



Ian Waters and Nicole Ziman guide you through your obligations as the existing accountant when a client decides to move to a new accountant.

■ A large proportion of the complaints received by ACCA about its practitioners arise when a client intends to move to another accountant (the prospective accountant). In many cases, they arise from the practitioners' misunderstanding of their obligations.

When one of your clients intends to move to another accountant, you may expect to be contacted by the prospective accountant so that he or she may establish sufficient information to be able to decide whether or not to accept the appointment and, on the assumption that the appointment is accepted, to be able to commence working for the client through an efficient handover process.

These matters are addressed in section 3.12 of ACCA's Code of Ethics and Conduct. The first of these (often referred

to as 'professional clearance') is comprehensively covered in the *Rulebook 2007*, and so this article focuses on the information required to be transferred to achieve the efficient handover to the new accountant.

Whilst we will consider your *obligations* when asked to supply information to the new accountant, you should bear in mind that the primary objective of the Code of Ethics and Conduct in this respect is 'to ensure continuity of treatment of a client's affairs'. Therefore, you should consider the reasonableness of the new accountant's requests for information, and whether it might be preferable to supply information rather than enter into protracted arguments concerning the new accountant's right to request it.

what are my obligations when my client moves to another accountant?

In addition, you should refer to two new factsheets that have been posted to the ACCA website entitled *Transfer information* and *Legal ownership of, and rights of access to, books, files, working papers and other documents*. If you are still unsure of your obligations in a particular situation, you are encouraged to seek guidance from ACCA's confidential advisory helpline.

types of information requested

Often, you will receive a letter from the new accountant with a long list of items that he or she wants you to provide. The most contentious of these will relate to items and information held on your accounts files. (The legal ownership of books, files and other documents is comprehensively discussed in the factsheet mentioned above.) These items will fall into three categories:

- reasonable transfer information** – you must provide this to the new accountant, even where there are outstanding fees
- documents that belong to the client** – you must provide these. In certain circumstances you may be able to exercise a lien if there are outstanding fees, but these circumstances are narrow and rarely apply where the client is a company
- additional information from your working papers** – you have no obligation to provide this.

It is important to note that some documents within your working papers that you consider to be your own may, in fact, belong to the client. These are discussed in more detail later.

reasonable transfer information

Reasonable transfer information should be provided promptly to the new accountants, free of charge. This comprises a:

- copy of the last set of accounts formally approved by the client
- detailed trial balance that is in agreement with those accounts

The term 'detailed trial balance' is *not* defined. However, it must clearly enable the user to relate the closing balances appearing in the nominal ledger to the figures appearing in the last set of accounts.

For example, consider the level of detail that is appropriate in respect of liabilities. Within a trial balance, there might be a single figure for current liabilities and another for long term liabilities. The schedule balances, and could rightly be called a trial balance, but it is certainly not 'detailed'. The detailed transfer information should show each category of liability (trade creditors, accruals, loans, etc).

But should the transfer information include details of each trade creditor, details of each accrual and details of each separate loan? The answer is no (but see below in respect of documents belonging to the client).

Q The new accountant has requested a lot of information, but there are fees outstanding from the client. Can I refuse to supply the information until the fees have been paid?

A No. In order to ensure continuity of the client's affairs, you must promptly provide 'reasonable transfer information' regardless of whether fees

are outstanding, and without charge. Only information requested that falls outside the definition of 'reasonable transfer information' may be withheld.

Q Whilst I was engaged by the client, I provided him each year with copies of the final accounts and details of any adjustments made to his accounting records in order to produce those accounts. Am I really expected to provide effectively the same information to the new accountant?

A Yes. Although the client should be able to provide the new accountant with the relevant information, this does not remove the requirement that you provide the transfer information directly to the new accountant.

documents belonging to the client

Documents belonging to the client must be given to the client (or, practically speaking, directly to the new accountant, on the instructions of the client), subject to any properly exercised lien. Ownership is not an issue if there existed a contract between you and the client (possibly within the engagement letter) requiring that a particular document or schedule should be created on the client's behalf.

