

PRACTICE ADVISORY

How and When Can You Resign From Audit?

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Have you ever had a problem client that you just wanted to go away? Or found yourself in a situation that would necessitate the resignation of an engagement? There are a number of reasons why you may want to, or may have to, resign from an audit engagement. Some of these reasons may not materialize until you are well into an engagement, while other times planning ahead would be advisable.

In paragraph 10 of the Guidance to Rule 201.1, it is stated that an auditor should not voluntarily cease to act on behalf of a client after commencement of an audit engagement except for good and sufficient reason. These reasons may include loss of trust in the client; the fact that the auditor is in a situation where the auditor's independence or objectivity could reasonably be questioned; or inducement by the client to perform illegal, unjust or fraudulent acts. In such circumstances, immediate action may be required, but often not without obtaining legal advice first.

For other circumstances you would be well advised to plan ahead. Often, we find ourselves servicing clients who have poor payment practices or who we find uncooperative and even difficult to work with. You do have a choice here, but your timing is critical. Rule 201 of the CPA Code deals with maintaining the reputation of the profession, which suggests that you treat others with dignity and respect. The ideal timing for your resignation would be once you have completed an engagement, and before you are reappointed for the upcoming year. Once appointed, it becomes more difficult to resign. You should be giving the client sufficient time to find a new accountant such that they are not put in a position where your resignation prevents them from meeting any significant filing deadlines. Furthermore, you should put your resignation in writing to ensure that the client clearly understands that he or she needs to find a new accountant. You may also need to check whether there are any statutory requirements that need to be met. As explained in paragraph 12 to the Guidance to Rule 201, once appointed, the auditor should report and should otherwise only "cease to act on behalf of a client once a successor has been properly appointed and the auditor has been relieved or disqualified."

Your next consideration will likely be how you will respond to the communication from a potential successor accountant asking if there are any circumstances that may influence their decision to accept the engagement. For guidance, please refer to Rules 302 and 303. You are required to respond promptly to this request and must keep in mind the rules of confidentiality. As per Rule 302.3, you are required to inform the possible successor if you were "unable to continue with or resigned from an engagement with respect to the practice of public accounting". However, details cannot be disclosed without the consent of the client. If it appears that the circumstances cannot be disclosed because of confidentiality, your response should state that there are, in your opinion, circumstances which should be taken into account, but that they cannot be disclosed without the consent of the client. For example, such circumstances may arise where the existence of a suspected fraud has given rise to the withdrawal or resignation. Further, in some cases, such as when the withdrawal or resignation is the result of a conflict of interest, it may not be possible to disclose additional information even with the consent of the client. Where confidentiality is in doubt,



you should consider obtaining legal advice. When making an engagement acceptance decision, the successor is required to seek additional information in order to make an informed decision as to whether the circumstances of the withdrawal or resignation are such that the engagement should not be accepted. Such additional information may be obtained directly from the client or permission may be sought from the client to obtain such further information from the predecessor. The nature and reasonableness of any information obtained directly from the client or a refusal of permission from the client to contact the predecessor are factors that should be carefully considered by the successor when making the client acceptance decision. The successor should also enquire of the predecessor whether there is any ongoing business of which the successor should be aware, in order to ensure that the client's interests are protected.

Although the focus of this article is on resigning from audits, you should apply similar considerations to a potential resignation from any client relationship where you are appointed as accountant.

As no two situations are identical, CPA Ontario members are responsible for ensuring that their own situation complies with the CPA Code of Professional Conduct, By-law and Regulations.

For further guidance, members are encouraged to contact a Practice or Member Advisor:

Phone: 416 962.1841, ext. 4456 or 1 800 387.0735, ext. 4456

Email: practiceadvisory@cpaontario.ca or memberadvisory@cpaontario.ca.