



CPA PROFESSIONAL
LIABILITY PLAN INC. RÉGIME COLLECTIF D'ASSURANCE
RESPONSABILITÉ PROFESSIONNELLE
DES CPA INC.

RISK MANAGEMENT

Professional Accountants PD Network

December 3, 2019

**Malcolm D`Souza, MBA, CPA, CA
Executive Vice-President, CPA Professional Liability Plan Inc.**



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Claims Made vs Occurrence



Discovery Policy

- **At least 10 years recommended**



Minimum coverage requirements to protect yourself

- **Minimum Insurance Requirements in ONTARIO**
 - sole practitioner = \$1 million
 - a firm of 2 to 3 CPA members = \$1.5 million
 - a firm of 4 or more CPA members = \$2 million

How Much Insurance

- **Double Edged Sword**
- **Peace of Mind**
- **Lawyers Starting to Seek Greater Than Limits**
- **Insurers Prefer Lower Limits**



How Much Insurance is Enough?

- **If any of your clients have loans in excess of your insurance coverage, it would be prudent to increase your coverage**



Developments

- **Livent**

Developments

- **Rectification**

- Fairmont + Jean Coutu

Developments

- **↑ in Estate Planning Claims**

Developments

- **↑ in Size of Tax Claims**

Developments

- **Engagement Letter**
 - Limitations of Liability



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Trends in Claims

2012 to 2017 Top 100 Claims & Firm Size

No. of CPAs	% of CLAIMS
51 and above	5%
11 to 50	19%
5 to 10	24%
2 to 4	28%
1	24%
Total	100%

Categories of Claims - Canada

1999 to 2019

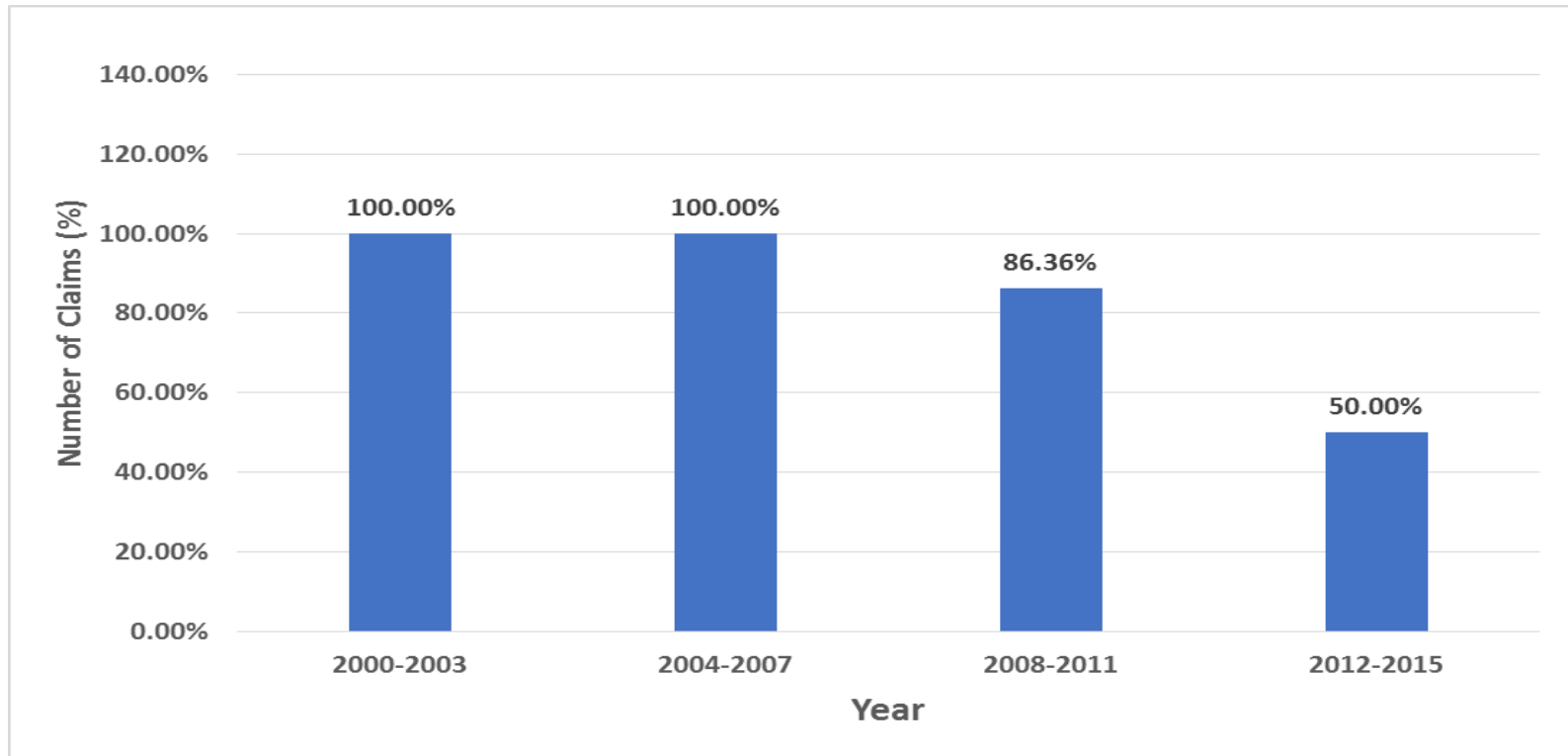
Area of Involvement	Number of Claims %
Audit	8.2
Review	5.1
Notice to Reader	7.1
Tax	58.4
Management Consulting	0.4
Receiver/Trustee in Bankruptcy	2.4
Fee dispute/Counterclaim	3.2
Shareholders' Dispute	0.9
Purchase/Sale Agreement	2.8
Other	10.6
Bookkeeping	0.9
Total	100.0



