

## Practice Advisory

### The Case of the Predecessor CPA and his Successor

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The *Dear Advisor* series helps members become better informed about the provisions of the Member's Handbook, including various Bylaws, Regulations, and ethical requirements under the CPA Code of Professional Conduct (the “CPA Code”).

#### Dear Advisor:

I have just opened the doors to my new firm and I have some leads on prospective clients. Do I need to send a communication in the manner outlined by Rule 302 Communication with predecessor, even for small engagements, such as bookkeeping, personal tax returns, and compilations?

- Anxious in Ajax

#### Dear Anxious:

There are a number of components to Rule 302 that you should be aware of: the types of engagements for which you need to send a communication; the timing of the communication; the importance of the communication; and to whom you need to send the communication. Highlights of each are summarized below.

- The Rule covers any “engagement with respect to the practice of public accounting or the public practice of a function not inconsistent therewith, where the member or firm is replacing another member, firm or other public accountant recognized by statutory authority in Ontario” (collectively referred to as “practitioner”). This includes any engagement that is covered by the definition of the “practice of public accounting” in Bylaw 1.1.26 (formerly Bylaw 1.1.21) and the definition of “providing accounting services to the public” in Bylaw 1.1.31 (formerly 1.1.26). Certain functions (record keeping and mechanical processing of tax returns) are not encompassed by these definitions; generally, only very simple tax returns fall into this category. Corporate returns; personal returns that involve business, rental activities, etc.; and compilation engagements are generally considered to be covered by the definition of “providing accounting services to the public”.

This Rule refers to situations where one practitioner is “replacing” another. If the engagement previously conducted by another practitioner was clearly of a one-off and non-recurring nature (and was ideally documented in such a manner), then a communication may not be required.

The requirements may be less clear if a number of years have gone by since the practitioner provided the services, the services are normally of a recurring nature (such as an audit), but the

client did not subsequently replace that practitioner, and you are being asked to start where that practitioner left off. In this situation, it would be prudent to still send the communication, particularly because the incumbent is required to communicate certain matters as discussed further below.

- The communication should be sent before you accept an engagement. Note that this communication cannot be waived at the request of the client. If the incumbent has not replied after reasonable efforts have been made to obtain a response, the engagement can be accepted in order to meet the client's interests.
- One of the reasons that the communication is valuable to you is because the incumbent is required to alert you to suspected fraud or other illegal activity by the client. Confidentiality considerations will likely preclude the inclusion of any additional information. The onus is on you to follow up with the client to obtain additional information before making a decision to accept the engagement.

There may be other circumstances that you would like to know about, such as whether there were any fee-related matters. The incumbent is unlikely to be able to highlight these matters due to confidentiality considerations, other than to suggest that there are circumstances which you should take into account, but they cannot be disclosed to you without the client's consent.

- As noted in the first point, you need to communicate with any practitioner (described above). This includes members or firms of CPA Ontario, CMA Ontario, and CGA Ontario.

Note that if the reason that the client is looking for a successor is because the predecessor was a sole practitioner and he or she is now deceased, you should still try, if possible, to contact the practitioner's estate.

- Advisor

**Dear Advisor:**

Young practitioners these days! They have no respect for my time. It's the middle of tax season and Junior wants to come into my office next week and go through my working paper files for his new (my former) audit client. He also wants electronic copies of financial statements and corporate tax returns going back six years. I provide paper copies to my client every year, but I must be a cheap form of storage for the client as he claims that he hasn't received them and expects me to replace them. Also, the software I use combines working papers with financial statement grouping schedules; I do not want to have to provide Junior with access to these. He should have to create his own from scratch.

- Senior in Stratford

**Dear Senior:**

Successor accountants may request access to client records and/or access to working papers. Rule 303 Provision of client information provide guidance on how to respond to these requests. The requirements are summarized below.

Client records

- Rule 303 discuss the requirement to supply reasonable information. Predecessors would not be ordinarily "expected to supply copies of more than the previous year's financial statements and applicable tax returns, unless the member or firm is remunerated for time and expenses to do so." Client's interests are paramount, so the information should be provided if you have it; however, it does not have to be solely at the expense of your time.
- The medium chosen to hand over property of the client should facilitate a timely and efficient transfer. The medium may vary based on the type of engagement and the nature of the client's property (such as original invoices and bank records), and yours (such as software programs). The Rule did not intend to require the firm to transfer information that is proprietary to the firm (such as working papers and software). Also, it may not be convenient to transfer information in electronic form if proprietary software integrates working paper information with financial statement grouping schedules and they are not easily separated, as in your situation. Therefore, another medium (such as print copies) may be chosen to provide the client information.
- A number of changes were made to Rule 303 in February 2012. The major change was to recognize that a number of media now exist that may be used to transfer client property, and to provide guidance on these. The Rule also suggests that if you are maintaining the client's books and records, it would be helpful to maintain them separately from other documentation. (See also Rule 218 Retention of documentation and working papers.)

### Working papers

- A common question is whether you need to provide access to working paper files, copies of working papers, etc. What you need to provide is “reasonable and necessary information.” This is discussed in more detail in Rule 303. Junior will need to be provided enough information to understand the work that had been carried out with respect to material balances, in order that he does not need to re-audit opening balances.
- Additional clarification regarding the level of co-operation to be provided in respect of opening balances was added to Rule 303 in the February 2012 update. The predecessor is expected to co-operate as fully as possible – through discussion and providing access to working papers. The predecessor is not precluded from using waivers and releases; however, the waivers or releases cannot be used improperly, such as to “contravene the successor’s obligation to report” pursuant to Rule 211 Duty to report breaches of the CPA Code.

- Advisor

For additional information regarding the application of the Rules, refer to the Articles in Practice Matters in the Firms section of CPA Ontario’s website at [www.cpaontario.ca](http://www.cpaontario.ca). Members, students and firms should also refer to the CPA Ontario Member’s handbook in the Resources section of CPA Ontario’s website for the complete wording of Bylaws, Regulations and the CPA Code.

For further guidance, members are encouraged to contact a Practice or Member Advisor at 416-962-1841, ext. 4456 or 1800 387.0735, ext. 4456 or by e-mail at [practiceadvisory@cpaontario.ca](mailto:practiceadvisory@cpaontario.ca) or [memberadvisory@cpaontario.ca](mailto:memberadvisory@cpaontario.ca).

### **Additional tips from Dear Advisor**

- An incumbent should obtain legal advice in any situation where there are concerns regarding confidentiality in responding to the communication referred to in Rule 302.1 from the possible successor.
- A fee dispute is not a valid reason for an incumbent to withhold a response to a communication from a potential successor.
- A fee dispute with a former client is not a valid reason for a predecessor to withhold client records or to not respond to reasonable requests from a successor for information necessary to meet professional requirements.
- It becomes difficult to manage requests from successors when they come in bulk. This could happen where a firm is splitting up, and the partners are hostile. If the dissolution of the firm had not been anticipated in friendlier times, and documented in a partnership agreement, then the departing partners may submit a request that covers many clients. The only winners in these situations are the lawyers hired to negotiate the partnership dissolution. This stress can be avoided by putting in place a comprehensive agreement when the partnership is formed. Also, where a partnership is dissolving, it may be prudent for all parties to have copies of working paper files in case an issue arises down the road where the client decides to sue the current partner and any former partners, even if they are no longer in the same firm.