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four years. The legal cannabis market was worth an estimated \$7.2 billion in 2016 and is projected to grow. Medical marijuana sales are projected to grow ...

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Experts predict that America's cannabis industry will continue to grow over the next four years. The legal cannabis market was worth an estimated \$7.2 billion in 2016 and is projected to grow. Medical marijuana sales are projected to grow from about \$4.7 billion in 2016 to \$13.3 billion in 2020. Adult recreational sales are estimated to jump from about \$2.6 billion in 2016 to \$11.2 billion by 2020.

With this projected momentum in the growth of the cannabis industry, more and more CPA firms are weighing the business opportunities and risks related to expanding their practice into this emerging industry. Marijuana-related businesses

are in true need of the professional accounting and tax services offered by CPA firms.

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boards of accountancy?

Also, would CPAs who render such services to cannabis clients be exposing themselves to allegations of “aiding and abetting” criminal activities? Thus far, eight state boards of accountancy have issued guidance on providing services to businesses in the marijuana industry, and the profession is pushing the other state boards of accountancy to provide guidance.

## Risk Assessment

From CAMICO's perspective, a CPA firm considering opportunities to accept marijuana business clients should adopt a risk assessment approach to evaluate the risks to their firm from such clients. For example, assess risks associated with the specific *client attributes* (all-cash business, complexity, uncertainty, etc.) along with assessing your specific *firm attributes* (risk tolerance, competency, level of service choices, etc.) as you carefully consider whether these prospective clients would be a good fit for the firm. As part of this risk assessment, firms should discuss and review the potential legal ramifications with an attorney who specializes in this industry.

As part of your process in assessing “risks,” never forget that your professional acts and decisions will be judged in hindsight. Therefore, if your firm decides to service cannabis clients (or any other higher-risk clients, for that matter), be extremely attentive to the following *rules in the malpractice world*:

- Professional standards for CPAs are merely the floor — juries hold CPAs to even higher standards.
- A CPA's job is to **advise** the client of opportunities and **warn** the client of risk.
- CPAs are scriveners — lack of documentation is viewed as evidence of potential malpractice; jurors expect CPAs to have strong documentation, and the lack of it is viewed as not having met the “burden of proof.”

- “Guilt by association” can impact CPAs in a dispute.

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- Obtain written consent annually to interact with client's attorney.
- Document, document, document!
- Have a signed and detailed annual engagement letter clearly articulating scope and limits as well as enhanced “protective clauses.” CAMICO provides a sample engagement letter template to CAMICO policyholders (“Cannabis Client Tax Engagement Letter”).
- Document all planning, work, consultations and communications (internal and external).
- Obtain a management representation letter annually (regardless of type of service) that affirmatively confirms the client's understanding of, and compliance with, state laws and regulations.

Consider creating a *Crisis Management Plan* (or enhancing an existing one) to manage the firm's potential reputational risks. A crisis management plan should be based on the potential consequences of servicing cannabis clients and should include engaging with a qualified attorney and public relations firm (for incident responses), as well as specifying who will speak on behalf of your firm.

More information about CAMICO insurance solutions and risk management programs is available at [www.camico.com](http://www.camico.com).

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