

1 **Practical Guide to CPA Risk Management**

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Post Enron

- CPAs now in the cross hairs
- Increase in litigation and settlement cost
 - Fewer motions granted for summary judgment
 - Impartial juries?
- PCAOB/SEC/Dodd Frank
- Current Economic Climate
- Legal System

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4 **What if the facts don't support the Claim?**

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Why Risk Management?

What risks/cost are you trying to manage?

- Professional and firm reputation
- Insurability
- Money
- Time

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Time

- Average Litigation > 5 years
- Average Claim 3-5 years
- 4 Claims *st///* open over 9 years

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KEYS TO REDUCE RISK EXPOSURE

- CLIENT SELECTION
- CLIENT RETENTION
- COMMUNICATION

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What can you Do?

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➤ Identify problem clients early:

- Ask careful thorough questions
- Be wary of fee resistance
- Trust Your Gut
- Rank all Clients

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➤ Communication:

- Internal
- External

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Risk factors relating to operating characteristics and financial stability – Identify Problem Clients

- Significant capital requirements
- Financials contain significant estimates involving highly subjective judgments or are subject to change in near term
- High vulnerability to rapidly changing technology
- Heavy dependence on new or unproved product lines
- Unusually rapid growth
- High vulnerability to interest rate swings
- High dependency on debt
- Executive Compensation tied directly to operating results

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What can you do to help reduce problem clients?

- Adopt client retention and acceptance policies and test your compliance
- Receive adequate fees for the risk assumed!
- Monitor client specific industries and be aware of changes in economic cycle
- Provide for easy access to legal counsel – assign “gate keeper”
- Avoid complacency
- Professional Skepticism
- INDEPENDENCE/do not become an advocate
- Listen to staff
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16  **What can you do?**

17  ***“Crooks for clients Wimps for accountants”***
Accounting Today: April 26-May 9 1999

- 1 • Most frauds are found at relatively small companies -
Median Assets -\$15.7m
Median Rev - \$13m
 - 83% involve either the CEO or CFO
 - Key motivation - Hype the stock price
- 2 • “Regional and local firms handle barely 10% of the nations audits but have 44% of the problem audits.”
 - “Big 3(?) unloading problem audits.”

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What Happens to Fraudsters?

- 51% are Prosecuted
- 98% Prosecuted are Convicted
- 31% of Those Convicted Are Sent to Jail
- 72% Sent to Jail Go For More Than One Year
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SO HOW MANY IDENTIFIED PERPETRATORS SPEND MORE THAN ONE YEAR IN JAIL???

◦
➤ 11%

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OTHER TIPS FOR DRAFTING ENGAGEMENT LETTERS

- Involve Legal Counsel in Developing Your Form Engagement Letters
- Periodically Evaluate any Changes in the Law Governing Engagement Letters
- Follow Your Malpractice Carrier's Advice

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What I worry about?

- “kids” doing audits
- Estate tax returns – Trustee Engagements
- The economy/Credit crunch
- New legal theories: i.e. “Deeping Insolvency”
- Electronic Discovery
- Digital files

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- Defense Nightmares!
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- IM: hey dude...the senior running this job is an idiot! Loll ☺

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