common high-risk client categories, along with some tips to help mitigate your potential exposure, short of ending the ...

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No one wants to terminate a client relationship – especially against the backdrop of a pandemic – but certain types of clients can pose bigger risks to a CPA's practice than others. Evaluating your clients on a routine basis is a good practice in any business climate – and especially now.

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-term, but in the long run it can save you a great deal of time and aggravation and help you avoid a potential

and practices to keep business going. While a new client may look profitable, "dabbling" outside your area of expertise has gotten many a CPA into trouble. If you don't feel you have the expertise to handle a prospect, refer them to a firm or two that can handle that area of practice. Alternatively, consider working with a larger firm that will lend you the staff and expertise.

Long-Term Clients

Solid relationships with long-term clients are great, but it's important to make sure you don't get too comfortable. Pay attention to "engagement creep," where the client's expectations change over time, but the documentation may not, especially when there is a long-standing relationship. Updating engagement letters annually – or sooner, if the scope changes – can help mitigate the risks this scenario poses.

Financial Institutions and High Net Worth

Financial institution clients can come with complex transactional work and high damage claims, making this group particularly challenging, and risky, to work with. The rich and famous fall into this category too, and when they experience a decline in wealth, the CPA can get blamed. Extreme scope creep isn't uncommon with these clients. What's more, CPAs can be caught in the middle with family matters and money disputes if serving as a trustee of an estate. If you take on these types of clients, make sure you are well prepared and focused on precision.

Delinquent Payers

If a client habitually fails to pay the bills on time, it could eventually result in nasty collection proceedings and protracted fee disputes. But late payment could be a symptom of something else. Does the client have a cash flow problem? If so, is it due to mismanagement or defalcation? If pressed for payment, is the client likely to place the blame on you and your services? In such circumstances, meet with the client in person. Get at the root cause of their payment issues and determine if an amicable

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.

Final Thoughts

Ignoring risky clients isn’t worth it. Our experience within the AICPA Member Insurance Programs 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 first to discuss the appropriate wording to include in the disengagement letter. It may not save your client, but it could save you.

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