reliable and trustworthy. For example, when you apply for a new passport, 'accountant' heads the list of professions that the Government accepts to verify your identity.

The trouble is, not all accountants are the same.

Not all accountants are accountable.

The surprising fact is that anyone can call themselves an accountant – without taking an appropriate qualification or meeting any objective standards.

Around one-third of all accountants practising in the UK are not members of a professional body.

"If I go and see a doctor, I need to know that the doctor is, in fact, a doctor. Most people in the general public have absolutely no knowledge that the accountant down the street is completely unqualified and has no Professional Indemnity insurance."

Gary Ashford
Chartered Institute of Taxation

One third of high street accountants are unregulated. Here's what this means:

	Unregulated accountant	Professional body member
Must hold an appropriate professional qualification	✗	✓
Required to keep their knowledge up to date (even in a financial crisis following a pandemic)	✗	✓
Subject to any ethical code, supervision or monitoring	✗	✓
Obliged to hold insurance to cover their customers when things go wrong	✗	✓

What you should know about accountants

Two-thirds of complaints to HMRC about tax are about the one-third of accountants who are unregulated.

Unregulated accountants and agents are more likely to promote tax evasion and money laundering activities, whilst their mistakes and errors can leave many taxpayers with large and unnecessary fines and penalties.

Most people are simply unaware of these facts – and the risks they could be exposing themselves to by using an unregulated accountant.

"If small business owners aren't aware that people without appropriate qualifications or recognition can operate as an accountant or tax agent, there is an inherent risk of inappropriate advice."

Philip King
Interim Small Business Commissioner

An independent survey of over 1,000 individuals and business owners found that:

6 out of 10
people had no idea accountants could practise without a qualification.[1]

59%
believe continuing professional development should be compulsory.

57%
believe membership of a professional body should be compulsory.

63%
believe being appropriately qualified should be compulsory.

1 The research for AAT was carried out online by Opinion Matters from 19–24 February 2021 amongst a sample of 1,028 people/businesses that have used an accountant or tax adviser.

Real-life examples of costly mistakes

Employing an unregulated accountant can appear to be a money-saver. But businesses can pay dearly through missed opportunities, fines and even fraud.

Seven out of ten AAT members say their clients have suffered trauma and loss at the hands of unregulated accountants. Here are some of the stories they shared with us.

77%
of AAT accountants said they had witnessed malpractice by unregulated agents.

68%
said unregulated accountants had caused their clients harm.[2]

44%
said the situation had worsened in the pandemic.

Client facing bankruptcy over made-up figures

One client employed an unregulated accountant who had no understanding of VAT. They made up VAT figures and left that client on the verge of bankruptcy.

Another example is a client who was asked to pay his Corporation Tax to the “accountant” before going on holiday, even though it was not due. She made a payment of £1,200 instead of £12,000 and kept the difference. She later admitted she had money issues and paid it back over 12 months.

Fellow Member of AAT, working in practice

2 Opt-in survey of AAT members conducted by Redactive. 239 AAT members responded to the survey, which was conducted between 18 March and 15 April 2021.

Real-life examples of costly mistakes

£2 million black hole covered up

I saw an unqualified accountant who lost control of the finance function in a business. As a result, the business ended up with a £2 million deficit that was covered up.

Member of AAT, working in practice

Facing eviction because of bad advice

A self-employed client left me for another firm that offered to reduce their tax bills annual fees.

Three years later, the client returned to me. The unregulated accountant couldn't help with their queries, weren't knowledgeable about tax fundamentals, and were unscrupulous.

HMRC was investigating the client. They were accused of fraud over adjustments that the unregulated accountant had recommended for personal home renovations. The accountant advised that HMRC would never know as the client was a construction business.

Because of the amount of tax evasion and the penalties involved, they were at risk of losing their home.

Previously when I acted for them, they were a very genuine couple who worked really hard. There had been no hint of them undertaking such illegal or risky practices.

Fellow Member of AAT, working in practice

Failure to register for VAT led to £40,000 bill

A client was not told they needed to register for VAT by their previous advisor. After five years, HMRC found out. The unregulated accountant just buried their head in the sand. The client believed the unregulated accountant was dealing with the issue, but they weren't. HMRC then threatened the client with formal proceedings due to lack of response and cooperation. They sought our services and we had to revisit and rework his accounts covering the five years.