In the case of other documents created by you during the course of producing a set of accounts, we have to consider the capacity in which you were acting and the purpose for which the documents were created. Also, there are further considerations where the client is a limited company.

obligations when my client moves (continued)

the capacity in which you were acting

During your engagement with the client, you may have been acting either as principal or as agent for the client. It has been established by case law that documents created by an agent belong to the principal (for example, all documents, including correspondence with Revenue, created during a tax compliance engagement).

If you were engaged to prepare a set of accounts for the client, and in so doing prepared certain working papers in order to achieve the objective, you were working as principal. Therefore, the working papers belong to you (and you would be entitled to charge for supplying them to the new accountant or the client).

limited companies

The above may also be true of a limited company client. However, the Companies Act 1986 requires books and records to be maintained that are sufficient to 'record and explain' the company's transactions and that disclose with reasonable accuracy, at any time, the financial position of the company at that time. It goes on to state that the records will, in particular, contain a record of the assets and liabilities of the company. Therefore, certain schedules, that 'record and explain' the composition of figures in the trial balance, will be deemed to form part of the proper books and records of the company.



Section 202(5) of the Companies Act 1990 states that a company's accounting records 'shall be kept at its registered office or such other place as the directors think fit, and shall at all reasonable times be open to inspection by the directors'. Therefore, if you refused to release a relevant schedule of accruals to the company, you would be prohibiting the company from complying with the requirements of the Act. Certainly, this behaviour would be regarded as unethical.

Examples of such schedules are considered within the questions and answers in the panels below.

Q My working papers include breakdowns of prepayments and accruals. Do these schedules belong to me or to the client?

A If the individual accruals and prepayments are disclosed as separate accounts within the client's trial balance, this information would have been provided as part of the reasonable transfer information. If not, you do not need to provide the schedules to the new accountant or the client unless the client is a limited company. In the case of a company, these schedules would form part of the client's proper books and records, and would need to be handed over, unless you had previously provided the client with the relevant year end information.

Q My working papers include detailed schedules of fixed assets. Do these schedules belong to me or to the client?

A Many of your clients probably rely on you, as their accountant, to recognise fixed assets at the relevant amounts, calculate depreciation charges, deal with disposals appropriately, etc when preparing the accounts. The schedules that you prepare in order to achieve this might form the client's fixed assets register, as only the summarised figures from these schedules are posted to the nominal ledger. In this situation, the client's nominal ledger might, in time, cease to hold sufficiently detailed information to 'record and explain' the business's transactions and allow the 'financial position of the company to be determined with reasonable accuracy'.

Therefore, the fixed assets schedules in your files form part of the proper books and records of a limited company client. However, in the case of an unincorporated business, the status of your fixed assets schedules would depend upon how easy it would be to derive the same information from the client's nominal ledger, books of prime entry and retained source documents. The fixed assets schedule would, therefore, be viewed in the same way as a schedule of accruals.

Q The new accountant is asking for an aged debtors list. Does this form part of the proper books and records of a company?

A Yes. However, the client will usually maintain their own sales ledger, and therefore, provided that you advised them of any adjustments you made to their trade debtors figures in order to produce the final accounts, the client holds all the necessary information, and there is no further requirement for you to provide information directly to the new accountant. (In the case of an unincorporated client, you must carefully consider the nature of the engagement, and if it could be said to extend to maintaining the client's sales ledger, then clearly the entire sales ledger belongs to the client.)

Q I acted as auditor to the client. Does all the above information apply to me in the same way?

A Although you were engaged as auditor, you must ask yourself whether or not you acted as accountant also. If you did, then this article clearly applies to you as the accountant; if you did no more than audit the client's accounts, and advise them of any recommended adjustments as a result of your audit procedures (providing them with supporting calculations as necessary), then it is unlikely that the client would be asking you for any of the information covered by this article. ■

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