

News and views on the accounting industry

Growth beyond financial planning

Newcastle's Cutcher & Neale is one of the largest and longest running regional accounting firms in Australia. Established in 1953, the chartered accountants practice now has seven partners and more than 80 staff. The firm not only provides accounting services and financial planning, but also human resources, IT, litigation support, assurance and risk services.

It has been adept at moving with the times and has welcomed the age of the holistic financial advice provider. Seven years ago, the practice abandoned the conventional accounting practice model in favour of an all-encompassing business service for clients. According to partner Jarrod Bramble, the change was radical, and involved loss of staff and difficult transitions for some who had been used to doing their jobs in a certain way. But the change is now paying off, with the addition of one new partner last year — Bramble himself. Instead of operating in a silo environment,

where each partner headed up a team, the teams are now divided into business centres — business services, information technology, investment services, human resources, accounting and taxation services.

The new structure means that clients have greater access to senior staff and enjoy a greater range of specialist services. "Overall, our increased range of services has allowed the firm to grow more than 15% a year since the restructure," Bramble says. "Our system runs such that any accountant can effectively pick up the work and complete it the following year without client exposure."

Particular partners specialise in different sectors. There are three in the medical sector, and the clubs and in the vineyards sectors are each supervised by an audit and accounting partner. Existing clients expanding their operations account for 30% of new business growth and 70% comes from direct referrals from existing clients.

There are more than 60 professional

staff, some of whom are completing university studies on a part-time basis while others are doing their ICAA professional year. All the partners are chartered accountants.

"It's extremely important as [chartered accounting] is our grounding and enables issue identification right across the firm, which assists our cross selling process and ensures that all senior staff have the same business ethic," Bramble says.

According to Bramble, the main issue faced by accountants in a financial planning environment is understanding the segregation of specialist advice in an accounting and financial planning framework.

"The problem with increasing legislation change and the need for specialisation has meant our financial planners concentrate on investment and wealth creation while separate divisions handle other facets of advice such as tax advice and business structuring."

Bramble is one of the three partners involved with the firm's large base of medical professionals. The medical division has been developed since the 1950s and is now heavily tied into the Australian Association of Practice Managers and the Hunter Urban Division of General Practice. A quarterly newsletter is provided to medical clients.

"We have a lot of strategies we employ in KPIs (key performance indicators), payroll tax, superannuation and fraud detection. And because a lot of the strategies are already in place they are almost all off the shelf, to apply from what we have already developed in-house," Bramble says.

He says his team recently exposed a number of oversights and tax inefficiency issues at a new medical client's practice. "They had cashflow issues, super problems, the non-commercial service trust structure was not right, the reporting was average and his MYOB person went through the whole system and improved it," Bramble says.

ACCOUNTANTS GET TOUGH ON FINANCIAL PLANNING MEMBERS

CPA Australia and the Institute of Chartered Accountants of Australia (ICAA) have jointly released tough new standards for financial planning members.

The exposure draft of *APS — Statement of Financial Advisory Service Standards*, has been issued to all CPA Australia and ICAA members as well as the wider business community for comment. Following that review, the standards are expected to take effect from mid-year.

The standards require:

- ▶ Mandatory provision of a terms of engagement letter outlining fees, targets and timeframes before commencement of work.
- ▶ Clear disclosure of fees for service, a recommendation to opt for fee-based service model rather than commissions, and a ban on gifts and sponsorship received as a result of achieving specific sales targets, known as soft dollar commissions.

"The initial reaction was one of surprise. They were surprised that we were able to pick up detail and fine-tune it. The feedback has been great."

For another medical client, a podiatrist, Cutcher & Neale restructured the super fund, IT took over the management of the computer network and identified problems and risk areas, and implemented changes. The human resources division employed office administration staff. The business services division developed KPI reporting on a per-practitioner basis, each of these undertaken through a separate billing process. "At the outset it is hard to get costs integrated, but later packages can be constructed," Bramble says.

- ▶ Prohibition of initial discounting with an intention of recovery through subsequent higher fees and commissions.
- ▶ An obligation to explain in clear terms the cost of the initial and ongoing advice.

Going further than other professional bodies, the new standards call for mandatory disclosure of buyer of last resort, as such arrangements are often linked to preference for certain products.

According to the CPA's Chris Benson, buyer of last resort is probably one of the things that goes to the core of the conflicts of interest identified by ASIC as a potential soft dollar benefit. "Basically the idea is that if the buyer of last resort is the fund manager or dealer who sets the minimum sale price of a business, predicated by a multiple of the revenue stream linked to many products (and the different multiples are based on the product, of which a higher multiple is paid on their own product), it effectively underwrites the capital value of the business for which ASIC and these new standards believe is relevant, and should

be disclosed to the client," Benson says.

Failure to comply with the provisions will lead to disciplinary proceedings, from a warning, to suspension of professional membership and in some cases may incur a fine.

CPA Australia's chief executive Greg Larsen says the introduction of the standard is a critical step forward in the public interest. "Its purpose is to ensure the accounting profession recognises its overarching responsibility is to uphold the client's interest," he says.

ICCA general manager of standards Bill Palmer says the new framework will reinforce the importance of professional objectivity and create a better service for the public. "The standard requires members to detail all their costs including commissions, platform fees, performance fees, administration costs and investment fees," Palmer says.

The exposure draft is available from the CPA Australia or the ICAA's web sites, and feedback can be submitted online.

CPA EXPLORES BOUNDARIES OF ADVICE

Still operating outside the Financial Services Reform Act (FSR), the mortgage industry will be one area of focus in consumer research that will be undertaken by CPA Australia next month.

According to CPA's manager of financial planning, Chris Benson, the mortgage industry itself has come out in support of being a licensed industry like the financial planning industry is under FSR.

Although some CPA Australia members are involved in providing advice in the finance area, particularly with regard to capital equipment purchase and the tax involved, Benson says this advice is not

on the product side. "However, if there are any products and members wanted to get involved, we'd want them involved in any licensing rules that came out down the track," he says.

The consumer research will also cover the public's perception of FSR since its commencement a year ago. It will address issues such as whether consumers feel they are getting better service and their understanding of statements of advice. Consumers will also be asked if they feel the results of the planning process are similar to the pre-FSR situation.

Financial planning clients of CPA Australia as well as those of other financial planners will be surveyed. **Asset**



Jarrod Bramble. Radical change is paying off

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