# Helpsheet: Ethical matters for consideration in relation to client engagement and disengagement

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## Introduction

Issues in relation to client engagement and disengagement are a common subject of enquiry to ICAS. The most common types of enquiries made include:

* procedures prior to acceptance
* enquiries to be made of the existing or predecessor accountant or professional adviser
* delays or failures to respond to correspondence from the proposed accountant
* steps following receipt of information from the existing or predecessor accountant or professional adviser
* when and how to disengage from a client

This helpsheet is intended to assist members in practice with ethical matters in relation to engagement and disengagement with clients. It highlights some commonly found situations and how these should be dealt with. It should be read together with the [ICAS Code of Ethics](https://www.icas.com/professional-resources/ethics/icas-code-of-ethics) (the Code), and particularly Section 320 “Professional Appointments” and the related helpsheet to the Code “[Changes in Professional Appointments Procedures](https://www.icas.com/__data/assets/pdf_file/0017/525203/HELPSHEET-PROFESSIONAL-APPOINTMENT-FINAL.pdf)”.

## What procedures should be in place for acceptance and continuance?

Having been approached to take on a new client, and before making a decision on whether to act for the client, consideration should be given to whether accepting the work would create a threat to compliance with the fundamental principles set out in the ICAS Code of Ethics. In other words, would there be any issues with the following:

* Integrity: would accepting this appointment cast any doubt over your integrity and honesty? You will need to specifically consider the integrity and honesty of the client e.g. are there any issues with ownership, the nature of the activities, the reputation of the client. This will obviously include anti money laundering considerations, as well as consideration of non-compliance, or suspected non-compliance, with laws and regulations.
* Objectivity: would accepting this appointment cause you to have a conflict of interest (actual or implied), exercise bias or be subject to undue influence? The test of objectivity is from the perspective of a reasonable and informed third party (paragraph 120.5 A4 of the Code) i.e. it is not whether you believe that you can be objective but whether a reasonable and informed third party would conclude that you are objective. In matters of conflict of interest, the ICAS “[Guidance on conflict of interest](https://www.icas.com/__data/assets/pdf_file/0011/445736/Guidance-on-Conflict-of-Interest.pdf)” recommends that the key question to consider is whether you “should” manage the conflict of interest (as opposed to whether you “could” manage the conflict). The perceived reputational impact/consequences of accepting an engagement, as well as any public interest implications, need to be considered. Your assessment will involve reviewing the nature of your potential relationship with the client and the services provided, and considering whether these create any threats to independence such as:
	+ Self-interest threat: e.g. do you have any financial interests (such as loans, guarantees or investments) or mutual business relationships with the potential client or is this client so large that it creates significant fee dependence? Attention needs to be given to the materiality of any financial interest to both you and your client (Section 370 of the Code). What about inducements including gifts and hospitality: are there any inducements (including gifts and hospitality), given or received, where there is, or could be perceived to be, intent to improperly influence behaviour? (Section 340 of the Code)
	+ Self-review threat: e.g. would there be potential conflicts in the nature of the different services being provided. For example, are you being asked to value the client’s company and audit it thereafter, or are you being asked to act for an insolvency case when you have conducted work for the individual before?
	+ Advocacy threat: are you being put in a position of promoting/ advocating for a client that would cast doubt on your independence to provide other services? For example, promoting the client for raising finance with investors and then conducting assurance work.
	+ Familiarity threat: is there a close family, personal or business relationship, or have you known the client well for a long time? For example, if holding office in a client company, or having a comparable business relationship with a client, there is a need to be aware of the dangers inherent in seeking to combine such a role with that of business adviser or the provision of another professional service (Section 370 of the Code).
	+ Intimidation threat: e.g. is the client a dominant individual or can the client exercise significant influence over you due to other connections/associations?
* Professional competence and due care: do you have, or can you get, the necessary skills and expertise to be able to conduct the client service effectively?
* Confidentiality: would accepting this appointment cause an issue with client confidentiality e.g. if you were acting for two clients in the same industry how could you ensure that competitor information was kept confidential?
* Professional behaviour: have there been significant disagreements between the accountant and the client?

