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practices) and rightfully so. Who else is better to understand their client's financial and business affairs than their trusted CPA? And the relationship generally remains close...

Ralph Q. Summerford • Nov. 12, 2013

Guest blog post by [Ralph Q. Summerford](#), CPA, ABV, CFE, CIRA, CFF.

CPAs have close relationships with their clients (especially in smaller accounting practices) and rightfully so. Who else is better to understand their client's financial and business affairs than their trusted CPA? And the relationship generally remains close...

Until the client suffers from a fraud scheme the CPA did not uncover.

That client appreciation curve suddenly takes an immediate decline and the questions then begin about the role of the CPA and whether he or she should have known about the wrongdoing.

Given the accounting malpractice stories that hit the news more and more often, now is the time for a discussion – and a forward look at how the role of a CPA has changed and will continue to change.

A Turning Point in Accounting Malpractice

When I look at accounting malpractice, I tend to point to one specific turning point.

“Consideration of Fraud in a Financial Statement Audit” is an audit standard for CPAs that was enacted in 1997. With that new standard I prognosticated there would be many more lawsuits against accountants for their failure to detect fraud. And how true my prediction has become!

Without fail, in almost *all* cases where a company suffers from a fraud, its CPA is sued

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belief.

Accountants Take Note: Fraud Is Serious Business

Too many CPAs have not taken the fraud word seriously.

They have the mistaken belief that fraud only happens to *other* folks. According to a study by Camico Insurance Company, the public expects CPAs to detect fraud – and fraud drives the largest losses in terms of significant accounting malpractice claims.

This public expectation, arguably, has only intensified over the past 16 years since 1997. You do not have to go back to the days of Worldcom and Enron, either; the illicit activity conducted by former Dixon, IL comptroller Rita Crundwell to the tune of \$53.7 million over 20 years was apparently missed by the city's accounting firm. Charges were brought just last November – and this year, the city sued the firm.

Along with this trend (or perhaps because of it) regulators have stepped up their efforts. The Dodd-Frank act gave regulators a much lower legal bar to go after accounting firms for their failures. In April the CFTC filed its first ever case against an accounting firm for shoddy accounting work. Regulators are taking a close look at accounting firms who failed to detect red flags of fraud at Peregrine Financial Group, MF Global and many failed banks (see *Wall Street Journal*, April 29, 2013, "[Brokerage Firm Ills Stir Auditor Scrutiny](#)".)

As Camico pointed out, the public expects CPAs to detect fraud and the legal bar for regulators has been lowered. Fraud will never go away, and neither will expectations for CPAs to not only detect but also help defend against it.

For experts and attorneys who work in the accounting malpractice field, my prediction remains true. Expect more cases against CPAs – accounting malpractice, after all, *is* a growth industry.

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