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# The Accountant's Responsibilities to His Client

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Your Chairman has asked me to speak to you briefly concerning the certified public accountant's responsibilities to his client. This I am pleased to do. Any young person, whether he aspires to a career in public accounting or contemplates a career in the industrial accounting field, should have some understanding of the professional responsibilities which the public practitioner is expected to assume.

The certified public accountant who accepts an engagement from any person accepts at the same time a position of duty or trust. He is thereafter responsible — that is, answerable — to his client for the faithful discharge of the trust which has been placed in him. His responsibility to his client is a legal responsibility and if he fails to discharge it faithfully, he may be required by law to recompense his client for damages sustained. His responsibility to his client is also an ethical responsibility and if he fails to discharge it faithfully, he may be subjected to discipline by his profession. Legal actions against accountants and disciplinary proceedings by professional bodies, of course, are relatively uncommon. Yet, every independent certified public accountant is keenly aware that the manner in which he faces up to his responsibilities to his clients determines in the long run how his practice will prosper and whether or not his chosen profession will gain in prestige.

Mr. John L. Carey, in his book *Professional Ethics of Certified Public Accountants*, has written:

“A client unavoidably puts himself in the hands of the professional practitioner whom he retains to advise or assist him. The client is not equipped to evaluate the quality of technical skill or professional judgment which the practitioner brings to bear in performing his work. Therefore the rule of *caveat emptor* cannot apply. The very nature of the relationship puts the professional practitioner in the position of a fiduciary in the sense of a position of trust and confidence. The standard of behavior of a fiduciary is commonly assumed to be that he shall exercise no less care in dealing with the affairs of those to whom he is responsible than he would in dealing with his own.”

One of the most frequently quoted passages relating to the accountant's legal responsibility, which is taken from Cooley's *Torts*, reads as follows:

"In all those employments, where peculiar skill is requisite, if one offers his services, he is understood as holding himself out to the public as possessing the degree of skill commonly possessed by others in the same employment, and if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that the task he assumes shall be performed successfully, and without fault or error; he undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon mere errors of judgment."

These two quotations, I think, sum up in general terms the important things which need to be said concerning the accountant's responsibilities to his client. For purposes of discussion, however, let us break these statements down into their component parts. It is significant, I think, that both authorities lay emphasis upon two primary responsibilities. These are:

- Professional competence, and
- Due care in the performance of engagements.

To these primary responsibilities should be added the following which are inherent in the accountant-client relationship:

- Loyalty,
- High standards of professional conduct, and
- Fair dealing.

## PROFESSIONAL COMPETENCE

The independent certified public accountant's first responsibility to his client is to be competent to render acceptable service.

Good academic training is the foundation stone of professional competence. Graduation from university or college with a major in accounting is for my firm as for many others a prerequisite for employment as a staff accountant. In 1956 the Commission on Standards of Education and Experience for Certified Public Accountants gave us some indication of what the future holds when it reported:

"The Commission believes that adequate preparation for the profession of public accountancy requires additional academic study be-

yond present four-year undergraduate programs. Programs are needed to provide the aspiring C.P.A. with professional training, which is a part of the formal educational process, and is designed specifically to prepare him for the practice of public accountancy. The Commission envisages professional accounting programs, within the framework of collegiate schools of business administration, which will be comparable in approach and objectives to those of professional schools developed in other fields.”

The student who contemplates a career in public accounting should have, as a groundwork, thorough training in accounting principles and practices, especially as they relate to the principal financial statements. He should have intensive study in auditing, taxes, and accounting systems.

Apart from courses in accounting, the prospective practitioner needs study in economics, business law, and business administration. More than most college students realize, he needs knowledge of plain, old-fashioned, English grammar and composition. To be able to write and to speak effectively is an absolute necessity in public practice.

Beyond this, he should learn all he can academically or otherwise about human nature. He should learn how to get along with other people. At every staff level in public accounting, human relations are important. And, though we all start out as technicians, dealing with figures and with the ideas which figures represent, we find as we scale the ladder of professional responsibility, that it is not so much with figures or with ideas, but with people, that we are most deeply concerned.

The college graduate entering public accounting should concentrate on two immediate objectives: (1) passing the C.P.A. examination, which is in a sense the culmination of his academic education, and (2) mastering those techniques and skills which are best learned through practical experience.

For the public practitioner this matter of preparation for professional service, this struggle for professional competence, is a lifelong undertaking. Each day's work brings questions and problems which try and test the adequacy of his education and experience. In this age of rapid economic growth and development, a continuous program of reading and study is highly important. Active participation in the activities of professional societies is a valuable aid to self-improvement. Through their technical programs and informal discussions, the accountant learns of developments in accounting and taxes, and exchanges ideas with his contemporaries.

