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When it's Time to Let Go: Top Reasons for Terminating a Client Relationship

Breaking up is hard, and terminating a client relationship can be even harder. However, holding on to a risky client relationship can negatively impact your CPA firm's bottom line, reputation, and sustainability. Taking time each year to evaluate your client portfolio enables you to take proactive measures to terminate unfavorable clients while helping to safeguard your firm from potential harm. Here are some red flags to watch out for as you review your client list.

- **Legal Risks:** Clients who engage in illegal activities or request that you perform illegal actions pose significant legal risks to your firm. Terminating the relationship may be necessary to avoid potential legal liabilities.

- **Ethical Concerns:** If your client engages in unethical behavior or requests you to act unethically, it may be necessary to terminate the relationship to maintain professional integrity and uphold your firm's ethical standards.

- **Conflict of Interest:** If your client's activities don't align with your firm's clients or interests, it may be time to terminate the relationship to avoid potential conflicts of interest. Be aware of potential biases toward retaining clients when it may not be in your best interest or when you may be overestimating your ability to resolve issues and salvage risky client relationships.

- **Nonpayment of Fees:** Clients who consistently fail to pay their fees on time can strain your firm's resources and impact cash flow. Terminating these clients allows your firm to allocate resources more efficiently and focus on serving more profitable and less demanding clients.

- **Unreasonable Expectations:** Clients who make unreasonable demands may create undue stress and strain your firm's resources. Terminating the relationship may be necessary to preserve your firm's professional standards and maintain a healthy work environment.

- **Loss of Trust or Communication Breakdown:** If there is a breakdown in trust or communication between you and your client, it may be challenging to serve the client's needs effectively. In such cases, terminating the relationship may be in the best interest of both parties.

- **Scope Creep:** Clients who consistently expand the scope of the engagement beyond what was agreed upon may strain your firm's resources and affect your ability to deliver quality services. Terminating the relationship may be necessary to maintain control over the scope of work and prevent scope creep. Rapid client success or expansion may signal a need for reevaluation of your client relationship.

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Client Termination Checklist: Tips to Help Protect Your CPA Practice When It's Time to Say Goodbye

Ending a client relationship can pose a host of potential risks for your practice. When it's time to let go of risky clients, careful preparation and clear communication are key to helping to safeguard your CPA firm from reputational damages and costly legal disputes. Here are some fundamental steps for client termination to help you manage the transition effectively, minimize disruptions to both parties, and protect your firm's financial future.

☐ Prepare to minimize your risks

- ✓ Include a clear termination provision in the engagement letter.
- ✓ Review engagement contracts and legal obligations to ensure that they are compliant with any contractual or regulatory requirements related to terminating the relationship.
- ✓ Communicate deadlines clearly in the engagement letter and follow up with written reminders if necessary.
- ✓ Establish an ideal client profile and regularly assess clients against it to identify mismatches.

☐ Be aware of client warning signs

- ✓ Recognize common indicators of problematic client relationships, such as concerns regarding integrity, fee complaints, or internal disputes.

☐ Formalize the termination

- ✓ Document the reasons for terminating the relationship, including relevant communications or interactions with the client.
- ✓ Draft a termination letter without detailing reasons for termination to avoid escalating conflicts.
- ✓ Send a hard copy of the termination letter via traceable mail to ensure delivery and receipt.
- ✓ Communicate your decision to terminate the relationship with the client in a professional and respectful manner.

☐ Develop a transition plan

- ✓ Ensure that the client's needs are met and a smooth transition to a new service provider is made, if necessary.
- ✓ Outline client responsibilities going forward and provide guidance on issues to address with a successor CPA.
- ✓ Clearly state any outstanding fees due and consider including a final billing statement.

☐ Complete the termination

- ✓ Avoid second-guessing your decision to terminate the client relationship.
- ✓ Ensure client confidentiality and protect sensitive information during and after the termination process.
- ✓ Maintain a professional attitude throughout the termination process to mitigate potential conflicts.
- ✓ Once termination is official, refrain from providing further services or re-engaging with the client.

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Want to dig in more to client termination risk management? Access additional resources below:

- Client Termination Letters
- Take a Hike: Ending Client Relationships
- Unresponsive Clients Pose a Professional Liability Risk