Money. Fame. It's not just for the entertainers of the world. Accountants can be well-known and famous or, in some cases, infamous. You may have read about pop stars, actors, and professional athletes being “driven to bankruptcy” by their accountants and financial advisers. CPAs providing a menu of services to these high-profile individuals are at risk of being blamed for a decline in the celebrity's net worth.

Family office services provided to the rich and famous, as well as to privately wealthy families, may include traditional accounting services such as a full range of tax, accounting, financial planning, wealth management, and administrative support for both personal and business assets. Services may even be nontraditional such as concierge-type services including booking travel, scheduling spa appointments, and walking the pooch.

**CLAIM EXPERIENCE**

Claim experience of the AICPA Professional Liability Insurance Program suggests this service offering is risky business. Why?

- Claim allegations typically involve mismanagement of money, provision of poor tax and investment advice, and even embezzlement of client funds.
- Claimed damages are frequently large when serving wealthy and high-profile individuals.
- Plaintiffs have significant resources to aggressively litigate claims, making the defense challenging.
- Clients often place a high degree of reliance on CPAs to handle their financial affairs.
- Claims can damage a firm’s reputation when they involve a celebrity or high-profile client, and the news is trending on social media outlets.

**COMMON ISSUES**

The following are common findings among claims in this area of practice:

- There is no annual engagement letter memorializing the scope of agreed-upon services. An initial engagement letter is issued, but it is never reissued or revised.
- Services are rendered to multiple family members both as individuals and as beneficiaries of various trusts, and potential and actual conflicts of interest are not properly identified and managed.
- Services are managed by senior partners, with minimal oversight by other firm personnel.
- The partner’s book of business consists of a handful of high-net-worth clients, each generating individually significant fees. For this reason, the partner may treat the client's interests as paramount, creating a threat to the impairment of his or her objectivity.

**RISK MANAGEMENT RECOMMENDATIONS**

While these services present some unique challenges, the related risks can be mitigated through quality-control policies and procedures, including checklists, engagement letters, and following the applicable AICPA standards—for example, the AICPA Statement on Standards in Personal Financial Planning Services (aicpa.org/pfp/standards). The following quality-control policies and procedures will help practitioners address professional liability risks.

**Gaining Client Acceptance and Continuance**

The sophistication of clients and their related knowledge of financial affairs can vary widely. Clients may have inherited wealth, be successful entrepreneurs, or be entertainers or athletes earning large sums over a short career. Understand clients’ service expectations, level of financial sophistication, and desire and availability to manage their financial affairs. Conduct sufficient inquiry to determine who will be the clients and who may become clients at a later time, particularly for large, affluent families.

Upon identifying prospective clients, screen them and determine their service needs. For example, do they require investment, tax, and estate planning advice? If personal concierge services are desired, what will be the scope of services? Do they have other professional advisers? Are complex estate and trust matters involved? Determine whether the firm has professionals on staff qualified to meet their service needs, and identify the need for third-party service providers. Consider whether it is necessary to screen...
and supervise third-party service providers. Also consider requiring approval by a second partner or oversight committee before accepting or continuing client relationships.

Addressing Conflicts of Interest
Conflicts of interest can develop when CPAs serve multiple family members and their trusts. Investment, tax, and estate planning advice rendered to one family member may conflict with the interests of other family members. Thus, it may become necessary to refrain from rendering some services to family members and to advise them to engage their own advisers. Continuously monitor the situation as services expand and renew, and relationships change.

Refining Engagement Letters
The following suggested protocols may assist in defining engagement parameters:

- Obtain a signed annual engagement letter defining the scope of all service needs.
- Consider using an appendix to the traditional engagement letter terms and provisions that lists, in table format, the menu of services and the respective service description, frequency, client responsibilities, and service deliverable.
- When practicable, have the client designate an individual with sufficient time and expertise to oversee all services the CPA firm provides, communicate the day-to-day tasks to be performed, evaluate the adequacy and results of services rendered, and accept responsibility for all decisions made.

Family office clients may own and operate multiple businesses for which tax, accounting, and related services may be required. Issue engagement letters for each business. If a single engagement letter is issued, clearly identify each business and the services to be rendered. Meet in person with the client at least annually to discuss the service needs, answer any questions, and review the engagement letter. Document the meeting in correspondence to the client.

Executing the Engagement
Restrict engagement activities to those defined in the engagement letter. If the client requests additional services or scope changes, execute written change orders, make engagement letter amendments, or send email correspondence. Document oral advice in the workpapers or in a written communication to the client, noting the client's responsibility for acting on recommendations made. Include the meeting date and the names of participants in your documentation.

Avoiding the Assumption of Management Duties
Clients may travel extensively or otherwise be unavailable to make day-to-day business decisions, and they may expect the CPA to act on their behalf in their absence. The client may wish to delegate decision-making authority to the CPA under certain circumstances. If such responsibilities are contemplated, discuss it with the client and consult with competent legal counsel about documenting the agreement to make management decisions on the client's behalf, including legal provisions to protect your interests. Professional liability insurance policies may limit or exclude coverage when a CPA performs management duties for clients. Review the details of your policy with your attorney and insurance agent or broker.

Supervising the Relationship
Often, family office services are managed or delivered by a CPA firm's senior members. Firm management should institute appropriate controls to monitor the relationship with the client and the performance of services. Family office services tend to increase a client's reliance on the practitioner and raise the risk of compromising the objectivity of those closest to the client. The requirement to adequately plan and supervise the performance of professional services extends to all firm personnel—even partners.

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