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Accounting

When a CPA Should Break Up With a Client—and How

Certified public accountant firms that decide to end a business relationship with a client should do so with a “termination letter” that sticks with just the facts, practitioners told Bloomberg BNA.

CPA firms that suspect clients of fudging or inflating numbers to avoid tax payments or penalties typically don’t hesitate to hand them their walking papers because they risk being fined or, worse, face a loss of their license.

They should, however, also consider ending a relationship when other red flags surface, risk control consultants said.

Terminating a client should also be considered for anything from fee or service complaints, lax internal controls or disrespectful treatment of a CPA or a CPA firm’s employees, practitioners said. “You don’t need to give a reason for disengaging,” said Dan Gartland, a risk control consultant at CNA, a Chicago-based provider of personal and business insurance solutions.

Gartland’s team, part of AICPA Member Insurance Programs, offers advice to more than 25,000 CPA firms of all sizes. “In fact, if you provide a reason, the client could respond by arguing the issue or promising to be better in the future,” he said.

Not to Win an Argument. A termination letter isn’t the time to win an argument with a client. The goal is to end the relationship and give the client what they need to move on. “Explaining why the firm is ending services may only upset the client further or create a problem that previously does not exist,” Gartland said. “By the time the termination decision is made, it is likely that the client already knows an issue exists,” he said.

The letter should therefore just come to the point, said Gartland, to “inform the client that the CPA is no longer providing services and identifies the client’s responsibilities moving forward and issues that need to be raised with the successor CPA.”

CPAs are strongly bound by a strict code of professional conduct and have to ensure they’re always working in the best interest of the client, but within the parameters of the law. Some CPA firms therefore evaluate

their client relationships from time-to-time. “Clients oftentimes are very surprised They think that terminating the relationship is a one way street that the client is always right and they get to determine when and how a relationship is terminated,” Jim Chakires, President and CEO of Apex CPAs & Consultants told Bloomberg BNA. “We don’t prescribe to that philosophy,” he said.

If it’s not a good fit, if the company’s staff doesn’t like working for the client, that’s grounds for parting ways with a client, Chakires said. “Successful accounting firms are built from the inside out as opposed to the outside in, and if you have a client that is compromising your ability to create that environment, they absolutely must leave,” he said.

Small-to-Midsize Private Company Issue. Client break ups are mainly a small-to-medium sized private company issue, practitioners say. Most say it’s an uncomfortable—even painful—situation particularly in instances when it is with a client that has been with them for a while.

CPAs don’t take decisions to terminate lightly, said Gartland. “They generally put significant thought and effort into correcting a client relationship before making the ultimate decision to terminate,” he said.

CPAs experiences vary from the executive director suspected of embezzlement at a not-for-profit firm, to a 30-year client they had to terminate because the person wanted to fraudulently claim an asset as a casualty loss on their tax return.

One CPA told of an S Corporation client, with no shareholders, who didn’t pay himself a salary or provide himself with a W2 because it would have required him to have to pay federal taxes, state taxes, Medicare, as all salaried employees do—and he wanted to get out of doing so. The CPA said she felt uncomfortable with their dialogue because the client appeared to be seeking ways to defraud. “He was evading all of that by not giving himself a salary,” said the CPA, who gave the client his walking papers and a 1099 with advice to cough up to the internal revenue service what he owes.

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