Professional Practices Group

Services and credentials

Managing change

It is a challenging time for professional practices with a combination of regulatory control and strategic opportunity meaning that firms are seeking strong advisers to work with them toward achieving their objectives. Grant Thornton's Professional Practices Group comprises over 65 managers and partners nationally, all of whom specialise in working with people-based businesses. We've built long-standing relationships with many professional firms, focusing on the people behind the business, sharing their vision and providing practical solutions to help our clients manage change efficiently and successfully.

- We offer the full scale and breadth of services you need, delivered in a distinctive, personalised way, with an in-depth understanding of the key dynamics in the professional services sector.
- Our relationship teams are proactive and partner-led to deliver solutions to your problems, **not** pre-packaged products and services.
- We adopt a 'One Firm' approach by integrating the best advice from across our service lines and geographically, so it is not a case of separate service lines having different conversations with you.
- We have extensive expertise in the issues facing UK professional service firms, supported by the true global reach and resources of Grant Thornton International.
- Out team members have significant experience of working with this sector, meaning that they understand the issues and opportunities you face and are able to help you focus in on the real risk areas and opportunities well in advance of deadlines or problems arising.

You are our core market

Best Tax Team in a large firm (2006, 2008 and 2009) and Best High Net Worth Team (2007)

Highly Commended Auditor of the Year (large 6) in 2009 and Winner in 2007 & 2008

Ranked number one Corporate Finance Adviser (by volume of deals completed in 2008) – already advising on the opportunities presented by the legal services act

Specialist Transaction advisory and post deal integration teams working with the sector group to assist with due diligence and integration on mergers and acquisitions

Over 250 partners and 4,000 staff across 30 locations in the UK, and over 2,500 partners in over 90 countries through Grant Thornton International

Issues in the Professional Practices sector

Issue	Issue defined
Risk management considerations	Reputation is the key asset for professional service firms and in order to protect this, firms have rightly focused on risk management procedures around client take on and conflict management to ensure that they do not perform work for the 'wrong type' of clients or take on overly risky projects. In the current environment, fee earners are under increasing pressure to deliver new wins and higher fees so these risk management procedures are too coming under increasing pressure. Are you comfortable that your risk management procedures are fit for purpose and that the culture within your firm aids the fee earners in complying with these?
Maintaining morale / motivating key individuals	With most firms having seen the impact of the recession with job losses, consideration needs to be given to motivating and retaining key individuals through these turbulent times. It may be that staff are relocated or redeployed - but key issues such as the need for retraining need to be addressed. Do remuneration packages align with the firm's strategy? Are redundancy packages being structured tax efficiently? Are staff being remunerated tax efficiently? Could you introduce tax efficient medium to long term incentive schemes to motivate a longer term view?
Working capital management	Cash is king at present and therefore a significant and sustained focus on working capital management is a must for all firms. How robust are your credit control procedures? Do you ensure all work is fully supported by fee agreements (made in advance of the work being done)? Are regular billing processes adopted to convert WIP into cash more quickly?
Finding the appropriate structure	The choice of operating entity (partnership or incorporated entity), and the group structure for both UK based and those that are international is often a legacy arising from decisions made in the past. As tax regulations change, these entities and structures can rapidly become inhibitors to future growth due to tax inefficiencies, restrictions on movement of funds or a lack of flexibility for pursuing new ventures. The administrative time and cost of running these can be prohibitive, in a market where businesses seek to manage their cost more stringently. Running a tighter ship needs to be coupled with the cost of any rationalisation programme. Is it possible to simplify the structure and get rid of unwanted dormant companies? Could new tax planning be taken advantage of during a wholesale restructure? Could more tax efficient international holding entities unlock the high rates of tax experienced in some overseas jurisdictions?
International expansion	Growth in overseas markets is an ambition for many professional service firms, but one that requires a considered and steady approach in order to ensure that your organisation, its brand and its people are not stretched too thinly and your reputation damaged as a result. It also requires significant planning in relation to funding, tax structuring, profit sharing arrangements, compliance with local legislative requirements and careful management of employee and partner movement between territories. Whilst diversification from exposure to one economy is attractive, have you fully considered all of the above?