Professional competence is concerned with the matter of staff selection and training. The accountant who employs assistants to participate in

the performance of his engagements owes it to his clients to maintain high standards in the selection of recruits, to develop their professional knowledge and skill through staff-training programs and experience on varied engagements, and to match their assignments with their demonstrated ability to cope with engagements of gradually increasing complexity and size.

Professional competence sometimes requires the courage to decline an engagement which the accountant and his associates are obviously not equipped to perform. The field of management advisory services is one in which this may occasionally arise.

## DUE CARE IN THE PERFORMANCE OF ENGAGEMENTS

It is not enough that the independent certified public accountant possesses professional competence. His experience, training, and skill must be faithfully applied in the performance of each engagement which he accepts.

At the outset, it is the accountant's responsibility to have a clear understanding with his client concerning the nature of the services to be performed. In tax practice this rarely constitutes a problem. In audit work, however, there is frequently a language barrier which only the accountant can successfully surmount. To the layman the term "audit" is a word of elusive meanings and when he says "complete audit," "detailed audit," or some such expression, his lack of familiarity with audit techniques and standards makes his meaning somewhat less than precise. The solution is generally found when the accountant seeks out the purposes which the client is attempting to achieve and suggests the class of audit service which will best serve his needs. In this connection, accountants have found it advantageous to adopt standard classifications of service which through years of practice come to have rather specific technical meanings among professional men. The pamphlet *Statement of Auditing Standards — Their Significance and Scope*, by the American Institute's committee on auditing procedure, is an example of the profession at work seeking to define the yardstick by which the legal responsibility of accountants is to be judged in the conduct of audit engagements.

The accountant's second responsibility in connection with the faithful performance of engagements is to schedule and perform the service at the time required by the client. Deadlines are important dates in the affairs of the accountant and his client. Work must be scheduled months in advance, staff requirements must be anticipated and filled, engagement memos must

be prepared, and audit arrangements must be made or data for tax returns obtained at suitable times. As each due date approaches, a check must be made to ascertain that all reports or returns promised for delivery have been completed and rendered. In all fairness to his clients, the accountant must not accept engagements which he lacks the manpower to complete in timely fashion.

The accountant's third responsibility in connection with the faithful execution of engagements is to assign men of adequate training and experience and in sufficient numbers to efficiently complete the engagement. Staff assignments are a most important phase of accounting office management and many considerations enter into the assignment of men to specific engagements. Initial audits call for more experience and skill than do repeat engagements. Certain types of business, such as banks, public utilities, stock brokers, oil companies, and railroads, require men with some previous experience in the field for most efficient audit performance. Large engagements require the services of accountants who are skilled in the layout of work and the immediate supervision of men. The problem is further complicated by the fact that many clients prefer the same men year after year, the fact that staff accountants desire varied assignments, and the fact that staff turnover and conflicting assignments inevitably occur. What most firms attempt is a gradual rotation of men whereby the more experienced men serve as accountants in charge of field work on the larger and more complex engagements, while less experienced men progress from assignment to assignment of increasing complexity and size, usually moving into in-charge positions on engagements where they have had previous experience as assistants.

The accountant's fourth responsibility in connection with the faithful performance of engagements is to give adequate supervision to the work of assistants. This matter of supervision concerns first of all the supervision of junior accountants by the senior accountant who has direct responsibility for the performance of the work in the client's office. Every junior accountant is entitled to, and in the interest of good work should receive, clear instructions as to what he is to do and why it is being done, helpful suggestions as to the most efficient procedure to be followed in performing the work, answers to his questions concerning his assignment and the engagement as a whole, and the critical review of his work by his senior accountant. All staff accountants are entitled to the close supervision of the more experienced principal or partner who is responsible for their work. Usually this supervision includes preliminary discussion of the assignment and the work program to be followed, frequent conversations regarding problems

which are encountered in the course of work on the engagement, participation in conferences with the client on controversial matters, and the careful review of the report or tax return and the supporting work papers.

This leads us to the accountant's fifth responsibility in connection with the faithful performance of engagements, which is to take every reasonable precaution to prevent the occurrence of errors. In addition to the review of work papers, this includes such matters as the following:

- The checking of figures representing original work on the part of the accountant;
- The review of the rough draft of the report with the client's officials to obtain their concurrence in the language of footnotes, etc.;
- The use of check lists, questionnaires, etc. to prevent errors of oversight or omission by the accountant; and
- The comparing and proving, checking of calculations and references, and editing of typed reports and returns to prevent errors in typing or in the draft.

#### OTHER RESPONSIBILITIES

Among the certified public accountant's additional responsibilities to his client I have listed loyalty, high standards of professional conduct, and fair dealing.

Loyalty to his client is obviously an important part of the accountant's responsibility. Because the accountant is dependent upon his clients for his livelihood and because years of association with clients result in many fine friendships, it is natural that the accountant should have a strong sense of loyalty to his client. Loyalty finds expression in many ways. In tax engagements, and in audit engagements as well, the accountant should do all that he can within the limits of professional ethics and good taste, to promote his client's best interests. Apart from the performance of specific engagements, the accountant owes it to his client to inform him of tax and accounting developments which may conceivably be of interest to him. He often assists in the employment of accounting personnel. Wherever possible he buys his client's goods and services in preference to those of other suppliers.

