

*If you are thinking about disengaging a client, use this form to help you consider all angles and decide how best to proceed. Policyholders can call a CAMICO specialist for guidance and also for disengagement letter templates and disengagement letter reviews. For a complete list of Risk Management Services, go to [www.camico.com](http://www.camico.com).*

### **Unethical or Illegal Behavior from a Client**

CAMICO's hotline statistics indicate that unethical client behavior is one of the top three reasons CPAs request advice on disengaging. Nearly 45 percent of our significant claims (those that are greater than \$100,000) are due to fraud on the part of the client. You risk losing your reputation and your license when you continue a relationship with a client whom you suspect of illegal or unethical behavior. You could also be drawn into a lawsuit.

If you find or suspect that a client is lying to business partners, the IRS or other authorities, skimming money, or behaving in some other unethical or illegal manner, consider that client a candidate for disengagement.

### **No Payment or Slow Payment**

Another of the top three reasons for which CAMICO policyholders consider disengaging is the issue of client payment problems. Do not ignore payment problems; rather, call the client to learn what is causing the problem. Is the client upset about your fees? Does the client find your service to be unsatisfactory? Does the client understand the bill? Is the client experiencing financial difficulties of any sort? You want to avoid the client who has had tax returns prepared by a different CPA each year and has never paid any of them. Find the reason for the payment problem and then make a decision to either retain the client or disengage.

Note: Current AICPA ethics rulings state that independence is considered impaired if fees remain unpaid (whether billed or unbilled) for professional service provided more than one year prior to the date of the report. (Source: AICPA Professional Standards, Vol. 2, ET Section 191.103.)

### **Client Will Not Cooperate**

Difficult and uncooperative clients are cited as being the top reason CAMICO policyholders disengage. They do not provide the information you need, do not return your phone calls, are otherwise non-responsive, and often cause delays in your timing. For example, a small CPA firm had a large, multiple-entity client whose poor record keeping made it nearly impossible for the firm to complete tax returns. After hours of letter writing and repeated attempts by telephone to extract information needed to complete the engagement, the CPA firm chose to disengage; knowing full well that it was losing a big client and fees exceeding \$10,000. Despite the loss, the firm owners did not regret the decision, and in fact

felt greatly relieved of the aggravation of dealing with a hopelessly uncooperative client.

### **Nature of Client's Business Changes**

When a client's business changes, you may need to re-evaluate the CPA-client relationship. It may be that the changes are leading the client in such a direction that you may no longer feel qualified or want to continue the relationship. A client may, for example, buy a business you are unfamiliar with and require work you are not qualified to perform. Or a client may decide to sell all but a small portion of his/her business and you may not wish to work for such a small entity. Additionally, a start-up client may grow and reach a point when it plans to go public, and you may not want to perform the public work. These are just a few examples of how a client's business changes can alter the professional relationship and result in a situation wherein, after re-evaluation, you decide it would be to your mutual advantage to disengage.

### **Changes in Your Firm's Partners, Staff, or Goals**

When your firm changes, you may also need to change your client base. The loss of a partner with an area of expertise that the other partners don't possess will require a decision by the firm regarding continued service to the former partner's clients. You may decide that you no longer want to continue performing a particular type of work, such as audit work, for example. Or you may, after evaluating the strengths and weaknesses of your staff and partners, decide to grow your business in new and different directions. Review your client base whenever your firm changes in order to determine whether or not all existing clients still fit the firm.

### **Difficulty Obtaining Information**

When a client seems unwilling to provide you with the information you need to complete an engagement, you should carefully consider the problem. Is the problem sloppy record keeping, or is the client deliberately delaying or withholding information? Be cautious in any situation wherein it appears that documents are being deliberately withheld, or you are urged by a client to proceed with work without having proper documentation. For example, if you discover a client is borrowing money from his/her business and he/she assures you that the other partners are aware of loans. When you request a new partnership agreement that reflects the loan arrangement, the client stalls or urges you to release financials or accounting work without it. Client

behavior such as this is a red flag, and repeated delays could be the result of unethical or illegal activity.