Issues in the Professional Practices sector

Issue	Issue defined
Key performance indicators	The recession has focused firms more closely upon detailed monitoring of the firm, and the individual's performance. With key decisions needing to be taken by firms on the merits of individuals, teams and practice areas it is vital that timely and accurate key performance indicators are available so that any commercial judgements made are based upon a considered view of the contribution being made. Does your current reporting include: • the necessary hygiene factors of utilisation, billing levels, WIP realisation and debtor recovery; and • the broader 'balanced scorecard' KPIs around lead generation, development of staff, contribution to business critical non-chargeable projects, profile raising and 'living the firm's brand values'?
Challenging the existing business model & external funding	The way in which firms structure themselves is often driven by a slow evolution over time. In many cases, the current model is very much removed from how you would choose to structure the business if given a blank sheet of paper today. Could outsourcing be the answer to high costs in infrastructure and client delivery?, Is the current gearing within teams really the most efficient?, Have processes been reviewed for efficiency and quality of delivery to clients? How fit for investment is your current business?
Financial reporting considerations	Conversion to IFRS for all entities is something that may impact on you in the foreseeable future - whether this is a voluntary decision to reflect your international standing or one driven by the IFRS for SMEs regulatory changes from 2012 onwards. Have you done the exercise to consider the benefits and impact on your financial statements?
Implications of the increase in tax rates	The impact of the 50% tax rate for individuals has directly impacted on firms appetite for tax planning that can deliver remuneration more efficiently to senior personnel. This, combined with changes to tax legislation in the UK over the past few years means that if you haven't reviewed the firm and individual's tax planning recently, there are almost certainly areas where tax savings could be generated.
SRA monitoring visits (law firms only)	The SRA's approach to its role as regulator has been undergoing significant change in the past few years and a move toward regular monitoring visits for all firms (rather than visits based purely on adverse reports) now means that law firms should expect a visit to occur at least every two to three years. The intention to visit the firm does not require significant advance notice and those firms receiving notification at present are only given one to two weeks to prepare for a visit. How ready for an SRA review are you? Are you comfortable that your procedures and documentation in relation to the Code of Conduct and associated regulations will stand up to scrutiny?

Services to the professional practices sector

We have a number of solutions that are drawn together specifically to help professional service firms both minimise costs and to get themselves into the best position to maximise the opportunities that exist for growth.

Staff retention and motivation
- Employee and partner reward
- Optimising pension and benefit schemes
- Retaining the right staff
- Structuring tax efficient redundancy payments
- Employment Tax advice
- Structuring of ex-pat remuneration packages

Minimising indirect tax
- VAT cash flow planning
- VAT reclaim advice
- Advising on the new 2010 cross border services regulations

Reducing acquisition cost
- Stamp Duty Land Tax planning
- Capital allowances reviews

Maximising tax efficiencies
- Transfer pricing and service companies
- Retention of profits – use of a corporate partner
- Choice of operational vehicle – incorporation of partnership?
- Planning for the 50% tax rate

Strategic input
- Strategic workshops with management
- Advise on appropriate alternatives to simplify group structures and achieve international presence
- Constitutional reviews

A focus on the individual
- Wealth management
- Pensions: anti forestalling
- Lateral hire/ new partner inductions

Mergers, acquisitions and disposals
- Managing the transaction through to completion
- Ensuring robust related tax structuring
- Provision of commercial, operational and financial due diligence
- Post deal implementation services to ensure that the transactions is rapidly integrated and delivering maximum benefit to the combined firm.

International operations
- Advising on tax efficient structures
- Transfer pricing benchmarking and advisory work
- Advising on withholding tax exposure
- Dealing with expatriate tax matters where relocating staff inbound / outbound
- Dealing with mechanisms for ensuring equitable profit sharing mechanisms exists within the group

Assurance: a fresh approach to adding value

Many firms view the compliance aspects of their work as being just that – compliance. At Grant Thornton, however, we view any interaction with you as a chance to increase our understanding of your business and an opportunity to add value.

