

Risk Management in Client Accounting Services & E Signature

Dave Sukert, JD

Senior Vice President, Aon

Stan Sterna, JD

Vice President, Aon



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CAS Services

- CAS platform used to provide CFO, Controller, or other financial functions such as:
 - Departmental (A/P, Payroll, etc.) oversight
 - Assisting with financial metrics & monitoring, development of KPIs & dashboards
 - Budget preparation & analysis
 - Insurance review
 - Cash flow management/projection/monitor
 - And more

CFO Services Risks

- Expectation gap regarding management responsibilities
 - What is the CPA's role and what is the client's role?
 - Are expectations aligned?
- Potential lack of expertise
- Potential for scope creep as rapidly evolving or growing companies may require more than CFO support services

Other Risks

- Tax, accounting and remote 'CFO' consulting services for a client you never meet in person but only online, etc.
- Having access to or control of client money presents unique risks
 - theft or fraud by CPA employee
 - social engineering wire transfer fraud
 - mismanagement of funds

Client Acceptance & Engagement Letter Usage - Risk Mitigation

- Evaluate whether or not management understands and accepts their role & involvement in the engagement
- Have clearly written & specific engagement letter provision defining scope of services, responsibilities of CPA/client & limitations on services:

“We are not responsible for nor will we be making and/or implementing any management decisions for your company. Any advice, guidance and/or related recommendations we make will be based on our knowledge, training and experience, but at all times, the decisions you make based upon such advice, guidance and/or related recommendations are strictly yours, as is the responsibility for the financial records and management of your company. We encourage you to reflect on our recommendations and implement what you believe is best for you and your company.”

Management Expectation Gap – Risk Mitigation

- **DO NOT** assume responsibility for making management decisions or performing duties construed as responsibility of management
 - Don't refer to yourself as “CFO” or “Controller”
 - Avoid statements in marketing materials & client communications implying you will undertake activities that are the responsibility of client management
 - Request that client designate individual with sufficient time & expertise to oversee your services, communicate tasks, evaluate adequacy/results of your services & accept responsibility for any and all decisions made

If You Have Access to Client Funds – Risk Mitigation

- Establish segregation of duties/controls at CPA firm
- Perform background checks on employees handling money
- Require some level of client involvement
- Address insufficient funds immediately with client – in writing
- Validate client wire transfer requests “out of band”
 - Client’s involvement in review and approval of payments/new vendors/etc. should be outlined in writing with the client (in the engagement letter or other form of written communication)

E-Signature

- U.S. Electronic Signatures in Global National Commerce (ESIGN) Act
 - federal law governing interstate commerce
 - recognizes electronic signatures & records of parties to contract as legally binding
- Uniform Electronic Transactions Act (UETA)
 - uniform code governing electronic signatures in ordinary business
 - has been adopted by most states in one fashion or the other
- Internal Revenue Service
 - [Publication 1345](#) - IRS' guidance for e-filing individual returns:
 - [8/28/20 IRS Announcement on E-Signatures](#) - temporarily allows use of digital signatures on certain forms that cannot be filed electronically

E-Signature

- Both E-SIGN & UETA generally take the same approach towards validity:
 - Parties must intend to sign and consent to do business electronically
 - Parties must keep a record that reflects the process by which the electronic signature was created
 - Parties must generate a textual or graphic statement (which is added to the signed record) proving that it was executed with an electronic signature
 - Depending on its use or the involved industry, federal and state regulations/laws may impose additional requirements in addition to the foregoing

Sample E-Signature Clause in Engagement Letter

“Each party hereto agrees that any electronic signature is intended to authenticate a written signature, shall be valid, and shall have the same force and effect as a manual signature. For purposes hereof, “electronic signature” includes, but is not limited to, a scanned copy of a manual signature, an electronic copy of a manual signature affixed to a document, a signature incorporated into a document utilizing touchscreen capabilities, or a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement.”

E-Signature Vendors

- Third party e signature vendors may have their own protocols
- Make sure you fully vet any vendor you might use
- Confirm that the service agreement contains:
 - clause requiring vendor to maintain cyber and other applicable insurance coverage throughout the engagement and for a period of time thereafter in the event of a breach or error and omission in the performance of the services
 - provision wherein vendor will defend and indemnify your firm in the event of a claim as a result of their negligence

Resources

- [The Pitfalls of Assuming Management Responsibilities](#), Journal of Accountancy, November 2013
- [Buckle Up - The Importance of Engagement Letters](#), Journal of Accountancy, December 2014
- [Don't Let Scope Creep Lead You Out of Bounds](#), Journal of Accountancy, September 2015
- [The Importance of Gauging a Client's Tone at the Top](#), Journal of Accountancy, December 2015
- [All in a Dishonest Day's Work](#), Journal of Accountancy, August 2014
- [Risky Business of Serving the Rich and Famous](#), Journal of Accountancy, July 2014
- [Failure to Detect Theft and Fraud; It's Not Just an Audit Issue](#), Journal of Accountancy, February 2014
- [CPAs as CFO: Meeting Client Needs, Managing the Risks](#), CPA Practice Advisor, December 2017
- [E Sign Act](#)
- [UTEA](#)
- [8/28/20 IRS Announcement on E-Signatures](#)
- [Publication 1345](#)

Thank you!