### **Potential or Actual Conflict of Interest**

Consider all client situations carefully in an effort to spot potential conflicts of interest, which may affect your objectivity or independence - even if you are not engaged to do attestation work. It's important to examine potential or actual conflicts of interest from a broad point of view, considering the client's perspective as well as those of other owners, investors, partners, beneficiaries, spouses, etc. Unfortunately, very often the bottom line is perception. Troublesome or emotionally charged scenarios can include a partnership break-up, a trust, bankruptcy, merger, divorce, or anything else that involves opposing or unhappy factions. When a client of yours dissolves a partnership or files for divorce, you may feel compelled to disengage from one or both parties to avoid potential or actual conflict of interest. It can be difficult to continue preparing tax returns for a divorcing couple, for example, since each spouse could accuse you of preparing the return in a manner more favorable to the other spouse. It can also be difficult for you to continue working with two former partners after dissolution, especially if the partners were not on amicable terms. CAMICO knows of a case in which a CPA allotted 40 hours for an engagement and then realized he would have to work through the partners, attorneys, which would double the amount of time needed to complete the engagement. Knowing he would be inadequately compensated for his work and have to work with feuding factions, the CPA chose to disengage.

It is always a good idea to examine the potential for conflict prior to accepting an emotionally charged engagement. If the engagement seems worth the risk, protect yourself by not getting caught in the middle. A hold harmless or indemnity clause, letters to both parties about joint and several liability, or a retainer in bankruptcy engagements can help. When working with divorcing spouses, suggest preparing joint and separate returns and determining together the most equitable arrangement.

### **Deteriorating Relationship**

A deteriorating relationship with a client could be a signal of impending liability problems. Abrupt changes in a client's behavior may be an indication of his/her failing business, severe financial problems, substance abuse, or other personal problems. Trying to uncover the source of the problem could be beneficial, but whatever you do, don't ignore the warning signs of a deteriorating relationship. If a client continually fails to return your phone calls or threatens to sue you if you don't do what he/she asks, you should take swift action to remedy the situation or disengage before the situation

worsens. Remember that in most cases we see, CPAs are sued by their clients, not third parties.

### **The Antacid Client**

As we've already discussed, some clients may be great for your firm's financial condition, but the money they bring in simply isn't worth the emotional turmoil they create among you and your staff. These are the clients who are nasty to your staff, make unreasonable demands, are non-responsive, complain excessively, argue, and are generally obnoxious. In these cases, you have to ask yourself: Is this client worth keeping? Sometimes, the answer is that "life is too short" to deal with people like this!

This checklist should provide you with a variety of thought-provoking scenarios and matters to consider, and while it is intended to be comprehensive, it may not cover all scenarios that can prompt disengagement. To review briefly:

- Unethical or illegal behavior from a client
- No payment or slow payment
- Client will not cooperate
- Nature of client's business changes
- Changes in your firm's partners, staff, or goals
- Difficulty obtaining information
- Potential or actual conflict of interest
- Deteriorating relationship
- The antacid client

As you can see, there are many reasons, and a great range of causes, for a CPA to disengage from a client.

In addition to being alert to the aforementioned "red flags," protect yourself further by educating your clients as to their responsibilities within the relationship. Let them know what your responsibilities are to them and what they can expect. Make sure your staff knows that they should inform you of any problems they have with clients. Keep notes and document conversations, meetings, requests for information, and any payment problems or changes in a client's behavior. Documentation could be an important part of your decision process in deciding whether or not to disengage. And when you decide to disengage, do so far enough ahead of any deadlines to enable the client to replace you. While this may not be possible in urgent situations, trying to provide ample lead time before a client's deadlines will better protect you.

### **In Summary**

Effective communication is a key factor in any CPA-client relationship, and when you work to stay informed and in control, you are safeguarding your firm. Disengaging is simply good practice management, and knowing how to do it skillfully and professionally will serve to help you grow your practice and avoid liability.