Statutory audit

Aside from providing assurance over the financial performance of the business, our work leads us to be able to provide you with valuable feedback on the business risks associated with:

- adherence to your engagement risk management procedures
- governance and key controls
- the interaction between fee earners and the finance function – critical to current financial performance and future strategy.

Solicitors' Accounts Rules (SAR) work with law firms

The annual SAR review is often seen as little more than compliance, but at Grant Thornton our approach is different. We will work with you to improve your systems and controls, educating your staff and fee earners to reduce the potential for issues to arise.

In the near future, there are likely to be changes to the rules arising from:

- enhanced activity of the Solicitors Regulation Authority (a consultation of
- the rule framework has already begun and we are contributing)
- the Legal Services Act
- the Solicitors' Code of Conduct
- the SRA strengthening its risk based approach to supervising firms.

Our dedicated team is able to work with you to respond to these changes and provide practical advice on how you manage client money effectively and within the rules.

Tax services: considering the firm and the individual

Every year, thousands of individuals and firms pay more tax than they need to. Our teams have the know-how to advise you and your firm on your overall tax exposure and to guide or work with you on dealing with the complexities of both the UK and international tax systems. Our specialist teams assist everyone from high net worth individuals to multi-national large companies; entrepreneurs growing their businesses to employers looking to offer the most effective tax solutions to incentivise and reward their staff.

Our advisers can assist with all taxes including income and corporation tax, stamp duty land tax, financial planning, VAT and capital taxes, like inheritance tax. We can help with businesses restructuring and when things appear to be going wrong, our tax investigation team can provide expert support. We can also draw on the skills of our international network.

The professional practices tax team are specialists in the sector, regularly liaising with HMRC on those issues specific to professional services. This forms part of our private client team which provides:

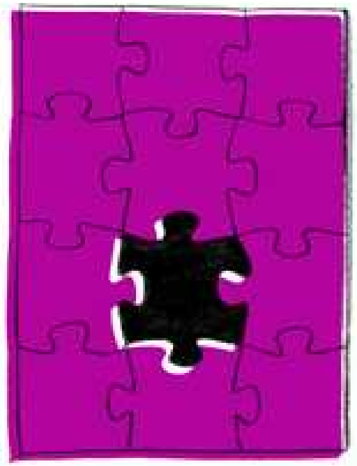
- reliable and efficient compliance service using regional centres where appropriate to reduce costs
- LLP tax planning
- international structuring
- employment tax services and employer solutions expertise
- wealth management services
- ex pat tax specialist advisory services

Operational advisory services: delivering synergies

Operational Advisory Services (OAS) is a team with in-depth experience of supporting and delivering over 100 integration, separation and business transformation programmes, including many within the professional services sector. Our main focus is to help our clients deliver greater stakeholder returns by ensuring the benefits of a transaction or transformation are delivered successfully and on time.

We advise and help our clients on delivering their integration, separation and turnaround programmes. Specifically, we assist our clients to:

- Define their integration, separation or turnaround strategy and establish the resultant change programme
- Define the benefits (i.e. cost savings, revenue uplifts and operational savings) to be delivered by the integration, separation or turnaround programme
- Establish the Programme Governance and identify the team to deliver the change programme
- Establish and deliver the Day 1 plans
- Build the plans to deliver the programme benefits
- Establish and operate the Programme Management Office to monitor the progress of the programme and report issues to the Programme steering committee
- Establish the process to validate the delivery of the programme benefits



In addition we perform the following independent assessments:

- Operational Due Diligence and Independent Business Reviews - a review of the operations of a company to support an investment decision
- Integration benefits assessments - a review of the benefits to be achieved as a result of a transaction
- Programme assessments - a review of the progress of an ongoing change programme

Transaction services: aiding your strategic decisions

We have a national team of advisers, who apply their strong experience and capabilities with a very hands-on approach. Our business is built on long-term working relationships, because we endeavour to develop real understandings of our client businesses.

Our services have been developed to meet the needs of the professional services sector to include:
- **acquisition due diligence**
- **flotation and reporting accountant work**
- **operational due diligence; and**
- **management assessment.**

In the current market, many opportunities are arising for those firms in strong positions to acquire those that are faring less well. Our team of specialists can provide commercial and financial due diligence services to ensure that what looks like a good opportunity, is what it appears to be.

