



PROFESSIONAL LIABILITY SPOTLIGHT

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The indirect impacts of COVID-19 on CPA firms

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The world has changed dramatically in recent months. At the beginning of 2020, many CPAs were excited about the prospect of an “easier” busy season after dealing with the law known as the Tax Cuts and Jobs Act, P.L. 115-97, last year. Financial markets were at an all-time high, and everything appeared to be smooth sailing.

Then along came COVID-19. The travel and hospitality industry has all but disappeared. Commerce has declined dramatically. Millions of Americans are under shelter-in-place orders resulting in the need for owners and employees of CPA firms, and their clients, to work from home. Existing engagements for all areas of practice may be affected, and the new landscape also presents opportunities to help clients navigate these challenging times. While much of the world is focused on the immediate and direct impact of COVID-19, its indirect effects, such as the state of the economy or the services offered by CPA firms, have potential long-term professional liability consequences that should be addressed now.

Existing/continuing services

Additional risks to consider vary by area of practice.

Audit and attest services. Chances are, previously completed engagement planning and risk assessment procedures did not address COVID-19 or the risk of a pandemic in general. New circumstances have arisen that necessitate a reassessment of, and likely, modifications to, a CPA firm’s planned approach.

Firms should consider the impact of COVID-19 on a client’s business, especially the impact on financial statement amounts that require judgment or estimation, such as asset valuations or revenue recognition. Additional disclosures, such as going concern and/or risks and uncertainties, or modifications to the CPA firm’s report may be necessary. If a client’s business fails at a later date, lenders and investors may be quick to blame the CPA firm for their lost investment, especially if, in hindsight, disclosure was inadequate or the firm failed to detect a misstatement in the financial statements.

Accommodations may be required for clients with upcoming fiscal year ends. For example, it may no longer be considered “safe” to perform physical inventories, and fraud inquiries may need to be performed virtually. If both the client and engagement team are working remotely, how will evidence be gathered and tested? Assess engagement plans to determine if modifications are required in order to comply with professional standards. Discuss modifications with the client as the engagement fee or realization may also be impacted.

Stay up to date on recently issued guidance. The AICPA’s [FAQs – Audit Matters and Auditor Reporting Issues Related to COVID19](#) is an excellent resource. The SEC’s thoughts are included in its [Statement on the Importance of High-Quality Financial Reporting in Light of the Significant Impacts of COVID-19](#). Other audit and financial reporting resources and guidance are continually being updated and are available at the [AICPA’s Coronavirus \(COVID-19\) Audit and Accounting Resources page](#).

Tax services. While filing deadlines and estimated tax payments have been extended for many types of tax returns, they have not been extended for all, resulting in a complex calendar of future filing dates that is in constant flux. Be mindful of due dates that have changed, and those that have not, and work with clients to file returns on time. If this is not coordinated properly, the client may blame the CPA for any late-filing penalties. Refer to the AICPA’s Federal Due Dates Chart Updated for COVID-19 Relief (available at [aicpa.org](#); member login required) for the most up-to-date information regarding federal returns. In addition, the AICPA has created a State Due Dates Chart Updated for COVID-19 Relief that summarizes state filing deadlines (available at [aicpa.org](#); member login required).

A docket system, perhaps now more than ever, may be your best tool to help keep track of deadlines to ensure they are not missed. Be sure to update it for filing and payment date relief that has already been granted, and continue to do so as additional changes are announced. Review critical components of a docket system as discussed in *“Professional Liability Spotlight: Docket or Lose It: Avoiding the Risk of Missed Deadlines,” JofA, Dec. 2018.*

Ensure clients understand that first- and second-quarter estimated tax payments are both due July 15, 2020. Timely communication on this matter is critical to allow clients time to determine the source of their tax payments. What is the effect on the CPA’s risk? If clients are forced to sell assets at a loss in order to make payments, they may later assert that the CPA is responsible for the losses due to unclear instructions.

As always, contemporaneous documentation of client communications is important and will help mitigate the risk of forgotten, misunderstood, or misinterpreted conversations down the road.

Consulting services. For many firms, consulting projects, including tax consulting, may be modified, postponed, or even ceased to enable clients to conserve cash flow. Address the status of consulting engagements proactively. If necessary, secure updated engagement letters or other written communication with the client detailing any modifications to scope. If services are temporarily halted, postponed, or cease altogether, confirm this in writing with the client.

Important considerations for all services

Revisit existing engagement letters. Review existing engagement letters to ensure they continue to accurately reflect the agreement between the firm and the client. Should planned due dates or work products be updated? Does the scope of service require modification or clarification to ensure it limits the firm’s responsibility to only those services outlined in the engagement letter? For example, if tax compliance services are delivered, is the engagement letter strictly for tax compliance services? Or does it, for example, include “limited tax planning” or similarly vague language, which may be interpreted to include advising the client about tax planning or relief opportunities?