You should also familiarise yourself with the Fundamental Principles and the Conceptual Framework in Part 1 of the Code and Part 3 “Professional accountants in public practice”.

Auditors undertaking an audit in the UK, and professional accountants undertaking other public interest assurance engagements in compliance with the engagement standards issued by the FRC, are required to comply with the requirements of the FRC’s [Ethical Standard](https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/ethical-standard-for-auditors/). Other assurance engagements are covered by the International Independence Standards in Part 4 of the Code. Detailed explanation of the applicability of Part 4 is provided in Section 400 of the Code.

Whilst the Code is grouped into parts, you may find any of them of use in relevant circumstances.

## Where will I get this information?

Usual procedures that you may require to put in place, include:

* client acceptance checklists and re-appointment checklists to be completed for each engagement
* anti-money laundering identification and due diligence procedures
* enquiries of third parties
* background searches
* professional clearance letters with the existing or predecessor accountant/professional adviser (see below for more on this)
* discussion of client acceptance risks with other principals.

## Do I have to contact the existing or predecessor accountant/adviser?

Yes. The Code of Ethics advises that you shall at least seek to contact the existing or predecessor accountant, or professional adviser, before accepting an appointment so that you can identify the reasons behind the proposed change in appointment and to request disclosure of any matters that may impact on your acceptance decision.

If the client has not informed the existing or predecessor accountant/adviser, then you should ask the client to write to them, confirming the proposed change in appointment. You can then follow this up with an enquiry letter, asking for details of any matters that may influence your decision.

## What if the client does not give permission for the existing or predecessor accountant/adviser to communicate?

You should carefully consider the reason for this refusal and how this will impact on your decision to accept the appointment, i.e. is it still appropriate to accept this appointment, given the client is already denying you access to information?

You should also consider whether there is a good reason for denying your request? You will need to evaluate this very carefully.

If you still plan to act, determine whether it is possible to obtain information by other means such as third-party inquiries, discussions with management or those charged with governance.

## What do I do if the existing or predecessor accountant/adviser does not respond?

If you have not heard within a reasonable time (or within the timescale set out in your original correspondence) you should attempt to make contact by other means stating that in the absence of a response within a specified and reasonable time there will be an assumption that there is no information which might affect the decision to act. You should take all reasonable steps to ensure that receipt of this communication is evidenced.

The Code states that you would be entitled to assume that the existing or predecessor accountant/adviser’s silence implies there was no adverse comment to be made, although this does not remove the requirement to consider all appropriate circumstances.

If all avenues have been exhausted without success, you are entitled to make a complaint to ICAS.

## Why can I not ask for information on anti-money laundering issues?

This could lead to you and the existing or predecessor accountant/adviser being involved in “tipping off” or alerting the client, which is a criminal offence. Do not ask the existing or predecessor accountant/adviser for information on any suspicious activity reports relating to the client.

## What should I do if my communications or other acceptance procedures identify an issue?

You should evaluate the nature of the threat and the impact.

If the threat is other than clearly insignificant, identify appropriate safeguards to eliminate the threat or reduce to an acceptable level: the appropriate safeguard will depend on the nature of the issue. You should bear in mind what a reasonable and informed third party might think about the situation looking at it from a neutral standpoint - would they be likely to conclude that you had acted appropriately? There is a need to have regard to reputational risk. Would a member of the public think that the safeguards put in place would be sufficient to deal with the threat placed on the firm? For example, if it is a lack of specialist knowledge, then this might be safeguarded by employing the services of an expert.