The client ended up with a VAT and tax bill of over £40,000. He had to use his mortgage deposit to settle the tax account, which meant two more years in overcrowded rental accommodation with a young child.

Fellow Member of AAT, working in practice

"To the person in the street, it can be very difficult to tell if someone has the appropriate experience or qualification. I support requiring tax agents to be members of professional bodies. "

Stephen Herring
Former Head of Taxation, Institute of Directors

Real-life examples of costly mistakes

£10,000 of fines for elderly farmers

I took over two elderly clients whose smallholding income had fallen below the personal allowance. The unregulated accountant kept telling them that, as there was no tax liability, they did not need to submit a tax return. For ten years, no tax returns were submitted. But HMRC was still expecting returns, so it applied late filing penalties totalling around £10,000.

It took me two years to unravel the situation. HMRC did repay some of the penalties, but maintained the onus is on the taxpayer.

If this accountant had been regulated they would have had Professional Indemnity Insurance (PII). We could have taken him to task and insisted he pay the penalties. Instead, he simply ignored all correspondence.

Member of AAT, working in practice

Critical pandemic funding lost

We have taken on several new clients during the pandemic who were with unregulated accountants, many of whom have suffered costly mistakes.

One accountant refused to help a salon owner claim furlough worth £10,000. Another client, who had been self-employed for twenty years, could not claim the Self Employment Income Support Scheme (SEISS) because of errors. When he moved to us, it emerged that his previous accountant had submitted a nil partnership tax return for 2019 which resulted in HMRC assuming they were no longer trading.

AAT Licensed Accountant

Clients owe £24,000 due to errors

One of our clients worked previously with an unregulated accountant who posted VAT on everything that went through the bank account. This left the client liable for over £16,000.

Another example is where an unregulated accountant failed to submit Real Time Information (RTI) submissions and Auto Enrolment Submissions and had miscalculated furlough, resulting in a liability of more than £6,000 to the client.

Fellow Member of AAT, working in practice

Accountant paid illegal dividends

A client came to us near to their year-end as their current unregulated accountant was closing their business. The handover info showed they had voted illegal dividends in the year prior as the clients had wanted a mortgage and needed to push up their income! They ended up paying S455 tax [paid by holding companies] as they didn't have enough profit to pay back both the retained earnings and directors loan accounts.

Member of AAT, working in practice

Real-life examples of costly mistakes

Tax and VAT returns never submitted

An unregulated accountant registered a client for an annual VAT return (which was not practical for this client due to the number of transactions and the large VAT payment that would fall due). The accountant claimed to have made submissions for two years using cloud software. In fact, he had not checked or logged into the account, which the client used. It was later discovered that these VAT returns were not submitted.

He did submit the accounts to companies house but never submitted the Corporation Tax Returns to HMRC, leading to many penalties. A personal tax return for the client's sole trader business was completed but never submitted, leading to £4,000 of penalties.

The client was unaware of these problems because correspondence went to the accountant.

AAT Licensed Accountant

Error cost building client £26,000

We took on a new building client from an unregulated accountant and asked for the normal handover information as part of our professional clearance. The accountant wanted to charge the client £800 to hand over the information. We had to quote the *Companies Act* to them before they released any information at all.

We understand that Construction Industry Scheme deductions haven't been claimed because they didn't know that a company claims this through PAYE (pay as you earn) and not on a CT600 (corporation tax form). We think that the error is circa £26,000 over a number of years. We now have to pay solicitors to deal with the situation.

AAT Licensed Accountant

"The public needs to know that it is dealing with professionally qualified individuals who are up to date and have committed to the standards and ethics expected of them. "

Mark Walley
CEO, STEP

Government belatedly considers action

The Government is concerned by the mounting evidence of tax avoidance, unethical and even illegal behaviour by unregulated accountants. As a result, it is finally looking at ways to raise standards and protect consumers.

The Government's favoured plan is to make Private Indemnity Insurance (PII) mandatory for all accountants.

However, PII would not have prevented the horror stories on pages 5–8.