The acquisition of, or merger with, a professional service firm can be very different in character to more corporate style transactions.

Corporate due diligence often leaves the target feeling bruised as the negotiations lead to the acquiring party taking the upper hand. In the case of professional service firms, it is vital that both parties understand the need to work effectively together after the event as 'one firm' – a difference that our specialist teams are experienced in handling.

Our professional practices tax teams work hand in hand with transaction services to ensure that the tax implications of any merger are considered from both firm's perspectives, and through the eyes of the individuals involved.

Grant Thornton International

Grant Thornton UK LLP is a leading business and financial adviser with offices in 29 locations nationwide. Led by over 300 partners and employing more than 4,400 of the profession's brightest minds, we provide personalised assurance, tax and specialist advisory services to over 40,000 individuals, privately-held businesses and public interest entities.

We are a member firm within Grant Thornton International, one of the world's leading international organisations of independently owned and managed accounting and consulting firms. Clients of member and correspondent firms can access the knowledge and experience of more than 2,400 partners in over 100 countries and consistently receive a distinctive, high quality and personalised service wherever they choose to do business.

Case study: Implementation Services

Our client was in the advanced stage of the acquisition of a smaller, distressed London-based law firm. The combined law firm would be top 50 in the UK. Reporting to the Managing Partner, our team assisted the client in effecting a successful integration on completion, "Day 1", and advised them on post-acquisition integration planning and implementation

Integration of two UK law firms

The key aspects of the support provided were to:

• Advise on the governance structure to manage the integration up to and beyond Day 1

• Support the Steering Committee and workstream leads in developing Day 1 plans for Finance, HR, IT, Communications and Facilities

• Develop a high-level integration blueprint, outlining the key actions up to and beyond Day 1, and the draft a "Ways of Working" to outline the principles for how the two firms should work together and interact

• Hold daily meetings in the run up to Day 1 with workstream leads to identify and resolve critical risks and issues, and ensure Day 1 plans were on track

• Post Day-1, assist the client in developing integration plans for the existing workstreams, and support the client facing business units in developing their integration plans

Outcome:

• All 120 joining partners and staff operated on our client's systems and processes on Day 1

• All joining partners and staff transferred to client's offices within 30 days post-Day 1

• Despite the speed and tempo of the integration, there were no major issues arising from the integration

The team, led by David Gardner, focused initially on our challenges to get through Day 1 safely and subsequently on ensuring the integration stayed on track and delivered the synergies we were looking for. They provided a structure which was relevant to the size of this transaction and offered advice which showed that they had clearly done this type of work before.
Their style is to become part of the team, but also to challenge where necessary. As we were to learn it was the process of challenging and questioning which was critical to the success of the integration. Throughout their engagement they spotted issues and risks that we may not have otherwise identified. I would recommend their services to anyone considering an acquisition as they look at integrations from a different perspective and in this case added, I believe, true value to our business."

Paul Johnson
Director of Finance and Administration,
Speechly Bircham LLP

Case study: Transaction Services

McGrigors LLP

Acquisition of Reid Minty
August 2008

Grant Thornton is providing commercial and financial due diligence

Hill Dickinson LLP

Acquisition of Middleton Potts
February 2009

Grant Thornton is providing commercial and financial due diligence

Speechly Bircham LLP

Acquisition of Campbell Hooper
June 2009

Grant Thornton is providing tax structuring and integration services

Rowley Ashworth LLP

Merger with Thompsons
June 2009

Grant Thornton is providing commercial and financial due diligence

McGrigors LLP

Acquisition of L'Estrange & Brett
August 2009

Grant Thornton is providing commercial and financial due diligence

"When we appointed Grant Thornton as auditors, they began working with us immediately and have delivered insightful and timely advice to assist us with first an IPO and now a review of our international structure as we grow our overseas operations.
Underpinning all of the tax and strategic advice has been a thorough audit service. Across all of this it has been refreshing to have advisors who understand the sector and, equally importantly, people who are great to work with."
Tom Carless, Finance Director
Ovum plc