Loyalty also requires that the accountant hold in strictest confidence all information concerning his client's affairs which he gains in the course of his work. Independent certified public accountants do not discuss the affairs of their clients, even with their family and friends. The accountant does not even disclose to outsiders the fact that he is performing an engagement for a client. The vigilance with which this confidential relationship is

kept is illustrated by the fact that an accountant in many firms may not give his wife the client's name, address, or telephone number. If she desires to talk with him during the working day, she must call the accountant's office which in turn calls him and instructs him to call his home.

The maintenance of high standards of professional conduct may seem at first not to be a part of the accountant's responsibility to his client, for it is well known that standards of professional conduct such as independence in auditing and ethical conduct in tax practice exist for the public good and may at times appear to run counter to the client's personal interests. Upon reflection, however, these conclusions are evident:

- The value of the accountant's services to the client is enhanced in so far as audit services are concerned if he enjoys a good reputation in the profession and in the financial community;
- The value of the accountant's services as a tax practitioner is enhanced if he enjoys the respect and confidence of the officials and employees of tax enforcement agencies; and
- If the client seeks to pursue a course of action which the accountant as a professional man cannot endorse, it is highly probable that in the long run the client's personal interests would be best served if the accountant's independence and ethical integrity dissuaded him from his proposed course of action.

Independence is a right which the accountant should zealously guard, yet not parade, before his client. When an apparent conflict of position exists, the accountant should, in my opinion, seek first to thoroughly understand and carefully weigh his client's views. Second, he should diligently search to determine whether the client's position has support in accounting literature or in prevailing practice. Generally accepted principles, rather than the accountant's personal preferences in matters of accounting theory or practice, should govern. This explains why, for example, an accountant who personally favors the capitalization of intangible drilling and development costs of oil and gas wells can in good conscience sign an unqualified certificate relating to financial statements in which such costs are expensed.

If the accountant in any case finds that his client's position does not have general acceptance, he owes it to his client to consider whether there are acceptable alternative treatments or disclosures which would be less distasteful to his client. If such alternatives cannot be found and if the accountant cannot dissuade his client by sound reason and specific examples of generally accepted practice, he must as the last resort assert his independence and qualify his report.



In tax practice independence is not a problem but ethical considerations require that the accountant not associate himself with any return which smacks of tax evasion or fraud. When, however, a transaction can be arranged in such a manner as to reduce taxes, this should be done. When the state of the law leaves room for an interpretation which is favorable to the client, the accountant's responsibility is to resolve the doubt in his client's favor. In such cases, he should warn his client that the position taken may be questioned and that subsequent court decisions may resolve the issue unfavorably to his client.

The final responsibility of an accountant to his client which I have listed is fair dealing. The relationship between an accountant and his client is twofold in nature. On the one hand, it is a professional relationship in which the accountant is concerned with accounting principles and practices, with auditing standards and procedures, with tax laws and the interpretation thereof, or with bookkeeping methods and organization design. In all these matters, good service to the client is the accountant's primary responsibility. On the other hand, however, the relationship between an accountant and his client is a business relationship in which the accountant seeks to earn a livelihood. This brings us to the matter of fees. Here it is the accountant's responsibility to perform his services for a reasonable fee and the client is reasonably entitled to expect fair dealing in this respect. As Mr. John Carey has written, the rule of *caveat emptor* (let the buyer beware) does not apply. Accountants' fees are based generally on the time worked priced at per diem rates. The rates charged are not published and are not generally the subject of competitive bids. The hours worked cannot be checked by the client because on almost all engagements some work is done in the accountant's own office. The accountant, therefore, owes it to his client to be fair in fixing his rates and to be conscientious in his accurate recording of time. Beyond this, the accountant should at the time of billing consider the quality of his performance on the engagement, taking into consideration any excessive time which may have been worked through no fault of the client, and weighing the value of his service where this is a measurable factor.

## CONCLUSION

This brings to a conclusion my remarks concerning the accountant's responsibilities to his client. What I have tried to say, in substance, is this: The independent certified public accountant conducts his practice as a professional man. As a professional man, he may be held legally and ethically

responsible for his actions. To be a successful professional man, he must go the second mile beyond the limits of legal and ethical discipline and seek to render superior service to his clients. To achieve this level of superior service, he must be professionally competent, he must exercise due care in performing engagements, and he must be loyal to his client's interests, yet at the same time faithful in his observance of high standards of professional conduct. Finally, in all dealings with his client the accountant must be fair. He must induce in his client the feeling that the fees paid are reasonable in terms of value received. A satisfied client is the accountant's best sales representative and superior service at reasonable fees is the foundation for professional and financial success.