



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

Dispute Resolution Toolkit

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Foreword

Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) is committed to assisting members in public practice to provide both the highest quality of professional services, and to managing ongoing relationships with their clients.

Client disputes can arise in all professions, and accountancy is no different. What can set Chartered Accountants apart, is the way we deal with disputes - and how we limit the chance of them occurring.

This toolkit helps towards this. It offers practical tips and guidance, based on previous learnings from Chartered Accountant firms. This includes:

- **Being up front:** Clarifying with clients the services to be provided, and the basis on which fees will be calculated
- **Communicating:** Keeping clients abreast of progress, including any changes in the original fees quoted
- **Transparency:** Providing adequate explanation in invoices, illustrating how fees are arrived at
- **Managing complaints:** Establishing a procedure to resolve any disputes that arise, to avoid them escalating and damaging client relationships.

The toolkit will be particularly useful for practices that do not have the resources to manage extensive business aspects of practice. It simplifies and standardises processes, using a pro-forma Client Information and Assessment Questionnaire. This can be used or adapted to ensure that there is clarity on what a client requires, and that there is the capacity and expertise to meet those requirements.

The original edition of this toolkit was developed by the Chartered Accountants ANZ, with financial support from the Professional Standards Council through its Star Initiatives Grants Program. The program provides funding for projects designed to contribute to the improvement of professional standards and consumer care.

Any suggestions for enhancing this product would be most welcome. If you have any feedback please email professionalstandards@charteredaccountantsanz.com.

Dispute resolution toolkit

1. Why has this toolkit been produced?

Each year, Chartered Accountants ANZ receives calls and complaints from clients of members, particularly about fees and problems communicating with their accountant. Sometimes, this may be simply a client's strategy to avoid or delay the payment of fees that are quite legitimately charged, but that is not always the case.

Many disputes could be avoided or mitigated if the members concerned had:

- Communicated adequately with clients about services to be provided and the basis on which their fees are calculated
- Maintained ongoing communications with clients about progress, difficulties or delays with work – and the impact on the fees originally quoted
- Provided adequate explanation in their invoices about the fees actually charged
- Established a process for when disputes arise, to ensure quick resolution and prevent long term damage to a client relationship.

It is also apparent (from the enquiries and complaints which Chartered Accountants ANZ receives) that some practices do not have appropriate risk management procedures in place relating to client selection and retention.

While many practices already have policies and procedures in place to handle the above issues, others do not. This not only undermines the reputation of individual practices, but the profession as a whole.

Chartered Accountants ANZ has limited jurisdiction over fee-related matters, and cannot intervene in these disputes. However, it can offer general guidance on how practitioners can minimise client disputes, and resolve issues that arise. This toolkit helps do that.

2. Why use this toolkit?

Quite simply, it makes good business sense to use this toolkit.

Research shows that most new clients of accountancy practices are referred by existing clients. So satisfied clients are the best marketing tool a business can have.

This toolkit is designed to help members establish and maintain good relationships with clients, and provides guidance on handling any disputes that arise: thereby increasing client satisfaction and retention.

Keeping customers satisfied

In retail, it is estimated that winning a new customer costs five times as much as retaining an existing one. Research also suggests that retail customers will tell 20 people if complaints are not fixed quickly, but will actively recommend a business that handles a problem well. The majority of Chartered Accountants practices are similar to many retail outlets: small businesses providing services to businesses and individuals. It seems reasonable to assume that these statistics would also apply in accountancy.

3. Prevention is better than cure

Later on, this document will discuss procedures to deal with client disputes. However, it is obviously preferable to try and pre-empt disputes in the first place.

This can be done by adopting appropriate risk management and client relationship practices.

