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Outsourced CFO work is a lucrative practice area that many accounting firms are either currently engaged in or plan on offering. While much has been written concerning the financial benefits, little has been written on the risk management considerations that both partners and staff should be familiar with. While the revenue is certainly appealing, a quick education on insurance considerations, engagement letter language, and the possibility of fraud on both sides warrants a deeper understanding of this new and exciting practice area.

Insurance Policy Language

First, a firm should look at their own professional liability policy. Although each policy is unique, insurers that specialize in accounting firms include roughly the same exclusions. Below are two common examples that are often found concurrently within the same policy.

1. [Coverage for] any Claim based on, arising from or related to services of any insured while acting as an employee, manager, officer or director of any company, business, entity or charitable organization other that the Named Insured.

2. [Coverage for] any Claim, whether or not related to or arising from Professional Services, which, in whole or in part, is made by, in the right of, against, in connection with or arising out of any entity not named in the Declaration which… was at any time managing, controlling or operating an outside entity.

Your outsourced CFO may be construed as having been a manager or officer of the client. A traditional in-house CFO is certainly expected to provide services which are seen as managing, controlling, or operating the client's entity. Common CFO duties

CFO Policy Endorsement

If you firm wants to pursue outsourced CFO services despite the restrictions in your policy, you will need to have your insurer endorse such activities. Commonly, these will be referred to as, "Contract Financial Officer Services" endorsements. However, this is not the end of the story. These endorsements also come with their own obligations and exclusions that partners should consider.

1. Contract Financial Officer Services do not include decision-making as a member of a client's governing body or Board of Directors.

While a Contract Financial Officer Services endorsement can provide coverage for CFO accounting functions, services should not include decisions traditionally made by the governing body or the Board of Directors. This may include strategic business decisions, personnel terminations, and mergers or acquisitions. As these exclusions tend to be vague, it is best to first consult your insurer concerning policy compliance. Never let your good intentions, or those of your staff, inadvertently void your insurance policy.

Noteworthy Considerations

Engagement Letters: As shown above, the scope of services provided and those that are not, should be clearly spelled out in your engagement letter. While your professional liability insurer should be able to provide a template letter, topics that should be considered are: Accounting and Recordkeeping, Financial Statements, Corporate Tax Compliance, Special Projects, Indemnification, Confidentiality, Fees, and Other Matters such as dispute resolutions clauses.

Of note is the portion of your engagement letter which discusses fraud. The work performed by your firm limits your knowledge of the daily operations within the client. While there may be a material risk of errors, irregularities, illegal acts, and

that your firm can consider sending to clients.

To minimize vicarious liability for your firm, consider asking for a copy of your client's insurance policies. Take note of any coverage they may, or may not have, regarding internal misappropriations. For many clients outside the realm of professional services larger limits of coverage may be found in a Crime Policy. Limited coverage may sometimes be found in their Business Owners or Commercial General Liability policies.

Staff misappropriations: While fraud within the client is out of your control, there is the unfortunate possibility that your own staff may likewise begin to misappropriate their funds. Therefore, it is highly suggested that consult your own professional liability policy to determine if you have adequate coverage should a staff member go rogue. Typically, you can increase the misappropriation sub-limit up to two million dollars or purchase a stand-alone crime policy. The necessity for each will depend upon the specifics of your client and the scope of the engagement.

Independence Issues: Assisting clients with their daily accounting needs can result in strong relationships where each party is more than happy to accommodate the other with almost any need. However, this well-intentioned request should not run afoul of your independence rules. Specifically, take note of Section 1.200 of the AICPA Code of Professional Conduct. Make certain that you are not also engaged to perform their audit or review. If you are ever in doubt concerning your independence, consult your professional liability carrier and the Code of Professional Guidance for further guidance.

Extra Value Added: Outside of additional revenue, there are significant other benefits to your firm that are not necessarily apparent. These can include providing more timely actionable insights for your clients, additional touchpoints with your clients to strengthen relationships, uncovering new revenue opportunities, and advisory services. If the partner group would like a more detailed discussion on these value-

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