Continued.

In times of uncertainty, it is extremely important that clarity exists and is supported by a written communication between the client and the firm.

Monitor billing and collection activity. Sadly, many clients may struggle to continue paying invoices when due, including those to their CPA firm. Review your client list to identify those that may have cash flow problems. Proactively discuss payment alternatives or requirements in order to continue providing services.

Emphasize timely billing, and monitor client collections. Invoices are more likely to be collected when the client's memory of your services is fresh. If a client falls behind and a payment plan or other form of agreement cannot be reached, consider suspending services. Be mindful of the accumulation of large balances in work-in-process and receivables, and do not be afraid to revisit the client relationship if mutual satisfaction is not present.

Respond appropriately to requests from lenders. As the stability of the economy becomes less certain, lenders may be more aggressive in requiring a CPA's confirmation of certain information, such as the impact of COVID-19 on a client's business, when credit is extended or terms are modified. It is generally not appropriate or recommended to respond to most requests made by lenders. Doing so creates additional risk to the firm and is generally not supported by the services delivered to the client. Refer to the AICPA's guidance on CPA [Comfort Letter to Lenders and Third Party Verifications](#) for more information on requests from lenders and a CPA's suggested response (or lack thereof).

New service requests

The changes to the business environment, the introduction of new legislation and programs, and the expansion of existing ones have been swift. Clients face complex and confusing choices that may have long-term (and short-term) consequences. To add clarity to the chaos, many are turning to their CPAs as they grapple with these challenging times and attempt to navigate available incentives. While this creates new opportunities for CPA firms, it also introduces new, corresponding risk.

Stimulus activities undertaken by federal and state governments, especially the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, present opportunities for new services such as:

- Assisting a client to evaluate various loan programs administered by the U.S. Small Business Administration to determine which program may provide the best benefit for the client;
- Amending prior-year tax returns to reflect the changes to the net operating loss rules; or
- Accounting for the usage of funds received from the Paycheck Protection Program, which was created by the CARES Act.

Risk management considerations

Fortunately, while the specific services requested may be new, the methods to mitigate risk are tried and true. These include:

Client and engagement acceptance. Does the client understand its responsibility to make management decisions and implement recommendations made by the CPA? Will the client be able to pay for these services? Does the CPA have the technical expertise to advise the client competently and the time to stay current on developments? The CARES Act is still in its infancy, and while guidance is being published regularly, much is unclear or untimely.

Engagement letters. CPAs can leverage their existing tax or consulting engagement letters and modify them for the specifics of these new engagements. Remember to address:

Engagement objectives and scope. Be specific about the services to be provided and, if relevant, services that are not in scope. What tax form and year(s) will be amended? Will the firm advise on the attributes of the various loan programs or only assist clients with the gathering of information for a specific loan application?

Client responsibilities. Clearly outline that the client is responsible for making all decisions, whether it's addressing the advice and recommendations provided by the CPA or selecting the tax return position to be taken on an amended return. Be sure to include a statement that the client is responsible for providing complete and accurate information to the CPA.

CPA firm responsibilities. For the most part, new services related to stimulus activities will be some form of consulting service. Ensure the client understands that the firm's role is limited to providing advice and recommendations only and that the firm will not be auditing or verifying the client's information or providing any deliverable or work product to a third party.

Deliverable. Clearly describe what the client will receive as a result of the CPA's services. Provide advice in writing. While not recommended, if oral advice must be provided, at a minimum, send a follow-up email to the client summarizing what was discussed.

Risk allocation provisions. Consider including risk allocation provisions such as hold-harmless, indemnification, or loss-limitation provisions to help further mitigate the firm's risk. While important to consider for all services, these provisions take on more relevance due to the fluidity of the current environment.

Documentation

Document and date all client discussions during the engagement, following up with confirmatory emails detailing information required and next steps for both the client and your firm. Clarify that any advice or recommendations are made based upon information available at a specific point in time. The laws are evolving, and what is good advice today may not be so tomorrow. As such, be sure to inform the client that the CPA is not obligated to update the advice. Direct clients to resources available from government agencies, taxation authorities, and regulatory agencies, and advise the client to check them regularly. If legal advice is required, advise the client to consult with an attorney prior to taking action.

Final thoughts

This is an extraordinary time for the world, our country, and the profession. While the full impact of COVID-19 is unknown and uncertain, what is certain is the need for CPAs to be vigilant and informed and to be flexible and adaptable in their response to these changing times. Taking necessary precautionary steps now is important and will help to provide protection from potential losses that may arise as the public health and economies recover.

Editor's note: More COVID-19-related resources are available at the [AICPA's Coronavirus \(COVID-19\) Resource Center](#).

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