If the issue is one of the client’s integrity (e.g. evidence of fraud, tax evasion, accounting irregularities, or misleading the existing or predecessor accountant or professional adviser) without successful resolution of the causes by the client, then there are likely to be no appropriate safeguards and declining is the only action that can be taken.

You are advised to look up the specific ethics issue in the Code and consider the appropriate safeguard. If the specific threat is not mentioned, Section 300 of the Code provides details of potential safeguards that can be applied.

Some examples of actions that might be safeguards in certain circumstances include:

* communication of issues with the client
* more stringent supervision procedures
* consultation with a third party
* using different partners
* using separate engagement teams
* involving an appropriate reviewer to review the work or advise as necessary
* involving another firm
* using experts where necessary
* rotating senior personnel

If the threat cannot be eliminated or reduced to an acceptable level, you should decline/discontinue the engagement. The considerations should be taken in a timely manner and the client should be informed immediately of the decision.

At times, there may be a difference of opinion between the client and the existing or predecessor accountant or professional adviser, in which case you should satisfy yourself that the client’s position is reasonable before making an acceptance decision.

You should also bear in mind that it is important to periodically review acceptance decisions for recurring engagements and existing clients.

## What should I do if the client refuses to sign an engagement letter?

It is best practice to have engagement terms in place for all work undertaken. This forms the contract between the client and the accountant and ensures that the client is aware of the scope of the work and the firm’s responsibilities as well as their own and will help avoid any future misunderstandings or disputes.

ICAS provides specimen letters of engagement through the [General Practice Manual](https://www.icas.com/professional-resources/practice/knowledge-centre/general-practice-manual/CMR-Annual-compliance-review.docx) or there are a number of engagement letter packages available in the marketplace. You may find suitable samples within your firm’s practice management software.

If your client does not sign the engagement letter issued you could send the client, via appropriate communication channels, various copies/ reminders to sign the engagement letter. Where there remains no response you could speak to the client to determine if there is a particular reason for the client not signing and try to resolve the issue with the client.

With a continued failure to sign, you could word the engagement letter to state that, unless you hear otherwise in writing from the client, non-response is tacit approval of the terms, however this carries with it some risks. Moreover it is likely to indicate that the business relationship may be generally problematic and you may wish to consider whether the business relationship is likely to be fruitful going forward and one which you wish to continue with.

## What procedures should there be for disengagement?

### The client has refused to allow me permission to communicate with the proposed accountant/adviser

You should respond to the proposed accountant, indicating that permission has not been obtained. If there are matters to be disclosed, then you should also note that matters do exist but not provide any detail.

This will allow you to demonstrate that you have fulfilled your responsibility as far as has been practical. You should not provide any further information on any issues, as to do so will breach client confidentiality.

### What do I do if there are issues to report?

After a client has provided permission to communicate, a response can be made to the proposed accountant confirming, clearly and unambiguously, the full details of any matters you are aware of in relation to the letter of enquiry, or if you are not aware of any matters, positive confirmation to that effect. However, as per paragraph R320.7 B in the Code “Care must be taken when communicating all relevant facts to a proposed accountant in situations where the existing or predecessor accountant knows or suspects that their client is involved in money laundering or a terrorist activity. If the existing accountant has made one or more suspicious activity reports relating to money laundering or terrorism, the existing accountant shall not disclose that fact to the proposed accountant or make other disclosures that could amount to tipping off.”

### What should I do if the proposed accountant complains to ICAS about my slow/non–response?

You should act and respond promptly and in a professional manner to all information requests and in a way that a reasonable and informed third party would consider suitable, whether you are able to respond fully or not.

Complaints in respect of an undue delay are not uncommon. You should therefore either demonstrate to ICAS (via producing copies of correspondence) that you have dealt with the proposed accountant/adviser in a timely and professional manner or accept that you have not and rectify this immediately.

You must communicate promptly with ICAS in response to the notification of the complaint and to any requests for information.