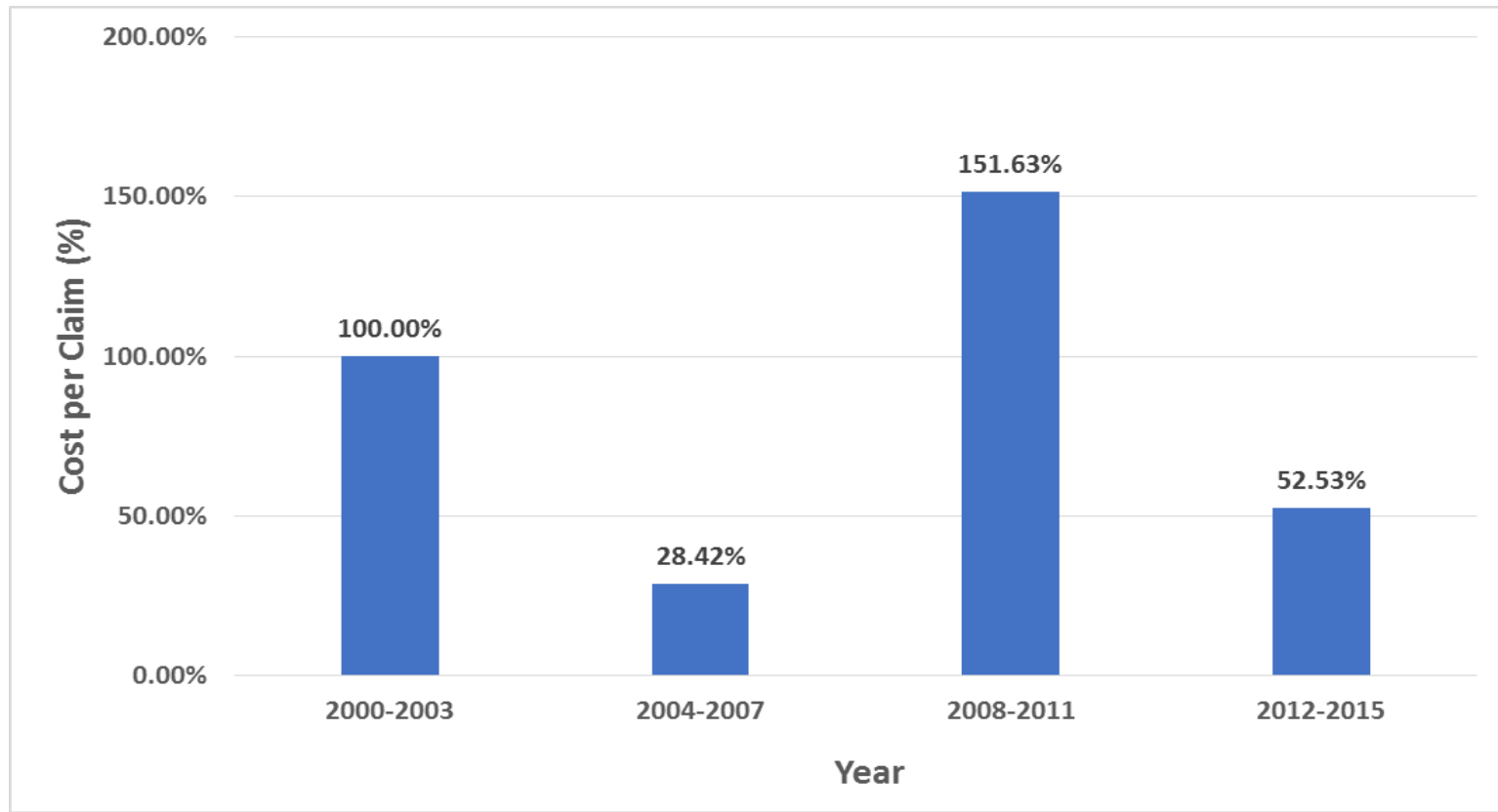
Incurring Expense - Canada 1999 to 2019

Area of Involvement	Incurring Expense %
Audit	31.5
Review	6.1
Notice to Reader	3.0
Tax	40.1
Management Consulting	0.4
Receiver/Trustee in Bankruptcy	2.2
Fee dispute/Counterclaim	1.7
Shareholders' Dispute	0.6
Purchase/Sale Agreement	2.6
Other	11.1
Bookkeeping	0.7
Total	100.0