Early warning

Careful consideration must be given before taking on a new client. Questions to ask include:

- **If the client already has an accountant, what are the reasons for changing?** There may be a perfectly valid reason (such as the imminent retirement of the previous accountant) but other reasons (such as “the fees charged were too high” or “my tax bill was too high”) may be a warning sign
- **Does the client have a history of frequently changing their accountant?** Again, there may be a valid reason, but it is possible the client is simply “shopping around” for a compliant accountant, or one who charges lower fees
- **Is the client behind with their tax returns and other statutory obligations?** If so, this may suggest that the client has a less than desirable attitude towards their tax obligations and other legal responsibilities
- **What is the state of the client’s records?** If they are in disarray, this may be a sign that the potential client does not understand the need for handling financial affairs properly. That can lead to additional work being required to rectify the situation - work that the client may be reluctant to pay for.

Early warning: what the standards say

Paragraph 38 of **APES 320: Quality Control for Firms** states:

A Firm shall establish policies and procedures for the acceptance and continuance of Client relationships and specific Engagements, designed to provide the Firm with Reasonable Assurance that it will only undertake or continue relationships and Engagements where the Firm:

- Is competent to perform the Engagement and has the capabilities, including time and resources, to do so;
- Can comply with Relevant Ethical Requirements;
- Has considered the integrity of the client and does not have information that would lead it to conclude that the Client lacks integrity.

The equivalent paragraph for members practising in New Zealand is paragraph 32 of **PS-1: Quality Control**

Paragraph 42 of **APES 320: Quality Control for Firms** states:

A Firm shall establish policies and procedures that require:

- (a) **The Firm to obtain such information as it considers necessary in the circumstances before accepting an Engagement with a new Client, when deciding whether to continue an existing Engagement, and when considering acceptance of a new Engagement with an existing Client.**
- (b) **If a potential conflict of interest is identified prior to accepting an Engagement from a new or an existing Client or during the conduct of an Engagement, the Firm to determine whether it is appropriate to accept or continue the Engagement;**
- (c) **If issues have been identified, and the Firm decides to accept or continue the client relationship or a specific Engagement, the Firm to document how the issues were resolved.**

The New Zealand equivalent is paragraph 33 of **PS-1: Quality Control**

Check with the incumbent practitioner

When asked to replace an existing practitioner, it can be very worthwhile contacting the incumbent. Of course, any objection by the client to you doing this may be a warning sign.

Checking with the incumbent: what the standards say

Auditors

When a member is asked to replace an existing auditor, Paragraph AUST210.11.1 of the **Code of Ethics for Professional Accountants** requires communication with the incumbent auditor. If a client will not authorise this, the appointment should be declined unless there are exceptional circumstances. The New Zealand equivalent is paragraph 210.9 of the **PES 1 Code of Ethics for Assurance Practitioners**.

Non-audit appointments

Under the Australian Code of Ethics while it is not obligatory for non-audit appointments, checking with the incumbent is still advisable. Members practising in New Zealand performing non-assurance engagements do have an obligation to contact the existing accountant, who has an obligation to respond. Refer to section 210 of the **New Zealand Code of Ethics (Revised 2013)** for the rules on professional appointments and professional clearance.

Who will do the work?

During initial discussions with prospective clients, it should be explained who within the practice will handle their work. If possible, assurances should be given about continuity of key staff. It should also be made clear if/when new personnel are assigned to the account, time spent familiarising them will not be at the client's expense.

Regular review

Establishing a procedure to regularly review the entire client base pays off. It ensures that problems are identified early on and, if necessary, relationships terminated. This review should also assess the capabilities within the practice, to ensure it can still adequately service clients.

The Client and Assessment Questionnaire at the back of this toolkit can assist in these reviews.

