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For public accounting firms, there is a clear independence line between auditing the financial statements of a business and also handling the accounting. However, as the variety of consulting services offered by CPA firms and the associated fees grow, the waters of independence can become muddy. Accounting firm leaders need to be sensitive to the independence issues related to additional services offered to audit clients, not only because of the potential enforcement actions by regulators, but also the risks and costs of liability claims, according to Bill Thompson, CPA, RPLU, President of [CPA Mutual](#).

“From my standpoint as a risk consultant, I recommend that firms very carefully evaluate the self-review, management participation and other threats to independence before accepting any consulting engagement with an attest client. If

there is perceptible risk of independence impairment, the firm should commit to

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the team is recommending or implementing solutions that affect financial controls or accounting processes. More specifically, auditors are actually prohibited from recommending any product or service if the auditor receives a commission or referral fee.

The same is true for audit clients with business valuation or transaction advisory needs. For example, if the primary auditor has advised both the seller and one or more potential buyers of a company — even if such conversations were unrelated to the audit — it may give rise to an independence or conflict of interest issue; and the audit firm should consider referring such work to another accounting firm in order to maintain firm independence and audit quality.

According to Thompson, most professional liability policies cover disciplinary investigation and proceedings, including CPA Mutual policies, but they are typically limited to \$25,000 or \$50,000 per incident per proceeding. Most insurance companies will cover the legal expenses; but if the Public Company Accounting Oversight Board or Securities and Exchange Commission investigates the firm, there can be large legal expenses and fines for the firms or partners. “Those fines aren’t typically covered,” Thompson says. Other risks to consider are possible suspension or loss of the CPA licensure or other sanctions, as well as reputation costs and lost client costs.

When underwriting, insurance providers look at the services offered by the insured — with large attest practices and public company audits carrying a potentially higher level of risk, Thompson explains. “Those risks increase whenever questions about independence arise from providing consulting services in conjunction with attest engagements. Successfully defending a claim becomes much more difficult and complicated if an alleged audit failure is coupled with questions about auditor

independence. Avoiding concerns about independence and conflicts of interest is

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“The accounting industry is experiencing rapid change. Firms need to keep independence and conflicts of interest at the forefront of their client acceptance and retention policies and procedures,” Thompson says. “Independence should be reviewed every year prior to signing the engagement letter, along with other risk management considerations.”

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*CPA Mutual was established in 1986 to consistently provide professional liability insurance exclusively to CPA firms and consult on risk management regarding professional services, employees and data security. For questions or comments please email at [bthompson@cpamutual.com](mailto:bthompson@cpamutual.com). [www.cpamutual.com](http://www.cpamutual.com)*

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