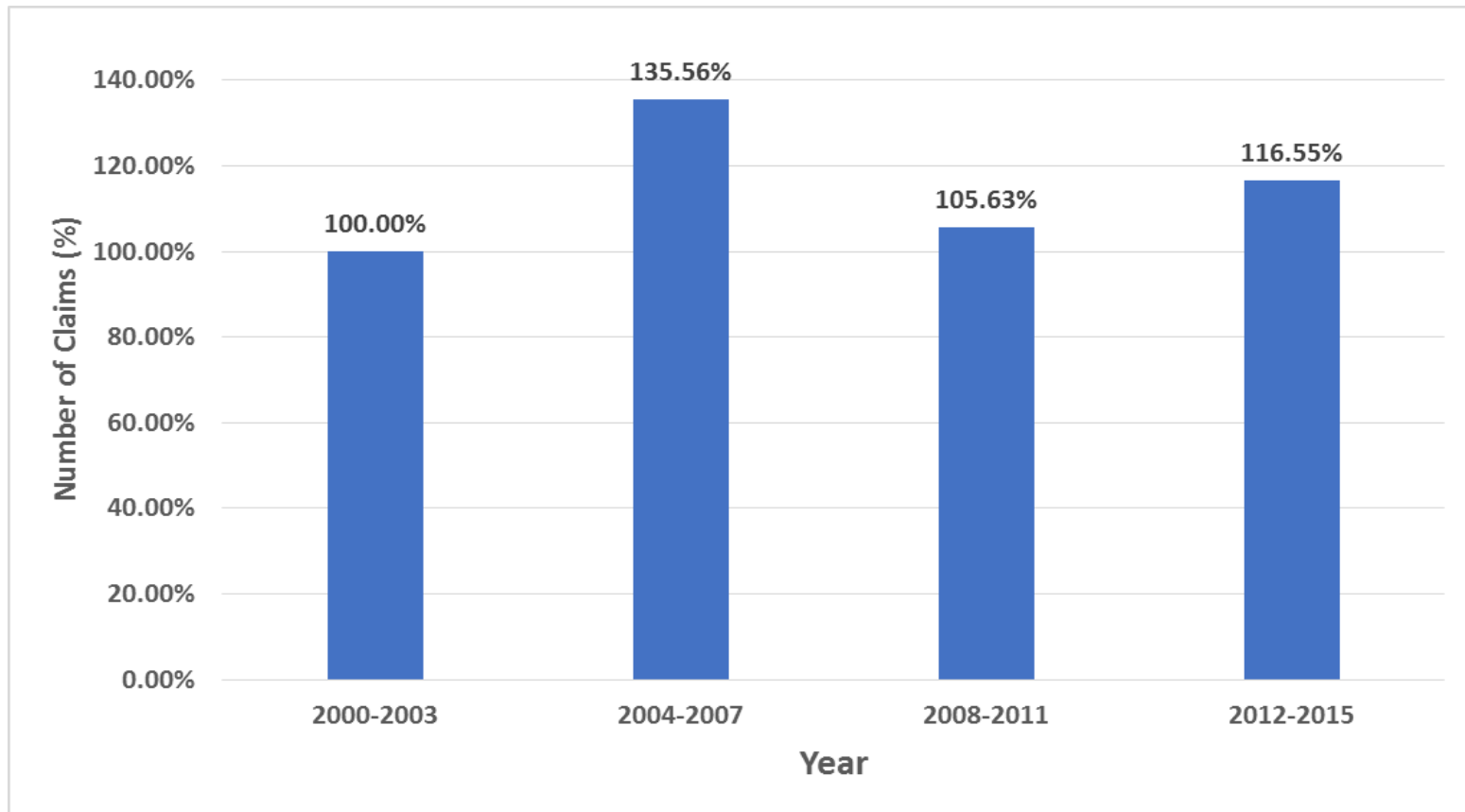
Audit - Number of Claims Ontario



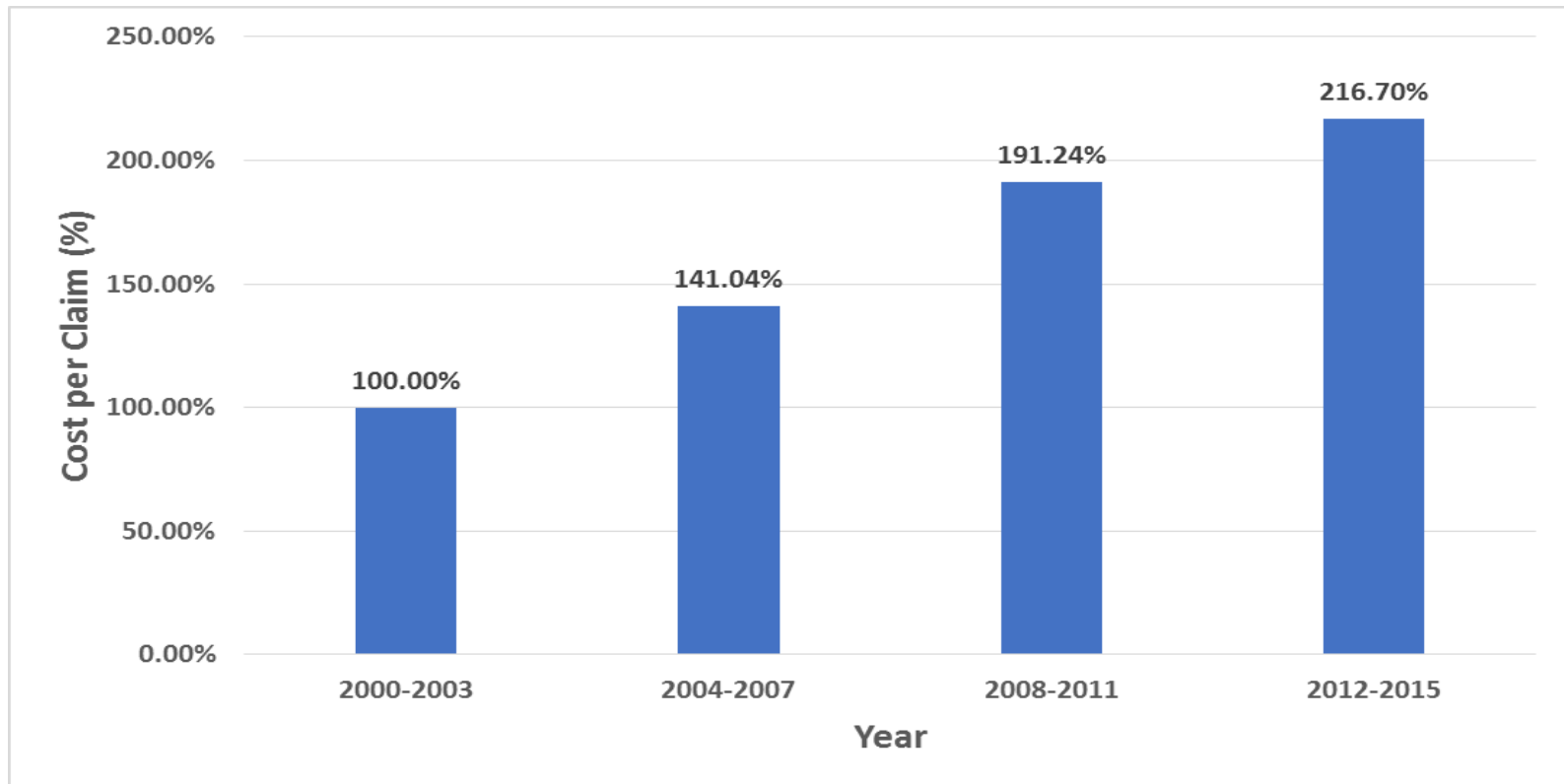
Audit – Cost per Claim Ontario



Tax - Number of Claims Ontario



Tax – Cost per Claim Ontario





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CSRS 4200

(Canadian Standard on Related Services)

VS.

Section 9200



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Some Major Differences



Performance Requirements

Section 9200

- **Arranging the information received into the form of a financial statement**



Performance Requirements

CSRS 4200

- Obtaining knowledge,
- Disclosing the basis of accounting,

Performance Requirements

CSRS 4200 (cont'd)

- Reading compiled financial information and determining if it appears misleading,
- If misleading, bringing attention to management and requesting corrected information

Communication to Readers

Section 9200

- **Includes a “Notice to Reader” (NTR)**
 - ❑ NTR allows readers to be informed of the nature of the financial statements, and the very limited responsibility taken
 - ❑ “Unaudited – see Notice to Reader” is required on all pages of the financial statements

Communication to Readers

CSRS 4200

- Reference to the description of the basis of accounting when preparing financial information;
- Description of the responsibilities of management in relation to the financial information;
- Description of the practitioners responsibilities



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Documentation

Section 9200

- **No specific requirements on documentation**

Documentation

CSRS 4200

- **Minimum requirements include:**
 - ❑ The engagement letter;
 - ❑ A description of the entity's business, operations, accounting system, accounting records and accounting policies;

