



# *Practice Assurance guidance*

## **PRACTICE ASSURANCE STANDARD 2: CLIENT ACCEPTANCE AND DISENGAGEMENT**

A firm should agree to act for a client only if it does not contravene ICAEW's **regulations, standards and guidance**.

When a firm accepts a client, and throughout the term of the engagement, it should be able to demonstrate that:

- there is no threat to the firm's integrity or objectivity that it cannot manage with appropriate safeguards;
- the firm has access to adequate resources and expertise to provide the services required;
- the firm has made adequate enquiries to ensure there are no other reasons to prevent it from providing the services, including those related to the law and regulations on money laundering; and
- the terms of engagement are clear and unequivocal.

Set out below is some guidance and ICAEW Quality Assurance observations as well as support, including our top tips to help you comply.

### **Integrity, objectivity and independence**

Integrity and objectivity are essential in the exercise of professional judgement. Threats to integrity and objectivity arise most frequently when there is a conflict of interest between a firm and its client or where different clients have conflicting interests.

The main considerations firms should take into account are contained in the **Code of Ethics**, section 110 Integrity, 120 Objectivity, Part B – Professional accountants in public practice, 200 Introduction, 220 Conflicts of Interest, 280 Objectivity – All Services, 290 Independence – Assurance engagements.

Situations that may threaten a firm's integrity, objectivity or independence include, but are not limited to, are:

- the relative size of an individual fee;
- a mutual or conflicting business interest between the firm (or persons with close connections with the firm) and a client;
- loans to or from clients;
- the receipt of goods, services or hospitality from a client; and
- a beneficial interest in shares or other investments in clients.

The Code of Ethics includes examples of safeguards that are available to remove or reduce such threats. For example, where a potential conflict of interest between the firm and the client is identified, it may be sufficient to disclose, in full, the circumstances to the client and to obtain their informed consent. Firms should refer to our ethical guidance for a more detailed discussion of these and other related issues.

### **Resources and expertise**

Resources and expertise should be adequate for the services to be provided. A firm should not take on a new client unless it has access to appropriate staff or subcontractors to deal with the increase in work. Firms should guard against creating unmanageable pressures for themselves that could adversely affect their services to clients.

It is important that a firm only undertakes work that it is competent to perform. The staff and subcontractors dealing with the assignment should have the necessary technical knowledge. Firms should take particular care to ensure that the relevant expertise is available, within the firm or from external sources, to deal with specialist areas.

All technical staff should receive appropriate on-going training. In particular, all professionally qualified staff and principals should comply with the CPD requirements of their professional body. For ICAEW members, these can be found in the training and education area of [Regulations, standards and guidance](#). All staff should have access to appropriate technical material and resources.

### **Professional enquiries prior to acceptance**

Firms should make enquiries to ensure there are no other reasons to prevent it from entering into an engagement.

These enquiries should include communicating with the prospective client's existing accountant to establish if there are any considerations that might affect the firm's decision whether to accept appointment. Suggestions on how to carry out such professional enquiries are included in the [Code of Ethics](#), section 210 Professional Appointment.

Firms should carry out their obligation to respond promptly to such enquiries from other firms and, if there is a subsequent transfer of client, cooperate with the new accountant.

Firms should be aware of the laws and regulations in the UK relating to money laundering. Failure to observe The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17) can put members and other staff at risk of criminal prosecution. [Our money laundering information](#) provides up-to-date advice for firms on meeting their obligations under the MLR17. [ICAEW's anti-money laundering service](#) can help firms meet their obligations in this area.

### **Terms of engagement**

Many disputes with clients result from a misunderstanding or misinterpretation of the nature or scope of a firm's terms of engagement. A clear statement of the terms and conditions of engagement before starting work can help to avoid misunderstandings. This could be particularly important for [professional indemnity insurance](#) purposes and could help avoid disputes or enable them to be resolved more easily.

If the nature of the services or the scope of the work changes at any time, the firm and client

should agree revised terms. ICAEW's regulations require firms to inform all clients in writing of the basis for calculating their fees and their complaints procedure, including their right to complain to ICAEW. We find the best way of communicating this information to clients is to include it in an engagement letter or terms of business.

If the service your firm is providing to a client is regulated work, eg, audit, probate or DPB (Investment Business), there will be additional disclosures you need to make in the engagement letter or terms of business.