Regular review: what the standards say

Paragraph 44 of APES 320: Quality Control for Firms or paragraph 34 of PS-1: Quality Control (New Zealand equivalent)

A Firm shall establish policies and procedures on continuing an Engagement and the Client relationship, addressing the circumstances where the Firm obtains information that would have caused it to decline the Engagement had that information been available earlier. Such policies and procedures shall include consideration of:

- (a) **The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the Firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and**
- (b) **The possibility of withdrawing from the Engagement or from both the Engagement and the Client relationship.**

4. Terms of engagement and fees

After an engagement is accepted, Terms of Engagement should be established in writing to clarify responsibilities on both sides. This document also forms the basis for a legal contract that may prove invaluable later on (e.g. to collect outstanding fees, to respond to a complaint to the Institute, or to defend an allegation of negligence). It should be signed by both parties.

Besides setting out the practice's responsibilities, the Terms of Engagement should also state the client's obligations (particularly in relation to providing information in a timely manner). Finally, it should be explained to the client what they should do in the event of any dissatisfaction, however trivial, with the practice's services.

Client complaints: what the standards say

CR3, Public Practice Regulations

CR3.12

A member in public practice must establish policies and procedures to deal appropriately with complaints and allegations that the work performed by the Practice Entity has failed to comply with professional standards or regulatory and legal requirements.

The requirement to establish complaint handling policies and procedures is also prescribed under paragraph 119 of APES 320: Quality Control for Firms and paragraph 61 PS-1: Quality Control (New Zealand equivalent).

The Terms of Engagement should be revisited on a regular basis, to ensure they still reflect the relationship. In this way, any changes in the scope of the work undertaken for the client, can be reflected, and clarified with them. It is particularly important that changes to the practice's fee structure are immediately communicated to clients, and not left until their next invoice is presented.

5. Ongoing communications

With the increasing pressures of professional practice it's easy to overlook ongoing communications with clients. But regular communication gives confidence to clients that their interests are paramount, and allows them to raise any issues that may be troubling them.

On the other hand, if clients feel they are not gaining any benefit from the ongoing communication except for extra fees, it can be counterproductive to the client relationship. At the outset, it can be worthwhile establishing the basis for ongoing communications with clients (e.g. quarterly, half-yearly or annually).

Response times

Clients sometimes complain about the availability of their accountant and that messages are not returned promptly. To address this, a practice should have a policy for returning messages (this can be simple, stating minimum response times etc). If the unforeseen happens (e.g. sudden illness or other emergency) and the client's call cannot be returned on time, the client should be told the person handling their query is unavailable, and who to contact if the matter is urgent.

Communicating change

It is important that clients understand the fee structure, and how any telephone calls, emails or face-to-face meetings they initiate will be charged. This is particularly important if these matters are additional to the previously agreed range of services.

Clients can become frustrated and concerned about changes in the personnel responsible for their affairs. If personnel do change, it is vital that clients are contacted immediately to explain this and ideally to introduce the new staff member. Failing to do this will mean the first the client hears of a change in personnel is when they contact the practice themselves.

If there is a delay in meeting a lodgement or other deadline, this should be communicated immediately. Similarly, clients should be told if fees are likely to increase from those originally agreed (e.g. where it is significantly more

than the previous year's fees). Clients should be told before the fees are rendered. The relationship can be damaged if clients are invoiced a large fee account without warning or explanation. If there is significant additional work beyond that originally agreed in the Terms of Engagement, it is worth either amending these or even entering into a new agreement.

Client obligations

If information is required from the client to complete an engagement, it is important that they understand the requirements and the deadlines to ensure that lodgements are met without placing undue pressure on the practice.

If the client is tardy in providing the information, they should be reminded, and made aware again of the deadlines. The client should be told and made to understand that if penalties are imposed as a result of a deadline being missed, it will be their responsibility to pay these penalties due to failing to meet the agreed deadlines. This should be confirmed in writing to them.

Penalties and billing

While the practice should have procedures in place to ensure that lodgement deadlines are not missed, if this happens (e.g. due to a breakdown in procedures or practitioner illness), penalties should be mitigated and if necessary paid. All such matters should be explained to the client, rather than the client raising the issue.