Identification of Users

Section 9200

- **Users of the compilation engagement not identified**

Identification of Users

CSRS 4200

- **Engagement Letter includes:**
 - ❑ The intended use and distribution of the compiled financial information, including whether the compiled financial information is intended to be distributed by management to a third party

Disclosures

Section 9200

- **No disclosure required of the basis of accounting**

CSRS 4200

- **Note required in the financial information that discloses the basis of accounting applied**



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NTR / Compilation Engagement

LAWSUIT = BATTLE

Negligent Representation

- 1) Duty of Care**
 - 2) Negligence In Duty**
 - 3) Negligence led to misrepresentation**
 - 4) Reasonable Reliance**
 - 5) Damages Resulting From Reliance on Negligence**
-
- 6) Contributory Negligence**

Negligence – No Reliance

NTR

- **Discussion with Bank or Other User**
 - ↑ Duty of Care
 - ↑ Reliance

NTR

- **Providing F/S Directly to User**
 - ☐ ↑ Duty of Care

NTR

- **Letter to Client not to distribute to 3rd Parties**
 - ↓ Duty of Care
 - May Lose Client

NTR - Recent Settlement

- **3@s**
- **1 Audit**
- **2 NTRs**
- **\$48 Million Case**
- **NTRs 0 Settlement but \$400,000 in Defence Costs**



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Tax Claims



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Lack of Technical Expertise

84.1

- **Deemed Dividend**
- **Reorganization of Shares**
- **Non-Share Consideration**