Simply requiring unregulated tax advisers and accountants to hold PII will do nothing to address the causes of incompetence, poor advice and in some cases, dishonesty.

Buyers of accountancy services should be aware that insurance won't magically make inept accountants competent. Neither will it make them knowledgeable about the Coronavirus Job Relief Scheme or regulatory changes, such as Brexit, Making Tax Digital and IR35 employment rules. It won't stop unregulated accountants from behaving unethically, charging for information that should be free or failing to file accounts and returns properly. It will simply mean that, in some cases, some costs could eventually be recovered.

Bad accountants may be able to get PII and continue to attract new customers until their misdeeds come to light. By then, for some, it will be too late.

"If HMRC is trying to improve standards in the tax advice market, starting with PII isn't the best way to do it. It's the wrong way round: we need to look at what we can do to achieve standards at the front end."

Christopher Jones
Director of Legal and Market Services, International Underwriting Association,

Pathway to action

2018 A director of HMRC appealed to AAT members to help the tax authorities build a picture of the impact on businesses and consumers.[3]

2020 It started a formal consultation to raise standards in the tax advice market.[4]

2021 It began consulting on whether to require all professionals who give tax advice to hold Professional Indemnity Insurance (PII).

3 Keynote address at AAT Annual Conference.
4 https://www.gov.uk/government/consultations/call-for-evidence-raising-standards-in-the-tax-advice-market

AAT champions consumers

If the Government is serious about raising standards and protecting consumers, AAT believes it needs to make professional body membership compulsory for anyone providing paid-for tax and accountancy services.

> **"There needs to be a bond of trust between business and adviser and we encourage founders to check that accountants are members of certified and regulated bodies so trust can flourish."**

Emma Jones CBE
Founder, Enterprise Nation

Doctors, nurses, architects, and solicitors are legally required to belong to a professional body, so why not accountants and tax advisers?

Being appropriately qualified is a given for a member of a professional body. In addition, they will be doing annual CPD (Continuing Professional Development) to keep their knowledge up to date.

Accountants who belong to a recognised professional body like AAT must meet rigorous ethical and professional standards too.

From the outset, this makes a real difference. For example, when you approach an AAT Licensed Accountant, they must review the opportunity to ensure they have the appropriate skills (otherwise, they must decline your invitation or refer you to someone better qualified).

> **"The lack of regulation in the tax profession means there is limited or no consumer protection. I strongly support the idea that the practice of tax should be regulated."**

George Bull
Partner, RSM UK

How to look after your interests

From reading this interactive guide, you can see that buying accountancy services on price alone is fraught with incredible risk.

So, how can you look after your interests while the Government is slowly considers whether or not to provide consumers with more protection?

It will take time for the law to be changed to protect consumers. In the meantime, be an aware buyer.

Here are the essential questions AAT would recommend that you ask your accountant to have peace of mind:

- Are they appropriately qualified?
- Do they undertake regular Continuing Professional Development (CPD)?
- Do they hold Professional Indemnity Insurance (PII)?
- Are they subject to the formal disciplinary procedure in the event of complaints?
- Are they signed up to PCRT (Professional Conduct in Relation to Tax[5])?
- Can they provide evidence all of the above?

If your accountant is a member of a recognised professional body, the answer to all these questions will be 'yes'.

Further considerations

It's vital to find professional help that is the right fit for you, so here are some further optional questions to help you arrive at the right decision:

- Is it desirable they have clients in your trade sector to show they understand your business?
- Do they provide all the services you require?
- Do they have a complaints procedure?
- Do they have continuity of practice measures in the event of illness or incapacity?
- Do they have a good reputation?
- Will they be acceptable to third parties, e.g. finance providers, shareholders?
- Would you be able to contact or meet them as often as you wanted?

5 The Professional Conduct in Relation to Taxation (PCRT) guidance is intended to advise members on professional conduct, particularly when it comes to relationships with clients and HMRC.

Find your accountable accountant now

It's critical that businesses and consumers are able to find a skilled professional accountant that is fit for purpose.

Find your match now, using our licensed member directory.

Check the directory

AAT provides two types of license to businesses – **AAT Licensed Bookkeeper** and **AAT Licensed Accountant** – both of which should be renewed annually.

You can find AAT licensed companies in our **online directory**.

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