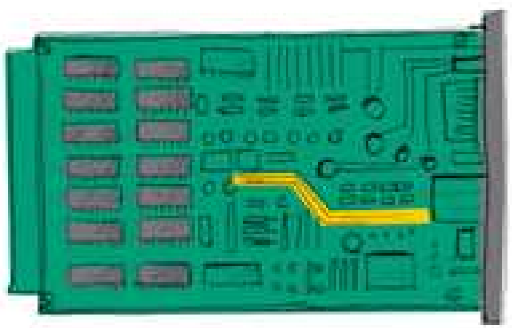
Case study: Assurance - using I.T. to drive efficiency

Large accounting Practice

Increased efficiency on critical audit areas

On the audit of a large national accounting practice we have continually refined our service in order to maximise our efficiency but more importantly reduce the onus on our client to provide information. Specifically we built on our IT based audit techniques to support our audit of revenue recognition. We extracted both year end and post year end information and provided a tailored spreadsheet to each partner whose assignment had been selected as part of our sample. The value provided to our client in this case was that we removed the requirement for partners to obtain financial data - instead we used their valuable time to interpret the data and add value to the audit process. In addition we removed the requirement for the central finance team to provide detailed information on WIP, debtors, WIP provisions, bad debt provisions, after date cash, after date invoicing and credit notes, after date time ledger transactions and so on - all of this data was obtained directly from the clients systems and put together using our IDEA software.

This was a bespoke solution for this particular client and demonstrates the way that our IT specialists are an integral part of the audit team as well as the way we constantly refresh our audit approach from year to year.



Case study: SAR – using our insight to deliver real value

UK law firm

Inappropriate transfers from client account

This client found some evidence of one of their partners making significant transfers from client accounts to the firm's office account in order to 'clear down' residual client balances. In one case an amount of £20k had been transferred and once we investigated further, the total was close to £220k.

By approaching our senior contacts at the SRA we were able to discuss the issue and highlight the client's actions in getting us involved to assist in the reporting of what had occurred. As a result of our assurance, the SRA were content to allow the client to finalise their own internal investigation, prepare a report and then present it for the SRA's review. This approach avoided a full blown SRA investigation and allowed our client to closely control the process without all the disruption and further worry that such a visit would have entailed.

UK law firm

Managing residual balances

We helped this client to gain clearance from the SRA to use residual client balances for charitable purpose, where the client could not be traced despite the client's significant effort.

We worked with the client to produce a summary report to the SRA indicating the procedures in place and efforts that had been made to try to return the funds to clients. By demonstrating the rigour applied to this process, we were able to gain approval for our client to use these residual balances to set up an external training bursary – something which fitted well with their continuing work in the area of corporate social responsibility.

Case study: Delivering a personal tax service

International Engineering consultancy

Tax services to 250 partners

We deliver a personal service - not a bulk processing centre mentality.

- small number of named contacts is provided - dedicated to servicing our the finance team and the partners
- The senior manager visits all offices in person at least once a year (more for larger offices) - Every partner has opportunity to meet him in person
- a timetable of office visits is agreed with them in advance
- advantage of this model is that people understand the context of the returns and can therefore spot irregularities

Dedicated email address and 'hot line' phone number

- these were used extensively in the initial transition period and significantly helped the partners deal with this change. After the first round of tax returns the 'relationship focus' paid dividends and partners began to contact their named manager directly.

The team who provide this service only work on professional practices and their partners

- The team understand the workings of professional service firms, tax provisioning methodologies and specific risk areas/hot topics for professional practices.

An integrated FP and private client offering for partners

- offering can be delivered locally or local office contacts can be introduced in the office closest to the partner in question.
- FP and private client people work in the same office in the same teams – they are genuinely joined up

Support for the finance team

- as an example the senior manager speaks to the head of partner services at least weekly to ensure that all matters are being progressed to timetable
- Support is provided to the finance team in relation to any proposed changes in legislation – we keep them up to speed
- The core team act as a sounding board but know when to bring in a specialist - specialists in Ex-pat tax, employment taxes, VAT, tax investigations etc can all be drawn in by the core team as and when the situation arises.

Key contacts

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