Billing should be done in a timely manner with sufficient detail so the client understands what they are being charged for. Where extra work has been provided the invoice should clearly identify and quantify this (even when this has been previously communicated to the client).

Handy tip

Points of Professional Practice G1 provides useful guidance on setting fees and billing practices.

When an invoice is presented in person, it is helpful to go through the details with the client at the time so that questions can be raised and dealt with immediately. When an invoice is sent by post, it should be made clear to the client that they should feel free to raise any questions about the invoice. Clients should be made aware that time spent explaining an invoice or providing further details on the fees will not incur a cost.

6. Resolving disputes

As mentioned above, Regulation CR3.12 requires members to advise clients how to raise concerns about services provided. It also requires members to take steps to investigate and resolve any complaints or allegations about services.

Be decisive

When a client raises concerns with fees charged, steps should immediately be taken to address them. Nipping the issue in the bud can prevent it escalating into a dispute.

Apart from the risk of damaging the future relationship with the client (possibly irrevocably), failure to act at the start will almost inevitably result in more time being spent resolving the ongoing dispute. If it ultimately becomes necessary to take legal action to recover unpaid fees, further costs and loss of productive time will be incurred.

Payment

The normal terms of payment should be clearly set out in the Terms of Engagement and in invoices. If payment is not received within those terms, contacting the client to enquire if there is a problem can be a more approachable way to raise this (rather than a terse reminder notice by post).

If a client wants to discuss their account, make the time to do so. When talking to the client, try to see things from their perspective. Many clients do not understand what is involved in carrying out a particular engagement, so explaining the level of work required can help (e.g. some clients have a perception that tax return work is directly related to the level of their taxable income).

If there are particular issues that resulted in additional fees being charged, this should be explained. Above all, do not refuse to take the client's calls, or not reply to letters and emails, as this only escalates the problem.

Getting resolution

At some point it may become clear that the matter is not going to be resolved amicably. Before taking more formal action (and incurring the costs of collection), consider proposing a compromise, particularly if it is possible that the likely level of fees had not been adequately communicated to the client at an earlier stage.

Depending on the amount involved, it may be worth proposing to the client that an external dispute resolution or mediation service be utilised to resolve the dispute, rather than going through the legal process. There are a number of such services available in each State or Territory to which members and their clients may have access.

Members are also required by CR3.8 to respond to professional correspondence expeditiously.

Last resorts

Unfortunately, despite taking all possible precautions, there comes a point where the client is either unable to, or not going to, pay.

If the client is in genuine financial difficulty, payment by instalments over a specified period may be a solution, but the terms of any such arrangement should be clearly set out, and action taken immediately if there is a failure by the client to make a payment under this arrangement.

In all other cases a decision should be taken to either write off the fee, or initiate collection action without delay. By this stage it is probably unlikely that the ongoing client relationship can be maintained, so there is little point in further protracting the process. In any event, under the practice's client selection and retention policy, it is unlikely that the practice would wish to continue to act for the client.

Accountants sometimes withhold documents until bills are paid by exercising a lien.

As Guidance Note N1 Books and Records make clear, the exercise of a lien is not straightforward and should be approached with some caution. Apart from the need to make sure the lien can be properly exercised over the particular records, doing so often only further aggravates the situation. In any event, it is not appropriate to simply advise the client that a lien is being exercised, and their records will not be released until all outstanding fees have been paid. Steps must be taken to enforce the lien by taking recovery action.

Where there are fees outstanding, and it is decided not to complete the engagement or undertake further work until the fees have been paid, ensure that this is communicated to the client, and that any possible consequences (such as late lodgement penalties) are clearly stated. Obviously care should be taken with such communications to avoid any perception of undue pressure being imposed to obtain payment and, as with the exercise of a lien, steps taken to recover the outstanding fees.

How can this toolkit be improved?