### Should I tell the proposed accountant/adviser about my money laundering suspicions?

As noted above, you should not inform the proposed accountant that you have made a Suspicious Activity Report, or that you may have a suspicion of any activity, as you are at risk of alerting or ‘tipping off’ the client, which is a criminal offence.

### How should I liaise with the client?

Whilst a formal disengagement letter is not required, it is recommended to avoid misunderstandings. Further information on considerations in relation to disengagement letters in available in a separate helpsheet (see [useful links](#UsefulLinks)).

### It will take me a long time to pull together the information for the proposed accountant/adviser and transfer the appropriate records – can I charge for this?

The provision of information and records to a successor accountant should be made with no charge, unless there is a strong reason to do so, such as an unusually large amount of work. In such case a nominal fee should only be charged to the client with the clients’ express prior permission and agreement on the scope of the work to be undertaken.

### What should I do if the client has not paid me?

It is very important that your actions do not prejudice the client. You should therefore, firstly, communicate with the client to try to resolve any fee dispute. You are also entitled to mention this to the proposed accountant/adviser.

Accountants can exercise a lien over certain books and records, but this should only be considered a last resort, and a lien should not be exercised in circumstances which would prejudice the client’s interests. Each case should be determined on its individual merits. A separate helpsheet is available providing further information in relation to exercising a right of lien (see [useful links](#UsefulLinks)).

Given the potentially inflammatory nature of such a course of action, you should ensure that –

* only documents which are the property of the client are subject of the lien (For the avoidance of doubt, a lien should not be exercised over a client’s passport or bank notes on the basis that they do not form the property of the client). It is therefore important to distinguish between work undertaken for a company and services performed for its directors in a personal capacity.
* reasonable and prompt steps have been taken to resolve any dispute and that there is effective and timely communication with the client about this process.
* a written record of reasons and correspondence has been kept.
* only books and papers relevant to the complaint have been held.
* no statutory books or records have been held.

## Specimen Documents

Engagement - [Specimen enquiry letter to the existing or predecessor accountant or professional adviser](https://www.icas.com/professional-resources/practice/knowledge-centre/general-practice-manual/Engagement-Specimen-enquiry-letter-to-existing-or-predecessor-accountant-or-professional-adviser.docx)

Engagement - [Specimen letter from client authorising release of information to the proposed accountant](https://www.icas.com/professional-resources/practice/knowledge-centre/general-practice-manual/Engagement-Specimen-letter-from-client-authorising-release-of-information-to-proposed-accountant.docx)

## Useful links

[ICAS Code of Ethics](https://www.icas.com/professional-resources/ethics/icas-code-of-ethics)

ICAS Code of Ethics Helpsheet: [Changes in Professional Appointments Procedures](https://www.icas.com/__data/assets/pdf_file/0017/525203/HELPSHEET-PROFESSIONAL-APPOINTMENT-FINAL.pdf)

ICAS [Guidance on conflict of interest](https://www.icas.com/__data/assets/pdf_file/0011/445736/Guidance-on-Conflict-of-Interest.pdf)

ICAS website:

[Complaints](https://www.icas.com/regulation/complaints-and-sanctions)

[Anti-money laundering](https://www.icas.com/professional-resources/anti-money-laundering-resources)

[Helpsheet: Engagement letters](https://www.icas.com/__data/assets/word_doc/0007/543742/Engagement-letters-helpsheet.docx)

[Helpsheet: Disengagement from client](https://www.icas.com/professional-resources/practice/knowledge-centre/general-practice-manual/Disengagement-from-Client-Helpsheet-NEW.docx)

[Helpsheet: Exercising a right of lien](https://www.icas.com/__data/assets/pdf_file/0004/268348/Lien-helpsheet-August-2023.pdf)

## Further information and assistance

Further assistance and information can be obtained from the Practice Support team. You can contact them through the Practice Support section of the [ICAS Technical helpdesk](https://www.icas.com/contact-us/icas-technical-helpdesk).

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