

# Top Three CPA Practice Risk Management Tips

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## 1. ALWAYS SCREEN CLIENTS

Clients should be carefully screened before a representation decision is made, and periodically throughout the course of the representation. Make due diligence investigations a part of your normal new and current client routine. Conduct a standard background check complete with reference reviews, credit history, examination of tax returns and financial statements to make sure you want to become (or remain) business “partners” with the client. Do not take on or continue a representation if the client is not a good fit for your practice.

Don't forget to check with the prior CPA firm after obtaining permission to do so from the client. Review the prior CPA's management letters. Then interview the client and his key personnel. Consider speaking with the client's legal counsel and lenders before making a commitment to represent the client. It should be a firm policy that each potential client representation gets a thorough review by a partner or a firm committee prior to acceptance of the representation.

Understand that certain clients present a higher-risk to your firm, and they must be treated accordingly. Plan your fee agreements including collection procedures based on that elevated level of risk. Having a standard billing and collection procedure will not suffice unless all of your clients are very similar. Higher risk clients include those with buy/sell transactions, public offerings and initial public offerings, limited partnerships, financial services, real estate and construction engagements.

### Considerations for new clients:

- Is the work requested within your practice area?
- If not, can you represent this client adequately with current staff?
- Does the firm have the competency, proficiency and resources required to perform the services requested?
- Is this client the type of client you want?
- Does the client have a reputation for integrity?
- Has the client unsuccessfully attempted to engage other CPAs?
- Are the client's expectations reasonable?
- What is the client's attitude toward other professionals, such as lawyers, doctors, lenders, etc.?
- Is the client financially sound? Will the client be able to pay for your services?
- Is the client comfortable with your fee requirements and arrangements?
- What is the status of the clients' business and financial records and reports? Can the client provide the documents and records you need to handle the representation?
- Has your client ever been sued? By whom, for what?
- Has your client ever sued business associates, vendors, etc.? If so, for what?
- Have you conducted a conflicts of interest check, both from the potential client and current client perspective?

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Over the course of the representation, continue to periodically screen your current client. This should be done at least once per year. Along with keeping apprised of the client's financial, credit and reputational condition, ask the following questions:

## Considerations for current clients:

- Does your client continue to fit into your practice?
- Does your client openly share information or do you have to discover issues?
- Have you discovered your client being untruthful or intentionally withholding information from you?
- Is the client responsive to your requests for records or information?
- Does your client pay for your services timely, and without complaint?
- Has anything changed for your client that negatively impacts your representation?
- Has your client experienced any material business change, such as new management or change in business course that impacts your risk?
- Does your client continue to have a reputation for integrity?
- Has YOUR FIRM experienced any change in personnel that may impact the representation? (E.g. Did a partner with a particular expertise retire, etc.?)
- Are both you and the client comfortable with your current communication style regarding the representation and billing practices?

## 2. DOCUMENT EVERYTHING

Adopt the military philosophy that “if something isn't documented, it didn't happen”. The primary documentation at the beginning of the representation is the engagement letter. This is simply your agreement to perform services, your business contract. The letter should clearly state the exact work to be performed, including limitations (detailing what will not be performed), the firm's responsibilities, and the client's responsibilities. Be sure to outline the firm's expectations of the client in performing those duties. All relevant details should be addressed, including any work to be performed by other professionals. The client must sign the engagement letter.

- If the engagement changes and exceeds the scope addressed in the terms of the original engagement letter, draft a new letter and get your client to sign off on it.
- Set the expectations of the client such that the supplemental engagement letter will not be a surprise, or an inconvenience. It is simply a normal part of doing business.
- During the course of the engagement, document any significant details, particularly when advice is rendered, or instructions given by the client, in a written memorandum. Send a copy to the client and keep one for the client file. As a best practice, get the client to sign off on the memorandum.
- If you decline to accept a representation of a potential client, send a non-engagement letter. It takes little effort, it spreads good will, and all parties are clear that no business relationship has been established.
- If you wish to terminate a representation, send a disengagement letter. It is always best to meet with the client face to face first to explain your decision, but after that meeting (or

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phone call), follow up with a disengagement letter that clearly states that the firm is disengaging and the effective date of the disengagement. Be sure to outline any work that is unfinished, and provide the client with appropriate deadlines.

### 3. STAY WITHIN YOUR COMPETENCY ZONE -- DON'T DABBLE

Before accepting a new engagement, the firm must be certain that it possesses skills and resources necessary to perform the requested services according to professional standards. Do not dabble in highly technical or high-risk engagements that require a level of expertise that you lack. The standards demand your competency throughout the representation. If necessary, consult with specialists or other outside experts in order to ensure your competence. But, do not hesitate to refer your client out to other professionals. And, when you do so, always document your recommendations in writing, and provide a copy to the client and keep one for your records.

#### Reminders:

- Stay current with the standards, rules and regulations pertinent to your area of practice and those that relate to the businesses you represent.
- Be active in your local CPA societies and associations, this will build a referral network. It will also help you stay current with recent developments in the practice.

These sample engagement letters, checklists, and practice and consent forms are for illustrative purposes only. We recommend you use these letters and forms only after you have consulted with your attorney. Since your practice may be different than those described in the sample letters and forms, we recommend that you modify them to suit your individual practice needs. Use of these sample letters and forms is not intended to constitute a binding contract, does not constitute legal advice, and does not satisfy your obligation to do thorough research. © Gilsbar Specialty Insurance Services, L.L.C. and Date.