

Practice Advisory

(Originally published in Autumn 2004 CheckMark)

How and When Can You Resign From Audit?

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 15 of the Council Interpretation to Rule of Professional Conduct 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 the loss of trust in the client, a conflict of interest, an independence issue, or the 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 of Professional Conduct 201 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 Council Interpretations 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 of Professional Conduct 302 and 303. You are required to respond promptly to this request and must keep in mind the rules of confidentiality. As per Rule of Professional Conduct 302.3, you are required to inform the possible successor if “suspected fraud or other illegal activity by the client was a factor” in your resignation or in the client’s request for your resignation. However, details cannot be disclosed without the consent of the client. In cases other than those to which Rule 302.3 applies, you may respond that there are circumstances that should be taken into consideration, but that they cannot be disclosed without the client’s consent.



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.

For discussion on this or other practice advisory or ethics related issues, please call an Institute Practice Advisor at (416) 962-1841, ext. 456 or 1-800-387-0735, ext. 456.