CPA Practice Advisor

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Emily Ryan was a hard-working CPA who in the early days of her career began doing the tax work of an up-and-coming actor.* Over time this actor became a big star nationally but continued to stay connected with those who had helped him achieve his goals. This included Emily, who had recently started providing consultative type services in addition to his tax returns.

As the actor's salary continued to increase, Emily's partners were very happy to expand their business relationship with him. The star was well known throughout the office. They often allowed him to hand out movie premiere tickets and memorabilia as a courtesy to the staff or in lieu of payment and agreed to services with just a handshake. He even accepted a personal referral from one of Emily's partners despite the lack of qualifications. Emily grew increasingly uncomfortable with how the client relationship was proceeding and expressed her concerns to her

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claim cost them a great deal of money, and the news stories about the lawsuit and court proceedings put a black mark on the firm's reputation.

What did the firm do wrong?

- No engagement letter was ever used
- They provided an array of concierge-type services outside the scope of accounting
- There was no annual client review performed by the firm
- Only one referral was offered when the client needed assistance outside of the firm

Evaluating your clients on a routine basis is good business practice. Over time, a client's profile and expectations may change, no longer making them a good fit for your firm. Though not an easy task, disengaging from risky clients can be your best option. It may hurt financially in the short run, but in the long run it can save you a great deal of aggravation and avoid a potential professional liability claim. In Emily's case, she was aware that her client's profile was changing and that her former firm was not willing or capable of handling such a demanding high net worth individual.

To help you avoid a similar situation, the following is a list of some common high-risk clients, along with some tips on how to mitigate your potential exposure, short of ending the relationship:

Dabbling

While a new client may look profitable, "dabbling" outside your area of expertise has gotten many a CPA into trouble. One way to handle such clients is to refer them to another firm that can handle that area of practice. It's good practice to provide multiple referrals. Alternatively, consider working with a larger firm that will lend you the staff and expertise.

Delinquent Payers

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Trustee Services

Has a client named you as an executor or trustee for their estate? Does the client have a spouse or family situation that will make distribution of the estate an onerous undertaking?   Being named as a business trustee is an exclusion under most professional liability policies. You can say "yes" to being named as a personal trustee, but vet the potential family dynamic and beneficiaries, and get a copy of the agreement reviewed by your professional liability carrier's risk management department before signing anything.

Questionable Integrity

If you primarily deal with mainstream clients and someone with questionable integrity approaches you, take the time to fully vet them *before* taking on the engagement. What can you learn from their prior accountant or third parties who have previously worked with them? Review their credit history. If you suspect possible criminal activity, run a background check.

Uncooperative Clients

Do some clients seem to take up too much of your time? Are they constantly fighting with their own customers? How would they act if there was a disagreement with the CPA firm? They would probably be just as aggressive if a dispute arose. Before letting them go, try another member of the firm or use a team approach before proceeding to disengage.

Mergers & Acquisitions

Whether you're a regional firm buying another large firm or a one-man shop purchasing a retiring CPA's book of business, acquiring someone else's clients is among the riskiest ventures a firm can do. You are adding hundreds or thousands of

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all employees.

Whenever you consider an M&A or even just an asset purchase, talk to your AICPA Professional Liability Insurance Program account representative *before the ink is dry on the deal*. Although it won't eliminate all the risk you are inheriting, you'll proceed with eyes wide open.

[*Emily Ryan is a fictitious character. Her experience, though similar to CPAs insured through the AICPA Professional Liability Insurance Program, is used here strictly for illustrative purposes.]

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It doesn't pay to ignore risky clients. Our experience within the AICPA Professional Liability Insurance Program shows this can often cost you not only time and money, but also your most valuable asset—your reputation. When in doubt, consider terminating the client relationship. If you do, put it in writing, advising the client of pending fees, imminent deadlines and current work in progress. In situations involving more litigious clients, contact your attorney and your professional liability representative first to discuss the appropriate wording to include in the disengagement letter. It may not save your client, but it could save you.

Further Reading:

- Sample Client Disengagement Letter
- Client Termination Letters

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