Capital Dividend Account

- **Goodwill and Other “Nothings”**
- **Eligible Capital Property**

Dividend Refund

- **Late Filed Returns**
- **Part IV Tax**
- **Denial of Dividend Refund**

Solution to Lack of Expertise

- **Know your Strengths and Weaknesses**
- **Educate or Outsource Weaknesses**



Aggressive Tax Planning

- **Lack of Documentation**



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Income vs. Capital



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Clearance Certificates

Solution to Aggressive Tax Planning Claims

- **Document Risks and Rewards**
- **Use Professional Judgment**



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Review / Audit



Misappropriation of Funds / Fraud

- **Make Up Majority of Claims**



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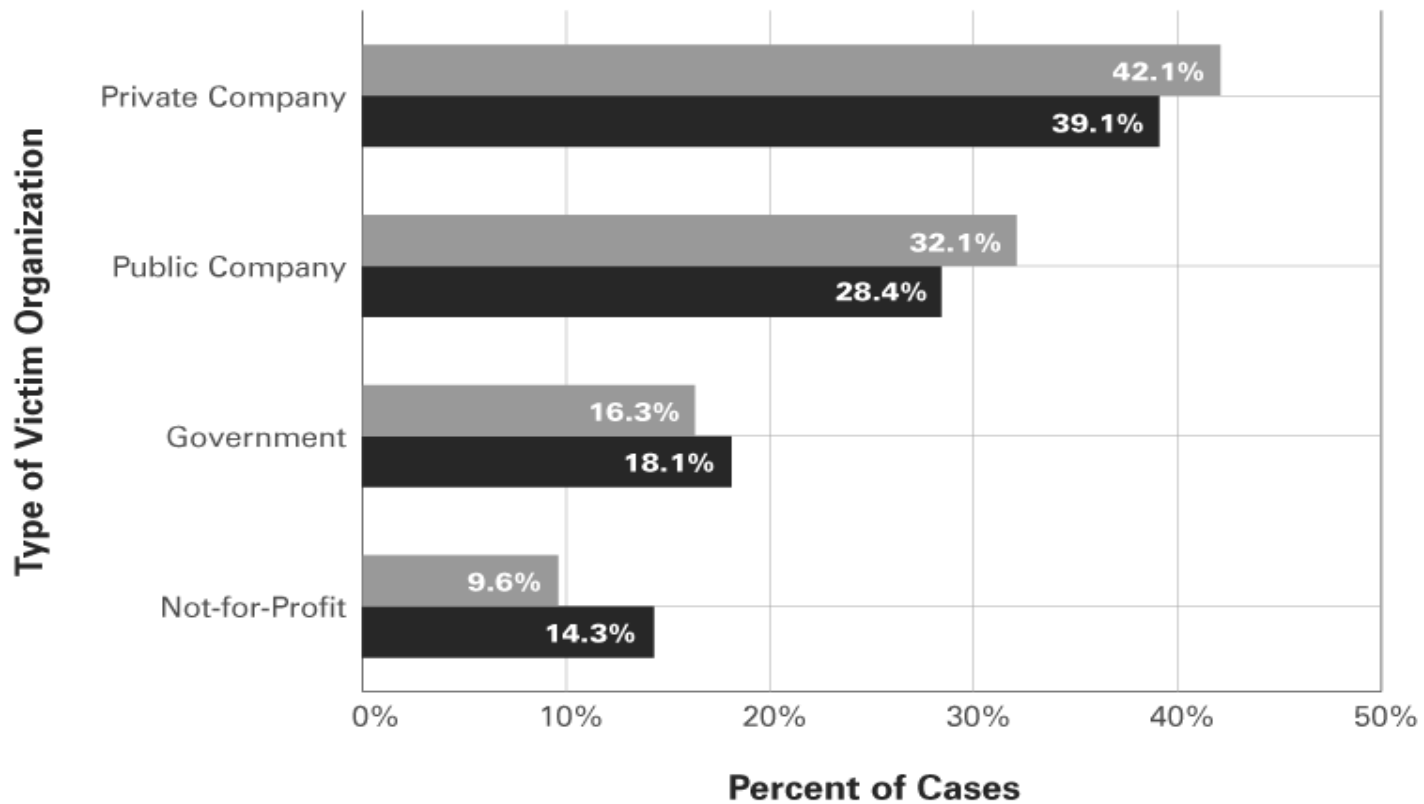
Fooling Accountant Is Major Part Of Fraudster's Plan

Detection Method by Region - Canada

DETECTION METHOD	PERCENT OF CASES
Tip	32.6%
Management Review	20.9%
Internal Audit	16.3%
Other	9.3%
By Accident	7.0%
Account Reconciliation	3.5%
Document Examination	3.5%
External Audit	2.3%
Notified by Law Enforcement	2.3%
IT Controls	1.2%
Confession	1.2%
Surveillance/ Monitoring	0.0%

Victim Organizations

Organization Type of Victim — Frequency



Purchase & Sale Agreements

- **Conflict of interest**
- **Multiple of earnings**
- **Tax planning**

Family Claims (Matrimonial Dispute)

- **Valuations**
- **War Story – Mother, Son,
Daughter-in-Law**

Multiple Service Providers

- **Apportionment of Liability**
- **Miscommunication**
- **Reliance on Information from Other Service Provider**



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Risk Management Tips

Documentation

- **Engagement letter**
- **All advice in writing**
- **Risks and rewards documented of decisions to be made (trap)**

Engagement Letters

- **Detailed**
- **Defines services to be provided**
- **Defines services which will not be provided**
- **Current**
- **Limitations of Liability**

Engagement Letters

- **Limit - Amount**
- **Limit – Time to Sue**

Communication

- **Make it clear who is to be communicated with**
- **Make sure all parties are aware of any material developments**
- **Be wary of disgruntled shareholders, family members and other users of financial statements**

Education

- **Make sure you and your staff members have expertise to provide competent level of service to clients**
- **Know your strengths and weaknesses**
- **Outsource areas of weakness or do not accept engagement**

Professional Skepticism

- **Apply professional judgment**
- **Identify high risk situations**
 - Absent minority shareholder
 - Restrictive covenants
 - Lack of segregation of duties
- **Maintain control of processes**
 - Confirmations

Common Sense

- **Stay away from high risk clients**
- **Litigious past**
- **History of fee disputes**
- **Existing shareholder/family conflict**
- **Poor documentation**



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Thank you!