

A business engagement

Clive Purdy suggests some consideration before accepting a new client.

Accepting an appointment to act on behalf of a new client is seen usually as beneficial and provides the opportunity to help and assist them into the future. But the reason for a client changing accountants may not be as straightforward as it first appears.

Let's consider the following situation. A potential new client tells an adviser that they are unhappy with the way that their previous year's accounts were prepared. They want new ones to be drawn up that will show what they say is the correct position. The new adviser is happy to do this, but needs documentary evidence to support the revisions. The client says that profits were understated and, as a result, they were turned down for a loan on a property they wished to buy.

The client then says that they wish to sue their former accountant for losses incurred on the failed purchase. To support this legal action the client wishes to use the revised accounts as evidence. Further, they want a report showing where the previous accounts were incorrect.

What steps should the new adviser take?

Professional clearance

First, the new adviser should send the usual professional clearance letter to the previous accountant and ask whether there are any matters that they need to know about when deciding to accept the appointment. The reply may not mention any dispute, but may say that there was a disagreement over the preparation of the accounts. If this is the case the new adviser should consider carefully whether they wish to act.

The Code of Ethics

Second, if a decision is taken to accept the appointment, the new adviser should refer to the guidance in the Code of Ethics; in particular, section 230 "Second Opinions" and section 291 "Assurance Engagements". They should obtain all the evidence deemed necessary to support the preparation of revised accounts. Was this information made available to the previous accountant? If not, why not? If they can satisfy themselves that the accounts were incorrect, revised figures can be prepared.

The revised accounts must be approved by the client and filed at Companies House (for a company) and HMRC (with amended tax computations and returns). Any extra tax due must be paid. If the client does not authorise this, should the accountant continue to act? Guidance on dealing with "irregularities" (intended to include all errors made by the client, the member, HMRC or any other party involved) is available in the *Professional Conduct in Relation to Taxation* document.

Possible litigation

Third, having prepared the revised accounts does the new adviser want to become involved in the client suing their previous accountant? I recommended that the adviser's professional indemnity insurance provider should be informed and the matter discussed with them. Legal advice should be sought.

Becoming involved in a legal dispute should be approached with great caution. The previous accountant may not have been given all the information that is subsequently made available or there may be a difference of opinion over how certain items in the accounts are shown. The failure to obtain the loan may be nothing to do with the accounts; for example, there might be a poor credit history. The previous accountant may challenge the revised figures and say that they are wrong.

Further, consider why the client approved the previous accounts when they knew they were incorrect. Their answer may be insightful.

Risks and assessment

Because the client has confirmed a dispute with their previous accountant, has underdeclared income and tax and there is potential litigation to follow, the new adviser's risk assessment should be "high". If they decide to act they should consider their firm's overall risk assessment and additional procedures necessary for high-risk clients.

If the client refuses to agree that the revised accounts can be filed because they show increased liabilities, a suspicious activity report (SAR) will have to be filed under the Anti-Money Laundering Regulations 2017.

A more cautious and considered approach may well be not to accept the appointment.

FURTHER INFORMATION

IFA Code of Ethics and *Professional Conduct in Relation to Taxation*: tinyurl.com/ifa-memregs
RadcliffesLeBrasseur provides 60 minutes of free legal support a year to IFA members
RadcliffesLeBrasseur: www.ifa.org.uk/radcliffeslebrasseur



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