This toolkit can help members manage their relationships with clients. Any suggestions for improvements or enhancements are welcome and should be forwarded to membercomplaints@charteredaccountantsanz.com

Dispute resolution toolkit

Client Information and Assessment Questionnaire

Warning: Practitioners are reminded that care should be taken when completing this checklist to avoid any possibility of defamation of individuals, for example, in the course of assessing their integrity

Name of client(s):				
Address:				
Principal contact(s)				
Telephone No:				
Facsimile No:				
Email Address:				
Website:				

- 1 Client(s) occupation(s)/business(es):

- 2 List any legal entities associated with client (companies, partnerships, trusts, super funds etc):

- 3 List key management, owners, officers etc

- 4 What services would our firm be expected to perform? What would be the timing of these services?

- 5 Does our firm have the necessary expertise and staff to perform the engagement properly?

- 6 If it will be necessary to outsource any services either because the skills are not available within the firm or to satisfy independence requirements (e.g. audit), do we have arrangements in place?
Yes/No/NA

If no, how is it proposed to address this?

- 7 Has any need to outsource services been explained to the client?

Yes/No/NA

- 8 How did we become aware of potential client and his/her/their need for services?

- 9 Do we have prior knowledge of the client?

Yes/No

If no, list references checked and any comments:

10 Are accounting services now being performed by another firm?

Yes/No

If yes:

- the name of the firm?
- how long were they the client's accountants?
- client's stated reason for changing?

11 Have we contacted the previous firm?

Yes/No

If yes, list their comments.

Note: Where an audit engagement is involved under paragraph AUST210.11.1 of the Code of Ethics contact with any existing auditor must be made.

12 Does the client owe fees to the previous firm?

Yes/No

If yes, what is client's explanation for outstanding fees?

13 Are the client's taxation and other statutory obligations up to date?

Yes/No

If no, what is the reason?

14 Are there disagreements with the present firm over accounting and tax principles?

Yes/No/NA

If yes, please describe:

15 Are we aware of any independence problems or potential for conflicts of interest because of relationships with other clients, partners or staff?

Yes/No

If yes, is it possible to take steps to reduce these to an acceptable level to ensure compliance with the Code of Ethics?

16 Does the firm act for any major competitors of the potential client?

Yes/No/NA

If yes, has this been explained to the potential client and an assurance received that they do not object to the firm acting for both clients.

- 17 Has the integrity of the potential client been considered (see paragraph 40 of APES 320 for examples of matters to consider)?
Yes/No
Please describe steps proposed to address any potential concerns.
- 18 Is there anything about the engagement that subject the practice to undue exposure to third parties, or would cause us to be uncomfortable about being associated with the engagement?
Yes/No
If yes, please record details and how it is proposed they be addressed
- 19 Has the firm's policy about letters of engagement been explained to the client?
Yes/No
- 20 Estimate the net fees and describe the billing arrangements
- 21 Have we explained the firm's charges and billing arrangements to the client?
Yes/No
- 22 Has the client expressed any reservations about the level of fees or billing arrangements?
Yes/No
If yes, have these been resolved to both the client's and the firm's satisfaction?
- 23 Are we aware of any potential fee collection problems?
Yes/No
If yes, please comment on how this is to be addressed
- 24 Has the firm's structure and details of the personnel who will would be carrying out the engagement been explained to the client?
Yes/No
- 25 Has the firm's policies and procedures to deal with any complaints or dissatisfaction about the firm's services been explained to the client, including who the client should contact about any concerns?
Yes/No

26 Any other comments:

27 Overall assessment

Note: If the answer to any questions means that it is not clear-cut whether or not the engagement should be accepted, explain the steps planned to mitigate the situation to the extent necessary to enable the engagement to be accepted, e.g.

- closer supervision
- a substantial fee deposit before work can start
- assistance from another firm, etc.

Accept Engagement: YES / NO

Recommended by:

Date:

Accepted by:

Date:

After appropriate consideration, practitioners may use this form for their practice as it is, or as the basis for a similar form tailored to suit the particular practice or type of client.

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