### **Terms of disengagement**

Complaints are often made to ICAEW when a firm ceases to act and the client misunderstands the extent of the work the firm has agreed to complete. We have also seen instances where the same piece of work has been carried out by both the client's new accountant and their previous one. To avoid these issues, firms are advised to agree terms of disengagement at the appropriate time, identifying the work to be completed and the terms on which this will be done.

Below are some of the practices firms can put in place to help them comply with this standard. These are divided between what we consider to be essential practice and best practice that further assist with a firm's quality and risk management. There are also our top tips to help you comply. To help you assess whether you have adequate procedures in place to enable you to comply with this standard you can complete the [Practice Assurance compliance review checklist](#).

## **TOP TIPS TO HELP YOU COMPLY**

### **Client take-on**

- Use our [New client information helpsheet](#). This is a document that will help you make sure you cover all the essentials.
- Our [Decision to accept appointment helpsheet](#) provides a checklist to help you make a critical assessment of a proposed engagement.
- Subscribe to [ICAEW's Anti Money Laundering Service](#). This is tailored depending on the size of your firm and the type of clients you have.
- Make your AML procedures part of your client take-on procedures as they are a core part of the client risk assessment.
- If you have staff that take on clients or complete the take-on procedures make sure you train them in how to use them. Also periodically check that staff are completing them properly.
- Our [Engagement letters helpsheet](#) has guidance and example wording. You can use this and tailor it to your firm's and client's circumstances.

- Remember to carry out checks to identify the ultimate beneficial owner and to spot politically exposed persons (PEPS). Electronic checks can help with this. ICAEW members can use our Library and information Service's [Client Screening Service](#) to do this (limited to three per week).

### **Client disengagement**

Use our [Disengagement letters](#) and [Disengagement checklist](#) to help you with departing clients.

## **ESSENTIALS**

### **Client take-on**

You need to understand the requirements of Section B of the [Code of Ethics](#).

You need to consider the following when taking on a client:

- Does the engagement pose any threats to your integrity, objectivity and independence? Where there are issues, write a file note of relevant issues and safeguards put in place.
- Do you have the right resources and expertise to carry out the engagement?
- Does the client and/or the engagement pose a money laundering risk?

Communicate with the prospective client's previous accountant to find out if there are any considerations that will affect your decision to act. Once you have considered and documented the level of money laundering risk your prospective client poses, you need to obtain and document the appropriate level of client verification.

Issue your client with clear written terms of engagement to include as a minimum the basis of the firm's fees and its complaints procedure (to include the clients' right to complain to ICAEW). Document the knowledge you gather about the client on your file.

### **Client disengagement**

Retain a file note of agreed disengagement terms and actions.

## **BEST PRACTICE**

### **Client take-on**

1. Have a new client take-on checklist covering the essentials we have listed above.
2. Issue all clients with an engagement letter.
3. Retain a signed engagement letter on file.
4. Your engagement letter could include a statement that approval of the terms of the engagement will be assumed, unless the firm hears otherwise within a specified period of time. This will cover situations where the client does not return a signed engagement letter.
5. Keep a record of matters discussed with each new client.
6. Other than in a sole practice, use second principal approval for accepting certain categories of new client.
7. Consider including a limitation of liability clause in your engagement terms.
8. Review engagement letters regularly to ensure they remain up to date and issue a revised letter issued if anything changes.

## FOR FIRMS OTHER THAN SOLE PRACTITIONERS WITH NO STAFF

When your firm is considering a new client, ensure suitable enquiries are made with principals and staff to check if they have any independence issues.

Ensure all principals and all staff complete **annual independence and fit and proper declarations** with a requirement to inform the firm of changed circumstances immediately.

Where appropriate, include a file note identifying specific skills needed for each new client, and staff to be used to meet those needs.

### Client disengagement

Issue your departing client with a disengagement letter and ensure they return a signed copy to retain on file.

## HELPSHEETS

The following **helpsheets** relevant to standard 2 are available.

### Practice helpsheets

- Auditor liability limitation agreements
- Change of appointment
- Decision to accept appointment
- Disclosure of confidential information
- Disengagement checklist
- Disengagement letters
- Engagement letters (including clarity ISA compliant and Word versions)
- Managing professional liability of accountants: illustrative wordings
- New client information
- Purchase of fees
- Subcontractor – acting as a subcontractor
- Subcontractor – employing a subcontractor
- Withholding signature or service

### Ethics helpsheets

- Document retention
- Marketing
- Haven't issued an engagement letter?
- Professional enquiry problems

### Technical helpsheets

- References on clients financial status
- Statement of high net worth